Minutes of the Adviser Business Solutions Investment Committee Meeting

Location: Premier Offices, Guildford

Date: 25/10/2011

Attending: Dave Stamp, Mike Reidy, Jon Foster, Ben Armstrong and Richard Anderson of ABS, Paul Smith of Premier (Defensive Fund Manager), John Husselbee of North Investments (Universal Fund Manager), Rebecca Murphy of North Investments, Laurence Boyle of Williams De Broe (Enterprise Fund), Mike Hammond of Premier, Frank Blackmore of Headley Financial Services and Joe Freire of JMF-FS

Apologies: None

Minutes of previous Meeting

The IC reviewed the minutes from the previous meeting

Review of Sentinel Enterprise Fund

Laurence Boyle discussed the Sentinel Quarterly Questionnaire, Quarterly Presentation and Manager Under Review Presentation.

Comments

Laurence Boyle (LB) opened the presentation by stating that the major themes within the fund remain Global Emerging Markets, Global Resources and Gold, with a focus on Mega Cap stocks

Mike Hammond (MH) asked LB “What do you do when there is a Bull Run in the market?” LB replied “Generally I would let the Bull Run ride out; some assets become expensive and overpriced.”

Mike Reidy (MR) then followed by asking LB “What if we don’t see a prolonged bull run and the markets stay volatile for a long period?” LB replied “If the markets are going down then you don’t want this fund. In volatile markets then you would expect to see choppy returns. However in a rising markets we will always outperform the benchmark.”

David Stamp (DS) asked LB “Are we getting carried away by benchmarks?” LB replied “No, as discussed this does not match the average IMA Active Managed fund, its more of a mix of an Active Managed & Global Growth fund. This is evident in the current Asset Allocation.”

DS continued "I don't have a problem when markets go up, in this situation what options do you consider? LB replied" We stick to the long term strategy. Discounts on funds are reduced which can result in paying the full premium. DS asked "Is there a problem with Gold Shares?" LB replied "If the equity markets have a run so will gold shares" DS asked "If you have a Bull Run on equities would this have an impact on gold prices" LB replied "Yes it would ". DS stated "If there is any criticism then this is directed at what you do to put risk on, take risk off!" LB replied "To facilitate a risk on risk off approach there needs to be a catalyst to drive the decision."

DS asked "What is your argument for growth in the fund when the economy is in such a mess? LB replied "The fund is removed by focusing on global quality large cap focused funds. The fund is not depending on an economic recovery to perform well; big corporations are continuing to do well and are showing strong balance sheets."

DS then went on to asks LB 'Why are you still in the Martin Currie North America High Alpha fund?" LB replied "The Martin Currie North America High Alpha fund is on the list to be removed from the portfolio, just waiting for the right time to trade. The fund is stock specific, only containing 25-40 high conviction stocks. This is an example of being in the right sector at the right time but the wrong fund. The Martin Currie team is a very experienced team and I am surprised that they got it wrong. High Alpha funds always suffer in this kind of market.

LB finished by stating it was the Emerging Markets theme that had been the drive behind the recent underperformance of fund over the last quarter in conjunction with the fact that Gold Shares also lagged during the same reporting period. Austerity measures are going to be inevitable for a long period and will continue to affect the markets.

Enterprise IC Summary

The presentation about the performance was discussed in detail. Some of the key points raised was the fact there very few trades have taken place given that there is still new money flowing into the fund. Ideally would have would have liked to have seen more activity. Another area is the risk on risk off approach that is going to be assessed going forward as there has not been sufficient outperformance to offset the underperformance when markets tumble.

Review of Sentinel Defensive Fund

Paul Smith discussed the Sentinel Quarterly Questionnaire, Quarterly Presentation

Comments

Frank Black opened the questioning by stating "Structured Products are an interesting investment?" Paul Smith (PS) replied "Exposure has been controlled within the fund.

Banks do have investments in other banks so there will be some impact when they do unwind. The big risk is banks or governments defaulting. All of these scenarios are continually run through stress test models to assess the impacts in these types of situations

PS commented on the how the purchased short dated Zeros portray about a quarter of the volatility in comparison to the equity markets. The more equity responsive Zeros have been replaced. The current market for Zeros is small with no significant release of any new zeros. The Corporate credit spreads are still reasonable but financials fell to credit crunch levels. This impacted on the bond market which actually closed doors to trading for a limited time period. The fall over this quarter was mainly due to the credit spreads widening. The Beta of the portfolio went from 0.25% to 0.4%.

The UBS rogue trade added a lot of volatility to the credit markets. After this event we purchased some UBS products, locking in some potentially high gains. Overall the return profile of the fund has increased. There have been no default which is good and there has been good liquidity especially in the structured products.

DS asked “In regards to banks, Isn’t RBS bankrupt?” PS replied “It is government backed; I would normally always maintain some exposure in a limited holding. Banks are still reluctant to lend which is having a negative impact on the credit markets.”

MH asked “Is there hidden value in the portfolio.” PS replied “Yes, CULS (Convertible Unsecured Loan Stocks) have done well but less chance of conversion, the returns being more like bonds. Zeros promise good returns even if the market falls. The Fixed Interest will add some value but have reduced this allocation in favour of more Synthetic Zeros and Autocalls

Defensive IC Summary
The IC agreed that they were satisfied with the funds performance during this period which had been especially volatile in regards to the markets this fund can focus on.

Universal fund

John Husselbee - discussed the Sentinel Quarterly Questionnaire, Quarterly Presentation and Manager Under Review Presentation.

Comments

John Husselbee (JH) commented on how both market & investor confidence was too high, this optimism turned to pessimism which consequently had a big knock on effect. None of the actions over the last quarter reignited the appetite for risk. The winners over the last quarter where the American Dollar, Gold & Global Bonds. Asia and GEM suffered most over the short term during the last quarter but will come through over the longer term. Still being underweight in Bonds & Gilts has had an impact on the fund.

The Absolute Return sector has not faired well either only one fund in the sector actually made a positive gain where as some of the funds in this sector where showing a loss of up to 20%. Managers are generally struggling to find a theme to follow they are being battered by politics and volatility.

Over quarter 3 the volatility has been bad for returns but on the flipside this has given some good opportunity for purchases. During this period the exposure to bonds has almost doubled, mainly high yield bonds

Richard Anderson (RA) asked "Do you have a problem with Gilts?" JH replied "Currently the 10 year Gilts available are showing negative returns. Where as if you look at some of the bonds such as high yield return bonds there is better value available which will give better returns. Didn't think there would be any value to be had in this sector. This was a stance that most multimanagers adopted."

FB asked "Do you think there are better UK Equity Income funds in the market the Artemis Income? " JH Answered "Yes, the Artemis Income is a good fund with a good track record but is more suited to a cautious mandate. I want to introduce more growth and stock pickers in this area."

FB continued by asking "What do you think it will take for the markets to jump to 5800 – 6200?" JH stated "There needs to be a more aggressive approach. This is all centered round the major discussions in Europe which is not a quick process and is very complicated due to the amount of different representatives involved. The crisis is now about the government and banks where previously it was about corporations and banks where the level of debt was not known." FB followed on by asking "Are you buying banks?" JH relied "Yes, there are some good yields available"

Jon Foster (JF) raised the question "In 2008 a big Asset Allocation call was to hold onto the cash for a prolonged period. Would you consider looking to sell out to have another high cash position?" JH responded "Yes, cash was supportive but could have been invested. We did make a decision in May as the markets were looking more optimistic, so we reduced exposure to commodities but it also retracted further than we expected. Yes I would look to hold a cash position again but no more than 10%. The retraction in the markets by 20-30% was unexpected."

RA asked "Have we seen the peak of inflation?" JH answered "No, I can see it going to 6% and it is starting to effect wage inflation. Clearly the UK has an inflation problem it is at is highest since 1977. There is a big chance that the UK's rating could also be downgraded like Italy, our finances are not in a dissimilar situation.

DS raised the question "Do you think we will get economic growth?" JH replied "Yes, only between 0 – 2% until the growth deficit is reduced but we will be skirting round a recession."

JH finished by stating that during the last 12 month period the fund has been slightly overweight in equities but still held a defensive position and that volatility is being driven by policy error and is not necessarily focused on one specific country.

Universal IC Summary
It was agreed that the approach was in line with the majority of other Balanced Fund Mangers due to the unattractiveness of the negative yields. The has been some new changes to his team whose experience is in line with the lower risk assets and this impact can be seen by the increased exposure to High Yield Bond.

IC Summary

The IC agreed that John Husselbee & Laurence Boyle are still currently under review and will be required to do an additional presentation to analysis the underperformance. Details of additional meetings to be arranged for January 2012.

ACD Discussion

Redemptions

MH - Provided ACD reports for the meeting in regards to gross / net sales and monthly repurchases over rolling 12 month period. MH felt these were within expectable tolerance levels in line with the current average.

Actions
IC has requested that all 3 mangers are to attend a 'Managers Meeting' at each Investment Committee meeting to discuss Asset Allocations.

Mike Hammond to distribute ACD reporting figures documents to Richard Anderson.

Issue request to John Husselbee & Laurence Boyle to provide additional Presentations and attribution analysis.

Assess Managers Sub List; discuss options prior to next meeting

Any other business
None

Date of next meeting

24/01/2012 @ Premier's Office Guildford