Annex 2

6

Notes from Meetings with Fund Managers: 22 April 2014

Hosted by UBS

Manager	Attending
Baillie Gifford	Anthony Dickson Mike Brooks
UBS	Digby Armstrong Richard West
Franklin Templeton	Chris Orr Sonal Desai
Majedie	Simon Hazlitt

6

Baillie Gifford

1. Met with Anthony Dickson and Mike Brooks from Baillie Gifford (BG).

2. BG reported a fairly flat performance for the past twelve months. The main driver of downside performance during this period was a weighting in emerging market bonds. There was significant volatility in emerging markets as the prospect and then the actual tapering of quantitative easing caused substantial outflows from emerging markets.

3. BG had underestimated the extent to which funds would flee from emerging markets over this period. Emerging markets were still considered attractive and BG retains a sizable exposure to emerging market bonds. However, the risks of emerging markets vary significantly between countries so BG added individual country focus on top of index weighted assets.

4. The additional country specific exposure was within South and Central America with purchases of bonds from Mexico, Peru and Brazil. BG were also keen to hold the bonds in local currency and so did not plan to hedge this exposure.

5. The overall macro outlook for BG was that global growth would be toward the lower end of expectations and that the end of quantitative easing (QE) will cause significant bouts of volatility. This view was held against recent rapid rises in many asset valuations. The risks in the market were not being well rewarded.

6. BG aimed to position the portfolio for stable low growth rather than chase returns on expensive asset classes. The spread for high yield bonds was down to 3.5% against a historical average of over 5%, so BG significantly reduced this exposure as spreads were unlikely to shorten further.

7. BG increased the platinum and palladium holding, from the view that the current market price meant a number of South African platinum mines were operating at a loss and recent unrest and strikes would only exacerbate this.

8. The expected volatility would allow BG to re-enter certain asset classes or markets as long as funds were readily available, but holding cash would be a drag on performance. BG increased the allocation to the low risk area of structured finance mortgage backed paper to provide some yield, but there is sufficient liquidity to allow for movements into other asset classes when appropriate.

UBS

1. Digby Armstrong and Richard West presented.

2. UBS reported that the rapid increase in equity prices over the previous twelve months had left to a significant reduction in stocks trading at a discount to the perceived fair value.

3. The cyclical stocks that had formed a core element of the portfolio, such as Dixons, IAG and Lloyds were considered overvalued and UBS were investing the profits of such investments in large cap defensive stocks which had underperformed versus medium sized companies.

4. UBS was overweight resource stocks in both oil and gas and mining following recent price weaknesses and a better capital allocation outlook.

5. The largest positive position was BP, the price of which has been volatile over the last quarter, partly as a result of BP's significant shareholding of Rosneft (the Russian oil major) and partly over lingering fears of the legal costs following the oil spill in the Gulf of Mexico. UBS was confident in the management and in the belief that the legal ramifications were overestimated.

Franklin Templeton

1. Met with Chris Orr and with Sonal Desai (Sonal via conference call) from Franklin Templeton (FT).

6

2. FT considered the market reaction to the announcement of tapering the Federal Reserve QE programme was overdone and without appropriate consideration. There was considered no net withdrawal of liquidity from the global market as the Fed’s taper was offset by measures taken by the European Central Bank and the Bank of Japan.

3. Negative events in a number of emerging economies, for example, Turkey or South Africa, led to widespread sell offs from all emerging economies. FT was an active purchaser of emerging market debt, but only specific economies.

4. FT took additional positions in Malaysia, South Korea, Singapore and Mexico, all of which stood to benefit from a recovery in the US economy and more specifically a boost in US consumer spending.

5. FT were positive on the German economy as a recipient of US spending, but German Bunds offered poor value. FT invested in peripheral European countries whose economic cycles were closely linked to that of Germany, which offered much better value. These included Sweden, Poland and Hungary.

6. The duration of the FT portfolio is very short, with an average duration of 1.4 years. This is in expectation of interest rates rises so that short dated debt can be rolled over to long term upon maturity.

7. In response to questioning over China, FT were not convinced that the Chinese economy was at major risk of a banking or growth collapse. The huge fiscal stimulus at the beginning of the financial crisis may result in loans made by local and central government being written off but that these levels would be manageable.

8. FT held positions in Ukraine and Russian debt, the main concern for Ukraine was regarding liquidity as opposed to solvency but that the actions of the IMF have significantly reduced concerns over a potential default.

Majedie

1. Met with Simon Hazlitt from Majedie

2. Simon explained the change in focus for Majedie's portfolio away from more cyclical momentum stocks to a defensive positioning, with stocks with defensive characteristics more relating to an individual company's valuation rather than a sector bias.

3. The key risk that Majedie highlighted was that they may misjudge the timing of any market correction and so may underperform a rising market.

4. Performance over the last quarter was driven in part by a long held weighting in European telecommunications stocks, with an expectation of improvements in the regulatory environment to encourage investment to bring European communications standards toward that of the US.

5. Majedie recently increased a position in Centrica, political issues have dampened the stock price, and there was significant potential for cost cuttings and management improvements to boost profitability.

6. Belief in new management was the basis for an investment in Finmeccanica, the Italian aerospace company, which was poorly run, with allegations of fraud and corruption. The new Italian Prime Minister recently appointed a new chief executive.

7. Simon explained that there was disagreement within Majedie over the positioning on companies with large emerging market exposure, especially in relation to the valuations of the large mining contingent of the FTSE and also on the extent of a Chinese economic slowdown. Majedie were significantly underweight the mining sector.

8. Majedie were overweight healthcare, including importantly AstraZeneca and GlaxoSmithKline, who had both been the subject of merger and acquisition news on the morning of the meeting with a large upside in stock price.

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