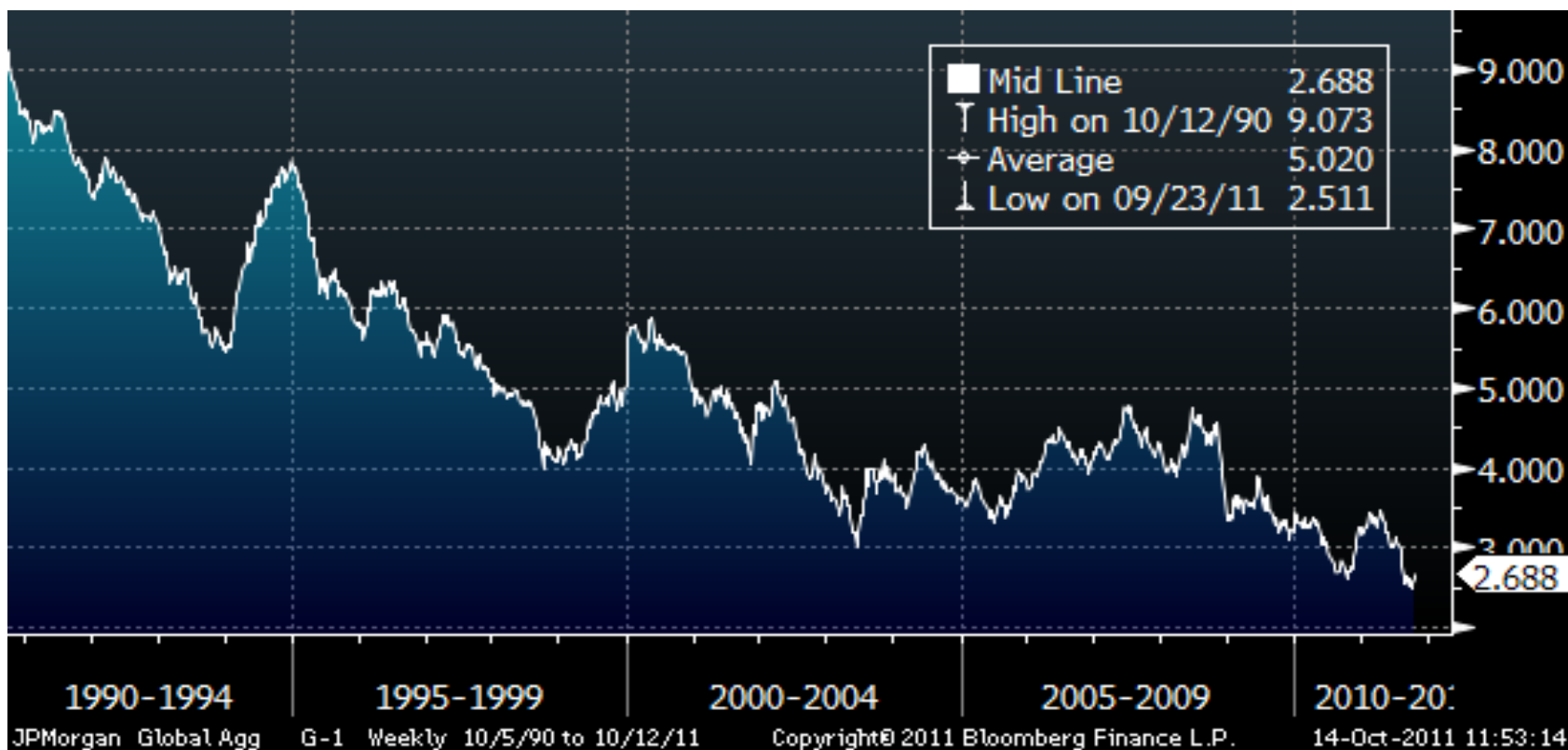




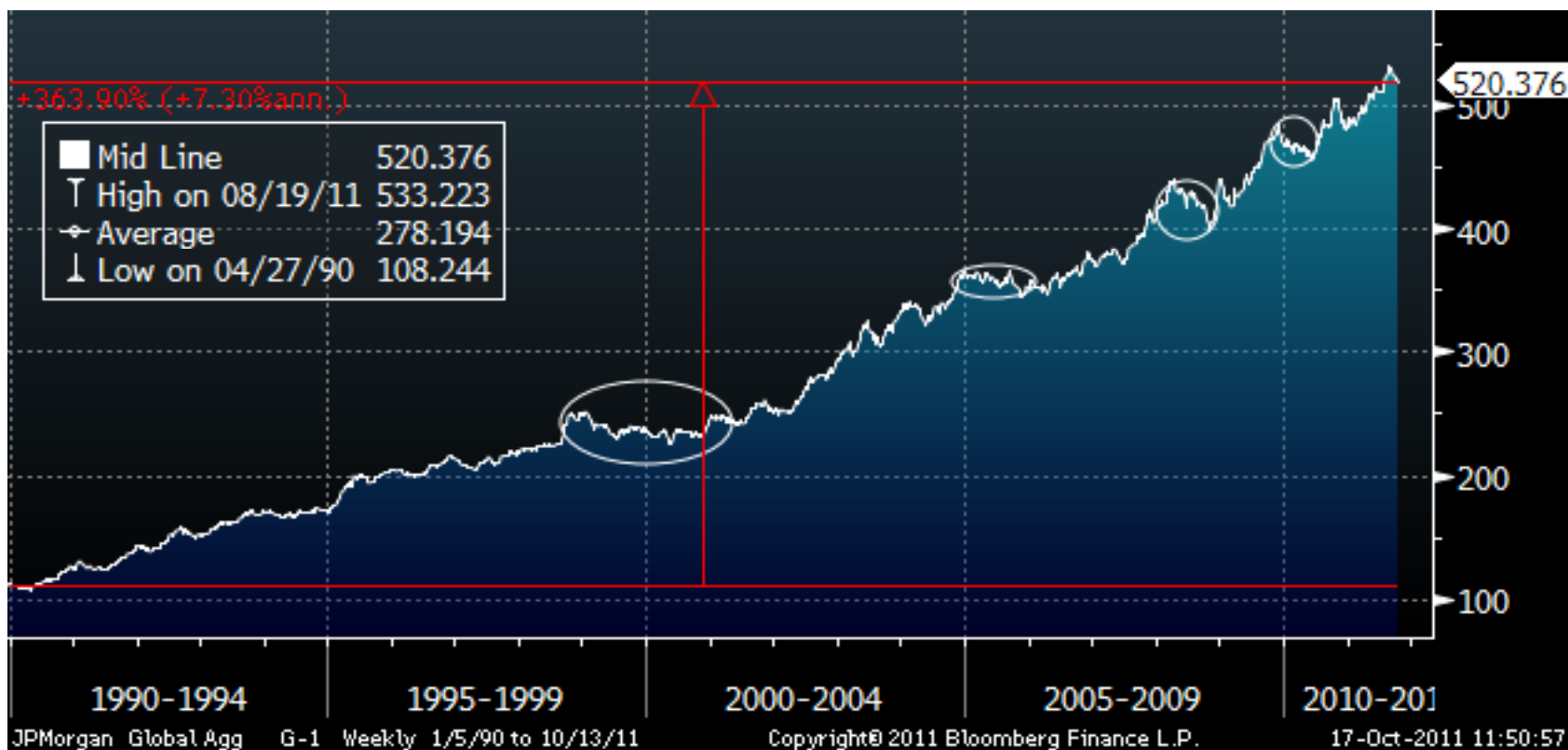
## Why you could be forgiven for thinking in such a way

JPMorgan Global Bond Aggregate Yield. Period 01/01/90 - Current



## Long-term global bond returns have been impressive

JPMorgan Global Bond Aggregate Index Price. Period 01/01/90 - Current





## Observations

- Whilst the previous chart paints an impressive picture there are periods of time (some that span multiple years) where returns have been poor.
- These periods of negative or low returns often coincide with extreme bouts of investor optimism. Typically this happens either leading up to or directly after a crisis in financial markets.
- Such periods include:
  - 1999-2001 : The Tech Boom
  - 2005 : The Great Credit Expansion (fuelled by subprime lending amongst others)
  - 2008 : The first major recovery from the Global Financial Crisis (GFC)
  - Early 2009 : The second recovery from the GFC
- The almost uninterrupted decline in bond yields over the past 20+ years has given people a false perception of the benefits of buy-and-hold investing.



## How can we avoid these potholes whilst still producing solid long-term returns?

Unlike a static bond portfolio we have numerous tools at our disposal that can help us generate positive returns regardless of what point in the economic cycle we are in. These include:

- We can move our fixed rate investments into floating rate ones.
  - When interest rates rise so does the rate an investor will earn on their floating rate bonds.
- We can invest in bonds that typically rise in value when the economic picture is improving.
  - Bonds issued by corporations and banks have historically increased in value in times of economic expansion.
- We can remove or hedge our interest rate risk by using swaps and futures.
  - By removing the interest rate component of a bond investment you are only left with credit risk i.e. the risk that the bond issuer may not be able to pay you back your money.



## The world as we see it right now

- While confidence is the key to a short-term recovery, slow or possibly no growth for the next 2-3 years in many developed economies is now likely.
- A return to sustainable ‘trend’ growth will likely only come about once debts are paid down to more manageable levels.
- There is no quick fix solution to this widespread debt problem.
- The good news is though that many corporations are fundamentally very well positioned to resist the prolonged period of weak global growth that we anticipate. In fact, on aggregate corporations are in the best shape we have seen in over 25 years!
- Some government bond yields have now fallen to levels not seen since the 1940’s. While we believe some of these yields are justified, given our low/no growth outlook in some parts of the world, some are equally as wrong.



## Our first-hand experiences

- Our investment process relies heavily on first-hand experiences. Getting to know the people and processes behind the companies we lend your money to is of vital importance to us. With that in mind, I spent 11 days in Europe and the United States last month.
- There I met with senior management from 26 multi-national corporations; chief economists, strategists, and analysts from 5 leading global investment banks; and attended 3 globally renowned investor conferences.
- As I suspected, the resounding message from most that I spoke to was one of caution. Furthermore, many of the corporations I met with seemed to be preparing for an even worse economic outcome than generally expected.
- This strangely provided me with some much needed comfort. Simply, we love our companies demonstrating prudence and thrift.
- In addition to improving our knowledge of the investments already in our portfolio, we have begun detailed analysis on a number of companies I met and have since made an investment in one of them – Unitymedia.

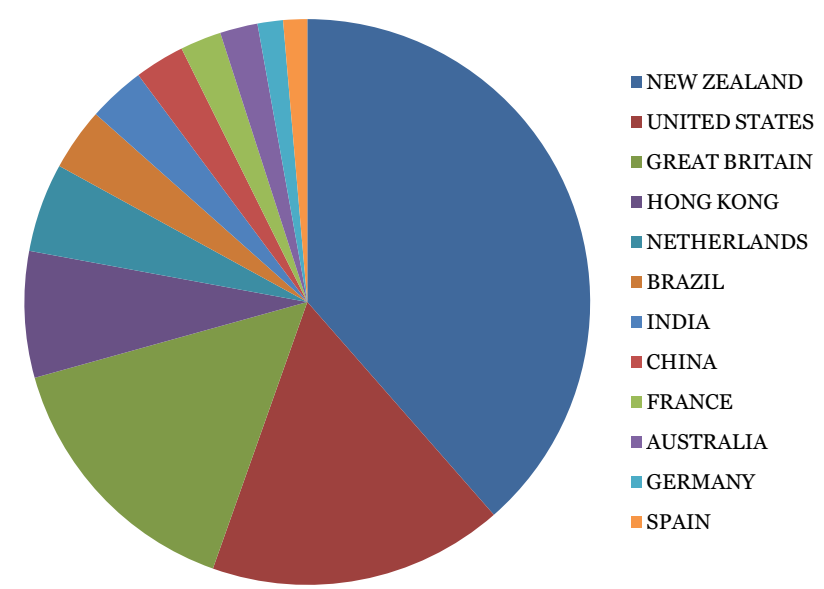
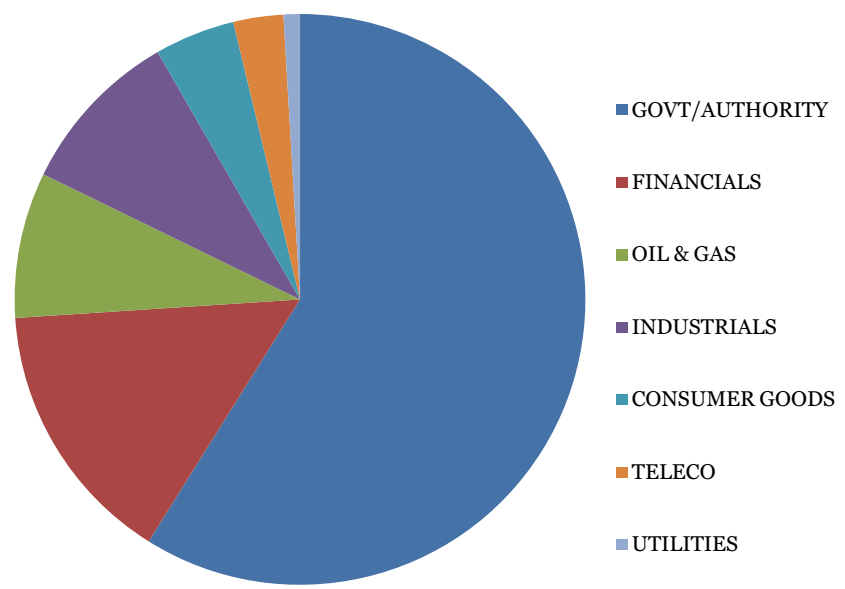


## How we are positioned

- True to our mantra of conservative investment we remain focused on capital preservation during these difficult and volatile times.
  - We currently hold approximately 30% of the funds capital in cash or near-cash investments as we await further clarity surrounding the sovereign debt crisis.
- While most government bonds now offer very low yields it is those that have maintained their safe-haven status that have provided us with an investment vehicle in which to ride out this storm.
  - We currently have investments in New Zealand, United Kingdom, and United States government bonds. These investments total approximately 32% of the funds capital.
- The extreme sell-off in bank and corporate bonds of late has negatively effected the funds performance. Given our previous comment regarding the fundamental standing of most companies along with our rigorous investment process we remain extremely confident in the long-term ability of our investments to make good on their debts.
  - These investments total approximately 38% of the funds capital and have an average credit rating of BBB+.



# Geographic and sector break-down



NOTE : The above weightings are exclusive of the funds cash holdings.



## Disclaimer

The information given during this presentation is class advice and is not to be taken as 'personalised financial advice'.

A disclosure statement is available upon request