Our guest:
Aerion Fund Management Ltd

In-house pension funds are important targets for North American corporations due to their long term investment horizons. Aerion Fund Management is one of the UK's largest in-house pension funds and is the principal investment manager to the National Grid UK Pension Scheme. It has $25.1 billion in total assets under management, $7.3 billion in equity assets and $1.3 billion in North American equities.

Jonathan Monk has been at Aerion since January 1995 and is one of a two person North American equity team. Before joining Aerion, he worked at ICI and London & Manchester. His colleague on the North American desk is David Shaw .

What's the difference between working for an in-house pension fund and managing third party money?
"The big difference is the amount of time you spend on investments versus the amount of time you spend with your clients or marketing. We've only got one client so we spend all of our time actually investing money."

How is the US desk organized?
"David Shaw and I take the big economic sectors and split them. Every year we swap a couple of sectors to keep things fresh. Currently, I look at: consumer discretionary; consumer staples; telecoms; financials and utilities. David does technology; energy; materials; industrials and health-care. Because there are only two of us, we work very closely together and bounce ideas off each other."

How do you measure your performance?
"The S&P 500 is our benchmark." (see chart overleaf for performance).

Investment constraints?
"Market cap – we have a self-imposed $1 billion restriction. In exceptional circumstances, we have held stocks below the $1 billion mark but they have to have a very strong story. We also have stock and sector constraints against the benchmark of 2.5% plus or minus. We're 'long-only' obviously."

How do you screen stocks?
"We screen for stocks in three ways (see overleaf). Think of three circles – one of the circles is that we meet management and analysts for ideas. Another is that we use quant screens like HOLT. The third circle is looking for unloved and under researched companies. Ideally, we'd like the circles to intersect. Yum! Brands is a good example. In the summer of 2006 it was unpopular with investors following a number of health scares (Bird Flu, Sudan I Dye) in China. but we met the company and felt it had interesting potential . It screened very well – so we invested and it has since done well."

Any sectors you won't invest in?
"No but we try not to take too much risk in sectors where we don't have an edge - and biotech is a good example. Whereas we do take quite big risks in energy or financials where we have got quite a good insight into valuations, HOLT works well and we have a good track record."

How many holdings in the portfolio?
"Approx 80. The average position is around $16 million. Our biggest holdings are $30 - 35 million and we have quite a lot of $20 - 30 million positions."

Average turnover?
"Our average turnover is 30 – 35% or three years. We aim to hold a stock for at least one year and a lot of stocks we have held for a long time."

Investment philosophy?
"We want to own companies where the wealth creation potential of that company is greater than the market expectations for that company. We try deliberately not to be value or growth as we want a consistent performance. If you go down the value route then that's great when value's in favor but when it's out of favor you can't outperform. We are in between the two (value and growth) – so there is nothing to stop us outperforming every year."

Which parts of the US market do you currently favor?
"We are very much stock pickers. Most of our risk is in individual stocks not sectors for consistency's sake. We like the infrastructure plays, especially electricity transmission and companies which help build power stations and energy plants such as cable manufacturers and E&C companies. We are also building up our weight in consumer discretionary names – they are an early cycle group – which has been underperforming for a number of years. For the first theme, we hold companies such as Dynegy, Quanta and General Cable. On the consumer discretionary side, we own Amazon, EBAY and Wal-Mart – good long term stories."

Is it important to meet management?

"Yes – because it's important to understand what you're investing in. If you look back at the mistakes you've made the #1 reason is because you didn't understand the company properly. Sometimes the Street doesn't understand what's happening and by meeting management you can get an edge. **People's Bank** is an example. It was under researched and by meeting the company it became apparent that they were about to change their capital structure and by doing so valuation ratios were about to look considerably more attractive. That's an example of how meeting a company led to an investment."

How many US companies do you meet a year?

"We do six trips between us a year – so we meet a lot of companies in the US – maybe 180. Then we meet a lot of companies at our offices in London as well as attending external presentations so in total probably over 300 a year."

How has unbundling changed your relationships with the investment banks?

"I'm a big fan of unbundling so we have embraced it and now pay for research and execution separately. Independent providers like Phoenix-IR are the only people we don't have to pay for access. But we don't speak to that many brokers – a lot of it is about relationships. It's quite nice to deal with people you trust and have known for a long time."

Which US companies are best at IR?

"Energy companies are very good at IR – maybe because they are a bit smaller in terms of personnel and the IR person is quite often someone who is corporate strategy as well so he really does know what he is talking about. Technology companies are also quite good at IR."

Worst at IR?

"Consumer companies. Very big companies often don't have very good IR. An exception is **GE** which has very good IR because they rotate the function. They treat the head of IR as importantly as heads of various divisions. I would pick on large media companies as being poor at IR."

Who do you like to meet?

"The CEO or CFO but it depends on the company as some IR guys are very good. For example, **Newfield Exploration** has very good IR."

Any companies you don't currently see which you'd like to?

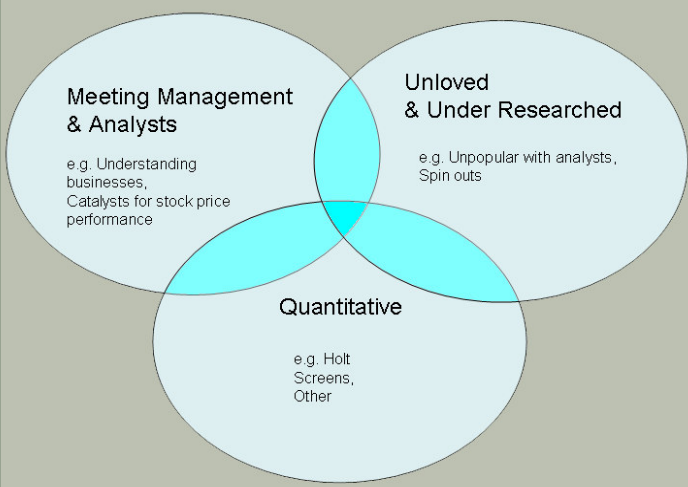
"It would be nice to see more basic material companies. Consumer names – retail, food & apparel also don't come over as much as we would like. One we did see was **Warnaco** - it was unloved, we met management, liked the story, invested and it's done very well for us."

Performance

	Aerion	S&P 500	Diff
2007	3.7	3.7	0.0
2006	3.1	1.6	1.5
2005	18.7	17.3	1.4
2004	4.1	3.4	0.7
2003	15.5	15.7	-0.2
2002	-30.6	-29.6	-1.0
2001	-11.3	-9.6	-1.7
2000	-0.6	-1.9	1.3
1999	21.5	24.9	-3.4
1998	31.1	27.1	4.0
1997 Q4	3.0	1.4	1.6
1997-2007	49.8	45.4	4.4

Sterling returns incl. Income
Blue = Current team
Red = Previous team

Stock screening methodology



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