Inaugural Cambridge Investment Conference

Tuesday, 5th November 2013

October 2013

Is this the end of the secular bond bull market?

The impact of monetary normalisation on global fixed income

Presented by:

Miles Geldard – Head of Jupiter Fixed Interest and Multi-Asset Team

JUPITER

The debt bubble has produced a bloated & fragile financial system…

…sorting out the mess is creating different problems

Source: Cartoon purchased and licensed for use from politicalcartoons.com, 2012.

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The systemic crisis required extraordinary interventions…

- Manipulation of currency and bond markets have caused extreme valuation anomalies
- The debt bubble created a bloated & fragile financial system
- Unemployment is very high in many developed and emerging economies
- Economic recovery is happening but may be self-defeating, if rates rise quickly
- So central bankers will err on the dovish side…
- …but the extraordinary monetary experiment will come to an end
- Structural and psychological factors have caused investors to shun volatile asset classes and prize too highly perceived safe havens
- Sovereign bonds "risk free" status needs to be questioned

…but normal market pricing mechanisms must return

The views expressed are those of the fund manager at the time of presenting and may change in the future.

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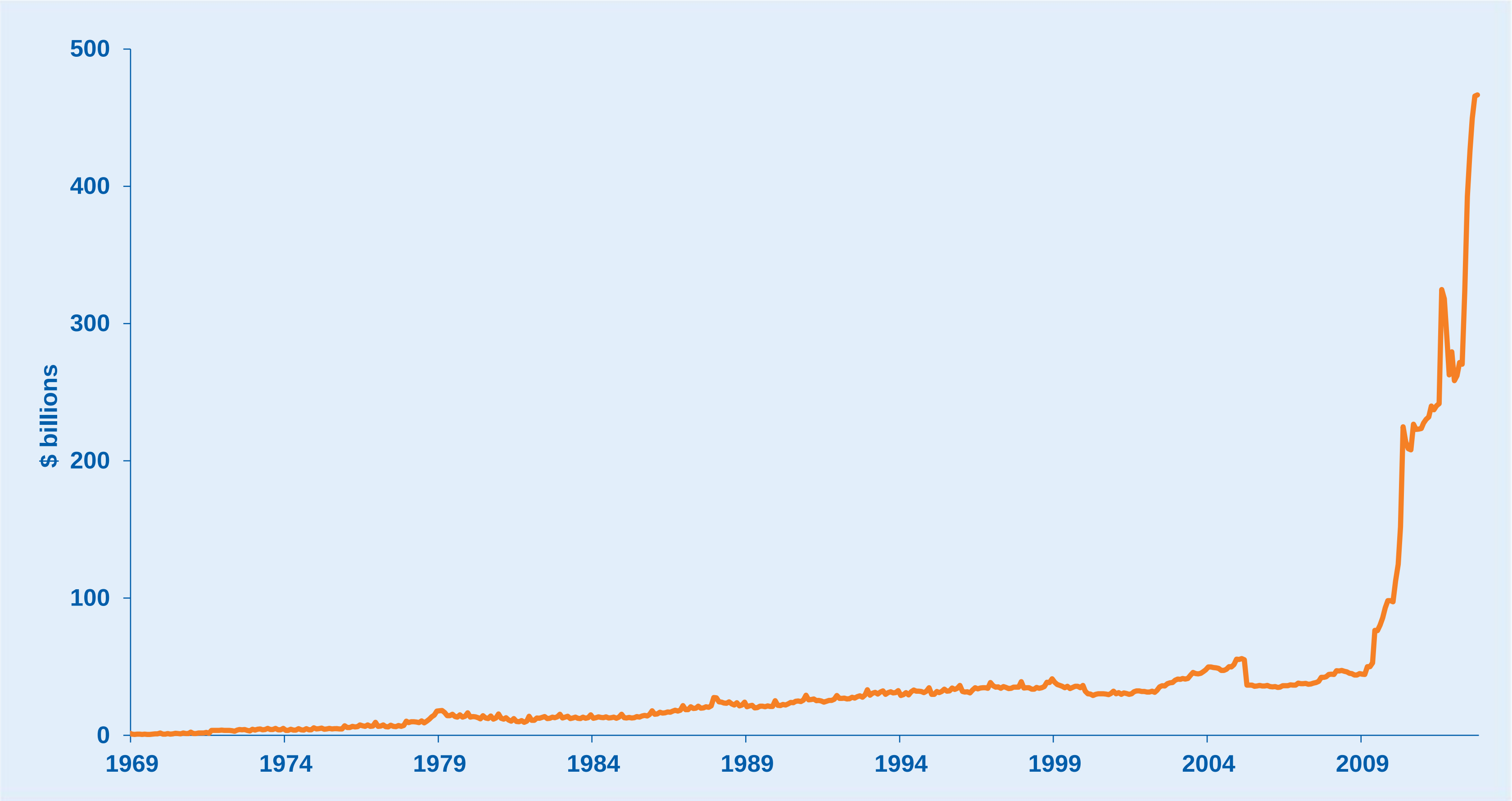
Currency intervention has been unprecedented globally

Swiss National Bank foreign exchange reserves excluding gold (in $ billions)

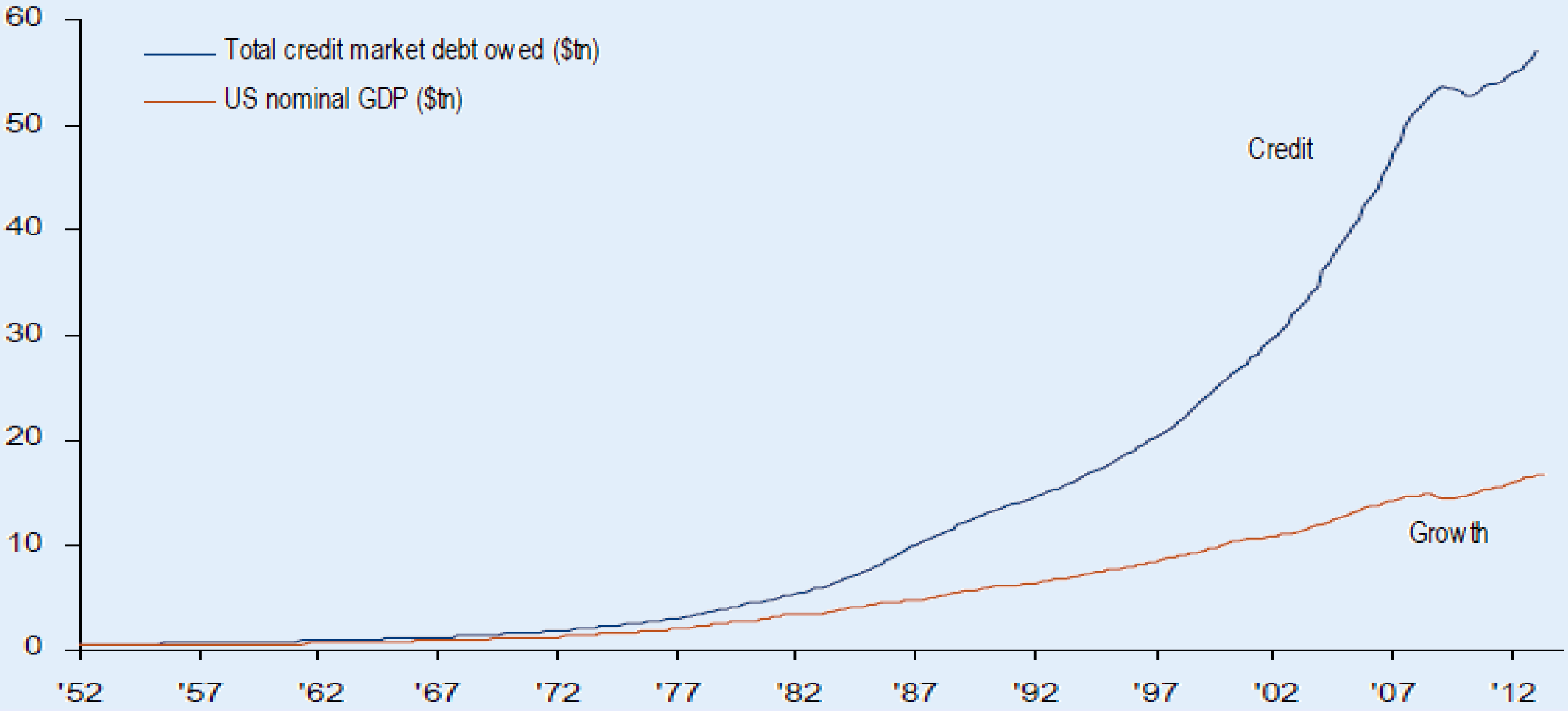


Better than protectionism, but creates large distortions

Source: Bloomberg, SNB, Jupiter 28.09.12.

The stock of debt in the developed world is daunting

US debt and GDP



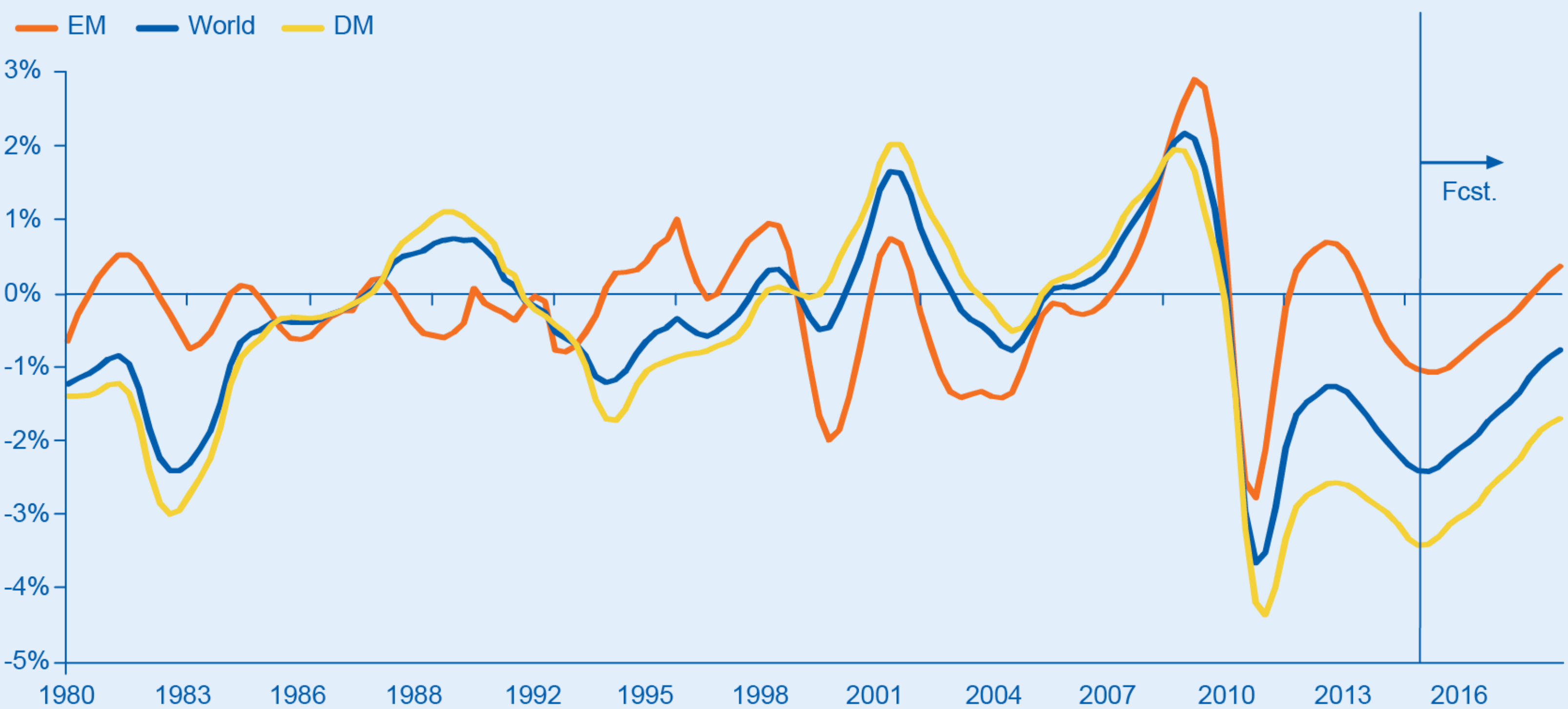
Point of fragility

Source: BofA Merrill Lynch Global Investment Strategy, Haver, 2012. The views expressed are those of the fund manager at the time of presenting and may change in the future.

Where's the inflation?

Negative output gaps, especially in developed but also in emerging countries

Difference between actual and potential GDP (% of potential)

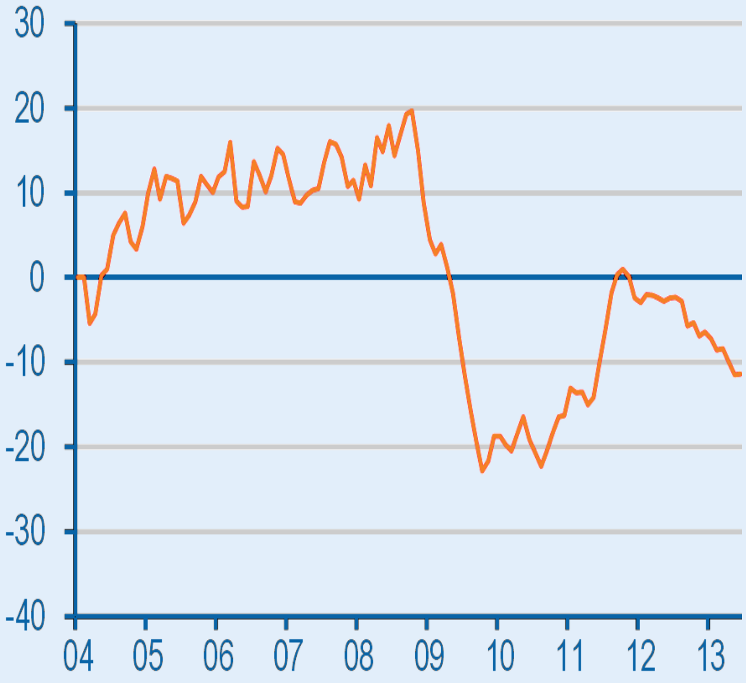


Source: IMF, OECD, GS Global ECS Research, June 2013.

European banks are reducing lending and unemployment is high

EMU new loans to non-financial corps (€bn)

3m Moving Average



European Unemployment Rates

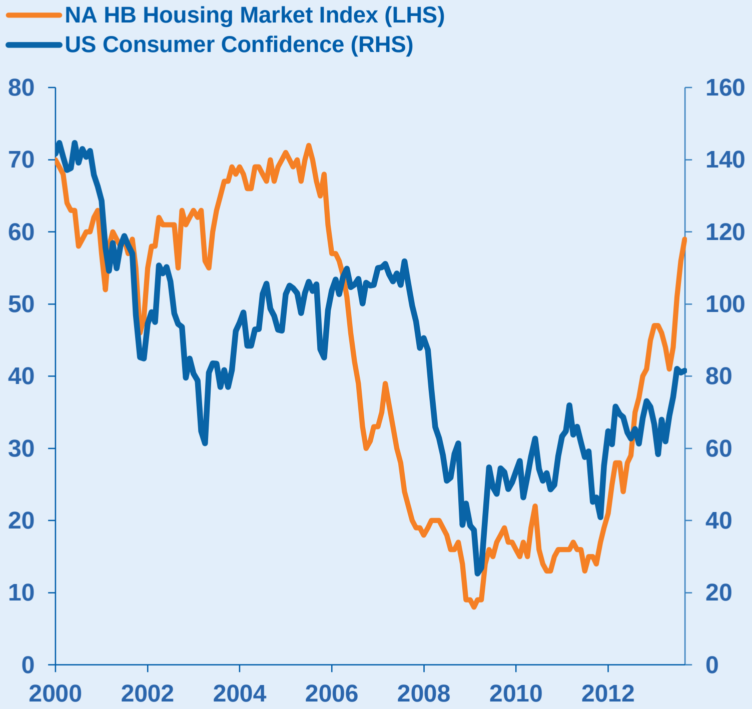
Structural weaknesses remain

Source: HSBC, ECB, Thomson Reuters Datastream, 2013.

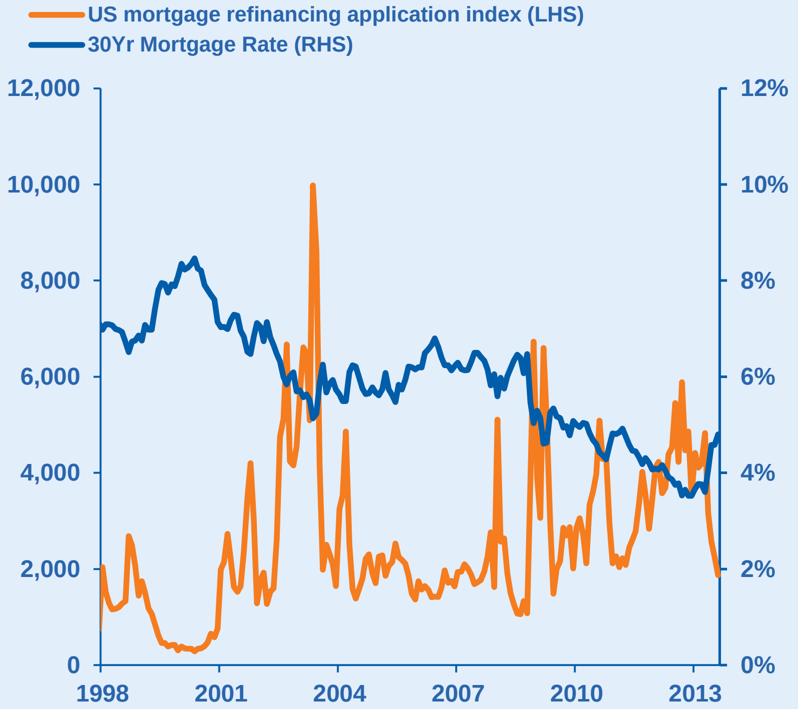
US housing cycle has bottomed and consumers are more confident

US is a source of strength for the global economy

NAHB housing market index*



US mortgage rate & mortgage refis**

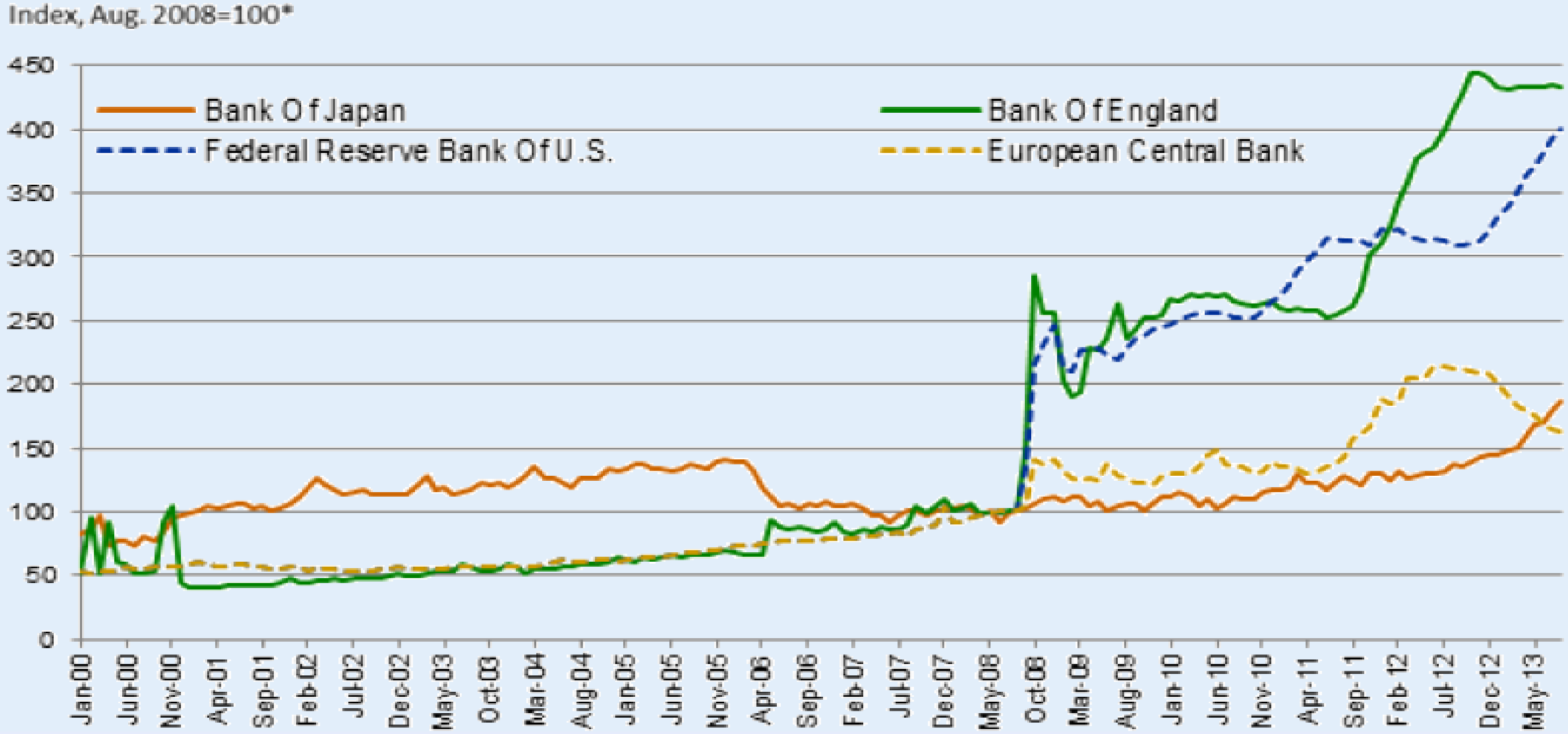


Risk to recovery is whether rising rates will snuff out growth

**Source: Bloomberg as at 30.08.13. **Source: JPMorgan, AxioMetrics, CoreLogic, FHLMC, BEA June 2012.*
The views expressed are those of the fund manager at the time of presenting and may change in the future.

Central banks have backstopped the markets… but at what price?

Expansion of balance sheets by major central banks since the financial crisis



Source: Standard and Poor's, St.Louis FED and Bank of England, 2013.
**End of month, not seasonally adjusted data in home currency.*

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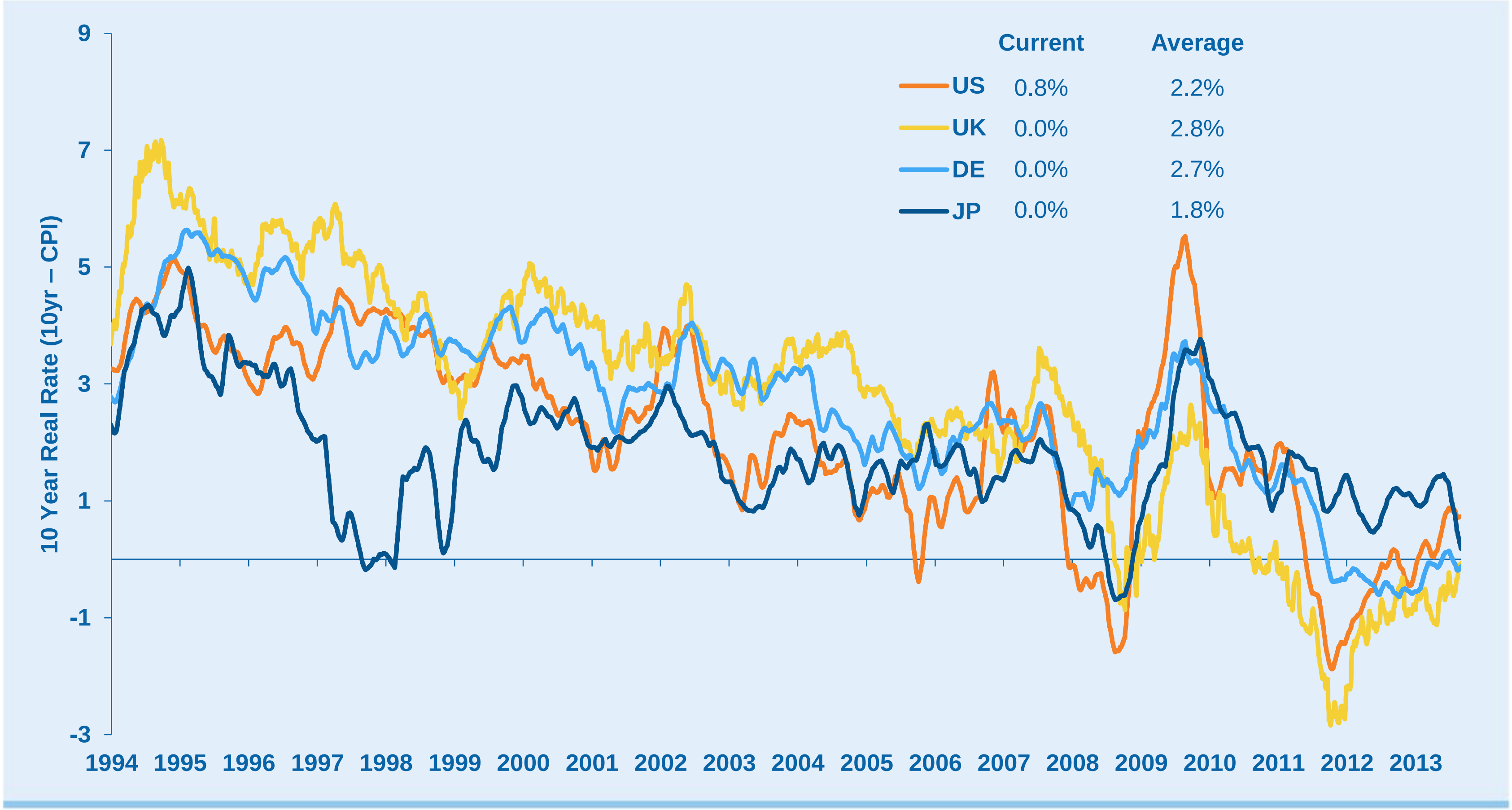
“Bonds should come with a warning label” – Warren Buffett

Real 10 year government bond yields



Even Japan now has negative real rates

Source: Bloomberg, Jupiter 30.08.13. Yields quoted are not guaranteed and may change in the future.

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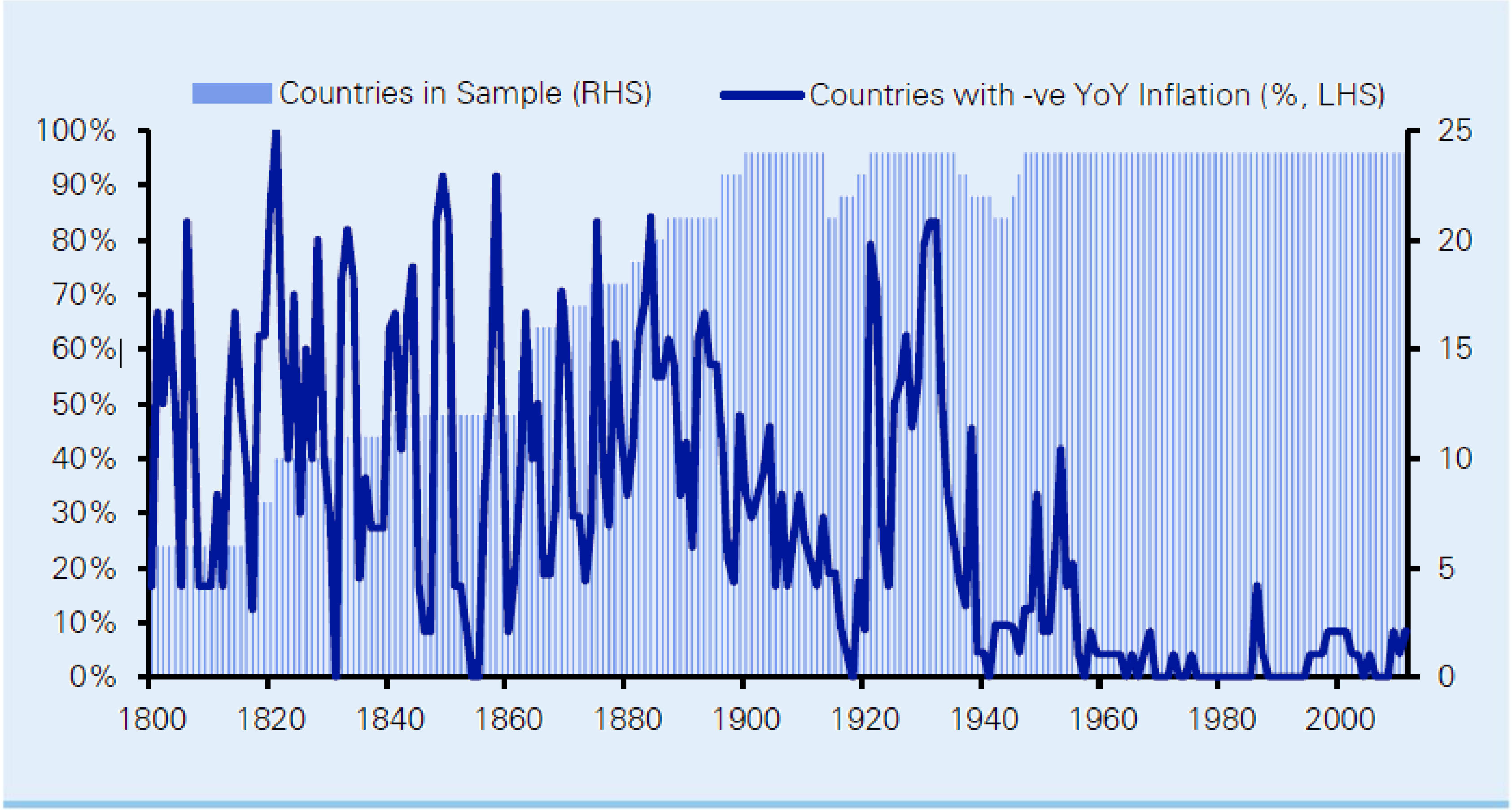
Since 1987 no more than 2 countries have experienced deflation in any one year

Percentage of countries with negative year on year inflation since 1800



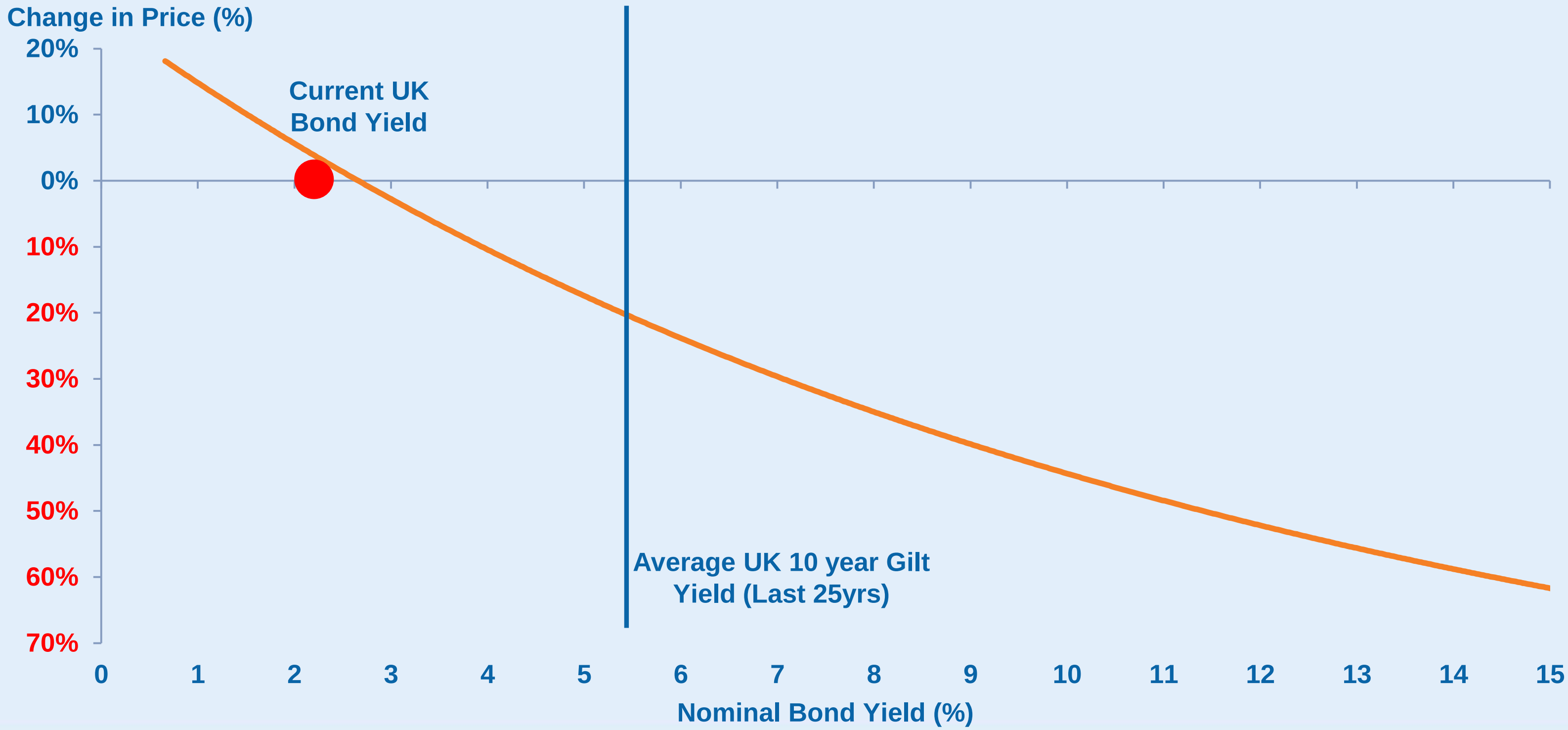
Deflation has been the exception since the end of the Gold Standard

Source: Deutsche Bank, GFD, 2012.

UK gilts have averaged 3% real yields. Real yields are now 0%

QE has removed risk premium on government bonds

Capital gain / loss of 10 year UK Gilt at different nominal yields



Risk of capital losses on government bonds if rates normalise

Source: Bloomberg and Jupiter as at 30.09.13. Yields quoted are not guaranteed and may change in the future.

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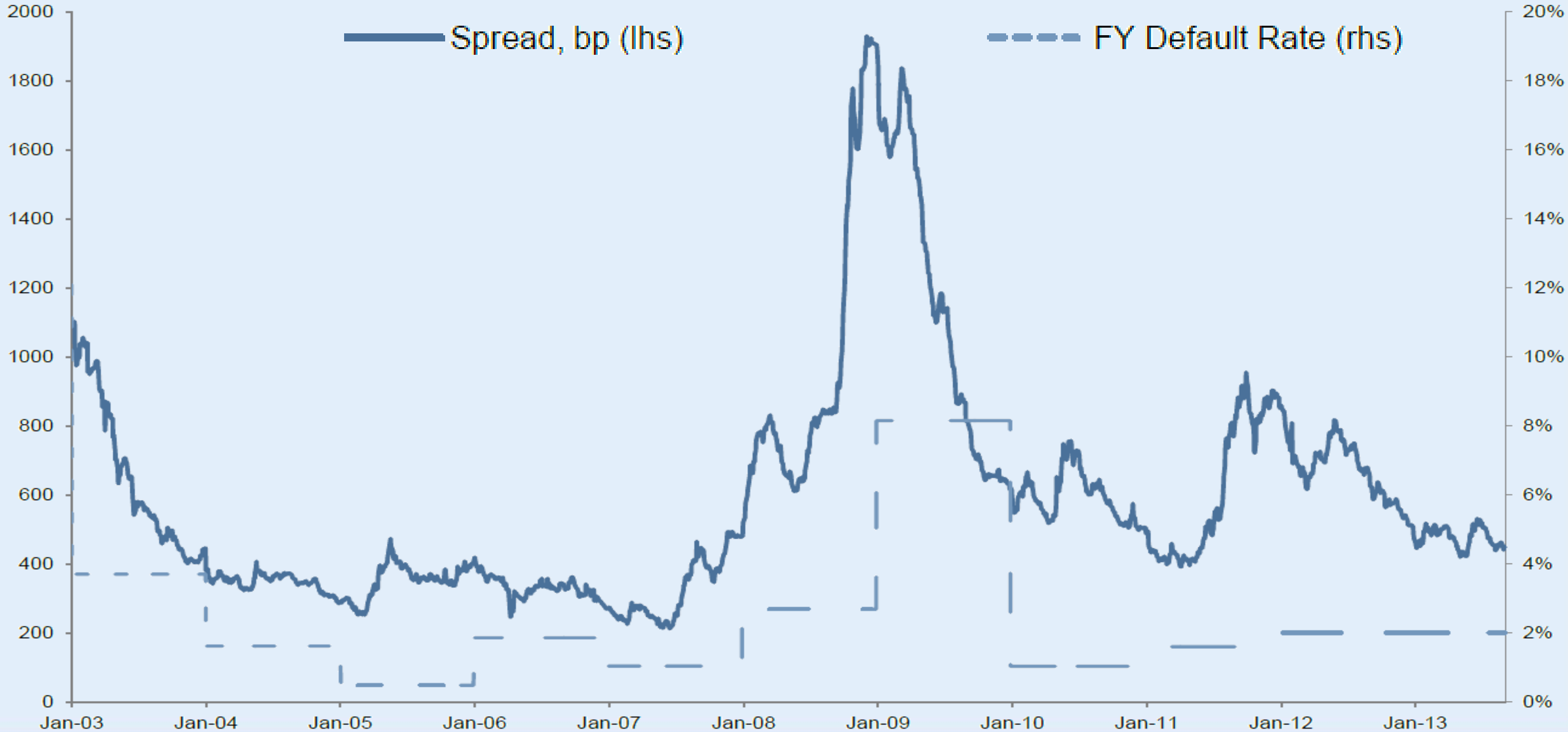
Low sovereign bond yields have pushed investors along the credit curve

Euro High Yield corporate bond spread vs. Default Rate



Investors should focus on absolute level of yields as well as spreads

Source: J.P. Morgan, MARKIT Group, S&P, 2013. The views expressed are those of the fund manager at the time of presenting and may change in the future.

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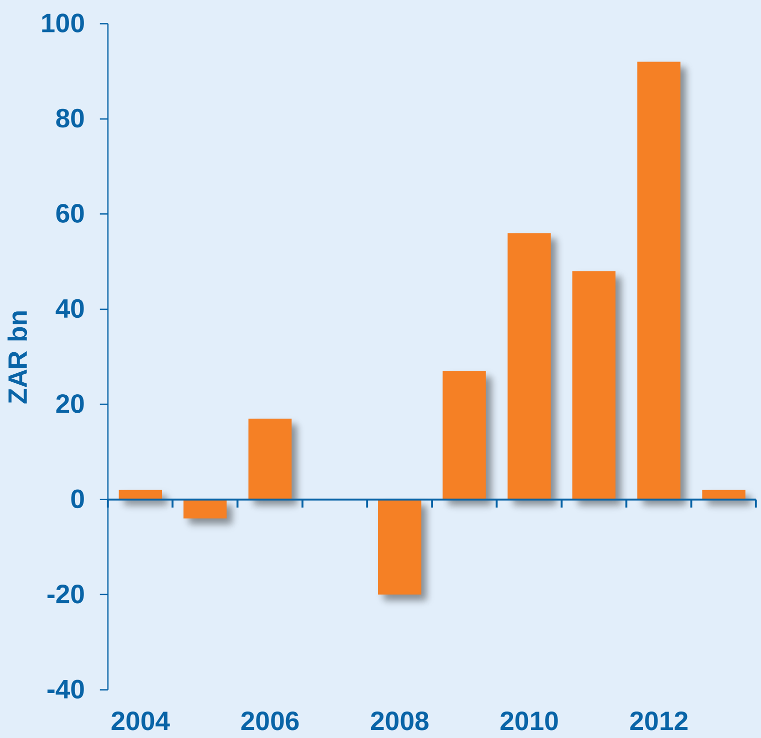
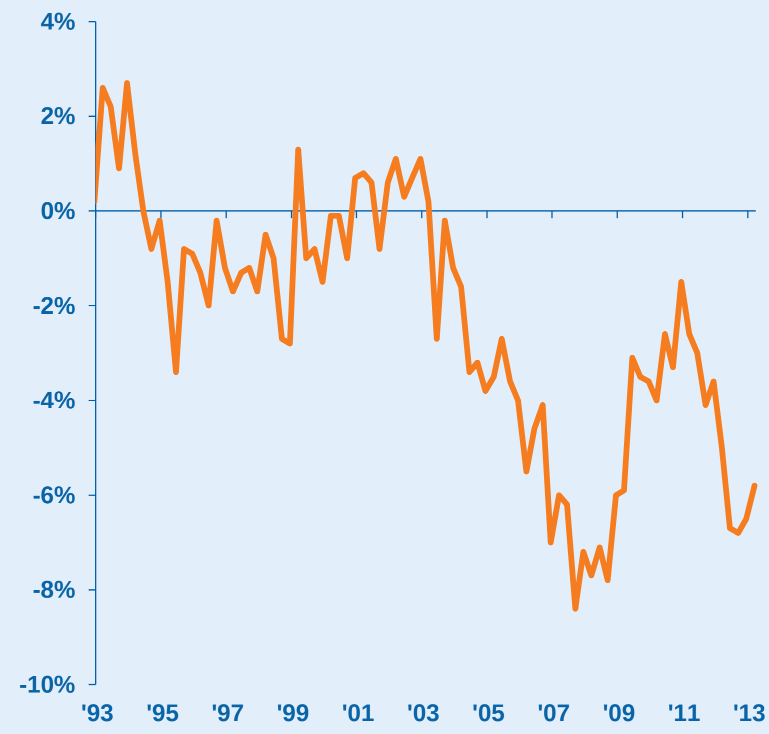
Foreign flows into EM debt have been offsetting current accounts deficits

Foreign flows into South African bonds*



Current Account balance (% of GDP)**



EM debt is vulnerable to US tapering and their own domestic issues

**Source: I-Net Bridge 30.06.13. **Source: South African Reserve Bank as at 31.03.13.*
The views expressed are those of the fund manager at the time of presenting and may change in the future.

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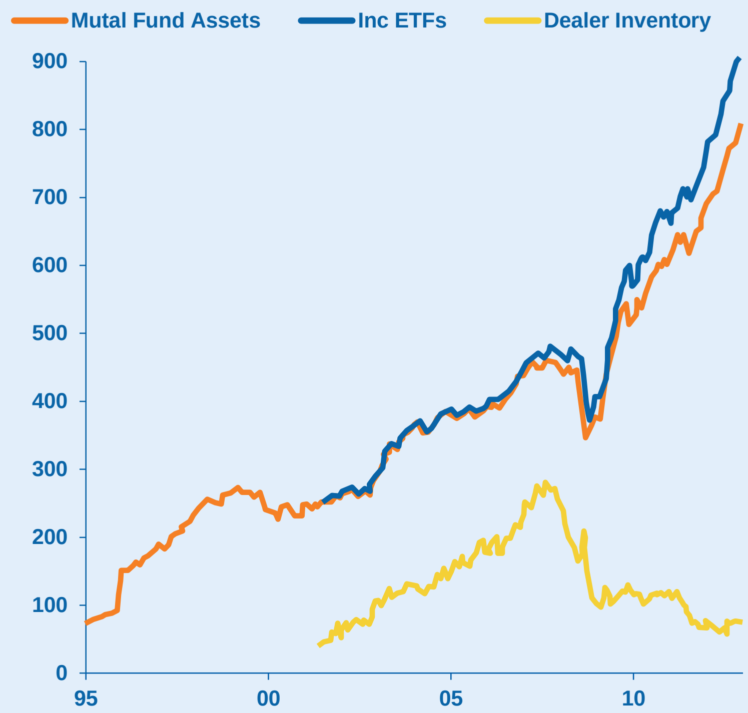
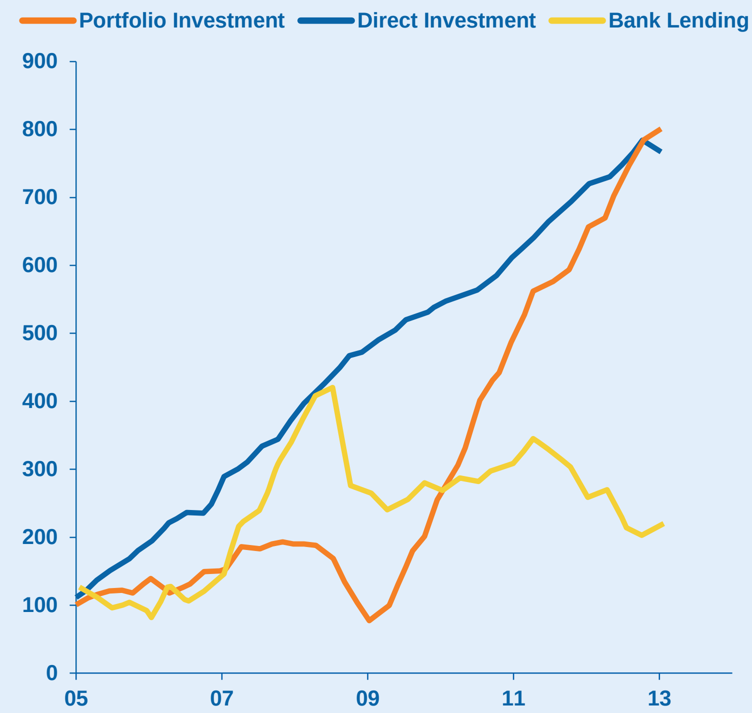
Huge flows have gone into bonds in developed and emerging markets

Since 2006 there has been $1.3 trillion inflow to bond funds

US Credit mutual fund assets + dealer inventory ($bn)



Emerging Market net cumulative financial flows ($bn)*



Will investors have liquidity when they need it?

Source: ICI, NY Fed, Bloomberg, Haver Analytics, Citi Research 27.08.13. Haver Analytics, Citi Research.
**Sample excludes China, but includes 15 other countries across LatAm, Asia and Europe.27.08.13.*

A normal environment is one without QE…

- Excessive governmental and personal debt in developed economies
- Un(der)employment is a political , and therefore a financial, problem
- Escalation of conflict in MidEast remains a risk
- But corporates are in good health and the global economy is in better shape
- ZIRP and QE saved the financial system, now the system must survive normalisation
- Central banks can (and will) anchor the short end of the yield curve…
- … but sovereign bonds are certainly not risk free
- Structural and psychological factors have caused investors to shun volatile asset classes and prize too highly perceived safe havens

…so investors need to gradually normalise their portfolios

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Oldfield Partners

Richard Oldfield

5th November 2013

What is a value manager?
How do you avoid value traps?
Where do you see value now?

Inaugural Cambridge Investment Conference

Tuesday, 5th November 2013

Commercial Real Estate

Real estate strategies for charities

Cambridge - 5 November 2013

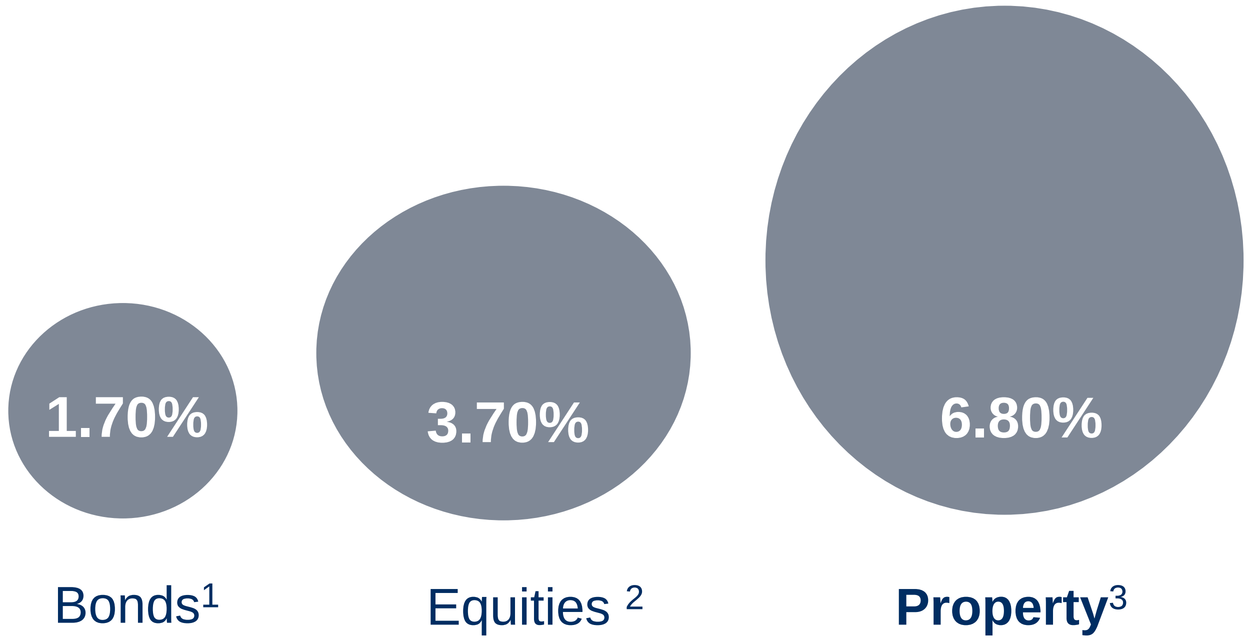
Why property?

Charity property strategies

Practicalities

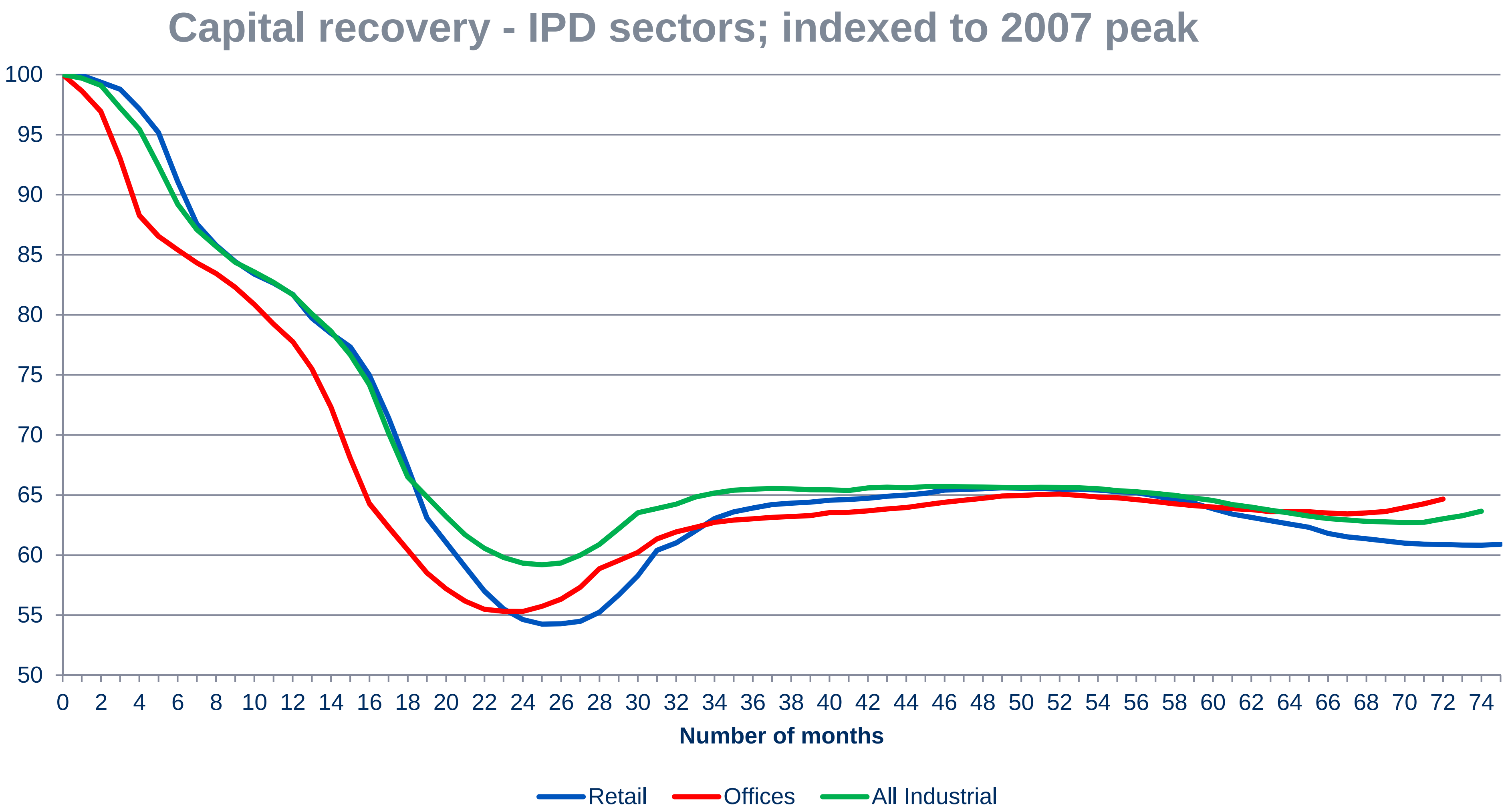
Why property?

- We are moving out of recession
- Interest rates are low
- Property returns offer a huge spread over equities and bonds



1. 10 year generic bond yield
2. FTSE 100 dividend yield (at end April 2013)
3. All-property income yield last 12 months

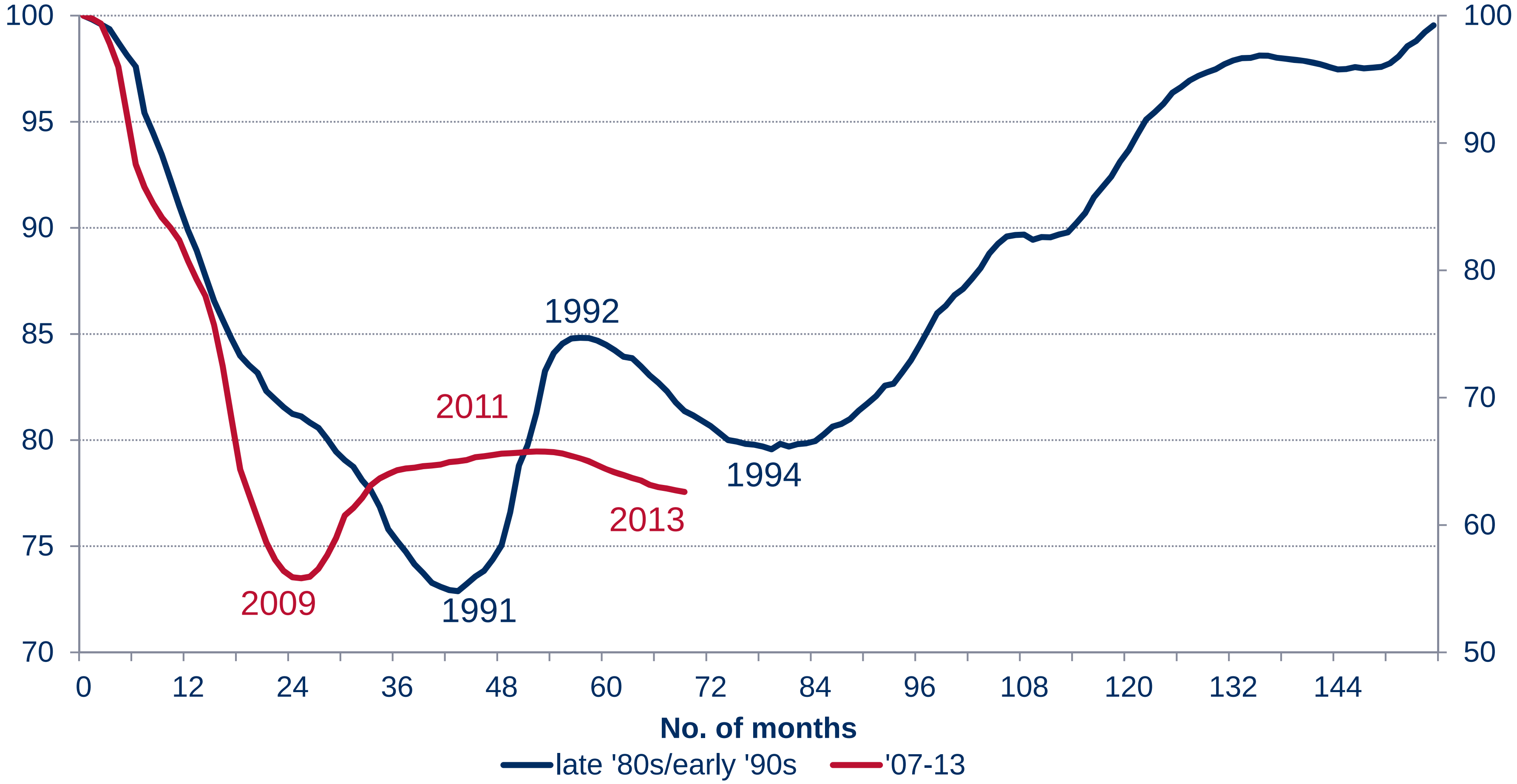
And property is cyclical: all UK property capital values



Source:

And property is cyclical: all UK property capital values

- Like the early 1990s, the banks are out of the game
- But new entrants take their place



Source:

Advantages / disadvantages

High management costs

Illiquidity

Constant monitoring required

Why property

Charity property strategies

Practicalities

London – development gathering pace

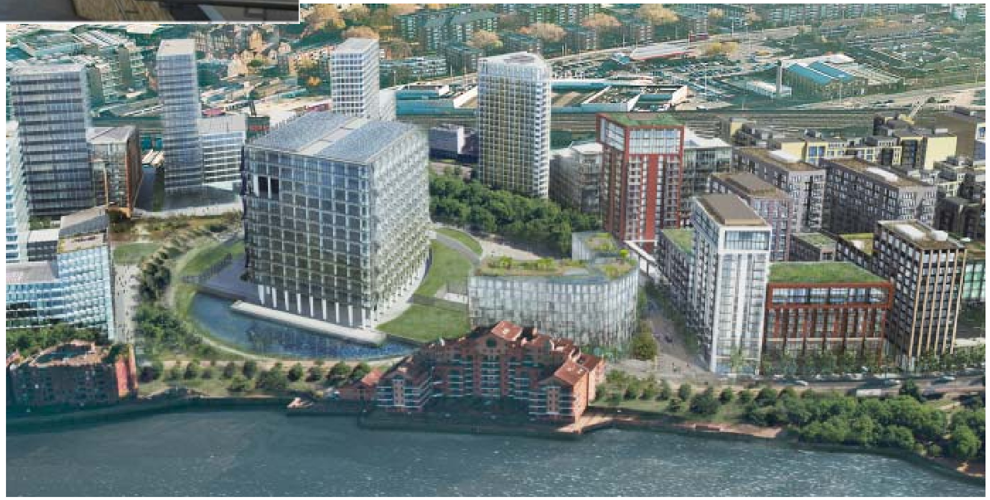
Battersea

Crossrail

Kings Cross

Stratford City

Nine Elms



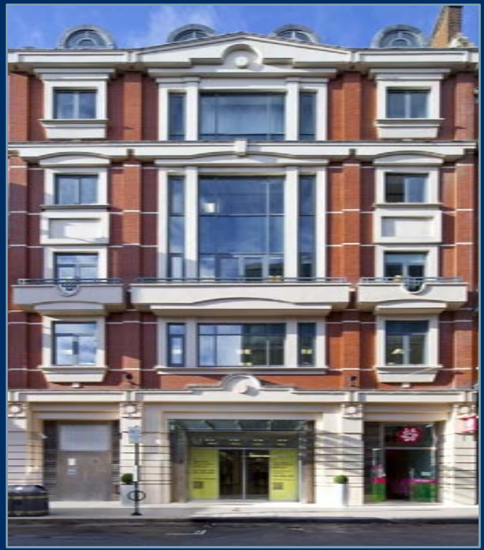
London remains buoyant

London

Crystal Court, Farringdon, London

- Modern office building
- £23.0 million (Yield: 7.1%)
- Located close to Farringdon Station; significant benefits due from Crossrail & Thameslink
- Low rent and capital value per sq ft

101 St Martin's Lane, London



- 48,945 sq ft Grade A office building with a self-contained ground floor retail unit
- Located in the heart of Covent Garden
- Opportunity to asset manage lease events in 2015/16
- £33.4 million (NEY: 6.2%)

Source: Cordea Savills (June 2013)

CHARITIES PROPERTY FUND

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Long leases & fixed increases

Supermarkets	&	Alternatives

Nailsea, Bristol

Worcester

- Long unexpired lease terms
- Annual RPI increases
- Excellent covenants
- Yield of 4.5-5.0% compare well with bond yields

- Long unexpired lease terms
- Leases benefit from 2.5% per annum increases
- Premium brands preferred
- Yields of 7% available

Source: Cordea Savills (June 2013)

Look outside London: when values are underpinned

- Institutions are starting to playing the prime/ secondary property yield gap
- Weight of capital looking at opportunities
  - 8.0% NIY - Office let to good covenants where there is an infrastructure play
  - 9.0%+ NIY for industrial units benefiting from substantial tenant investment
- As always forensic tenant analysis needed
  - Their investment in the property
  - What alternatives they have (local market)
  - Their trading and covenant strength
- Not just the potential yield reversion

Bell Street, Maidenhead. Acquired end 2012.

Severn Drive Tewkesbury. Acquired end 2012.

Manufacturing

Kongsberg, Normanton	Olympus Park, Gloucester
	

Kongsberg, Normanton

- Recently extended modern industrial unit
- Substantial manufacturing facility
- New 25 year lease (break option at year 15)
- Annual 2.5% rental increases
- £4.3 million (8.4%)

Olympus Park, Gloucester

- Well specified distribution warehouse
- Established engineering company
- Considerable investment in the unit
- Unexpired lease term of 8.75 years
- £5.4 million (9.7%)

£10 million, 11.5 years unexpired, Yield: 9.1%

Source: Cordea Savills (June 2013)

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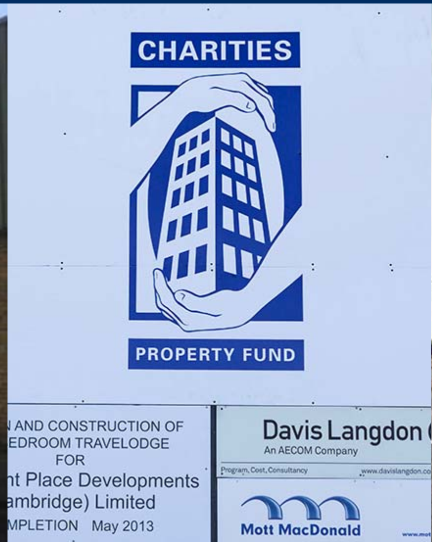
Asset Management – forward fundings

Travelodge, Cambridge



- Forward funding of a new 219 bedroom hotel
- 35 year lease to Travelodge
- Uncapped RPI rental increases every 5 years
- BREEAM 'Very Good'
- £17.4 million (6.35%)

- Delivered on time and on budget
- Completed valuation of £18.8million (compares to the cost of funding of £16.3 million)
- Adjoining Premier Inn sold for 5.35% (higher rent and shorter lease)

Source: Cordea Savills (June 2013)

Asset management

Pentrebach Retail Park, Merthyr Tydfil

- Open A1 consent
- Low rents (£11 psf)
- Good critical mass
- Prominent park, close to a Co-op supermarket

- Surrender taken from B&Q for £1 million
- Units fully refurbished and let on new 15 year leases to 3 tenants
- Surrender taken from Comet and Tiles ‘r’ Us
- Retailer line considerably enhanced

Source: Cordea Savills (June 2013)

Direct or indirect ?

Direct or Separate Mandate

REIT

Pooled Fund

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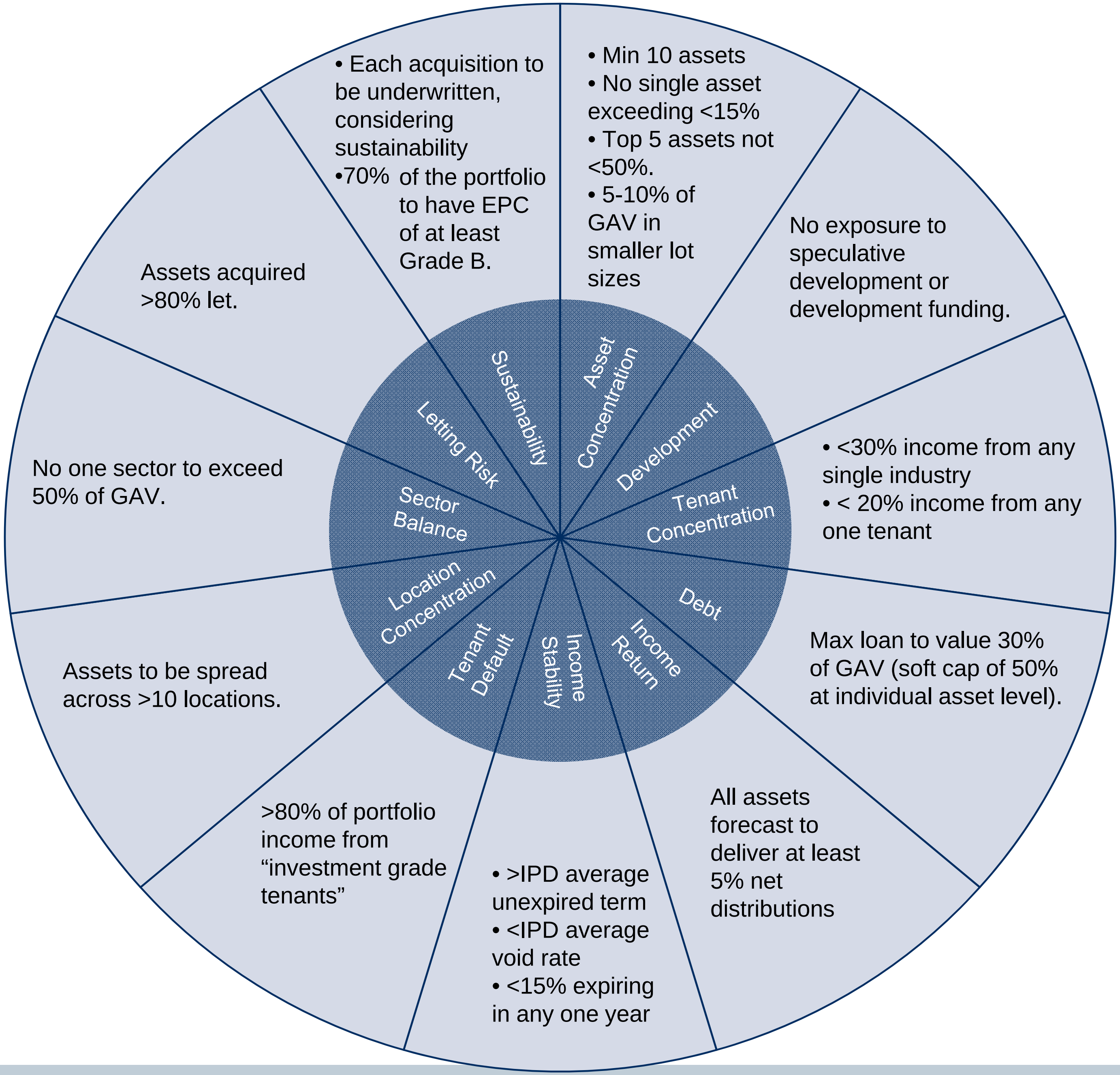
Portfolio risk management - controls to mitigate areas of risk

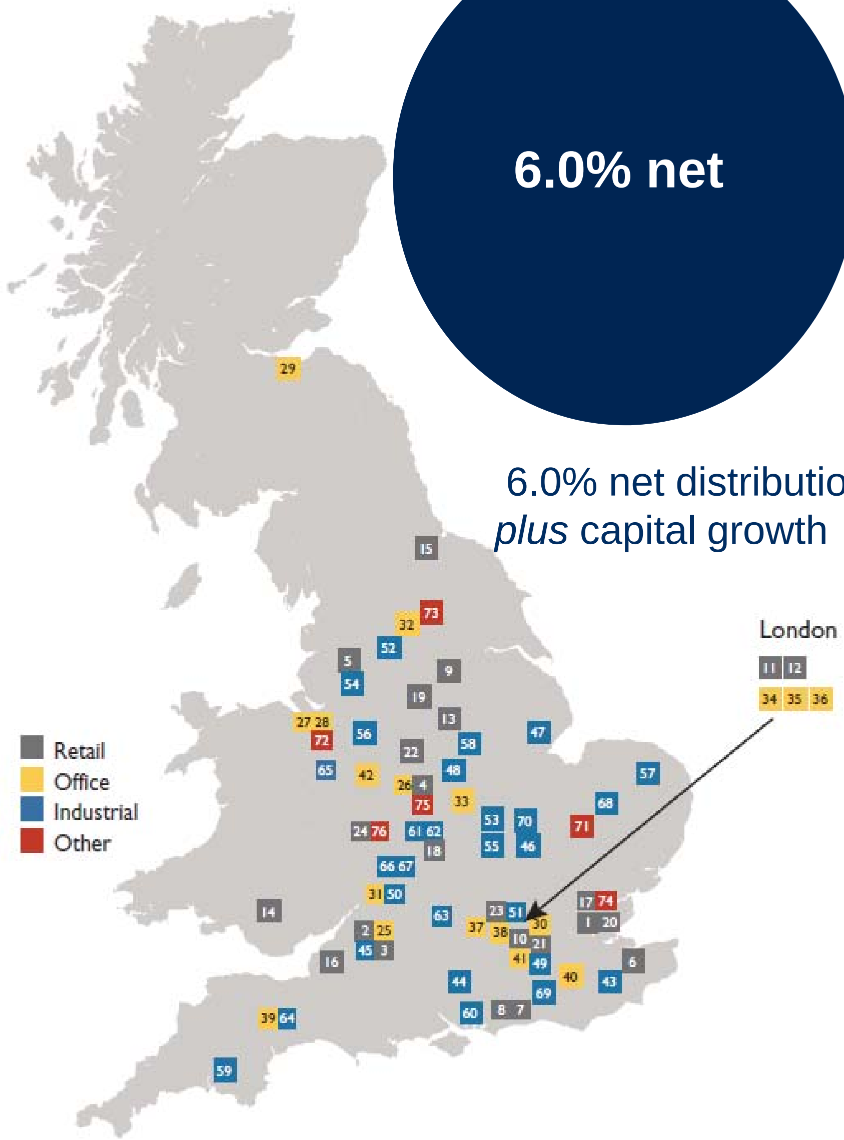


Pick fund strategies that offer wealth preservation

- £540 million Fund with 76 assets
  - No legacy issues
  - Strong covenants, low voids, long leases
- Investment strategy
  - Established locations
  - Balanced: some index-linked properties (but not all)
  - Highly selective growth plays
- Proven liquidity
- Proven performance – best performing UK Balanced Fund over last 5 years
- No leverage

6.0% net

6.0% net distribution
plus capital growth



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Inaugural Cambridge Investment Conference

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CERNO CAPITAL

Asset Allocation in a Confusing Era

Cambridge University

November 2013

Asset Allocation in a Confusing Era

ASSET CLASS	CURRENT ALLOCATION
Equity	70%
Fixed Income (intermediate to long duration)	0%
Corporate Credit	0%
Index Linked Bonds	0%
Global Macro Strategies (principally FI and FX strategies)	25%
Gold & Gold Equities	0%
Commodities	0%
Cash & Near Cash	5%

Source: *Cerno Capital, 4Q 2013*

Asset Allocation in a Confusing Era

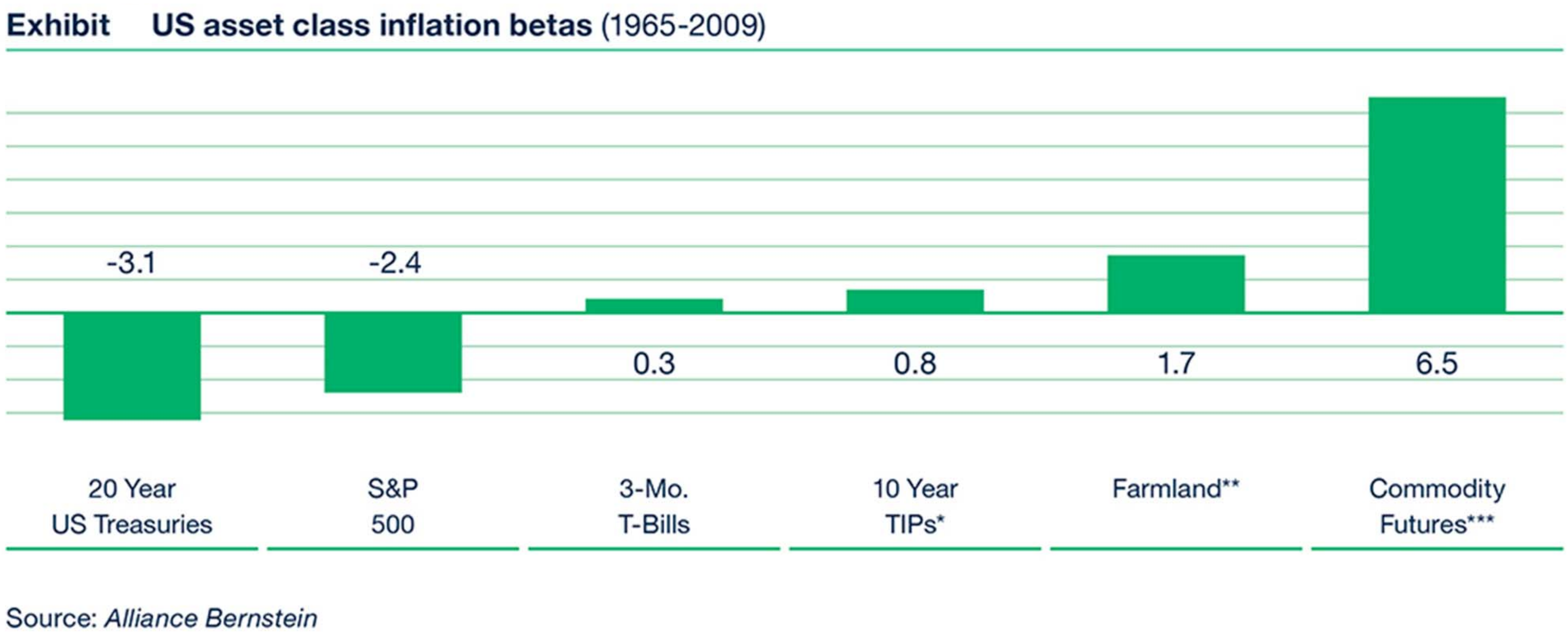
Barclays Equity Gilt Study (2013)

1982 - 2008 The Great Moderation

2008 - 2012 The Great Crisis

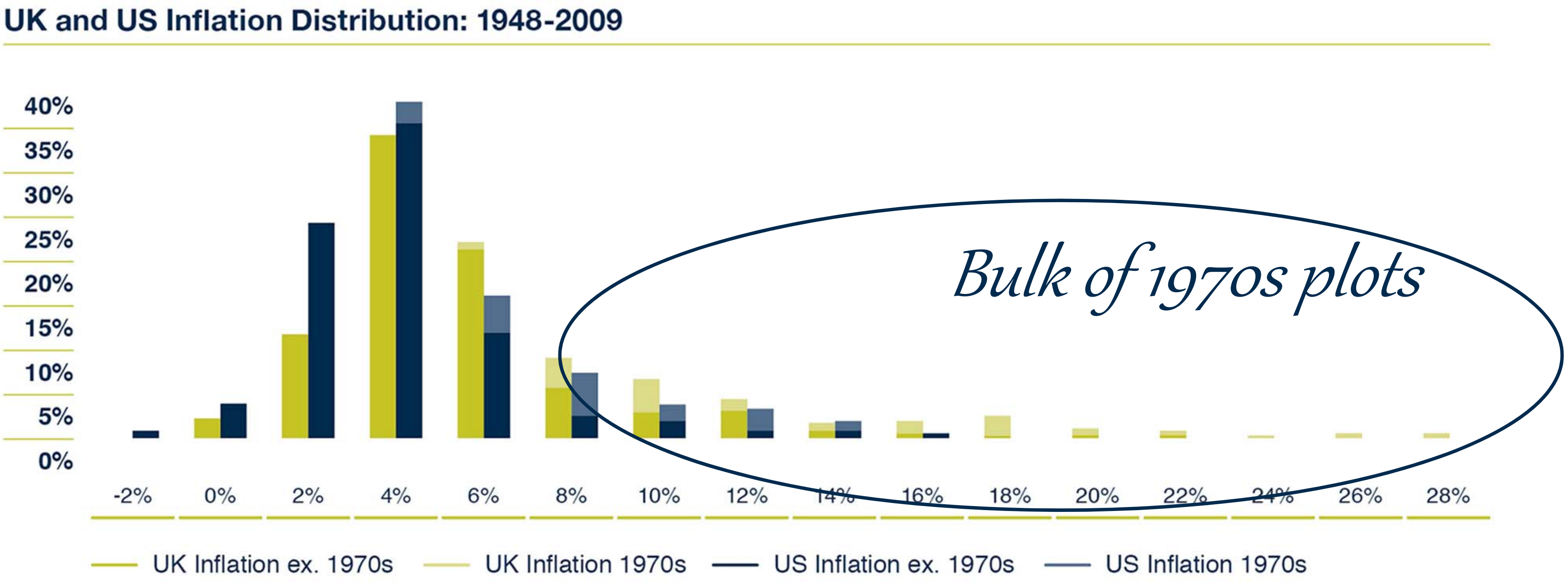
2013 - Great ?

Measured sensitivity to inflation (US - historic)



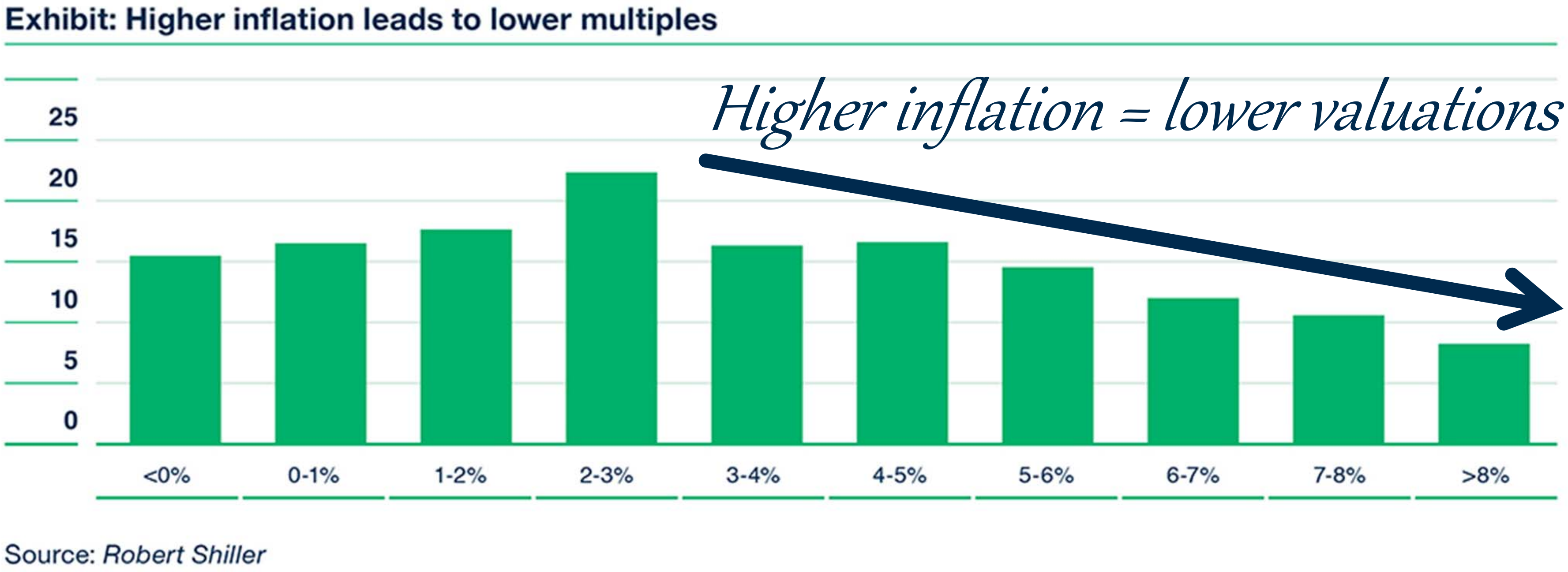
Negative price sensitivity *Positive price sensitivity*

The 1970s: flares and long tails



Source: *Bureau of Labour Statistics & Office of National Statistics*

Equities ? Inflation and valuation multiples



Inflation Linked Bonds: a disinflationary asset *par excellence*

Exhibit: Trailing annualised total returns of UK and US inflation-linked bonds versus equities

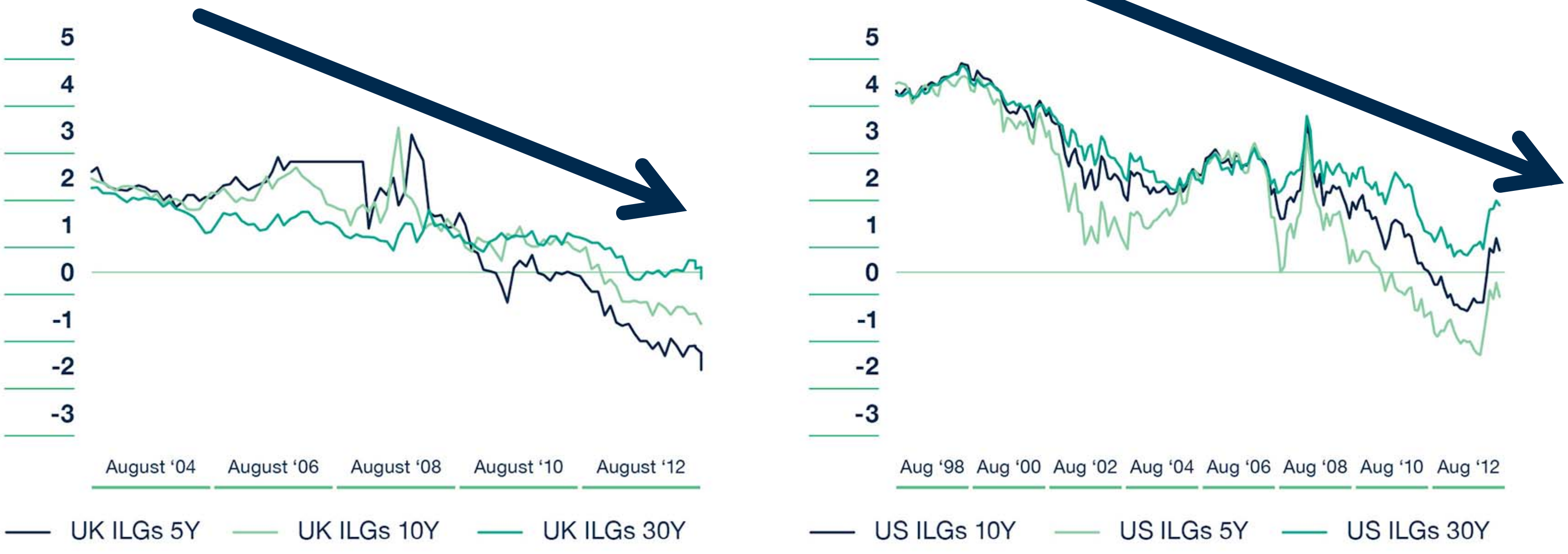
	Inflation-linked gilts	FTSE 100	TIPS	S&P 500
3Y	7.5%	9.1%	2.2%	16.3%
5Y	7.0%	9.7%	4.0%	10.0%
7Y	6.9%	5.0%	4.9%	5.6%
10Y	7.0%	8.5%	4.2%	7.6%
20Y	7.0%	7.5%	5.5%	8.8%

Source: *Morningstar*

Great returns during disinflation

No normalisation here (yet)

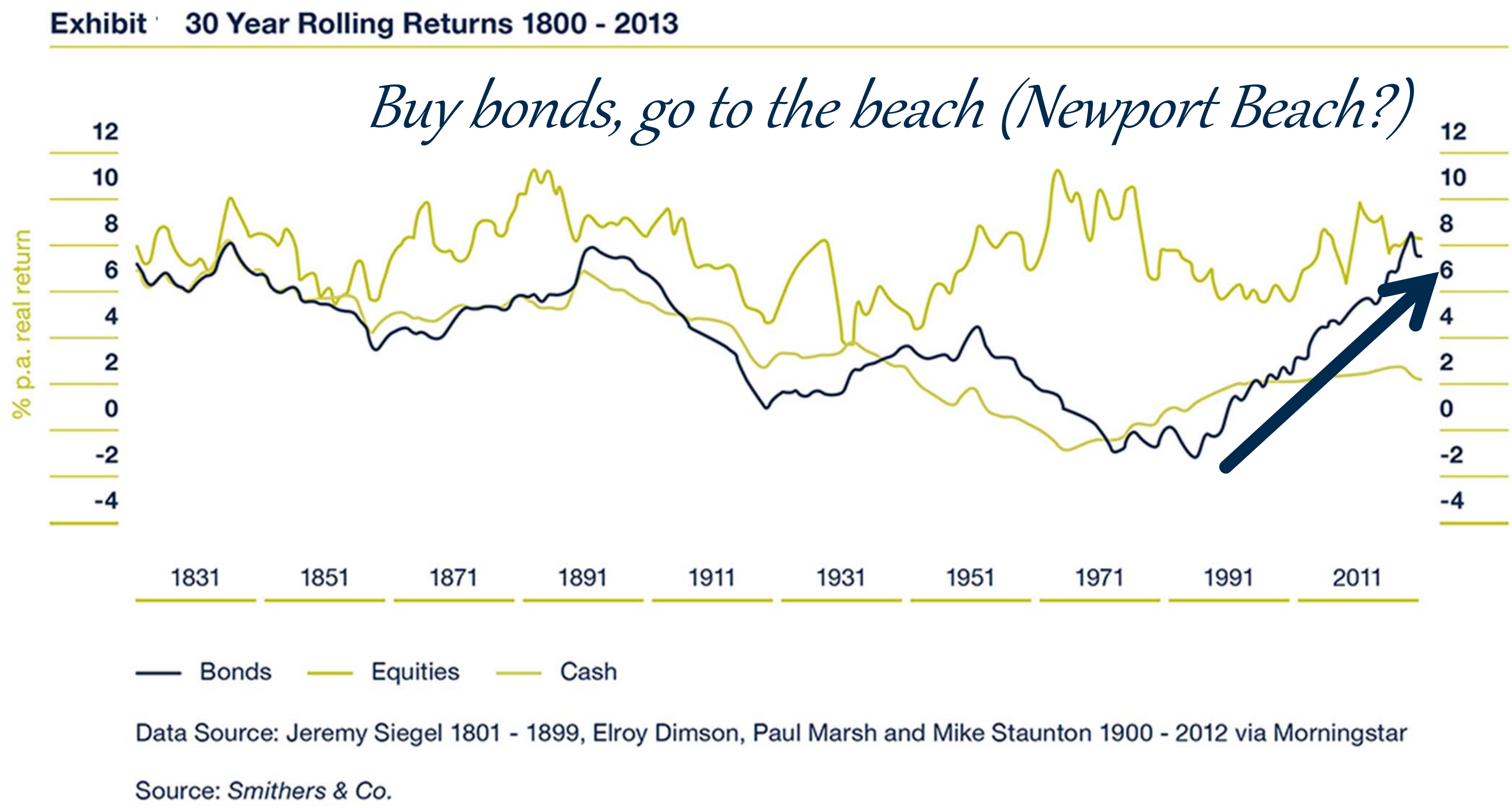
Exhibit Real yields on UK (LHS) and US (RHS) linkers



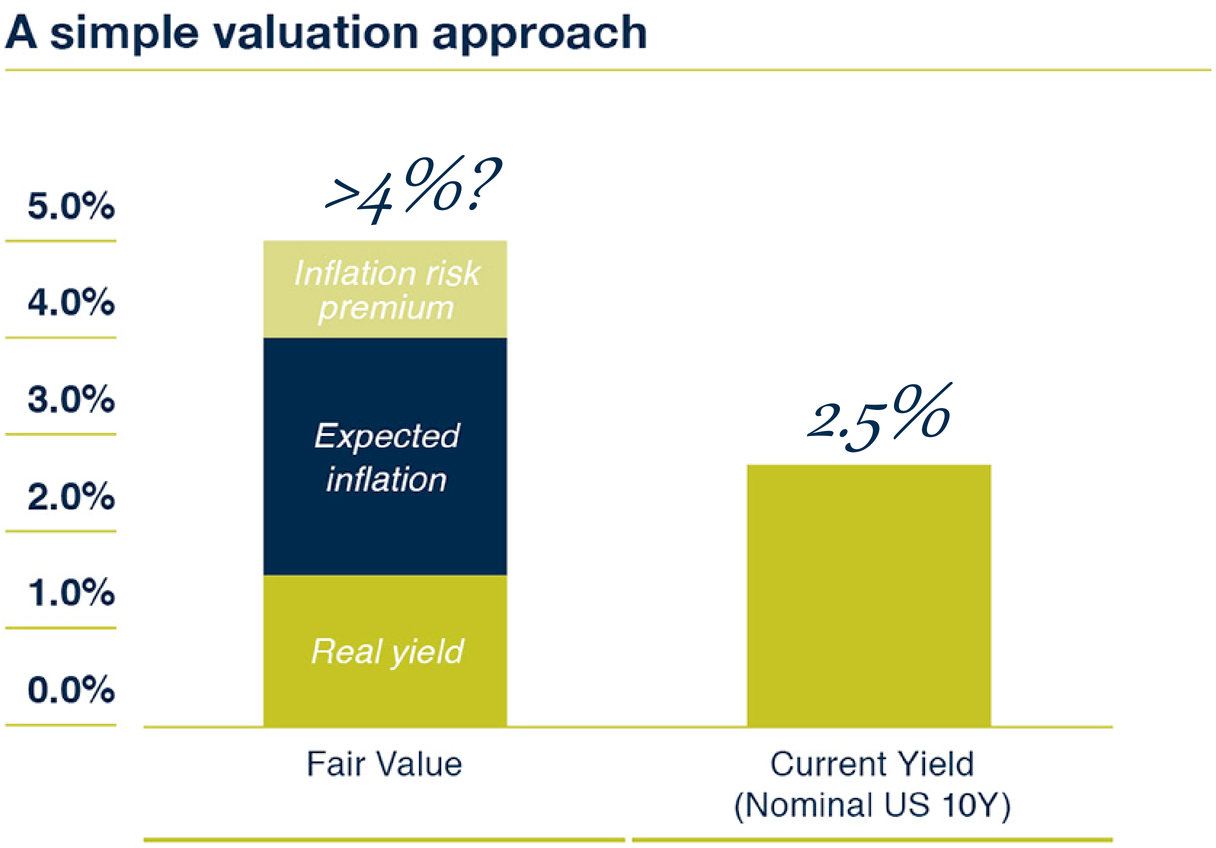
Source: *Bloomberg*

Falling real yields = higher valuations, which have driven returns

1982-2012 An Age of Wonder (for bonds)

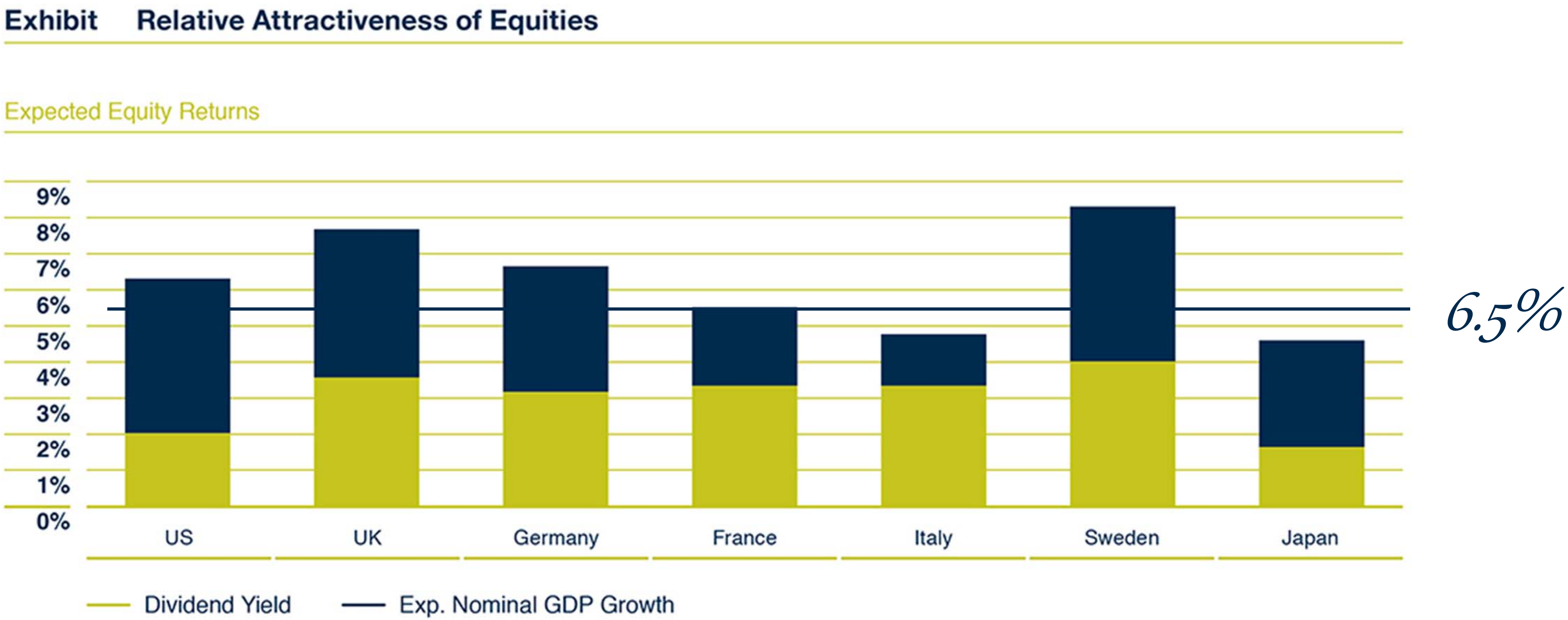


Ready reckoner on bonds



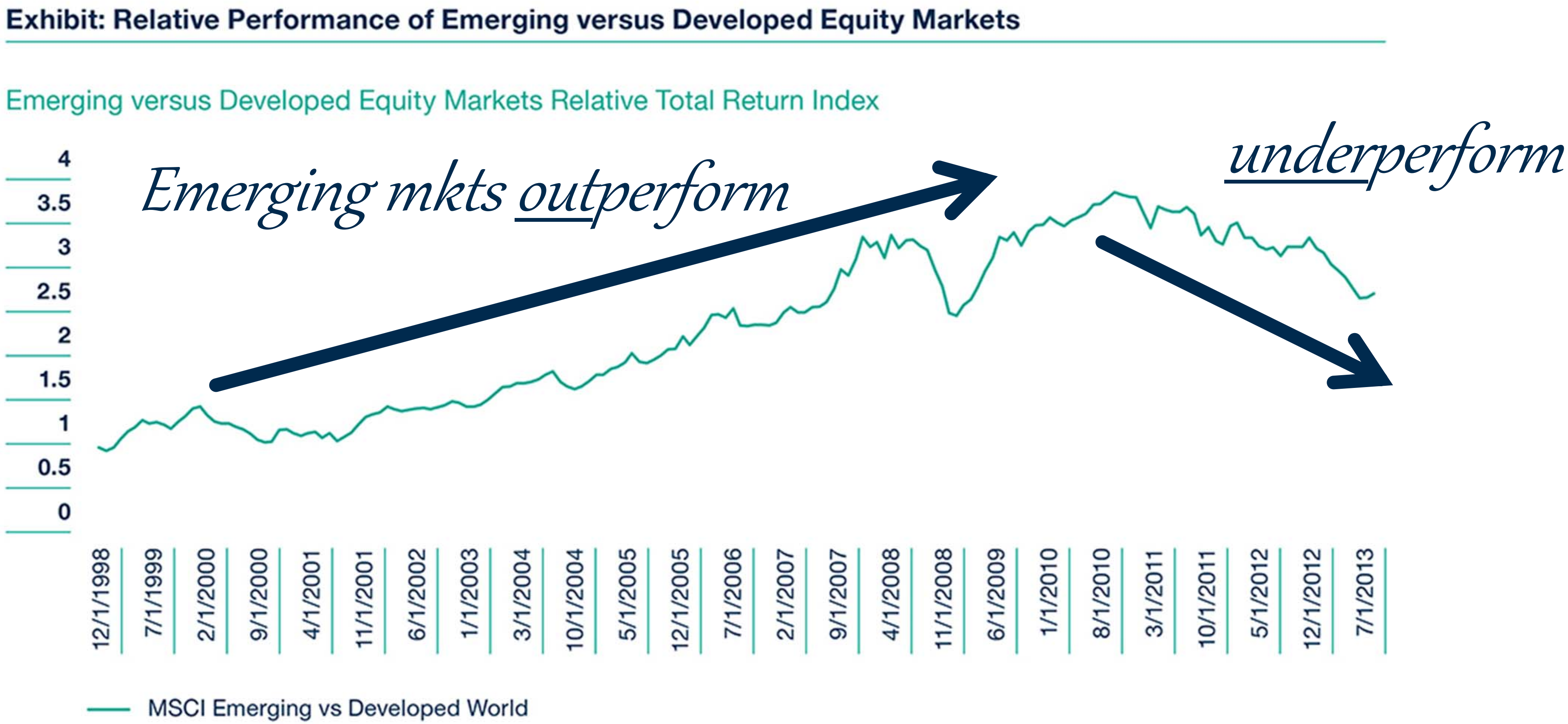
Source: *GMO*

Ready reckoner on equities



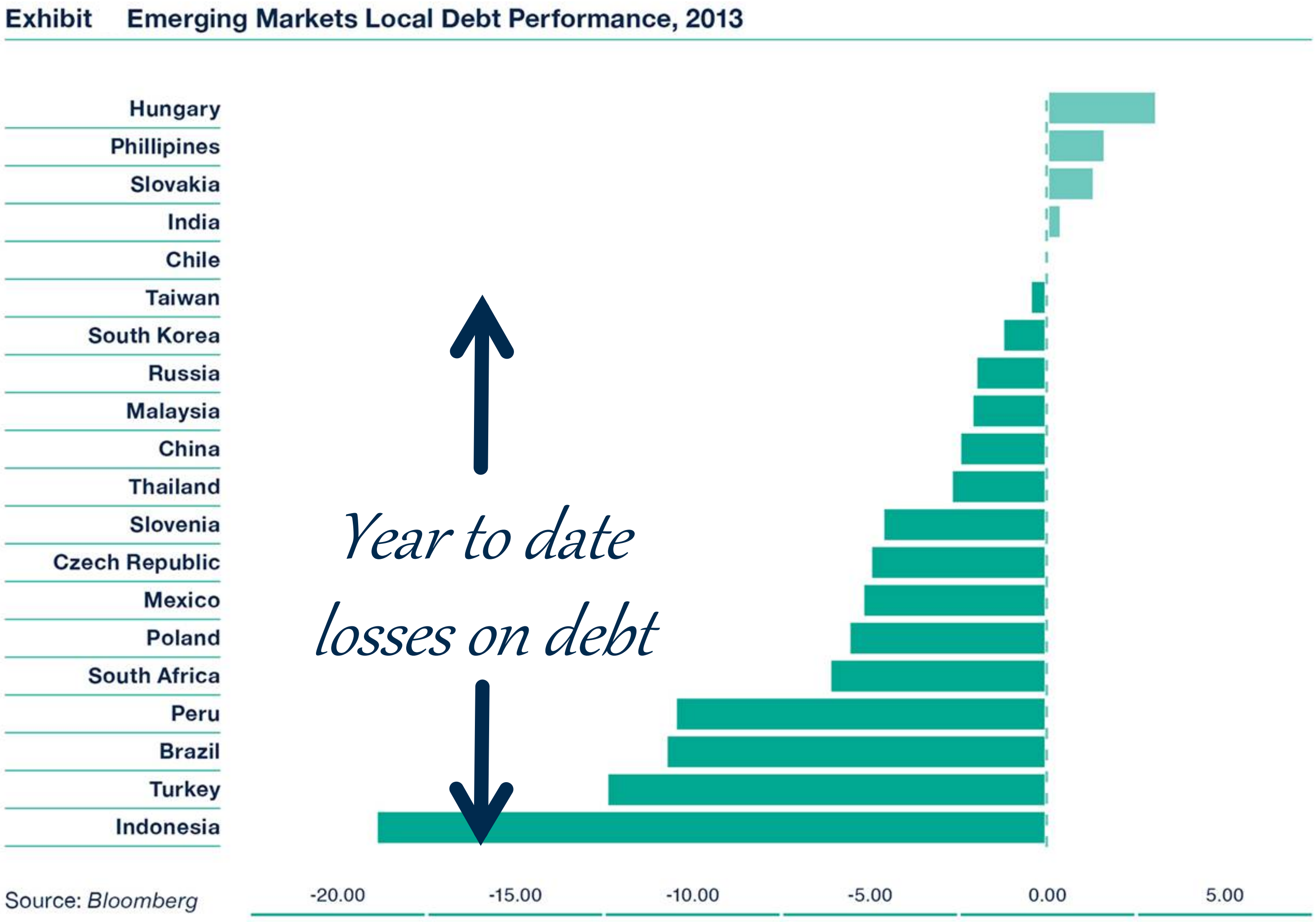
Source; Cerno Capital, Bloomberg, Goldman Sachs

Does this make sense?



Source: *MSCI, Bloomberg*

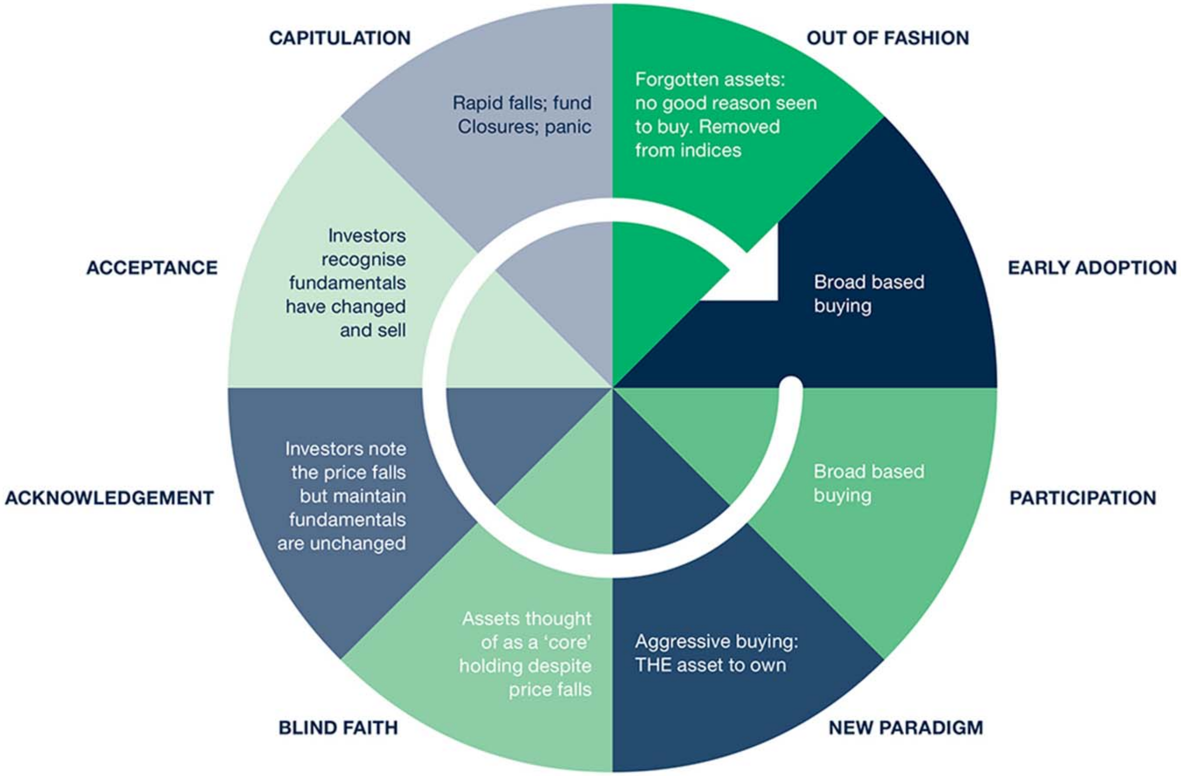
A variegated spectrum of risk



An ever repeating mandala

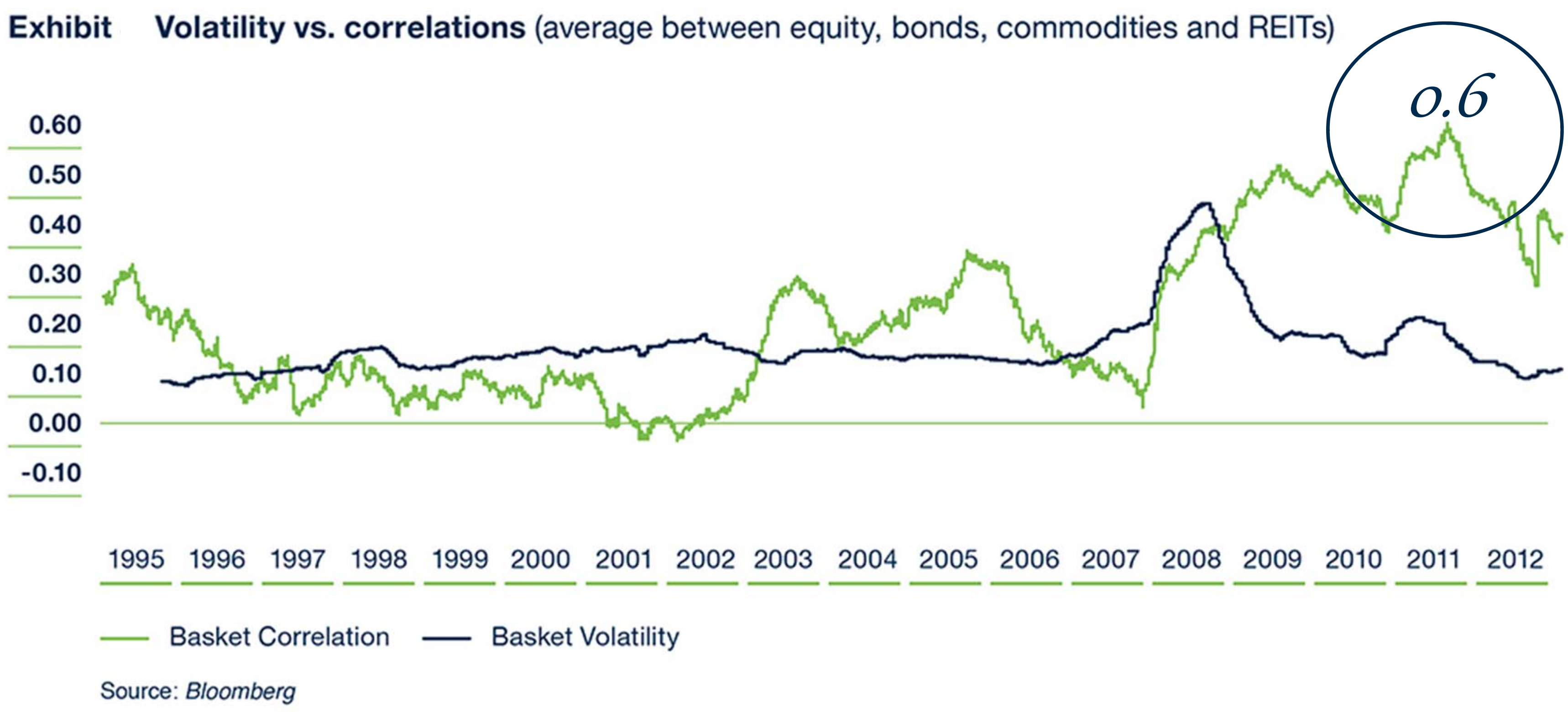
Exhibit: The Sentiment Cycle

The Long-Term Sentiment Cycle



Source: *Schroders - 30 August 2013*

Correlations: province of the scurrilous



Intra as well as extra

Asset Allocation in a Confusing Era

Asset Allocation in a Confusing Era

ASSET CLASS	WEIGHT	WHAT NORMALISATION ENTAILS
Equity	OVER	Falling earnings yields
Fixed Income	UNDER	Rising core yields
Corporate Credit	UNDER	Rising spreads
Index Linked Bonds	UNDER	Tight correlation with nominals
Global Macro Strategies	OVER	Periods of high volatility. Inter regional disparities
Gold & Gold Equities	UNDER	Falling gold price
Commodities	UNDER	Possible restoration of backwardation
Cash & Near Cash	UNDER	Eventually, rising short term yields

Source: *Cerno Capital, 4Q 2013*

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Source: Cerno Capital

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Where unregulated collective investment schemes selected for your portfolio are established overseas that the rules imposed under the Financial Services and Markets Act 2000 on the operators of schemes for the protection of retail clients will not apply and the benefits available under the UK Financial Services Compensation Scheme in relation to the operator will not be available.

The value of any investment or income arising thereon made by CERNO CAPITAL may fall or in some cases incur a total loss. Investors may not receive back the full amount invested.

No guarantees can be given as to the investment performance or the level of return that will be achieved from any investments made.

Past performance of CERNO CAPITAL or of any of the investments made by CERNO CAPITAL on the Client's behalf is not a predictor of future performance.

The overall objectives set by the Client may not be achieved.

The funds which CERNO CAPITAL invests in on the Client's behalf may not achieve their own investment objectives.

The investments contemplated by CERNO CAPITAL may be illiquid. Whilst in some cases monthly liquidity is possible there may be notice periods, redemption penalties or other impediments to liquidity. In addition some of the underlying investments contain gate clauses that prevent more than a certain percentage of investors redeeming at any one time. Some funds may prohibit the sale of interests in the funds on any secondary market.

Risk notice - continued

There may be no secondary market for the investments undertaken by CERNO CAPITAL and as such the only method of obtaining a return of capital may be via redemption or at the end of a specified period.

Investors should not invest if they require income from their investment.

CERNO CAPITAL is substantially dependent upon certain key individuals to allow it to undertake its services. In the event of the demise or incapacity of those individuals there may be a limitation on the firm’s ability to source new investments.

Investors are advised to seek the advice of an independent financial advisor before investing.

Currency Risks

Investors are advised that certain investments will be made in currencies other than sterling. Whilst CERNO CAPITAL may put in place hedging strategies CERNO CAPITAL will not be able to fully hedge the currency risk associated with such investment. The impact of exchange rate movements could impact the returns obtained.

You may however, still be entitled to claim from the scheme in respect of advice given by CERNO CAPITAL.

Taxation Risk

The client is exposed to the risk of changes in taxation policy.

Gains on the portfolio will in certain cases be treated as income and not capital gains. The treatment of gains may vary over time.

Tax rates may vary over the life of the investment.

Investors are advised to seek the advice of an independent tax advisor before investing.