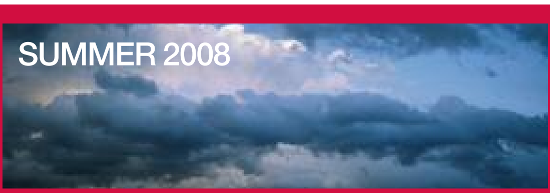
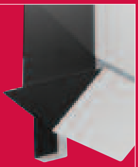


investment update

EVERYWHERE A CRUNCH
Avoiding risk

SISTERS UNDER THE SKIN
Nowhere to hide

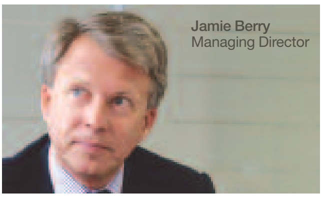


A SHIFT OF FOCUS
Feeling the pinch

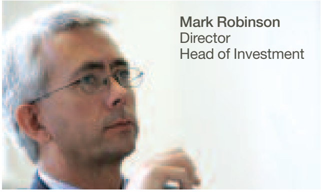
PINNING HOPES ON OLD GLORY
US to lead the way out?

BERRY

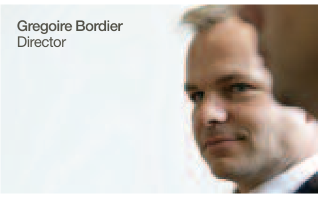
EVERYWHERE A CRUNCH



Jamie Berry
Managing Director



Mark Robinson
Director
Head of Investment



Gregoire Bordier
Director

It has been one of the worst starts to the year for global equity markets for over 25 years. There had been some hope at the beginning of the last quarter that we were through the worst of the credit crisis that had begun last summer. However, this mild optimism was short-lived, as the attention switched quite rapidly from a credit to an inflation crunch, and the real prospect of a 1970's stagflationary environment – that is, slowing economic growth and rising inflation. Global stockmarkets quickly gave up some hard fought gains and have ended the mid-year in very poor shape, with risk aversion high on investors' agenda once again.

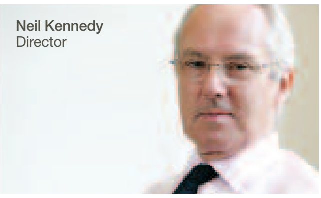
We are currently happy to have underweight positions in equity markets relative to the maxima for each risk category, and are also comfortable in many cases with higher than normal levels of cash. We do, however, need to remember that stockmarkets in particular have a tendency to rebound when least expected. We are also mindful that taking too cautious a stance can often do more long term damage than holding one's nerve through more challenging investment periods.

Overall, it has been a better quarter for the multi-asset investment approach that we adopt, particularly relative to the sharp falls in stockmarkets, but it has still been a virtually impossible task to make a positive return, with sentiment in virtually every asset class pointing in the same direction.

Our search for investments that can potentially make money, even when the general climate is poor, continues: we are increasingly attracted to some of the more innovative 'absolute return' investment funds which can take full advantage of changes in funds legislation, although we are mindful that their returns will probably look quite pedestrian when stockmarkets do recover, as we are sure they will.

Mark Robinson July 2008

A SHIFT OF FOCUS



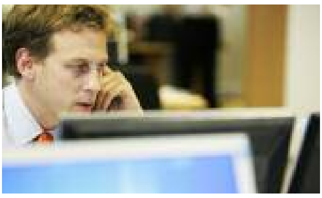
The trigger for the change in economic focus has been a series of bleak inflation reports around the world, brought about by higher energy and food prices. The price of oil has risen by almost 100% in the past year and is now heading towards $150 a barrel. Similarly, the prices of natural gas and corn have doubled in the past year. That said, other commodities, such as wheat, rice, and various industrial commodities, have seen their prices fall quite sharply. Their previous high prices are, however, still contributing to the higher inflation numbers.

There is little evidence to suggest that either significantly increased demand or bottlenecks in the supply chain are solely responsible for the spike in oil and other commodity prices. What we seem to be experiencing are the latter stages of a classic speculative bubble. General sentiment towards anything commodity related is still very bullish, with the market overcrowded with oil producers themselves trying to protect their future profitability with forward transactions, and more aggressive investors prepared to bet on yet further increases, thus driving prices higher still. Several commodity-related charts, and their equivalent stockmarket sectors, are now scarily similar to the shape of those relating to the speculative hype surrounding Technology, Media and Telecoms companies at the end of the 1990s, and we can all remember how that bubble burst.

...retailers point to a consumer that is now starting to feel the pinch.

The UK authorities have so far been cautious in their response to combating rising inflation, and this is probably right given the increasingly bleak news surrounding the domestic housing market and, more recently, consumer spending. House prices have now fallen for nine consecutive months and mortgage approvals are down by around 90%; on the high street, quarterly sales figures from bellwether retailers point to a consumer that is now starting to feel the pinch. In the last downturn, one option for consumers was to take on more credit, but this time around cheap credit is not so easy to find. This weak economic backdrop points to more challenging conditions for the UK equity market, although it may bring about a well overdue adjustment to some of the momentum-led sectors and a better period of relative performance for some of the well-managed, cash rich, ‘value’ companies which have been neglected over the past year or so. Whatever happens, the outlook for sterling does not look bright, and as a result we remain comfortable with a relatively high commitment to overseas stockmarkets for sterling portfolios.

PINNING HOPES ON OLD GLORY

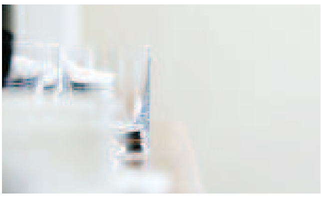


...a US recovery will probably take-off sooner than most others.

However, it is the largest and most dynamic of global economies, that of the US, which could possibly lead us out of this bleak economic cycle.

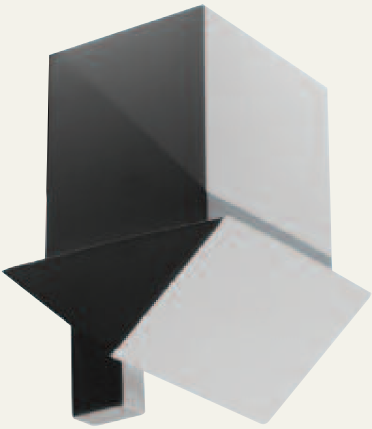
We know that the excesses which were allowed to build up in the US since the start of this millennium lie at the heart of many of the problems which have subsequently crippled the global financial system over the past year or so. But we also know that significant measures have been taken to address the credit and liquidity crisis, and that whilst it may be slow, a US recovery will probably come sooner than most others. In addition, the prospects for some, possibly significant, strengthening of the US currency relative to both the euro and sterling over the course of the next twelve months is gathering credence, so even if there is to be a further downward leg in global equity markets, being more heavily exposed than at present to dollar-based assets could provide some relative safety. It would also mean that we are likely to be first out of the blocks when stockmarkets do regain confidence and the economic backdrop improves.

SISTERS UNDER THE SKIN



Throughout this uncertain period there has been a continued high correlation between all asset classes, with very few places to hide.

Even government bonds, normally seen as safe-haven assets, fell sharply in the second quarter as inflationary concerns and the prospect of higher interest rates gathered pace. Corporate bonds fared better and still offer very attractive income returns relative to cash and seem to be trading at levels which appear to be factoring in far too gloomy an outlook on corporate default rates. Different global equity markets have been unusually closely aligned in terms of return in recent months, although Japan stands out as having produced much better relative performance in sterling terms since the start of the year. The risk/reward profiles of several structured investment funds still look appealing, but their pricing continues to be affected by the weak backdrop in equity markets. Commercial property is still suffering from the twin effects of declining asset values and lack of transactional activity, although income returns are, in the main, still holding up. Activist investors are known to be casting their eye over certain property structures and this may prompt some corporate action, enabling very wide discounts to asset value to narrow and value to be released for shareholders. Hedge funds of funds have had a better quarter and the discounts to asset value which materialised during the first quarter seem to have stabilised.



...property is still suffering from the twin effects of declining asset values and lack of transactional activity...

Risk Warning, Disclaimer and Authorisation

The value of investments, and the income arising from them, can go down as well as up, and is not guaranteed, which means that you may not get back what you invested.

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