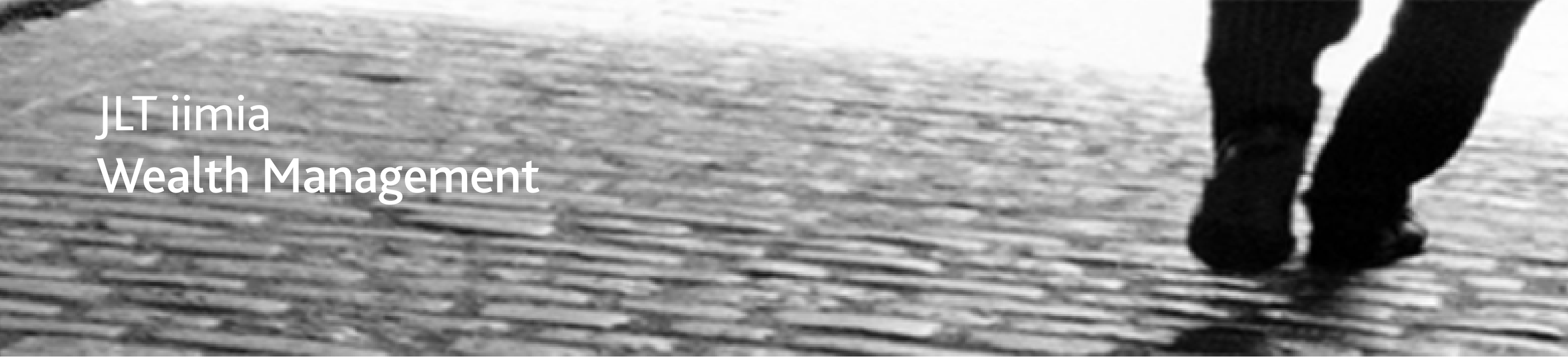


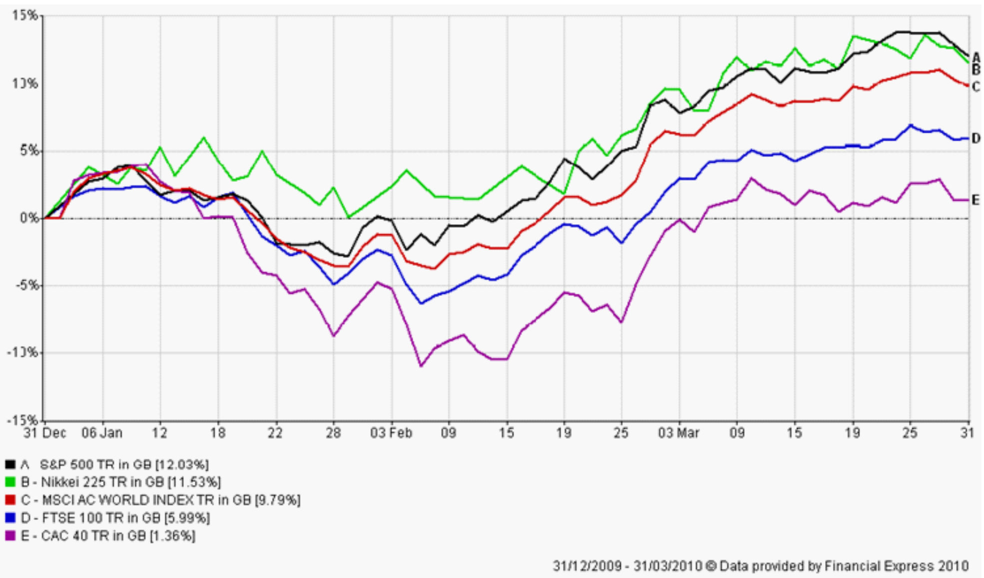
JLT iimia
Wealth Management

Investment Review
Spring 2010

On a year to date basis, the JLT iimia Discretionary Management model asset allocation added value relative to the APCIMS Private Investor Indices; when combined with fund selection this has resulted in positive contributions from:

- Diversified fixed interest exposure: relative to APCIMS the portfolios were underweight Gilts and overweight Corporate Bonds.
- Diversified equity exposure: relative to APCIMS the portfolios remain underweight UK equities and overweight international equities.
- Encouraging stock selection so far this year, including outperformance by our chosen fixed interest, Japanese and Emerging Market Funds.

We continue to believe that long-term UK investors will benefit from portfolios which are well diversified by geography and asset class. The following review and outlook gives an indication as to where we believe portfolios should be positioned.

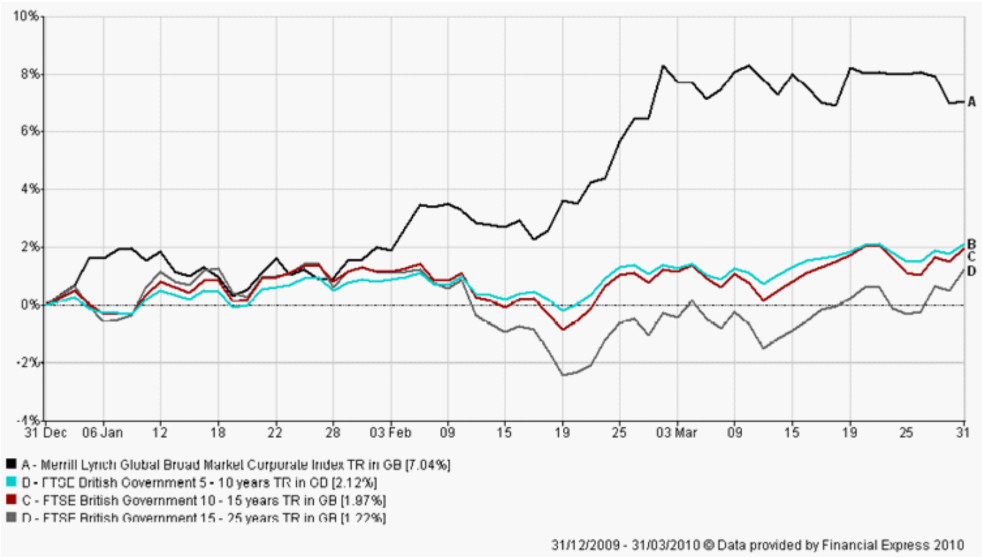


The first quarter has passed with no unexpected surprises upsetting markets but with known problems, for example the funding of Greece, proving more difficult to solve than anticipated, leading to greater short term volatility in some asset classes (bonds and currencies) than desired.

Throughout the developed world, there have been some signs of economic recovery, but at this stage it is still too early to confidently state that a double-dip recession has been avoided either collectively or in individual countries. The massive infusion of liquidity last year, in all its guises, will gradually be withdrawn (perhaps is already being withdrawn), and there is a major concern that equity prices could suffer when this happens, especially if it is perceived to be premature. However, against this there seems no likelihood of interest rates rising significantly anytime soon, making cash an unattractive option for any investor.

In most areas the outlook in April is very similar to that in January (one specific change is the UK, where first the prospect, and then the actuality, of a general election campaign has led to policy stalemate in the short-term). If the nascent economic recovery is not derailed and corporate profits (and dividends) continue to grow, 2010 should provide another year of positive returns – albeit at a much lower rate than in 2009.

FIXED INCOME



Sovereign risk continues to dominate the headlines – either an immediate crisis such as Greece, or potential crises in the US or the UK or Japan. Volatility, especially in recent weeks, has been high – but returns overall have still been positive, and similar across all sectors.

At some stage yields on UK gilts and US Treasuries must rise (and thus capital values must fall) as investors demand a better return if they are to fund the huge issuance of debt necessary to reduce government deficits. Investors should be taking profits on government bonds (and funds) in the short-to-medium term.

Investment grade corporate bonds, after their sharp recovery in price last year, have, as expected, marked time over the period. Capital values remain steady, yields are still attractive against cash and the total return expected this year from the asset class justifies its retention in portfolios.

U.S.A.

In the USA, as in other developed economies, ultra low interest rates and massive cash injections into the financial system have laid the foundations for a sustainable – albeit unspectacular – recovery.

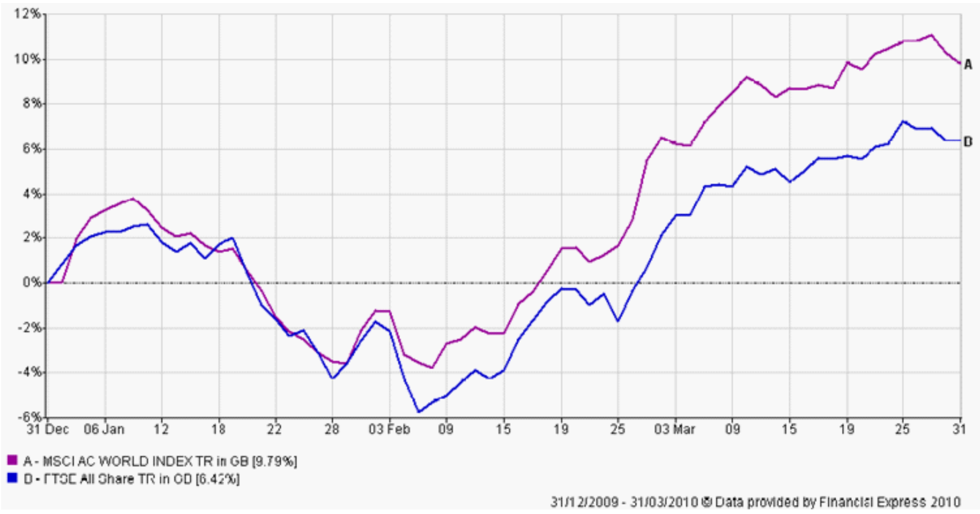
The inventory cycle has recently moved into a more investment led recovery (for example equipment investment rose 18.2% quarter-on-quarter at the end of 2009). Given the lack of investment during the crisis this trend should continue – especially as many companies have very large cash balances and strong cash flows.

The last links in the chain are the consumer and the labour market, neither of which are yet showing much sign of any improvement. The Federal Reserve's recent indication that several of the liquidity programmes mentioned above are being ended might, in time, be seen to be premature.

But as elsewhere in the developed world what is happening at a corporate level is often different – and much more positive – than at the national level. Profits, helped by cost cutting and restructuring during the crisis, are rebounding strongly. Profit forecasts are increasing.

As in Continental Europe below, US markets provide fertile territory for investment managers' stockpicking abilities. The same conclusion applies in both areas – it would be imprudent to be underweight in a portfolio. The US, its government, corporations and citizens, have a remarkable capacity to adapt to changing circumstances.

UNITED KINGDOM



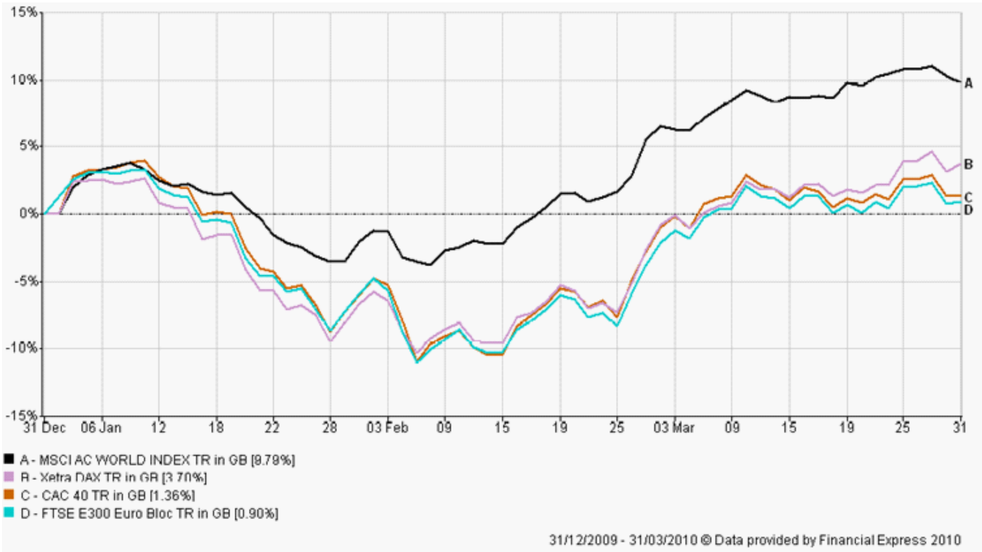
With the long-awaited election campaign in progress as we write, any forecasts for the UK economy and stock market must be problematic. The first quarter of 2010 has seen a reasonable return for investors as the equity market has reflected more on an absence of unexpected bad news than any particularly encouraging good news.

The economic problems in the UK have been publicised ad nauseam and eventually the proposed solutions to these problems will be painful – whatever party wins the election. The methods used might differ in both speed of execution and style, but the results will need to be the same – a significant reduction in the size of the national deficit.

Alarm signals about this process have so far been restricted to the gilt market – somewhat – and more obviously, the value of sterling against other currencies. After the election, whatever the result (and particularly if there is a hung parliament, last experienced in 1974) these will remain bellwethers.

Equities generally will react to the success or failure of measures to reduce the deficit from either party, and to corporate profits growth – which also will depend on how and when the necessary cuts are made. The FTSE, however, could continue to perform quite well given its constituents lack of dependence on the UK economy, and the likelihood of greater growth overseas going forward.

CONTINENTAL EUROPE



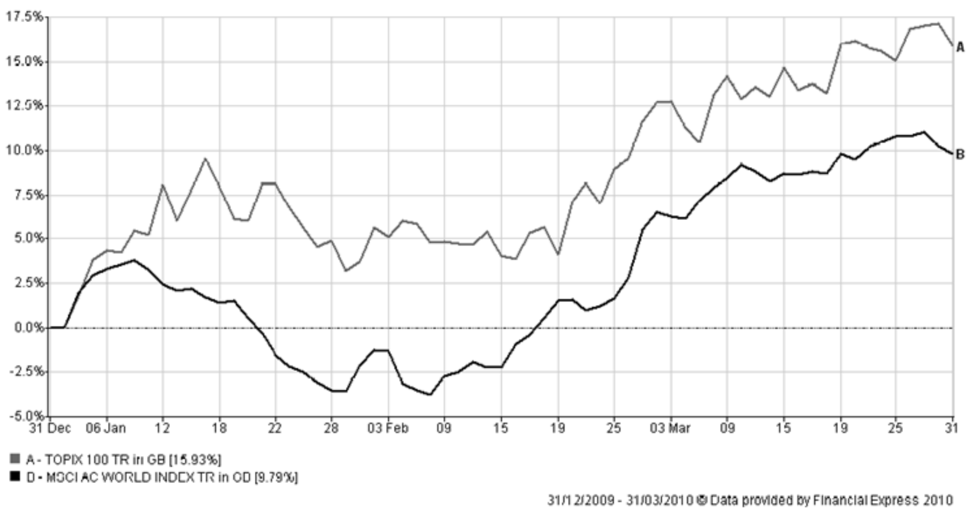
The first quarter of 2010 has been dominated by events in European bond markets (and resulting concerns about the stability – or even survival – of the euro) leaving equities to be somewhat overshadowed.

The problems of Greece, and the various suggested solutions, have highlighted the stresses within the eurozone that many commentators have predicted since its inception. The assumption that monetary union will lead inexorably to fiscal union can no longer be made. Portugal, Italy, Spain, Ireland, in varying degrees, are all in the same boat and the consequences of any bailouts will reverberate throughout Europe – both politically and economically – for years to come. It is unlikely that, in the short term at least, the euro is a strong currency.

But – and it is a significant but – many European companies have taken the opportunity, as in the US, to cut costs, reorganise and improve margins during the recession. Now that many European countries are seeing some recovery, corporate profits will grow sharply and shares as a result look good value against government bonds and cash.

In the long term, as mentioned elsewhere, we prefer to invest in developing markets rather than developed. However, in the shorter term, like the US, opportunities abound for good managers to exploit, and a neutral position in the area is recommended.

JAPAN



Japanese markets have seen a positive first quarter of 2010 as the economy has continued its generally improving trend and, after many years of neglect, foreign investors have returned (even if only on the basis that Japan was so cheap relative to other markets it had to pick up sometime).

To give some examples, exports rose 45% over the previous year in February, industrial production rose 31% and machine tool orders tripled. Admittedly these are comparisons with a particularly bad spring in 2009 but other statistics are confirming the trend.

The government has also been proactive in stimulating the economy, injecting cash into the system in a variety of ways (not unnecessary infrastructure projects, as in the past) that should enhance the improvement as the year progresses. It might also rid the country of deflation but previous attempts to remedy this have failed and only time will tell if the outcome is more positive on this occasion.

Improving economic numbers and corporate profit figures have returned Japan to foreign investors' minds – who see a large, liquid and relatively inexpensive market. It only needs domestic confidence (and investment) to return to the stock market to provide even greater positive returns.

ASIA ex JAPAN

Markets around the world are particularly sensitive to any suggestion of tightening of monetary conditions by Central Banks. Investors expect low interest rates and a reasonable global economic recovery to continue throughout 2010. Any hints to the contrary can have a severly negative short term effect.

This is especially relevant to Asia. Conventional wisdom has maintained for some time that Asia, led by China, will outperform in economic and stock market terms, albeit with greater volatility. So far, conventional wisdom has been proved right.

But nowadays 'China' and 'bubble' are two words increasingly seen in the same headline. China's investment boom is being compared to Japan in the 1980s (suggesting a similar, disastrous, outcome). Markets in the region, and elsewhere, are spooked at any suggestion that China's economic growth might be slowed down. We feel these concerns are overdone. Much of the recent government expenditure has been on fixed assets with resulting benefits for many years to come (not Japan's 'bridges to nowhere'). The authorities in Beijing are now moving on to deal with problems in the rural economy and on projects such as healthcare and education. Wealth is still being created at an enormous rate and the consumer in China is becoming more important every day. Opportunities for companies to do business – not always profitable – are endless.

In the short term valuations in China, and elsewhere in the region, may look a little extended after the strong recovery in prices seen over the past year. Much depends on not only continued growth in China but also further recovery in the developed world. Policy tightening – a major worry in the developed world – has begun in earnest, as rising commodity prices have led to inflationary fears, but in Asia Central Banks appear to be anticipating events rather than reacting to them.

But the longer term story remains unchanged and any setback in markets should be used to add to positions.

EMERGING MARKETS

Emerging market equities had experienced a volatile first quarter but have overall produced good positive returns. Problems elsewhere in the developed world have continued to highlight the strengths of emerging market economies. The perceived risks of asset bubbles (China the prime example) may come to fruition in the medium term but investors believe in the short term that greater problems lie elsewhere.

The long term positive story for emerging markets generally has not changed. And this opinion is gradually being accepted more widely by large institutional investors who traditionally have been underweight the asset class, believing it to be too risky. They are natural buyers on any fall in prices and this has been underpinning the sector.

Unless recession returns in the developed world and commodity prices fall sharply, global emerging markets should continue to advance.

CONCLUSION

As can be seen above, our views have changed very little in the last three months.

We continue to favour bonds, especially investment grade corporate, where we believe the total return expected this year (yield plus a small capital gain) will compare favourably with other asset classes. Government bonds are the exception – due to excessive supply!

Within equities our longer-term strategic view remains that developing markets of all types should be preferred to those of the developed world. However, tactically in the short term, there is still room for recovery in the equity markets of Europe, the US and the UK (possibly, depending on the result of the election).

Additionally, equities / funds with a yield are likely to outperform as long as interest rates remain at current levels.