

Quarterly Investment Valuation

I am pleased to enclose a valuation of your pension benefits as at the 31 March 2010, and our investment briefing.

Equities

We have seen a bumpy ride in the markets over the last quarter with net positive returns eventually from most indices except Europe excluding UK. We believe that we will continue to see bouts of volatility throughout the year, with the markets trading within a broad range, which leaves the way clear for good stock pickers to come to the fore and provide reasonable investment returns.

Admittedly we are very cautious of Europe ex UK, the Greek crisis will continue to rear its ugly head, mainly due to Greece's untrustworthy track record, perhaps the Greeks should have sold all their tourist hotspots to the Germans? Greek government officials have been travelling abroad and more specifically to America to try to find buyers of its bonds possibly trying to sell them as emerging market debt, although it is doubtful that the quality is as good as true emerging economies.

As far as developed western economies are concerned the US appears to be leading the way in recovery albeit will remain a slow process due to the origins of the downturn which have left a legacy of substantial headwinds for consumer spending, for business equipment investment, for housing and commercial property, as well as credit conditions and employment prospects.

UK economy grew by 0.4% in three months to March and has expanded by 1.1% since last September's trough, according to National Institute of Economic and Social Research.

* UK manufacturing growth dampens fears of a double-dip recession

* UK MPC holds interest rates at 0.5% as economy shows gentle signs of life

Emerging Markets

Although growth may be slower in these areas in 2010, due to severe tightening of monetary policy; this is good news as they have to be careful not to overheat their economies. We favour the likes of Latin America and Asia over the emerging European countries (which may be held back by the Eurozone) although we are not suggesting there should be zero exposure to these areas.

Emerging markets remain nominated as higher risk investments, however, in all reality taking the risk/reward ratio into account and you are a medium to longer term investor 7 years plus, I do not believe you should be missing the opportunities to be invested in these areas, as they are the future.

Commodities

This market has been driven by the emerging markets for sometime and although China is looking to put the brakes on its rapid growth commodities should continue to do well, particularly if growth surprises positively. We are likely to see higher oil prices as economic growth and demand continues to recover, you will have already seen this if you have filled your oil tank recently, although most of this recent price rise is the weak Sterling £ against a stronger US \$, but its still painful.

Gold has been in a multi year bull run and can be noted even more so now with adverts on national television offering to buy old jewellery. The longer term trend is that gold has a new support floor of \$1,000 with ranges up to \$1,350, but volatility could more prominent in this asset between these ranges.

Fixed interest

Today (08/04/10) the Bank of England announce a further stay of execution on raising interest rates, the evidence points to a continuance of this 'lower for longer' approach to interest rates as they err on the side of caution to prevent a return to recession.

We will probably see interest rate rises during the year of 75 – 125 basis points; however the good news for bond investors is a rate rise of significantly more than this has already been priced into the markets.

The performers in this asset class will be likely to be high yield bonds, but in this part of the asset class the risk/reward trade off may be beginning to favour equities.

Item of special interest!

Who will buy US Government Bonds? An interesting theme to follow over the course of 2010. Foreign banks have been the typical buyer of this debt, but since the height of the credit crisis October 2008, foreign buying has receded considerably.

Commercial Property

Bricks and mortar investment funds have shown a steady increase in value as the surveyors have been increasing their valuations, yields in good quality and secondary positions are attractive even taking into account the potential for voids and insolvencies. Good fund managers are actively conversing with their tenants and assisting where possible through financial hardships, better to keep a tenant than have a void. We see this as a good buying opportunity at this point in time.

The likes of the Aberdeen Property share has suffered a small setback due to the fact that it is share class and was brought down during February with the stormy equities. On the flip side when we break through the range trading of equities this will benefit the Aberdeen fund and it can quickly outstrip a bricks and mortar fund in growth.

Elections and what happens next?

The 24th March budget measures to bring the forecast £167 billion (to many zeros) borrowing requirement under control have been relatively restrained, due to the upcoming general election.

Any government or hung parliament will have to be careful as a prompt closing of this deficit or withdrawal of State spending would jeopardise the economic recovery.

So whichever way this swings, there will be some tough decisions in the years ahead. However, in the meantime we can enjoy the 'Punch and Judy fun' of the political election trail.

Market performance in month following general election, 1964-2005

Election date	All-Share level	One month later	All-Share level	Election result	Change
15/10/1964	106.85	13/11/1964	102.71	Lab, maj 4	-3.87%
01/04/1966	104.82	29/04/1966	105.07	Lab, maj 96	0.24%
19/06/1970	127.1	17/07/1970	124.53	Con, maj 31	-2.02%
01/03/1974	138.4	29/03/1974	118.3	Hung	-14.52%
11/10/1974	75.28	08/11/1974	76.54	Lab, maj 3	1.67%
04/05/1979	283.82	01/06/1979	262.09	Con, maj 43	-7.66%
10/06/1983	443.87	08/07/1983	437	Con, maj 144	-1.55%
11/06/1987	1138.39	10/07/1987	1206.18	Con, maj 102	5.95%
10/04/1992	1232.15	08/05/1992	1319.37	Con, maj 21	7.08%
02/05/1997	2142.25	30/05/1997	2200.91	Lab, maj 179	2.74%
08/06/2001	2881.26	06/07/2001	2649.6	Lab, maj 167	-8.04%
06/05/2005	2448.06	03/06/2005	2503.35	Lab, maj 66	2.26%

Source: Bloomberg/Datastream/F&C Investments

Home Front

Houses and flats are still selling at a discount, not a particularly good time to be selling your property, although the estate agents would have you believe the property prices are going up (only in their eyes) I shouldn't be too tough on them they have had a rough time over the last two years. This is still due to the banks being so lean on their lending which is very frustrating especially for us in Jersey, where property is still a good long term investment. As soon as lending becomes easier in Jersey prices will move very quickly, Lloyds are likely to provide a 95% lending facility very soon to first time buyers which will be great.

This does mean there are some great bargains to be had out there, and in the main most of the sales going through have been investors with money burning a hole in their pocket as they are not earning in the bank. The knock on effect here is that many of the investors had enough cash to buy houses (3 and 4 bed properties) in turn the influx of these on the rental market has reduced rent in this area.

The best buy to let properties in yield terms at present are the something that most people will turn their nose up at, only because they wouldn't want to live in one now, these are studio flats. But a 6 – 7 % return isn't bad, but you do also have to weigh up the pros and cons of the potential of capital growth on each property, depends on what you are looking for.

Best mortgage deals:

Tracker rates from 2.49%

2 year fixed rates 3.49%

5 year fixed rates 4.49%

There is one 100% mortgage available, the catch is not too bad in reality if we look at the current market, 'Mum and Dad have to either place 15% in a high interest account, from which they earn interest, but are not allowed to use the capital until the value of the property purchased exceeds 115% of the purchase price. Alternatively, a bond can be

taken on the parents' property once again to the value of 15% of purchase price of the property, which in turn will fall away when exceeding 115% of original price'.

I think Jersey is in for a tough year in relation to employment as firms continue to look at cost cutting, as most of you are aware Jersey tends to run approximately 6 – 9 months behind the UK.

Bank accounts and National Savings

Not much to be had out of any of the above, still 2 – 2.5% being top rates.

Ashburton and Ermitage, Something new?

We had a very good evening at our recent investment briefing, with both Ashburton and Ermitage speakers providing their view of the future, we hope you enjoyed the evening and took something from it. With all speakers you must try to decipher everything they provide and bring it down to earth (taking all with a pinch of salt) you can obtain some very useful information and the reason for listening to them.

We are working on the next investment briefing and hope to have a manager from one of the commercial property funds and possibly something more diverse. Further information will be sent when we have some commitment.

Ashburton have had a great start to the year, across the board from the Replica asset management fund to the Chindia fund, percentage growth of between 4.7% and 9% to the end of the first quarter.

Ermitage have one positive growth month in this quarter, however Andy Whelan did provide some interesting theories going forward and this being the case and the fact that Ermitage is only part of our portfolios, we think it wise to continue holding their funds.

We have been speaking to **Orchard Wealth Management**, in recent months; they have run private family funds for some years and more recently chosen to provide a public offering of their asset management. We are quite excited with their investment strategy, nothing complex or so devilishly clever that you think it has to work but a simple and sensible way to invest. More to follow once we have completed our due diligence.

So it will be an interesting three months ahead, not horrifying, just interesting! Will the Governments step in for the beleaguered airlines having lost so much money and whose fault is it anyway? We look forward to discussing this and more with you soon. If we can be of any assistance in the meantime please do not hesitate to call or recommend friends, family or colleagues to our services.