Annex 2

Notes of Meetings with Fund Managers: 25 April 2013

Hosted by Newton Investment Management

Time	Manager	Attending
10:00am	CBRE	Deejay Dhananjai Max Johnson Alex Bignell
11:15am	Marathon	Simon Todd Michael Nickson Graeme Neuff
12:30pm	Western	Andrew Belshaw Marian George Paul Shuttleworth
14:15pm	Newton	David Moylett Paul Markham Natalie Milsted

Representing SPF: Phil Triggs
Alex Moylan
John Harrison

CBRE

1. Met with Max Johnson, Alex Bignall and Deejay Dhananjai.

2. CBRE acknowledged that there was only draft Q1 data available, with full results due two days later. The portfolio returned 0.4% in Q1 against the benchmark of 1.1%.

3. CBRE envisaged that 2013 would mark a change in investor sentiment with negative capital value movements slowing during the first half of the year before stabilising, with the prospect of capital value growth in Q4 2013

4. There were signs that competition for assets was increasing, with greater number of active participants in property acquisitions. This was most notable with increased demand for secondary assets, previously absent, as well as for high quality prime and subprime assets. The start of Q2 2013 had shown increased market activity.

5. CBRE were optimistic about further narrowing of the discount to net asset value (NAV) although this remains high for certain asset types, e.g. industrial and retail.

6. In response to questioning, CBRE mentioned that they were not aware of reallocations from equity to property in order to rebalance pension fund portfolios following markedly differing performance between the two asset classes.

7. CBRE outlined their current strategy for the portfolio which includes industry assets in the South East benefitting from shortages of available land and solid demand, as well as leisure assets and student housing to utilise high yields, and in the case of student property very high occupancy rates. CBRE were also bullish on prime shopping centres

8. There was a recommendation to reduce the portfolio’s overweight position in relatively low yielding core balance funds to move to distressed value, debt funds in order to take advantage of higher yields. The reduction in the scale of senior debt available creates a gap between available debt and equity. This can be filled by the fund for a high coupon and distribution rate.

9. The portfolio was underweight on central London offices due to the estimated cyclical nature of that asset class and the typically high loan to capital value. This sector has performed well within the benchmark.

10. The reasons for the performance of the portfolio relative to benchmark were attributed to continued weak performance in Europe and write downs within the UBS Triton fund.

11. CBRE provided an update regarding the current position of the UBS Triton Fund. Triton composed a sizable portion of the overall portfolio at 7.2% allocated, according to the draft Q1 data.

12. On 31 January 2013 Triton announced that an orderly liquidation would commence from 1 August 2013 unless £150m redemption requests were to be withdrawn or new capital could be found by 30 April 2013. This was revised to £300m following increased redemption requests received after the announcement. Funds managed by CBRE were included in the redemption queue.

13. CBRE met with representatives of Triton on 26 March 2013 in which they were informed that a number of parties had shown interest in the purchase of capital and that they were likely to have sufficient capacity to buyout the full redemption queue, £523m as at 31 March.

14. Following a review of the redemption request, CBRE did not consider a full withdrawal to be in the Funds best interest.

15. The value of Triton has been written down considerably since 2012 and CBRE consider that the latest valuations are fair and that the UK real estate market has reached, or is shortly to reach, the bottom of the cycle.

16. Triton was close to completing on the sale of a number of poorer quality assets. Excluding these poorer assets, CBRE believes Triton is well placed to improve performance. The current distribution yield was 6.1%, ahead of most of the core balanced funds in the UK funds universe.

17. As such CBRE was minded to withdraw the majority of the portfolio’s redemption requests, as well as communicating the need to improve Triton’s redemption and governance arrangements. Furthermore, CBRE sought to retain the availability of an orderly liquidation in the event that the capital injection and redemption requests are insufficient.

18. CBRE responded to questioning on the likelihood that other funds would emerge with similar problems as Triton. There were a number of funds with similar open-ended redemption mechanisms as Triton.

19. Rockspring Hanover made up 2.5% of the fund’s portfolio at 31 March 2013. This was under similar redemption pressure to Triton with older redemption mechanisms. However, it was hoped that potential changes to a close ended redemption as well as a more cautious approach by investors will alleviate this pressure.

20. Other funds with less resilient redemption mechanisms were BlackRock, Schroders and Hermes. CBRE was confident that these were not as liable due to large fund sizes, strong assets and, in the case of Hermes, limits placed upon redemption requests.

Marathon

1. Met with Michael Nickson, Simon Todd and Graeme Neuff

2. SPF were introduced to Michael Nickson and Simon Todd who joined Marathon in December 2012 as global portfolio managers, inheriting the existing portfolio. Michael and Simon explained how their investment strategy is very similar to that of their predecessors, but with some important differences.

3. As before, the focus is on supply side assessment of organisations and sectors, ensuring a solid understanding of the capital cycle in which the organisation operates. That profitability is inversely proportional to competition.

4. Marathon have an average holding period in excess of eight years. The key measure of an organisation's strength is sustainable free cash flow measured against long term growth expectations. It was claimed that they were even stricter with the ratio of share price to free cash flow, which led to a few changes in the portfolio.

5. The portfolio's holdings of Amazon were sold on this basis. This was despite Amazon recording a sizable return to the fund and the belief that the stock was well placed to do well in the future. The downside risk was considered too great. The primary aim is not to lose capital.

6. In light of this Marathon will not hold companies where the earnings reported are considered as risky. This has applied to consumer technology where Marathon was underweight, with a zero holding in Apple. The market was seen as too competitive with examples of dominant market players collapsing. e.g., Nokia.

7. In comparison, Marathon was overweight to "old technology" including Microsoft, Cisco Systems and Intel as they benefitted from low earnings multiples and robust dividends.

8. Marathon had previously been overweight in house builders but the share value to book value rose to 2:1 and as such the shares were sold on valuation.

9. Liberty Holdings returned the largest contribution to the portfolio over the previous 12 months. This holding has now been sold due to increases in leverage and worsening interest cover ratios.

10. Marathon still intends to add a North American specialist to be based in London, but will not rush to hire someone who does not match the company's investment philosophy. The North American section is currently managed by Michael Nickson and Simon Todd.

Western

1. Met with Andrew Belshaw, Marian George and Paul Shuttleworth

2. SPF were informed that the jointly held position of Co Chief Investment Officer in Western's London team would be remerged into the singular post of Chief Investment Officer following the return to health of the previous incumbent.

3. Investment results for Q1 were 1.6% returned against a benchmark of 1.2%. Western discussed their expectations of high volatility throughout 2013 and the potential risks and opportunities that this brings to the portfolio.

4. In particular, there was an emphasis on the likelihood of increased event risk adversely affecting bond prices. The macroeconomic environment has led to an increased availability of finance and therefore potential for leveraged buyouts. Whilst generally beneficial for equity positions, takeovers are often detrimental to the value of bond holdings.

5. The portfolio held positions in corporate debt for Virgin Media, which was recently acquired by Liberty Global. The debt holdings were downgraded and the price fell, although the buyout in this instance was not leveraged. The takeover of Heinz by Berkshire Hathaway and private equity firm 3G saw a considerable increase in bond spreads and therefore a reduction in value. However, the portfolio did not have any exposure to Heinz.

6. Further volatility was expected as a result of policy action by government and central banks. The future Bank of England Governor, Mark Carney, has publicly advocated a less stringent inflation target coupled with the use of other economic objectives, for example, the Federal Reserve's dual commitment to maximum employment and stable prices. Looser monetary policy is also expected in the Euro Zone with Western predicting the European Central Bank will cut rates closer to 0%.

7. The Bank of Japan (BoJ) began a huge monetary expansion on the 4 April 2013 to (officially) arrest deflationary pressure and (unofficially) to reduce the exchange value of the Yen. Over a two-year period, the BoJ will double the monetary base and double the amount of Japanese Government Bonds held. Western believes that a significant proportion of this expansion will move abroad impacting on UK, Euro and US yields.

8. Western will remain overweight in UK index-linked gilts to act as a defence against bank policy, as well as overweight in 10-year gilts. This has profited from a decision by the Office for National Statistics (ONS) not to adjust the RPI formula for index-linked measurements. Western have benefitted from an overweight position in UK asset backed securities which performed well against the benchmark. Western also remain cautiously optimistic on German government debt.

9. Given expectations of future volatility, Western will seek to diversify the portfolio to hedge against risk including increasing the overall cash holdings to allow for advantageous purchases during periods of volatility. The portfolio will remain underweight on utilities and financials.

Newton

1. Met with David Moylett, Paul Markham and Natalie Milsted

2. The portfolio returned 17.6% during Q1 2013 against the benchmark return of 14.0%.

3. Newton outlined the process they undertake when deciding on investment strategies, in which they seek to identify themes which underpin the key risks to, and growth drivers of, economies and industries over the medium to long term.

4. One such theme was that deleveraging was not occurring as estimated: policy has not encouraged reducing debts but has increased the ease to which debt interest can be managed through reductions in interest rates.

5. State intervention has reduced the cost of debt capital and supported risk assets, which has contributed to the recent strong equity returns. Given the lower bond yields, investment has flooded into higher yielding equity. Newton were concerned about the perception of some equity sectors as safe havens, leading to potential bubbles. Newton also raised an unease regarding certain companies where debt has been raised in order to pay dividends.

6. Faced with continuing volatility, Newton’s strategy will be to focus upon stable, cash generative businesses with strong balance sheets and earnings growth potential.

7. Newton were overweight on healthcare and consumer staples; both sectors had strong returns over the last year. There was some optimism about the increase in pharmaceutical drug patent approvals as well as the performance of generic drug companies. Reference was made to a recent policy decision in Japan to ensure that 60% of drug prescriptions will be generic.

8. Fears over the high level of unfavourable risk involved in the financial sector led Newton to hold an underweight position against the benchmark. Financials performed strongly in the last 12 months. Where Newton held financials, US regional banks were generally considered superior to European banks.

9. The BoJ’s monetary expansion combined with slowing Indian growth and a forced sale of Cypriot reserves caused a substantial collapse in the value of gold futures. Newton remain overweight in gold mining as a hedge against currency debasement, although they have reduced their exposure to only two companies following the divestment of Barrick Gold.

10. The portfolio was also overweight in Japan. The loosening of policy by the BoJ is expected to have a substantial impact upon the profitability from Yen denominated export markets. Toyota has received a significant boost in profit margins from the US sales market as the majority of the manufacturing is carried out in Japan.

11. Newton were underweight in mining which returned poorly compared with other sectors. There is no expectation that the commodity supercyle will continue. Growth in industrial demand from China is anticipated to slow further, weighed down by substantial bad loans within Chinese banking and regional government.

12. A collapse in Chinese banking is predicted to have significant negative consequences for Australia. Australian banks were trading at a substantial premium to book value on the back of high property prices which are dependent upon the mining sector.

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