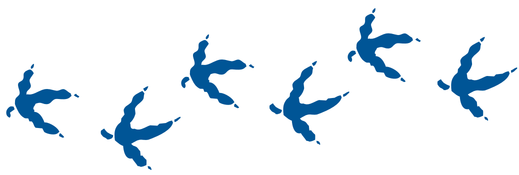

ARTEMIS
The PROFIT Hunter

James Foster – Strategic Bond Fund

16 December 2008

Dick Turpin: Thank you very much indeed, good morning ladies and gentlemen. Thank you very much for joining us today on the last web cast of 2008 and I am rather hoping that 2009 will be slightly less eventful; I am sure you all join me in that particular thought. But we are very lucky to have with us today James Foster, the manager of the Artemis Strategic Bond Fund. Now many of you will have listened to our web cast back in July and with what's being going on in the credit markets and the tumultuous events throughout the autumn period, we felt it was appropriate to ask James back to review what has been happening in these markets over the last few months and indeed give us his thoughts on just going forward into 2009.

So James, just before I hand over to you, if I could just quickly go through the normal little bit of housekeeping we do. Forgive me those of you who have listened into web casts many times. You should have in front of you a box that will be showing the slides as we move through the presentation and at the top left hand of the box is a picture of James. Just to the right are two tabs, there is a tab marked 'questions', if you'd like to ask a question at any time during the conference call, please just click on the tab, a box will appear where you can type in your question, at the bottom of that box is another little tab where you press the submit button. Those questions will come through to us. We have already received many questions this morning, so thank you very much indeed for those and will we do everything in our powers to go through those and answer the questions during the conference call. So without further ado, I am going to hand over to James thank you very much James for joining us.

James Foster: Thank you very much Dick, you're very kind. There is so much going on I am not sure really where to start. But if I went through every major shift in sentiment, well, I'd certainly still be talking after lunch and Dick, you'd miss your lunch. But I thought it is worth highlighting a few major factors though, as perhaps some of the more pivotal issues throughout the year.

The death of Bear Stearns was pretty exciting, a precedent was established that the major investment banks would be bailed out. Some confidence was restored, though this was completely undermined by the collapse of Lehmans in September. That led to a real panic; and when that was accompanied by the collapse of many UK, European and US banks over the subsequent months, the fear of a complete global meltdown spread.

I would say it all sounds rather melodramatic, but what we are seeing is a complete reassessment of the cost of credit. I can highlight that with specific numbers. In October last year BMW did a deal 70 basis points over Bunds – that was a coupon of four and seven eighths – and this year they did a similar deal 600 over with a coupon of eight and seven eighths. Now I accept they are a car company (and therefore not necessarily perceived to be the best credit in the world) however, I would say the chances of default for this company are low. It could happen yes, but is it nearly nine times as likely to default as last year? I could do the same calculation for a whole raft of companies; utilities have been hit least badly, banks the most badly and with a sort of pile of companies in between.

So what is now happening is the companies are faced with a stark choice. Either raise funds from bond holders at a significantly higher cost than in previous years, even if they can (and for many companies the market's just closed). Or, they go grovelling to shareholders and raise finance from them. We are seeing some of this, but I feel that the floodgates are about to open on this one i.e. more rights issues. It is an interesting point as to whether the shareholders will say no and I think that very much depends again on the company. Lastly, they could go back to their banks, but I think the banks will be very loathe to acquiesce, they just do not have the capital anymore to be able to finance companies as they have done in the past.

The assumptions about weighted average cost to capital have just changed; the cost of a debt component has just shot up, the world has changed and probably for a very long time. Cheap credit I am afraid is gone – it is now expensive credit; and business models are adapting to that new environment and that transition is proving to be difficult and painful. Not only are we seeing equity markets suffering, but I feel they have not really woken up to the new world, but I will leave that to Mr Frost to highlight.

So what started as the problems with the banks is hitting the real economy, hence the problems we now have for GDP growth. If the cost of money has gone up then naturally people will spend less. The result of this is we will see a significantly slower economy and GDP growth will fall sharply. Companies have changed their model to reflect the higher cost of capital – in effect this is deleveraging. At a personal level if you can not borrow money to buy a house then confidence will stay low. It does look like being a nasty recession, worse, is it does feel as this one is global. Difficult to predict the scale, but I feel the UK and US are going through the same sort of scale as the 1980s. In other words contraction of GDP of around 5%. That is bad, but nothing like the scale of the 1930s recession when GDP contracted in the US about 25%. Europe might be a little less bad, less bad than 5% that is, but I think it very much depends where you are. In Ireland and Spain it is going to be pretty difficult. Germany, with its own strong export markets, might not be quite so bad.

It is worth briefly mentioning inflation, but I am not quite sure why – there isn't any; with no demand and prices falling, the slight worry is deflation but I do think this is unlikely. This is mostly because the banks have been propped up and have passed on a lot of their dodgy assets to the central banks or had significant equity injections from the state. That means that banks are not in the business of hording cash to the same degree as we saw in Japan, causing that deflationary spiral. Banks have admitted their woes earlier and though inevitably there will be more problems for banks, as we saw at the weekend, governments are doing sensible things here to stop matters getting into a deflationary spiral. I think that the real issue to highlight here is that they are talking of printing money for instance, and that is a sign of quite how far they are prepared to go.

Interest rates inevitably will fall to record low levels. Europe is down to 1.5% or so. Trichet is bold enough to go further; I think it is quite difficult therefore for the UK to allow rates to go much below Europe's. I know they are at the moment, but I don't think that is going to be for any great length of time because of the risk it causes for the currency. US rates will fall down to 0.5%. I actually think they will stay there though many commentators think that they might even go down to naught, slightly irrelevant really.

Still the solution to all of these problems and I think this is the crucial bit, is going to be led by the governments. They started by buying up the banks, that is good news and very sensible; it restored stability to the system which without this, would have caused even more problems. Interest rates are being cut and they are committed to try to restore some liquidity to the financial markets again which is good news and it is all helping to restore some semblance of normality.

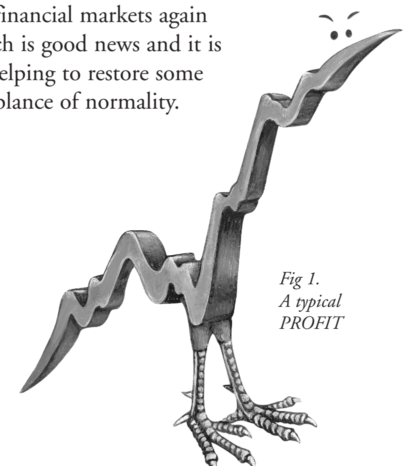

Fig 1. A typical PROFIT

The banks caused all these problems; as they sort themselves out and that means gradually reducing the excess leverage on their balance sheets, then they will be able to get back to doing their day job of lending money. Further consolidation, mergers, are likely as we have seen in the last few months; and the other factor which I think is very important is that time is a great healer here. All these dodgy structured products created many years ago, do gradually redeem, their average life was normally about three, four or five years. Some will clearly go bust, but not nearly as the market currently discounts; as they reach maturity then cash comes back into the system. The market is discounting Armageddon: it's not good, but it's certainly not that bad!

So where should we be investing your money. Let us have a look at government bonds. I have to say they slightly worry me; in the short term they are being supported by pension funds and banks are now being forced to buy some. In the longer term, governments are going to be issuing plenty of them across the world. Furthermore, governments are increasing their liability as they bail out their banking systems. There is going to be a point when buyers have had enough. That is not an issue in the short term but perhaps one for the longer term. UK government may well be having to knock on the door of the IMF in 2010 or 2011 and I think that's a distinct danger. There's an element of equal and opposite forces for the government's guaranteeing everything. If a government starts guaranteeing their banks, then the cost of their debt will naturally increase; if the cost of bank debt falls, that debt must therefore rise. So I'm just saying with government bond yields here, I'm quite worried. It seems too low to me, especially when you add in these extra liabilities which should be included and the scale of funding in future years.

Dick Turpin: Maybe I could just chip in there James, just for a second, because Torfinn Rendell from the Orkney Islands has sent in a question, very much along those lines, so I thought it appropriate to ask you the question now. She's saying that clearly the concerns that you have just voiced there about the government bond market; in view of that, presumably you would look at investment grade corporate bonds as a better place to be over the forthcoming years. Would that be the case?

James Foster: I think if you are looking at over the course of the next five years, there's going to be periods when government bonds do well particularly in points of extreme panic; but if you're taking a longer term view on this, then I think corporate bonds and particularly investment grade actually offers much better value. Yes, as I say, there are going to be periods and there's a couple of factors which I think is worth highlighting at the moment which is causing government bonds to do as well as they are. Firstly, is that the lower yields go the more pension funds have to buy them, because you're discounting your liabilities by a lower number. Which means you have to buy more; which is obviously dreadful for the pension funds. It's a terrible thing to have to happen, but that's what's going on. And so, particularly when you get in the run up to the end of the year, there was a bit of window dressing of UK pension funds. Towards that year end there's some forced government buying taking place specifically at the moment, which I think is exaggerating some of the problems. And secondly, the government is changing the rules for banks. So banks used to only have to have 1% of their balance sheet in gilts, they haven't specifically changed it but they're making it more difficult for banks to own other assets, encouraging them to buy gilts. Admittedly they don't have to buy government gilts, they can buy Treasuries and Euros, but again they're asking that they go up from 1% towards 5%. Again, the government is doing this partly for political reason, because they've clearly got to fund an awful lot at the moment and it is particularly helpful for them, so at least both parties are quite happy about this.

Dick Turpin: But clearly I mean the dark forces of the credit default swap market are indicating in terms of insuring government debt, that it's getting a lot more expensive. And I don't know how true it is, but there was an article the other day that it's cheaper to insure McDonald's bonds than it was to insure UK government bonds.

James Foster: That is true and it's a quid pro quo, if you take it on to a government balance sheet, the risk of that government balance sheet increases and there is, as far as I am concerned, a significant danger over the next couple of years, perhaps three years, there will be a buyers strike. I think that might be more true for the UK than necessarily Germany which seems to be acting more sensibly. But there could be a buyers strike and if you get that buyers strike, then we're in the business of going to grovel to the IMF.

Dick Turpin: At risk of labouring the point, but clearly international investors holding government bonds have suffered from a slide in Sterling over the last few months. Do you think that's a factor or conversely could you say that they're going to get the upside of the currency if it turns as and when?

James Foster: I mean it's one of those things which in the short term people tend not to worry about and in fact the sort of immediate reaction is well it's for the better, it's a bit cheaper to buy a few more. Longer term if they feel the currency is fundamentally flawed then yes, they will take their money away. Certainly, sterling used to have the status as being a reserve currency and 40% of the buying of gilts was from overseas governments. If that completely evaporates then the UK government is in real trouble, but I don't want to overlabour that point because I think it's something which at the moment isn't base case, but a government is suppose to see…(interrupted)

Dick Turpin: Is it nice to see governments averaging down…?

James Foster: I think government yields are very low at the moment and there's an awful lot of risks which are not really discounted by the market at the moment; and I think they're being artificially low because of the pension funds and various other issues rather then the fundamentals.

Dick Turpin: Thank you for that – super.

James Foster: I think the real area of value actually is in the corporate bonds and the real area as I just highlighted is financial bonds. Now let's put this into context, the market is discounting that over five years nearly 45% of banks will default. Now that assumes an average recovery rate and I accept that you could easily assume that recovery rates will be lower as you go into the future. But even if you assume they're zero for instance, then 30% of them could default and you still make money, relative to gilts. And that's never happened before. Never anything on that scale before. Yes, we expect default rates to increase but probably not much and I think when we are talking about financials, after Lehmans, the idea of letting another big bank default is perceived to be clearly a very, very bad idea. I feel you've been admirably compensated for that risk and I can't stress how the authorities would now regret allowing Lehmans to go bust.

The same is true for corporates, the numbers are broadly similar; the issues I think, they are less protected by the governments. So default rates will rise fast, that is inevitable as they struggle to re-finance themselves but there isn't the sugar daddy i.e. namely the government, to protect you. Therefore I much prefer our bank stocks to our corporate holdings. Furthermore, companies issuing more debt are actually re-pricing the existing market. Banks are not issuing debt, they're tending to or not to the same scale, they're tending to issue debt for other government guaranteed schemes. We certainly saw a significant widening of spreads, when the telco deals (Vodaphone for instance) came to the market. There was not much wrong with the telco market, but the dynamics of the market means that those bonds underperformed. All telco bonds underperformed on the back of that.

Dick Turpin: And there's a big question clearly about propping up corporates and Colin Lowe reminded, sent in a question, well there's two questions, but the second part of it was; he was recalling that you predicted some three years ago that Ford and General Motors would get into difficulties. Where does it stop in terms of governments being drawn into supporting the industry and are supporting corporates?

James Foster: It is a difficult one that one, because I think that I'm right in saying that Ford, GM and Chrysler included, is about 4% of GDP in the States. So, if they all go, then that is a significant hit to GDP next year and the knock-on impacts are just pretty horrendous. Essentially they are a bust business. They don't make cars which people want to buy anymore; so the bail out, which is being discussed at the moment, is really to tide them over, so it becomes Obama's problem rather than Bush's problem. Bush doesn't want it as a legacy issue. The model's failed so it's essentially throwing good money after bad. What I think they would like to do is try and find a format where the pensioners and the people who were reliant on the health care are bailed out in some

format so that it doesn't have the social consequences which will be so great of allowing the GMs and the Ford to go bust. The social consequences are perhaps more important at the moment and that's why they're putting the money in – they don't want to ruin people's Christmas. But I think it ultimately that model is bust – they don't make cars which people want as I say.

Dick Turpin: Thank you for that. Looking at high yields now.

James Foster: High yield is even more extreme. The market is now discounting a default rate of around 70% and again that does make some assumptions about some sort of level of recovery. Even in the Great Depression of the 1930's defaults didn't reach anything like that extreme. The guess, and it's not perfect science, was around 40% at that time. It is a little bit difficult as I say, because excel didn't exist then to sort of give us all of these numbers; and this chart highlights the value. There is no doubt that defaults will rise and it is an area where we continue to have to be very selective. We are focusing towards the shorter-dated and non cyclicals for now, namely the telcos, high yield telcos and things like that. All-in-all we are still seeing forced selling from many market participants. I can't tell you when that will end, but it is definitely reducing and most of the credit hedge funds in the world have gone, fallen over, gone bust whatever. Many of these other products are disappearing. The banks are still deleveraging, as I said before time is a great healer here. Effectively we are in a shrinking market and the market is taking its time to find that clearing price.

This year does feel like I have done ten rounds with Mike Tyson and then had Dick sit on me! It's been hard work and there have been some amazing opportunities; they do just get cheaper. There has also been a very chastening experience and I think it is my first year we've haven't been in the top half, and that really hurts. Value will come to the fore eventually; a good example, buying JP Morgan bonds with a yield close to 10% makes a lot of sense to me. Building a portfolio for the future though is an expensive business when liquidity is so poor. I cannot reinforce enough that the yield is compensating you for the risk. If we are in an environment of 70% defaults when all of the Government's measures will have failed and that's just not going to happen. Furthermore, the equity market will start to re-finance companies over the next year and I expect large numbers of rights issues to reduce companies' reliance on debt.

Lastly, Governments are aware of the problems. They are not sitting on their hands as they did in the 1930's, they are throwing everything at the problem, the kitchen sink included and eventually it will work. I feel once the credit market turns and the potential returns are going to be fantastic. In the short term however, we still have lots of forced selling to accommodate and once we get that out of the way we're off to the races. I wish I could tell you when that might be, but in the meantime I know where I have been spending my personal cash. When the days look dark it seems to me you should be investing. Today does look very dark, but that is the opportunity.

Dick Turpin: Thank you James. We have had a couple of questions regarding performance and Simon Callaghan and David Whiteman looking back into the period of sort of September/October. You mention that clearly it's been a very frustrating phase for you not being in the top half, but clearly opportunities are enormous going forward. I just wonder if you can touch on a little bit about (without depressing you further) what the markets are doing ,on their behalf?

James Foster: There is no doubt that there was a bum steer given by the bail out of Bear Stearns, where I felt that the policy of the Government to protect the financials would come through. What we then saw with Lehmans and we own some of those: that has adversely affected performance. But what I would say is the banks now which we own and we just still own a significant percent of (48%* actually in banks at the moment.) that they are being protected, by the governments as we have seen before. What is still going on now is that forced selling from a number of different areas which has adversely affected that part of the market. It has affected it more than it has affected the corporate market. As I said and the reasons why I think that that would change in the next year or so, is given the sugar daddy we have in the name of the State. But, yes, over the last few months it has been a very chastening experience and very upsetting and certainly the Lehman's situation was, and the knock on effects of, that have been catastrophic.

Dick Turpin: Assuming the world keeps turning – which we all hope it will – obviously some of the yield opportunities have come out of this debacle, have been amazing?

James Foster: Yes, just amazing. I mean truly extraordinary opportunities which are coming forward; and as each new issue comes along which tend to be the best place to put in new money, but there are still secondary opportunities as well. There is amazing opportunities there, so it is an incredibly attractive market at the moment and an awful lot has to go wrong for you to lose money over a protracted period.

Dick Turpin: And James, you are talking about financial bonds that you hold, Graham O'Neil was asking how much of it is into the tier-1 debt and can you reflect on, the sort of financial paper you hold. Can it be treated as equity or ultimately they are going to have to honour the coupon on this?

James Foster: I mean you could describe it as either tier-1 debt as preference share debt. The current percentage is 13% of the fund. There is a perennial debate about whether it is equity or whether it is a bond. It is a bond, in that if they don't pay the coupon on this, then on the tier-1 debt, then you would have a fair amount of panic taking place. Because ultimately the bank is not honouring its debt, then essentially you will have a queue outside the door and that is the end of the bank, in a very short period of time. So the whole issue here is about credibility. And what we are seeing is where the banks are being bailed out, is they're bailing them at more junior levels or equal levels; so the HBOS/Lloyds bail-out for instance, that was done at 12% preference shares which is broadly where the existing bonds yield and that is at equivalent levels. So if the government doesn't get paid then we don't get paid. Well, the whole situation here is the Government put those preference shares in there so they do get paid! That's the whole point, they want to make a return out of this investment.

Dick Turpin: Interestingly, following on from that – sorry.

James Foster: It's interesting, lots of people have very different views on this one, so I think there is a tremendous store of value which is discounting all of the downside i.e. no potential upside in these things and I actually think that the upside could be fantastic, but time will tell on that one.

Dick Turpin: And just following on from that, there is an interesting question from Ross Pepperal – forgive me if I pronounced your name incorrectly Ross – but he is asking, is there a likelihood of Governments buying corporate bonds in the event that conventional monetary policy falters and that we edge close to a deflationary scenario?

James Foster: It is actually a very good question, because one of the best ways of actually bailing out a system, is to print money and corporate bonds. If it really gets that bad, then because printing of the money is inflationary itself, buying the corporate bonds reflates companies directly and is purely inflationary. It counts as a deflationary impact. So, yes, a very good, it is a distinct possibility. I think it is something which has been discussed in the States and I think Bernanke himself is, it's one of the measures which has been mooted by him. So he is the greater expert on the 1930 Depression that's what it really …

Dick Turpin: He's read every book hasn't he…

[All talking]

James Foster: Yes, he knows all about it.

Dick Turpin: Written some of them, I think as well.

James Foster: Yes, I think he has. He is probably the right man to have at the time; so I think it is, if things really do get desperate then yes, that's one of the extreme measures a Government might use.

Dick Turpin: On that sort of overall policy, looking at the macro levels, Suriminas has asked the question: do you believe that the Government's policy of increasing public spending will be more or less effective than if they use the money to reduce income tax? Interesting, depends on your Keynsian credentials I suppose.

James Foster: I certainly think, I mean it is a good question in the sort of macro… I certainly think that the VAT cut was a completely pointless measure. And actually the Government has to be very careful about the overall finances given the currency situation. And so cutting VAT I thought was a very silly measure.

* Source: Internal

Dick Turpin: Headline grabbing measure. You wonder whether there was more desire to have a headline than actually achieve anything?

James Foster: Well, I mean the sensible things were bailing out the banks, preserving the financial system and all credit to that: the VAT move to me was just as you say was a headline move and pointless.

Dick Turpin: Following on I mean, recovery rates, you have mentioned Linda Deforge asks about recovery rates for bonds in defaults having been lower in previous recessions, lacked covenant agreements put in place in the proceeding boom and do you sort of factor into your models aspects of that?

James Foster: That is a very good point. Again because we do have to, the financials in particular, we would expect recovery rates to generally be a bit lower than historically you would expect for the average company. The company tend to have a few assets what seems to be – particularly at the moment – is that the distressed financial assets are at such low levels that when things do go bust recovery levels are very, very low, and perceived to be very low. Yes in terms of banks, but having said that it does seem that governments are not prepared to let banks go bust, they have done that with Iceland.

Dick Turpin: Which was another one of your predictions. You must let me know when you next go to the horse races. I'll follow you down to the bookie. There are a couple of questions from Richard Philbin just asking whether you are seeing any new issues come to the market? …Presumably the market being the way it is, you're not seeing …

James Foster: There is not many, there is a few utilities coming and recently for instance we have had some Vodafone and Verizon. Verizon is a US mobile business, but no there is not that many. It seems to me that the approach has been to go to the equity market, or at least look at the equity market and also we are slightly in the Christmas period. The comments I am hearing from Adrian Frost is that they are anticipating many more people knocking on their door saying, 'Can we have some money please?', rather than going to the bond market, because the bond market is either demanding too many covenants; demanding too high a price. And as I said that model has changed and so it seems that companies are running away from the bond markets at the moment. I would not be surprised if some deals could get done in the first quarter of next year, but only the best companies could get away with it. The Proctors and Gambles of this world, the really sort of safe utility-like companies can get away with it at the moment.

Dick Turpin: That leads to a fascinating question, because I have certainly heard most commentators say that, the equity market cannot establish itself around a floor and then build from there until the bond markets get back into action and the old relationship is established. And there you are almost implying that we could be in a new era where there is a sort of long-term detachment between bond markets and equity performances.

James Foster: I think that is right yes. The idea of cheap credit which was what was funding much of what was going on in the last five years particularly with private equity and all those sources, is completely gone. So the whole world has changed in that regard. It might come back again – it's not being forever…

Dick Turpin: If you are seeing people going to equity financing in favour of banks and the bond markets, then that is quite a …

James Foster: It has completely changed and certainly if a property company came knocking on the door at the moment, I mean no, we will not do it not at any price, even if you give us first mortgage debentures which disappeared 10 years ago. I am not sure whether any company could even give that away at the moment because of sentiment. It really is very much company dependant. High yields for instance, we're not seeing anything. No companies are issuing there – have not seen anything for a year.

Dick Turpin: Well at these sort of yields no company…

James Foster: No one can do it.

Dick Turpin: Another question from Richard Philbin, along those lines. Are you seeing a difference between what you have been quoted in the market for some of these issues and what you are actually having to pay in terms of structure of the market?

James Foster: This is actually another thing which we could spend a long time on is fund valuations and what is being seen by the market and what is being quoted on the screens and all the rest of it. We're tending to have mark things down to the level which we see on screens rather than what is actually coming through on the sorts of quoted valuations. There is a distinct difference there and generally we have been much more conservative in our valuations, which may have explained some elements of performance by the way, because we are deliberately marking things down; and there is a distinct difference between what is being seen on the screens and what actually is happening in practice. A new company coming to the market and raising funds is happening at a completely different level to what is supposedly the bond was trading at yesterday.

Dick Turpin: I'm just conscious of the time ladies and gentleman; I do have more questions to ask, but if you would not mind, I think we will draw this to a close because I am conscious that we have gone over our normal time of about half an hour. We will get back to you on the questions we have not answered. James that was absolutely fascinating and thank you very much for taking us through what has clearly been a tumultuous time in these markets and seemingly continues to be for the time being. But also the opportunities out there are enormous and significant. Ladies and gentlemen thank you very much for participating in this webcast conference call today. Thank you for the number of questions you have sent in, it makes all the difference to us to have more questions to answer and certainly makes it more and more interesting as we go through the presentation. As I say this is the last webcast we are doing for 2008, so if I could take the opportunity to wish you all a very happy Christmas I hope we get some festive cheer to take us forward into 2009. If you do have any further questions please do not hesitate as I say at the end of all of these to contact us on our broker line which is 0800 092 2090 or e-mail directly to us at brokersupport@artemisfunds.com. So without further ado, James thank you very much indeed for the time you have given us. Thank you everybody and we look forward to gathering again in the New Year. Thank you very much indeed.

Risk Warning

Any research or analysis contained in this document has been procured by Artemis for its own use and may be acted on in that connection. The contents of the document are based on sources of information believed to be reliable; however, save to the extent required by applicable law or regulations, no guarantee, warranty or representation is given as to its accuracy or completeness. The document may include forward-looking statements which are based on Artemis' current opinions, expectations and projections. It is provided to you only incidentally, and any opinions expressed are subject to change without notice.

Issued by Artemis Fund Managers Limited, which is authorised and regulated by the Financial Services Authority (www.fsa.gov.uk), 25 The North Colonnade, Canary Wharf, London E14 5HS and is a member of the IMA. Artemis Fund Managers Limited is a member of the Artemis Marketing Group. We only market our own unit trusts. Please remember that past performance is not a guide to future performance. The value of an investment and any income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

In order to offer a higher yield, a proportion of the Artemis Strategic Bond Fund will be invested in higher risk securities that may increase the risk to your capital. In particular, there can be no assurance that capital appreciation will occur in the early years as initial charges are levied on your investment and charges are not made uniformly throughout the life of your investment. Investments in fixed interest securities and bonds are subject to credit and market risk. The value of the underlying assets and therefore the value of units in this Fund will be impacted by fluctuations in interest rates and the perceived credit risk of an issuer. The distribution yield reflects the amounts that may be distributed over the next twelve months as a percentage of the mid-market unit price of the fund as at the date shown. It does not include any preliminary charge and investors maybe subject to tax on distributions. The distribution yield is also the underlying yield for the Fund.

4970/12/08/EMG