

Market Commentary

June 2010

**Saunderson House Limited
1 Long Lane
London EC1A 9HF**

**020 7315 6500 (Switchboard)
020 7315 6550 (Fax)**

Authorised and Regulated by the Financial Services Authority

SAUNDERSON HOUSE



Contents	Page
1. Economic and Investment Outlook	3
2. Equities	7
2.1. UK Equities	7
2.2. European (excluding UK) Equities	8
2.3. North American Equities	9
2.4. Japanese Equities	10
2.5. Asia Pacific (excluding Japanese) Equities	11
2.6. Emerging Markets Equities	12
3. Fixed Interest	13
4. Property	14
5. Cash	14
6. Note on Hedge Funds	15

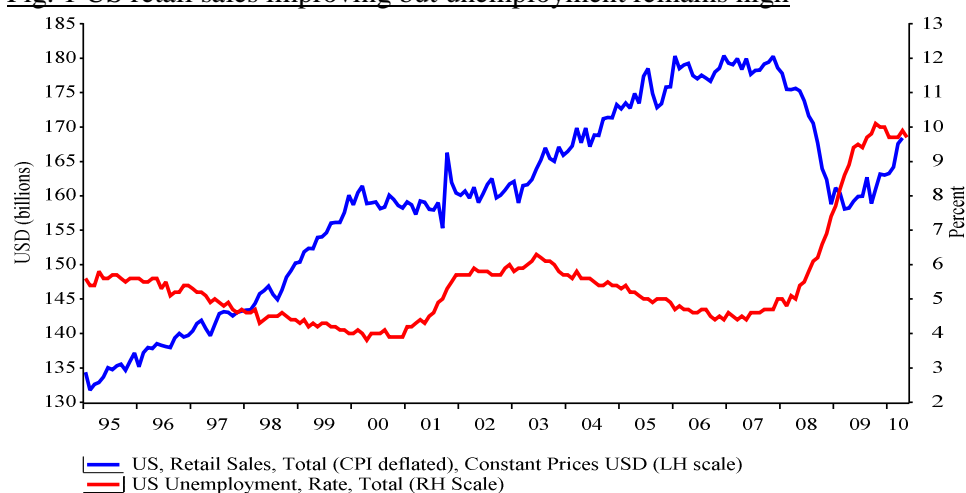
Risk Warnings

This report is for general guidance only and represents our current understanding of law and HM Revenue & Customs practice as at 16 June 2010. 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.

1. Economic and Investment Outlook

Surveys and data releases continue to point to a slow and fairly weak recovery in developed world economies. For example, while US retail sales have improved strongly since their low point in March 2009, they remain well below their 2007 peak (see Fig. 1). The US labour market tells a similar story. May saw unemployment recede from 9.9% to 9.7%, as the US government took on more than 400,000 workers to complete the national census, but the economy created only 41,000 new private sectors jobs – a disappointingly small figure. In parallel with the US experience, here in the UK, the seasonally adjusted value of retail sales for April 2010 were an encouraging 4.8% higher than a year earlier, but unemployment continues to rise, reaching 2.51m in the three months to March, its highest level in 15 years.

Fig. 1 US retail sales improving but unemployment remains high



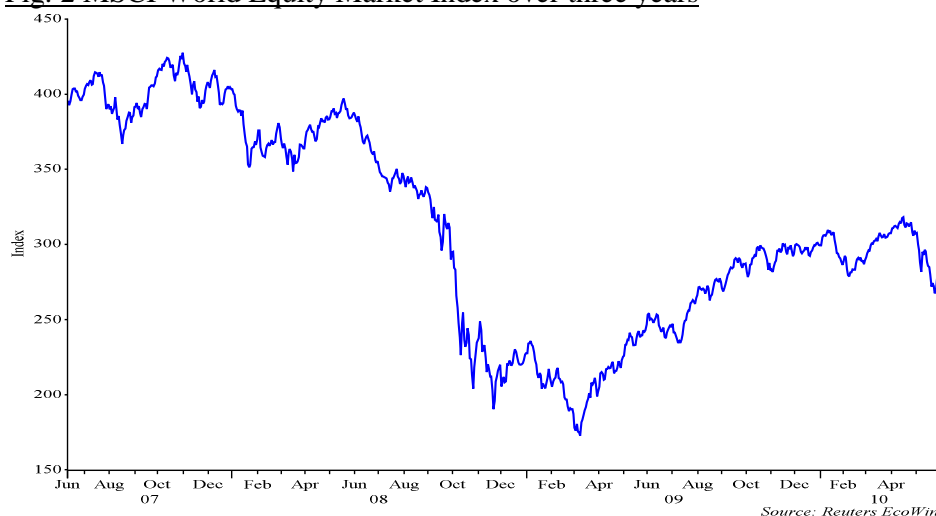
This mixed picture has been further clouded by aftershocks from the financial crisis, which could potentially undermine consumer and business confidence and, thereby, stop the recovery in its tracks. Concerns regarding sovereign debt defaults, centred on Greece, but with the potential to spread to other eurozone members, have caused rapid increases in the bond yields of heavily indebted eurozone members, a significant increase in volatility and a flight to the government bonds of those nations considered most creditworthy.

These developments have meant that central banks and governments that had been discussing the timing and extent of policy support withdrawal have had to reverse their stance. For example, the European Central Bank (ECB) has restarted its unlimited liquidity scheme, having closed it in January. More notable, however, are the ‘shock and awe’ tactics employed by the member states of the EU, in concert with the ECB and the International Monetary Fund (IMF), to quell concerns about Greece and other economies on the eurozone periphery. The announcement of a €860bn loan and ban guarantee facility to support such nations temporarily eased investor concerns. However, such action is very much directed at the symptoms, rather than the root problems, of the most indebted eurozone nations.

In parallel with central banks deferring their plans for monetary tightening, investors have had to redirect the focus of their attention. Having been primarily concerned with the implications for risk assets of the gradual withdrawal of policy support, they must now consider the prospect of sovereign debt default and the implications for the financial system of the bank losses that would ensue.

Understandably, the possibility of sovereign debt default and the potential demise of the eurozone have undermined investor confidence and increased risk aversion. The rally in equity markets since March 2009 has been stopped in its tracks (see Fig. 2).

Fig. 2 MSCI World Equity Market Index over three years



In our view, the key consideration for investors now is the extent to which eurozone dislocation can be contained and managed to an orderly solution by governments and central banks. In this respect, we are optimistic. The aggressive response from the ECB and IMF to the deteriorating situation in Greece, including a material change in policy approach from the ECB, demonstrates that the authorities have learned some key lessons from the financial crisis. Chief among these is the need to be proactive and the need for policy actions to be sufficient in size and scope to be credible in financial markets. As long as the authorities continue to heed these lessons, we believe that longer term solutions, such as a restructuring of Greek debt, can be achieved without triggering another financial crisis.

Underpinning this optimistic stance is the clearly discernable, if lacklustre, recovery discussed above. A degree of growth should allow debt to ease gradually, while a prolonged spell of low interest rates should help support consumers and corporate profitability.

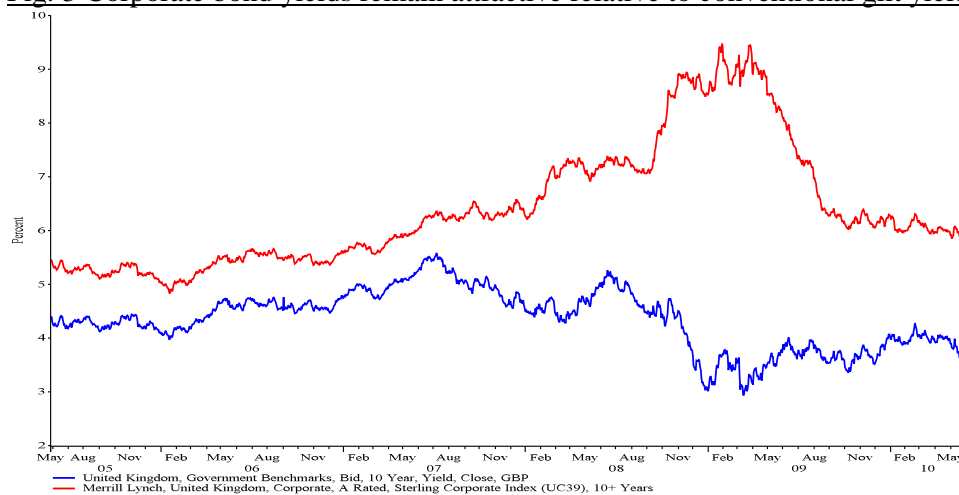
We believe on balance, therefore, that the medium term outlook for risk assets is positive. Unless earnings and dividend growth fall materially short of current expectations, equities, particularly those of high-quality defensive businesses, remain attractive relative to both government bonds and cash deposits.

The MSCI World Equity Market index has provided a total return of +7.67% in sterling terms over the last six months and +26.74% over the last year.

Turning to other major asset classes, government bonds, which were the asset class of choice for investors in late 2008 and early 2009, were largely out of favour until the latest bout of risk aversion when investors have, once again, sought out safe havens. However, in stark contrast to 2008, investors are now differentiating between governments where public finances are relatively secure and those, such as Greece, where restructuring is a distinct possibility. Considering UK government bonds, downward pressure on prices from the high levels of issuance and the possible return of inflation have been largely offset by very low interest rates and concerns that economic growth may disappoint. Weighing these factors, our view is that the UK 10-year benchmark government bond, which yielded 3.67% at the end of May, remains expensive.

In a mirror image of government bonds, corporate bond prices were driven to exceptionally low levels in early 2009, owing both to forced selling by leveraged investors caught out by the ferocity of the financial crisis and concerns about falling corporate earnings. The increase in yields on corporate bonds was even more pronounced when compared to the strength in government bonds (see Fig. 3), as investor enthusiasm for the defensive attributes of government bonds forced prices higher and yields lower. This situation began to correct in the first quarter of 2009 in response to policy initiatives, since when corporate bond prices have made a rapid recovery and yields have fallen once more. In our view, however, the yields available remain attractive, both in absolute terms and relative to government bonds and cash on deposit.

Fig. 3 Corporate bond yields remain attractive relative to conventional gilt yields



Considering commercial property, a five-year bull market came to an end in mid-2007 when prices eventually began to weaken under the pressure of credit market dislocation. Property values continued to decline until mid-2009, as tighter credit market conditions removed an important source of funding for commercial property buyers and the deteriorating economy undermined tenant demand. While commercial property values have now begun to recover, rents may still have further to fall. However, with the asset class yielding close to 6.6%, we believe it is now attractive, both in absolute terms and relative to other assets. We have therefore been recommending additional allocations.

The following sections consider our monitored asset classes, including hedge funds and cash, in more detail.

2. Equities

2.1. UK Equities

The question of who would be tasked with overseeing the restoration of fiscal credibility in the UK has now been answered. Nonetheless, the uncertainty that arose with the UK's first hung parliament in more than 35 years has contributed to the weakening of the pound, particularly against the dollar and yen. Having recently advised a reduction in UK equity allocations in favour of US, Asian and emerging markets, sterling's renewed weakness has been of some benefit to client portfolios.

The precise implications of a Conservative-Liberal Democrat coalition, in terms of the economic recovery and budget deficit reduction remain to be seen. However, June's emergency Budget should provide some clarity as to the speed and severity of the necessary fiscal retrenchment. Cuts in government spending and increased taxes would weigh on the contributions to economic growth from both the public and private sectors. There are, however, some encouraging signs from the export sector as the more competitively valued pound has, with a noticeable time lag, boosted demand for the UK's produce. However, we do not anticipate that export-led growth will take up the slack from the shrinking public sector and lacklustre domestic consumption. That the UK's largest trading partner, Continental Europe, is currently battling a eurozone sovereign debt crisis, causing the euro to weaken against the pound, is unlikely to help in this respect.

In consequence, we are not optimistic that the UK economy can return to trend growth in 2011. Indeed, with the second reading of first quarter GDP growth for 2010 coming in at just 0.3%, the recovery thus far seems very much sub-par. This view is supported by Bank of England governor Mervyn King, who has emphasised that interest rates are likely to remain low for the next three years.

However, the subdued outlook for the UK economy need not necessarily be translated into a pessimistic view of the UK stock market. According to Morgan Stanley, c70% of the revenues from FTSE 100 companies are derived from abroad. This means that a portfolio of UK-listed equities can benefit substantially from the better growth dynamics of many overseas economies as well as translation benefits from a weaker domestic currency. Following the recent market weakness, equity valuations now appear quite attractive, while the high dividend yield on the UK stock market, relative to yields on cash, gilts and the highest rated corporate bonds, is appealing. We remain broadly positive, therefore, on the outlook for UK equities and recommend that current allocations are maintained.

The FTSE All-Share index has provided a total return of +2.68% over the last six months and +22.94% over the last year.

2.2. European (excluding UK) Equities

European equity markets have been unnerved by mounting concerns over the potential for sovereign debt default in Greece, and the possibility of contagion to other troubled eurozone economies. However, the provision of €110bn of loans to the country's government by the IMF and other heavily indebted eurozone governments, together with €750bn in loans and guarantees to Greece and other fiscally troubled eurozone countries from the ECB, appears to have, for now, eased the risk of financial market crisis in the region.

Together with the loan package, equivalent to c24% of the combined GDP of Portugal, Italy, Ireland, Greece and Spain, the ECB also announced its intention to purchase these nations' government bonds. This policy's aims are twofold. Firstly, it should ensure sufficient liquidity for the commercial banks holding the debt of the weaker peripheral member nations. Secondly, to drive down the debt funding costs of these nations.

In return for the rescue package, painful fiscal adjustment and structural reforms are required. We are therefore likely to see a prolonged period of economic weakness in the embattled peripheral countries. The eurozone economy as a whole managed growth of only 0.2% in the first quarter of 2010, though it is notable that Spain finally emerged from recession after nearly two years of contraction.

Eurozone retail sales fell 1.2% in April following zero growth in the previous month. This suggests that aggressive fiscal tightening measures and concerns over job security will continue to bear down on consumer confidence and it may be some time before consumers play a full part in an economic recovery. With weak domestic spending, the prospects for growth in the eurozone are likely to be heavily dependent on a renewed pickup in exports, and particularly German manufacturing. Recent data here has been relatively promising. German industrial production rose 0.9% in April following an unexpectedly strong 4.0% in March, while factory orders rose 2.8% in April after a 5.1% rise in March. Furthermore, the recent weakness of the euro should increase the competitiveness of, and thereby the demand for, the eurozone's exports in overseas markets.

Having advised a reduction in weightings to European equities at the end of 2007, we recommend that remaining allocations are maintained, where appropriate.

The FTSE Europe (ex UK) index provided, in euro terms, a total return of +2.01% over the last six months and +18.91% over the last year. The weakness of the euro since mid-October means that, in sterling-adjusted terms, the returns are -5.83% over the last six months and +14.40% over the year.

2.3. North American Equities

The recovery in the US appears to be gathering pace. The economy has recorded growth in each of the last three quarters, including an annualised expansion of 3.0% in the first quarter of 2010. At its March meeting, the Federal Reserve highlighted improving business spending and the stabilising labour market as reasons for upgrading its outlook for the economy. Similarly, in a recent speech, Larry Summers, senior economic advisor to the US President, expressed the view that the US economy is near to ‘escape velocity’- the point at which recovery becomes self-sustaining.

The US consumer is certainly becoming more optimistic, as evidenced by the closely watched Michigan consumer sentiment index, which rose to its highest level in more than two years this month. This optimism is showing through in retail sales, which, as noted earlier, are 6.9% higher over the last year. This demonstrates that, while households continue to face significant headwinds, including a lack of wage growth and the need to reduce personal debt, the Fed’s commitment to maintaining exceptionally low interest rates for “an extended period” is providing some support to consumption. The improved availability of inexpensive credit has also supported the corporate sector. Earnings reports for the first quarter largely exceeded expectations, causing analysts to upgrade their forecasts for the remainder of 2010.

One risk to the US recovery is that posed by contamination from the eurozone’s government debt issues. Should the risk of default be adjudged sufficient to compromise the creditworthiness of the banks holding the debt, interbank liquidity may once again become scarce. In this scenario, a second credit crisis could unfold. However, we believe this risk to be relatively remote; banks are now better capitalised than in 2008 and, as evidenced by the recent actions of the ECB and IMF, policy response is likely to be swift and aggressive.

Supportive monetary and fiscal conditions, together with the economic improvement, had, until recently, underpinned a sustained rally in US equity prices from their mid-crisis lows. This rally was brought to a halt by the wave of risk aversion that accompanied the escalation of Greece’s debt woes. If the sovereign debt crisis eases as we expect, the US equity market should be well placed to make progress. We have therefore been recommending allocations to US equities are selectively increased, where appropriate.

The S&P 500 index provided, in US dollar terms, a total return of +0.40% over the last six months and +20.99% over the last year. The strength of the dollar since the start of the year means that, when translated into sterling, the returns are +13.41% over the last six months and +34.28% over the year.

2.4. Japanese Equities

Despite recent signs of improvement, concerns remain about the vitality of Japan's economy. Data for the first quarter of 2010 showed growth came almost entirely from exports with the domestic economy remaining moribund. Primary among the issues facing Japan is a very unhelpful demographic profile. The population is aging and, as a result of minimal immigration and low fertility, shrinking. Consequently, a growing proportion of the tax burden is falling on a declining number of taxpayers. Moreover, as individuals save in order to fund retirement, the domestic sales base of the corporate sector is being eroded. Real wages have been trending lower since 1997, thus deflationary expectations appear ingrained and, thereby, self-fulfilling.

In his first Parliamentary address since being elected Prime Minister, Naoto Kan spoke optimistically about returning the country to growth; his ambitions centre on generating sustainable economic growth of more than 2% a year by 2020. However, his main priority will be to address the country's huge public debt, amounting to c200% of forecast 2010 GDP. This has resulted from nearly two decades of fiscal spending programmes aimed at boosting the economy.

While we acknowledge the severity of Japan's structural economic issues, we believe the corporate outlook is brighter. Aggressive cost cutting measures have been undertaken and Japan's companies, and therefore its equity market, should now be well placed to benefit from the global recovery. Indeed, the recent reporting season has proved largely positive for corporate earnings. However, the yen's strength since the onset of the credit crisis continues to disadvantage Japan's all-important export sector. In his previous role as finance minister, Kan was vocal in his support for a weaker yen; however, foreign exchange markets have continued to prize the 'safe haven' status of the yen, thereby supporting the currency. A sustained improvement in risk appetite, perhaps in response to evidence that global economic growth can be maintained after policy support is removed, might be accompanied by a weakening yen – a development that would be welcomed by Japan's export sector.

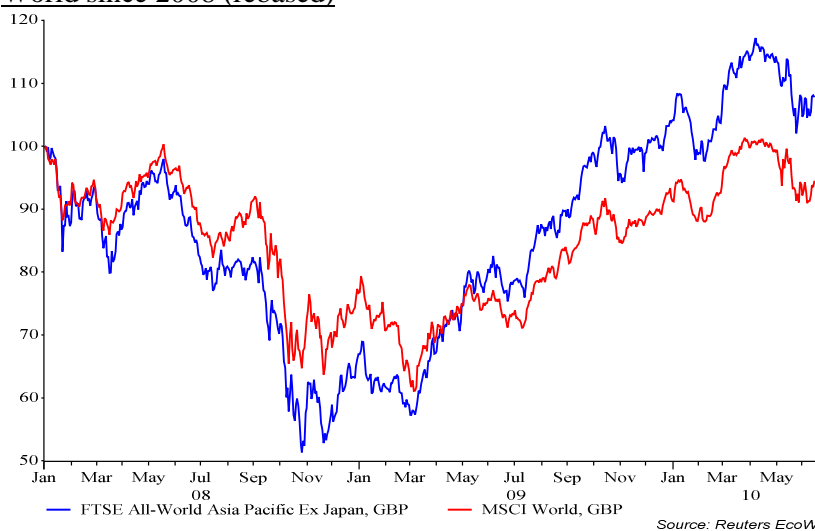
As a result of the significant structural issues facing Japan, the equity market has been a long-term laggard among the developed markets. However, Japanese equities now appear inexpensive on a range of measures, both in historical terms and relative to other markets. We believe that the normalisation of global monetary policy may offer opportunities in due course, but we are not for the present recommending increased allocations.

The FTSE Japan index provided, in yen terms, a total return of +5.74% over the last six months and -0.48% over the last year. Yen strength means that, in sterling-adjusted terms, the returns are +13.02% over the last six months and +15.81% over the year.

2.5. Asia Pacific (excluding Japanese) Equities

Boosted by government stimuli, robust domestic demand and the strong recovery in international trade, Asia's economies have enjoyed rapid growth in recent months. Singapore, for example, expanded at a record annualised rate of 32.1% in the first three months of the year. However, rapid growth brings with it the threat of higher inflation and thus the need for tighter monetary policy. Concerns about the future path of monetary policy came to the fore at the start of the year, causing a mild correction in Asian equity markets (see Fig. 4). That the correction was not more severe suggests that the region's markets are well underpinned by fundamentals and not simply dependent on low interest rates globally.

Fig. 4 FTSE All-World Asia Pacific ex Japan compared to MSCI World since 2008 (rebased)



Inflationary pressures are beginning to feed through from higher commodity and rising unit labour costs. Industrial production, meanwhile, looks to be slowing. The timing of monetary policy tightening will therefore be key as authorities aim to tackle the inflationary threat while maintaining strong economic growth. However, with far more helpful demographics, more soundly financed public sectors and lower consumer indebtedness, economic growth is likely to remain comfortably ahead of that in developed economies.

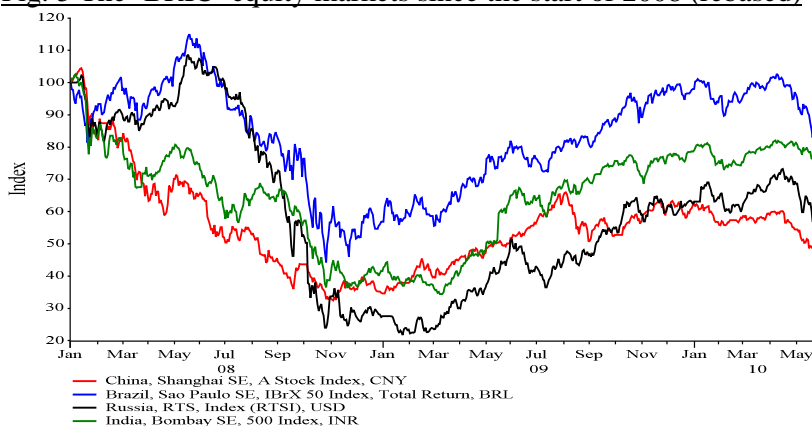
Turning to the region's equity markets, on measures such as price to book value, valuations are in line with their long-term averages. In the context of the attractive growth prospects, such valuations appear undemanding. We have recently therefore been recommending increased allocations to Asia Pacific, where appropriate.

The FTSE All-World Asia Pacific ex Japan index provided, in local currency terms, a total return of -1.05% over the last six months and +18.95% over the last year. When translated into sterling, the returns are +8.98% over the last six months and +35.64% over the year.

2.6. Emerging Markets Equities

After the steep losses recorded in 2008, emerging equity markets* enjoyed a strong 2009 (see Fig. 5). Funded by low interest rates and attracted by the rapid pace of growth to which the emerging economies have largely returned, investors directed record sums towards emerging markets equity funds over the course of 2009.

Fig. 5 The 'BRIC' equity markets since the start of 2008 (rebased)



Source: Reuters EcoWin

Investors have since had cause to re-assess their risk appetite. In a bid to calm concerns of the economy 'overheating', China has ordered the nation's banks to increase reserve requirements and curb lending. India has imposed higher capital requirements on its banks and, in addition, raised interest rates. Interest rates are also rising in Brazil. As a result, investors in China, India and Brazil have been forced to consider the potential for growth – and investment returns – in less accommodative monetary conditions. In contrast, interest rates are being cut in Russia (and in some other emerging European economies). While this can be considered expansionary, it reflects subdued economic growth, and, therefore, raises its own issues for corporate profits growth and therefore equity market returns.

While the emerging economies face some internal challenges, recent weakness in their equity markets is also a response to the debt issues within the eurozone. However, these should have little direct impact on the majority of emerging market economies. As a result, equity market valuations have fallen to levels that more accurately reflect the growth potential of the emerging markets. We have therefore been recommending increased allocations to the region, where appropriate.

The FTSE All-World Emerging index provided, in local currency terms, a total return of -1.99% over the last six months and +23.99% over the last year. In sterling-adjusted terms, the returns are +10.70% over the last six months and +37.61% over the year.

* MSCI includes 21 countries in its emerging markets index: Brazil, Chile, China, Columbia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey.

3. Fixed Interest

Despite recent political uncertainty and a forecast budget deficit that, at 12% of GDP, exceeds the 9.3% deficit expected for Greece in 2010, UK gilts have performed well since late February. Unlike Greece's sovereign debt, which stands at 125% of GDP, the UK's debt equates to a more manageable 79% of annual output. Furthermore, the UK is less reliant on overseas buyers of its debt, with just 30% of government debt in foreign hands compared to 70% for Greece. Finally, the average maturity of outstanding UK debt is 13.5 years, significantly above Greece's 7.9 years. As a result, there is less concern about the UK's immediate ability to refinance maturing debt.

Nonetheless, conventional gilts look expensive, even as 'insurance' against economic shocks, and we continue to recommend zero allocations. Given the high level of issuance expected over the next few years and the vulnerability of conventional gilts to rising inflation, we believe yields must rise to offer appropriate compensation for these risks. We consider inflation a meaningful medium term risk, as a result of central banks reducing base rates to record low levels and adopting unconventional monetary policies to boost money supply. The impact on conventional government bonds of higher inflation would be an increase in yields and a corresponding fall in prices. With inflation a medium term risk, we retain our positive stance on inflation-linked bonds. These have their capital and coupon values linked to a measure of inflation (such as the retail prices index in the UK). As a consequence, they can broadly preserve their purchasing power in an inflationary environment. Although real yields, particularly on UK index-linked gilts, look low in absolute terms, we see such bonds as useful insurance against the risk of inflation.

We also continue to favour funds of corporate bonds, despite excellent returns over 2009 and 2010 to date. Gross redemption yields on these funds in the region of 4-7% p.a. look attractive relative to gilts and cash, while their volatility is much lower than that of equities. However, we do not expect a repeat of the substantial capital gains seen over the past year to continue. Corporate bonds are probably now close to fair value and could be impacted by rising gilt yields. Mindful of this, we have latterly been recommending that allocations are invested in bond funds with more strategic mandates. The managers of these funds can hedge out interest rate risk and also allocate to those segments of the asset class offering the best prospects. Such funds are also our preferred route for obtaining exposure to non-investment grade corporate debt, which is less sensitive to interest rates but carries greater default. Some strategic bond funds also have the flexibility to invest in emerging markets bonds. At present, many emerging economies are far less indebted than those in the developed world, but still offer higher yields and therefore potentially attractive opportunities for bond fund managers.

The ABI UK Pension Gilt sector provided a total return of +0.86% over the last six months and +7.02% over the last year. The ABI UK Pension Index-Linked Gilt sector provided a total return of +0.16% over the last six months and +9.19% over the last year. The ABI Pension Sterling Corporate Bond sector provided a total return of +4.11% and +24.33% over the same periods.

4. Property

The UK commercial property market reached its low point in the summer of 2009, approximately three months later than equity and corporate bond markets. The initial property rally was muted, with investors still cautious on the asset class due in part to its dependence on a weak domestic economy and concern that there would be a wave of sales from banks as a result of leveraged property investors either defaulting or being unable to refinance loans.

Attractive yields relative to cash and gilts and, where available, low borrowing rates, have overcome investors' concerns and UK commercial property consequently performed strongly through the second half of 2009 and first quarter of 2010. The vast majority of recent purchases have been made by UK institutional and overseas investors, with the latter attracted in part by the weak pound. Supply, meanwhile, has been tight, with a limited number of prime properties (modern buildings in good locations and on long leases to financially sound tenants) coming to market. As a result, initial yields on the IPD index have been pushed down from nearly 8% at the market's low point to 6.6% as at the end of April. Lagging the investment market is the occupier market, though this is now showing signs of stabilising. Though rental values are still falling, the rate of decline has slowed in most areas. One exception is City of London offices, where competition for limited grade-A space is resulting in rental growth. This improvement in the rental market is supported by a general fall in vacancy rates from their peak in October 2009.

Given this stabilisation in commercial property market fundamentals, we are optimistic that the asset class can deliver attractive returns relative to cash and gilts. Prime assets, in our view, are to be preferred, despite lower yields. This is where institutional demand is focused and banks are becoming more willing to lend against such properties. Secondary quality assets, which are not as well supported by fundamentals or investor demand, have rallied less than prime property. However, they can still be acquired on double digit-yields and, selectively, offer attractive investment opportunities.

The ABI UK Pension Direct Property index provided a total return of +9.63% over the last six months and +18.59% over the last year.

5. Cash

Sterling deposits and monies held in AAA-rated liquidity funds presently earn returns broadly in line with the BoE Bank Rate of 0.50% p.a. Despite low rates, cash still has attractions, particularly where attractive rates from government-backed or good quality institutions can be secured. Cash, whether on instant access deposit or placed in a liquidity fund, also brings flexibility to portfolios, enabling investors to take advantage of opportunities in other asset classes as and when they arise. Cash invested at the BoE Bank Rate would have provided a return of +0.25% over the last six months and +0.50% over the last year.

6. Note on Hedge Funds

Our view that hedge funds are riskier than generally perceived gained wider acceptance during the financial crisis. While we continue to research the sector, the transparency of many hedge funds' investment processes is not sufficient for us to be comfortable recommending their inclusion in portfolios. Liquidity, valuation of assets and the level of charges are all areas where we believe investors deserve, and should demand, more clarity.

Almost one in ten hedge funds closed in 2008, according to Chicago-based research group Hedge Fund Research. Despite a partial economic and financial recovery, 240 hedge funds were liquidated in the first quarter of 2010, marking the seventh straight quarter in which closures exceeded new fund launches. We note with interest that the managers of several of the funds which closed in 2008 and 2009 have opened new operations. We believe that many may have done so in order to reset the 'high water marks' above which performance fees can be levied, having fallen some way below them while managing their previous funds. Investor expectations of positive, uncorrelated returns from hedge funds have clearly been disappointed and, in our view, the industry's ability to justify high charges and performance fees remains questionable.

Hedge Fund Research reported the average hedge fund lost 2.3% in May, with every single strategy losing money. The sector was also unnerved by German chancellor Angela Merkel's call for a total European ban on naked short-selling of government bonds and ongoing uncertainty regarding the EU's controversial directive for further regulation of hedge funds.

Nevertheless, the hedge fund industry has emerged from the financial crisis in a very different shape. There are now fewer funds, generally employing lower leverage, charging, on average, lower fees and offering better reporting, transparency and liquidity. These, in our view, are all welcome developments.

For completeness, we include the HFRX Global Hedge Fund index figures for hedge fund performance below. We are, as might be expected, somewhat sceptical about the validity of these figures. In our view, the index will almost certainly overstate returns. This is because the submission of data to the index compilers is voluntary and it is unlikely that failed or poorly performing funds will submit numbers for inclusion. The effect will be that the index figures overstate the true performance that might be expected from a range of hedge fund investments, perhaps by as much as several percentage points.

The HFRX Global Hedge Fund GBP index provided a total return in sterling terms of +0.25% over the last six months and +7.28% over the last year.

The above commentaries reflect our views as at 16 June 2010. Any material changes in economic and market conditions between then and the time of writing your report will be reflected in our recommendations.

Unless otherwise noted, all performance figures are total returns (including income re-invested) for the six month period from 30 November 2009 to 31 May 2010 and the twelve month period from 29 May 2009 to 31 May 2010 (source: Lipper Hindsight).