Summary of Meetings with Fund Managers

Held on 17 September 2014

Present:

Denise Le Gal, Stewart Selleck, Ian Perkin, Phil Triggs and John Harrison

Newton

David Moylett and Jeff Munroe

As a house, Newton holds concerns on global banking and is cautious on the aftermath of the global financial crisis.

They see the investment backdrop as low growth, low return amidst a volatile environment. Opposing dynamics will mean that further volatility is expected.

They regard equities as still being the performing asset class.

All in all, they are bearish and highly selective, and feel that there is some adjustment to make to a new liquidity setting.

Newton has set the portfolio to overweight in Healthcare and underweight in Financials and regard the banks as now being in a deleveraging phase that is not good for banking stocks. IT, Telecoms and Consumer Staples are also favoured.

They also regard emerging markets as not being cheap and therefore have pitched underweight in this category. Newton notes the current geo-political risks and the somewhat relaxed stance taken by the markets with regard to these risks.

From previously having numerous themes in the portfolio, Jeff Munro confirmed that some of these have been clipped back. As a house, they are cautious and keen to build in downside protection.

Notwithstanding the bearish stance, Newton see encouraging signs with UK and US employment continuing to improve, Japan remaining on track, and no collapse in China. Newton continues to favour companies with strong balance sheets, clarity of earnings and cash generation.

Mirabaud

7 **Philip Watson and David Kneale**

Mirabaud have stuck to the Castle/Moat/Goldmine principle, aiming to invest within the best businesses and high quality companies in the UK over the long term. They confirmed their research style is more akin to a forensic accountant than a market trader with pressure applied to company finance directors via this research.

Mirabaud note the Bank of England's current stance with regard to interest rates, the soft measures slowing the housing market, the lack of any wage growth and regard interest rates as likely to rise slowly over a long period of time.

With regard to sub benchmark performance over the last three years, Mirabaud acknowledged that they had been too cautious about equity markets in 2012, and should have taken on more risk within the portfolio at that time. With regard to current opportunities, they saw limited liquidity over the summer resulting in significant share price movements.

They regard the payment of dividends as absolutely critical within the generation of investment returns, and emphasised their ruthlessness with regard to stock selection, avoiding companies that are not currently paying a dividend. This has come from a changing philosophy. Mirabaud has sold out of GlaxoSmithKline and Tesco recently as a result of this, with Tesco recently cutting its dividend by 75%. Supermarkets are not currently favoured in asset allocation, their gross margins having reduced drastically in recent years.

Mirabaud currently favours house builders within the portfolio, having seen the number of independent house building firms diminish in recent years, and thus reduce the competition for the big players.

Mirabaud is seeing the PPI refunds regime coming to an end, but notes that retailers didn't see much of this extra tax free disposable cash.

Mirabaud favours sensible company valuations, with solid cash flow, dividend payment and high barriers to entry. They pointed to some 'big bets' within the portfolio, notably Aveva and Telecity (both Technology sector). There is a degree of concern with Aveva, which is being addressed this week with company management.

With regard to their own principle, they regard the market as having a different perspective, with the market currently viewing and valuing shares differently from the Mirabaud castle/moat style. In tandem, a few of their large bet stock selection disappointments are being treated savagely by markets.

Western

Paul Shuttleworth and Bernhard Speiser

Western are conscious of the lower UK inflation outlook (1.5%) and the Eurozone (0.3%), accompanied by positive UK growth of 3.2%. Despite this, there is no evidence of any increase in UK disposable income.

They are conscious of the Bank of England's hints at early interest rate hikes, possibly just after Christmas.

Western reported positive returns in all major government bond markets with global corporate, high yield and emerging market spread narrowing.

As at 31 August 2014, 90% of the portfolio is UK, 5% is Eurozone and minor amounts in the US, Brazil, Mexico and cash.

Average yield for the portfolio is 2.9% with average duration at 8.6 years and average rating A+.

A conversation took place as to the normalisation of the economic/investment backdrop, and the answer from Western was that normal is not normal any more. The central bank will remain accommodative, inflation will average out at 2% and long term gilts will revert to mean over the long term.

UK GDP and house prices retain a strong correlation, thus the UK economic recovery is seen to be led by domestic household consumption.

Western pointed out that Vodafone recently issued a corporate 6-year bond with a 1.1% yield, pointing out that the equity path will offer a better risk-adjusted return.

CBRE

Max Johnson and D. Dhananjai

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CBRE saw an under-performance for the year, experiencing a European drag on overall performance. This has been held back by (a) the adverse impact of the European holdings inherited from the previous manager and (b) the dilutive effect of investing cash into a rising market.

The underlying UK portfolio has exceeded the target versus benchmark over the quarter, year, three years and five years, but the total portfolio has fallen below the target over each period. Over three years, the underlying UK assets achieved 8.1% pa versus a target of 7.1% pa while the total portfolio achieved 5.6%. CBRE will provide an attribution of the shortfall between European holdings and cash dilution but expect the European holding will account for over 2.0% per annum.

The European performance issue should cease to be a drag from 2015, with the three main European PUT holdings in wind up. The winding up process is crystalising large losses on asset disposals, but CBRE has already written down NAVs significantly and do not expect further substantial write downs.

The investment of additional cash in well under way. CBRE has committed all but £1.9m of the cash, although £20m is still undrawn by the underlying funds. The main undrawn commitments are in Palmer Capital (expected to be invested or returned by early 2015), M&G Debt funds (expecting to be drawn over the next 2 years) and CBRE UK Property fund (expecting to be drawn by mid 2015).

There was a discussion about the relative attractiveness of UK and non-UK property. CBRE remains optimistic about total returns in the UK over the period to 2016, so see no pressing need to take the additional risk of investing overseas. In the long term, there is a case for allowing investment in global property, although this would require a change in the Surrey mandate. CBRE will circulate a paper on the case for global property investment

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