Notes from Meetings with Fund Managers: 7 September 2015

Hosted by Standard Life

Manager	Attending
Standard Life	David Bint Nigel Cosgrove
CBRE	D.Dhananjai Max Johnson
Newton	Paul Markham David Moylett
Western	Andrew Belshaw Marian George

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Standard Life

1. Met with David Bint and Nigel Cosgrove from Standard Life (SL). Nigel is the Fund's new relationship advisor following the internal transfer of Dale McLennan.

2. SL explained the investment process and philosophy of the multi-asset investment products GARS and GFS. One key distinction between GFS and GARS relates to the range of investable opportunities: GARS investments will typically be at a sector level or above with most at an index or country level, whereas GFS, through reduced scale, can access greater investment depth, down to individual stock selection.

3. The example given was for the investment strategy, Long German equity versus French equity. Within GARS, this is implemented at the country level, e.g., DAX versus CAC, but for GFS this is implemented executed using the individual stocks favoured in the DAX and unfavoured stocks in the CAC selected by the wider Standard Life investment teams.

4. In response to questions about how quickly the fund reacts to market events, such as the recent market volatility, SL were keen to emphasise the Fund is designed to have a range of contrasting investment strategies diversified across asset classes, so that asset class volatility in one or more investment strategies should be offset or partially offset by another investment strategy. For example, the use of equity market volatility derivatives.

5. In response to questioning about the overall investment exposure within the investment strategies and therefore the portfolio as a whole, SL responded that the way in which the portfolio is run leads to substantial investment exposure on an absolute basis, but this does not truly reflect the risk inherent within the portfolio, due to a number of matched long and short positions as well as diversification of strategies.

6. This approach was discussed in relation to GARS investment involving global mining equities. The investment thesis was based upon low overall earnings multiples and a growing opinion that mining companies were to scale back avoidable capital expenditure, thus allowing spare cashflow to be distributed to shareholders.

7. Mining stocks have performed poorly with commodity price falls and fears of a slowing Chinese economy harming valuations. Another part of the portfolio was to be long Australian interest rate exposure with the anticipation that the Australian economy needs to adjust, given the large exposure to mining, which would lean to lowering central bank rates.

CBRE

1. Met with Max Johnson and D. Dhananjai.

2. CBRE provided an update on the existing portfolio and the status on all uncommitted and undrawn capital from the original £25m allocated in 2013. The current sum committed by CBRE to property funds, but undrawn from the Fund, is £9.3m and the amount of capital uncommitted is £0.3m. CBRE estimated that an additional £7.1m will be called by the end of the financial year.

3. In response to questioning about the timing of these capital calls and any associated cash drag, CBRE highlighted the need to invest in appropriate funds which meet the investment strategies of the portfolio with a diversification of investment through vintage years.

4. The UK property market has performed strongly over the last few years with reasonably strong GDP growth and foreign investment flows translating into capital valuation rises. The substantial increases in capital values seen over the last two years is not expected to last into the next year, with the investment strategy based on owning high quality, enhanced income generating assets, with a small number of more opportunistic investments available with a slightly higher return expectation.

5. CBRE discussed the current opportunity available to invest in their Global Alpha Fund with a recommended weighted of 25% global to 75% UK, and a likely drawdown period to be between six to nine months.

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Newton

1. Met with David Moylett and Paul Markham from Newton.

2. In response to questioning, Newton explained their approach to managing investments and what effect or influence reporting investment performance versus an index benchmark has upon portfolio construction. Newton hold a fairly concentrated investment portfolio, in the region of 70 stocks, with no single investment as an underweight or equal weight held to mitigate benchmark effects.

3. Newton were significantly underweight in emerging market equity with almost zero of the portfolio held in emerging market listed stocks compared with the benchmark of 10%. The portfolio is positioned as overweight Japan equity with the expectation that, following less positive economic data from Japan and fears over regional effects of a Chinese slowdown, this will result in the Bank of Japan implementing more monetary stimulus with the possibility of widening the QE remit.

4. Newton reported a low expectation of returns from the mining sector, despite substantial stock price gains from Glencore on the day, as the hangover from the commodity supercycle would lead to depressed commodity prices and balance sheet valuations. This would impact upon economies substantially dependent upon on commodities.

5. Newton reported overweight position in Healthcare, upon the premise that increasing expense on healthcare from emerging economies to levels more in line with UK (10% of GDP) and US (15% GDP).

Western Asset Management

1. Met with Andrew Belshaw and Marion George from Western.

2. Western reaffirmed their assertion that global recovery would be slow and gradual with the expectation that monetary policy would remain accommodative. The Bank of England was predicted not to raise rates until 2017 which would be supportive of shorter dated gilts. Western is overweight shorter dated gilts

3. Western were concerned by the low pricing for longer dated gilts, in that they did not adequately price in upcoming political risks such as the EU referendum and the upcoming Scottish parliament elections which could kick start the Scottish independence campaigns.

4. The UK government is operating a substantial twin current account and fiscal deficit, with overoptimistic expectations of increased government tax receipts from economic growth due to structural and taxation changes. Raising the level of personal allowance will restrict income tax growth associated with GDP growth. As such Western were negative longer dated UK gilts

5. In contrast to the UK, Western were overweight European longer dated government bonds with the ECB expected to maintain the asset purchasing strategy beyond the initial September 2016 deadline. Recent comments by Mario Dragi had already hinted that this would likely be the case.

6. The impact of a lower Euro to boost trade competitiveness is also more important to the EU than to other major economies. In the US trade only accounted for 10% of US GDP compared to in the region of 30% for the EU, providing a strong incentive to limit currency appreciation.

7. Western were also overweight longer dated US credit as it was comparatively cheap, with the expectation that any Fed rate rises will be gradual and slow.

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