



Fund Manager Monthly Report

Covering May 2010

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AXA Framlington - Richard Peirson	- AXA Framlington Managed & Balanced Managed Unit Trust	5
	<ul style="list-style-type: none">• Events in Europe were seen as more important than the UK election, and largely responsible for near panic trading on many days.• There was no significant change of strategy despite Euro-induced panic• The latest jobs news from the US was disappointing, but we do not believe that the global recovery will be aborted.	
GAM – Andrew Green	- GAM Managed & Recovery Unit Trust	5
	<ul style="list-style-type: none">• The market correction was most severely felt in the sectors that led the earlier rise, namely banks, materials and industrial stocks.• We expect volatility to remain heightened in the coming weeks and months, given the serious question marks over debt sustainability in the developed world and effects of likely policy tightening in emerging economies	
Invesco Perpetual - Neil Woodford (Lead Manager)	- Invesco Perpetual Managed & Strategic Managed Unit Trust	6
	<ul style="list-style-type: none">• Negative sentiment emanating from concerns abroad as well as political affairs at home held great influence over the movements of the UK equity market over the month.• Fixed interest markets remained volatile as the sovereign crisis in Europe heightened, ultimately leading to the implementation of the €750 billion EU/IMF stabilisation package.	
Jupiter Asset Management – Ian McVeigh	- Jupiter Cautious Managed & Cautious Unit Trust	9
	<ul style="list-style-type: none">• Markets are being driven by concerns over public finances in Western Europe and emerging Europe is also affected by bouts of volatility.• Valuations present a substantial discount to historic norms and for long-term investors, brief market squalls can create attractive entry points.	
Newton Investment Management	- Newton Global Managed & Global Unit Trust	11
	<ul style="list-style-type: none">• The key area of strength was the telecommunications sector, in which we hold a number of stocks.• Following the rally in equity markets around the world that has taken place since March 2009, a ‘correction’ was somewhat inevitable.• Uncertainty, especially in relation to the outlook for government debt, is highly likely to pervade financial markets for some time to come. Heightened volatility should therefore be anticipated.	

<p>Polaris – Bernard R Horn</p> <ul style="list-style-type: none"> • Pockets of relative strength were found among a diverse group of holdings including a provider of laundry services in the US, a Japanese dairy products producer, two US regional banks, and a Japanese utility company. 	<p>- Worldwide Managed & Worldwide Unit Trust</p>	<p>13</p>
<p>Schroder – Nick Purves (Lead Manager)</p> <ul style="list-style-type: none"> • We sold out of our position in EFG Eurobank and reallocated the exposure to higher conviction names. • There were no major changes in strategy across the portfolio this month 	<p>- Schroder Managed & Managed Growth Unit Trust</p>	<p>14</p>
<p>Taube Hodson Stonex Partners</p> <ul style="list-style-type: none"> • The Greek crisis is not the only factor currently affecting sentiment. Spain, North Korea and a slowing Chinese economy are all troubling markets. • In May, we finished buying Pfizer, Roche, and Lennar Corp, and the sale of Telefonica was completed. 	<p>- THSP Managed & International Unit Trust</p>	<p>15</p>
<p>Aberdeen Asset Management (Asia) – Hugh Young</p> <ul style="list-style-type: none"> • Asian markets fell in May to their lowest level in 10 months, before clawing back some of the lost ground. • Looking ahead, equity investors are becoming increasingly nervous amid fears that Europe’s financially troubled periphery may dim the continent’s prospects, and possibly trigger a relapse in the global economy. • We remain cautious about the prospects for corporate earnings growth, as rising input prices, in combination with stagnating top line growth, threaten to hurt margins. 	<p>- Far East</p>	<p>17</p>
<p>AXA Framlington – George Luckraft</p> <ul style="list-style-type: none"> • In a weak market, the fund held up well. The biggest contributor was Rockhopper, which soared after they struck oil in the Falklands. 	<p>- Diversified Income &- Allshare Income</p>	<p>19</p>
<p>Babson Capital – Jill Fields & Zak Summerscale</p> <ul style="list-style-type: none"> • We continue to position the portfolio toward higher quality issuers from defensive sectors. We believe this approach will help mitigate some of the downside risk. 	<p>- International Corporate Bond</p>	<p>19</p>
<p>BlackRock – Mark Lyttleton & Nick Osbourne</p> <ul style="list-style-type: none"> • The fund had a difficult month falling -1.06% against the FTSE Allshare falling 6.2%. • Whilst markets have been very difficult, we are comforted by low valuations, particularly on a relative basis and the improving trading conditions of many of our holdings. 	<p>- UK Absolute Return</p>	<p>20</p>

First State Investments – Jonathan Asante	- Global Emerging Markets	21
<ul style="list-style-type: none"> • The portfolio underperformed the benchmark index over the month of May • The portfolio is conservatively positioned and maintains a large holding in a gold mining company as a hedge against loose monetary policy 		
Invesco Perpetual – Neil Woodford	- Income Distribution, UK Equity & UK High Income	21
<ul style="list-style-type: none"> • We believe that on a selective basis, it is possible to find quality growth companies in the UK equity market that are significantly undervalued. • At the current time, we believe the best opportunities exist in areas including pharmaceuticals, tobacco, aerospace and utilities. • The funds were down 3.8% compared to the FTSE Allshare down 6.2% 		
Invesco Perpetual – Paul Read & Paul Causer	- Corporate Bond & Investment Grade Corporate Bond	22
<ul style="list-style-type: none"> • Fixed interest markets remained volatile as the sovereign crisis in Europe heightened, ultimately leading to the implementation of the €750 billion EU/IMF stabilisation package. • In terms of strategy, we continue to believe that some of the more attractive investment opportunities are to be found amongst higher-yielding investment-grade names. 		
J O Hambro Capital Management – John Wood	- One half of the UK and General Progressive portfolio	23
<ul style="list-style-type: none"> • The portfolio significantly outperformed in May, with Experian making a positive contribution in a difficult month for stockmarkets globally. • As in mid-2008 and early-2009, the opportunities provided by a falling market have resulted in competition for capital within the portfolio. 		
Liberty Square – Peg McGetrick	- One half of the UK and General Progressive portfolio	24
<ul style="list-style-type: none"> • The fund's most recent investments generated the strongest performances, including Barrick Gold • The fund's oil investments generated the worst performances for the month, accounting for almost one third of the portfolio's losses 		
Oldfield Partners – Richard Oldfield	- High Octane	25
<ul style="list-style-type: none"> • The European crisis is unpleasantly reminiscent of 2008, not in the details but in the way in which a chain reaction develops. • Our global portfolio fell more or less in line with world markets during the month, a month in which there was a noticeable absence of pattern. 		
RWC Partners – John Innes	- UK Growth	26
<ul style="list-style-type: none"> • Portfolio activity was more limited over the month and confined to picking up stocks such as Punch Taverns and Aviva, which had been oversold during the market slump 		
SW Mitchell – Stuart Mitchell	- Continental European	27
<ul style="list-style-type: none"> • Against the background of continued weakness in the euro, our investments with a significant exposure to the US economy, including Zodiac, BiC and Legrand acted especially well • We see little to deflect our view that our companies will be able to generate much stronger earnings growth than the market currently expects 		

SW Mitchell – Stuart Mitchell - **One half of the Greater European portfolio** **28**

- The overall shape of the portfolio remains broadly unchanged, with nearly three quarters devoted to cyclical and financial shares
- Exposure to energy shares is limited, whose earnings may be relatively secure, but where scope for demand-led growth is minimal

Wellington – Haluk Soykan - **Gilts** **29**

- Economic releases in the UK were generally favourable during the month as readings on retail sales and industrial production exceeded expectations
- For the month, the portfolio returned 2.26% against the 2.27% return of the index

AXA Framlington – Richard Peirson

AXA Framlington Managed funds and Balanced Managed Unit Trust

The inconclusive result of the UK general election had been well forecast by opinion polls though there were many in the city who, nevertheless, had expected a small Conservative majority. Events in Europe, however, were seen as more important and largely responsible for near panic trading on many days. Refinancing Greece was the initial focus but the issue of contagion to Portugal, Spain, Italy etc, then became a larger concern. A massive rescue package to support not just Greece calmed markets temporarily but decisive action by a number of European governments to cut their deficits will be required to avoid new attacks on the euro. Markets around the world also felt the euro's pain. Government bonds benefitted from their safe haven status.

There was no significant change of strategy during May despite the euro induced panic. In the UK we reduced Prudential as a precaution against their massive rights issue going ahead. We considered the acquisition of AIA too big and expensive so voted against it. We were pleased, therefore, that the deal will not now go ahead. We bought Standard Chartered Bank, one of our favoured growth stocks, which now looks less expensive than it did compared to its peers. We made some changes to the Japanese portfolio, reducing NTT and EPS to reinvest in DoCoMo, the leading mobile carrier which has good growth visibility and DeNA., the leading company in mobile adverts, games and e-commerce.

Equity performance was mixed but satisfactory with relative returns close to benchmark in the UK, Japan, Emerging Markets and Europe but there was useful outperformance in the US and Pacific ex Japan. The latter area benefitted from not owning stocks in Australia which underperformed significantly.

Sentiment towards the euro zone is very negative while the latest jobs data from the US was also unsettling. We do not believe, however, that the global recovery will be aborted. The economic recovery is primarily an industrial recovery as consumers de-leverage and Governments reduce their deficits in the West. Growth in the emerging economies should remain strong. We, therefore, consider equities attractively rated after the latest correction.

GAM – Andrew Green

GAM Managed fund and the Recovery Unit Trust

The anticipated test of the market rally continued in May, as worries grew over debt problems in Greece, and possible contagion to other highly indebted eurozone countries. Sentiment was also hit by signs of a lack of unified policy leadership in Europe, and even talk of a possible break up of the euro. The market correction was most severely felt in the sectors that had led the earlier rise, namely banks, materials and industrial stocks. However, the whole energy sector also weakened because of BP's problems in the Gulf of Mexico. While the fund benefitted from its underweight exposure to the energy sector and stock selection in telecoms, it fell by somewhat more than the index principally due to profit taking in some of the IT and media holdings.

We expect volatility to remain heightened in the coming weeks and months, given the serious question marks over debt sustainability in the developed world and effects of likely policy tightening in emerging economies. Debt-fuelled growth is no longer an option. Instead, financial

markets are forcing developed world economies to begin to clear the massive debt overhang from past excesses - a process that is likely to prove both costly and long, and which may not be fully reflected in current share prices.

Given the more uncertain mood, a change of leadership within the equity market is a distinct possibility. Such a change should benefit the fund given our focus on undervalued and overlooked situations, such as Japan and the technology sector.

Invesco Perpetual - Neil Woodford (Lead Manager)

Invesco Perpetual Managed funds and Strategic Managed Unit Trust

United Kingdom

May proved to be a volatile month for the UK equity market. The FTSE 100 index briefly dipped below the psychological 5000 level for the first time since October 2009. All FTSE indices ended the month in negative territory, as represented by the 6.6%, 6.6%, 7.0% and 7.2% fall in the FTSE All-Share, the FTSE 100, the FTSE 250 and the FTSE SmallCap indices, respectively.

Negative sentiment emanating from concerns abroad as well as political affairs at home held great influence over the movements of the UK equity market over the month. For instance, ongoing worries over Europe's sovereign debt crisis (and accompanying fears of contagion), rising tensions in the Korean peninsula, the uncertain UK election result and subsequent hung parliament and unilateral moves by Germany to ban short-selling of shares in its top 10 financial institutions, as well as government debt, did not help matters. On a more stock-specific basis, BP fell heavily as the costs of its clean-up operation in the Gulf of Mexico soared following several unsuccessful attempts to plug the gushing oil.

As widely expected, UK interest rates were left on hold at the record low of 0.5% by the Bank of England's Monetary Policy Committee, while the quantitative easing programme was also maintained at £200bn. The minutes from the meeting revealed that the vote to maintain the status quo was unanimous, however concerns were raised over the impact of rising oil and other commodity prices on inflation and inflation expectations.

The reading for the consumer prices index (CPI) showed that inflation had risen to 3.7% year-on-year (y-o-y) in April compared with 3.4% y-o-y in March. Clothing and footwear, food, and alcoholic beverages and tobacco exerted the greatest upward pressure on CPI. New Chancellor George Osborne received his first letter from the governor of the Bank of England to explain why CPI was more than one percentage point above the 2.0% target. Underscoring the fragility of the UK economy, the second estimate of first-quarter 2010 GDP came in at a modest 0.3% quarter-on-quarter versus a previous estimate of 0.2%.

As predicted by the market, the General Election on 6 May failed to return a majority government. After much negotiation with the Liberal Democrats, Conservative leader David Cameron became prime minister in the first coalition government since 1974. The new government announced that lowering the budget deficit and reducing government debt would be their main focus. An emergency budget has already been scheduled for 22 June, and a new Office

for Budget Responsibility has been established to give independent forecasts for growth and borrowing.

US

May was another month where US stockmarkets were influenced primarily by external events. Concerns over how willing European governments are to address structural deficits deepened and nervous investors sold off equities globally. Added to this, a German ban on short selling some securities, the worsening of the oil spill off the Louisiana coast and North Korea being put on combat alert all helped to ensure that US markets gave back more than they had gained year-to-date. The S&P 500 index had its worst May since 1962, falling by 8.2%. The Dow Jones Industrial Average, the Nasdaq Composite and the smaller companies Russell 2000 index finished the month 7.9%, 8.3% and 7.7% lower, respectively.

The finger was pointed at high-speed trading systems compounding a dealing error for US stockmarkets posting their largest ever intraday decline on 6 May in a 'flash crash'. The confidence eroding event, which lasted for 20 minutes, saw Procter & Gamble plunging in value by 47%. Most deals over the time period were subsequently expunged. Such was the insecurity surrounding markets, the Vix index of volatility doubled by mid-May before reigning back. Gold continued its strong run finishing above US\$1200 a troy ounce. US government bonds also benefited, with the yield on the benchmark 10-year bond falling 37 basis points. Concerns were raised over the competitiveness of US exports as the dollar strengthened by 7.4% against the euro, to a four-year high, and by 4.8% against sterling. The overhaul of financial regulation continued to cast a shadow over financials, with differing versions of the bill from the Senate and The House of Representatives needing to be reconciled before it can pass into law. Financials were also negatively affected by New York Attorney General Andrew Cuomo opening an investigation as to whether banks misled credit rating agencies so they could obtain unduly high ratings on their mortgage-backed securities. However, energy was the worst performing sector. With global growth being threatened by recent events, energy and other industrial commodity prices declined. The spot price of US West Texas crude oil fell over the month by US\$12 a barrel to US\$73.97. In the wake of the Deepwater Horizon spill off Louisiana, the oil industry also faces tighter regulation and more expense. In economic news, slow progress in reducing initial claims for unemployment benefit, as more Americans resumed a search for work, masked the news of 290,000 new jobs being created in April. The index of leading indicators unexpectedly dropped in April, possibly signalling that US economic expansion may slow over the second half of the year.

Continental Europe

European equity markets came under further pressure in May as concerns grew that the region's leaders will be unable to contain the spiralling government debt crisis. In what was a particularly volatile month, the first week of May witnessed the largest weekly fall for European stocks in 18 months as European Central Bank officials warned of contagion effects from Greece and ratings agency Moody's placed Portugal on review for a possible downgrade. The sharp fall in equities and ongoing decline in the Euro prompted the European Union to agree a package worth €750bn of financial assistance to countries facing instability. Equity indices responded favourably to the announcement, eroding the previous week's losses in just one day. However, the joy was short-lived as markets drifted lower by month-end due to various events causing added weakness; a downgrade to Spain by Fitch ratings agency, the merger of four weak Spanish banks in order to avoid further potential bailout costs, Germany ordering a ban on short selling and huge budget deficit reduction plans across Europe.

In economic news, isolated statistics were put into context by the budget deficit reduction strategies unveiled across Europe. Spain announced a public sector pay cut of 5% as well as a suspension of planned pensions increases, while Italy adopted a three-year pay freeze for civil servants. Eurozone unemployment rose by 15,000 in April, prompting the unemployment rate to rise from 10.0% to 10.1%. The rate in the more troubled peripheral economies continued to rise, although the French unemployment rate was unchanged and the German measure fell. With the EC Economic Sentiment Indicator falling fairly sharply in May and Eurozone PMI and German Ifo numbers also weaker, some fear that planned austerity measures are already casting a dark cloud over the region.

Although no sectors escaped the pain entirely, consumer goods and health care stocks proved more resilient to the market falls while financial stocks bore the brunt of the damage. On a corporate level, individual companies continued to post respectable earnings with many returning to profit as the economy shows some signs of growth. Furthermore, the weakness in the Euro is a positive for European exporters, something which should feed through to their earnings later in the year.

The Euro itself extended its longest losing streak versus the US dollar in 10 years. The 7.4% fall during May was its sixth consecutive monthly decline against the greenback. Analysts argue that while the fiscal consolidation goes on in countries like Spain, Portugal and Greece, the Euro will remain under pressure.

Asia Pacific

Asian equity markets were lower in May, with sentiment under pressure from concerns focused on sovereign debt problems in Europe and their potential impact on the global economic recovery. Rising political tensions between North and South Korea added to the weaker tone. At the beginning of the month policy tightening measures in China continued as bank reserve requirement ratios were increased by a further 0.5%, taking the level to 17% for large Chinese lenders. Despite news that inflation had increased in April to 2.8% year-on-year (y-o-y) and that property prices had increased 12.8% y-o-y, the greater uncertainty surrounding the global macro environment pared back some expectations for interest rate rises in China. In contrast, interest rates in Malaysia were increased by 0.25% to 2.5% and borrowing costs were also increased in Australia. The Australian government added to market volatility by announcing that it intends to impose a 40% tax on mining sector profits from 2012, plans which weighed heavily on Australia's large mining groups including BHP Billiton and Rio Tinto. Also during the month, Samsung Electronics underlined its confidence in the outlook for global demand by announcing plans to invest 18 trillion won (\$15.6bn) across its memory chip, television and mobile phone divisions this year, a near-70% increase on its investment in 2009.

Japanese stocks could not escape the steep falls in global equity markets in May and closed around their 2010 lows. Amid a general rise in risk aversion, Japan's largely upbeat earnings and economic news were largely overshadowed. A number of companies provided positive results, with electronics groups Panasonic and Toshiba both returning to profit as demand continues to recover. Toyota forecast a sharp rise in earnings, boosted by improvement in the US, with sector peer Nissan similarly positive about its prospects. Increased demand from China was a theme common to car makers' results, with Japan's leading manufacturers seeking to increase production capabilities in China. Among financials, Sumitomo Mitsui Financial received a positive response from the market as the group said it is not planning to issue additional shares as the company has completed the strengthening of its balance sheet. In economic news, Japan's economy expanded at an annualised rate of 4.9% in the first quarter according to the Cabinet

Office, picking up momentum from the 4.2% annualised expansion recorded in the previous three months. In April, consumer confidence rose to its highest level since October 2007 and corporate bankruptcy rates continued to fall. Comments from the Cabinet Office stated that the economy is 'picking up steadily' as the global economic recovery and stimulus measures underpin activity levels.

Fixed Interest

Fixed interest markets remained volatile as the sovereign crisis in Europe came to a head, ultimately leading to the implementation of the €750bn EU/IMF stabilisation package. As well as the sovereign worries there were concerns about political risk in Korea and Germany's proposal to extend the scope of its short-selling ban. Spain became the latest Eurozone economy to come under pressure over concerns about both the health of the Spanish banking system and the country's fiscal outlook. Late in the month Fitch downgraded Spain's sovereign debt from AAA to AA+. Rising Spanish 10-year yields left the differential between 10-year German yields at its widest level since November 1996. In general, the volatility saw government bonds benefit from their safe haven status. Yields on 2-year US, UK and German bonds fell by 20bps, 25bps and 26bps respectively, as investors sought their relative safety.

Corporate bond markets were impacted by the sell off in risk assets. According to data from Merrill Lynch, sterling BBB rated spreads widened by 58bps for a 1.1% loss, while European high-yield spreads increased by 182bps for a 7.0% fall in sterling terms. Bank debt was also weak on concerns over their exposure to the peripheral Eurozone countries; sterling Tier 1 spreads widened by 147bps and gave back the gains they had made over the previous two months. With investor confidence shaken and borrowing costs increased, the new issue market saw limited activity. Moody's reported the first monthly increase in the European high-yield default rate since November. The rate rose from 7.3% to 7.8% after Chelsea Building Society became the first European defaulter in 2010 after it completed a distressed exchange on its subordinated debt. Moody's expects the European default rate to fall to just 1.5% by the end of this year.

The UK's Monetary Policy Committee again voted unanimously to keep interest rates unchanged at 0.5%. UK inflation was once again stronger than expected in April, CPI inflation rose from 3.4% to 3.7% while the RPI measure rose from 4.4% to 5.3%, the highest since July 1991. In the subsequent letter of explanation from Governor King to the Chancellor, King reiterated the MPC's belief that high inflation is due to rising oil prices, the VAT hike and the effects of lower sterling, and these effects would prove temporary. In his response the Chancellor said he would welcome the Governor's views on how the process of including housing costs in the CPI might be accelerated. The Chancellor also confirmed that emergency Budget will take place on 22 June and unveiled details £6.25bn of spending cuts due in the current fiscal year.

Jupiter Asset Management – Ian McVeigh

Jupiter Cautious Managed funds & Cautious Unit Trust

Volatility continued in global equity markets in May as heightened concerns over a European sovereign debt crisis increased investors' risk aversion. In the UK, the general election held on 6 May produced a hung parliament as expected. However, a Conservative-Liberal Democratic coalition was formed quickly and the new Cameron administration announced plans to cut government spending. Despite this, the UK market fell in line with global peers, with the FTSE

All Share index declining 6.2%. In Europe, the FTSE World Europe ex UK index lost 8.1% in sterling terms, partly due to the euro's weakness, while the MSCI EM Europe 10/40 index for emerging Europe fell 7.8% in sterling terms.

The gilt market continued to rise as increased risk aversion, emanating from the eurozone, led investors to seek safety in mainstream, non-euro government bond markets. The new coalition government set up an Office for Budget Responsibility, which will use its independent growth forecasts to recommend the degree to which fiscal policy must be tightened or loosened. This, together with the government's plans for £6.2 billion spending cuts, boosted investor confidence for the gilt market. The fund slightly outperformed its benchmark in May, declining 3.38% compared with a 3.57% fall in the composite benchmark.

The UK equity portfolio slightly outperformed its benchmark, helped by good contributions from our holdings in Burberry, satellite telecoms company Inmarsat, insurer Hiscox and credit services provider Experian. The portfolio also benefited from an underweight position in the oil sector, especially in BP. On the negative side, our bank holdings such as Lloyds and RBS detracted from performance. During the month, we added to our cyclical holdings such as mining company Rio Tinto and car parts maker GKN, taking advantage of their share price weakness.

The European portfolio continued to outperform its benchmark, with defensive holdings such as Novo Nordisk contributing positively to performance. Vopak also performed well as the provider of tank storage for oil and chemicals announced strong sales growth and raised its full-year guidance. However, our holding in seismic survey company Geophysique was negative as its shares slipped after it said that growth would be slow in the second quarter. We reduced our position. We added to our holding in Norwegian bank DnB Nor, taking advantage of its share price weakness.

The emerging European exposure also outperformed its benchmark. Our holdings in Russian electricity generator OGK-4 and Russian food retailer Magnit delivered strong positive gains, helped by their inclusion in the regional MSCI index. While our underweight stance in base metals was also beneficial as the mining and metals sector underperformed, our holdings in steel companies Evraz and MMK detracted from performance. We took profits in Hungarian bank OTP, which had performed strongly in previous months.

The fund's bond portfolio performed in line with its benchmark, producing a positive absolute return. We had previously increased our gilt holdings on the grounds that the valuation of good quality corporate issues had become less compelling. This proved beneficial for performance in May as the gilt component of our benchmark rose by 0.7%, while the corporate bond component declined by 0.2%. Bank debt softened as investors assessed implications of the increased risk of banks' peripheral European sovereign debt holdings. We made no change in the portfolio stance during the month.

Recent weakness in non-government credit markets has put them on more attractive valuations. We will be selectively seeking to take advantage of reasonable valuations in good quality issues. We are monitoring developments at BP given the fund's holding of a BP bond which matures in November. At present, there is a high degree of activity in credit default swaps as investors seek to hedge their risk. We are likely to hold this position through to redemption as we feel that the current valuation exaggerates the risk to bondholders.

We are clearly in for a volatile time for equity markets. This is not surprising after the strong rally we saw in the 12 months from March 2009. We do not, however, expect a further major

decline in UK equities although we are monitoring the situation in Europe very closely. Since 2000, the great locomotives of economic growth have been the US and China, contributing the lion's share of global growth. We think these economies will continue to grow and together, they should be sufficient to ensure a continuation of both global growth and reasonably strong equity markets.

We remain positive about the outlook for our European portfolio. The first-quarter reporting season has seen many of our holdings exceed analysts' expectations. As dominant operators in niche areas, their strong balance sheets, global spread of businesses, flexible cost structures and 'special' products leave them well placed to emerge as winners. Their exposure to fast-growing economies around the world should help mitigate the impact of slower growth and sustain their profitability.

Markets are being driven by concerns over public finances in Western Europe and emerging Europe is also affected by bouts of volatility. However, it is important to note that public debt is relatively low in the emerging European region's core markets at less than 50% of GDP, compared to 68% in the UK and over 110% in Greece. Households are also underleveraged, creating scope for consumption to grow faster than in the developed economies. Valuations present a substantial discount to historic norms and for long-term investors, brief market squalls can create particularly attractive entry points.

Newton Investment Management

Newton Global Managed funds and Global Unit Trust

Market summary

Equity markets fell markedly, and those government bond markets that are perceived by investors to be relatively safe flourished, as risk aversion rose during May. The relative weakness of the Australian dollar, however, boosted returns for investors in that currency. Equity investors' confidence was undermined by further woes in the periphery of Europe, by the greater involvement of political and regulatory authorities in financial markets and by escalating geopolitical tensions, particularly on the Korean peninsula and in Thailand.

Despite the agreement of a €750bn stabilisation package to protect the eurozone economy, the imposition of fresh austerity measures in a number of troubled European countries and the European Central Bank's purchases of government debt to shore up Europe's sovereign bond markets, concerns about public-sector debt in Europe mounted over the month. Fears of contagion from Greece grew, not least following the Bank of Spain's move to take control of CajaSur, one of Spain's largest regional lenders.

Meanwhile, amid uncertainty about the scale of commercial banks' exposure to European sovereign debt, those banks demonstrated an increasing reluctance to lend to their counterparts, with LIBOR rates (inter-bank lending rates) rising to their highest level since the summer of 2009.

Investors became increasingly unsettled, too, by the growing involvement of authorities in the operations of financial markets. A sudden ban by the German government on the 'naked' short-selling of a number of financial companies' shares, and on the buying of eurozone government

credit-default insurance without ownership of the underlying bonds, caused particular unease. Proposals by the International Monetary Fund and the European Commission to impose levies on financial firms, and approval by the US Senate of a financial regulation bill, added to investors' anxiety.

Performance and activity

The key area of strength was the telecommunications sector, in which we hold a number of stocks which reflect our *networked world* theme. **Sprint Nextel** was particularly strong, generating the portfolio's strongest individual return over the month. The turnaround that we have been anticipating is now coming through, with the churn rate starting to show signs of improvement. This is the final piece of the jigsaw, and will in time lead to a return of revenue growth. Brazilian firm **Tele Norte Leste** also generated positive returns, on speculation about Portugal Telecom's intentions post the sale of its stake in Vivo to Telefonica. This is not our investment case, but does highlight the relative attractiveness of the valuation.

The financials sector was another area of strength, particularly on account of stock selection within commercial banks. Our focus on Asia, in line with our *developing economies* and *all change* themes, was beneficial.

The main area of weakness was the energy sector, in which **Transocean** continued to suffer from the effects of the oil disaster in the Gulf of Mexico. Despite the recent sector turbulence, we maintain, in line with our *energy supply* theme, that demand for oil will remain strong, and we will seek companies which are well-positioned globally to meet and benefit from this demand. Specifically with respect to Transocean and indeed **BP**, which is also held within the fund, we believe that the share prices have overreacted to the situation, but that they are likely to remain under a political cloud for some time, so although the valuations are attractive, we have yet to significantly add to positions. Elsewhere in the sector, the portfolio's holdings in **Petrobras**, **Santos** and **Consol Energy** underperformed as the oil price declined.

Although the absence of **Apple** was negative, **HTC Corporation** was one of the Fund's strongest performers and is well placed to benefit from the increased adoption of 'smartphones'. From a valuation perspective we find HTC, on a price-to-earnings ratio of 12 and with a 6.25% dividend yield, more attractive than Apple.

Investors continued their flight to the 'safe haven' of gold, which we favour in the context of our *fire risks* theme, amid continuing uncertainty and volatility in asset markets given the European sovereign debt crisis and the threat of greater regulation in the financial sector. Holdings in gold mining stocks **Gold Fields** and **Barrick Gold** were among the fund's strongest performers.

Investment outlook

Following the rally in equity markets around the world that has taken place since March 2009, a 'correction' was perhaps inevitable. Improved corporate earnings and highly accommodative fiscal and monetary policies in the aftermath of the global credit crisis have sustained rising share prices for much of the last 14 months, but significant structural challenges have remained throughout that period. While investors have found encouragement in the stimulative policies of governments and central banks, the sheer extent of those policies has underscored the seriousness of the challenges to which economies and financial markets are exposed.

Given that overall levels of debt in many developed economies, particularly the US and the UK, have not fallen since the beginning of the credit crisis (with authorities having stepped in to bail out financial systems and underwrite private sector liabilities), it is misplaced, we believe, to assume that a sustained economic revival is assured. Zero-interest-rate policies, quantitative easing and highly stimulative fiscal policies have simply given over-indebted entities breathing space and have served to bring forward demand from the future. Furthermore, the transfer of liabilities from the private sector to the public sector does not address meaningfully the key challenges facing over-indebted economies. Uncertainty, especially in relation to the outlook for government debt, is highly likely to pervade financial markets for some time to come; heightened volatility should therefore be anticipated. We continue to believe that against this backdrop, a portfolio with stable growth companies at its core is appropriate.

Polaris - Bernard R Horn

Worldwide Managed funds & Worldwide Unit Trust

The month of May brought growing concern about the financial health of Greece and those mostly southern European countries that have collectively taken on the insulting moniker “PIIGS” (Portugal, Italy, Ireland, Greece and Spain). Coupled with escalating military tensions on the Korean peninsula and the BP Gulf of Mexico oil spill, the fear of another financial crisis led to a 9.48% decline in the MSCI World Index. The Worldwide Opportunities Trust declined 9.62%. Sub par investment performance was concentrated in the Materials, Industrial and Consumer Discretionary sectors. Only six stocks in the portfolio posted positive returns in May.

In the Materials sector, Smurfit Kappa, the Irish maker of cardboard boxes for shipping, declined sharply following a very good period of recovery performance earlier in 2010 and in 2009. This company conserved cash admirably during the downturn and appears well positioned for further progress as the economic recovery continues. CRH, another Irish holding, a producer of aggregates such as cement and concrete, reflected concern that the recovery could be aborted. Metorex, the South African miner of copper and other minerals, was also under pressure. Paradoxically, Symrise, one of the least economically sensitive holdings in the Materials sector was also weak. This company makes flavours and fragrances that represent only a small portion of the total cost of most products.

Three holdings in the Industrials sector that are closely related to world trade were quite weak in May. Shipping companies, Iino Kaiun Kaisha and Nippon Yusen Kabushiki, both Japanese, suffered from the perception that another slowdown would have a deleterious effect on world trade. Konecranes, a Finnish maker of cranes that serve ports, suffered from the same perception.

Within the Consumer Discretionary sector, the Trust has investments in four British home builders. All four exhibited sub standard stock price performance. These holdings had been a source of strength earlier in the year.

Pockets of relative strength were found among a diverse group of holdings including a provider of laundry services in the U.S., a Japanese dairy products producer, two U.S. regional banks, and a Japanese electric utility.

A new investment was made in Questcor Pharmaceuticals. This U.S. company manufactures a drug that is effective in the treatment of multiple sclerosis. The drug has also been prescribed

“off label” for the treatment of infantile spasms for many years. Marketing the drug for this condition has been prohibited in the United States. The US Food & Drug Advisory Panel has now recommended that the drug be approved for marketing for this ailment. The FDA decision is expected to rule positively in June.

Another new investment was made in Wincor Nixdorf, a German manufacturer of banking machines such as ATMs and cash deposit systems and cash registers. The company withstood the challenges of the world recession relatively well and is favourably positioned for continuing progress.

Schroder Investment Management – Nick Purves (Lead Manager)

Schroder Managed funds and Managed Growth Unit Trust

UK

There were no significant changes to the portfolios in May.

Europe

We sold out from our position in EFG Eurobank and reallocated the exposure to higher conviction names. Whilst in our view EFG is the best run bank in Greece, as the situation in the country has worsened there is no way the bank can defy what at best will be an incredibly difficult few years for the Greek banking systems. Even in the event of no default, the measures the Greek Government have to take will likely force a severe recession in Greece. In short therefore, our revised forecasts suggest we are in for a material revenue headwind, a rising provisioning burden and possible erosion of book value.

We also exited our position in Vivendi after our analyst downgraded the stock on operational and qualitative concerns. Following the award of the fourth mobile licence to Iliad, the French mobile market is about to become much more competitive. Our analysis suggests the financial impact of an aggressive new entrant is not yet factored into consensus numbers. Perhaps more important is our acceptance that this company is not being managed for the benefit of shareholders, more in the interests of being an expansionist national champion as highlighted by recent acquisitions and management commentary. Valuation is compelling, but we believe the shares fall within the 'value trap' category.

We initiated a new position in French real estate company Unibail-Rodamco. After recent weakness the current share price trades at a discount to underlying assets of around 15%. The NAV next year is expected to increase approximately 10% (no impairments are anticipated in the high quality portfolio held by the company) and this widens the prospective discount to NAV even further. Historically the shares have oscillated between a discount of circa 16% and a premium of 5% so now looks like a compelling entry point for this highly liquid Eurostoxx 50 stock.

US

There were no major changes to strategy over the month.

Japan

Activity was minimal in May and no stocks were added.

Pacific

Over the month, the portfolio added to its position in Industrial stock Noble Group for its cyclical exposure whilst on the other hand trimming its bank exposure through its position in Singapore's DBS Bank on the back of risks of more potential mark to market losses from bond positions negating positive impact of expected loan recovery.

The position in Consumer Discretionary name Esprit Holdings was also trimmed on profit-taking following its current bounce given vulnerability to continued weakness in the Euro and a lacklustre turnaround in its underlying business.

Bonds

There were no major changes to UK bonds strategy over the month. There were no major changes to UK bonds strategy over the month. Through Q1 2010 we had exposure to Greek government debt in the portfolio. This position was predicated on our view that crisis presented investors with a significant valuation opportunity. We did not believe that the crisis portended the disintegration of the Euro. Indeed, our research through meeting EU officials at the time strongly suggested that far from leading to a break up of the Euro the crisis would lead to further integration of the European project. Our view at the time was that politicians had learnt the high cost of financial contagion that invariably follows a significant bankruptcy in today's globalised market and that their actions in dealing with the sovereign crisis would be correspondingly decisive. However, it became increasingly clear through Q2 2010 that politicians were still reacting to events rather than shaping them and with the market continuing to test the political will to support Greece we took the decision to sell all exposure to the country and lengthen portfolio duration

Taube Hodson Stonex Partners

THSP Managed funds & International Unit Trust

The recovery in both the economy and the markets that had seemed to be gathering momentum during the first quarter stalled in May, as concerns over the indebtedness of Greece and some other peripheral eurozone countries escalated. Stock markets and the Euro came under intense pressure and the very existence of the single currency was called into question.

There is no doubt that the situation in Greece is grave. It stands alone as a high budget deficit and high debt-to-GDP eurozone country. At the interest rate levels currently demanded by the market, and without the ability to devalue, it will struggle to arrest its freefall single-handedly. It will need continuing help from other eurozone countries, primarily Germany – where the politics are quite difficult. However, it is important not to underestimate the will of the European political classes to retain the Euro, which represents the region's claim to be a world power and sustains the Single Market.

The bailout package already agreed is huge, underlining the determination to prevent contagion. This does not mean that Greece cannot be ejected from the Euro or restructure its debts - although we think both unlikely - but it does mean that the Euro will not be allowed to fail. Other peripheral countries, notably Ireland, have had considerable success in applying austerity measures. We hope Greece will do likewise.

The Greek crisis, however, is not the only factor currently affecting sentiment. Spain, North Korea and a slowing Chinese economy are all troubling markets. But, it is because the investment environment is so challenging that shares are once again very cheap - blue chips routinely trade on low P/E ratios and attractive dividend yields. Hence, after years of caution, we recently returned to large pharmaceuticals, buying Pfizer and Roche, which we discussed in the last report.

In May, we finished buying **Pfizer**, **Roche** and **Lennar Corp**, the Florida-based house builder. The tender offer for **Hutchison Telecom** was accepted, the sale of **Telefonica** was completed and where held, a few more shares in **Schibsted**, the Norwegian media group which had done well, were sold. One new investment was made, in **Teliasonera**.

Teliasonera

It seems that the valuation of telecom companies, in particular those in Europe, does not adequately reflect the opportunity and potential of the rapid uptake of smart phones, ipads, etc. We believe that these devices offer incremental benefits to consumers which they seem to be willing to pay additional monthly subscriptions for. We have already seen that the long term decline in revenues for mobile phone companies is being reversed in those countries where the uptakes of these devices are highest.

As a result, we have made a new investment in Teliasonera, the Swedish/Finnish telecom company which is substantially located in Northern Europe with some exposure to the Baltics, Russia and Turkey. The company has very little debt, is valued at barely 10x earnings and has a new management which is focused on shareholder return. With a return to top-line growth, Teliasonera looks substantially under-valued and is well-placed to benefit from the rapid increase in mobile data consumption.

Aberdeen Asia - Hugh Young

Far East funds

Asian equity markets fell in May to their lowest level in 10 months before clawing back some of the lost ground. The MSCI Asia Pacific index ended more than 9% lower in US dollar terms, while that excluding Japan fell almost 11%. Net foreign sales of Asian equities were the highest in more than a decade. Risk aversion rose sharply amid ongoing fears the European debt crisis would spread and subsequent rumours that Beijing may review its debt holdings in the Continent. Although the Chinese authorities refuted these claims, Germany's controversial ban on naked short selling, coupled with the Spanish central bank's takeover of several regional lenders, intensified worries that the tentative global economic recovery may be derailed. Adding to the gloom were additional moves by China to cool the property market and heightened political tensions on the Korean peninsula.

Investors largely ignored the robust first-quarter economic growth data, which continued to exceed expectations across most of Asia. The large economies of China, India and Indonesia, as well as the more export-oriented ones, such as Hong Kong, Korea, Taiwan and Singapore, saw GDP growth accelerate, while the Philippine economy was driven by election spending and remittances from overseas. Japan also saw growth quicken because of strong auto and high-tech exports, but consumer prices fell for a thirteenth consecutive month.

Consumer price inflation in the region rose, particularly in Australia during the first quarter as wages rose; China, where consumer and property prices accelerated in April; India, where food prices advanced; and Singapore, where transport and housing costs climbed. In contrast, Korea and Indonesia saw price inflation fall. Most central banks opted to leave interest rates unchanged but Australia and Malaysia hiked rates, while India announced it would gradually unwind monetary stimulus. China increased banks' reserve ratios for the third time this year, and introduced further measures to cool the property market. India proposed a US\$11 billion fund for infrastructure needs. Hong Kong and Singapore will release more land to dampen rising home prices, while Malaysia plans to cut subsidies of petrol, gas and education.

On the political front, Indonesia's embattled finance minister Sri Mulyani Indrawati quit to join the World Bank; Philippine senator Benigno Aquino won the presidential election by a landslide; and Thailand extended a nationwide curfew as anti-government protests spread to the provinces despite ending in Bangkok. An arrest warrant on charges of terrorism was issued for former Prime Minister Thaksin Shinawatra.

During the month, the portfolio declined by 4.65%, outperforming the 5.68% fall in the benchmark. Asset allocation (+1.45%) was positive, but stock selection (-0.04%) and currency (-0.39%) were negative. The currency effect, which is a result of our stock selection, hurt relative performance primarily because of our underweight to Japan (-1.27%) as the yen outperformed other Asian currencies. However, this was partially mitigated as Japanese stocks performed poorly in local currency terms, resulting in positive asset allocation (+0.64%). The fund also benefited from the underweight to Australia (+0.96%) as the Australian dollar fell sharply over the month.

Elsewhere, asset allocation was positive in India (+0.14%), Hong Kong (+0.08%), Indonesia (+0.28%), Singapore (+0.23%) and Thailand (+0.12%), where we are overweight. In spite of the political situation, Thailand outperformed on the back of strong first-quarter GDP numbers.

Macroeconomic data was also supportive in the other markets: Singapore's GDP exceeded expectations, while export numbers in Hong Kong and India were robust. Nonetheless, most Asian markets still ended lower in May amid concerns about the Eurozone debt situation.

In terms of stock selection, Australia (+0.22%), Taiwan (+0.20%) and Singapore (+0.19%) were the main contributors. In Australia, Woolworths proved relatively defensive, while QBE Insurance also fell by less than the 7.55% decline in the MSCI Australia index (in local currency terms). We also benefited from our lack of exposure to Australian banks; index heavyweights, Westpac and Commonwealth Bank of Australia, slid by 12.26% and 12.20% respectively. In Taiwan, Taiwan Mobile's shares rose by 1.66%, significantly outperforming the 8.00% fall in the MSCI Taiwan index. The company's strong cash flow and attractive dividend yield proved important defensive qualities during the market sell-off. In Singapore, our holdings, ST Engineering (-1.89%), City Developments (-3.94%) and SingTel (-4.92%), all declined by less than the MSCI Singapore index, which was down 6.92%. Japan was a detractor (-0.47%), as Mitsubishi Estate and Shin-Etsu Chemical both underperformed.

In May, we topped up several stocks, including BHP Billiton and QBE Insurance, on weakness.

Looking ahead, equity investors are becoming increasingly nervous amid fears that Europe's financially troubled periphery may dim the Continent's prospects and possibly trigger a relapse in the global economy as a whole. In Asia, there are worries that China's moves to cool its runaway property market may not be sufficient to prevent inflationary pressures rising, while political instability has been exacerbated by the escalating row between the two Koreas as well as Japan's revolving door politics that has seen five prime ministers resign in the last four years. Japan's Prime Minister Yukio Hatoyama quit in early June after less than nine months in office amid waning public support.

Over the short term, we remain cautious about the prospects for corporate earnings growth, as rising input prices, in combination with stagnating top line growth, threaten to hurt margins. There are also doubts about the sustainability of government-induced recoveries once economies are weaned off stimulus measures. However, Asia's strong fiscal position give governments the option to extend pump priming should the need arise. As such, long-term fundamentals for the region remain robust, with rising intra-regional trade and domestic consumerism underpinning the region's growing self-reliance.

AXA Framlington – George Luckraft

Diversified Income and Allshare Income funds

Markets suffered during May as the problems within the Eurozone spread more widely. Credit markets began to freeze up as investors feared that Greece might have to default. The European Union cobbled together a rescue package which markets greeted sceptically partly due to strong criticism from within Germany. Mining stocks continued to weaken helping the fund's relative performance.

In a weak market the fund held up well. The biggest contributor was Rockhopper which soared after they struck oil in the Falklands. In addition, Victrex were strong on the back of strong results.

During the month some of the profit on Rockhopper was taken and cash levels were allowed to increase awaiting opportunities.

Investors will be looking for signs that the problems in Europe are causing the recovery to falter. Corporate profitability is improving rapidly which should provide support. The problems of BP have a potential impact on the yield of the UK market.

Babson Capital – Jill Fields & Zak Summerscale

International Corporate Bond

As sovereign debt issues of peripheral E.U. nations and concerns regarding the strength of the global economic recovery remain, we continue to position the portfolio toward higher quality issuers from defensive sectors. Examples of such issuers include Libbey Glass, Ace Hardware, and HMA. We believe this approach will help mitigate some of the downside risk, if the current market sentiment persists. Additionally, we have intensified our focus on adding companies to the portfolio with moderate financial leverage and significant asset coverage.

The current month's performance benefitted from top ten holding Libbey Glass and a new larger holding in the portfolio - Global Crossing UK. Returns were impacted by the negative price performance of HCA and Sinclair Television Group, which also feature within the top 10 holdings of the fund. All top ten holdings of the fund outperformed the senior secured market during the month. HCA traded off as difficult market conditions delayed the company's return to the public equity markets. We expect the HCA's IPO to quickly tap the equity market as soon as volatility abates. The company's fundamental performance continues to improve and we used the price dip to tactically add to the position.

BlackRock – Mark Lyttleton & Nick Osbourne

UK Absolute Return

The Fund had a difficult month returning -1.06% against the backdrop of sharp falls in global equity markets. The FTSE All-Share Index dropped over six percent and the S&P 500 fell approximately eight percent. Macroeconomic events dominated, particularly the announcement of a support package for Greece and the increasing focus on the fiscal positions of other European countries. Further discussions surrounding tighter regulation of the banking sector and a slowdown in the rate of improvement in US economic data also frightened investors. The general election in the UK, despite being the most closely contested in years and delivering our first coalition government between the Conservatives and Liberal Democrats since the Second World War was almost unremarkable in comparison. Volatility was particularly marked and the VIX Index more than doubled. The Fund performed in-line with our net market exposure with our Long positions performing credibly but our Pairs disappointing.

The fiscal problems of Southern European countries have been a feature since late last year but the need to address the issue was substantially accelerated by sharp movements in sovereign CDS and bond yields throughout late April and early May as bond re-financings fell due. After some indecision and politicking the European Union, European Central Bank and the IMF announced a €750bn support package offering loan guarantees and proposing the outright purchase of bonds. After an initially euphoric reaction investors began to question the efficacy of the package and crucially the fiscal positions of other more important countries, notably Italy, France and Portugal. Bond yields and CDS remain at elevated levels.

As a consequence the prevailing mantra of retaining fiscal stimulus plans to boost growth has been largely reversed. Expenditure is to be cut and government revenues are to be raised as sovereigns seek to show markets their seriousness in reducing deficits. The new coalition in the UK has hastened this process domestically and investors are bracing themselves for a period of austerity. Subsequent fears over the outlook for growth and its impact on markets have been exacerbated by deterioration in credit market conditions. To be clear, relatively modest increases in LIBOR and the Euro basis swap are not an indication that we are looking over the precipice of a new funding crisis but investor memories understandably remain scarred by recent experience.

Analysis suggests that preconceptions of the impact of fiscal contraction on economic growth and market performance can be wrong. A number of studies have shown that providing the majority of the budget adjustment is made through spending reductions rather than tax increases, economic growth is typically maintained at a healthy rate contingent on trends in private sector demand. If the above conditions are held there has been a statistically positive correlation between deficit reduction and equity performance.

In conclusion whilst markets have been very difficult we are comforted by low valuations, particularly on a relative basis and the improving trading conditions of many of our holdings. The impact of fiscal austerity programmes should not be underestimated but historically economies have performed surprisingly well through such a period. We retain a bias towards the beneficiaries of increased capital expenditure and remain nervous of the domestic consumer and those companies that rely heavily on government expenditure. We would need to reappraise our largely positive view if credit markets were to deteriorate further but so far conditions appear to have stabilised. In addition we should not dismiss the greater understanding that monetary authorities have in dealing with funding crises and the programmes that remain in place to alleviate problems.

We apologise for spending this month's report focusing on macroeconomic variables but these have been the key determinants of market performance and need to be addressed. We hope to be able to return to our more usual format as conditions return to normal!

First State Investments – Jonathan Asante

Global Emerging Markets

The portfolio underperformed the benchmark index over the month. This was driven principally by our stock positions in **Coca-Cola Hellenic Bottling** (Greece: Consumer Staples), **Check Point Software** (Israel: Information Technology), **LG Electronics** (South Korea: Information Technology) and **Samsung Fire & Marine** (South Korea: Financials). Coca-Cola Hellenic lagged because of its exposure to emerging European markets and Check Point was weak on concerns that the sovereign debt crisis in Europe would affect spending on internet software. LG Electronics and Samsung Fire & Marine were negatively impacted by worsening relations between North and South Korea. The portfolio is conservatively positioned and maintains a large holding in a gold mining company as a hedge against loose monetary policy.

Invesco Perpetual – Neil Woodford

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

Market Commentary

UK equities were sharply lower in May as risk aversion spiked higher amid ongoing worries about sovereign debt in Europe and the potential for widespread austerity measures to undermine the economic recovery. During the month, the UK's first quarter GDP growth was revised higher, from 0.2% to 0.3%, compared to the previous three months. However, weak retail sales and consumer confidence data, combined with a further rise in unemployment, highlighted the challenges that still face the domestic economy. The political backdrop saw the formation of a coalition government, led by the Conservatives. New chancellor George Osborne announced £6.2bn of cuts to government expenditure to help reduce the UK's vast deficit and set the date of the 'emergency budget' for 22 June. Corporate results remained largely upbeat, although domestic retailers expressed caution about the current outlook as imminent tax rises put the consumer under further pressure. United Utilities, BT Group and Vodafone each released robust earnings and dividend increases.

Fund Strategy

We believe that on a selective basis it is possible to find quality growth companies in the UK equity market that are significantly undervalued. Typically, these businesses demonstrate the key characteristics that drive long-term share price performance; resilient and dependable earnings and long-term dividend growth. At the current time, we believe that the best opportunities exist in areas including pharmaceuticals, tobacco, aerospace and utilities. In many cases, the share prices of these companies are trading at their cheapest levels for a number of years and at a discount to the market as a whole. We anticipate a difficult time ahead for the UK economy and

against this background we expect investors to pay a premium for the earnings and dividend visibility offered by the stocks that dominate this fund.

In May the fund's representation in Sage was sold. While we continue to believe that the company has positive long-term prospects, in our view the current valuation relative to other opportunities in the market is not as compelling. Accordingly, we have selectively used the proceeds from this disposal to increase exposure to some of our favoured companies.

Over the month, we increased positions in companies that we believe remain significantly undervalued, including; Astrazeneca, WM Morrison and BT.

Fund performance

The fund was 3.8% lower in May, compared to the FTSE All-Share index, which was down 6.2%.

In May, the fund delivered a stronger performance than the benchmark. Among the most resilient sectors during the month were tobacco, fixed and mobile telecoms, pharmaceuticals and aerospace and defence, all areas in which the fund is well represented. Relative performance was also enhanced by the fund not holding positions in banking stocks, or in index heavyweight BP, which suffered amid further adverse newsflow from the Gulf of Mexico.

Among individual positions, Severn Trent, Rolls Royce and United Utilities all ended the month higher, despite the market's overall sharp fall

Invesco Perpetual – Paul Read & Paul Causer

Corporate Bond funds

Fixed interest markets remained volatile as the sovereign crisis in Europe heightened, ultimately leading to the implementation of the €750bn EU/IMF stabilisation package. Corporate bond markets weakened, sterling BBB rated spreads widened by 58bps for a 1.1% loss according to data from Merrill Lynch. Bank debt was also weak on concerns over their exposure to the peripheral Eurozone countries; sterling Tier 1 spreads widened by 147bps and gave back the gains they had made over the previous two months while European high-yield spreads increased by 182bps for a 7.0% fall in sterling terms.

In terms of strategy, we continue to 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. Despite their recent weakness as a result of the sovereign debt crisis, we continue to see selective value in the bonds of banks and other financials. During May, we sold a number of blue chip investment-grade bonds such as Enel 5.625% and 5.75% and Marks & Spencer 6.125%. High yield exposure was increased with purchases including a number of yield enhancing opportunities such as Wind 11% (telecom), Hertz 7.875% (rental) and Ineos 9.25% (chemical).

Invesco Perpetual – Paul Read & Paul Causer

Investment Grade Corporate Bond funds

Fixed interest markets remained volatile as the sovereign crisis in Europe heightened, ultimately leading to the implementation of the €750bn EU/IMF stabilisation package. Corporate bond markets weakened, sterling BBB rated spreads widened by 58bps for a 1.1% loss according to data from Merrill Lynch. Bank debt was also weak on concerns over their exposure to the peripheral Eurozone countries; sterling Tier 1 spreads widened by 147bps and gave back the gains they had made over the previous two months.

In terms of strategy, we continue to believe that some of the more attractive investment opportunities are to be found amongst higher yielding investment-grade names. Despite their recent weakness as a result of the sovereign debt crisis, we continue to see particular value in banks and other financials where both yields and spreads remain attractive. Fund activity was limited during May. Additions included France Telecom 7.5% and Tesco 6.125%. Sales included SAB Miller 4.5% (beverages) and RBS 8.162%.

J O Hambro Capital Management – John Wood

Manager of one half of the UK and General Progressive portfolio

The portfolio comfortably outperformed the FTSE All-Share Index in May, with information services company Experian making a positive contribution in a difficult month for stock markets globally.

There are many isolated explanations for the recent market volatility including Greek bailouts and leaking oil wells. The underlying cause, though, is a world of fragile economic recovery and unrealistic market expectations, a combination which magnifies the impact of small surprises. We are operating in a world of "dashboard fund management", where well-documented issues, such as the state of Greek public finances, are universally acknowledged yet never fully "in the price" until the dial on the dashboard is flashing red.

As in mid-2008 and early-2009, the opportunities provided by a falling market have resulted in competition for capital within the portfolio. We have used this market weakness to increase the portfolio's quality, for example introducing BG Group, which not only has the sector's best long-term production growth profile but, as the lowest cost producer, is also the least sensitive to oil price fluctuations.

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.

The fund's most recent investments generated the strongest performances. African Barrick Gold is a new position established this month after its spin-off from the world's largest gold producer, Barrick Gold. The company owns three mines in Tanzania and a 25m oz exploration portfolio. It is currently producing 800k oz gold annually from a competitive cost base and plans to grow volumes by 40% over the coming four years, primarily from operational improvements. It lacks geographic diversification but has net cash to fund acquisitions. Execution risk on the resource discovery and project management is minimised by Barrick Gold's 74% retained shareholding in the company. Despite the prevailing fear of fiat currencies, a lack of London-listed gold producers with meaningful levels of production and the rich valuations attracted by peers such as Randgold, the IPO was priced at over a 25% discount to the peer group at 13 times earnings and 1.3 times net present value. The investment reported a 4% profit within the month. A second new position was established in Gulfsands Petroleum, a small-cap E&P company. It focuses on Middle Eastern assets which are too small to be exploited by the national oil companies. The first successful development, in the Khurbet East field in Syria, is in partnership with Sinochem and offers substantial growth potential. Further opportunities exist in Tunisia & Southern Iraq. Net cash equates to around 20% of the market capitalization and the company trades at 7 times earnings and 4 times ebitda, a significant discount to its peer group. Shares fell by 6% in May to a level which is 17% below that of an indicative offer made by a consortium of Indian oil companies in March. The offer was rejected by Gulfsand's management as undervaluing the group. Other strong performers for May were Senior which gained 3% and Delta which was acquired by Valmont Industries at the month end.

The oil spill from BP's Deepwater Horizon rig coincided with renewed concerns over the global economy and the fund's oil investments generated the worst performances for the month, accounting for almost one third of the fund's losses. The Macondo spill has proved to be far more serious than initially anticipated in both size and complexity, evolving into a terrible tragedy. BP's 14% share price fall in May and the sustained underperformance since the month-end means that the company has now lost over a third of its market value since the April peak. Multiple remediation efforts proved fruitless and, although the latest capture solution is reportedly collecting the majority of the spill volumes, debates around the clean-up and legal costs as well as wider implications from political pressure in the US are likely to continue for some time. Our view that a company as substantial, globally important and financially robust as BP will perform resiliently through this ordeal is not reflected in the market's current valuation of 6 times 2010 earnings, 3.4 times ebitda with a dividend yield of 8.8%. Royal Dutch Shell's shares also underperformed, losing 11% over the month in line with the sector despite benefiting from sector-leading earnings upgrades as the company delivers on its expansion programme. The market's wider sense of risk aversion drove down shares in a number of other perceived cyclicals within the portfolio, notably Inchcape, which fell 16%, and Gem Diamonds, down 22%.

Oldfield Partners - Richard Oldfield

High Octane funds

There has been a nasty sense of “here we go again” about markets in the last month. The European crisis is unpleasantly reminiscent of 2008, not in the details but in the way in which a chain reaction develops, reminiscent also of the Tom Lehrer song “Who’s Next?” (actually a song about nuclear proliferation, a topical subject now too, though one to leave for another day). There are severe risks. If countries default there could be a renewed banking crisis. The CDS rates, the rates at which issuers are insured against default, for some of the leading European banks have risen to levels equal to or above those reached in the midst of the Lehman crisis in 2008.

We think it unlikely that, in market terms, the result of this crisis is that share prices simply potter along more or less sideways. We have had severe volatility recently, and that seems most likely to continue: sharply up or sharply down. On balance, we think the former more likely, but this may be a consequence of natural though not invariable, but sometimes misplaced, optimism – what Sir Siegmund Warburg called non-wishful thinking. Currently this optimism is based on the view that governments in Europe, and the European Central Bank, will be anxious enough to ensure the survival for the time being of the Euro to go about large scale quantitative easing in which the bonds whose issuers are potentially in trouble are bought, directly or indirectly, by the ECB, Maastricht Treaty notwithstanding: after all, it has not withstood often enough, in the matter of deficits, over the past six years.

That is the first basis for optimism. The second is that governments in many places will set about cutting their deficits, generally regarded as a good thing; and that this can happen alongside economic growth. There was a telling moment in the third of the UK prime ministerial debates when David Cameron remonstrated with Gordon Brown that the latter regarded growth in government as synonymous with growth in the economy. Those of a more free market disposition not only do not regard the two things as synonymous; they regard one as being actually the opposite of the other. A recent paper by Policy Exchange, the think tank most influential on the present UK government, examines a number of episodes in which different governments around the world have cut back sharply on public spending in order to reduce their deficit – Canada, Finland, Britain in the 1970s and so on – and finds that in the great majority of cases these cutbacks did not result in recession; on the contrary, they coincided with at least normal and often above normal economic growth. Growth is the key to lowering the deficits. We must wait to see whether governments adopt policies which both tackle public spending head on and stimulate private sector growth.

The danger is not just of continuing government fiscal crises in themselves, but that concern about them causes companies and individuals to pause. There are good signs of economic recovery around the world. If the reaction to present troubles were for companies to postpone the investments which they have just been warming up to make, or individuals to postpone buying things, the effect could be disastrous. That is why the question on everyone’s lips is whether we are in danger of a double dip. We certainly see the danger, but we think that, if the ECB acts soon, it will not come to pass and that the recovery will continue.

There is plenty of risk in all this, and plenty of reason to be pessimistic. But for those who are not pessimistic about these macro factors, there is much elsewhere to be optimistic about. As we

discussed in last month's newsletter, profitability is improving remarkably quickly, cash flow and cash are at very high levels, investor sentiment is no longer complacent, valuations are reasonable. The prospective price earnings multiple of the major European indices is now less than 10. The dividend yield on the UK equity market is higher than government bond yields.

Our global portfolios fell more or less in line with world markets during the month, a month in which there was a noticeable absence of pattern. Apparently more cyclical companies, such as Anglo American and Deere, fell less than the World Index. This suggests that what we were seeing was more a sudden surge in "risk aversion" than a particular discernment that economic recovery was in danger. The one element of pattern was that all five of the Japanese holdings fell more sharply than the World Index, by between 11% and 15%. This has followed a generally strong performance in Japan in the year-to-date.

RWC Partners - John Innes

UK Growth funds

Fund Performance

May was a weak month for both the markets and the Fund as risk aversion spiked higher on sovereign debt panic in the Eurozone. Banking sector worries resurfaced after the bail out of one of Spain's largest regional lenders by the Spanish Central Bank and inter bank lending rates rose. The major sectors of Oils, Miners and Banks led the market down, but second liners, especially in the Consumer Services sectors, were also weak. The Fund had performed well in April owing to the strong performance of the underlying companies during the main results season. However, this was reversed as macro influences once more came to the fore. The Financial and Industrial sectors were naturally the worst contributors given the market worries despite the shortage of company news flow post the Quarter 1 results season. With regards to individual stock news flow the National Grid rights issue has been the worst contributor, but the experience of last year should mean that after the deal is completed linearly June the stock could rally well from a very depressed level and the Fund has been adding to its position. The continuing nightmare of the BP oil spill in itself was not too damaging on a relative basis as the position was not significantly greater than the index weighting.

Portfolio activity was more limited over the month and confined to picking up stocks such as Punch Taverns and Aviva which had been oversold in the market slump.

S W Mitchell - Stuart Mitchell

Continental European funds

We outperformed the market in May.

Against the background of continued weakness in the euro, our investments with a significant exposure to the US economy, including Zodiac, BiC and Legrand acted especially well. On the other hand, our financial investments performed poorly, depressed by fears of possible Greek sovereign debt default.

During the month we added to our investment in Thales. We cut our holding in PGS.

We have been sorely tested over the past few weeks by the roller-coaster trajectory in equity markets. It seems that the euro crisis has been contained, in the short term, by the unprecedentedly large 'bail-out' package put in place for Greece (and thus implied as being available for others) by the European Union and IMF. However, markets are reluctant to settle down, and have been further spooked by signs seeming to point to European policymakers taking a heavier regulatory approach financial markets (for example, Germany's ban on naked short selling in certain instruments).

In addition, more structurally, it will take time for peripheral eurozone countries to accustom themselves to the reality that the European 'centre' suddenly holds much greater political sway over members' fiscal policies. What is now required is for a readjustment, probably over several years, of costs in the southern tier of European countries (Greece through Italy to Spain and Portugal), relative to the northern tier (Germany above all, but also France). Given that currency devaluation is not an option, this will need to be done via differential growth rates. The south will see relative deflation, which will doubtless be painful.

The reverse of this is the prospect of rather better growth rates, probably with rather higher inflation rates, in the northern tier. This may well provide a backdrop for northern European companies altogether more benign than that of the last year or two, further enhanced by the major euro devaluation relative to the dollar since the autumn of last year. Governments will be wrestling with fiscal demons for a good while, but companies much less so.

The macroeconomic environment is a good deal more supportive than might be thought. Credit has become more readily available again, even if the uptake of such credit has lagged somewhat. Interest rates are – and are likely to remain for some time – breathtakingly low. We are also still seeing the economic benefits of the extraordinary government stimulus programmes implemented over the past 18 months.

We thus see little to deflect our view that our companies will be able to generate much stronger earnings growth than the market currently expects. We have been very impressed by how quickly, and how aggressively, companies cut costs in the face of the crisis. Demand, meanwhile, has been surprisingly resilient in the Emerging World, and shows encouraging signs of recovery in the West. The combination of these factors is driving profits sharply higher. Surveys of expectations, furthermore, suggest that the recovery is likely to be extended, and could rapidly broaden out across the world.

Investors, moreover, remain encouragingly cautious. As our recent company meetings attest, many traditional institutions, such as insurance companies, are still barely exposed to equities.

Within this environment, European shares appear good value trading on some ten times prospective earnings. European markets also continue to trade at significant discounts to the US market despite their corporate sectors being just as profitable. Equities remain as cheap as ever relative to bonds and cash.

It is clear, of course, that there are still difficulties facing markets. At some point quantitative easing will have to be unwound. Further, the need to restore public finances in the Western World could well act to slow the recovery in demand, and thus dampen future economic growth. However, hints from central bankers and politicians suggest that this will not become an issue at least until later on this year, and quite likely later.

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

S W Mitchell - Stuart Mitchell

Manager of one half of the Greater European portfolio

We outperformed the market in May.

Against the background of weakness in the Euro, our investments with a significant exposure to the US economy, including SGS, BiC and Legrand acted especially well. On the negative side, our financial investments performed poorly, depressed by fears of possible Greek sovereign debt default.

We added to our investment in Rexel over the month.

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Wellington Management Company

Gilts funds

Economic releases in the UK were generally favorable during the month as readings on retail sales and industrial production exceeded expectations. The increase in retail sales represented the third consecutive monthly increase as consumers have been encouraged by recent economic improvements. The economy expanded in the first quarter, in line with expectations while inflationary measures proved higher than anticipated. The Bank of England kept already-low rates on hold as expected during the month. While the economy continues to demonstrate signs of improvement, systemic concerns weighed on global sentiment. Risk aversion spiked higher and investors sought the relative safety of global government debt. Rates in the UK and the US dipped sharply and the yield curve in the UK (between 2-years and 30-years) steepened as long rates declined less meaningfully. For the month, two-year yields declined by approximately 25 basis points to 0.88%, while five-year, ten-year and thirty-year yields declined by 37, 27, and 20 basis points to finish the month at 2.28%, 3.58%, and 4.28%, respectively.

During the month, the Portfolio performed in line with its benchmark, producing a neutral result. For the month, the Portfolio returned 2.26%, falling one basis point short of the 2.27% return of the FTSE Actuaries All UK Gilt Index. Allocations to select intermediate and long-dated issues provided the majority of the performance during the period as rates declined. Allocations to the shortest-dated issues provided a more modest contribution to results during the month.

The UK household sector continues to show signs of life, retail sales remain resilient, the labour market has stabilized, and the housing market appears to be steadily improving. The economy expanded modestly during the fourth quarter, held back by a sharp drop in corporate investment. Nonetheless, CPI inflation continues to surprise on the upside, raising questions about the amount of slack in the economy and pointing to deterioration in the trade-off between growth and inflation. Certain positive developments notwithstanding, the sustainability of the recovery remain in question given underlying economic imbalances, including low private sector savings, ongoing contraction in credit, and the governments' large structural deficit. The outlook for the UK remains uncertain. The risk is that the degree of excess capacity in the economy is over-estimated and that, alongside higher import prices, inflation may be higher than expected in 2010. On balance, we believe that the UK economy is more at risk of a double dip than many other developed countries.

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.