



1st QUARTER 2008

PanVIEW

Pan-Asset's Global Asset Allocation and Investment Review

Asset Allocation Overview John Redwood

I sympathise with Trustees, Investment Committee members and private investors, as they survey the wreckage of their investments over the last six months. Many remember investment professionals telling them that UK shares and property represent good long term value, and they should not be concerned. Some will feel their investment advisers were just not there with sensible explanations and recommendations as the markets plunged. A recent newspaper article drew attention to the lack of comment and advice on the websites of several leading investment houses in these difficult times.

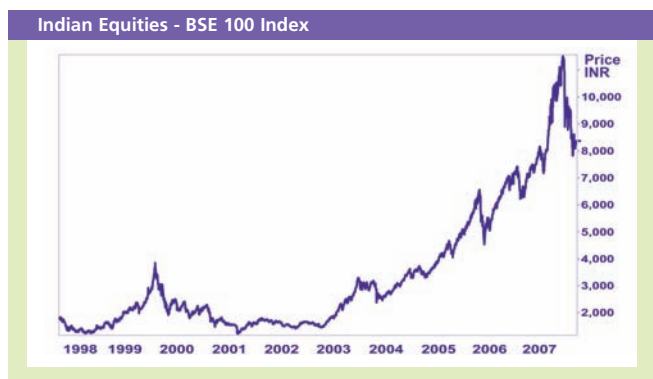
Many professional investors are natural optimists. They reckon shares and property will generally go up, so buying and holding can make sense. Some believe they can make people money by researching individual companies and choosing shares they like. Others who have been in the business long enough 'closet index' their portfolios, knowing it is very difficult to get ahead and stay ahead of an index.

So what should an Investment Committee do now? It should reappraise its holdings in the light of the dramatic changes in the world economy and financial markets in recent months. Just because some markets and assets have already fallen considerably, it does not mean they cannot fall more, equally at some point they will go up again.

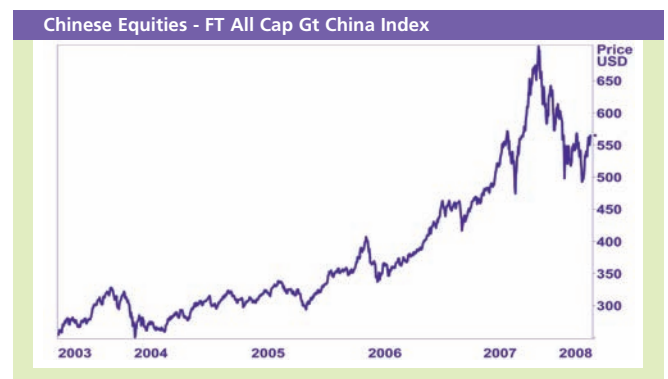
You need to start with a view of the world economy and the financial crisis.

If we are entering a deep US recession, if more banks go under, if the recession spreads to Europe, then it is still time to sell shares and hold cash – with a spread of deposits in the better banks. Conversely, if the US authorities succeed in limiting the slowdown by their combined action of tax cuts, interest rate cuts and more liquidity for financial markets, then we are closer to the point where shares are good value again. We think it is more likely the authorities will do what it takes to avoid a deep recession, so we are recommending putting some money into markets on bad days, reducing the large cash positions we have favoured. Current targets are Indian and Chinese equities, US and Far East property and US equities.

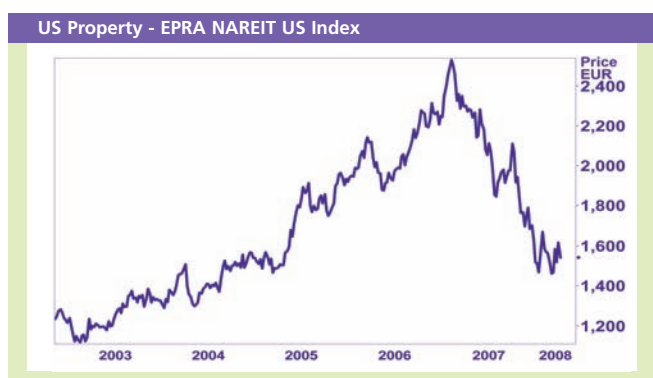
Investment strategy is about spreading risks and keeping a cool head. It is about trying to see the underlying forces which will decide whether different assets do well and our recommendations are described in detail elsewhere in this report. We do not expect to get all our calls right, but we do hope to help people keep more of their capital in bad times, and enhance their capital in good times. Times are still troubled. We cannot be sure how long it will take to restore enough liquidity to the banks, and how long economies will suffer slower growth from restricted credit. It is time to have some cash, and to spend it on buying real assets with growing income on days when the prevailing mood suggests the days of the equity are over for good.



Source: Reuters



Source: Reuters



Source: Reuters



John Redwood held senior investment roles at Robert Fleming and NM Rothschild in the 1970s and 1980s. Since, he has been a Pension trustee, Investment Committee member for an Oxford College, Chairman of an investment company and a non-executive Director of a hedge fund and an Investment Trust. An early advocate of tracker funds, he has written extensively on economics and investment.

Current Asset Allocation - For Sterling Based Portfolios

Status of Asset Class for Sterling Investors	Relative Yield Analysis				Fundamentals		Current Valuation versus Long Run Average	Price Momentum			Recommended Portfolio Weighting Versus Natural Weighting	
	Current Yield %	Estimated Supporting Growth Rate %	Required 3 Year Capital Gain to Return Inflation + 5% %		5 Years	1 Year		Moving Average 200 Day	Moving Average 20 Day	Bollinger Signal	Strategic (5 Years)	Tactical (1 Year)
Government, Corporate and Inflation-Linked Bonds												
UK Government Bonds	Tactical	4.5	0.0	13.1	●	●	●	●	●	●	Underweight	Neutral
US Government Bonds	Tactical	3.6	0.0	16.1	●	●	●	●	●	●	Underweight	Neutral
European Government Bonds	Tactical	4.0	0.0	14.8	●	●	●	●	●	●	Underweight	Neutral
£ Corporate Bonds	Tactical	6.2	0.0	7.7	●	●	●	●	●	●	Underweight	Neutral
US Dollar Corporate Bonds	Tactical	5.9	0.0	8.6	●	●	●	●	●	●	Underweight	Neutral
Euro Corporate Bonds	Tactical	4.3	0.0	13.8	●	●	●	●	●	●	Underweight	Neutral
UK I-L Govt Bonds (Inflation 3%)	Strategic	3.9	3.0	15.1	●	●	●	●	●	●	Neutral	Neutral
US I-Linked Govt Bonds (Inflation 2%)	Tactical	3.9	2.0	15.1	●	●	●	●	●	●	Neutral	Neutral
European I-L Govt Bonds (Inflation 2%)	Tactical	3.9	2.0	15.1	●	●	●	●	●	●	Neutral	Neutral
Equities												
UK Equities	Strategic	3.7	3.0	15.8	●	●	●	●	●	●	Neutral	Underweight
US Equities	Strategic	2.0	4.0	21.5	●	●	●	●	●	●	Overweight	Overweight
Europe(ex-UK) Equities	Strategic	3.4	3.0	16.8	●	●	●	●	●	●	Underweight	Neutral
Japanese Equities	Strategic	1.7	3.0	22.5	●	●	●	●	●	●	Neutral	Neutral
Far East (ex-Japan) Equities	Strategic	2.8	5.0	18.8	●	●	●	●	●	●	Overweight	Neutral
Chinese Equities	Strategic	2.3	8.0	20.5	●	●	●	●	●	●	Overweight	Overweight
Indian Equities	Strategic	1.0	7.0	24.9	●	●	●	●	●	●	Overweight	Overweight
Global Emerging Markets Equities	Strategic	2.3	7.0	20.5	●	●	●	●	●	●	Overweight	Overweight
Global Equities	Strategic	2.6	5.0	19.4	●	●	●	●	●	●	Overweight	Overweight
Listed Property												
UK Property	Strategic	3.2	2.0	17.4	●	●	●	●	●	●	Neutral	Overweight
US Property	Tactical	6.9	3.0	5.5	●	●	●	●	●	●	Neutral	Overweight
European Property	Tactical	3.5	2.0	16.4	●	●	●	●	●	●	Underweight	Neutral
Far East Property	Tactical	3.2	5.0	17.4	●	●	●	●	●	●	Overweight	Overweight
Global Property	Strategic	4.8	5.0	12.2	●	●	●	●	●	●	Neutral	Overweight
Listed Private Equity												
Global	Strategic	2.0	5.0	21.5	●	●	●	●	●	●	Overweight	Overweight
Listed Hedge Funds of Funds												
Multi Strategy	Strategic	0.0	0.0	28.4	-	-	-	-	-	●	Neutral	Neutral
Listed Commodities												
Gold	Tactical	0.0	5.0	28.4	●	●	-	●	●	●	Underweight	Underweight
Multiple Precious Metals	Tactical	0.0	5.0	28.4	●	●	-	●	●	●	Underweight	Underweight
Oil	Strategic	2.7	5.0	19.1	●	●	-	●	●	●	Overweight	Overweight
Multiple Energy	Strategic	2.7	5.0	19.1	●	●	-	●	●	●	Overweight	Underweight
Multiple Industrial Metals	Strategic	0.0	5.0	28.4	●	●	-	●	●	●	Overweight	Neutral
Agricultural Commodities	Strategic	2.7	5.0	19.1	●	●	-	●	●	●	Overweight	Overweight
All Commodities	Strategic	2.7	5.0	19.1	●	●	-	●	●	●	Overweight	Neutral
All Commodities (Ex Energy)	Strategic	2.7	5.0	19.1	●	●	-	●	●	●	Overweight	Underweight
Timber	Tactical	0.0	5.0	28.4	●	●	-	●	●	●	Neutral	Neutral
Cash/Currencies (1 Month LIBOR)												
Sterling (ie: Cash as an asset class)	Strategic	5.8	0.0	-	●	●	-	●	●	●	Underweight	Overweight
US Dollar (versus £)	Tactical	2.7	1.0	19.1	●	●	-	●	●	●	Underweight	Neutral
Euro (versus £)	Tactical	4.4	1.0	13.5	●	●	-	●	●	●	Underweight	Overweight
Yen (versus £)	Tactical	0.7	3.0	26.0	●	●	-	●	●	●	Overweight	Overweight

Reference: One Year Sterling Cash 5.8

Reference: UK Inflation 3.7

If you would like to know more about our global asset allocation process please contact Robert Brown on 020 7398 5841 or Christopher Aldous on 020 7398 5842 or by email at: christopher.aldous@pan-asset.co.uk



Christopher Aldous has been involved in wealth management since joining Cazenove in 1981. He has since been a Director of Barclays de Zoete Wedd, an Executive Director of UBS and a Managing Director of Robertson Stephens, the US technology investment bank. He co-founded Absolute Fund Management in 2001, where he managed a fund of hedge funds and was Chief Executive Officer until 2007.

Market and Investment Overview Robert Brown

It is an arresting thought that the typical "buy and hold" investor has made very little capital gain from equities over the last ten years. Worse still, despite all this patience, many believe that the reward may be a stock market collapse as the problems in banking, and the resulting credit crunch, mutate into a self-feeding spiral of capital and income destruction throughout the real economy. We do not think that this will be the case. We are always inclined to reject apocalyptic scenarios, preferring to believe that economies and markets will usually muddle through. As John says in his article, having been very liquid, we have now begun feeding money back in. The best time to invest is usually when it feels the most dangerous because that is invariably when prices are at their lowest. For the investor willing to accept some risk, we see several reasons for taking a contrary view to the extreme pessimism that is prevalent at the moment.

First, interest rates are being cut. **Second**, economic policymakers are dusting off their text books on the 1930s and taking strong action. Banks are not being allowed to fail, cash is being pumped into money markets, the US is administering a substantial fiscal stimulus and Central Bank action is being co-ordinated. **Third**, the work of re-capitalising balance sheets has begun. **Fourth**, the credit crunch is primarily a western problem – large pools of liquidity exist in the world economy as a whole and it is only a question of at what price they will flow. **Fifth**, exchange rates are adjusting to absorb some of the pressures. **Sixth**, the developing world is now making a major contribution to worldwide prosperity through the entry of populous China and India into the global economy. **Seventh**, the other elemental forces that have combined to generate strong global economic growth in recent years - globalisation and rapid technological progress - remain intact. **Finally**, a lot of investments have fallen sharply in price so the investor's cash goes a lot further and you get much better value for money with some judicious "vulture buying"!

In summary, our tactical views are:

Government Bonds - General outlook still supportive but already well priced in and little margin of protection left in the event of upside inflation surprises, especially in the UK. Hold short and medium dated issues for their safe haven attractions but do not expect to make very much money. Inflation linked stocks now looking expensive with very low yields – holding them is best viewed as a costly but potentially valuable insurance policy against future upside inflation surprises.

Corporate bonds best avoided until the credit crunch shows signs of easing.

Equities - General outlook supportive on valuation grounds. Credit crunch worries, slower profits growth, less takeover bid support and poor sentiment will all hinder recovery from the current weakness but good buying opportunities are starting to appear. Once the credit crunch eases, we anticipate that equities will be the major asset class that performs best as we suspect that investors will remain wary of property for some time and cautious about bonds given their low yields. It is more important than ever to invest globally – the UK faces some difficult local problems in the next couple of years. The risks to this view are more on the side of weaker equity markets in the short term as company profits news deteriorates. Geographically, we prefer the US, China and India.

Property - General outlook in UK is poor on valuation and sentiment grounds with valuations adjusting sharply downwards. However, listed UK Real Estate Investment Trusts are already discounting the likely worst case and offering attractive opportunities now. Similar arguments apply internationally where REITs have also been much weaker than physical property and look to be discounting the likely worst case.

Hedge Funds - The credit crunch has highlighted the risks in choosing individual hedge funds. There have been a number of sudden and spectacular failures, some amongst hitherto very successful funds with moderate perceived risk. We confine ourselves to multi-strategy funds of funds with an emphasis on market-neutral strategies and these continue to look attractive.

Private Equity - general outlook deteriorating for operational, financial and sentiment reasons. However, listed private equity is starting to look interesting after its big price falls.

Commodities - General outlook becoming less supportive as global growth slows. The long-term story still holds but some prices appear overblown and there is a high risk of a sharp correction. Risks to this view more on the side of weaker commodity prices on possible "super cycle" doubts as economic activity slows. We called oil overbought at \$100 and Gold overbought at \$1,000 and continue to hold these views.

Cash - Short-term interest rates expected to continue falling generally. Dollar still in long-term decline but steadier in short-term and more attractive than Sterling which is still over-valued.



Robert Brown has worked in investment management for family wealth, charitable endowments and institutional funds since 1972 with Phillips & Drew, NM Rothschild and UBS. Between 1998 and 2004 he was the Managing Director of Chiswell and subsequently the Chief Executive of Sarasin Chiswell. For ten years he wrote the highly-regarded Chiswell Compendium of Investment for Charities.

If you would like to know more about our portfolio construction process using index-tracking Exchange Traded Funds or gain an up-to-date view about investment trends and opportunities please visit our website:
www.pan-asset.co.uk

PanCASHPLUS

A lower-risk, long-term way to beat cash

PanCASHPLUS generates most of its returns by investing in secure British Government stocks. However, to beat cash requires taking an element of investment risk and the main form this risk takes is investment in UK and global equities and in UK and global property (via the equities of real estate investment trusts or REITs).

To control risk, the proportions held in each of these asset classes are kept fairly constant and portfolios are re-balanced at the end of each year to restore the original proportions. This preserves the risk and return characteristics of PanCASHPLUS portfolios and also means that they tend to sell high and buy low.

PanCASHPLUS uses low cost index tracking exchange traded funds (ETFs) as the portfolio building blocks for equity and property investment – this allows portfolios to achieve broad diversification within each asset class at modest overall cost and ensures that there is a low risk of the equities under-performing their index materially. Our model looks like this:

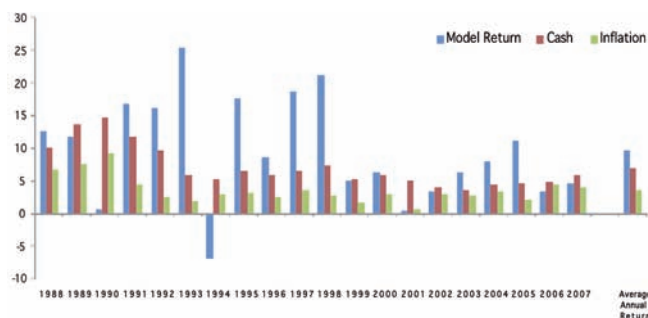
Asset Class	Weighting
UK Government Stocks	75%
UK Equities	10%
Global Equities	7.5%
UK Property (REITs)	5.0%
Global Property (REITs)	2.5%
Grand Total	100%

The investments in UK Government Stocks are direct individual holdings. By default these are stocks with similar characteristics to the FT All Stocks Gilt Index but, where appropriate, different stocks can be chosen in the light of each investor's individual circumstances, tax position and liquidity needs. Therefore, our PanCASHPLUS methodology offers a cost effective, lower risk way of seeking enhanced returns.

This document is provided for information and discussion purposes only and does not constitute an offer to sell or a solicitation of an offer to purchase any security or any other investment or product. This document is intended for authorised recipients only and must be held strictly confidential. This document may not be reproduced or distributed in any format without the express written approval of Pan-Asset Capital Management Limited. The value of investments and the income from them can go down as well as up and you may not recover the amount of your original investment. Past performance is not necessarily a good indication of likely future performance.

It does not depend on complicated strategies or involve derivatives, structured products or other exotic investments. It does not involve taking bond credit risk. There is comparatively little currency risk and it does not require bold timing judgements. Instead it simply combines a majority in British Government stocks with a minority in "real" assets on the twin premises that the British Government stocks are safe and will underpin the return and the real assets will generate enough additional return to provide a worthwhile overall return advantage over cash.

A twenty year back test of this methodology shows this result:



It must always be remembered that past performance is not necessarily a good indication of likely future performance. However, the message which emerges is that this methodology would have provided a notional average annual return of 9.6% before costs since 1988 as compared with an average annual cash return of 7.1% and an average annual inflation rate of 3.7%.

So, if you are an investor or charity sitting on cash that is enjoying progressively lower interest rates but are wary about the risks of full blooded equity investment, our PanCASHPLUS investment strategy could be for you.

Talk to us about it by calling Christopher Aldous or Robert Brown on 020 7398 5840 christopher.aldous@pan-asset.co.uk

About Pan-Asset

We are an independent firm that provides specialist investment management services to assist in the successful stewardship of family wealth and charitable endowments. We place particular emphasis on strategic asset allocation, implemented using our distinctive "core and satellite" methodology with extensive use of exchange traded funds as low cost portfolio building blocks. We offer five contrasting investment strategies, each tailored to the individual needs of each different client:

- PanBALANCED
- PanCASHPLUS
- PanGROWTH
- PanOPPORTUNITIES
- PanALTERNATIVES

Pan-Asset Capital Management Limited is authorised and regulated by the Financial Services Authority

Pan-Asset Capital Management Limited

Vestry House
Laurence Pountney Hill
London EC4R 0EH

Tel 020 7398 5840
Fax 020 7398 5849
enquiries@pan-asset.co.uk

www.pan-asset.co.uk

