



Fund Manager Monthly Report

Covering January 2010

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<ul style="list-style-type: none">• January was another relatively quiet month with no significant change in sector strategy or geographical weights.• There were no significant performance highlights in January with returns in all areas close to the relevant benchmark.		
GAM – Andrew Green	- GAM Managed & Recovery	4
<ul style="list-style-type: none">• The fund's performance was supported by further gains in its technology holdings and the relative resilience of the Japanese market, as well as its absence from the weakest segments of the market such as miners.• In our view, the short-term demand story within the resources sector is at risk and we are not tempted to raise the exposure.• By contrast, the attractive valuations of the Japanese market, together with the likelihood of a weaker yen lending support to the export sector, lead us to maintain a key overweight position in Japan.		
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- Neil Woodford (Lead Manager) <ul style="list-style-type: none">• Companies in the banks and mining sectors were among the worst performers in the FTSE All-Share index.• Although so-far reported fourth-quarter earnings impressed, with around 80% of S&P 500 companies beating their consensus estimates, markets fell over the month.• European stocks took positive momentum into the New Year, only to have the gains eroded by mid-month as President Obama announced a crackdown on risk taking by banks.• Asian equities were lower in January as the first efforts by Chinese policymakers to ease the pace of economic growth prompted a rise in risk aversion.		
Jupiter Asset Management – Ian McVeigh	- Jupiter Cautious funds	8
<ul style="list-style-type: none">• The fund's UK portfolio outperformed its benchmark, largely due to the reversal of the trends we saw at the end of 2009. Our overweight positions in cyclical stocks produced positive.• The European portfolio also outperformed its benchmark, helped by strong stock selection in the financials sector.• However, our emerging European portfolio underperformed its benchmark, affected by our decision to revalue our holding in Croatian real estate developer Jupiter Adria to reflect a recent market transaction.		
Newton Investment Management	- Newton Global Managed	10
<ul style="list-style-type: none">• Amid investors' greater risk aversion during January, it was not surprising to see healthcare and consumer staples stocks outperform the broader equity market. In healthcare the fund's holdings in Sawai Pharmaceutical, Genzyme and Pfizer were among its strongest performers.• Conversely, the commodity sectors were areas of weakness. Petrobras, Devon Energy and Total performed poorly following a pull back in crude oil prices.		

Polaris – Bernard R Horn	- Worldwide Managed	11
<ul style="list-style-type: none"> • The holdings within the portfolio’s financial sector made the most important contribution to performance. • The holdings in the Healthcare sector, primarily the health insurance companies, were also among the strongest in the portfolio. • Though overall stock selection was very good in the month, several individual holdings impeded performance. 		
Schroder – Nick Purves (Lead Manager)	- Schroder Managed	12
<ul style="list-style-type: none"> • We continue to see value within financials, as illustrated by significant positions in the domestic banks and holdings in Old Mutual, Legal & General and RSA. • Pharmaceuticals like AstraZeneca and GlaxoSmithKline also remain of interest, given that investors still seem to be underestimating their cash-generation potential and their ability to convert this cash into long-term earnings growth. • With areas like mining, for example, we believe valuations look full and reflect a level of profits that may or may not be sustainable in the long run. 		
Taube Hodson Stonex Partners	- THSP Managed	13
<ul style="list-style-type: none"> • During the month, rights were taken up in Unicredit. • We continued to buy Alliance Data Systems and added to the holding in Royal Bank of Scotland following a fresh look at its valuation and balance sheet. • We sold ICBC, China’s largest bank, and used the proceeds to participate in a placing of Sumitomo Mitsui, the large Japanese bank in which we have profitably invested in the past. 		
Aberdeen Asia – Hugh Young	- Far East	15
<ul style="list-style-type: none"> • The underweight to Japan cost the fund both in terms of allocation and currency effect. • Stock selection was also negative, as some of our core holdings corrected after a period of strong performance. 		
AXA Framlington – George Luckraft	- Diversified Income &- Allshare Income	16
<ul style="list-style-type: none"> • In a weak market the portfolio registered a small rise. A good recovery in Holidaybreak combined with strength in various small cap holdings helped performance. • The leading mining shares were weak which helped relative performance. 		
Invesco Perpetual – Neil Woodford	- Income Distribution, UK Equity & UK High Income	16
<ul style="list-style-type: none"> • Over the course of the month, we selectively increased exposure to companies that we believe have solid earnings prospects. This activity included further purchases in respect of United Utilities. There were no significant disposals during the month. • The recent early signs of a rotation in market focus away from cyclical sectors towards those with more stable growth prospects continued in January. This modest shift in sentiment benefited the fund 		
Invesco Perpetual – Paul Read & Paul Causer	- Corporate Bond & Investment Grade Corporate Bond	17
<ul style="list-style-type: none"> • Corporate bond markets began the year well, driven by positive sentiment and demand for income generating assets. • From mid month, there was some weakness as concerns lingered over sovereign debt and US President Obama announced further financial sector regulation. Nonetheless, spreads still ended the month tighter. 		

<p>J O Hambro Capital Management - John Wood</p> <ul style="list-style-type: none"> • The portfolio outperformed the FTSE All-Share Index in January in a month when a combination of concerns over proposed US banking regulations, sovereign risks and a tightening of monetary policy in China weighed upon equity markets. • Tobacco stocks Imperial Tobacco and British American Tobacco both made positive contributions. 	<p>- One half of the UK and General Progressive Unit Trust</p>	<p>18</p>
<p>Liberty Square – Peg McGetrick</p> <ul style="list-style-type: none"> • The best performing positions in January were New World Resources, which gained 18%, and Delta, which was up 13%. • The mid-month risk aversion drove a correction in commodities as a result of which the fund’s oil and mining positions generated over half the negative return excluding New World Resources. • But a number of the fund’s defensive names also disappointed, including Vodafone and GlaxoSmithKline. 	<p>- One half of the UK and General Progressive Unit Trust</p>	<p>18</p>
<p>Oldfield Partners – Richard Oldfield</p> <ul style="list-style-type: none"> • Nintendo and Nokia were the two best performers, up 15% and 14% respectively. • Just in the last couple of months we have had a glimpse of what Japan, as a market, could be capable of, and a twinkle of interest among investors who had all but given up. We currently have in the portfolio four Japanese stocks: Canon, Fanuc, Nintendo and Mitsubishi UFJ. 	<p>- High Octane</p>	<p>19</p>
<p>RWC Partners – John Innes</p> <ul style="list-style-type: none"> • The Fund succumbed to the general market weakness but improved on a relative basis, assisted by the underweight to mining and size bias. • The most positive areas for the Fund were the Mid-caps, in particular the Gaming and Pub stocks in the Leisure sector helped by the Playtech earnings update) and the Industrials. 	<p>- UK Growth</p>	<p>20</p>
<p>SW Mitchell – Stuart Mitchell</p> <ul style="list-style-type: none"> • Our cyclical positions span the economy from Michelin to Arkema in chemicals. Our financials comprise a number of strong retail franchises such as Credit Agricole and the insurance companies Swiss Re and Allianz. • The overall shape of the portfolio remains broadly unchanged, with nearly three quarters of the long book devoted to cyclical and financial shares. 	<p>- Continental European</p>	<p>21</p>
<p>SW Mitchell – Stuart Mitchell</p> <ul style="list-style-type: none"> • On the positive side, our more growth orientated stocks such as Sage and Legrand performed very well. This, however, was somewhat offset by weakness in our financial investments. • Despite the developing trauma in sovereign debt markets, we remain very positive on the outlook for European equities. 	<p>- One half of the Greater European portfolio</p>	<p>22</p>
<p>Wellington – Haluk Soykan</p> <ul style="list-style-type: none"> • Allocations to select intermediate and longer-dated issues provided the majority of the outperformance during the period as 10-year rates experienced the largest declines during the month. 	<p>- Gilts</p>	<p>23</p>
<p>Wellington – Haluk Soykan</p> <ul style="list-style-type: none"> • Credit strategies detracted, but were outweighed by more favourable results among our country strategies. • Yield curve strategies were neutral during the month while duration strategies detracted modestly. 	<p>- SJPI International Bond</p>	<p>24</p>

AXA Framlington – Richard Peirson

AXA Framlington Managed funds

Worries about sovereign risk, possible increased regulation of the banks and policy tightening in China combined to unsettle investors after a reasonable start to the year. China's actions together with a stronger dollar caused a correction in some commodity prices. In the UK a narrowing of the Conservatives' opinion poll lead was also unsettling. The mining sector was the weakest of the major sectors, reflecting lower metal prices and profit taking after recent strength. Smaller companies outperformed, partly reflecting a bounce back after profit taking in December. Bonds produced small but positive returns as risk aversion increased modestly.

January was another relatively quiet month with no significant change in sector strategy or geographical weights. In the UK we sold Cobham, despite a strong current order book, due to concerns about the long term pressures on the US and UK defence budgets. In Europe we sold Deutsche Boerse due to concerns about pricing and added to Santander and BNP Paribas. We made a new investment in Bureau Veritas, an international testing and inspection business which is growing rapidly and was attractively valued. In Japan we sold housebuilder Daiwa House as housing starts had been disappointing but the shares had performed well. We bought Sony following a recent meeting with the company. A number of senior management changes have taken place recently, they are undergoing a significant reorganisation, and they have a number of interesting new products such as 3D TV, while they should also benefit from any weakness in the yen, which we think possible. In the US we bought Rovi Corporation, a global business that provides technology solutions for digital entertainment devices and services.

There were no significant performance highlights in January with returns in all areas close to the relevant benchmark.

The problems surrounding Greece and some other European countries may not be resolved quickly but we do not expect them to lead to any defaults so equity investors may have over-reacted to recent news. Interest rates look unlikely to rise in the UK or Europe in the near future. The economic and corporate news background continues to be good so equities remain the asset class of choice.

GAM – Andrew Green

GAM Managed fund and the Recovery Unit Trust

Increased investor nervousness over deteriorating government finances, China's efforts to withdraw excess cash from its financial system and potential banking sector reform in the US meant that equity markets began the New Year on a weak note. However, the fund's performance was supported by further gains in its technology holdings and the relative resilience of the Japanese market, as well as its absence from the weakest segments of the market such as miners.

In our view, the short-term demand story within the resources sector is at risk and we are not tempted to raise the exposure. By contrast, the attractive valuations of the Japanese market, together with the likelihood of a weaker yen lending support to the export sector, lead us to maintain a key overweight position in Japan. We also retain our belief in the positive fundamentals underlying the global technology sector.

Looking ahead, anxiety over peripheral Europe's fiscal position highlights a key concern for 2010, namely that of whether Governments will be able to continue fiscal stimulus without the bond market forcing restraint upon them. Additionally, investors' increasing focus on the timing

of monetary and fiscal tightening, and exit strategies from quantitative easing, is likely to lead to further volatility. This may well be exacerbated by potential air pockets in the real economy, where demand appears to disappear before recovering again. Against this background, we continue to believe in the importance of strong stock selection, while anticipating some of the medium-term restructuring stories in the portfolio to begin to bring rewards.

Invesco Perpetual - Neil Woodford (Lead Manager)

Invesco Managed funds

United Kingdom

The UK equity market had a weak start to the year, as reflected by the 3.6% fall in the FTSE All-Share index over January. The decline, which took place in the final two weeks of the month, was primarily triggered by negative market reaction to events overseas, such as news that China had implemented measures to tighten its monetary conditions through the increase in reserve requirements for several banks, and US President Barack Obama's decision to impose restrictions on banks' more risky trading activities. Against this backdrop, companies in the banks and mining sectors were among the worst performers in the FTSE All-Share index. In detail, mining companies fell on weaker metals prices and on concern that China's tightening measures would lead to a curtailment in global growth, while the banking sector suffered on fears that Obama's proposed restrictions on US banks would impact UK banks. In terms of market capitalisation, the large-cap FTSE 100 index and the mid-cap FTSE 250 index fell by 4.1% and 0.7% respectively, while the FTSE SmallCap index bucked the declining trend by rising 1.1%.

As widely expected, the Bank of England's Monetary Policy Committee meeting minutes revealed an unanimous decision to leave interest rates unchanged at 0.5% and maintain the quantitative-easing programme at £200bn. Inflation, as measured by the consumer prices index, rose by 2.9% year-on-year (y-o-y) in December versus 1.9% y-o-y in November — the first time since May 2009 that inflation has breached the Bank of England's 2% target. The increase was largely attributable to the reversal of last year's cut in VAT and the drastic High Street discounting witnessed in December 2008.

Preliminary fourth-quarter 2009 GDP data came in much weaker than expected. UK economic activity expanded only 0.1% in the fourth quarter, demonstrably lower than the projected 0.4% increase. The biggest disappointment came from service sector growth which expanded only 0.1%. Despite the tepid pace of recovery, the reading was heralded by most market commentators as the end of the recession, which has lasted for six consecutive quarters.

Elsewhere in the economy, the recovery in the housing market continued to show signs of resilience. According to the Nationwide house price index, prices rose 1.2% in January; the ninth consecutive monthly gain. House prices are now 8.6% higher than they were in January 2009. There was also good news on mortgage approvals. Figures from the British Bankers' Association showed that mortgage approvals rose again in December.

United States

Although so-far reported fourth-quarter earnings impressed, with around 80% of S&P 500 companies beating their consensus estimates, markets fell over the month. This was due to a number of external factors, including a rise in risk premiums deriving from the troubles of Greece and other indebted peripheral Eurozone economies, and China tightening monetary policy. Additionally, investors were concerned by the prospect of 'populist' political

interventions, after President Obama announced further taxation measures on banks to ensure that government money lent would be fully recovered, as well as possible restrictions on their proprietary operations. The Dow Jones Industrial Average and the broad S&P 500 index finished 3.5% and 3.7% lower, respectively. The smaller companies Russell 2000 index also fell by 3.7% over January. Technology companies sold off after their recent good run and the Nasdaq Composite index fell by 5.4%. Telecom services and materials also suffered, but health care gained on the month and banks were also positive.

The 5.7% annualised fourth-quarter rise in GDP was a positive surprise, aided by an abrupt slowdown in inventory de-stocking. This was the US economy's fastest rate of growth for nearly six years. The Federal Reserve (Fed) released a more upbeat outlook for the US economy, but left short-term rates near zero to help the recovery to continue. The Fed announced that this would apply for 'an extended period' whilst unemployment remained high and inflation stayed low. It also reiterated its intention to let the majority of its emergency lending programmes expire by 1 February and halt purchasing of mortgage-backed and agency debt by 31 March this year.

The generally positive Q4 corporate-earnings announcements did contain a few disappointments, including Chevron and Motorola. The latter's weak Q1 outlook saw its share price fall 20.7% over January, helping to drag the telecommunications sector down. More positively, those impressing included Boeing, Ford, Goldman Sachs, Bank of America and Wells Fargo. In other news, Ben Bernanke was reselected as Fed chairman, auto production rose, GM agreed to sell Saab to Spyker and Apple launched the iPad, filling the gap between the smart phone and the notebook pc. It was announced that President Obama will propose a US\$3.8 trillion budget for the fiscal-year 2011 and with it a record US\$1.6 trillion deficit. Health care reform may have to be altered in the wake of the Republicans winning the Senate Massachusetts seat, meaning the Democrats have lost the ability to force bills through when opposed.

Continental Europe

European stocks took positive momentum into the new year, only to have the gains eroded by mid-month as President Obama announced a crackdown on risk taking by banks. The financial sector led equity markets lower as investors feared the proposals would batter investment bank earnings. Basic materials, telecoms and utilities sectors were also weak during the worst monthly drop in equities since February 2009, as investors grew increasingly concerned about the withdrawal of stimulus measures around the world. Healthcare and technology sectors managed to buck the sharp downward trend, outperforming the index over the month.

Macroeconomic news was mixed, as unemployment rose while sentiment indicators continued to improve. The German Ifo rose from 94.7 to 95.8 – an 18-month high, while there was also an increase in the economy-wide Economic Sentiment Indicator. Industrial sentiment rose further, albeit from a very low level, and the export orders index continued to improve. Consumer confidence was flat, but the index still points to a sharp pick-up in spending growth, providing some hope that the recovery could spread to the household sector. January's provisional consumer prices figures highlight the distinct lack of inflationary pressure in the region. The headline inflation rate of 1.0% (up from 0.9% in December) was well below the published consensus forecast of 1.3%. Lower energy inflation has helped, but core inflation has also remained very subdued.

Unemployment in the 16 countries that use the Euro hit 10% in December for the first time since the single currency was introduced in 1999. Spain continues to have the highest rate in the Eurozone, while the Netherlands has the lowest jobless rate at 4%. January's increase in German unemployment was a disappointment after recent falls, but labour market conditions still look much better than elsewhere. The monthly increase of 6,000 pushed the unemployment rate up to

8.2% from 8.1%. The German economy shrank by 5% in 2009, hit by a slump in exports and investment, official data has shown. It was the first time in six years that the economy had shrunk, and was the largest contraction since World War II. However, Germany, Europe's largest economy, emerged from recession in the second quarter of 2009. The government predicts growth of 1.2% in 2010, but reports suggest it is set to raise its forecast to 1.5%.

The Euro recorded its biggest monthly decline in a year against the Yen and was lower versus the US dollar on concerns that Greece won't be able to meet its debt obligations. Meanwhile, Greece's fiscal problems continued to put pressure on the country's banks. The yield spread between bonds and German Bunds hit their widest level since Greece joined the Euro, signalling nervousness about the country's ballooning public deficit.

Asia Pacific

Asian equities were lower in January as the first efforts by Chinese policymakers to ease the pace of economic growth prompted a rise in risk aversion. Reserve requirements among China's largest banks were increased and loan quotas were also imposed on some lenders. Authorities aim to use these measures to slow the pace of credit growth, from the record 9.59 trillion yuan of new loans issued last year to 2010's target of 7.5 trillion yuan. Stronger than expected GDP data added to concerns that interest rates may soon need to rise. The Chinese economy expanded by 10.7% year-on-year (y-o-y) in the fourth quarter and this took full year growth to 8.7%, well ahead of the government's 8% target. Concerns about the potential for further tightening were exacerbated by data showing CPI inflation rose from 0.6% to 1.9% y-o-y between November and December. Indian authorities also increased bank reserve requirements, revising the ratio by a greater than forecast 0.75% to 5.75%. The Reserve Bank of India increased their growth estimate for the year to the end of March to 7.5% from 6% and also upped their inflation forecast, adding to expectations that interest rates could rise here too in the coming months. Elsewhere, GDP growth in Singapore and Korea weakened in the fourth quarter relative to the previous three months, but economic data generally pointed to further recovery as exports and industrial production continued to improve. Corporate results were strong, with Taiwan Semiconductor, LG Electronics, Hyundai Motor and Samsung Electronics among the companies to beat expectations.

Japanese equities were lower in January as global issues undermined investor sentiment. Government measures to slow economic growth in China and US proposals to overhaul banking sector regulation provided a difficult backdrop for most world equity markets, including those in Japan. The month also saw Japan's finance minister resign on health grounds, to be replaced by Naoto Kan, who quickly voiced his support for a weaker yen. The new finance minister was also faced with ratings agency S&P lowering its outlook on Japan's sovereign debt to 'negative' amid concerns that plans to address the fiscal deficit are not sufficiently proactive. Prevailing economic data was mixed, but did see exports turn positive in December for the first time in 15 months, helped by strong demand from Asia. Unemployment data was also positive as it edged down to 5.1% in December, from 5.2% in the previous month. Toyota came under pressure as the group recalled vehicles and suspended production in the US, while corporate activity was a particular feature, with Canon, mobile phone group KDDI and cosmetics maker Shiseido, all announcing acquisition plans.

Fixed Interest

Corporate bond markets began the year strongly, driven by positive sentiment and demand for income generating assets. From mid month, there was some weakness as concerns lingered over sovereign debt and US President Obama announced further financial sector regulation. Nonetheless, spreads still ended the month tighter. According to data from Merrill Lynch, sterling A rated spreads declined by 30bps, while BBB rated spreads narrowed by 50bps.

European high-yield spreads decreased by 63bps, for a 0.8% gain in sterling terms. In primary markets, there was renewed activity led by financials. GE Capital, KfW, Dexia and Lloyds Banking Group each raised more than US\$4bn. With demand strong, borrowing costs have decreased significantly. For example, BMW issued three-year bonds at 6.125% in February 2009, but in January issued three-year bonds at just 2.875%. Elsewhere, the Bank of England took advantage of the strong demand to sell some of the corporate paper it bought last year. Moody's reported the first decline in the 12-month issuer weighted European high-yield default rate, down from 10.5% in November to 10.2% in December. Moody's 'baseline' forecast is for the rate to fall to 2.7% by the end of 2010. Both Moody's and S&P also announced that they had upgraded more US companies than they downgraded for the first time since the second quarter of 2007.

Government bond markets saw positive returns from US, UK and German debt with yields on the 10-year benchmark bond falling by 25bps, 10bps and 19bps respectively. Conversely, the yield on 10-year Greek government bonds rose by 108bps, while the price fell by 7.3%. Sovereign CDS markets were weak, particularly Greece and Portugal which saw spreads approach record wides after increasing by 105bps and 70bps. Despite continued concern over Greek public finances, orders reached €25bn for a €8bn five-year bond sale although the bond carried a record interest rate spread relative to German bunds.

In the UK, the Monetary Policy Committee held the Bank Rate at 0.5% and the quantitative easing asset purchase plan at £200bn. The market was surprised by a significant increase in annual CPI inflation, which rose from 1.9% in November to 2.9% in December. CPI inflation has surprised on the upside for 15 of the past 20 months. The increase, which was the largest ever in the annual rate between two months, was due to a number of exceptional events that had depressed prices in December 2008. These included the temporary cut in VAT and sharp falls in the price of oil. The initial estimate of UK Q4 GDP was disappointing, reporting growth of 0.1% against a consensus expectation of 0.4%. As a result, the level of activity is still 3.2% lower than the level a year ago and 6% lower than the pre recession peak.

Jupiter Asset Management – Ian McVeigh

Jupiter Cautious funds

Global equity markets began 2010 with a reasonable degree of optimism, reflecting continuing momentum from their recovery in 2009. However, the picture became more mixed later, triggered by an element of monetary policy tightening in China which was followed by the evolving crisis in southern European bond markets. Fuel was added to the fire by President Obama's aggressive comments about regulation in the banking sector. Over the month, the FTSE All Share index fell 3.6%, while the FTSE World Europe ex UK index dropped 5.7% in sterling terms. Most emerging European equities, however, rose on expectations of sustained growth, with the MSCI EM Europe 10/40 index returning a positive 2.7% in sterling terms.

Data released in January showed that the UK finally emerged from recession in the fourth quarter. However, economic growth was weaker than expected, with GDP growing 0.1% from the previous quarter. This provided some support for the gilt market, although concerns over increasing government deficit continued to weigh on the market.

The fund outperformed its benchmark in January.

The fund's UK portfolio outperformed its benchmark, largely due to the reversal of the trends we saw at the end of 2009. Our overweight positions in cyclical stocks such as retailer Galiform, ITV and Burberry and financials, including RSA Insurance and RBS, all produced positive

contributions to performance. Although our underweight position in the mining sector proved positive, our holdings in BHP Billiton and Xstrata detracted from performance. We acquired a new position in AstraZeneca. The shares were trading at the level where we expected any positive surprises in the new drug development to have a material impact.

The European portfolio also outperformed its benchmark, helped by strong stock selection in the financials sector. Our holdings in DNB, Norway's largest bank, and credit insurer Euler Hermes contributed positively to performance, while we did not hold Banco Santander and Societe Generale which underperformed. Our holdings in diabetes care company Novo Nordisk and enzymes maker Novozymes also produced strong contributions. We increased exposure to Coloplast. The medical products maker reported quarterly results that beat expectations and revised up its full-year earnings guidance.

However, our emerging European portfolio underperformed its benchmark, affected by our decision to revalue our holding in Croatian real estate developer Jupiter Adria to reflect a recent market transaction. Elsewhere, investors' profit-taking depressed our holdings in Turkish Halk Bank and Russian dairy producer Wimm-Bill-Dann. Positive contributors to performance included Turkish conglomerate Koc Holding, Polish distiller CEDC and Russian steelmakers Evraz and MMK. We added to Russian gas producer Gazprom as we expected its earnings dynamic to improve.

In the bond market, subordinated financials once again contributed strongly to the outperformance of corporate bonds over gilts during the month. However, we avoid these issues because of their greater volatility and, in some cases, uncertainty over their repayment schedules. This continued to hurt the bond portfolio's relative performance, although the portfolio produced a positive absolute return. We increased our weighting in senior bank debt by investing in four-year Lloyds Bank paper, which looked good value on a yield of about 1.6% more than gilts.

Outlook

Corporate bonds continued to outperform gilts in January. The iBoxx 1-3 year Corporate index produced a total return of 1.6%, while the iBoxx 1-3 year Gilt index rose 0.3%. Given the significant rally in riskier assets that has occurred, we have skewed our purchases towards higher quality bonds. We remain more optimistic than the market, expecting base rates to stay at their current level throughout this year. In view of this, we have kept the bond portfolio's average duration towards the maximum allowed.

As ever, we see competing forces in equity markets. Valuations, particularly among financials, look undemanding and, with interest rates at almost zero, the attraction of defensive assets is low. That said, it is clear that the sky has darkened in recent weeks and uncertainty has increased. Against a backdrop of still fragile economic confidence, it is possible that the nervousness will continue for some time. While it is hard to see significant downside given high levels of cash held by investors and low levels of valuation, equities may well be in for a more difficult year after the strong performance in 2009.

Although most of the eurozone, US and UK economies are out of recession, they are expected to remain weak this year. More vigorous growth can be found in many parts of Asia, especially China. The global-facing businesses with strong balance sheets in our European portfolio have proven remarkably resilient throughout a crisis in which weaker competitors have struggled. Our holdings are dominant operators in niche areas and are able to take advantage of the numerous growth opportunities available across a range of economies.

Emerging European economies stabilised in 2009 and we expect to see economic recovery gaining pace throughout this year, driven predominantly by domestic demand. At the same time, the region is now trading at a significant discount to other emerging markets and to its historical

average. Having avoided exposure to Hungary in recent years on the view that its fiscal difficulties would act as drag on growth, we initiated exposure to the country. Much of the risk is now discounted in valuations, while macro indicators are beginning to improve.

Newton Investment Management

Newton Global Managed funds

Stock market indices in all of the major economic regions lost ground in local currency terms during January amid renewed risk aversion among investors. Particular anxiety was caused by heightened sovereign default risk, especially in relation to the deterioration in public finances in Greece and other Southern European countries, with yields on government bonds in those areas rising sharply over the month.

Concerns mounted too about the timing of central banks' exit strategies from ultra-loose monetary policy, notwithstanding the Federal Reserve's renewed pledge to keep US interest rates exceptionally low for an extended period. China's increase in commercial bank reserve requirements caused particular unease during the month in signalling a greater likelihood of tighter Chinese monetary policy in the period ahead.

Uncertainty about the outlook for the financial sector also weighed on equity markets, with the US administration introducing a levy on banks' liabilities and proposing subsequently a far-reaching overhaul of the regulation of the sector. The proposed scheme entails the outlawing of proprietary trading by banks and a ban on ownership of, and investment in, hedge funds and private equity by banks.

Performance and activity

Amid investors' greater risk aversion during January, it was not surprising to see healthcare and consumer staples stocks outperform the broader equity market. In healthcare the fund's holdings in Sawai Pharmaceutical, Genzyme and Pfizer were among its strongest performers, while Kroger, a beneficiary of our *low-end spend* theme, British American Tobacco and Japan Tobacco all delivered attractive returns in the consumer staples sector.

Conversely, the commodity sectors were areas of weakness. Petrobras, Devon Energy and Total performed poorly following a pull back in crude oil prices. Meanwhile, holdings influenced by our *fire risks* theme were also detrimental, particularly gold miners Newcrest Mining and Barrick Gold.

Surprisingly, given the level of risk aversion, the telecoms sector lagged. Tele Norte of Brazil detracted from performance following an unexpected announcement of legal provisions, while Sprint Nextel and Deutsche Telekom underperformed as investors feared increasing price competition in the US could hurt the companies' profit margins. We continue to believe that attributes such as strong balance sheets and the ability to generate significant free cashflow will benefit these companies in the long-term.

Nintendo was the fund's top performer in the quarter, its valuation provided support amidst falling equity markets while the strengthening of the yen was also beneficial.

Investment outlook

Investors grew increasingly concerned during January about the outlook for monetary and fiscal policy around the world and about the scope for policy to continue to support asset prices (as it did in 2009). While the stimulative actions of central banks and governments may continue to enable asset markets to advance, a discriminating approach seems increasingly wise amid the

general uncertainty about the policy outlook and given the travails that are evident in some regions.

In the developed economies, indebtedness remains high; while financial-sector ‘leverage’ (borrowing) has fallen considerably, public-sector debt has risen markedly in its place. Against that background, economic growth in the developed world is likely to be suppressed and investors should be mindful of the implications of policymakers’ attempts to sustain it. Typically there are three ways in which authorities might seek to restore health to overly indebted economies – via default on their obligations, via inflation or via austerity. Each has significant consequences in relation to the outlook for financial markets.

Amid uncertainty about the outlook for economies and financial markets in aggregate, a discerning approach, which seeks to harness opportunities associated with preferred themes and via investment in specific stocks rather than from markets as a whole, continues to be favoured. In particular, a focus upon the securities of companies that achieve steady growth in their earnings and have robust cash flows, and that reward shareholders with attractive and growing dividends, continues to be appropriate.

Polaris - Bernard R Horn

Worldwide Managed funds

The St. James Place Worldwide Opportunities Trust declined (in US\$ terms) during the month of January, 2009 while its benchmark index, the MSCI World Index also declined.

Economic news from around the globe continues to improve. The UK appears to have just emerged from its long and painful recession as its fourth quarter GDP turned slightly positive. Industrial activity on Continental Europe is improving as evidenced by the report last month of growing industrial orders. In Asia, Japan benefited from its first monthly year over year advance in exports since late 2008. The IMF also recently revised upward its estimate for world economic growth to 3.9%. January is “earnings” season and many of the Trust’s companies provided palpable evidence of resumed fundamental progress.

Nevertheless, all economic sectors within the MSCI World Index declined in January, possibly reflecting concern about Greek finances and some new signs of sluggishness including a moderation in the recovery of world trade. Some speculate that earlier strength in trade was primarily a result of the rebuilding of inventories which now may be adequate.

Good stock selection had a major influence on the portfolio’s strength relative to its benchmark. In fact, stock selection was relative good in nine of the ten majors sectors in January. The common stocks in the benchmarks’ Materials, Telecom Services and Information Technology sectors were the hardest hit in January, all declining more than 6%. However, within each of these sectors the holdings in the portfolio outperformed by a wide margin. The benchmark’s Healthcare and Consumer staples sectors also declined but were the two best performing sectors in January; the portfolio’s holdings within these sectors also outperformed.

The holdings within the portfolio’s Financial sector made the most important contribution to performance. Regional U.S. banks such as Webster Financial (Connecticut), International Bancshares (Texas), and Ameris Bancorp (Georgia) were very strong. We believe that these and other such banks still hold great promise for future portfolio strength. The Industrial sector investments made a good contribution to performance and were led by shippers and companies that provide cargo handling equipment. The holdings in the Healthcare sector, primarily the health insurance companies, were also among the strongest in the portfolio.

Though overall stock selection was very good in the month, several individual holdings impeded performance. They include CRH, the Irish producer of cement and aggregates, Mac-Gray, the U.S. operator of laundromats, and Verizon Communications, the big U.S. provider of telecommunications and entertainment services.

Schroder Investment Management – Nick Purves (Lead Manager)

Schroder Managed funds

UK

There were no significant changes to the portfolios in January.

We continue to see value within financials, as illustrated by significant positions in the domestic banks and holdings in Old Mutual, Legal & General and RSA. We continue to feel that both Old Mutual and Legal & General are trading at too large a discount to embedded value, whilst RSA remains undervalued and high yielding. As far as the banks are concerned, we acknowledge that the risks associated with these names are higher, but we believe the potential capital growth opportunity over the next couple of years more than compensates for this risk.

Pharmaceuticals like AstraZeneca and GlaxoSmithKline also remain of interest, given that investors still seem to be underestimating their cash-generation potential and their ability to convert this cash into long-term earnings growth. Conversely, we remain wary of stocks with emerging market exposure, based on their stock-specific merits rather than any top-down view. With areas like mining, for example, we believe valuations look full and reflect a level of profits that may or may not be sustainable in the long run.

Europe

The FTSE Europe ex UK fell in January as investors became increasingly concerned about the impact of tightening fiscal and monetary policies and worsening sovereign debt situation in southern Europe. Although rates are expected to stay at current low levels for at least the first half of the year in most part of Europe and the US, the situation looks different in emerging markets. For example, Brazil introduced a tax on foreign transactions in its domestic equity and fixed income markets a few months ago to prevent the stockmarket from overheating on capital inflows. China has now restrained lending from its main banks with the aim of cooling down the booming property market and slowing fixed capital formation.

Despite these issues, economic lead indicators in aggregate are now anticipating a decent economic recovery while earnings revisions are still positive. Combining these factors with continued loose monetary policy and probable increased flows into equities suggests to us that a substantial downturn in the market seems unlikely. Despite concerns about fiscal sustainability in some Euro countries, the drop in equity value is probably starting to look excessive when compared to corporate credit yields. This would indicate to us that the European equity markets will recover from the current risk aversion.

We retain a late cycle quality bias in the portfolios given the equity market having factored in much of the early cyclical recovery. Looking further out, companies displaying decent organic growth should rerate further as the cyclical recovery matures. The recent pullback in the equity markets may allow us to revisit some of the deeper cyclical names once again on an opportunistic basis.

Therefore, we expect that in 2010 our stockpicking approach will be further rewarded and we aim to maintain a balanced portfolio, with exposure to both quality growth and cyclical names.

We are currently overweight industrials and healthcare and underweight utilities and financials.

United States

There were no major changes to strategy over the month.

Japan

Following the completion of the recent equity financing by Sumitomo Mitsui Financial Group, we felt that most of the bad news was understood and there was enough potential value to initiate a position for the fund. A new position was also added in Mitsubishi Estate. Although the real estate market is still weak, we expect vacancy rates for central Tokyo office space to peak as we go through 2010 and this purchase ensures the fund is positioned ahead of a potentially major turning point. These positions were funded by the complete sales of Square Enix and NTT Data where we have less conviction in the medium term prospects for earnings growth.

Pacific

Over the month, we added to the position in Australian healthcare name Resmed on its attractive valuations and growth franchise, which is driven by structural improvements in industry trends.

The position in industrial name Keppel Corp in Singapore was further added to on potential order book improvements from its delayed Petrobras and other contracts as oil prices improve. QBE Insurance in Australia was also added to on attractive valuations.

On the other hand, the fund's holdings in the Industrial & Commercial Bank of China was switched into Ping An Insurance and Sun Hung Kai Properties on lower levels of policy and credit risk in the insurance sector versus that of the banking sector in China.

Fixed Interest

The bond component's performance was flat relative to the benchmark in January, the allocation to corporate bonds contributing modestly to performance, along with an overweight exposure to short dated Gilts versus an underweight exposure to medium dated Gilts. However, this was offset by a short duration exposure that detracted from performance as yields fell on the month. Going forward, we continue to hold a short duration exposure portfolio to reflect our view that Gilt yields are expected to rise as the focus remains on the UK's budget deficit and borrowing. Carefully selected corporate bonds continue to offer an attractive pick-up in yield over Gilts.

Taube Hodson Stonex Partners

THSP Managed funds and International Unit Trust

Stock markets started the year on a positive note, but soon began to relinquish some of the recent gains as investors' appetite for risk diminished. Fears that the Chinese economy is set to overheat, concerns over Greece's ability to reduce its budget deficit and a mixed response to President Obama's proposals for a widespread overhaul of the US banking system contributed to the decline in major indices. The continuation of the consolidation period which began in the fourth quarter last year also impacted on stock markets during January, as investors continued to take profits following the strong recovery.

There have, however, been some encouraging signs too, including strong GDP data from the US in the fourth quarter and largely positive earnings reports for the same period; and towards the end of January, the European Commission indicated that it would not allow Greece's debt crisis to jeopardise the Eurozone. Some countries, notably Ireland and Estonia, are being given credit

by the markets for taking decisive action and this may encourage others to implement austerity measures.

During the month, rights were taken up in Unicredit. It has been less badly affected than most and has an attractive position in Eastern Europe, particularly Poland, which has survived the crisis well.

We continued to buy Alliance Data Systems and added to the holding in Royal Bank of Scotland following a fresh look at its valuation and balance sheet. We sold ICBC, China's largest bank, and used the proceeds to participate in a placing of Sumitomo Mitsui, the large Japanese bank in which we have profitably invested in the past.

Sumitomo Mitsui

Sumitomo Mitsui is the most efficient of Japan's three biggest banks. It has cleaned up its balance sheet and benefits from a stable management, a strong retail franchise in both its banking and brokerage operations and its exposure to overseas securitization is limited. Having acquired the investment banking business Nikko Cordial from Citigroup last October, the bank is well placed to benefit from a recovery in corporate activity. The stock trades at 0.9 times book value after the issue of new shares. The Yen exposure gained through this purchase was largely hedged back into the base currency.

Aberdeen Asia - Hugh Young

Far East funds

Asian markets fell in January, with sentiment hurt by fears over monetary tightening in China, along with proposed banking reforms in the US. Although equities started the year brightly on the back of encouraging economic data from around the region, market sentiment deteriorated quickly over the month. This was due largely to Beijing's attempts to tighten monetary policy, which triggered worries about the potential impact on the still fragile global economic recovery. Adding to that were US President Barack Obama's proposals to cap the size of financial institutions and reduce risk taking, as well as anaemic employment numbers. Among the regional market laggards were China, Hong Kong and Taiwan, whereas Indonesia and Japan outperformed the regional benchmark.

Notably, Japan's performance appeared out of sync with economic fundamentals. Even though Japanese industrial output improved, driven by exports that rose for the first time in 14 months in December, the recovery was frail at best. This was underscored by falling retail sales and declining consumer prices. Recognising this, the government approved a record trillion-dollar budget for 2010. Standard & Poor's, however, downgraded the nation's sovereign credit rating outlook from stable to negative because of the lack of a credible plan to tame the burgeoning deficit.

In China, the government told banks to set aside larger reserves and scrutinise new mortgages more stringently. Several lenders had to stop extending new loans temporarily and others were ordered to call back part of their January lending. Elsewhere, India hiked lenders' reserve ratios, while Taiwan moved to curb speculative capital inflows and stem the local currency's appreciation against the US dollar. The Philippines increased the rediscount rate as it began to unwind stimulus measures. In comparison, most central banks in the region continued to keep interest rates at record lows, even as inflation crept higher.

Exports rose sharply across most of the region, boosted by China's sharp fourth-quarter GDP growth. The mainland posted a 10.7% year-on-year expansion in the final three months, its fastest since 2007. This lifted full-year growth to 8.7%, exceeding the official 8% target. China's growth spurt drove the rebound in regional exports, particularly in Taiwan, Singapore, Thailand and the Philippines. Only Korea experienced a deceleration in its growth rate, posting its slowest pace in three quarters amid declining exports, consumer demand and government spending.

In politics, Japan's new finance minister Naoto Kan softened his call for a weaker yen after a rebuke from the prime minister. Sri Lanka's incumbent president Mahinda Rajapaksa won the nation's first peacetime election in decades.

During the month, the fund underperformed its benchmark. The negative currency impact (-0.44%) is the result of our stock decisions, while both asset allocation and stock selection also detracted from performance. The areas of note were Japan (-1.74%), Singapore (-0.65%) and Hong Kong (-0.35%). As bottom-up stock pickers, our country and sector allocations are driven by where we can find quality companies with attractive valuations. This approach may lead to significant deviations from the index.

The underweight to Japan cost the fund 1.05% both in terms of allocation and currency effect. Stock selection (-0.69%) was also negative, as some of our core holdings corrected after a period of strong performance. These included Canon, which fell 9.59% in February after rising 47.25% over the past 12 months. Likewise, Honda Motor declined 1.13% compared to the 0.77% fall posted by the MSCI Japan Index (in local currency terms), while Toyota Motor (-9.54%) was weighed down by the recall of vehicles affected by faulty accelerator pedals.

In Hong Kong and Singapore, currency and asset allocation cost the fund 0.16% and 0.28% respectively. Stock selection in both countries also proved negative. One of our core Hong Kong holdings, ASM Pacific, fell 12.66% in February after posting gains of 175.96% over the last 12 months. We also had exposure to the property and banking sectors, which underperformed the broader market. Sun Hung Kai Properties, for example, fell 13.76% compared to the 6.44% decline in the MSCI Hong Kong Index (in local currency terms). Similarly, our banking and property exposure in Singapore hurt performance.

Significant portfolio transactions over the month included the sale of Japanese electronic component manufacturer Omron after a sharp rebound in its share price. With the proceeds, we initiated a position in Unicharm, a leading personal products manufacturer in Japan with a growing Asian presence.

Looking ahead, it is uncertain how long the market correction will last. In the near term, sentiment appears highly sensitive to worries about the removal of fiscal stimulus and the start of the monetary tightening cycle. The faster regional economies recover, the more nervous investors will become. Given the extent of last year's rally, however, such a pullback would be healthy as market valuations will realign with fundamentals and present buying opportunities. As bottom-up stock pickers with a focus on quality, we are cautiously optimistic about the year ahead, believing that markets will become more discriminating after last year in which, generally, the shares of weaker companies performed best. Our focus will remain on well-run businesses that have good long-term prospects, emerging from the downturn in a stronger position than they entered it.

AXA Framlington – George Luckraft

Diversified Income and Allshare Income funds

In a weak market the portfolio registered a small rise. A good recovery in Holidaybreak combined with strength in various small cap holdings helped performance. The leading mining shares were weak which helped relative performance.

A holding in ACM Shipping was acquired. The shipbroking business offers exposure to the world economy and offers a yield of around 4½%.

Markets are nervous due to concerns over sovereign credit risks with Greece and Spain at the forefront. This weakness should throw up good opportunities.

Invesco Perpetual – Neil Woodford

Income Distribution fund, UK Equity funds and UK High Income Unit Trust

January proved to be a difficult month for the UK equity market, which closed lower amid a rise in risk aversion created by global as well as domestic factors. In the UK, investors were faced with lacklustre GDP data for the final quarter of 2009. Although the economy officially emerged from recession, the advance estimate of GDP growth at just 0.1% was well below forecasts and underlined the anaemic nature of the UK's recovery. Consumer price inflation jumped to 2.9% in December and while the main contributors were seen as mostly short-term, the strength of the data further tested investor sentiment. Newsflow from overseas hit the performance of key UK sectors. The first clear signs of Chinese authorities attempting to slow economic growth hit miners due to concerns that demand for raw materials could decline. Banks were also weak as

President Obama's plan to radically overhaul the US regulatory system has potentially serious implications for a number of UK banks.

Fund Strategy

The fund's current sector preferences centre upon pharmaceuticals, tobacco, utilities, telecoms and aerospace & defence, where we see excellent value. In our view, companies within these areas have the potential to deliver resilient earnings and sustainable dividend growth, which we believe is not reflected in current share prices. Many of these businesses also earn a significant part of their revenues from overseas, which helps to limit the fund's reliance on the domestic economy. We expect 2010 to be a year in which a number of sectors that led the market in 2009 fail to deliver the earnings growth that is already factored into valuations. In contrast, we believe the companies we favour have enduring business models that can continue to provide growth, even in difficult economic circumstances.

With our current investment strategy unchanged, there were few noteworthy changes to the fund's overall composition.

Over the course of the month, we selectively increased exposure to companies that we believe have solid earnings prospects. This activity included further purchases in respect of United Utilities. There were no significant disposals during the month.

Fund performance

The fund was lower in January, compared to the FTSE All Share index which fell by a greater margin.

The recent early signs of a rotation in market focus away from cyclical sectors towards those with more stable growth prospects continued in January. This modest shift in sentiment benefited the fund as the tobacco, fixed line telecommunications and electricity sectors were all among the best monthly performers. United Utilities was also strong as a positive trading update, clarity on the dividend policy and the group's acceptance of OFWAT's final determination supported sentiment towards the stock. The fund's relative returns were also enhanced by its lack of exposure to the mining sector, which was the heaviest faller in January.

Invesco Perpetual – Paul Read & Paul Causer

Corporate Bond and Investment Grade Corporate Bond funds

Corporate Bond

High-yield corporate bonds began the year well, driven by positive sentiment and demand for income generating assets. From mid month, there was some weakness as concerns lingered over sovereign debt and US President Obama announced further financial sector regulation. Nonetheless, spreads still ended the month tighter. According to data from Merrill Lynch, European high-yield spreads decreased by 63bps, for a 0.8% gain in sterling terms, while sterling BBB rated spreads narrowed by 50bps.

In terms of strategy, we believe that some of the more attractive investment opportunities are to be found amongst higher yielding investment-grade names and better quality high-yield issuers. We also see selective value in the bonds of banks and other financials. During January, additions included investment grade positions in Catlin Insurance 7.249%, General Electric 5.5% and Northern Rock 5.625%. In high-yield, we added new issues in Virgin Media 7%, UPC (cable) 7.625% and Kerling (chemicals) 10.625%. Sales included Citigroup and Ford Motor.

Investment Grade Corporate Bond

Corporate bond markets began the year well, driven by positive sentiment and demand for income generating assets. From mid month, there was some weakness as concerns lingered over sovereign debt and US President Obama announced further financial sector regulation. Nonetheless, spreads still ended the month tighter. According to data from Merrill Lynch, sterling A rated spreads declined by 30bps, while BBB rated spreads narrowed by 50bps.

In terms of strategy, we believe that some the more attractive investment opportunities are to be found amongst higher yielding investment-grade names. In particular, we continue to find selective value in the bonds of banks and other financials. During January, we added further to a range of financials including Royal Bank of Scotland, Credit Suisse, Santander and Barclays. Elsewhere we added to British Telecom, Cadbury Schweppes and EDF Energy as well as General Electric preference shares. Sales included Rentokil and Pearson.

J O Hambro Capital Management – John Wood

Manager of one half of the UK and General Progressive portfolio

The portfolio outperformed the FTSE All-Share Index in January in a month when a combination of concerns over proposed US banking regulations, sovereign risks and a tightening of monetary policy in China weighed upon equity markets. Tobacco stocks Imperial Tobacco and British American Tobacco both made positive contributions to performance.

We perceive that the noise levels in the equity market have increased. We attribute this partly to a lack of capacity withdrawal on the sell-side investment community, indeed there has been a proliferation of firms all chasing significantly reduced market volumes. For example, ICAP has just reported that volumes in the cash equity market were down 38% in Europe and 24% in US during last year. The temptation for investors to listen to the noise, chase sector rotations and try to time the market is therefore greater than ever. As always, we will try to resist such temptations. We are more interested in the big picture, particularly the long-term trajectory of cash flows, and we like to back CEOs and senior management teams who have the same long-term perspective.

Liberty Square Asset Management – Peg McGetrick

Manager of one half of the UK and General Progressive portfolio

The fund's strategy is to invest in a diverse portfolio of companies listed on the London Stock Exchange that are undervalued by the market based on variables including valuation of assets, earnings potential, growth opportunity, quality relative to valuation, management capability, balance sheet properties, and strategic positioning.

Following the investor caution which prevailed through the year end, early January saw risk appetite briefly return before momentum succumbed to fears around the start of monetary tightening globally. The best performing positions in January were New World Resources, which gained 18%, and Delta, which was up 13%. Senior also continues to perform strongly, up 12% for the month. New World Resources appreciated on the back of significant upgrades to coal price assumptions after China became a net importer. Analyst estimates and target prices were increased by up to 90%. Our view that these revised expectations were unrealistic was validated by a trading statement since the month end, as a result of which we have begun

reducing the position. Delta's strong performance followed an in-line trading statement and the announcement of a net cash balance which equates to almost 60% of the group's market capitalisation. The company's triennial pension fund valuation has been concluded and management have announced their intention to sell the South African listed subsidiary. Disposal proceeds will add to the cash pile, the reinvestment and / or return of which is becoming increasingly important for the company. Delta is valued at 10x this year's earnings, an ev/ebitda of under 2x, with a dividend yield of 5.2%.

The mid-month risk aversion drove a correction in commodities as a result of which the fund's oil and mining positions generated over half the negative return excluding New World Resources. But a number of the fund's defensive names also disappointed, including Vodafone and GlaxoSmithKline, down 6% and 8% respectively. Vodafone's valuation has been held well below its post-bubble average by concerns over margin pressures, regulation, economic uncertainty and competition. But the recent trading statement provided evidence of cyclical recovery which will significantly enhance the ongoing improvement programmes. We believe that market expectations for the current year are too low and that estimates momentum will strengthen in the coming months, driving a solid re-rating. The current valuation is a double-digit discount to the European peer group at 9x prospective earnings with a 6% dividend yield, despite offering 40% compound annual growth in earnings over the coming three years. It is one of the fund's largest positions. GlaxoSmithKline was knocked by government decisions to cut orders for the pandemic flu vaccine. The expected earnings which relate to these revenues represented up to 5% of this year's forecast with no contribution next year so the share price reaction looks excessive to us. The long term investment thesis is intact and rests on the solid revenue outlook with no major patent cliffs, good emerging market growth prospects, margin support from strong cost discipline and a 5.6% dividend yield underpinned by a 12% free cash flow yield.

Oldfield Partners - Richard Oldfield

High Octane funds

China, responsible for much of the cheerfulness of 2009, accounted for some of the cheerlessness in the start to 2010. Monetary tightening caused concern not only there but around the world. Among the weakest performers were mining companies, demand for whose products is so dependent on China. During January we sold all of the position in Rio Tinto which was bought first in February last year at a time when the market capitalisation of the company was \$70 billion and the value attributed to the Australian iron ore operation alone was \$58 billion. Now the market capitalisation is \$120 billion. The sum of the parts is no longer so persuasive. On long-term valuation measures (such as price to book ratio) the valuation has reached our objective, and in terms of fundamental news – Rio Tinto reported excellent production and pricing figures –things might be just about as good as they get. During the month Rio Tinto's price fell 9%.

Two other shockers were Legg Mason and Vivendi. Legg Mason reported a decline in assets under management because of continuing outflows at its largest subsidiary, Western Asset Management. This is concerning, but the valuation remains compelling. Vivendi was found liable for damages in a US class action law suit relating to the actions of management, at that stage under the leadership of the aptly named M. Messier, between 2000 and 2002. Oddly, the executives concerned were found not liable. The case will drag on for at least another 18 months; it may well be a cloud over the company, but it is not likely to impact Vivendi's dividend policy

and, with an 8% dividend yield and a price earnings ratio of 9 we continue to find this unfashionable conglomerate attractive.

Nintendo and Nokia were the two best performers, up 15% and 14% respectively. Sales of Wii consoles in the US were excellent in December and three of the Wii games launched in 2009 had sold more than ten million units by the end of the year. This is a remarkably cheap stock, over laden with worries that the Wii technology is inferior to that of Sony and Microsoft. Net cash and marketable securities amount to more than 30% of market capitalisation, and the dividend yield is nearly 4%.

Nokia announced encouraging results: the company's market share in smartphones has risen from 35% to 40%, and handset margins overall have recovered to more than 15%. Rather as with Nintendo, there have been tremendous doubts about the fundamentals of this company, with concern both that technologically others are overtaking it and that in terms of brand it no longer has the cachet that it once had: in the developed world Nokia is no longer cool, and the emerging world people do not aspire to own a Nokia specifically as they did a few years ago. But the most recent results showed this version of the company's standing to be simplistic. Like those of Nintendo, Nokia's shares are astoundingly cheap, priced for all sorts of things to go wrong, at roughly ten times earnings, and again with a first class balance sheet.

A strong balance sheet is one aspect of a high quality company. We continue to emphasise quality, not only because it is a good thing in itself but because it happens that high quality companies are unusually cheaply valued in stock markets at the moment, for reasons which are not very clear. In some ways the position is reminiscent of 2000, when many strong, successful companies with good brands, balance sheets and track records were relatively, even absolutely, neglected because investors had flocked to the exotic of tech and telecom. One of Warren Buffett's aphorisms is that if you are playing poker and you cannot see who the patsy is, the patsy is you. This worries us because we cannot see, as was more evident in 2000 to those of us who think about valuations as we do, what is horribly expensive. We would like to be able to point to a couple of patsies. But we can at least see, we think, what is cheap, and it includes the quality represented by, for example, Johnson & Johnson, Heinz, Pfizer, Nokia, Nintendo, and arguably the more cyclical Canon and Fanuc.

The other area we continue to emphasise, and with especial enthusiasm since October, is Japan, which ticks two important value boxes: cheap and cheerless. Just in the last couple of months we have had a glimpse of what Japan, as a market, could be capable of, and a twinkle of interest among investors who had all but given up. We currently have in the portfolio four Japanese stocks: Canon, Fanuc, Nintendo and Mitsubishi UFJ.

RWC Partners - John Innes

UK Growth funds

January was a mixed month for the markets. 2010 started on a positive note but the second half of the month, however, was increasingly disappointing as the triple worries of US bank regulation, Chinese monetary tightening and Greek debt concerns outweighed a very successful US earnings season. From the mid-month peak, the All Share index fell c. 6%. The small caps performed the best of the size groupings and were the only group to offer positive absolute returns, whilst at the sector level, commodities were the worst contributor.

The Fund succumbed to the general market weakness but improved on a relative basis, assisted by the underweight to mining and size bias. The most positive areas for the Fund were the Mid-

caps, in particular the Gaming and Pub stocks in the Leisure sector (helped by the Playtech earnings update) and the Industrials. The main negative influences were the large-cap stocks such as Glaxo, Shell, Prudential, National Grid and Vodafone – the solid base of high yielding economically resilient companies which remain attractive on valuation grounds –with dividend yields greater than their corporate bond yields. Portfolio activity was limited over the month, although the smallholding in Punch was added to following the good updates by other pub companies.

Investment Outlook

The combination of worries mentioned above and the decision by some high profile traders to harvest their returns from 2009 have led to the biggest fall in "risk assets" since they started to recover from the financial crisis of last March. This has led the structural bears to call this the end of the Bear Market rally and state that the equity markets are still fundamentally mired in their downward move. This is not the view of the Fund. 1) Valuations are still low, having risen generally only as far as the bottom of the 2003 bear market. 2) Cash levels are still high and equity weightings still very low. 3) The Macro-economic situation is still generally improving, markedly so in the US. 4) Corporate profits are very strong and after the aggressive cost cutting during the recession could exceed their 2006 peak in the US in H2 2010. 5) Inflation outside China and India is generally well contained and if the \$ continues to strengthen commodity prices could continue to have the headwind of the "carry-trade" unwind. 6) Without premature actions by the authorities general conditions will continue to move forward in a benign fashion. The Fund is therefore likely to remain fully invested and have a good balance of exposure to both cyclical companies and more defensive companies.

S W Mitchell - Stuart Mitchell

Continental European funds

We outperformed the market in January.

On the positive side, our more growth orientated stocks such as Autoliv and Legrand performed very well. This, however, was somewhat offset by weakness in our financial investments.

We sold our positions in Valeo, Renault and Daimler following a period of very strong outperformance. We also cut our holding in Credit Suisse. At the same time, we made new investments in Atlantia, Diasorin, Michelin, SGS and Zodiac. We also added to our holding in Software AG.

Despite the developing trauma in sovereign debt markets, we remain very positive on the outlook for European equities.

Of critical importance to us is that a large number of our companies are managing to generate much stronger earnings than the market had anticipated. Companies responded to the crisis by cutting costs not only aggressively, but also very quickly. Furthermore, demand has been surprisingly resilient in the Emerging World, and shows good, if not always consistent signs of recovery in the West. The combination of these two factors is working powerfully on margins. Surveys of expectations, furthermore, suggest that the recovery is likely to persist, and could rapidly broaden out across the world.

The macroeconomic environment remains supportive. Credit has again become more readily available, even if rates of take-up of credit have lagged somewhat. Interest rates are – and are

likely to remain for some time – breathtakingly low. Government stimulus programmes have helped to boost economic activity.

Another positive is that investors remain cautious. Many traditional institutions such as the insurance companies are still barely exposed to equities.

European shares, finally, remain good value. Though they have gone up a good deal, so too have earnings forecasts. Shares still trade on some eleven times prospective earnings. European markets also continue to trade significant discounts to the US market despite their corporate sectors being just as profitable. The historic all-time cheapness of equities relative to bonds and cash remains in place.

That there are difficulties to face is, of course, clear. At some point in the future quantitative easing will need to be reversed. The need to restore public finances in the Western World could well have an adverse impact on demand, and thus future economic development. Hints from central bankers and politicians, however, suggest that this will not become a significant issue later on this year.

The overall shape of the portfolio remains broadly unchanged, with nearly three quarters of the long book devoted to cyclical and financial shares. By way of contrast, exposure is limited in to energy producers or in businesses, such as pharmaceutical companies, whose earnings may be relatively secure, but have smaller scope for demand-led growth.

Our cyclical positions span the economy from Michelin to Arkema in chemicals. Our financials comprise a number of strong retail franchises such as Credit Agricole and the insurance companies Swiss Re and Allianz. The overall shape of the portfolio remains broadly unchanged, with nearly three quarters of the long book devoted to cyclical and financial shares. By way of contrast, exposure is limited in to energy producers or in businesses, such as pharmaceutical companies, whose earnings may be relatively secure, but have smaller scope for demand-led growth.

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S W Mitchell - Stuart Mitchell

Manager of one half of the Greater European portfolio

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On the positive side, our more growth orientated stocks such as Sage and Legrand performed very well. This, however, was somewhat offset by weakness in our financial investments.

We sold our positions in Flughafen Zurich and Credit Suisse. At the same time, we made new investments in SGS and Michelin.

Despite the developing trauma in sovereign debt markets, we remain very positive on the outlook for European equities.

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Our cyclical positions span the economy from Schibsted in publishing to Arkema in chemicals. Our financials comprise a number of strong retail franchises such as Credit Agricole and the insurance companies Swiss Re and Allianz.

Wellington Management Company

Gilts funds

The positive momentum in UK housing and consumption continued into January and with the Bank of England seemingly intent on maintaining an extremely accommodative stance, the backdrop for the recovery remained in place. House prices continued to climb, outpacing expectations, while GDP came up short of expectations. The economy did expand during the fourth quarter, but more modestly than markets had anticipated, while inflationary pressures have proved more meaningful than anticipated. Rates were lower across the curve, largely as a result of a less favourable global risk environment. The yield curve flattened modestly as longer rates, particularly among 10-year rates, dipped more materially. For the month, two-year yields declined by 6 bps to 1.26%, five-year yields declined by 4 basis points to 2.76%, ten-year yields decreased by 11bps to 2.91%, and thirty-year yields declined by 3bps to 4.39%.

During the month, the Portfolio outperformed its benchmark. Allocations to select intermediate and longer-dated issues provided the majority of the outperformance during the period as 10-year rates experienced the largest declines during the month.

Overall, we remain constructive on the Gilt market, particularly in the longer-term. The household sector of the UK economy continues to show signs of life, retail sales remain resilient and the housing market has improved steadily. Inflationary readings continue to surprise on the

upside, raising questions regarding the amount of spare capacity in the economy. These positive developments notwithstanding, the sustainability of the recovery remain in question given underlying economic imbalances, including low private sector savings, ongoing contraction in credit, and the governments' large structural deficit. Additionally, the banking sector remains impaired, but UK policymakers have been among the most aggressive in responding to the current downturn. Policymakers have announced a pause and are now assessing the impact of the support provided to date.

Wellington Management Company

SJPI International Bond fund

A number of softer-than-expected economic releases weighed on sentiment during the month. Readings from the US on key sectors, including labor and housing, proved weaker than expected, giving rise to concerns regarding the sustainability of the economic recovery. Coupled with measures in China, aimed at reining in liquidity, medium-term global growth expectations were reconsidered. As risk aversion spiked higher, global government debt benefited as yields declined. The sharpest moves lower occurred among shorter-dated issues as government yield curves steepened modestly. Against this backdrop, commodities slumped and the US dollar gained, appreciating versus virtually all major currencies. The notable exception was the Japanese yen, which was a clear beneficiary of a more tepid risk environment. A number of emerging currencies, including the Brazilian real were particularly hard-hit, depreciating significantly versus the US dollar.

During January, the Portfolio returned outperformed its benchmark. Credit strategies detracted, but were outweighed by more favourable results among our country strategies. Yield curve strategies were neutral during the month while duration strategies detracted modestly. Quantitative country strategies that weighed on results in December, particularly those that favoured the US versus Germany, rebounded during January and provided a notable contribution to results. Country strategies that favoured Germany versus Italy were also favourable while duration strategies in the US and the UK detracted. An overweight allocation and less favourable security selection among corporates detracted from results while positioning among MBS aided performance.

A global recovery is underway, led by a strong rebound in industrial production, but consumer headwinds remain. Inflationary risks persist, driven by commodity prices, but deflationary pressures also exist as a result of the global output gap and Chinese tightening. Global policy responses have been unprecedented and global economies have begun to respond. The US economy has seen signs of improvement in manufacturing and housing, and unemployment appears poised to decline in 2010. In Europe, activity appears to be stabilizing, the economy bolstered by stronger exports. Employment is showing signs of stabilising, but excess capacity, weakening wages and currency strength are pushing down on underlying inflation. While signs of improvement have emerged in the UK, the sustainability of the improvement remains in question given low personal savings, continued contraction in credit, and the government's large structural deficit. Overall, while conditions have clearly improved, some headwinds remain.

The information contained herein represents the view and opinions of our fund managers, and not those necessarily held by St. James's Place Wealth Management.