

Diversified fund range

February 2010



As we start 2010 the valuation of risk assets such as equities and credit no longer seem as compelling or cheap as they did before the strong rally from March and through last year. Although the impact of much of the fiscal stimulus announced last year has yet to be seen in full, markets are forward looking and are already focusing on phased withdrawal of stimulus packages around the world.

Whereas 2009 proved to be a great environment for directional returns from risk assets, we believe 2010 will be different. We think investors will have to look beyond reliance on market beta and search for other opportunities to generate attractive returns and we are focusing on four key areas:

Spreading risks: This year is likely to be volatile and we believe that diversification of underlying sources of return and investment risk will prove even more important. Our approach to diversification centres around constant evaluation of exposure across the full spectrum of asset classes and investment strategies. Coupled with this is a disciplined approach to risk management that can help protect the funds when correlations increase.

Identifying opportunities: The ability to capture growth opportunities across multiple assets classes and remain flexible will be key in 2010. We have identified long-term themes such as the ageing population and the increasing wealth of developing countries which underpin various positions within our portfolios. As we continue to seek opportunities and manage positions, liquidity is prioritised to ensure flexibility to move quickly reflecting changes to the investment environment.

Capitalising on non-directional investments: The flexibility of the Diversified Range mandates allows us to invest either directly in total return strategies, or isolate the 'alpha' we expect from investments by hedging out underlying market direction risk.

Identifying and capitalising on absolute return opportunities is expected to be an important component of our strategy through 2010.

Embedding discipline in our approach: Drawdown preservation is core to our investment process and disciplines such as our 'stop think' methodology enables us to focus on delivering attractive returns, while at the same time preserving capital. Since restructuring the portfolios in the first quarter of the 2009*, the funds have successfully preserved capital in the three negative months for equities. We have continued to strengthen our 'stop think' limits in reaction to market conditions, enabling positions to run whilst adding protection on the downside.

* Bloomberg returns, quoted in December 2009 conference call flyer

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Performance

Fund	1 mth	3 mth	6 mth	1 year*	3 year*	Since inception*	Inception date
Diversified High Income	-0.46	0.39	6.51	6.43	-4.98	2.51	3/3/97
Diversified Target Return	-0.27	1.38	6.56	11.66	-1.12	2.02	18/2/05
Global Diversified Return	-0.30	1.11	7.15	13.70	-2.16	0.12	2/10/06
Wealth Builder Balanced	-1.19	0.86	6.78	12.97	-2.05	3.82	2/1/96
Diversified Dynamic Return	-0.58	2.91	7.99	12.06	-5.80	3.93	2/1/96
IMA Cautious Managed	-0.74	1.82	9.14	17.79	-0.87		
IMA Balanced Managed	-2.24	1.90	10.46	21.11	-1.57		
IMA Active Managed	-2.89	2.08	11.08	23.79	-2.04		
LIBID GBP 3 Months	0.04	0.12	0.26	0.91	3.39		
FTSE All Share	-3.57	3.59	14.71	33.24	-2.45		

Source: Lipper, a REUTERS company. Data as at 31/01/2010. All returns shown are percentage growth, total return, GDP, UK tax net.

* annualised.

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