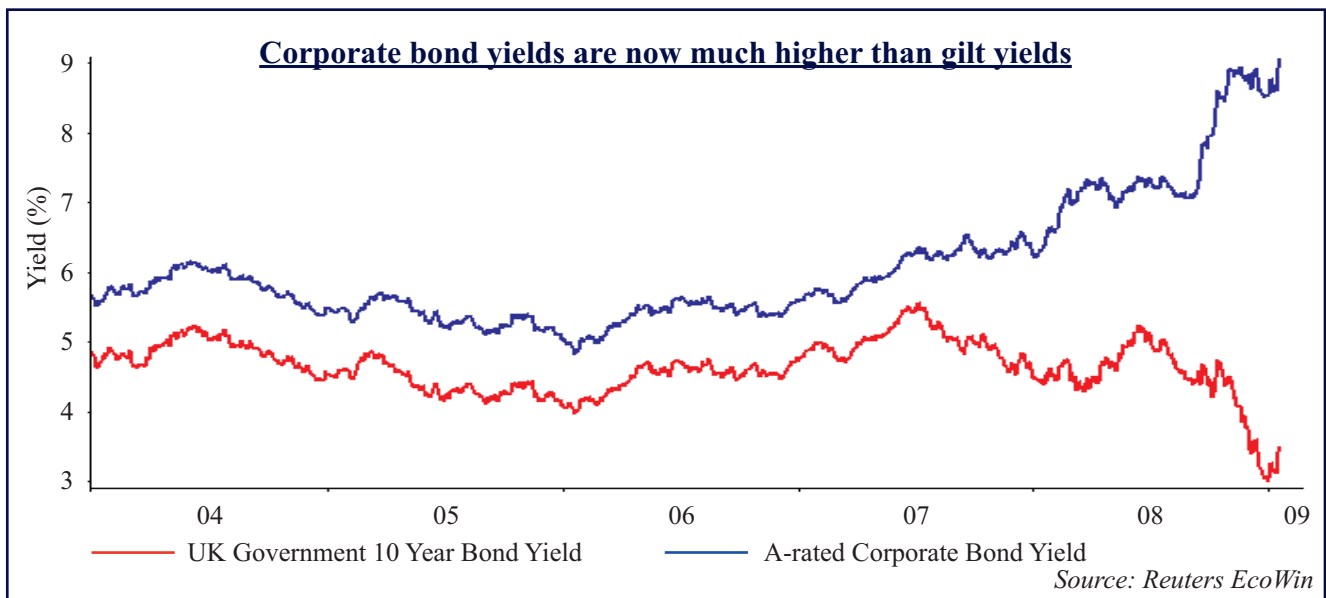


23 January 2009

FOCUSED FINANCIAL ADVICE

FIXED INTEREST: SWITCH FROM CONVENTIONAL GILTS TO HIGHLY-RATED CORPORATE BONDS

Since late 2004, our recommendation has been that clients allocate a proportion of the fixed interest part of their portfolios to UK Treasury stock (conventional gilts) rather than corporate bonds. This recommendation was based on our view that the additional yield, or 'spread', offered on corporate bonds was insufficient to justify the additional risk. Though it took a while to arrive, in 2008 conventional gilts produced strong capital gains, thereby rewarding the patient investor, while corporate bond prices fell. We believe that the time is now right to crystallise gains on these gilts and switch some of the proceeds into high quality corporate bonds. As ever, individual client circumstances will dictate the extent to which this switch is appropriate within portfolios.



Why did conventional gilts perform so much better than corporate bonds in 2008? Gilts benefited from a 'flight to safety' among investors who sought the capital security of government bonds. By contrast, investors sold down corporate bonds due to concerns that banks, financial institutions and other companies might not survive the credit crisis.

What are the prospective risks and rewards of this switch? Though conventional gilts are safe and highly liquid securities issued by the UK government, capital values are now more vulnerable due mainly to (a) the forthcoming increase in gilt supply and (b) the potential return of inflation concerns. Additionally, the yield offered on these gilts is now relatively low. Though individually held corporate bonds are less liquid than gilts and contain some commercial credit risk, funds of carefully selected corporate bonds offer more liquidity and limit the impact of defaults. This is due to the diversification of holdings and diligent credit research by the fund managers (which is why we recommend that corporate bonds are purchased through recognised collective funds rather than individual holdings). While capital values can fluctuate, corporate bonds should produce capital gains over the medium term as global economic growth re-ignites. In the meantime, such funds offer yields of c5-8%, which we believe is a fair reward for the risk taken.

This note is for general guidance only and represents our current understanding of law and HM Revenue and Customs practice as at 23 January 2009. We cannot assume legal liability for any errors or omissions and detailed advice should be taken before entering into any transaction. The value of investments and any income therefrom can go down as well as up and you may not get back the full amount you invested. Levels and bases of, and reliefs from, taxation are those currently applying but are subject to change and their value depends on the individual circumstances of the investor. Saunderson House Limited is authorised and regulated by the Financial Services Authority.