

Kames Capital

Trigon Investment Seminar

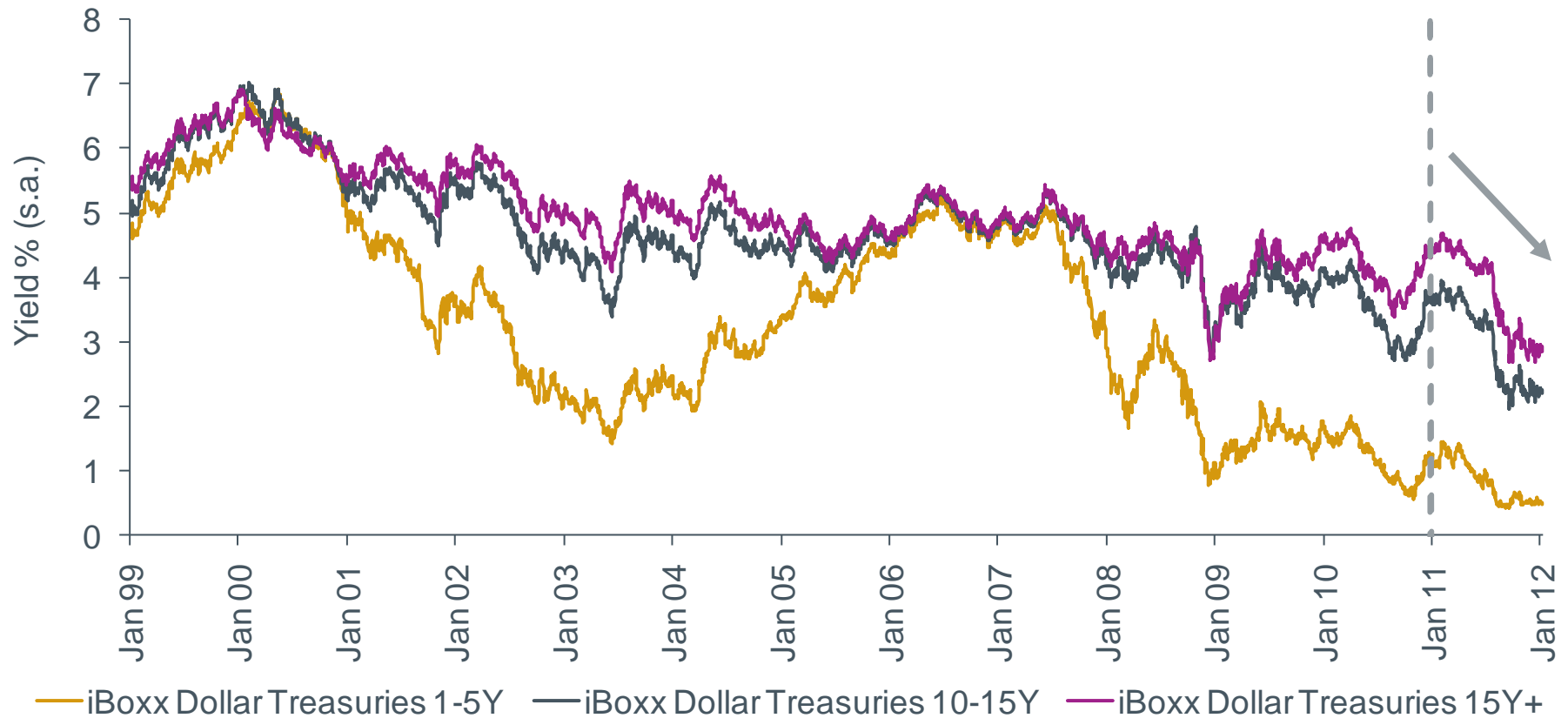
January 2012

Financial system support measures (US\$ trillions)

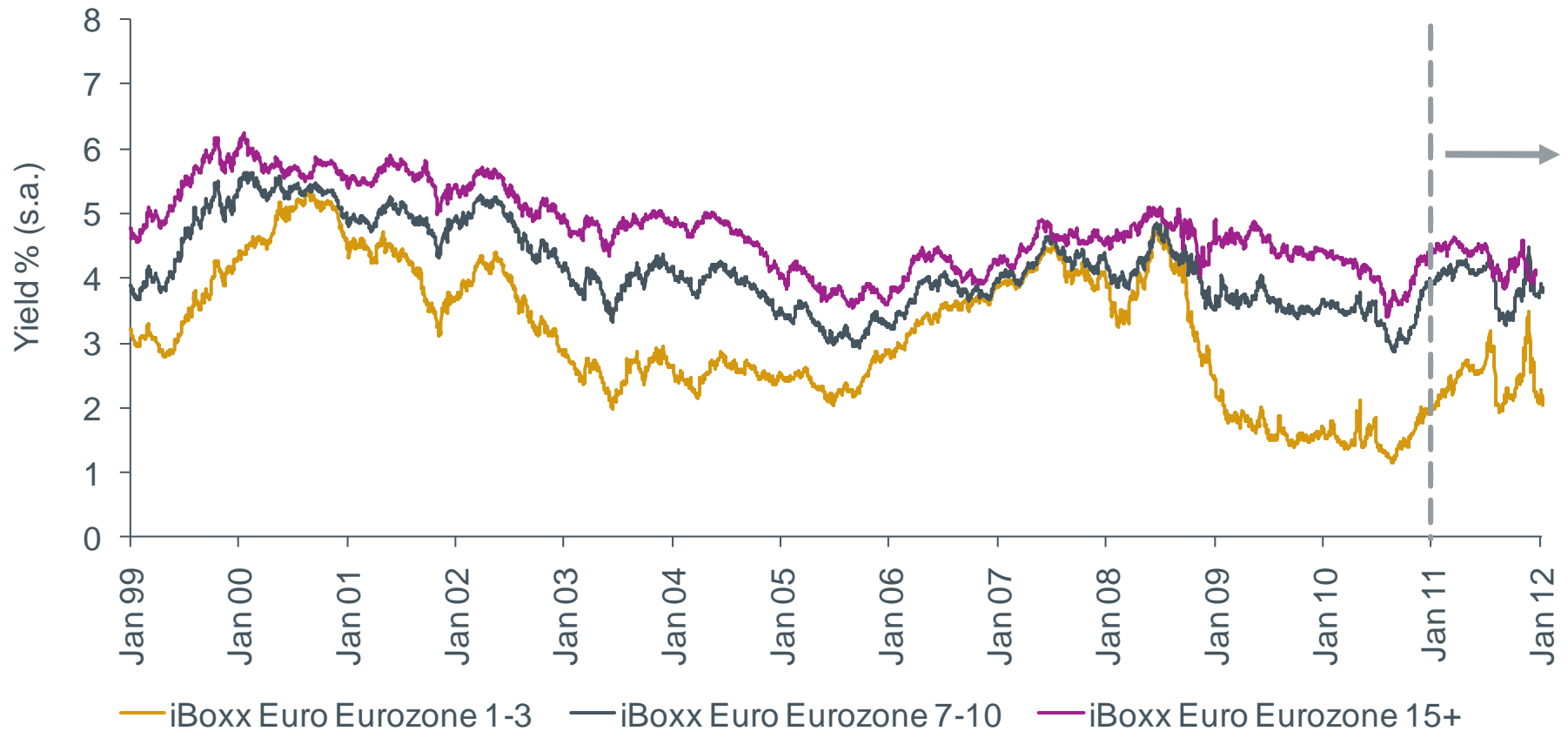
	UK	Euro area	USA	Total
Central Bank support				
Asset purchases	0.2	0.1	3.3	3.6
Direct lending	0.2	0.9	0.4	1.5
Other	0.3	0.0	0.2	0.5
Government support				
Guarantees	0.6	1.7	2.1	4.4
Insurance	0.8	0.0	3.7	4.5
Capital injections	0.1	0.3	0.7	1.1
Total	2.1	2.3	10.4	14.8
% of GDP	88%	18%	73%	50%

Source: Bank of England Financial Stability Report as at June 2009.

Long run US treasury yields

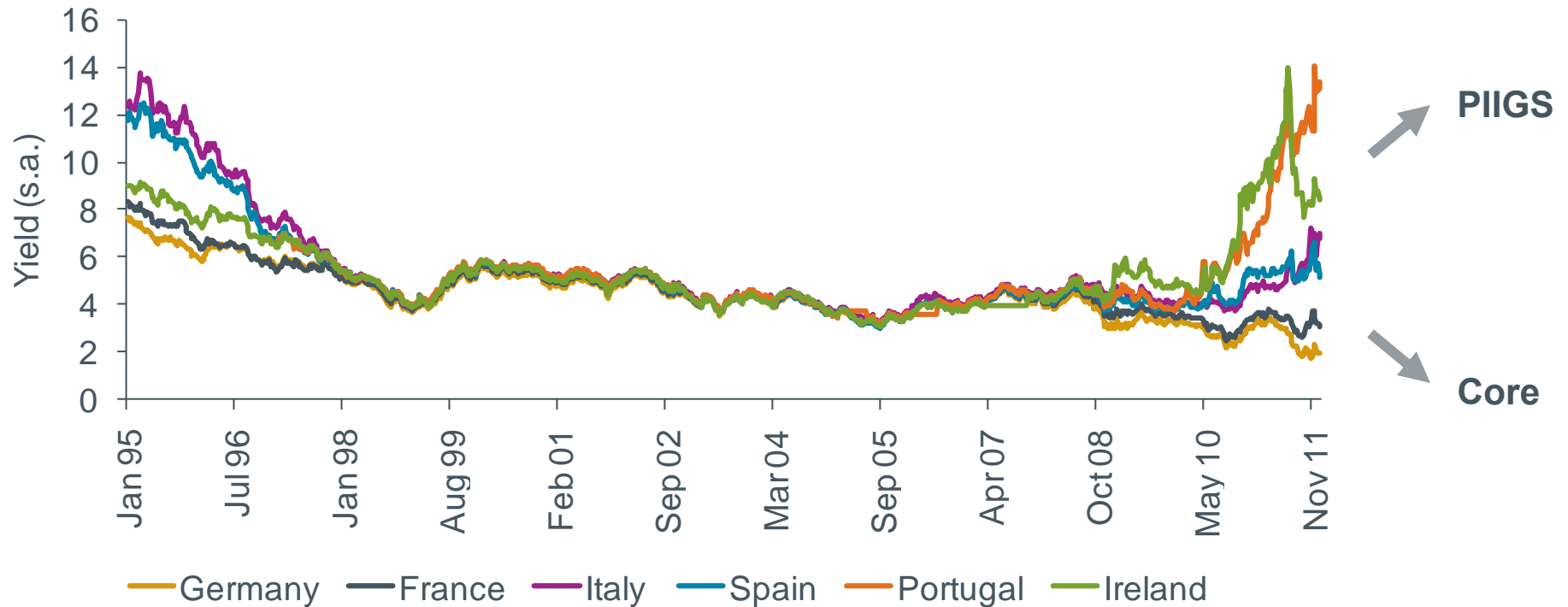


Long run eurozone yields

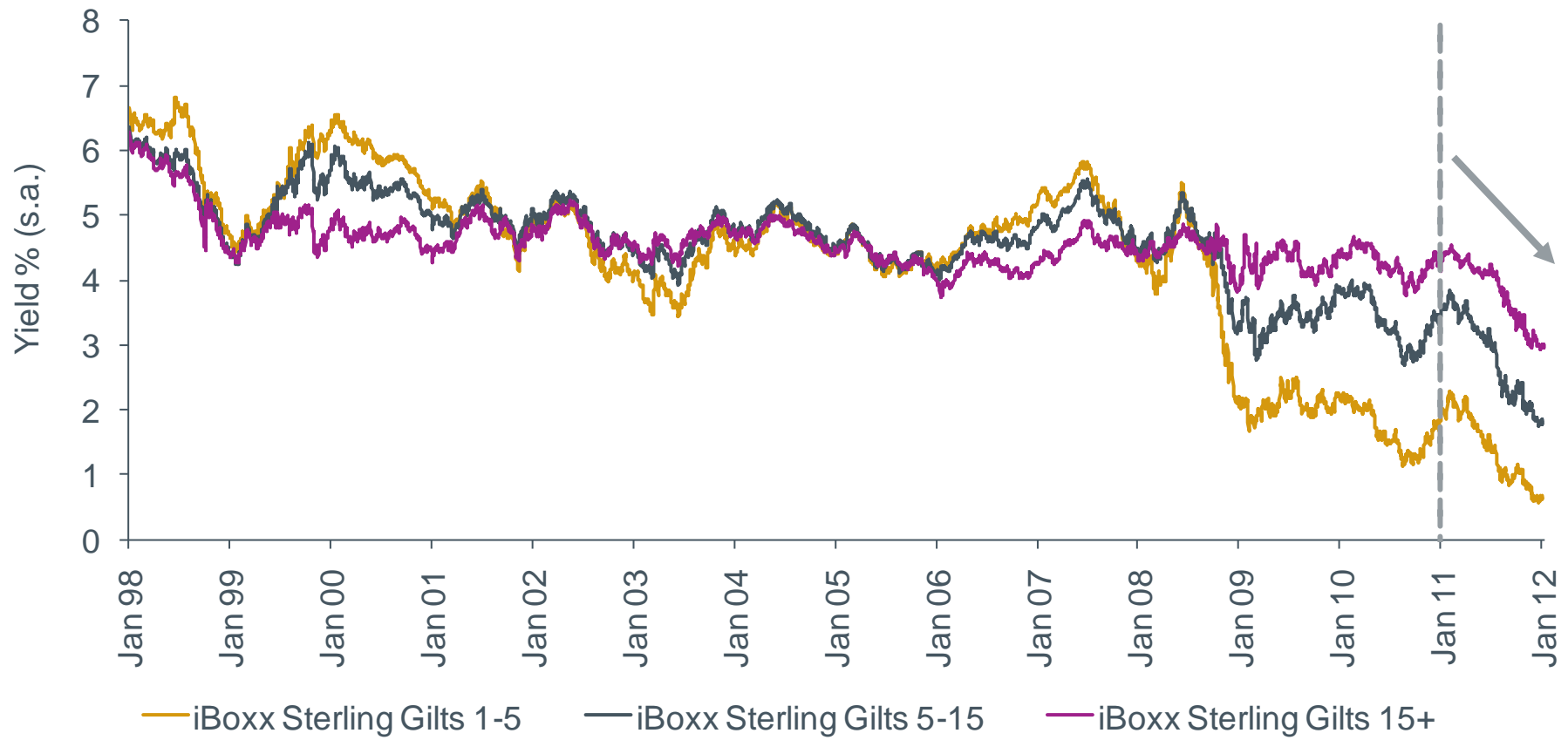


Eurozone yields – a closer look

- Austerity is necessary
- But without stimulus it will not work
- Move toward soft fiscal union
- Quantitative easing more likely

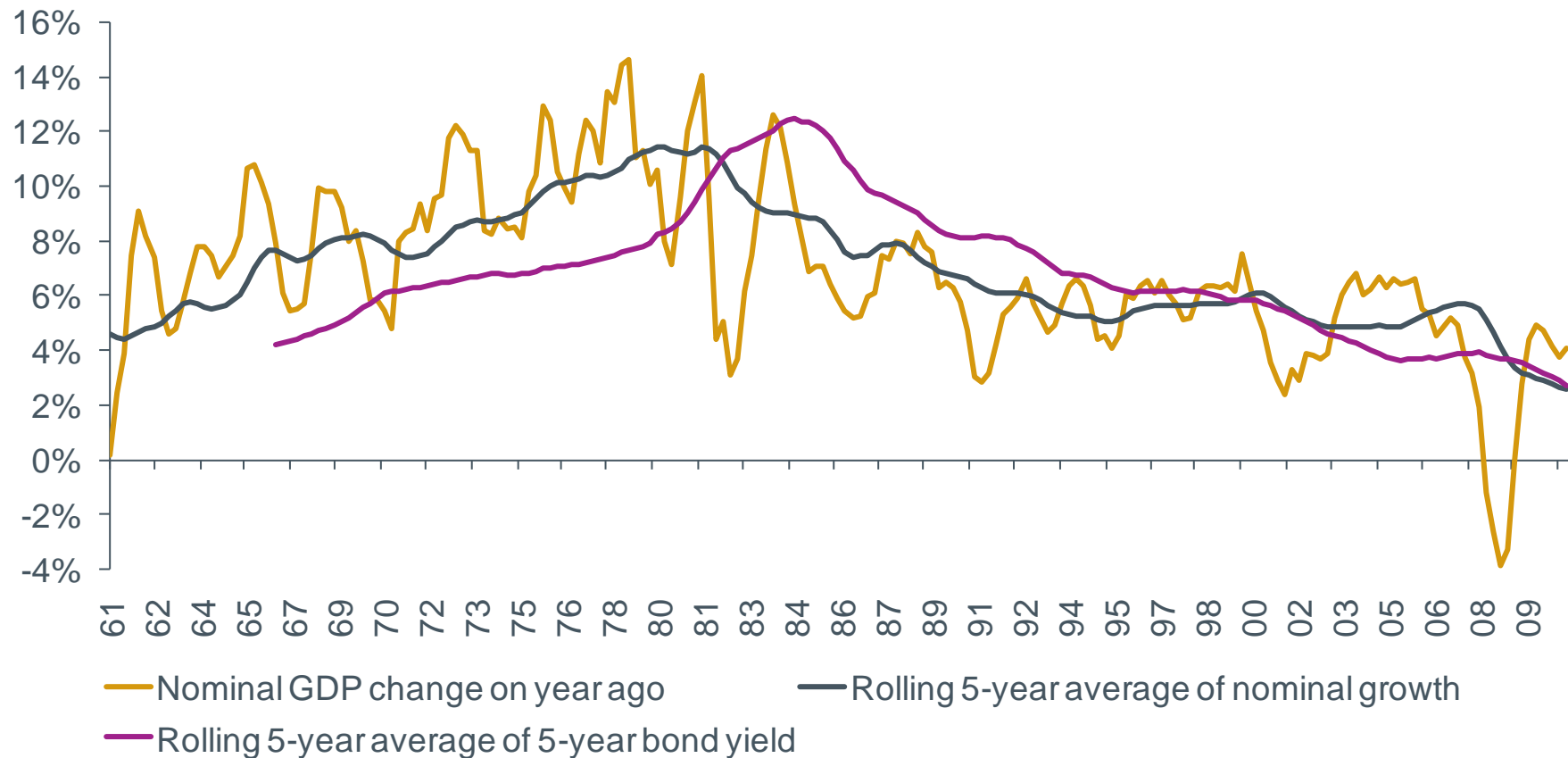


Long run UK gilt yields



Source: Barclays Capital, iBoxx as at 11 January 2012

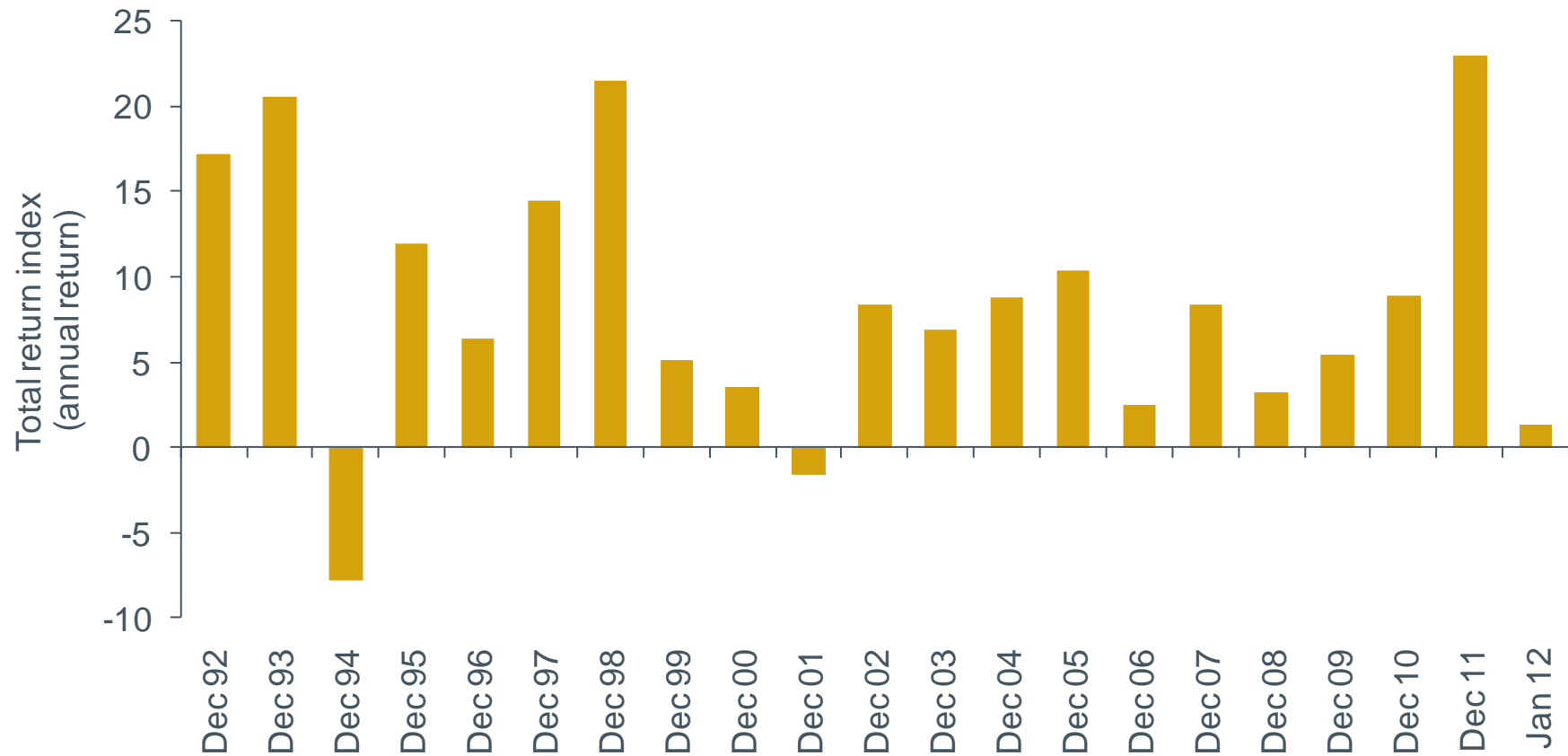
Is the government bond market right?



Index-linked gilts over 5 years, real yield



Index-linked gilts over 5 year maturity total returns

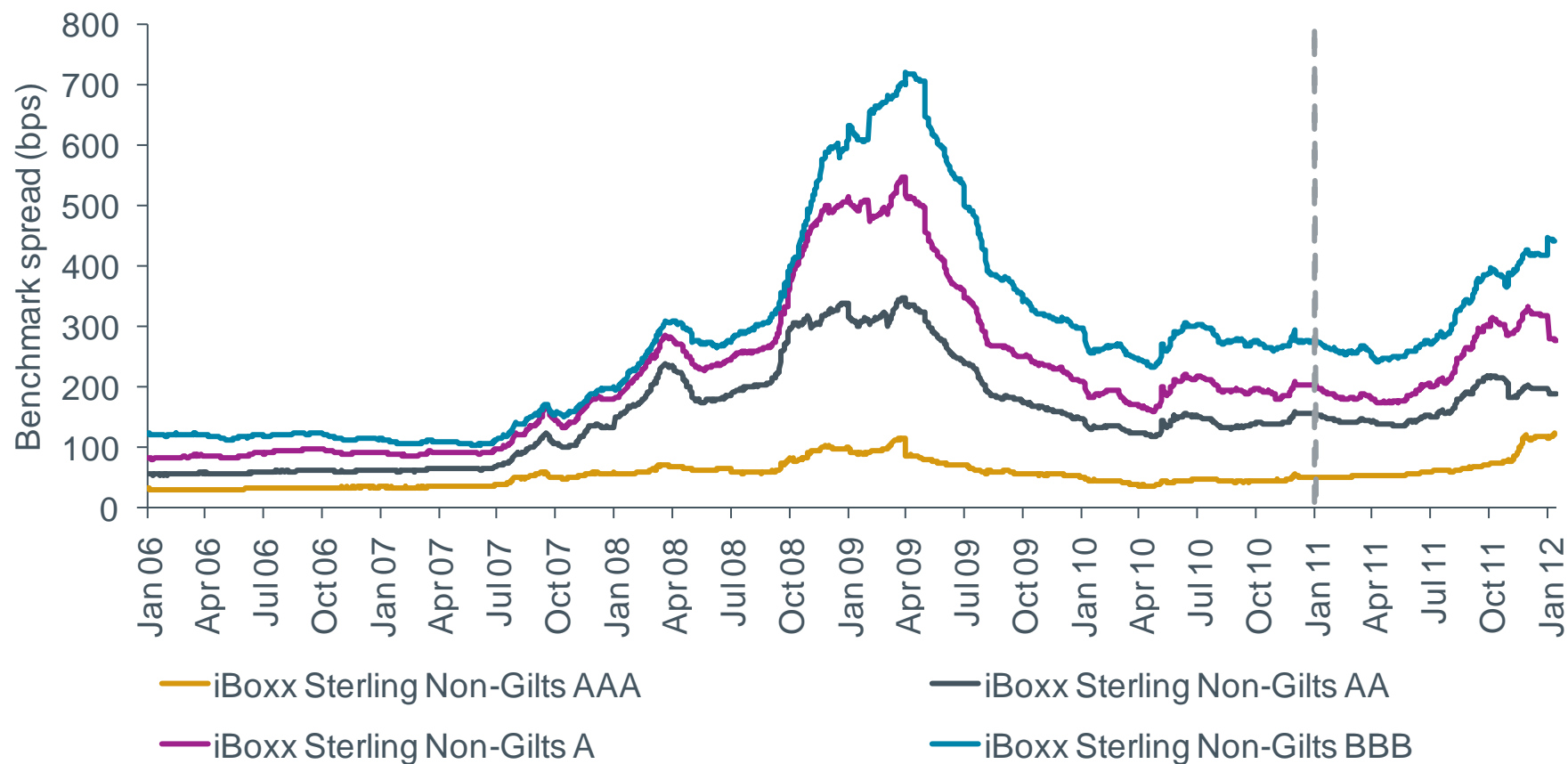


Government debt summary

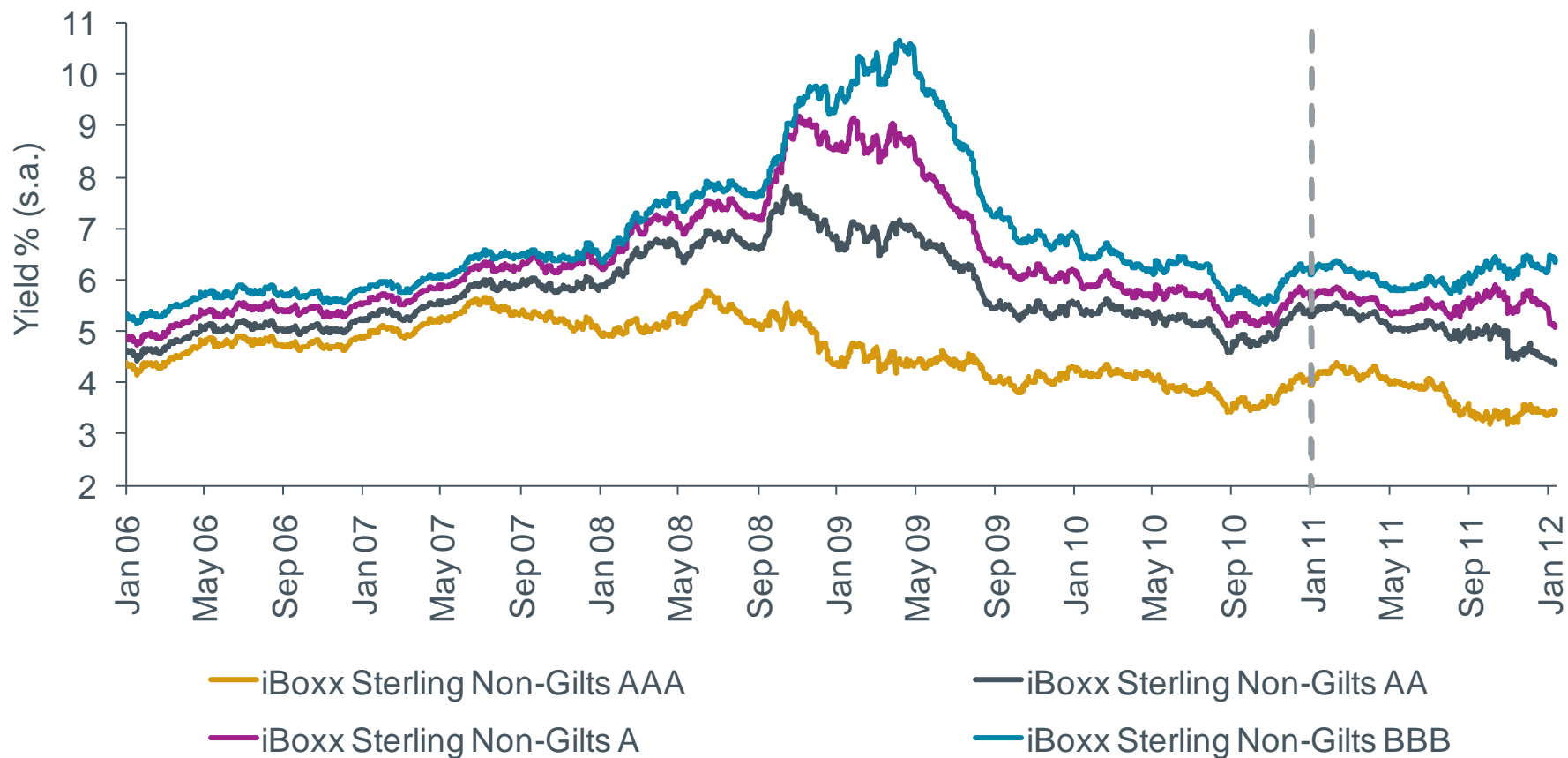


- More QE a virtual certainty
- Financial repression hurts real returns
- “Flight to quality” dominates valuations
- Bias to true AAAs – UK, Australia, Germany, Canada
- Too early to have zero duration risk

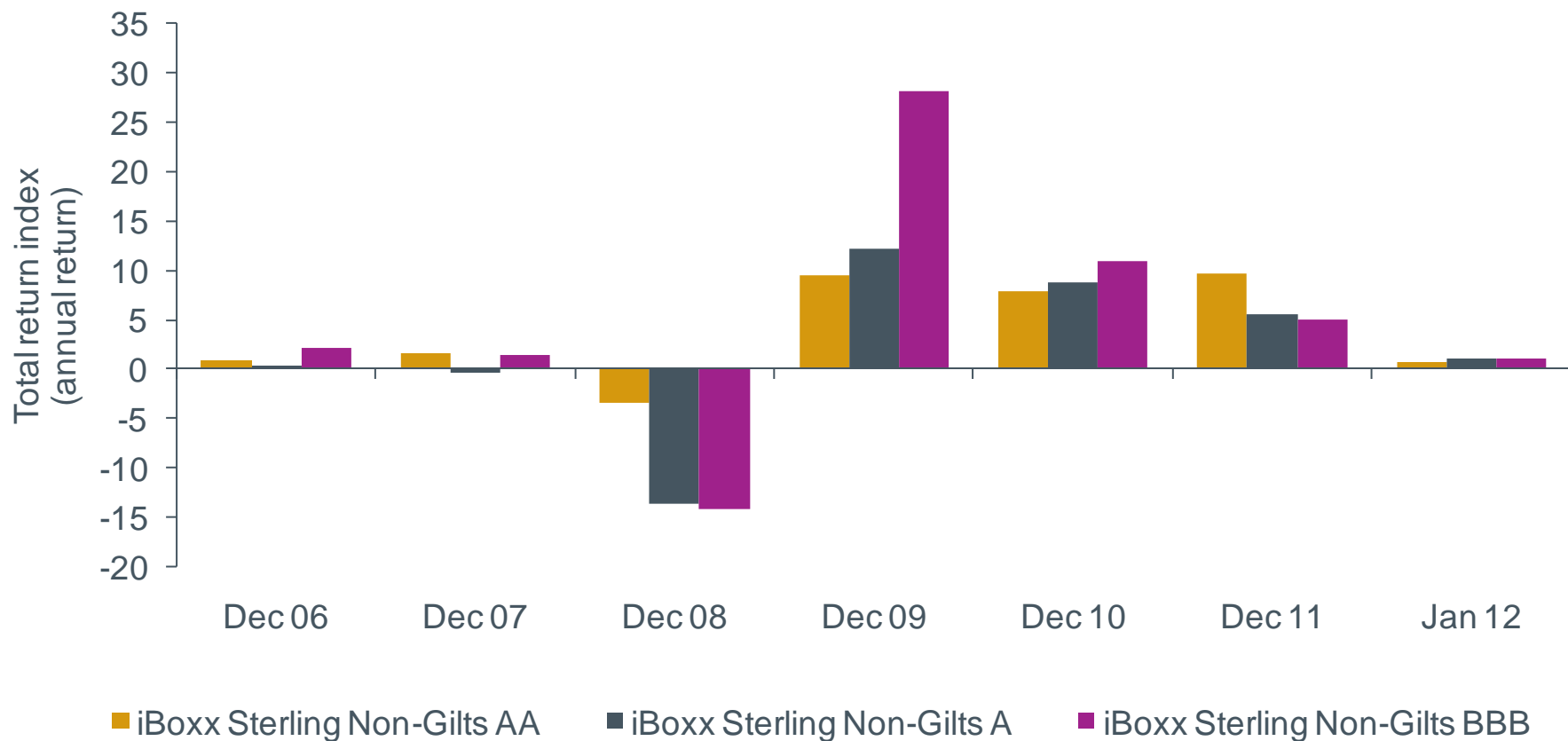
Credit rating band spreads, 2006-2012



Credit rating band yields, 2006-2012

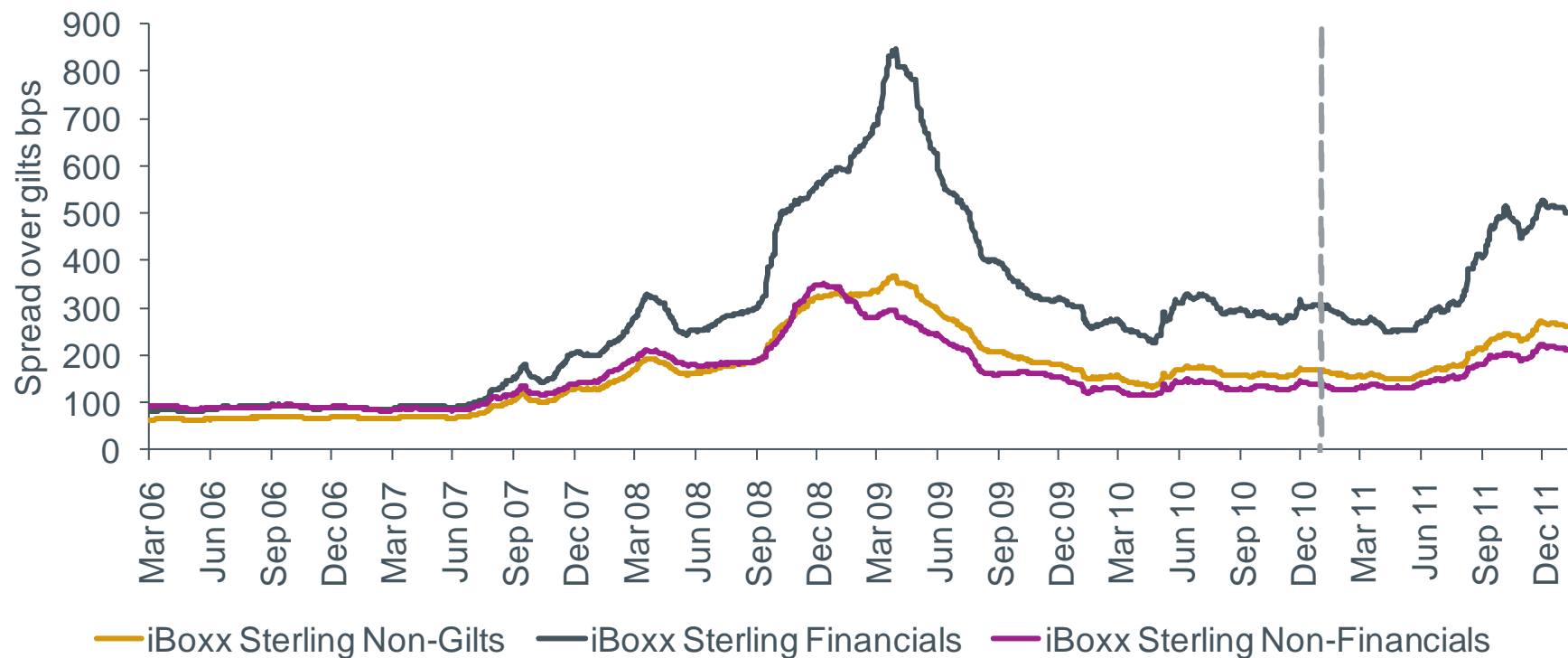


Credit rating band total returns, 2006-2012

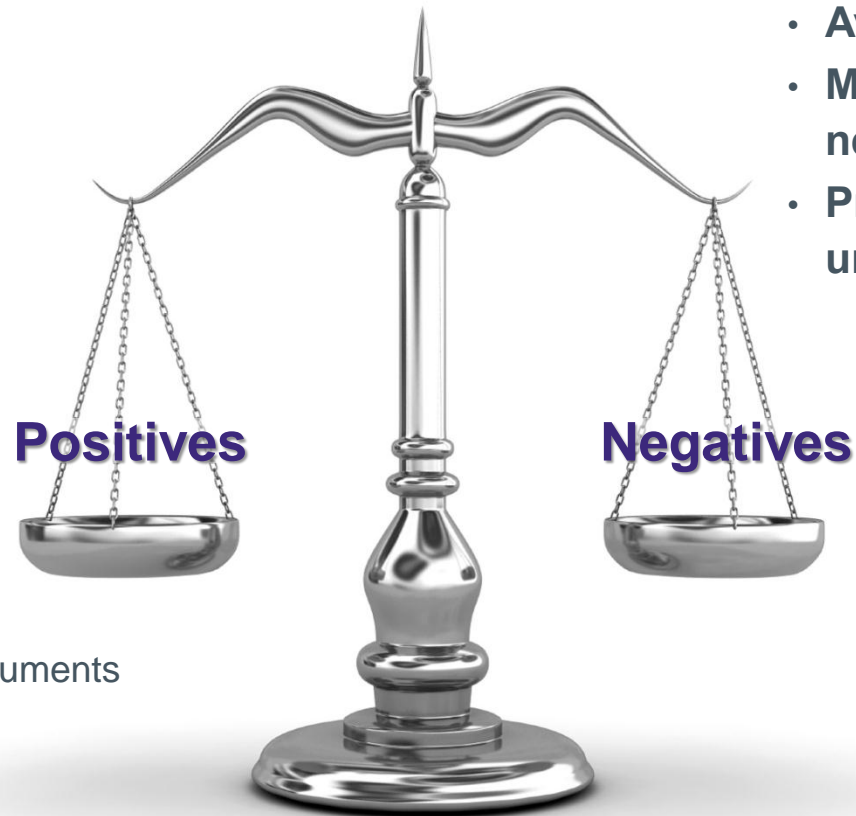


Sector differentiation remains

Index spreads 2006-2012



Financial credit weighing up the risks



- Increased equity below bondholders
- Basel 3 – redundant instruments
- Decreased wholesale funding
- Compelling valuations

- Avoid PIIGS' banks
- Moved from underweight to neutral on valuation
- Prepared to go overweight or underweight

- Resolution regimes and bail-ins
- Sovereign crisis

BAA



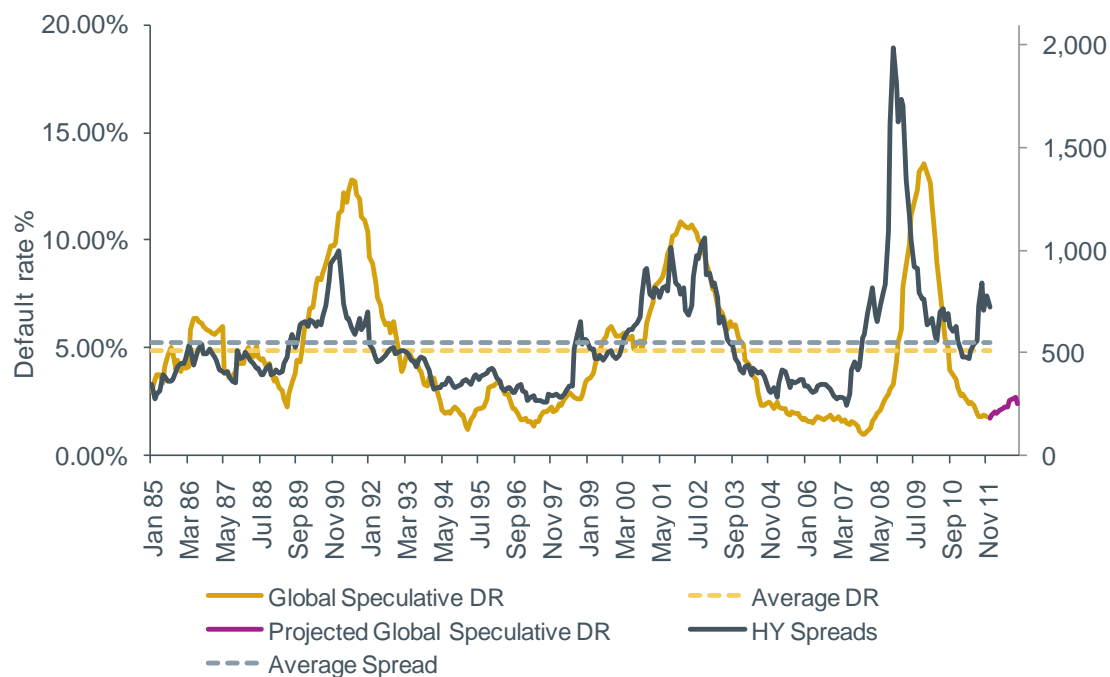
- Bonds secured on both Heathrow & Stansted airports
- Heathrow vital piece of infrastructure – emphasised by resilient performance during UK recession
- New capital recently injected by equity owners
- Regulatory and refinancing risk for company significantly reduced

Angel Trains



- Largest leaser of rolling stock to train operators in the UK
- Very strong government support for sector
- Long-term growth in rail passenger numbers
- High margin business with significant barriers to entry

High yielding opportunities



- **Fundamentals strong**
 - Default rates likely to stay low despite deteriorating economy
 - Balance sheet liquidity strong
 - Refinancing risk overstated
- **Capital upside potential**
- **Mark to market risk exceeds default risk**
- **Stock selection essential**

Care UK



- Residential and health care provider
- Significant percentage of revenues are contracted with the UK government
- Quality of operations negates local authority spending pressures
- Stable, reliable cash flows
- Demographics are supportive
- Strong covenants and security cover

Care UK (Clean price £)



Source: Bloomberg as at 13 January 2012

Conclusion – risks to worry about

**SLEEP
AT NIGHT**

Corporate credit

LOW RISK

Short term interest rates

HIGH RISK

Inflation

RISK

Long term interest rates

RISK

Financial credit

HIGH RISK

Political involvement
in markets/economics

HIGH RISK

Volatility

Important information

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AEGON Asset Management UK rebranded to Kames Capital on 1 September 2011.