



Cautious multi-manager fixed income launch

For Professional Advisers only - not for onward distribution

Highly diversified multi-manager fixed income portfolio

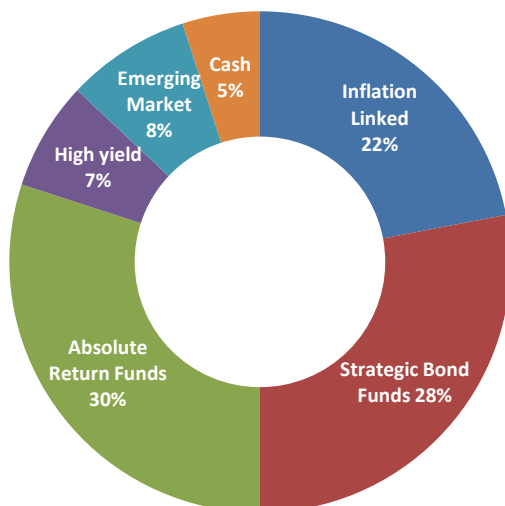
The fund targets absolute returns and is designed for investors seeking exposure to fixed income markets but with much greater flexibility than a more traditional approach.

- Targets consistent positive annual returns
- Targets long term absolute returns of 2% above cash per annum
- Combines top down global macro view and bottom up specialist manager skill
- Low cost passive exposure utilised to capture tactical allocations to fixed income beta
- Risk-focused investment approach

We have designed the investment approach of this fund to take advantage of opportunities across different regions, currencies, types of fixed income instruments and a broad spectrum of markets. We then outsource to specialist managers, utilising varied investment styles, to target consistent returns from a range of traditional and alternative fixed income funds and positions.

The mandate is very flexible and does not force an allocation to any particular sub-set of the fixed income universe.

Current model allocations



Source: Armstrong Investment Managers

Sources of added value and benefit

1. **Macroeconomic focus:** Top down view of the global economy leads to an assessment of growth, direction of interest rates, credit spreads and inflation across the world. This steers the optimal portfolio structure and influences the types of managers allocated to.
2. **Manager selection:** Specialist managers are selected based on the assessment of their ability to deliver returns above a passive allocation to cash or fixed income sub-sector. Outsourcing across many different types of managers reduces volatility and the broad universe allows better potential to identify skilled managers than a single firm could allow. Selected managers also play an important role in providing feedback and views on their focused market and global view.
3. **Valuation driven rebalancing and tactical sector allocation:** As asset prices and economic outlooks change the fund has the flexibility to re-allocate capital to areas and strategies offering the greatest potential for positive returns.
4. **Absolute return objective:** The fund targets absolute returns throughout a wide variety of market conditions. It aims to allocate to specialist managers when their style is in favour, and offers diversification from traditional funds, and a degree of downside protection. The absolute return objective aligns the fund with the goal of most cautious investors.
5. **Broad opportunity set:** Allocations across different investment styles, regions and sub-sectors improves risk adjusted returns.



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Current market view

Historically bonds have yielded more than inflation. This intuitively makes sense otherwise investors receive a negative real return on their capital.

At current prices, UK 10-year gilts would stand to lose 20% if bond yields rose to match current levels of inflation.

We believe that cautious investors who have been attracted to the safety of government bonds will see the real value of their wealth destroyed, as inflation outstrips government bond returns going forward.

	Inflation	10-Year Yield	% Fall if yields rise to inflation
UK	4.2	2.0	-21%
Germany	2.7	1.8	-7%
US	3.0	1.9	-10%

Source: Bloomberg. Armstrong Investment Managers

Much of the Western world is stifled by massive government debt and deficits. We believe the attention of investors should now move away from the debt issue, but rather focus on the inevitable actions that will be taken by governments and central banks in dealing with their liabilities. We expect monetisation of debt, where new money is printed to pay old debt is the most plausible way forward.

Hundreds of billions of dollars and sterling from quantitative easing by the Bank of England and US Federal Reserve and likely over one trillion euros from the Long-Term Refinancing Operation initiated by the ECB will sow the seeds for future inflation.

Cautious Return model allocations:

Strategic Bond Funds

M&G Optimal Income
 Newscape Strategic Bond fund
 TwentyFour Dynamic Bond
 Investec Strategic Bond fund

Inflation-linked

Fidelity Global Inflation Linked Bond
 iShares Index Linked ETF

High Yield

Muzinich Short Duration High Yield

Emerging Market Debt

Investec Emerging Market Debt
 Templeton Asian Bond Fund
 iShares Emerging Market Bond ETF

Absolute Return Fixed Income Funds

Ignis Absolute Return Gov't Bond
 BlackRock Absolute Return Bond
 Kames Absolute Return Bond

Estimated initial portfolio characteristics

Yield: 3.9%
Duration: 3.1 years
Average Credit Quality: A

Management Fee: 1.50%
 AUM: £28 Million

Lead Fund Managers: Dr. Ana Armstrong, Patrick Armstrong

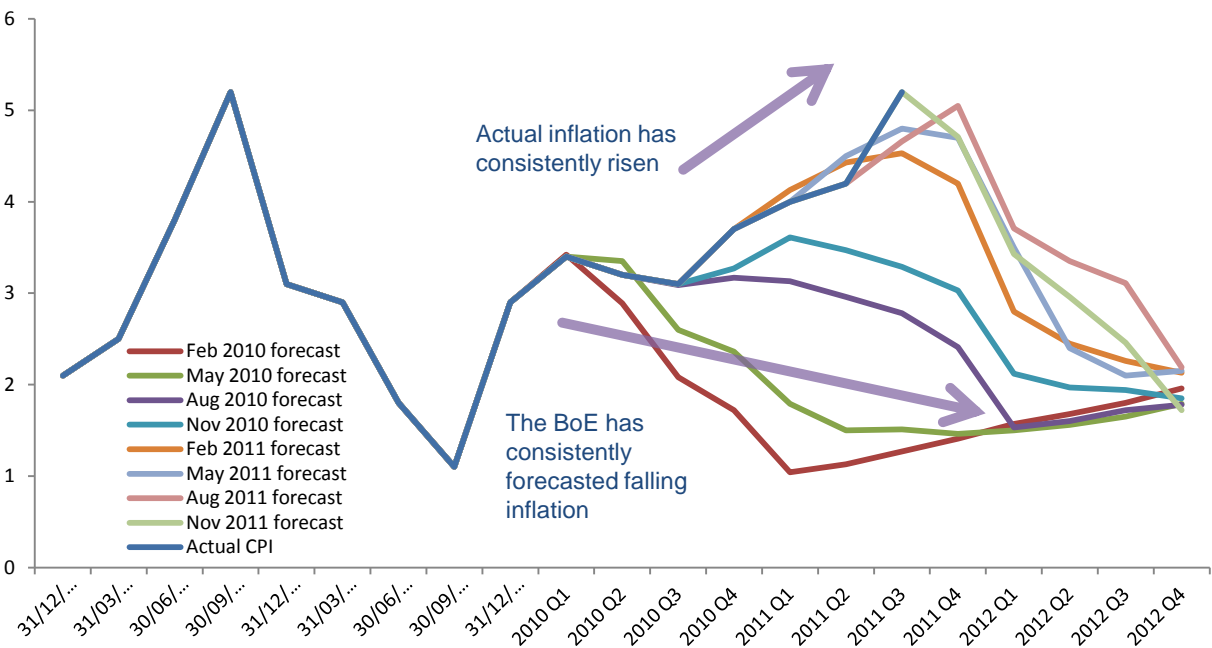
Source: Armstrong Investment Managers



The Bank of England (BoE) has consistently underestimated future inflation. The chart below shows that in its February 2010 Inflation Report the BoE projected that annual CPI inflation would be just over 1% in the first half of 2011. The actual readings in both April and May 2011 were 4.5%.

The Inflation Report published in May 2011 forecast inflation peaking at 4.8% in the third quarter of 2011 (the actual reading was 5.2%) before falling rapidly to just above the 2% target rate a year later. This rapid fall in inflation estimates is predicated on the removal of base effects such as the VAT rise at the start of 2011 and higher commodity prices.

BoE inflation projections vs. realised CPI inflation



Source: Bank of England Inflation Reports

We believe the BoE will help the UK shave about one percentage point off its debt-to-gross domestic product (GDP) ratio this year by keeping interest rates low even as inflation surges ahead.

Delivering consistent positive returns will become much more important than just preserving wealth as inflation pressures build.

As the market comes to the realisation that inflation is the consequence of the actions of central banks, many safe havens will fail and put cautious investors at risk of significant real and nominal losses. We believe a flexible fixed income mandate which is not structurally long of assets that will be hurt by higher interest rates, is a sensible approach in this type of environment.



Strategic Bond Funds

M&G Optimal Income

M&G has one of the largest fixed income teams in London and has a very strong track record in delivering peer group beating returns. Managed by Richard Woolnough, the Optimal Income fund aims to allocate to the most attractive sectors of the bond market, depending on the market backdrop. The Fund will primarily be invested in government bonds, investment grade credit and high yield.

Newscape Strategic Bond

This Newscape fund is a flexible fund but with a greater focus on capital preservation than most strategic bond funds. The portfolio has concentrated exposure to a range of highly quality government and corporate bonds. Charlie Kerr the portfolio manager has extensive experience running both long-only and hedge fund portfolios and is backed by a strong quantitative capability.

TwentyFour Dynamic Bond

TwentyFour is a fixed income boutique run by very experienced fixed income traders and portfolio managers with around £1bn AUM. Lead fund manager Gary Kirk will allocate to the areas of fixed income which exhibit the greatest value and will place conviction trades based on bottom up credit analysis. The fund aims to generate an attractive level of income along with the potential for capital growth.

Index-linked Bond Funds

Fidelity Global Inflation Linked Bond

The Fidelity fund invests in developed market government bonds that are linked to inflation. Fund manager Andy Weir uses a blend of top down macro research and bottom up fundamental analysis, combined with proprietary quantitative tools to build a diversified portfolio of inflation sensitive bonds. Weir is backed by Fidelity's extensive fixed income team. He also has the flexibility to minimise duration risk, thereby ensuring that the main driver of returns will be inflation rather than interest rates.

iShares Index Linked ETF

Passive exposure to the broad index of UK government issued index-linked bonds

High Yield

Muzinich Short Duration High Yield

The strategy gives us exposure to US high yield bonds with weighted average duration of two years. This means that we get 80% of the yield of a benchmark allocation to junk bonds with about 40% of the volatility. Muzinich is a US boutique specialising fundamental credit analysis.



Emerging Market Debt

Investec Emerging Market Debt

The Investec emerging market debt team has built up a very strong track record in the sector. Portfolio managers Peter Eerdman and Werner Gey van Pittius are part of a team of 12 and have resources in both South Africa and London. The fund invests in bonds issued by emerging market governments denominated in local currencies, thereby benefiting from potential foreign exchange appreciation as well as bond price appreciation and coupon payments.

Templeton Asian Bond

Managed by Michael Hasenstab this fund invests mainly in local currency bonds issued by Asian countries. We expect Asian currencies to continue to strengthen against Western currencies reflecting their stronger economic fundamentals. The fund will also benefit from yields falling (bond prices rising) if monetary policy is eased in Asia or if regional economies are upgraded by ratings agencies.

iShares \$ Emerging Market Bond ETF

Passive exposure to government bonds issued by emerging market countries issued in US dollars.

Absolute Return Fixed Income Funds

Ignis Absolute Return Govt Bond

This fund is jointly managed by Ignis chief economist Stuart Thomson and head of rates Russ Oxley. Ignis utilises its proprietary rates tool to take long and short positions along the yield curves of developed government bond markets. The strategy manages risk aggressively and aims to deliver returns that are independent of broader moves in equity and bond markets.

BlackRock Absolute Return Bond

The BlackRock fund is managed by Ian Winship, who formerly ran a rates strategy at highly successful hedge fund firm Brevan Howard and before that spent several years at Aberdeen. Winship runs a large portion of the fund directly in rates markets and also allocates capital to other teams at BlackRock when he sees opportunity to add value in other areas such as credit and currencies. Winship works very closely with BlackRock's risk team to mitigate downside risk.

Kames Absolute Return Bond

The Kames fund is managed by Stephen Snowden and Colin Finlayson and leverages from the expertise of all of Kames's highly rated fixed income team. The strategy aims to minimise the impact of market movements and focuses on generating alpha. Duration will be kept at or around zero to reduce sensitivity to interest rates. The team seeks to generate returns from three 'modules': credit, carry and rates

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