

Meet the Managers

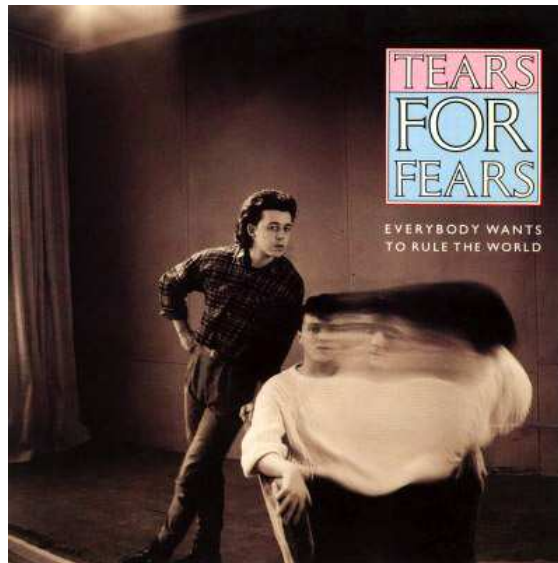


“Everybody wants to inflate the World!”

John Husselbee

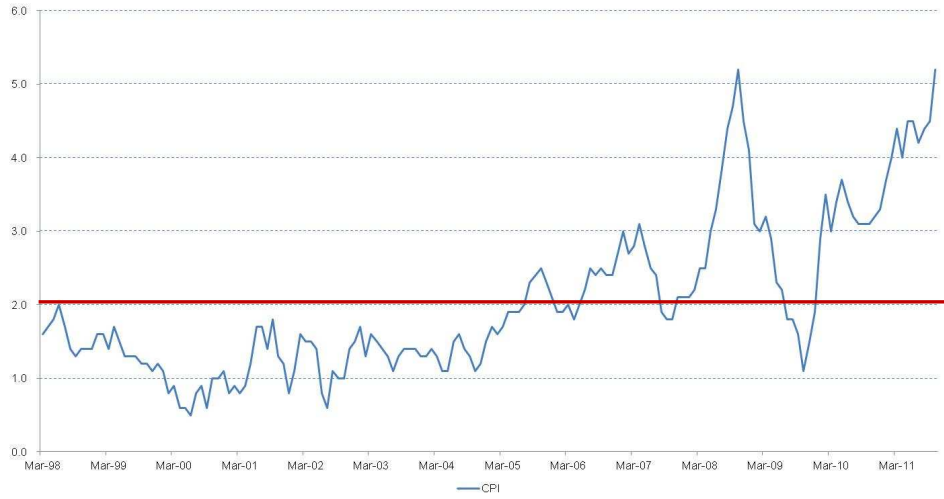
16th November 2011

“Everybody wants to inflate the World!”



Source: Google Images

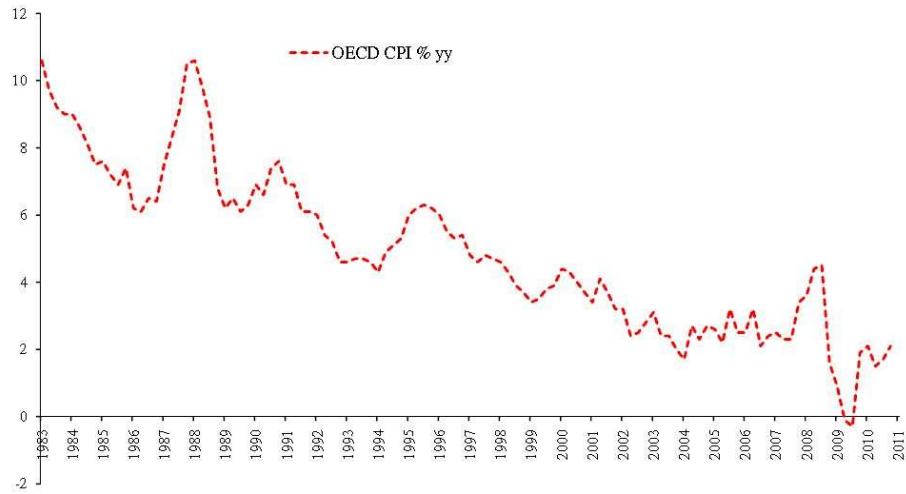
Inflation is well above 2% target



Source: ONS. Annualised CPI since inception March 1997

- Inflation, as recorded by CPI (Consumer Price Index), is currently 5% which is the highest level ever recorded.

Long term Global deflation is over



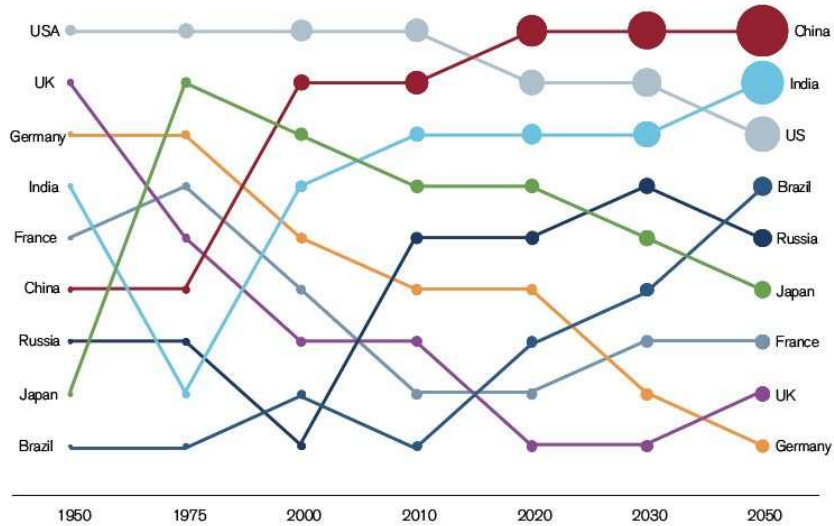
Source: Odey Fund Managers. OECD annualised inflation since 1983.

- Inflation is not just in the UK
- We have entered a period of long term inflation after a thirty year period of deflation, driven by cheap overseas manufacturing
- With commodity prices and wage increases in Asia/ Emerging, the days of lower prices are over

Changes to Global GDP

Developed and emerging market GDPs, 1950–2050

Source: Data from World Bank and The World in 2050, PricewaterhouseCoopers 2008; updates from John Hawksworth and Gordon Cookson; authors' analysis



Source: Credit Suisse Yearbook 2010.

- The transfer of wealth continues from West to East
- Asia/ Emerging Markets have growing economies driven by larger, younger populations being dragged from poverty and into the middle class
- These new consumers aspire to the living standards of the West which puts pressure on inflation

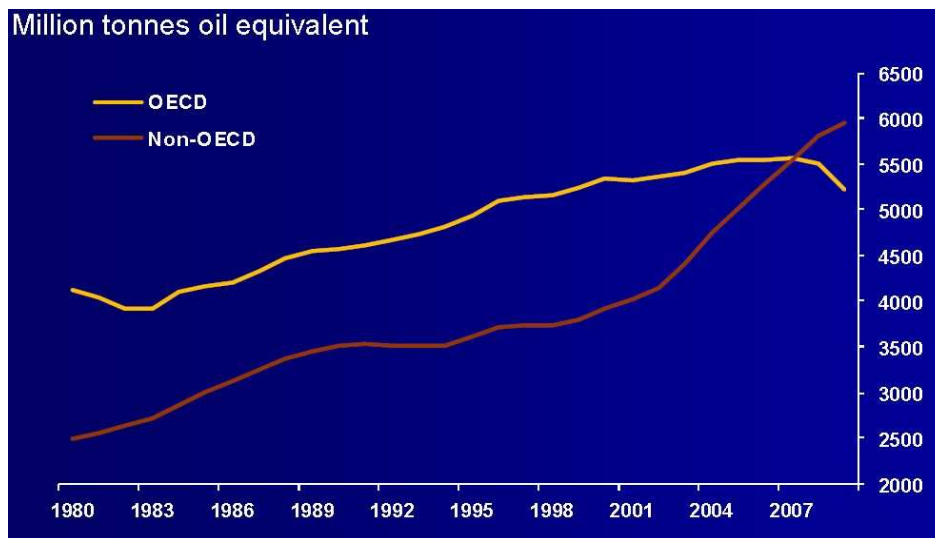
Commodity price inflation - food



Source: Fullermoney. DJ UBS Agriculture Index total return in US dollars three years to 31st October 2011.

- Food prices have risen over the last ten years and set to continue
- The recent spike in food prices late in 2010 was driven by further US Quantitative Easing which weakened the US Dollar and increased commodity prices eg Rice increased almost 50% in six months!

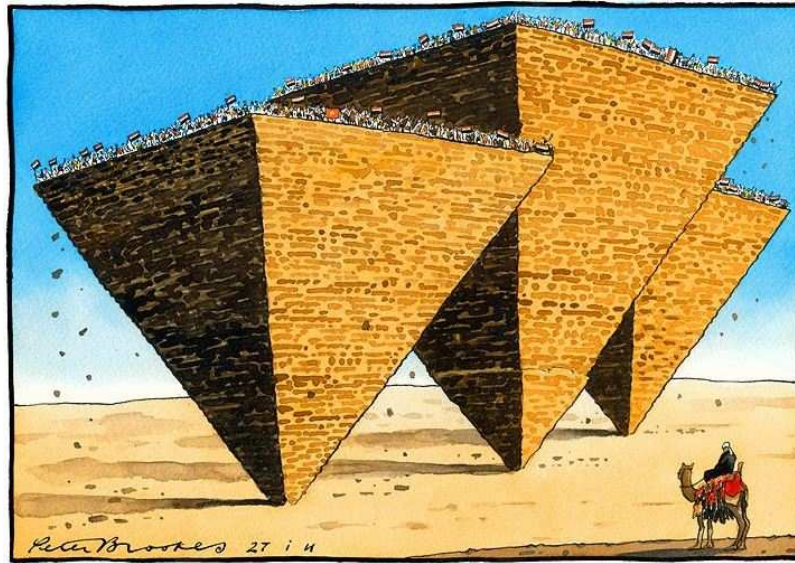
Global Energy Consumption



Source : Andrew Sentance, former MPC Member. M&G Inflation Conference October 2011.

- OECD economies (US, Europe, UK & Japan) have tailed off in their demand for oil
- However the Non OECD economies (Asia & Emerging Markets) continue to increase their demand for oil

Arab Spring driven food price inflation



Source: Peter Brookes, January 2011.

- The Arab Spring, the uprisings in the Middle East, were sparked by food price inflation
- The Middle East produce most of the World's oil and deals made with their populations means low price oil could be a thing of past

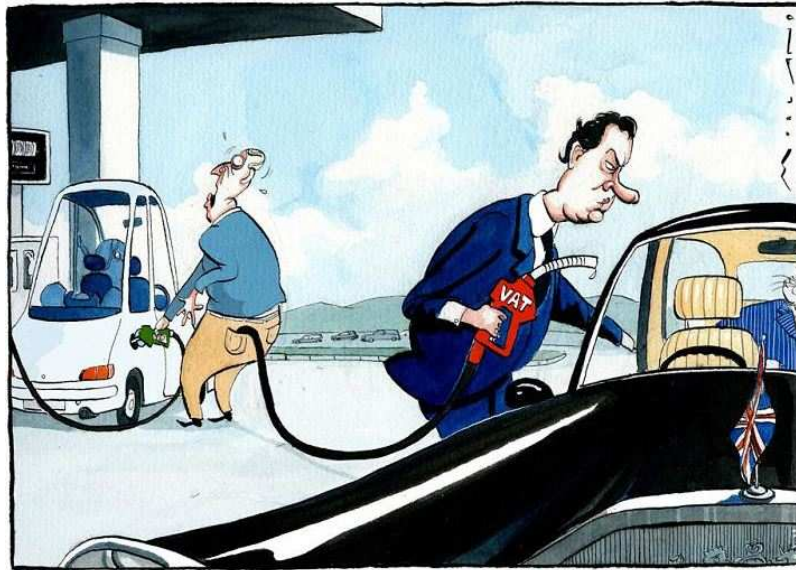
Commodity price inflation - oil



Source: Fullermoney. Oil Price in US dollars three years to 31st October 2011.

- The oil price is now \$100, the spike in the price in Spring 2011 was driven by the Arab Spring

VAT increase was inflationary



Source: Morland, 2011.

- UK inflation is higher than elsewhere because VAT was increased this year as part of the Coalition's austerity plans to reduce the UK's deficit

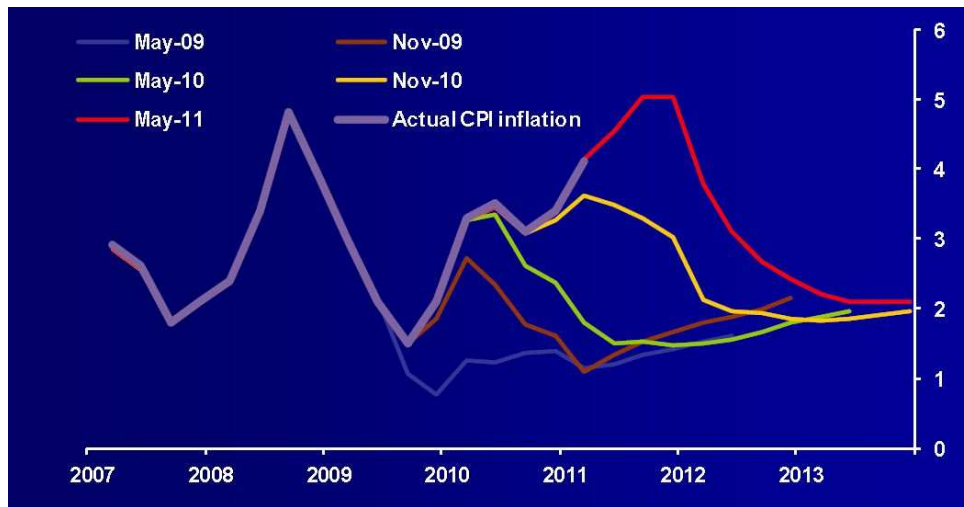
Sterling weakness adds to inflation woes



Source: Fullermoney. Sterling/ Euro exchange rate five years to 31st October 2011.

- The devaluation of Sterling has increased the price of our imports, this has not helped UK's inflation

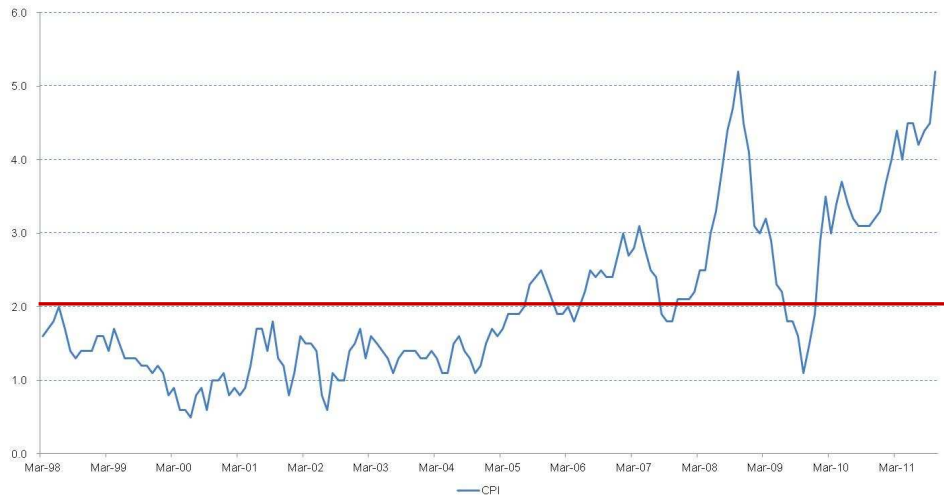
MPC inflation forecasting errors



Source : Andrew Sentance, former MPC Member. M&G Inflation Conference October 2011.

- The MPC forecast inflation and have maintained low interest rates as they believe inflation to be temporary
- This chart shows the MPC's poor record in forecasting inflation eg in May 2009 (follow the dark blue line) MPC felt inflation would be below 2% today!

Inflation is well above 2% target



Source: ONS. Annualised CPI since inception March 1997

- UK inflation has rarely been at 2% since 2005
- The creditability of the MPC is being questioned, this will become important to buyers of gilts

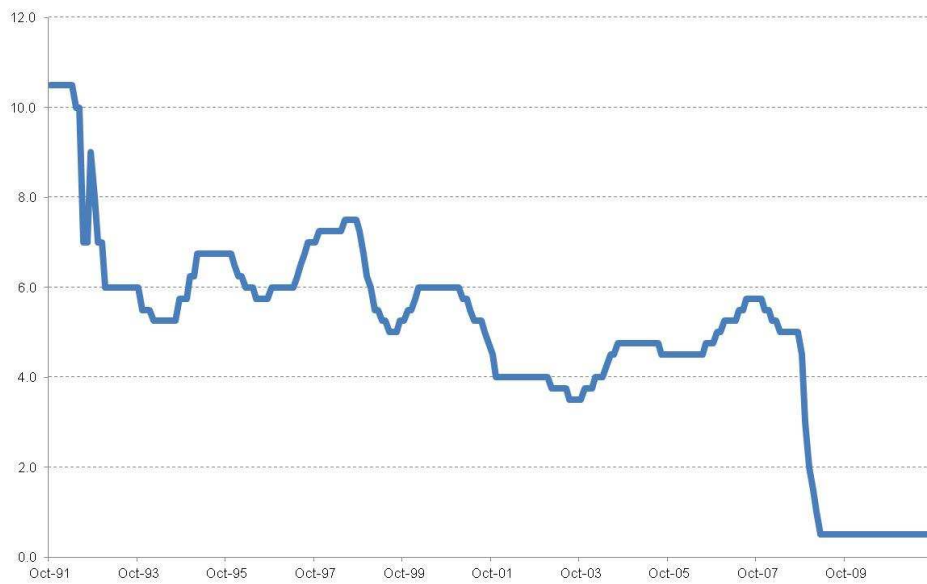
The UK Economy



Source: ONS/ North. UK GDP growth quarterly & annualised since 1st January 1998.

- MPC have abandoned their inflation target to promote economic growth after the Global Financial Crisis in 2008

UK interest rates at record lows



Source: Lipper. UK Base Rates since October 1991

- Low interest rates to promote economic growth

Quantitative Easing in the UK



Source: Datastream. UK 10 year gilt yields five years to 16th October 2011.

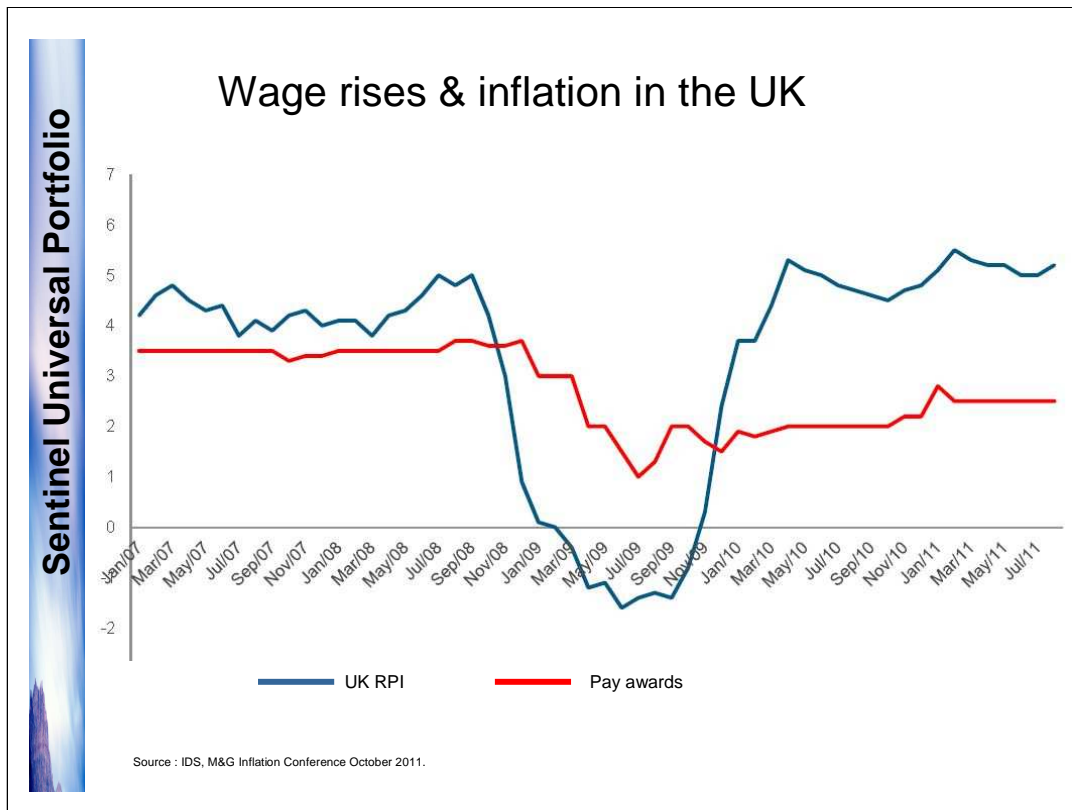
- The UK has also embarked upon QE to keep the cost of borrowing for businesses
- In the first round of QE, gilt yields rose rather than fell
- Not sure how much growth was achieved but Sterling weakened put further upward pressure on inflation
- The latest round of QE should be seen as inflationary

The view of a former MPC member

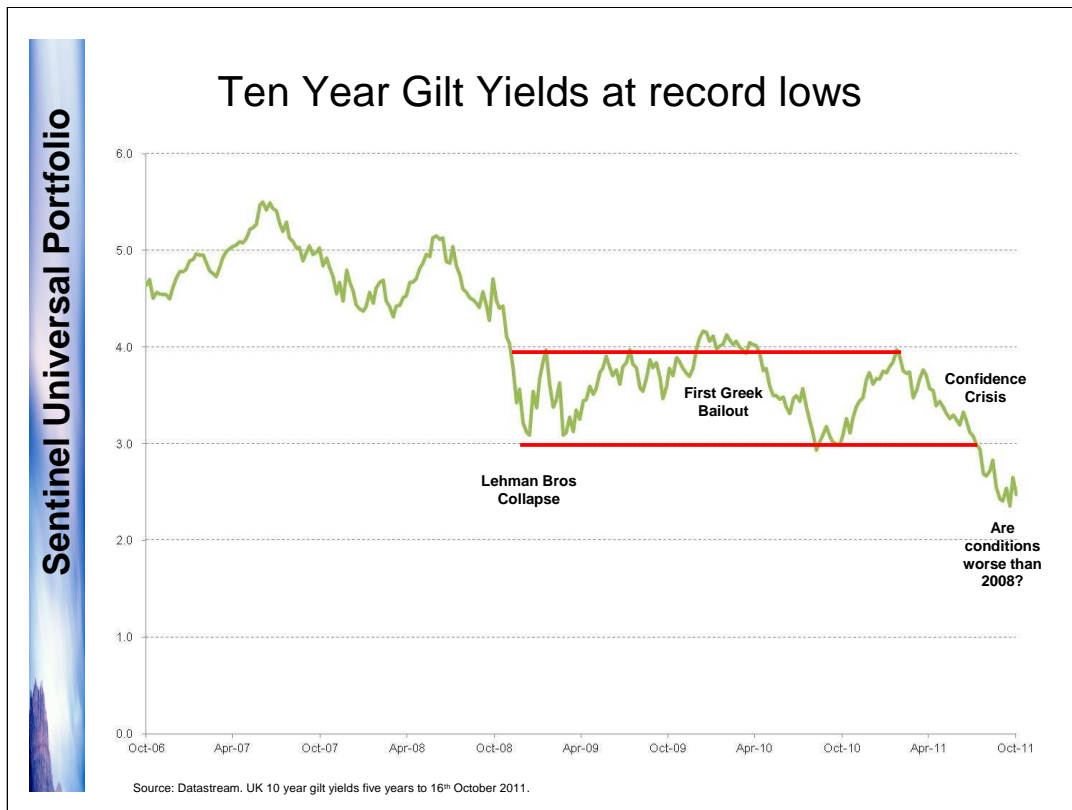
- Policy-setting no longer consistent with 2% inflation target and mandate
- MPC seems prepared to inject more stimulus even when inflation is more than double target level
- Poor forecasting record, yet forecasts critically underpin current policy judgements
- Benign neglect of the pound
- No track record of taking tough monetary policy decisions to underpin credibility
- Dominated by internal consensus around Governor

Source : Andrew Sentence, former MPC Member. M&G Inflation Conference October 2011.

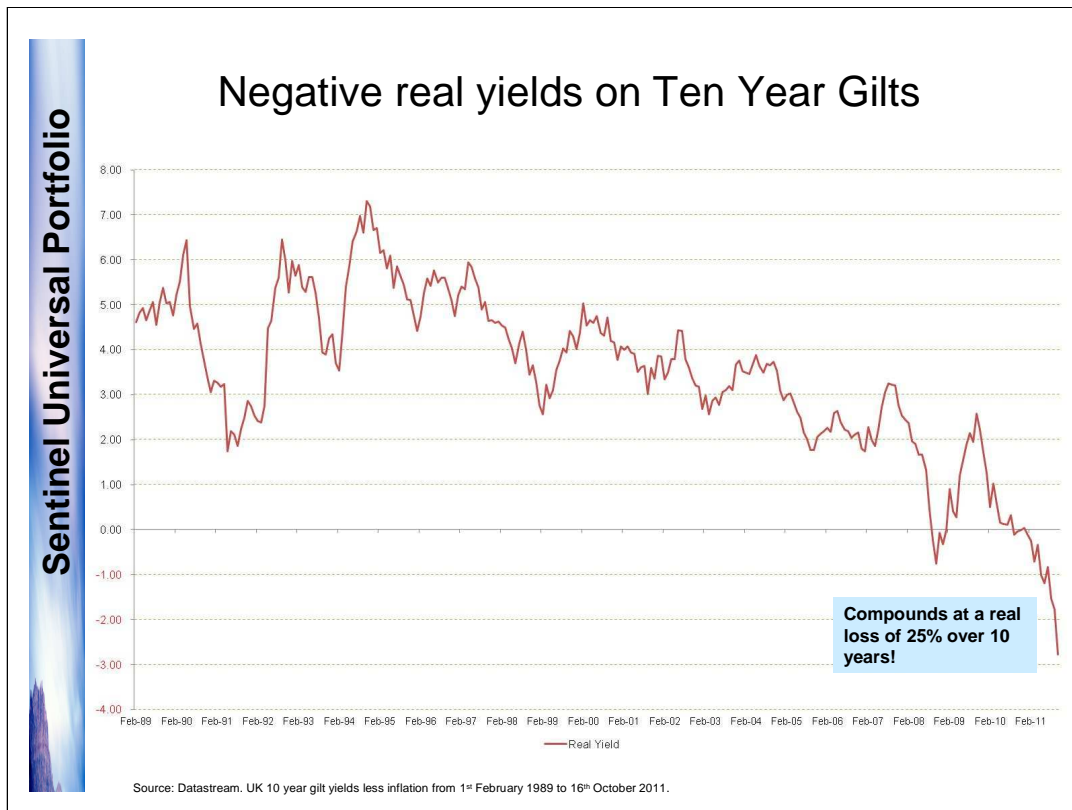
- Andrew Sentence, a former MPC member, spoke at M&G's inflation conference I attended
- This slide represents his conclusions on the MPC



- Wage rises usually follow inflation, in recent years there has been a real squeeze on pay
- Wages are rising at far lower rate, this cannot last forever
- This helps corporate profitability but will ignite further strike action



- What does this mean for Sentinel Universal unitholders?
- We are underweight gilts, yields should be rising with inflation NOT falling!
- Gilt yields have fallen due to fears over faltering growth and deflation
- Furthermore, the recent crisis of confidence in the US and Eurozone has promoted UK Gilts to safe haven status
- This status is good for UK public borrowing, but how long will it last as the UK economy is no better off than many of Eurozone



- The main reason we dislike Gilts is that they offer a negative real yield, ie the current yield on gilts less current inflation is negative
- The current negative real yield is around 3% which equates 25% reduction in purchasing power over ten year holding period

Summary

- We believe long term deflationary period is over
- VAT increase, Sterling devaluation and very loose monetary policy has added to UK inflation
- MPC has abandoned inflation target to support growth
- MPC forecasting is a vital tool in setting policy
- UK inflation unlikely to return to target in the near future
- Inflation is Global driven by rising commodity as Developing nations continue to create wealth
- Beware – Governments and policy makers encourage inflation to reduce real value of debts
- UK Gilts are extremely overpriced and have offered negative real yields for over a year

- Finally, the conclusions from our presentation
- Thank you for your support

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