

# **Market Commentary**

**September 2010**

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### Risk Warnings

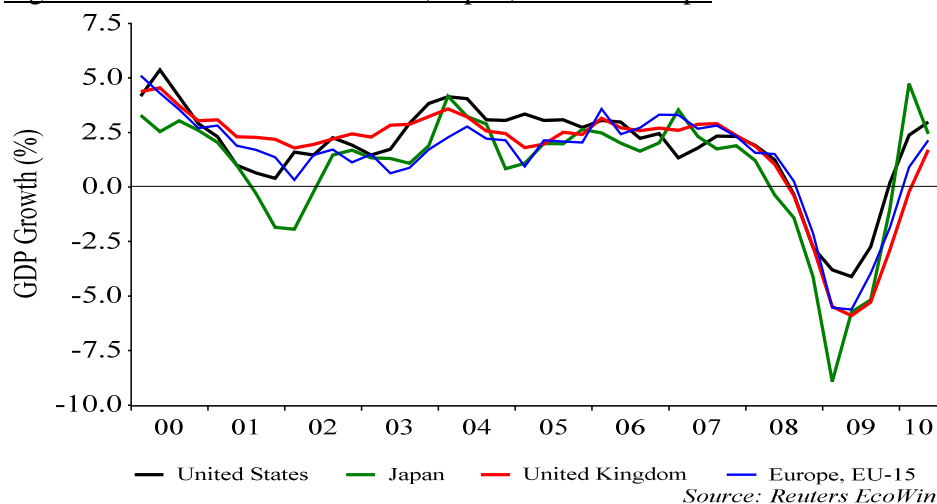
This report is for general guidance only and represents our current understanding of law and HM Revenue & Customs practice as at 13 September 2010. We cannot assume legal liability for any errors or omissions and detailed advice should be taken before entering into any transaction. The value of investments 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 indicate that the pace of the global economic recovery is easing. In recent weeks for example, both housing and jobs data in the US have been disappointing. Unemployment in the US remains stubborn, having receded by just 0.5% from its peak of 10% a year ago. Poor job prospects and weak wage growth continue to weigh on consumers' willingness to spend, as does reduced access to credit finance.

While sentiment has been impacted by renewed concern about growth due to both the European debt crisis and mixed US macro data, it has been our view for some time that the pace of the economic recovery was always likely to moderate. Reasons for this include the inevitable fading of the effects of both the inventory rebuilding phase of the recovery and the government administered fiscal stimuli. Fig. 1 shows that the initial recovery has been robust. We now expect growth rates to level out as the imperative for consumers and governments to address their debt levels reasserts itself.

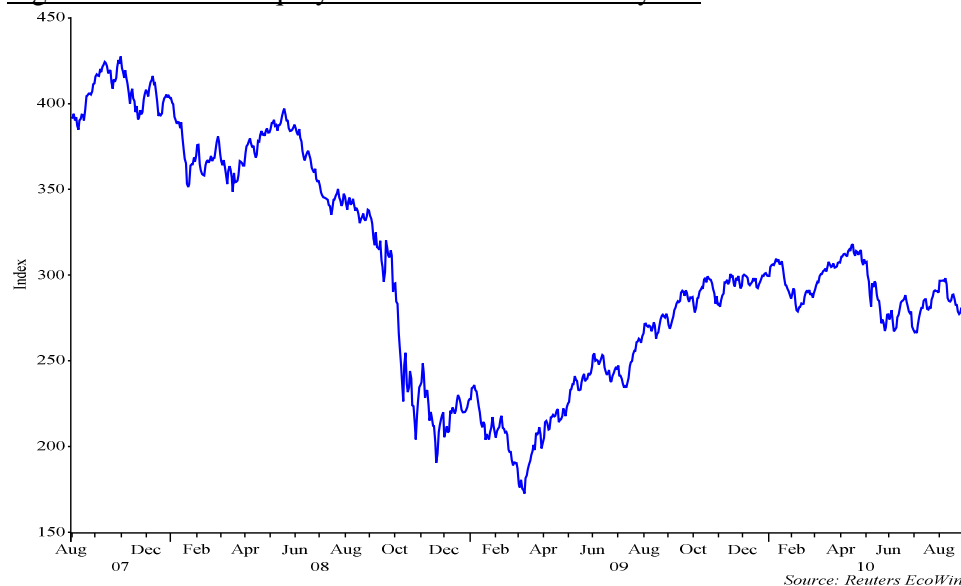
**Fig. 1 Economic Growth in the US, Japan, UK and Europe**



While we expect economic growth to moderate, we remain optimistic that we will not see a 'double-dip' in global growth or a prolonged period of deflation. Our reasons are twofold. Firstly, while conventional policy levers in developed economies do not leave much scope for further action, central banks stand ready to administer further stimulus measures if needed. Although the Federal Reserve's recent decision to reinvest the proceeds of its maturing holdings of agency debt and agency mortgage-backed securities into longer-term Treasuries does not strictly constitute quantitative easing, it shows their willingness to dispense further monetary "medicine" as and when necessary. Secondly, economic growth remains strong in emerging economies. As the threat of inflation in emerging nations wanes, as is likely in the face of weaker developed markets growth, emerging markets policymakers should have the freedom to allow growth to accelerate once more. This is likely to provide a degree of support for growth in developed economies.

Considering investment markets, indicators of renewed economic weakness, which could possibly lead to a double dip in growth, have understandably shaken investor confidence and increased risk aversion. As a result, government bond yields have fallen sharply. Equity markets have remained range-bound (see Fig. 2).

Fig. 2 MSCI World Equity Market Index over three years



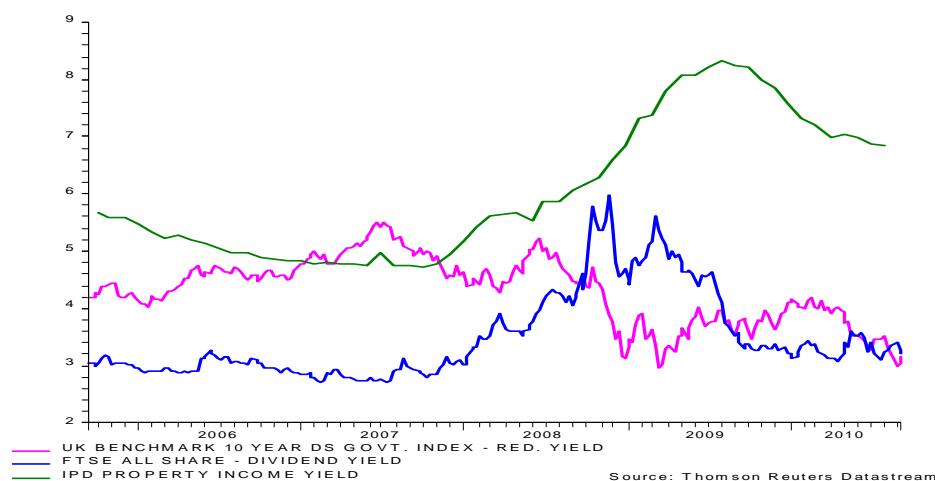
Despite the lack of progress in equity markets this year, we remain positive on equities for the medium term. In developed economies, equities continue to trade on attractive valuations, both in absolute terms and in relation to other asset classes, most notably government bonds and cash. This means that, unless earnings and dividend growth falls materially short of expectations, equities, most notably those of high-quality cash generative businesses, remain well supported.

Should economic growth threaten to disappoint meaningfully, thereby raising the spectre of further falls in earnings and dividends, we expect further non-conventional monetary policy, in the form of quantitative easing, from central banks. This would have the effect of raising liquidity and bearing down on financing costs, thereby supporting asset prices. In such circumstances, financial assets such as equities should be favoured over nominal ones, such as government bonds and cash deposits.

The MSCI World Equity Market index has provided a total return of -4.09% in sterling terms over the last six months and +8.24% over the last year.

Turning to other major asset classes, government bonds, which were the asset class of choice for investors throughout the financial crisis, were largely out of favour for much of 2009. Since then, concerns regarding sovereign debt burdens and weakening economic growth have prompted some investors to reallocate portfolios towards defensive assets once more. This has more than offset the downward pressure on government bond prices from the high levels of issuance and the possible return of inflation. However, with the UK benchmark 10-year issue yielding just 2.83%, our view remains that conventional gilts are still unattractive when compared to both UK equities and commercial property (see Fig. 3).

Fig. 3 Conventional gilt yields remain unattractive relative to other assets



Considering non-sovereign debt issues, corporate bond prices were exceptionally weak through the financial crisis, owing both to forced selling by leveraged investors caught out by the ferocity of the 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, as investor enthusiasm for the defensive attributes of government bonds forced yields lower. This situation began to correct in the first quarter of 2009 and, since then, corporate bond prices have made a rapid recovery. In our view, corporate bonds remain attractive, both in absolute terms and relative to government bonds and cash.

With regard to commercial property, a five-year bull market ended 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. Commercial property values have now begun to recover and, with the asset class yielding around 6.5%, we believe it is now attractive, both in absolute terms and relative to other assets. We have therefore been recommending additional allocations where appropriate.

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

## 2. Equities

### 2.1. UK Equities

The UK economy grew by 1.2% in the second quarter of 2010 – its fastest rate for more than four years and twice economists' consensus forecast. While encouraging, we are doubtful that growth can continue at this pace in the second half of the year. The new government's austerity Budget in June introduced tax increases and sharp cuts in public sector spending that together aim to eliminate the UK's structural budget deficit over the life of this parliament. Although back-end loaded, we expect higher taxes and public sector job cuts to weigh on consumers' ability to spend and lead to higher unemployment, unless the private sector takes up the slack. We are not convinced of the corporate sector's willingness or ability to do so. A recent purchasing managers' survey, showing a slowdown in the rate of growth in the service sector, provides some evidence to support this view. Meanwhile, availability of credit to some businesses remains constrained. A recent report from the Bank of England showed that lending to non-financial companies has fallen for 11 consecutive months.

That said, our view is that the probability of a double-dip recession in the UK is low. We are encouraged by the Bank of England's stated intent to keep interest rates lower for longer and its ability to restart quantitative easing if necessary. Loose monetary policy should help support growth in the household and corporate sectors, as the government's contribution to GDP shrinks, and allow trade to make a positive contribution to growth by ensuring that sterling stays weak.

Turning to the stock market, we believe that UK equities look attractive on a number of measures. During the economic downturn, many UK corporates aggressively cut costs and raised fresh capital to strengthen their balance sheets. This has left them in fundamentally sound shape and with scope to expand profit margins. As a result, any increase in revenues should translate into significantly higher profits. This has been borne out by the strong second quarter earnings season, with many companies' profits beating expectations.

Despite this, valuations of UK companies remain relatively low. The UK stock market now offers a high dividend yield relative to yields available on cash, gilts and the highest rated corporate bonds. Historically, this has been a good indicator of future returns, though we are mindful that investor sentiment is a strong driver of the market in the short term. Given the value case for UK equities and our belief that the risk of a double-dip recession is small, our recommendation is that current allocations are maintained.

The FTSE All-Share index has provided a total return of +0.42% over the last six months and +10.57% over the last year.

## 2.2. European (excluding UK) Equities

Given the concerns during the past year about possible sovereign debt default in Greece and the potential for contagion to other troubled eurozone countries, it is perhaps surprising that recent economic data in the region has been encouraging. Service sector and manufacturing activity surveys have been positive, while the eurozone economy as a whole managed growth of 1.0% in the second quarter of 2010. However, such positive data has largely been due to the export-led German economy. German GDP rose by 2.2% in the second quarter, almost 1% above consensus and at its fastest pace since the country's reunification two decades ago. By contrast, Spain and Portugal expanded by just 0.2% and Greece experienced a 1.5% contraction.

Earlier in the year, heavily indebted peripheral eurozone countries, most notably Greece, looked in danger of defaulting on their sovereign debts. The joint provision by EU member states and the IMF of €110bn of loans to the Greek government, together with an ECB facility for €750bn in loans and guarantees for fiscally troubled eurozone countries, appears to have eased concerns of financial market crisis in the region for the present. However, in return for the rescue package, painful fiscal adjustment and structural reforms have been imposed which are likely to result in a prolonged period of lacklustre economic growth in the embattled peripheral countries.

Despite the concerns over the southern European economies, the core eurozone region contains many companies that generate a significant proportion of their revenues in the US, Asia and emerging markets and should therefore be relatively immune from continued weakness in the peripheral eurozone economies. German companies, for instance, have spent much of the past two decades establishing a strong foothold in emerging Asian and Latin American economies. Meanwhile, the weaker euro will have increased the competitiveness of, and thereby the demand for, the country's exports. Moreover, valuations remain undemanding relative to history and to other asset classes.

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

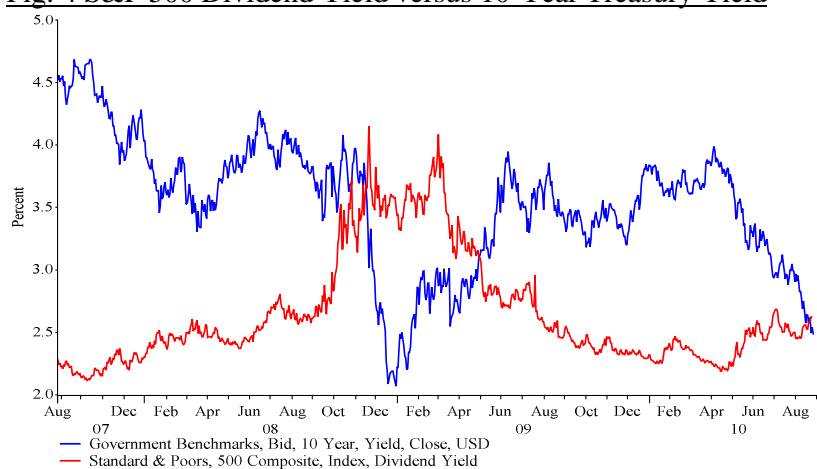
The FTSE Europe (ex UK) index provided, in euro terms, a total return of +3.27% over the last six months and +6.21% over the last year. The weakness of the euro since October 2009 means that, in sterling-adjusted terms, returns are -4.73% over the last six months and -0.25% over the year.

### 2.3. North American Equities

Recent economic data releases in the US have mostly disappointed, raising concerns that the world's largest economy may lapse back into recession. Though the economy has recorded growth in each of the last four quarters, including an annualised expansion of 1.6% in the second quarter of 2010, the rate of growth has been declining as the effect of the government's fiscal stimulus packages have faded. This was acknowledged at the Federal Reserve's (Fed's) August meeting, at which officials agreed to begin reinvesting proceeds from expiring mortgage-backed securities into Treasury bonds, signalling that the bias of monetary policy has shifted from tightening towards easing. One may therefore continue to expect exceptionally low levels of interest rates for an extended period.

Despite slowing growth, company news flow has been encouraging. According to Thomson Reuters, S&P 500 earnings growth was 38.2% in the second quarter (annualised) and 75% of companies beat analysts' forecasts. However, with significant cost cutting already undertaken and margins fully recovered, a pick-up in demand may be needed for strong earnings growth to be maintained. While this seems unlikely, even if the rate of growth plateaus, the US equity market looks attractively valued both on current and forward estimates. Further, the S&P 500 relative to the 10-year Treasury yield indicates equities are, with the brief exception of the 2009 market lows, at their most attractive for several years (see chart below).

**Fig. 4 S&P 500 Dividend Yield versus 10-Year Treasury Yield**



On this basis, we believe the US equity market is well placed to make progress. We have 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 -4.04% over the last six months and +4.91% over the last year. In sterling terms, the returns are -4.94% over the last six months and +11.25% over the year.

## 2.4. Japanese Equities

Japanese macroeconomic indicators turned lower in August as persistent yen strength continued to impact on corporate profitability and business sentiment. Japan was officially overtaken by China as the world's second largest economy, after statistics revealed the economy grew at a weaker-than-expected annualised rate of 0.4% in Q2 2010. Private consumption remained weak as the consumer confidence index continued to decline from June 2010, retreating slightly to 42.4 in August (a number below 50 indicates pessimists outnumber optimists). Retail sales trends also corroborated this, as data showed consumers did more of their daily shopping at cheap convenience stores as opposed to pricier department stores.

The political situation remains unhelpful, as veteran powerbroker Ichiro Ozawa issued a leadership challenge to Prime Minister Naoto Kan, who himself only assumed power in June this year, following the resignation of his predecessor. Ozawa has indicated that he would pressurise the central bank to implement quantitative easing through purchases of Japanese Government Bonds, if elected to office. He is also an advocate of increased fiscal stimulus, in contrast with Kan's pledge to cut the growing government debt, which is projected to reach c200% of GDP in 2010. Lawmakers of the ruling DPJ party will vote in the leadership contest on 14 September.

Yen strength remains a key challenge for Japan's manufacturing industry. A survey of the country's largest manufacturers revealed that managers had budgeted for an average USD/JPY rate of 90.18 for the calendar year. If the Japanese yen holds at current market levels, below 85 yen to the dollar, profit warnings are likely to become a feature in the coming months. While we acknowledge the severity of Japan's structural challenges, we also note that the larger listed companies have proven themselves highly adaptable. Following decades of aggressive cost cutting, and a gradual shift in corporate structure, we think that Japanese companies are well placed to benefit from a global recovery. Renewed concern over the European financial markets has kept speculative demand for the yen high in recent weeks, but we believe that a sustained improvement in risk appetite over the longer term, or quantitative easing by the Bank of Japan, will precipitate a weaker yen and help lift the exporters.

Japanese equities have been a long-term laggard among the developed markets and are now inexpensive on a fundamental basis (in historical terms and relative to other markets). We believe the normalisation of global monetary conditions will 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 -9.67% over the last six months and -15.24% over the last year. Yen strength means that, in sterling-adjusted terms, the returns are -5.31% over the last six months and -0.71% over the year.

## 2.5. Asia Pacific (excluding Japanese) Equities

Chinese economic growth continues to be the key driver in the region, as GDP grew at an annualised rate of 10.3% in the second quarter. China's purchasing managers index (PMI) also showed that the rate of growth in the manufacturing sector accelerated in August, reversing three consecutive months of decline. Asian economies, which are typically heavily dependent on international trade, reported very strong year-on-year GDP growth – although this is more a reflection of the severity of the 2009 recession than true economic strength. Singapore's Q2 GDP grew 18.8%, while Taiwan managed a 12.5% increase. South Korea and Hong Kong also reported growth well in excess of 6%. Rather than too little growth, as is the issue in the developed economies, rapid growth in the Asia Pacific region brings with it the threat of rising inflation. This has been compounded by a sharp increase in agricultural prices in August brought about by drought and a subsequent export ban in Russia. Rising prices may bring forward calls for tighter monetary policy in the region.

However, the nature of the export-driven Asian economic model means that most countries (with the exception of investment-driven China) will find that tweaking interest rates and money supply does little to regulate GDP or inflation. Hence, the policy lever of choice is more likely to be foreign exchange rates. The Singapore dollar continues to appreciate against the dollar and sterling, acting as a proxy for the gradual revaluation of the Chinese renminbi. We expect this to be part of a longer term trend of emerging market currency appreciation and see these gains forming a significant part of a UK-based investor's total returns.

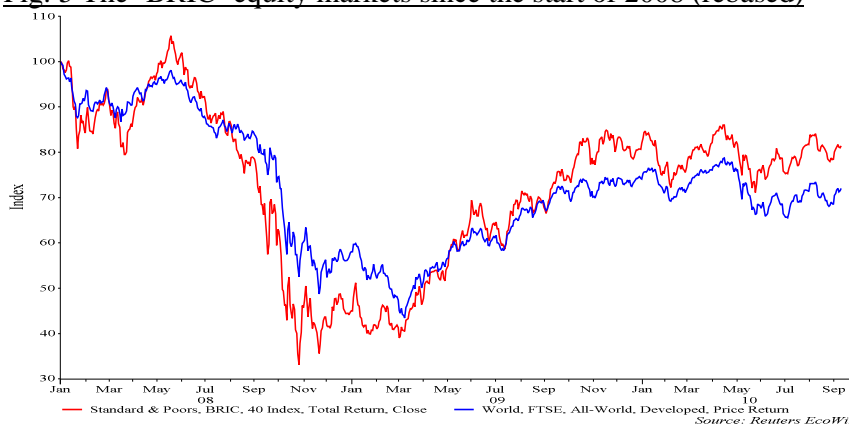
In our view, better economic fundamentals, including favourable demographics, better public sector balances and lower consumer indebtedness, mean that the equity markets of the Asia Pacific nations should be well placed to provide attractive returns should global growth accelerate. On measures such as price to book value, equity valuations in the region are broadly in line with their long-term averages. The Shanghai and Hong Kong stock markets, for example, trade at an average of c13 times projected earnings and on a dividend yield of 2.6%, which are attractive levels relative to history and comparable to slower growth developed markets. Issues of corporate governance have also shown signs of steady improvement, making them more investable to minority stakeholders. We therefore continue to recommend 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 +4.97% over the last six months and +11.72% over the last year. When translated into sterling, the returns are +3.70% over the last six months and +22.82% over the year.

## 2.6. Emerging Markets Equities

The equity markets of the emerging economies\* enjoyed a strong 2009, as the international response to the financial crisis kick-started economic growth and international trade rebounded strongly. Attracted by the rapid return to growth and the now relatively stronger economic fundamentals of the emerging nations, investors directed record sums towards emerging markets equity funds over the course of 2009. As shown in Fig. 5 however, emerging equity markets have not been able to side-step renewed concerns about the strength of the global recovery. Eastern European equities have weakened following increases in sovereign Credit Default Swap (CDS) spreads, while disappointing US economic data has had a knock-on effect in Mexico, and weighed on other Latin American equity markets.

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



The Chinese equity market provides a further example of investors' recent caution. By the third quarter of 2009, the Shanghai 'A' Index had doubled from its October 2008 low. It then traded sideways for the remainder of the year and has since fallen back by c20%. This fall has been driven by government policies aimed at curbing rising residential property prices in order to cool inflationary pressures.

As a result of these corrections, the valuations of emerging market equities now look reasonable and, in our view, present an attractive entry point to access the excellent long term growth potential of the emerging economies. 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 +6.02% over the last six months and +19.61% over the last year. In sterling-adjusted terms, the returns are +5.02% over the last six months and +26.84% over the year.

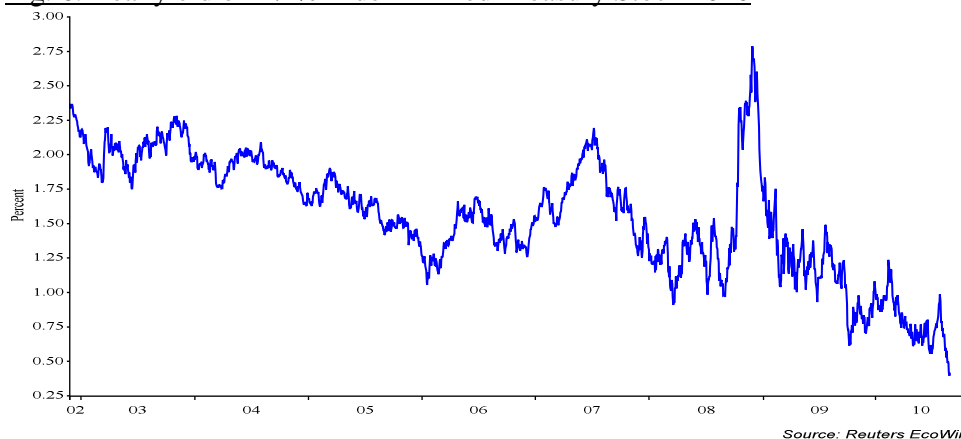
\* MSCI includes 21 countries in its emerging markets index: Brazil, Chile, China, Columbia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey.

### 3. Fixed Interest

Concerns about the possibility of a double-dip recession over the past few months caused nominal government bond yields to fall sharply, thereby pushing prices up. The 10-year UK gilt yield hit a low of 2.83% on 31 August but has since risen back to 3.05%. We have noted over the past year that any hint of deflation or a return of recession sees the marginal buyer of gilts drive prices up rapidly, while a return of calm causes gilt prices to fall back. While we believe that the diversification value of gilts is attractive, particularly in a Japan-style deflation scenario, the insurance they offer, in our view, comes at too high a price. We therefore continue to recommend zero allocations to conventional gilts, being mindful that they could incur substantial capital losses if the economy grows more strongly than the market is expecting, or if policy errors lead to an inflation shock or a loss of confidence in sovereign credits.

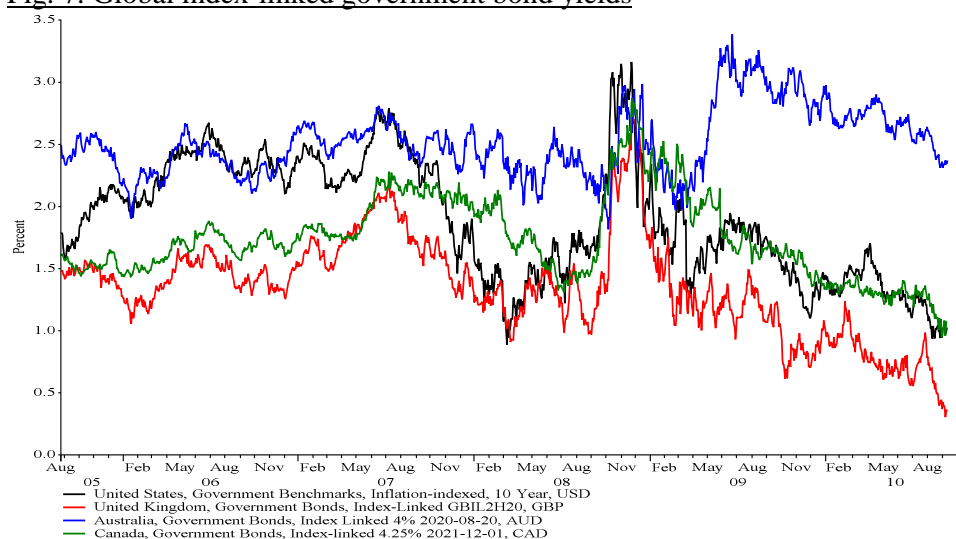
The extraordinary monetary stimulus employed to mitigate the effects of the financial crisis has, in our view, created a risk that inflation becomes meaningfully higher at some point in the future. As a result, we recommend maintaining existing allocations to inflation-linked bonds. However, in our opinion, UK index-linked gilts (ILGs) are looking quite fully valued, trading on slim real yields. Fig. 6 shows how low the yield on 2½% Index-Linked Treasury Stock 2020 is relative to its own history.

**Fig. 6. Real yield on 2½% Index-Linked Treasury Stock 2020**



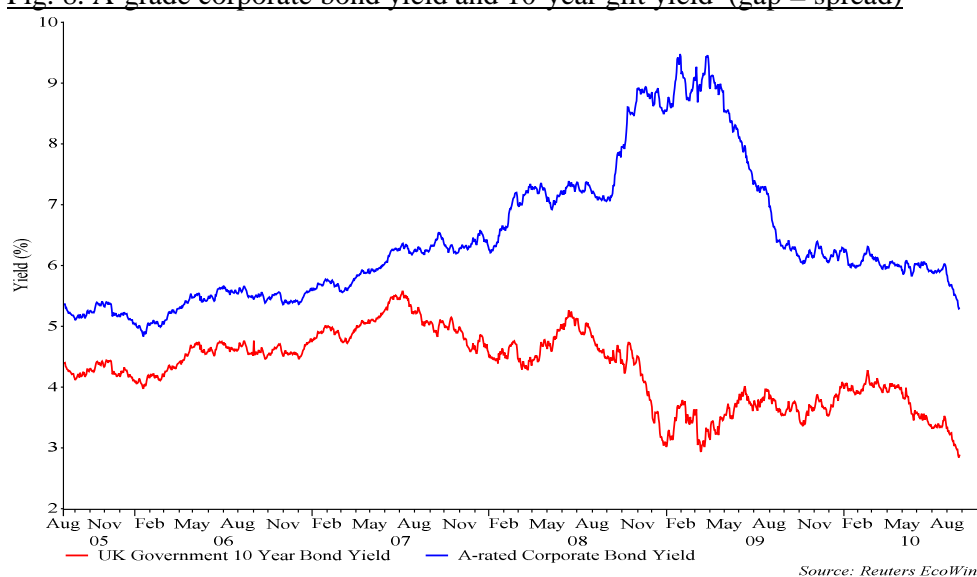
A key driver behind the low yields on ILGs is the need for pension and insurance funds to buy them, almost regardless of price, in order to match the real liabilities of inflation-linked pensions. This structural demand for index-linked bonds is largely UK-specific. As such, US, Canadian, Swedish and Australian inflation-linked bonds offer significantly higher real yields than their UK counterparts (Fig. 7). We therefore recommend that, where appropriate, allocations to inflation-linked bonds are weighted towards sterling hedged funds of global bonds. As well as obtaining higher real yields, managers of these may also exploit duration and relative value opportunities to add further value. Our view is that such funds will offer some protection if real yields on ILGs revert to the levels they have traded at in the past.

Fig. 7. Global index-linked government bond yields



Turning to our preferred defensive asset class, corporate bonds, we still believe that valuations are attractive despite the compression of absolute yields since early-2009. Spreads over government bonds remain wide relative to recent history (see Fig. 8). Implied default rates remain low and, in aggregate, corporates are flush with cash due, in part, to the outsourcing of labour and component sourcing to cheaper areas overseas. According to Moody’s, US non-financial companies have c\$1.8trn in cash on their balance sheets, or 7% of company assets, the highest level in nearly fifty years. This healthy cash position can be observed by the recent increase in takeover activity including BHP Billiton’s hostile bid for Potash Corp., HP and Dell’s bids for 3Par, HSBC’s bid for Nedbank and Intel’s purchase of both McAfee and Infineon’s wireless division.

Fig. 8. A-grade corporate bond yield and 10-year gilt yield (gap = spread)



While continuing to favour corporate bonds we do acknowledge that they may be vulnerable to a correction if government bond yields rise sharply, and we certainly do not expect a repeat of the substantial capital gains seen from January 2009 to the end of August 2010. We have therefore been recommending that corporate bond allocations are invested in bond funds with more strategic mandates. The managers of these funds invest where they believe the market is rewarding them appropriately for risk, while avoiding areas that look expensive. They can also hedge interest rate risk and exploit arbitrage opportunities between different bond issues to protect and add value. 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 risk.

The ABI UK Pension Gilt sector provided a total return of +9.78% over the last six months and +7.53% over the last year. The ABI UK Pension Index-Linked Gilt sector provided a total return of +7.81% over the last six months and +8.89% over the last year. The ABI Pension Sterling Corporate Bond sector provided a total return of +8.67% and +15.84% over the same periods.

#### 4. Property

The UK commercial property market has recovered from extremely oversold levels in the summer of 2009 and is now, in our opinion, broadly fair value. Property yields are, on average, close to 6.5%, which provides a reasonable spread over gilt yields to compensate investors for the illiquidity of commercial property assets, depreciation and the risk of default by tenants. However, yields vary across regions and sectors. Central London offices now produce yields as low as 4%, with investors anticipating a strong recovery in rents as the capital's economy recovers and occupiers pay up for limited space - a consequence of a dearth of construction during the credit crisis. In contrast, regional industrial assets can still be purchased on yields above 9%.

Despite attractive yields, the recovery in commercial property capital values has slowed recently. In our view, that is the result of a number of factors and is likely to persist over the coming months. Firstly, after strong gains over the last year, some investors will naturally be taking profits. Secondly, we note that there has been a fall in the number and value of purchases, particularly from institutional investors, since the start of the summer. Simultaneously, there has been an increase in sales from banks and receivers.

We believe that, in order for capital values to make significant progress from here, rents, which had been declining for two years and now appear to have bottomed, need to start rising again. This is likely to depend on the pace of the economic recovery in the UK, with rental growth historically closely correlated with GDP growth. As discussed earlier, we do not expect the UK's economic recovery to maintain the pace it achieved in the second quarter throughout the rest of 2010. Therefore, rental growth, except in areas of constrained supply, such as London offices, may still be some way off.

However, that does not mean we are pessimistic on the prospective returns from UK commercial property over the coming year. If prices remain static, an income yield greater than that offered by cash and gilts is still attractive. We also believe that, in a reasonably stable environment, skilled and well-resourced fund managers should be able to add capital value through asset enhancement, lease extensions and re-lettings.

The ABI UK Pension Direct Property index provided a total return of +5.11% over the last six months and +19.39% 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 better 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 of 2008 and early 2009. 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. A number of high profile hedge fund managers have also decided to close their funds, including Stanley Druckenmiller, who has begun the process of returning capital to investors in Duquesne Capital Management, because he was "dissatisfied" with its performance.

Hedge Fund Research reported the average hedge fund gained 0.17% in August, bringing the year to date total return to 1.45%. Investors hoping for 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. Nevertheless, the hedge fund industry has emerged from the financial crisis in a very different shape. Hedge fund closures, together with an increase in consolidation means that 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 -0.37% over the last six months and +4.33% over the last year.

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**The above commentaries reflect our views as at 13 September 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 28 February 2010 to 31 August 2010 and the twelve month period from 31 August 2009 to 31 August 2010 (source: Lipper Hindsight).**