



Independent, uncompromised, trusted investment advice

Summer 2011



Insights and updates

Welcome to the Summer issue of Perspectives. This quarter, we report on our continued growth including two more additions to the team of AllenbridgeEpic advisers and sector specialists. The main focus of this issue is a timely article by Alan Saunders on emerging markets.

To begin with, I am delighted that Grant Ballantine, formerly of the Government Actuaries Department, has decided to join AllenbridgeEpic. It is intended that Grant will soon begin offering **independent investment advice to LGPS and corporate pension schemes**, bringing his wisdom and experience to the trustee table. In the next issue of Perspectives, Grant will be reflecting on his time as a government actuary, sharing some of his insights on the pensions industry.

Our growth in business this quarter has been directed towards **alternative assets**. My objective is that, in time, AllenbridgeEpic will become known as the industry leader for independent investment advice on alternative asset classes, building on our existing reputation as a provider of impartial, independent advice on the traditional asset classes and combining that with the skills of our award-winning alternatives research team. The governance and due diligence issues surrounding alternative investments can be far more complex than for traditional, liquid, and less complicated assets.

Consequently, one solution is to

recommend an (apparently!) low risk 'fund of funds' approach.

Yet Ian Morley, AllenbridgeEpic's Senior Adviser and specialist in alternative assets, claims that he can list the names of the fund of hedge funds being shortlisted by the large consultancy houses on the fingers of two hands. This concentration of significant pension fund assets, directed towards such a small number of alternative asset providers, cannot be a good thing for the diversification benefits that those investors are seeking to capture, to say nothing of the **missed return opportunities** available in the marketplace elsewhere.



With the "industry leader" objective in mind, we recently appointed James Walton onto our team of Sector Specialists. James, a property specialist, has already alerted us to a number of tactical opportunities in **global real estate**, which we have been able to share with any clients expressing an appetite for return opportunities. It is important to stress that we would only advise investing

in such opportunities where a client has robust governance, monitoring and due diligence processes in place, but James and others in the team are able to help clients with this.

James' appointment provides support to and complements Philip Ingman, our UK property Sector Specialist. Together they can advise on commercial property, residential property, REITs, property funds and other opportunities. I have asked James to write a specialist piece on global property for a future issue of Perspectives and both he and Philip would be delighted to chat to anyone currently reviewing their UK property portfolio, or considering property allocations overseas.

Finally, I would like to introduce in this issue an excellent article by Alan Saunders on emerging markets. Alan invariably provides us with knowledgeable insights and comment on global markets, and I hope you find his article of interest.

Karen Shackleton
Chief Executive

AFFORDABLE CONSULTANCY

At AllenbridgeEpic we charge fixed fees. Everything is clearly costed before you commit to our advisory service. You can buy as much or as little as you require. But you can be very sure you are unlikely to receive such excellent value for money from any other adviser.

EXPERT OPINION

At AllenbridgeEpic you will find the widest range of expertise on tap: advisers who have worked both in the investment and pension fund arenas. All have distinguished, enviable track records and you'll be hard pushed to get access to such expert advice anywhere else.

INDEPENDENT THINKING

At AllenbridgeEpic we have access to extensive research within Allenbridge Ltd. This allows our advisers to offer uncompromised advice based on their own independent thinking and backed up by premium-rated research.

ACTIONABLE OUTCOMES

At AllenbridgeEpic we won't leave you feeling 'what, exactly, did I pay my adviser for?' Our prime objective is to deliver a clear step-by-step set of 'actionable outcomes' – in response to your objectives - ensuring you know the results of any recommendation.

AllenbridgeEpic Investment Advisers provides cost-effective solutions to trustees' investment-related problems.

This document is directed solely at professional, not retail, clients. AllenbridgeEpic Investment Advisers Ltd is an appointed representative of Capital Advisory Partners Ltd which is authorised and regulated by the Financial Services Authority.

For more information about AllenbridgeEpic Investment Advisers visit www.allenbridgeepic.com



By Alan Saunders
Senior Adviser

Consultants tend to divide pension fund assets these days into growth assets and liability matching assets. Growth assets such as equities are designed, with supporting company or public sector contributions, to close the deficit over an agreed time period while liability matching bonds or swaps are intended to reduce the volatility in the funding ratio. It is clearly important that growth assets deliver the returns they are supposed to, or the scheme may remain in deficit. Diversification away from UK equities has proceeded apace in recent years into overseas equities, property and alternatives to avoid undue reliance on one source of return.

However, I suspect that many funds have been less adventurous in diversifying into emerging market (EM) equities or indeed EM bonds as a source of extra return. EM equities are remarkably under-owned by pension funds. They now account for some 15% by market capitalisation of the global market indices and account for a similar percentage of global corporate profits. Yet most UK schemes would fall some way short of this allocation, particularly if they award overseas mandates to global managers who tend to focus on large cap stocks in the major markets. For those funds large enough to consider regional manager allocations, it surely makes sense to appoint a specialist EM equity manager and I would make a similar case for a so-called satellite manager alongside a global manager if that route is preferred.

An EM mandate will add somewhat to portfolio risk because statistically they still exhibit greater volatility though the risks are much diminished now. The attraction lies in the reasonable expectation of higher long run returns to add alpha to the growth assets box.

Emerging Markets: how to access this asset class in a pension fund portfolio

Why should we have this expectation? Historically, EM returns have come from a mixture of earnings growth and revaluation of those earnings in terms of rising P/E ratios together with supporting contribution from foreign currency gains. Looking forward, the case now has to rest primarily on better long run earnings growth compared to developed markets due to faster domestic growth rates as the re-rating argument has largely been played out.

After the collapse in EM equities in the late 1990's, associated with the Asian and then the Russian crises, valuation plummeted to a considerable discount to developed markets. The long recovery started around 2002 driven largely by a combination of rapid earnings growth and a significant re-rating as the traditional risks associated with emerging economies became less of a concern as they improved their macroeconomic policy. This bull run continued unbroken until the credit crunch of 2008 when EM equities were marked down heavily which turned out to be a knee-jerk reaction as their economies were much less seriously affected by the credit crunch. The recovery was spectacular and has returned EM equities back to parity in terms of valuation with the developed world.

Emerging markets cannot be said to be cheap therefore but the pullback in the last few months in China, India and other leaders have brought them back to reasonable buying territory if you accept the longer term strategic argument. Many consultants are also pushing the idea of EM bonds, both hard currency and local currency.



A similar re-rating has taken place here but not to the same extent as there are still positive spreads over US Treasuries for sovereign dollar debt while local currency bonds offer substantial spreads to reflect the currency risk. It is quite startling to note that over 50% of EM debt now has investment grade rating compared with 10% in the 1990's, reflecting the major improvements in their country finances and economic stewardship.

Political risk can still arise as we have seen in North Africa but the same could be said of the euro- zone, while, in terms of equities, corporate governance standards may sometimes be below acceptable standards but that is a diminishing problem.

There are plenty of good fund managers in EM equities with different investment approaches. Some are essentially bottom-up stock pickers; others combine that with a macro

top-down overlay across markets; others are fairly quantitative. There is no lack of choice but clearly schemes should take advice on where to place their money.

Alan Saunders is a Senior Adviser and Director of AllenbridgeEpic and Chairman of JP Morgan Emerging Markets Investment Trust. The opinions in this article are his own.



We welcome two new team members



Grant Ballantine
Senior Adviser

Grant Ballantine qualified as an actuary with Scottish Widows and, after a short spell working overseas, joined the Government Actuary's Department (GAD). For a large part of his 30 year career at GAD, he led the teams of actuaries providing GAD's

actuarial advice on occupational pension schemes. These included some of the largest UK pension schemes, both in the public and private sectors. Other clients included overseas governments and supervisory bodies.

During his career, Grant was also involved in providing advice to some countries in Eastern Europe and Africa. This included the Russian authorities following the fall of Communism and, in 2000-2001, he helped to establish pension provision in Kosovo after the breakup of Yugoslavia.

Grant is currently Chairman of Trustees of a private sector pension scheme and sits on the investment committee of a funded public sector scheme.



James Walton
Sector Specialist

James Walton is the founder of South 40 Group, a real estate fund advisory and private placement company. He currently advises six real estate Fund of Funds with both global and country specific mandates, has extensive experience of fund due

diligence and has delivered results to some of the most trusted and best performing companies in real estate fund management. He has over 12 years of experience in real estate private equity and research having worked for Jones Lang LaSalle, Fidelity Investments, Healey & Baker Investment Managers, Patron Capital Partners & Dawnay Day.

A graduate of the University of Massachusetts, Amherst and The London School of Economics (LSE), he is also a member of the Investment Property Forum, Society of Property Researchers, Urban Land Institute, Commercial Real Estate Finance Council, and is President of the LSE's Global Real Estate Group.

Our current team of industry experts

AllenbridgeEpic Investment Panel

Senior Advisers

Grant Ballantine	Jonathan Barber	Nick Broadhead	Alistair Haddow
Stuart Hepburn	John Heskett	Bill Horwood	Ian Morley
Peter Murray	Keith Percy	Alan Saunders	Peter Scales
Karen Shackleton	David Somers	Alick Stevenson	Philip Williams

Sector Specialists

Seamus Gillen	Marisol Hernandez	Philip Ingman	Trevor Robinson	James Walton
---------------	-------------------	---------------	-----------------	--------------

A full resume for each adviser and specialist is available on the AllenbridgeEpic website

Worried about the key exposures in your pension fund?



Keynote speaker
Anatole Kaletsky

Editor at Large, The Times;
Vice-Chairman, Gavekal Research

Don't miss our Autumn seminar

RISK MITIGATION

Alleviating the key exposures in your pension fund

Hosted by AllenbridgeEpic Investment Advisers and AEGON Asset Management* this half day, complimentary seminar for **pension fund representatives** will provide a forum to share concerns about risk and to debate the best strategies for dealing with this pressing issue.

WHEN

8.45am to 12.30pm - Tuesday 27th September 2011

WHERE

London Stock Exchange, 10 Paternoster Square, London EC4M 7LS

- *Session Topics* -

Inherent risks in the economy

Panel session - What risks keep me awake at night?

Surviving inflation

Panel session - Governance, monitoring and challenge

- **issues to consider when looking at risk**

- *Other confirmed speakers and panellists* -

Martin Mannion, GlaxoSmithKline;

Alan Layton, London Borough of Islington;

Peter Murray, AllenbridgeEpic Investment Advisers;

Scott Jamieson, AEGON Asset Management*

To book your place please contact events@allenbridgeepic.com
or call our events team on 020 7409 1111

Early booking is recommended
as capacity at the London Stock Exchange is strictly limited



Asset Management

AllenbridgeEpic
INVESTMENT ADVISERS

*AEGON Asset Management UK is rebranding to Kames Capital on 1 September 2011

In each issue of Perspectives we give a list of ten questions trustees should explore with their investment managers.

Here is our updated list:

1. In light of the recent UK Debt Management Office (DMO) consultation, do you think there is an appetite for gilts that are indexed to consumer price inflation, rather than retail price inflation?
2. Do UK equities still represent an effective inflation hedge?
3. Is now a good time to increase our allocation to emerging markets? Which do you prefer: emerging markets equities or bonds? Why?
4. What should we be doing about the currency exposure in our portfolio, in the current climate?
5. Which factors would be important for you in deciding to include Socially Responsible Investing (SRI) in your portfolio?
6. Hedge fund of funds - is there much Alpha in large managers? Should you be looking at boutiques for Alpha?
7. According to National Housing and Planning Advice Unit (NHPAU), UK residential property beat inflation by 2.9% per annum over the 30 years to 2009. Yet should UK residential exposure be excluded from a pension fund's assets on the basis that most members already have their largest exposure in their homes?
8. In an era of tight credit and low growth, how can private equity managers generate superior returns on a consistent basis?
9. What is the likelihood of a breakup of the Euro? What will be the repercussions if that happens?
10. What will be the effect of an economic slowdown in China, on different asset classes/markets?



Customers should seek professional advice specific to their circumstances and requirements. Please note the value of investments, and income from them may fall as well as rise, this includes equities, government or corporate bonds, and property whether held directly or in a pooled or collective investment vehicle. Further, investments in emerging markets or private equity may be more volatile and less marketable than in established and quoted markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance of asset classes and/or investment managers is not necessarily a guide to future performance.

Contact: London Office 17 Hill Street Mayfair London W1J 5NZ T: 020 7409 1111 E: info@allenbridgeepic.com
Glasgow Office PO Box 26524 Glasgow G74 9ES Lancaster Office PO Box 785 Lancaster LA1 9DB T: 01524 389326

For more information about AllenbridgeEpic Investment Advisers visit www.allenbridgeepic.com