



Fund Manager Monthly Report

Covering December 2009

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| <ul style="list-style-type: none">• December was a quiet month in terms of activity and there were no significant changes in geographical or sector weights• Investment performance from equities was mixed with the UK, US and European portfolios outperforming their benchmarks but we underperformed modestly in Japan and Emerging Markets | | |
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- Schroder – Nick Purves (Lead Manager) - Schroder Managed 12**
- We believe that the stocks held within the portfolios have the potential to deliver very attractive absolute returns over the coming months. We have, therefore, made very few changes to the portfolios in December
 - Additions were made to a range of holdings [in Japan], including Mitsui OSK, a major shipping line, as we feel the underperformance of the shipping sector could reverse in 2010
- Taube Hodson Stonex Partners - THSP Managed 13**
- In December, rights were taken up in Grainger and Quintain Estates by the SJP Life and SJP Pension Funds and all Funds took up rights in ING
- Aberdeen Asia – Hugh Young - Far East 14**
- Regional economies saw the pace of growth quicken in the final three months, helped by improving exports which lifted manufacturing activity, particularly in India and China
 - While Japan’s economic weakness was accompanied by a return to deflation, the rebound in economic growth elsewhere has renewed inflation fears
- AXA Framlington – George Luckraft - Diversified Income &- Allshare Income 14**
- December was a strong month for markets led by the largest stocks. Small cap stocks lagged with continued profit taking following the strong rises earlier in the year
 - This impacted performance as did falls in some consumer orientated stocks such as Holidaybreak and Topps Tiles
- Burgundy Asset Management - One half of the Greater European portfolio 15**
– Ken Broekaert
- Regardless of the economic outlook, Burgundy always seeks companies that are not overly reliant on a buoyant economy
 - Burgundy swam against the current during the recovery by continuing to upgrade quality when it was available at attractive prices
- Invesco Perpetual – Neil Woodford - Income Distribution, UK Equity & UK High Income 16**
- The share prices of many quality growth businesses did not fully participate in 2009’s rally and we believe that the outstanding valuations in these areas will see them lead the UK market in the future
 - Accordingly, we continued to build positions in shares that we believe offer excellent value and attractive earnings prospects
 - This included additions to our existing holdings in AstraZeneca, BG and GlaxoSmithKline
- Invesco Perpetual - Corporate Bond & Investment Grade Corporate Bond 17**
– Paul Read & Paul Causer
- High-yield corporate bonds saw only their third monthly fall of 2009 according to data from Merrill Lynch
 - During December, we added to a range of companies with attractive yields
- J O Hambro Capital Management - One half of the UK and General Progressive Unit Trust 18**
- John Wood
- The portfolio outperformed the FTSE All-Share Index in December as the stock market rallied into the year end
 - At the stock level, Cobham and Smith & Nephew both added value, while VT Group and Amlin weighed on returns

| | | |
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| Liberty Square – Peg McGetrick | - One half of the UK and General Progressive Unit Trust | 18 |
| <ul style="list-style-type: none"> • Year end risk control among investors probably contributed to the December outperformance of defensive positions, of which British American Tobacco, BAE Systems and Centrica were beneficiaries, each gaining 10% | | |
| Oldfield Partners – Richard Oldfield | - High Octane | 19 |
| <ul style="list-style-type: none"> • During the month, in which world equity markets continued to make progress, there were three shares in the portfolio whose prices fell in local currency terms: ConocoPhillips (-1%), eBay (-4%), and MUFG (-6%) • The share prices of three holdings rose by 9% or more: Canon (+19%), Fanuc (+21%), and Rio Tinto (+10%) | | |
| RWC Partners – John Innes | - UK Growth | 20 |
| <ul style="list-style-type: none"> • The better relative performance from the more defensive sectors of Healthcare, Personal & Household Goods, Food & Beverage and the underperformance of Financials in the final quarter in part reduced the heavy polarisation of sector performance seen in the two previous quarters which was based on cyclical recovery and beta | | |
| SW Mitchell – Stuart Mitchell | - Continental European | 21 |
| <ul style="list-style-type: none"> • Amongst key positions, our holdings in LVMH, Daimler and Assa Abloy performed best • We made new investments in Norsk Hydro, Autoliv and Zodiac, and added to existing positions in Legrand and LVMH | | |
| SW Mitchell – Stuart Mitchell | - One half of the Greater European portfolio | 22 |
| <ul style="list-style-type: none"> • Amongst key positions, our holdings in Schibsted, GAGFAH and Accor performed best • We made a new investment in Autoliv | | |
| Wellington – Haluk Soykan | - Gilts | 23 |
| <ul style="list-style-type: none"> • During the month, the Portfolio underperformed its benchmark, lagging the return of the FTSE Actuaries All UK Gilt Index • As rates moved materially higher, particularly among longer-dated issues, the Portfolio came under pressure | | |
| Wellington – Haluk Soykan | - SJPI International Bond | 24 |
| <ul style="list-style-type: none"> • Credit strategies were favourable, but outweighed by less favourable results among our country and duration strategies • An overweight allocation and favourable security selection among corporates aided credit strategies while positioning among CMBS detracted modestly | | |

AXA Framlington – Richard Peirson

AXA Framlington Managed funds

December was another positive month for equity markets and for the Fund. Abu Dhabi's help for Dubai was initially good for sentiment, though the banks still underperformed as concerns emerged again about minimum capital ratios and that more equity capital might be required. We saw some profit taking in smaller or riskier situations ahead of the year end and larger companies outperformed. Apart from miners which again benefitted from strong metal prices, defensive sectors such as tobacco, pharmaceuticals and food producers outperformed.

December was a quiet month in terms of activity and there were no significant changes in geographical or sector weights. In general, new money was used to add to existing positions. In the UK, however, we made a new investment in Tate & Lyle, the international sweeteners business, where we were attracted to the modest valuation, high yield and new management team.

The Fund return was again respectable in absolute terms but unexceptional in relative terms. Investment performance from equities was mixed with the UK, US and European portfolios outperforming their benchmarks but we underperformed modestly in Japan and Emerging Markets. Bond returns were in line with benchmark.

A period of consolidation, after recent strength, would not be a surprise but equities still look the most attractive asset class. After the re-rating of equity markets that occurred in 2009, earnings growth will be the key to returns in 2010 as the scope for a further rerating looks limited. With the economic recovery likely to be sustained we expect significant earnings growth to be achieved which will at worst sustain equity prices and hopefully generate respectable returns during the year. In the UK the general election may generate some volatility in both equities and gilts but so few of our investments depend largely on the health of the UK economy that any weakness in sterling that resulted would likely benefit our equity holdings, while our gilts portfolio is defensively invested.

GAM – Andrew Green

GAM Managed fund and the Recovery Unit Trust

The environment for equity investment remained broadly supportive in the fourth quarter and world markets continued to rise, albeit at a reduced rate. Spurred on by abundant liquidity and the authorities' 'whatever-it-takes' policy approach, investors have returned wholeheartedly to risk assets. The initial early optimism has been followed by tangible evidence that the highly reflationary policy is beginning to have the desired effect. The resulting bounce in equities has been amplified in emerging markets and related assets, whose prospects appear particularly attractive relative to the more anaemic developed economies. The degree of euphoria in emerging markets and commodities is somewhat reminiscent of the technology bubble 10 years ago, and offers minimal attractions to the contrarian investor.

The fund's underperformance of the benchmark during the quarter was explained by two main factors: its zero weighting in mining, which continued to perform strongly, and profit taking in small and mid caps that had led the bounce earlier in the year. Our overweight in technology continued to add to performance, while Japan showed encouraging signs in December as

policymakers appeared to take new steps to deal with the country's economic problems. Nonetheless, Japan's Topix index gained just 7.6% in 2009, which meant that it lagged other major markets and proved a meaningful drag on performance for the full year. The strong gains of 2009 will prove hard to repeat and investors have good reason for caution as we enter 2010. The sustainability of economic growth and recovery, in the face of probable monetary and fiscal tightening, is likely to remain the principal investment debate of the coming year. This is significant as the substantial re-rating of equities suggests that further progress will be more reliant on earnings than multiple expansion. In this potentially volatile environment, stock-picking is likely to become a more significant driver of performance. We are happy to maintain our blended investment approach, but believe that several of our long-term restructuring stories will also yield rewards over time.

Invesco Perpetual - Neil Woodford (Lead Manager)

Invesco Managed funds

United Kingdom

The UK equity market ended 2009 with a flourish, as reflected by the 4.2% rise in the FTSE All-Share index over December. The month saw a rotation out of cyclical sectors into defensives, with tobacco, food producers and utilities performing particularly well. In terms of market capitalisation, the large-cap FTSE 100 index rose 4.3%, the mid-cap FTSE 250 index rose 4.4%, while the FTSE SmallCap index rose 2.2%.

The Bank of England's Monetary Policy Committee voted unanimously to keep interest rates unchanged at 0.5% at the December meeting. Inflation, as measured by the consumer prices index (CPI), came in slightly higher than expected in November, rising to 1.9% year-on-year (y-o-y) from 1.5% y-o-y in October (the consensus estimate was 1.8% y-o-y). Higher fuel prices exerted the largest upward effect on CPI. With inflation now just shy of the Bank of England's 2% target, expectations are growing that CPI will rise above 3% in early 2010 due to the influence of higher fuel prices in annual comparisons and the return to 17.5% VAT.

Economic news was mixed over the month. In terms of upbeat news, the labour market began to show signs of improvement, with the number of people claiming benefits unexpectedly dropping by 6,300 in November — the first fall since February 2008. Also encouraging was the slowdown in the rate of increase in the number of people unemployed; between August and October 2009, the number of people unemployed rose by 21,000, taking the total to 2.49 million — the smallest rise since the March-to-May 2008 period. There was also good news on UK manufacturing, with the PMI index rising from 51.8 in November to 54.1 in December.

On the negative economic news front, there was a surprise fall in retail sales volumes over November, which raised concern over the health of the UK economy and raised doubts about just how likely it is that consumers can help pull the country out of recession. According to retail sales data from the Office for National Statistics, the reading for November was down 0.3% month-on-month (m-o-m) compared to a rise of 0.6% m-o-m in October, much worse than the rise of 0.5% m-o-m which had been expected. Elsewhere in the economy, third quarter GDP was revised marginally higher to -0.2% y-o-y, which disappointed the market which was looking for a stronger upward revision.

In the Pre-Budget Report, the most notable news was the 0.5% increase in National Insurance contributions, as well as the 50% tax on bankers' bonuses in excess of £25,000.

US

US equity markets recovered from the negative reaction to Dubai World missing a scheduled debt repayment and posted further gains over December. The Dow Jones Industrial Average and the broad S&P 500 index finished 0.8% and 1.8% higher, respectively. The technology-orientated Nasdaq and the smaller companies Russell 2000 indices were stronger, returning 5.8% and 7.9%, respectively. IT, utilities and telecom services led the sector gains, with consumer discretionary also buoyant as retail sales for November exceeded expectations. Financials suffered, however. Citigroup and Wells Fargo announced they would repay their bailout funds under the Troubled Asset Relief Program. Unfortunately for Citibank, Wells Fargo beat it to the market to raise US\$10.4bn in an offering, sating some of the appetite of the market. Despite being able to raise US\$17bn, Citibank received a relatively low price for its share issue, forcing the Treasury Department to shelve its plans to sell US\$5bn of stock it owned in the company amid some acrimony.

Economic news continued to list improvement in a number of important areas, including those related to manufacturing and housing. Manufacturing surprised on the upside, with the ISM manufacturing index coming in at 55.9 in December, up from 53.6 in November (a reading above 50 indicates expansion, below indicates contraction). Housing starts were up sharply in November and existing home sales surged to a three-year high. Initial jobless social security claims came in at 432,000 late in the month, below the 460,000 consensus estimate and the lowest figure since July 2008. Continuing claims were also less than estimated, at 4,981,000, the lowest since February 2009. The US dollar strengthened on the view that monetary policy may be tightened ahead of other nations in 2010.

In company news, General Electric sold its majority stake in NBC Universal to rival broadcaster Comcast for US\$13.75bn early in the month, although this raised some objections over the concentration of media ownership. Continuing the mergers and acquisitions theme, Exxon agreed to buy XTO Energy, a major developer of gas-shale fields, in an all-stock deal thought to be worth US\$31bn. In other news, Boeing's Dreamliner finally took to the air on December 15 after a two-year delay. Sino-America relations suffered over the month. Besides being at loggerheads in discussions over reducing carbon emissions, resulting in a watered-down Copenhagen Accord, China protested over the introduction of tariffs, and likelihood of further duties, on imports of subsidised steel products into the US after the US International Trade Commission found in favour of complaining US steel makers.

Continental Europe

European equities delivered solid gains once more during December as steadily improving economic data along with positive corporate news flow underpinned markets. Even a downgrade to Greece from credit rating agencies S&P, Moody's and Fitch could not dent the upward momentum, resulting in a strong end to a fine year for the asset class. Basic materials led the way in December, while utilities were also strong. Financial and telecom sectors were at the other end of the spectrum.

In macroeconomic news, the German Ifo business sentiment index moved up once more, taking the index to its highest level since July 2008. The increase was a touch sharper than expected although sentiment is now rising far more modestly than during the summer. Latest news from

the consumer sector was also encouraging, suggesting that households may be starting to respond to looser monetary and fiscal policy. French consumer spending on manufactured goods is expected to be strong in the final quarter of 2009, while Italian consumer confidence rose to its highest level in over seven years. Elsewhere, December's fall in German unemployment was an encouraging sign for the consumer sector, particularly when taken together with this year's income tax cuts.

December's rise in eurozone CPI inflation, from 0.5% to 0.9%, was in line with the consensus forecast and left the rate at a ten-month high. December's rise in the oil price had pointed to an increase in annual energy inflation that could have caused the entire 0.4 percentage point rise in the headline rate. Energy effects might push inflation up a little further over the next few months but, unless oil prices rise very sharply, it is likely to remain below the ECB's 2% ceiling and certainly far beneath the peak of 4% reached in 2008. More importantly, underlying price pressures in the eurozone remain extremely subdued. Consumers' inflation expectations and developments in producer prices point to a very sharp drop in core inflation to come. Furthermore, many argue that the increases in unemployment will soon cause wage growth to fall, meaning that deflation may be the bigger risk for the future.

In currency news, the euro lost considerable ground against the US dollar. Speculation that there would be further downgrades to European nations following the lower rating for Greece hurt the euro which lost 4.5% against the US dollar during December. Despite the December fall, the euro still gained 2.5% and 5% against the US dollar and Japanese Yen respectively, over the course of 2009. However, against sterling, the euro fell around 7% during the year.

Asia Pacific

Asian equity markets rose in December as economic and corporate news pointed towards further progress in the new year. During the month, China's annual Economic Work Conference (EWC) detailed the priorities for economic policy in 2010 and emphasised their intention to maintain existing macro-economic objectives. The EWC also announced spending priorities and reforms aimed at encouraging domestic consumption, which is considered an integral part of the long-term re-balancing of China's economy. Prevailing economic data continued to underline the strength of China's recovery as industrial production, exports and imports all showed continued strength. In Australia, interest rates were raised for the third consecutive month, with November employment numbers particularly strong. Australian quoted Axa Asia Pacific was a notable mover, as the group accepted a A\$13.3bn (US\$12bn) bid from National Australia Bank. The growing economic co-operation between China and Taiwan was also a feature as ICBC, China's largest mainland bank, was rumoured to be interested in acquiring a 20% stake in Taiwan's Cathay Financial Holdings. This followed the signing of an economic Memorandum of Understanding between the two countries, permitting capital investments in each other's financial institutions.

Japanese equities were higher in the final month of the year, with the domestic economy dominating newsflow. Third quarter GDP growth was revised down heavily, from an initial estimate of 4.8% (annualised) to 1.3%, with the difference was largely attributed to weaker than expected corporate expenditure. However, amid fresh concerns about deflation, the Bank of Japan made ¥10 trillion (US\$115bn) available to banks in 3-month loans and the government unveiled fresh stimulus measures, valued at ¥7.2 trillion (US\$81bn), concentrating on employment, environmental initiatives and support for specific regions. December also saw the latest quarterly Tankan survey, which showed that confidence among large manufacturers had strengthened, with further modest improvement expected in the first quarter of 2010. At

corporate level, Tokyo Electron, the world's second largest maker of chip manufacturing equipment, issued a positive trading statement as orders in the three months to December exceeded expectations. Volkswagen agreed to buy a 19.9% stake in Suzuki Motor for ¥222.5bn (US\$2.5bn) and Panasonic's deal to buy 50.2% of Sanyo Electric was approved by regulators, giving the company a leading position in hybrid and electric car batteries. Banking stocks were active, rising on reports that the introduction of stringent new capital requirements could be implemented over the long-term, before retreating as the Basel Committee on Banking Supervision formally recommended the end of 2012 as the deadline.

Fixed Interest

Corporate bond markets gave back some of their recent gains following weakness in government bonds after negative rating actions on Greek sovereign debt. S&P downgraded Greece to BBB+, less than a week after placing Greece and Portugal on negative watch. Moody's and Fitch also downgraded Greece's debt with the outlook remaining negative. The yield on the 2-year Greek government bond rose by 162bps while Greek banks saw spreads widen sharply in response. Elsewhere, the government of Abu Dhabi agreed to provide US\$10bn to the Dubai Financial Support Fund. The money will be used to satisfy upcoming obligations of Dubai World, which had asked creditors for a six-month delay on repaying its debts during November. Government bond issuance remained high in the UK and US although December was a relatively quiet month for eurozone issuers, with most countries having already completed their 2009 borrowing requirements. Over the month, the yield on the 10-year benchmark bond rose by 49bps, 64bps and 23bps in the US, UK and Europe respectively.

According to data from Merrill Lynch, sterling BBB rated spreads narrowed by 25bps although they suffered a 0.8% fall in value, the first monthly fall seen since March 2009. European high-yield spreads decreased by 58bps while sterling Tier 1 bank debt saw spreads narrow by 34bps. Citigroup and Wells Fargo became the final two banks to announce plans to exit the US government's Troubled Asset Relief Program (TARP), announcing they would issue new shares worth US\$20bn and US\$10bn respectively to repay TARP funding.

In the UK, the Monetary Policy Committee voted unanimously to keep the quantitative easing asset purchase plan at £200bn and Bank Rate at 0.5%. The minutes reported that little had happened to change the economic and inflation outlook since November, and so no change in policy was warranted. In his Pre-Budget Report, the Chancellor announced little change to the forecast for gilt issuance. Borrowing is expected to be £178bn in the current fiscal year (previously £175bn) and £176bn in 2010-11 (previously £173bn). The public debt ratio is projected to rise to 78% by 2014-15. Annual UK CPI inflation rose from 1.5% in October to 1.9% in November, the largest upward pressure came from fuels and lubricants, where prices rose by 2.8% between October and November this year but fell by a record 8.3% a year ago. The RPI measure increased, for the same reasons, from -0.8% to 0.3%. Sterling three-month interbank lending rates remained unchanged at 0.61%.

Jupiter Asset Management – Ian McVeigh

Jupiter Cautious funds

Most major global equity markets continued to gain ground in December as firm economic newsflow further supported investors' risk appetite. UK equities saw a strong year-end rally, enabling the FTSE 100 index to achieve the highest annual return in 12 years over 2009 in the

last quarter. The FTSE All Share index gained 4.3%, while the FTSE World Europe ex UK index rose 2.6% in sterling terms. In emerging Europe, the MSCI EM Europe 10/40 index returned 5.6% in sterling terms.

Government bond markets fell in December, as investors switched into riskier assets. The Bank of England maintained interest rates and left its asset purchase programme unchanged. The European Central Bank also kept its key interest rate unchanged but indicated there would be a gradual withdrawal of emergency measures in 2010.

The fund slightly underperformed its benchmark.

The UK portfolio had a month of disappointment as banks continued to see profit-taking which hit our position here. On the other side, we saw significant gains from our holdings in leisure company Whitbread and satellite telecoms operator Inmarsat. We acquired a new position in Tenon through its share sale following a significant corporate acquisition. The deal makes it one of the larger players in the UK accountancy market.

The fund's European portfolio has had a good year and again slightly outperformed its benchmark in the quarter. Our holding in Anglo-Dutch publisher Reed Elsevier made a positive contribution to performance after the stock had lagged in recent months. Fresenius Medical Care, a dialysis services group, continued to contribute positively and we locked in some profits following strong performance. During the month, we added further to our positions in electronic equipment maker Aixtron and Oriflame Cosmetics, taking advantage of some share price weakness.

The emerging European portfolio produced a strong absolute return, as well as significantly outperforming its benchmark. It benefited from our earlier decision to raise exposure to Russian stocks geared to a domestic recovery, while cutting exposure to energy producers. Positive contributors included vodka maker Synergy, dairy producer Wimm-Bill-Dann and Sberbank which reported good third-quarter results. Our overweight position in Turkey was also positive for performance as it was the strongest market within the region in December. We took small profits in some positions that performed well, including Wimm-Bill-Dann and Turkey's Halk Bank.

The strong performance of subordinated financials continued to hurt our bond portfolio's relative performance. We avoid these bonds not just because of their subordinated position in banks' capital structure, but more because of the uncertainty associated with the timing of repayment. We continued to bias new purchases towards high quality bonds, acquiring for example UK government-guaranteed bonds issued by Skipton and Nationwide building societies.

Good quality, short-dated corporate bonds are in short supply and spreads on such issues have fallen to levels which offer limited added value over quasi-government issues. We have, however, added to our holding in RBS 2014 senior bonds where a yield in excess of 2% over gilts was available. This is an attractive yield in the current environment and we have been comfortable adding to this maturity area. In our view, interest rates may stay near the current level throughout 2010. This is a more optimistic stance than is reflected in money markets which are pricing in a rise in three-month yields from the current 0.6% to 1.7% by the end of the year.

2009 was a good year for the UK portfolio, helped by its cyclical focus in the recovering market. We maintain a similar stance in 2010. Perhaps our most non-consensual view is that the bull story in China and emerging markets is extremely popular and could therefore be susceptible to disappointment. On the other hand, there is almost universal pessimism for the domestic UK economy and the OECD recovery in general. As a result, many shares that are driven by

expectations in these areas look lowly rated. Our biggest overweight position is in the banking sector which continues to look undervalued following the share price weakness towards the end of 2009.

Concerted action by central banks and governments has significantly improved the health of the banking system. Meanwhile, moves to reduce interest rates to near-zero and to print money have helped kick-start bank lending and slowly restore economic growth prospects. The medicine appears to be working for now. The eurozone and the US, though weak, are out of recession and the stimulatory effect of low interest rates should be supportive of corporate profits for the present. Our European holdings are dominant operators in niche areas that are able to take advantage of the numerous growth opportunities available across a range of economies.

All emerging European economies have shown signs of stabilisation towards the end of 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. This, combined with the prospect of increasing inflows from foreign investors, should result in good support for regional markets in 2010, provided the global environment remains benign.

Newton Investment Management

Newton Global Managed funds

The caution of governments and central banks about the durability of economic recovery is keeping policy extremely loose and allowing investors to gain in enthusiasm about the outlook. However, the scarcity of credit, combined with a relatively weak outlook for consumer incomes and capital expenditure, continues to point to anaemic recovery in the large Western economies. With policy set to stay loose and interest rates ultra-low for some time, 'risk assets' can see continued support, albeit with the potential for significant further volatility.

We have some useful signposts in the form of our longer-term investment themes, which provide fundamental guidance to the kind of future we face. At the top of the list is the need for the world to 'rebalance' economic activity (the subject of our global realignment theme). Of course this transition will not happen overnight and the realities of domestic political vested interests will create inertia. The trend, however, is inexorable, and the foreign-exchange markets are likely to play an important role in its evolution.

In an environment influenced by the unpredictability that goes with increased levels of government intervention we continue to favour higher-quality, larger businesses that have strong cash flows. Moreover, at the current time, the stocks of many such companies look extremely cheap, both on an absolute basis and in a historic context. If current monetary policies prove too successful and interest rates need to rise sharply, these parts of the market should be relatively insulated. Growth is likely to sell at a premium, and the challenge for China, India, Brazil and the like may be avoiding bubbles in their financial markets and currencies (where they are 'free-floating'). Similarly, the prices of real assets, such as commodities and certain real-estate markets, could rise further if loose policy, particularly that which entails monetary debasement, continues to be pursued.

In this context, the fund continues to be relatively defensively exposed at the sector level, but defensive holdings are balanced by continuing exposure to Asia ex-Japan and Brazil.

Polaris - Bernard R Horn

Worldwide Managed funds

The St. James Place Worldwide Opportunities Trust advanced during the month of December, turning in a strong performance relative to the MSCI World Index. The strength in December extended the favourable monthly comparisons that have characterized almost every month in 2009.

The commencement of the New Year accompanies expectation of a sharp improvement in economic performance throughout the global markets. After declining an estimated 2.5% in 2009, GDP is expected to advance 2.7% in the United States in 2010. The United Kingdom, Germany and France as well as most countries in continental Europe and Japan are expected to show muted single digit growth. Many emerging markets are expected to grow in excess of 3% with China and India leading the way with growth of 8% and 6% respectively.

Such expectations appear particularly fragile to many given the current economic environment. An apparent housing bubble in China is a concern. The world's monetary authorities face a delicate balance as they attempt to withdraw the stimulus without causing another downturn. Remarkably, little has been done in the way of financial reform, yet financial leverage is larger than ever. Higher oil prices in the face of continuing economic weakness make one wonder what will happen when the economy achieves a full recovery. Nevertheless, U.S. consumers, a powerful influence on world prosperity, seem to be digging their way out of the housing crisis and rebuilding liquidity as evidenced by encouraging Christmas sales, and liquidity in money markets is excellent with no near term threat of rising inflation and interest rates. The threats are widely known and the markets have a history of advancing in the early stages of recovery despite very visible concerns. On balance, we conclude that further progress is coming in 2010 and the portfolio is positioned to benefit from the resumption of growth that is expected.

The portfolio benefited from its large and diversified holdings within the Materials sector. Taken together, the Materials holdings outperformed the sector, with Metorex leading the sector and the portfolio overall. Metorex, a South African miner of copper and other minerals, has faced both operating and financial problems that look more likely to be resolved in the coming year.

Holdings within the Healthcare sector made a significant contribution in December. The portfolio holdings outperformed the health care segment by a respectable margin. The three holdings of health care insurance companies were the leaders in the month.

Investments in the British homebuilders continue to benefit from improved industry conditions and were among the stronger performers among the Consumer Discretionary sector; a sector that also made a significant contribution to the portfolio during the month.

Holdings in the financial sector performed relatively well, led by Astoria Financial, the New York based thrift institution. On the other hand, the performance of the financial holdings would have been better were it not for the decline in Bank of Ireland stock. This bank has been very volatile in the last year because of the protracted weakness in the Irish economy. The Irish government is propping up the country's financial institutions by investing and by creating the National Asset Management Agency (NAMA). The bank's Court of Directors has recommended to stock holders that they vote to approve participation in NAMA at a shareholders meeting in January. We believe that the write-downs taken on the NAMA related transactions may

ultimately lead to a recapitalization that will be more dilutive than now expected so we sold the holding during the month.

Schroder Investment Management – Nick Purves (Lead Manager)

Schroder Managed funds

United Kingdom

We believe that the stocks held within the portfolios have the potential to deliver very attractive absolute returns over the coming months. We have, therefore, made very few changes to the portfolios in December. Cable & Wireless has been an exception, however. We sold the position as a result of a continuing lack of cash flow generation and concerns about its accounting.

Europe

Activity was subdued over the month. We picked up the DnB rights issue, partly funding it through trimming our positions in Allianz and Nordea. We also trimmed Novartis to increase our position in Qiagen, which we bought last month.

United States

There were no major changes to strategy over the month.

Japan

Additions were made to a range of holdings, including Mitsui OSK, a major shipping line, as we feel the underperformance of the shipping sector could reverse in 2010. One new position was added in Haseko, a condominium builder, which appears extremely cheap having recently executed a poorly devised financing. We believe the company's fundamentals suggest significant upside. Meanwhile, the remaining position in Seven & I Holdings, a major retailer, was sold as we prefer to focus on speciality retail.

Pacific

A new position in Keppel Corp in Singapore was initiated on the back of a pick –up in momentum for its order book for offshore rig construction, while an existing position in Woodside Petroleum in Australia was added to via an entitlement offer.

Bonds

The portfolio had been broadly neutral duration throughout the month, but with a bias towards very long dated Gilts that had been supported by the Bank of England's QE programme. We closed this position in December as the QE programme appears to be close to ending (for now).

Taube Hodson Stonex Partners

THSP Managed funds and International Unit Trust

Equities continued to make progress in December. Mounting concerns over sovereign debt - triggered by Greece's plight - threatened to undermine progress, but markets proved resilient, perhaps showing that valuations are still reasonable.

Share prices have now recovered significantly from the March lows, reflecting the degree of economic stabilization which has been achieved. The worst affected sectors such as banks, insurers, property companies and other operationally and financially geared companies have recovered strongly, but valuations are still very moderate and further progress in the return to normality should see multiples move closer to previous levels.

The economic outlook does, however, remain unclear. We still need to see how global growth will cope with the coming withdrawal of fiscal and monetary stimulus. The authorities must balance the risks of recession and inflation quite finely - a difficult but not impossible task, particularly as emerging markets should continue to support global growth.

Sterling continues to trade at a depressed level, particularly against the Euro, reflecting the economic and political uncertainties in the UK. However on a purchasing power parity basis, the pound is significantly under valued. A substantial improvement in the current account can already be seen as exports are supported and imports suppressed. A clear Conservative win, which we see as likely, would improve confidence that the fiscal position will be tackled.

The non dollar funds hold considerable amounts of Sterling denominated investments as well as some Euro/Sterling hedges. This should shield the funds from the negative impact on foreign holdings should Sterling recover.

As we outlined in November's report, the improvement in the markets has spawned a number of rights issues as companies have set about repairing their balance sheets. In December, rights were taken up in **Grainger** and **Quintain Estates** by the SJP Life and SJP Pension Funds and all Funds took up rights in **ING**.

During the month we continued to buy **Alliance Data Systems**, the Texas-based technology and marketing company, which was discussed in detail in last month's report, and made a new investment in **Yum! Brands**.

Yum! Brands

Yum! Brands operates over 36,000 quick service restaurants in more than 100 countries. Its three largest brands are KFC, Pizza Hut and Taco Bell. The company is moderately valued with good exposure to emerging market growth. Its KFC chain is proving particularly popular in China where there are currently 2700 outlets (compared with 1,000 MacDonaldis). The company entered the Chinese market 10 years ago under the Pepsico umbrella. As a result, it benefits from a well-developed supply operation and a team of trained local managers. Outside China, other main growth areas are South Africa, Indonesia, France and Egypt. The company has also announced a major expansion in India in early 2010. Yum! Brands trades on a PE of 15x and a yield for 2010 of 2.6 per cent.

The sale of **Inpex**, the Japanese state gas company was completed in December - for the reasons outlined in November's report - and the holding in **Home Depot** was sold following a recovery.

Aberdeen Asia - Hugh Young

Far East funds

Most Asian markets rose in the fourth quarter, as economic data continued to improve across the region. Optimism, however, was tempered by concerns over the early withdrawal of stimulus measures and the blow to market confidence after state-owned Dubai World delayed bond repayments for its property unit. In Japan, concerns over the impact of stricter capital requirements on domestic lenders and bankruptcy woes surrounding Japan Airlines depressed the market.

For the year, Asian equities rebounded sharply from 2008's losses, helped in part by loose US monetary policy that governments around the region have been forced to replicate in order to maintain exchange rate competitiveness. Market returns for the year were generally in the 60-80% range, led by the large domestically driven markets of India and Indonesia. At the extremes, Sri Lanka posted a total US dollar return of almost 200% following the end of its civil war, while Japan's difficulties in its corporate sector due to the strong yen resulted in meagre single-digit returns.

Regional economies saw the pace of growth quicken in the final three months, helped by improving exports which lifted manufacturing activity, particularly in India and China. The rosier economic picture prompted the International Monetary Fund to upgrade its 2009 and 2010 growth forecasts and add that it believed Asia would continue to lead the global recovery. In contrast, Japan's economic growth continued to disappoint, as third-quarter growth was revised down sharply.

While Japan's economic weakness was accompanied by a return to deflation, the rebound in economic growth elsewhere has renewed inflation fears. Among the first to address this threat was Australia, where policymakers hiked interest rates three times in as many months. In India, poor monsoons drove up food prices, forcing the central bank to raise the requirement for lenders to increase their capital reserves. Towards the end of the period, China, Sri Lanka and Thailand also saw inflation accelerate. Most central banks, however, have chosen to maintain record low interest rates in order to support the incipient economic recovery.

During the quarter, the fund rose in sterling terms, outperforming its benchmark. Both asset allocation (+2.44%) and stock selection (+1.63%) were positive. Notable contributions came from Japan (+2.00%) and Singapore (+1.27%).

AXA Framlington – George Luckraft

Diversified Income and Allshare Income funds

December was a strong month for markets led by the largest stocks. Small cap stocks lagged with continued profit taking following the strong rises earlier in the year. This impacted performance as did falls in some consumer orientated stocks such as Holidaybreak and Topps Tiles. Both companies are trading well.

During the month a new holding was acquired in Invista European Real Estate in a refinancing at a discount in excess of 50% to their asset value. They potentially offer an attractive yield due to the strong underlying cash flows.

Small cap companies share prices are typically driven by news. Management have extremely cautious forecasts and there is good scope for significant outperformance against expectations. This, in combination with low ratings, provides an attractive background.

Burgundy Asset Management – Ken Broekaert

Manager of one half of the Greater European portfolio

A historic year has come to a close and Burgundy is pleased to report a very solid investment result in our European equities mandate. The portfolio's strong mid-30% return, measured in Euros was earned during three distinct market phases in 2009. First, by the March bottom, the European equity market had fallen, in Euro terms, almost 60% from its 2007 high. Second, after unprecedented government intervention, the rate of economic contraction began to decline in the second and third quarters, and the European equity market posted a dramatic recovery of 52% from the March low, but still at levels about 10% below pre-Lehman bankruptcy levels and 39% below 2007 highs. Finally, in the fourth quarter, the European equity rally was less pronounced, increasing by less than 6%. There were some signs of economic growth, albeit from much lower levels. Notwithstanding this improvement, high unemployment, low capacity utilization and record levels of debt in many countries will often act as a damper on economic recovery. Our portfolio largely behaved as we would have expected during these three phases. In the panic of the first quarter, Burgundy preserved capital far better than the market, although we were unable to avoid absolute losses. In the powerful rally of the second and third quarters, we earned strong returns, although we significantly lagged the market since many low-quality companies benefited from the huge recovery bounce, aiding the market's performance. In the less dramatic fourth quarter, we earned a solid return and again outperformed the market. Regardless of the economic outlook, Burgundy always seeks companies that are not overly reliant on a buoyant economy. The mid-single digit percentage profit decline of our portfolio companies for the first three quarters of 2009, in the midst of a tough recession, was far more resilient than what most European companies experienced. Burgundy swam against the current during the recovery by continuing to upgrade quality when it was available at attractive prices.

Colruyt SA

Colruyt provides an excellent illustration of both our investment process and our long-term approach. We had previously owned Colruyt for 6½ years, originally purchasing it in April 2002. Colruyt is the lowest-cost grocer in Belgium and is among the most profitable in the world. Its margins, return-on-capital-employed and growth figures all lead the industry. Additionally, it has a very strong strategic position, since it owns almost 90% of its locations outright, a profound advantage in a business where location is crucial and amassing a sufficiently large site is difficult. Notwithstanding Colruyt's considerable financial and strategic strengths, it is trading at an earnings multiple of about 14 times next year's earnings. What originally stood out about Colruyt, and what continues to set it apart, is the fact that it earns the highest profit margins in the industry, despite having the lowest prices and among the best customer service in Belgium. Although some of this information could be identified through in depth analysis of financial statements and company filings, a considerable measure of our understanding of Colruyt's unique attributes comes from our meetings with Colruyt's CEO, Jef Colruyt, from our visits to its Spartan headquarters and from visiting its unique stores. It becomes apparent that the majority owners, Jef Colruyt and family, are fanatics about customer service and low costs; this attitude permeates all aspects of the company's culture to an extent that Burgundy rarely sees. Colruyt's attitude and approach have translated into significant market share gains, from approximately

12% in the mid 1990s to 16% in 2002 to 23% more recently. In terms of capital allocation, management continues to make sound decisions, including strategically adding stores, increasing the dividend by 23% per year since 2001, and buying back their own shares when they are undervalued.

Valuation is fundamental to achieving attractive returns, and our ownership history of Colruyt demonstrates our discipline of buying and selling based upon a margin of safety. Burgundy originally purchased Colruyt in April 2002 at €47 per share with an enterprise value-to-earnings before interest and taxes multiple (EV/EBIT) of less than eight times and a margin of safety well above our 30% target. We sold Colruyt in October 2008 at €176 per share, or 3.7 times our original purchase price, after earnings had increased almost threefold and our margin of safety was significantly lower than other opportunities present during the post-Lehman Brothers bankruptcy panic. Burgundy redeployed the capital from the Colruyt sale into Sage and SAP (world-class software companies); both firms have subsequently returned about 25% more than Colruyt over this period. Colruyt's earnings have since grown by about 9% through the recession, yet its share price has been among the few that fell during a period when investors sought companies more closely tied to a recovery. We took the opportunity to repurchase Colruyt between July and October 2009 at an average price of €60 per share, equivalent to an EV/EBIT multiple of just over 10 times, and with a very attractive margin of safety. Given its valuation and its many enduring virtues, we expect Colruyt to provide both safety and attractive growth prospects in the coming years.

Invesco Perpetual – Neil Woodford

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

UK stocks posted further gains in December, to close the year just below their 2009 highs. In terms of newsflow, economic data failed to provide a definitive picture of the near-term outlook, while corporate earnings were generally solid. House price data supported the recovery theme as the Royal Institute of Chartered Surveyors' house price survey for November reached a three year high. Consumer sentiment remained around an 18 month peak and employment data also showed some signs of stabilising. However, an unexpected fall in retail sales during November and lacklustre manufacturing data suggested that the outlook for the UK economy remains uncertain. Moody's put further pressure on the government by suggesting that the UK's debt to GDP ratio could put its current sovereign debt rating in jeopardy and the Chancellor's pre-Budget report lacked any real substance as difficult decisions were postponed ahead of the upcoming election. Trading updates from both Tesco and Sage were robust, with the latter announcing an increase to its dividend.

Fund Strategy

The fund is currently focused on companies that we believe have resilient earnings, can deliver sustainable dividend growth and those that in many cases have global operations. We continue to seek opportunities to invest in companies where we believe these characteristics are not fully recognised in share price valuations. In our view, companies in the pharmaceutical, tobacco, utilities and telecom sectors demonstrate these qualities and accordingly the fund has significant exposure to these areas. The share prices of many quality growth businesses did not fully participate in 2009's rally and we believe that the outstanding valuations in these areas will see them lead the UK market in the future. The combination of undervaluation and earnings

reliability give us confidence that these businesses will regain the premium to the market that they have historically enjoyed.

In December, there were a relatively small number of changes to the fund's underlying holdings.

While the month saw early signs of rotation towards the kind of dependable, undervalued companies that we favour, many still remain cheap in our view. Accordingly, we continued to build positions in shares that we believe offer excellent value and attractive earnings prospects. This included additions to our existing holdings in AstraZeneca, BG and GlaxoSmithKline.

Fund performance

December witnessed a degree of change in those sectors that led the market higher, which moved away from cyclically orientated groups towards those companies which have more reliable revenues and generally more attractive valuations. Among the strongest performers were the tobacco, household goods, support services and aerospace and defence sectors, all of which are well represented within the fund. The fund also benefited from having no exposure to the mining and banking sectors, which were among the small number of areas to close the month in negative territory.

Invesco Perpetual – Paul Read & Paul Causer

Corporate Bond and Investment Grade Corporate Bond funds

Corporate Bond

High-yield corporate bonds saw only their third monthly fall of 2009 according to data from Merrill Lynch, falling by 0.6%, although spreads did narrow by 58bps. Sterling BBB rated bonds also fell but saw spreads decline by 25bps, while sterling Tier 1 bank debt saw spreads narrow by 34bps. Government bond markets were weak following the downgrading of Greek sovereign debt.

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 December, we added to a range of companies with attractive yields including Novasep (chemicals) 9.625%, Rexel (electrical) 8.25% and banks, Citigroup 6.829% and Unicredit 8.5925%. Sales included Corral (oil), British Airways and Marks & Spencer.

Investment Grade Corporate Bond

Corporate bond markets gave back some of their recent gains in the final month of the year. Government bonds were weak after Greek sovereign debt was downgraded by ratings agencies. Although sterling BBB rated spreads narrowed by 25bps they suffered a 0.8% fall in value according to data from Merrill Lynch, the first monthly fall seen since March 2009. Sterling Tier 1 bank debt saw spreads narrow by 34bps.

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 December, we added further to Abbey National, Bank of America and UK Gilts. We also added a government guaranteed bond issued by Yorkshire Building Society and a new position in Aegon (insurance). We completed

the sale of the holding in US Treasuries and also sold Standard Chartered (bank) and AT&T (telecoms).

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 December as the stock market rallied into the year end. At the stock level, Cobham and Smith & Nephew both added value, while VT Group and Amlin weighed on returns.

Equity markets are starting to recognise the scarcity value of growth opportunities in a low-growth world, but in general the focus is exclusively on top-line growth in emerging markets. Hence over the last six months we have seen stocks with emerging markets exposure become overvalued. This is likely to throw up opportunities as cash-generative, growing Western-facing companies such as Carphone Warehouse, Next, Sage or Bunzl are overlooked. Given our cautious macro outlook, though, we are very conscious of the risk of value traps. We will continue to prioritise structural growth over value so long as our valuation controls are not breached, and we will not assume a cyclical return to previous peak levels of activity when assessing upside.

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 group of UK companies 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.

Macro economic data strengthened through December but the reaction of equity markets was muted as investors consolidated prior to the year end. Year end risk control among investors probably contributed to the December outperformance of defensive positions, of which British American Tobacco, BAE Systems and Centrica were beneficiaries, each gaining 10%. Defensive stocks overall are now trading back at a premium to cyclicals but this is well supported by the momentum of their earnings revisions which now exceeds that of cyclicals. We believe earnings revisions will be an increasingly important valuation metric in the coming months, having troughed at historically unprecedented lows earlier in the year. British American Tobacco, BAE Systems and Centrica continue to exhibit positive earnings momentum and to trade below their historic average valuation multiples. We have also added a new name to the fund in GlaxoSmithKline, another high quality defensive with solid revisions momentum, currently valued at around two-thirds of its long term average multiple. The fund's other new position, Senior, generated the biggest share price gain for December, up 25%. The company hit five of our long screens (among the highest hitters in the UK) and a position was established following our November meeting with management. The business is a component manufacturer for the aerospace, automotive, energy and industrial sectors. It has undergone extensive cost reduction and the balance sheet has been significantly de-gearred. Market expectations for the group are low despite reasonable visibility within its core divisions and very high operational

gearing. The current valuation is under 10x 2010 (trough) earnings with a double digit free cashflow yield and a 4.3% dividend yield.

Spice and Tullett Prebon were amongst the poorest performers for the month. Shares in Tullett Prebon, which have a beta of 1.3, continue to fluctuate with the market's risk appetite and sentiment toward the IDB sector. The stock has more than doubled over the course of the full year and, since the year end, has recouped most of December's losses of 13%. The year end valuation was under 6x earnings or 3.4x ev/ebitda. Spice was very badly affected by another knock to investor sentiment from the underperforming Gas business. The company announced interim results in December which were in line with expectations, with organic profit growth from the two core divisions of 20%. In aggregate, these divisions account for over 90% of group profits. But the third division, Public-facing Distribution continues to disappoint and has now been designated non-core. Disposals are expected in the coming months. Estimates were cut by 6% but shares fell by 16% in the month to a valuation of 6.4x prospective earnings with a double digit free cashflow yield. Rebuilding investor confidence will clearly take longer than we had anticipated. But our view is that this valuation is too low for a company with a high quality and defensive core business and a significantly de-gearred balance sheet, which has delivered 86% compound annual growth in earnings per share over the last five years and is expected to grow profits by 25% compound over the coming three.

Oldfield Partners - Richard Oldfield

High Octane funds

'Tis the season to be jolly, or at least it was. Our 2009 performance compared with the index was not much to be jolly about, but we are reasonably jolly about prospects in spite of the cloud hovering over the economic landscape, much observed and worried about over the last two years: debt. It is hard to see how governments can get themselves out of trouble without sharp increases in taxation, and if they fail to get themselves out of trouble there will be sharp increases in long term interest rates. Consumers have deleveraged a great deal but there still seems much more to go.

But two key factors which offer encouragement are the rebuilding of inventories and the potential outlook for employment. In both cases, from October 2008, when everything seemed to stop, there were extremely sharp cutbacks. Now that a more normal service has been resumed, inventories, still low at the retail level, need to be rebuilt and there are signs that unemployment may just about have peaked in the US if not in the UK. If both these things are so, then economies may grow quite significantly, more than generally expected, in 2010, and earnings would also increase more sharply than expected.

During the month, in which world equity markets continued to make progress, there were three shares in the portfolio whose prices fell in local currency terms: ConocoPhillips(-1%), eBay (-4%), and MUFG (-6%). The share prices of three holdings rose by 9% or more: Canon (+19%), Fanuc (+21%), and Rio Tinto (+10%). We have reduced the position in Rio Tinto, closer now to our target valuation, and have bought Siemens, which we feel is thoroughly committed to restructuring to raise its operating margins and which will benefit from the improvement in the German and European economy, and which has a price-earnings multiple, on our view of likely 2010 earnings, of just over 10.

The last ten years have been awful in stock markets. When the first decade of the 21st Century comes to an end on 31st December, 2010 (we take the old fogey view that since the first year Anno Domini must have been 1 rather than 0, the third millennium began on 1st January 2001 not 2000), the awfulness may perhaps have begun to subside. We see no reason why equities should not provide at least normal returns over the coming several years, perhaps above normal – so averaging around 9-10% per annum. There is still plenty of cash in investors' pockets; and there are areas of undervaluation, amongst which we would pick out high quality companies such as Johnson & Johnson, Pfizer and Heinz; and Japanese companies whose valuations have been pulverised by the general Japanese malaise of the last twenty years.

RWC Partners - John Innes

UK Growth funds

Despite all the worries over Dubai and general caution in the autumn, the UK market continued its upward rally in December reaching its yearly high in the last week of the month. The UK equity market remained dominated by the Mining sector, but there was a more broadly based move forward as the US\$ strengthened. Indeed the better relative performance from the more defensive sectors of Healthcare, Personal & Household Goods, Food & Beverage and the underperformance of Financials in the final quarter in part reduced the heavy polarisation of sector performance seen in the two previous quarters which was based on cyclical recovery and beta. This mild sector rotation led the Fund to give back a little of the strong relative outperformance achieved over the year as a whole. The Fund has maintained a zero exposure to Consumer Goods throughout the year and has remained underweight Mining, preferring to access growth in Emerging Markets through corporates rather than commodities. The positions in the domestic banks were weighed down this month not only by the widely anticipated huge Lloyds Bank rights issue, but also other large capital raisings in the sector, especially in the US, together with further worries about regulation. The Basel 3 proposals in particular were used as an excuse to try and recreate the climate of fear in the sector. On the positive side, the Fund did benefit from investors returning to some of the more resilient companies such as BAE Systems, BP, Shell and Glaxo. It was not just all about defensives and Mining as some of the more cyclical companies in the Fund that had been “resting” since September attracted buyers encouraged by the robust economic reports coming out of the US. These included GKN, Meggitt, WPP and Cookson.

Investment Outlook

The Fund's view remains an optimistic one both in terms of the world economic outlook and the outlook for the global equity markets for the next few months. For some time these reports have been forecasting a decent economic recovery and in many ways the data is coming through stronger than expected. The situation regarding US unemployment in particular seems to be better than expected, with a surprising recent fall in the unemployment rate and a chance of an imminent return to job creation. This would have all sorts of positive feedback loops, especially after a period of aggressive cost cutting by corporates, and could create the conditions of a mini-boom despite the still anxious banking sector. On a UK domestic level, however, the situation is more troubling. There is a growing sense that the UK is in a pre-election bubble of reassurance, cosseted by excessive government spending, minimal interest rates and quantitative easing. After the election, which may or may not produce a stable government, reality is likely to hit and the country is faced with an extended period of falling living standards relative to the global economy. This is a key area of concern for the Fund and any exposure to the economy is likely

to be reduced over the next few months. In conclusion, it is expected that the Fund will have a more active strategy in 2010 than 2009, as such a pro-cyclical stance as has been adopted since March will probably not be so appropriate over the coming year in full.

S W Mitchell - Stuart Mitchell

Continental European funds

We marginally underperformed the market in December.

While the majority of our larger positions performed well, this was more than offset by the poor performance of some of our investments in financials.

Amongst key positions, our holdings in LVMH, Daimler and Assa Abloy performed best, boosted by a broad range of economic data suggesting stronger than expected economic recovery. Credit Agricole and Credit Suisse, however, performed poorly, hurt by fears that the banking industry may be required to raise further capital. Eurotunnel suffered from profit taking after strong performance in previous months.

This pattern was repeated in our smaller holdings. On the positive side, our more cyclical positions including STM, Renault and ASML performed well, whilst financials such as Dexia and Banco Popolare acted poorly.

We sold our investments in Lafarge following a period of strong out-performance, and the position in Thomson, the company's restructuring plans taking longer to bear fruit than anticipated. We also sold our holding in Sulzer after indifferent performance to fund better investment opportunities appearing elsewhere. We top-sliced our investments in Renault and Valeo following a period of good price gains.

We made new investments in Norsk Hydro, Autoliv and Zodiac, and added to existing positions in Legrand and LVMH.

We remain very positive on the outlook for European equities.

Most importantly, many of our companies are managing to generate significantly stronger earnings than the market has anticipated. Companies have largely responded to the crisis by implementing cost cutting programmes quickly and aggressively. Demand, furthermore, has been surprisingly strong from the Emerging World and shows good signs of recovery in the West. Economic surveys, furthermore, suggest that the recovery could rapidly broaden out across the world.

The macro-economic environment remains supportive. Credit has become more readily available and rates remain breathtakingly low. Government stimulus programmes, furthermore, are helping to boost economic activity.

Investors remain cautious, with many traditional institutions such as the insurance companies barely exposed to equities.

European shares, finally, remain good value trading, on some eleven times prospective earnings. As I have written before, European markets also continue trade at a significant discount to the US market despite the corporate sector being just as profitable. Valued against bonds and cash, shares have never appeared so cheap.

We remain nervous, however, that the reversal of quantitative easing and the need to restore public finances in the Western World could have an adverse impact on 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 fund remains broadly unchanged.

Almost three quarters of the fund is devoted to cyclical and financial shares.

Our cyclical positions span the economy from Valeo in car components, through LVMH in luxury goods, to ASML in lithography for the semiconductor industry. Our financials comprise a number of strong retail franchises such as Credit Agricole, businesses with strong private banking activities such as UBS and Credit Suisse, and the insurance companies Swiss Re and Allianz.

S W Mitchell - Stuart Mitchell

Manager of one half of the Greater European portfolio

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This pattern was repeated in our smaller holdings. On the positive side, our more cyclical positions including STM, Renault and ASML performed well, whilst financials such as Dexia and Banco Popolare acted poorly.

We sold our investments in Lafarge following a period of strong outperformance. We also started to sell our position in Flughafen Zurich.

We made a new investment in Autoliv.

We remain very positive on the outlook for European equities.

Most importantly, many of our companies are managing to generate significantly stronger earnings than the market has anticipated. Companies have largely responded to the crisis by implementing cost cutting programmes quickly and aggressively. Demand, furthermore, has been surprisingly strong from the Emerging World and shows good signs of recovery in the West. Economic surveys, furthermore, suggest that the recovery could rapidly broaden out across the world.

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Wellington Management Company

Gilts funds

As the UK economy continued to demonstrate tangible signs of improvement, risk aversion moderated and investors eschewed the relative safety of government debt, pushing rates higher. Ongoing concerns regarding the burgeoning fiscal deficit and potentially inflationary outcomes also weighed on gilts. The Central Bank maintained rates at exceptionally-accommodative levels, as expected, during the month allowing the budding recovery to further take root. Housing prices continued their ascent, while unemployment held steady. Third-quarter GDP was slightly softer than expected, but the economy appears poised to expand in the fourth quarter, given resurgent data across a variety of sectors. Sterling was mixed during the month, appreciating versus the euro and the Japanese yen, but losing ground versus the commodity-sensitive currencies of Brazil, New Zealand, and Canada. On the back of higher long-term rates, the yield curve steepened during the month. During December, two-year yields increased by 14 bps to 1.32%, while longer-dated yields increased more meaningfully. Five-year yields increased by 21 basis points, while ten and thirty-year yields decreased by 50bps, and 33bps, to 2.8%, 4.02%, and 4.42%, respectively.

During the month, the Portfolio underperformed its benchmark, lagging the return of the FTSE Actuaries All UK Gilt Index. As rates moved materially higher, particularly among longer-dated issues, the Portfolio came under pressure.

Overall, we remain constructive on the Gilt market, particularly in the longer-term. The UK economy has shown signs that the pace of contraction is moderating, as the household sector showing signs of life with resilient retail sales and a steadily improving housing market. The economy contracted during the third quarter but looks to be expanding in Q4. Inflationary pressures, to date, have remained near the established targets of the Central Bank. 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 government's large structural deficit. Additionally, the banking sector remains impaired, but UK policymakers have been among the most aggressive in responding to the current downturn, with an additional £25bn of asset purchases announced in November taking the QE programme to a total of £200bil.

Wellington Management Company

SJPI International Bond fund

A host of better than expected economic indicators proved consistent with a global recovery, providing a favorable backdrop for risky assets and weighing on government debt. Aided by unemployment readings in the US that were well-ahead of expectations and easing systemic fears following events in Dubai, sentiment began the period on a positive note and held firm. Global government rates moved meaningfully higher and expectations for the removal of Fed stimuli were moved nearer in time. Yield curves were mixed as the US curve flattened on higher short rates, while curves outside of the US were generally steeper. As US economic indicators outpaced expectations, the US dollar gained ground, with the dollar index posting its first monthly gain since June. Higher government yields aided relative interest rate differentials and expectations for fiscal and monetary tightening were revisited in the wake of economic improvements. The currency gained versus most major currencies, performing particularly well versus the Japanese yen.

During December, the Portfolio underperformed its benchmark. Credit strategies were favourable, but outweighed by less favourable results among our country and duration strategies. Yield curve strategies were neutral during the month. Quantitative country strategies, particularly those that favoured the US versus Germany, represented the primary drag on results. Duration strategies also detracted from performance during the month, weighed down by long rates positions in the US. Positioning in US 5, 10, and 30-year issues as well as positions in German 5-year issues detracted during the month. Positioning in UK 10-year issues was more favourable in December. An overweight allocation and favourable security selection among corporates aided credit strategies while positioning among CMBS detracted modestly.

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. 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. Although the economy is stabilizing and commodity prices are higher, large excess capacity may put dampening pressure on Euro area core CPI in the months ahead. 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.