

PanVIEW



Pan-Asset's Global Asset Allocation and Investment Review

2nd QUARTER 2008

Asset Allocation Overview John Redwood

Last quarter we warned that just because some markets and assets had already fallen considerably, it did not mean they could not fall more. After a spring rally the markets plunged again, producing another disappointing quarter for anyone invested in equities and property. We favoured continuing to run substantial cash positions, and to look for bargains in the better-placed equity markets when there was a succession of bad days. That remains our view.

The credit crunch of last autumn began the decline in the major equity markets. Wall Street and London plunged as investors realised the banks and other financial companies were not worth the fancy valuations they had reached during the credit binge. Property and property related shares fell as the supply of mortgage credit was strangled. Even the Asian markets fell as they discounted a downturn in the west, the destination for many of their exports.

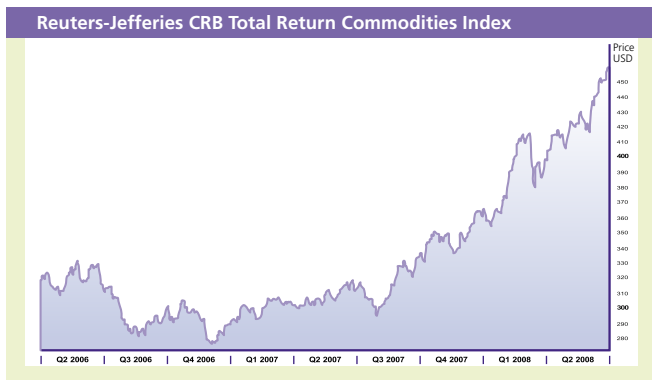
The second leg of the decline this summer has reflected a further tightening of monetary policy as the main central banks have decided that fighting inflation still needs to be done through the conventional weapons of higher interest rates and less easy money for money markets. In India and China there is genuine overheating which higher rates and less credit will start to curtail. In the west there is the impact of giddily rising commodity prices shown below, which have defied the fears of slowdown and recession in recent months.

The leading central banks in Euroland, the UK and the US have all been uncertain about what to do. The US was clear that it had to fight recession with aggressive interest rate reductions, but is now hinting it may have to increase rates in its next change.

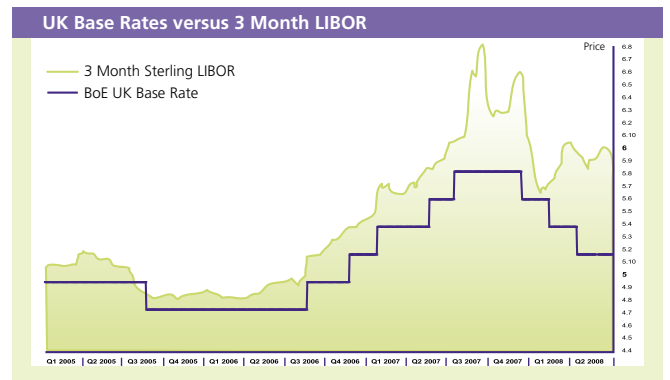
The ECB kept rates on hold and made money available to markets, before shifting to a more hawkish position as inflation rose further. The Bank of England fumbled badly over the run on Northern Rock, turned to a more accommodating position after the severe squeeze had brought Northern Rock down, only to shift back to a tougher stance more recently, as the chart below demonstrates. This uncertain tone is adding to market nervousness. Equities will only rise on a more sustainable basis once the battle against inflation is thought to have been won and the central banks make money more readily available.

Inflation is likely to come down, but not immediately. There is little evidence of wages and salaries surging on the back of rising commodity prices in the main western economies. There will instead be a painful squeeze on real incomes, leading to less spending power in the shops. In Asia the authorities seem to want to do what it takes. There must be some speculative money in the commodities markets and eventually profit-taking will set in. This could lead to a much-needed breathing space in the remorseless upward rise of commodity prices while the world adjusts to a continually rising demand for raw materials from the growing Asian economies. Equities will be able to sustain an advance once the worst of the commodity and energy price rises for this cycle are through.

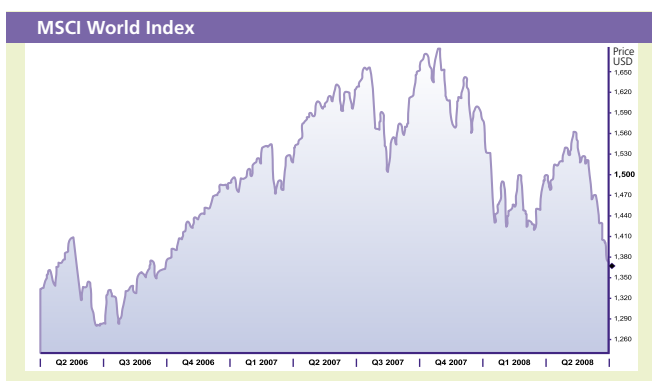
We continue to recommend seeing cash as a good asset to hold, and looking for bad days to accumulate shares in the faster growing Pacific rim economies, including the US. Our enthusiasm for purchases will be increased once the commodity prices are clearly falling and central banks are persuaded inflation is under control again.



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 Allocations - 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	5.1	0.0	13.4	●	●	●	●	●	●	Underweight	Neutral
US Government Bonds	Tactical	4.1	0.0	16.7	●	●	●	●	●	●	Underweight	Neutral
European Government Bonds	Tactical	4.6	0.0	15.1	●	●	●	●	●	●	Underweight	Neutral
£ Corporate Bonds	Tactical	6.5	0.0	8.9	●	●	●	●	●	●	Underweight	Neutral
US Dollar Corporate Bonds	Tactical	6.2	0.0	10.1	●	●	●	●	●	●	Underweight	Neutral
Euro Corporate Bonds	Tactical	5.2	0.0	13.1	●	●	●	●	●	●	Underweight	Neutral
UK I-L Govt Bonds (Inflation 3%)	Strategic	4.6	3.0	15.3	●	●	●	●	●	●	Neutral	Neutral
US I-Linked Govt Bonds (Inflation 2%)	Tactical	3.9	2.0	17.4	●	●	●	●	●	●	Neutral	Neutral
European I-L Govt Bonds (Inflation 2%)	Tactical	3.9	2.0	17.3	●	●	●	●	●	●	Neutral	Neutral
Equities												
UK Equities	Strategic	4.0	3.0	17.1	●	●	●	●	●	●	Underweight	Underweight
US Equities	Strategic	2.0	4.0	23.9	●	●	●	●	●	●	Overweight	Overweight
Europe(ex-UK) Equities	Strategic	3.8	3.0	17.8	●	●	●	●	●	●	Underweight	Neutral
Japanese Equities	Strategic	1.7	3.0	24.9	●	●	●	●	●	●	Underweight	Neutral
Far East (ex-Japan) Equities	Strategic	3.1	5.0	20.1	●	●	●	●	●	●	Overweight	Neutral
Chinese Equities	Strategic	2.1	8.0	23.5	●	●	●	●	●	●	Overweight	Overweight
Indian Equities	Strategic	1.0	7.0	27.4	●	●	●	●	●	●	Overweight	Neutral
Global Emerging Markets Equities	Strategic	2.4	7.0	22.5	●	●	●	●	●	●	Overweight	Neutral
Global Equities	Strategic	2.5	5.0	22.5	●	●	●	●	●	●	Overweight	Neutral
Listed Property												
UK Property	Strategic	3.8	2.0	17.9	●	●	●	●	●	●	Neutral	Underweight
US Property	Tactical	7.6	3.0	5.5	●	●	●	●	●	●	Neutral	Underweight
European Property	Tactical	3.7	2.0	18.3	●	●	●	●	●	●	Underweight	Underweight
Far East Property	Tactical	3.9	5.0	17.6	●	●	●	●	●	●	Overweight	Neutral
Global Property	Strategic	5.5	5.0	12.1	●	●	●	●	●	●	Neutral	Underweight
Listed Private Equity												
Global	Strategic	3.1	5.0	20.3	●	●	●	●	●	●	Overweight	Neutral
Listed Hedge Funds of Funds												
Multi Strategy	Strategic	0.0	0.0	30.9	n/a	n/a	n/a	n/a	n/a	n/a	Neutral	Overweight
Listed Commodities												
Gold	Tactical	0.0	5.0	30.9	-	-	n/a	-	-	-		
Multiple Precious Metals	Tactical	0.0	5.0	30.5	-	-	n/a	-	-	-		
Oil	Strategic	2.4	5.0	22.5	-	-	n/a	-	-	-		
Multiple Energy	Strategic	2.4	5.0	22.5	-	-	n/a	-	-	-		
Multiple Industrial Metals	Strategic	0.0	5.0	30.9	-	-	n/a	-	-	-		
Agricultural Commodities	Strategic	2.4	5.0	22.5	-	-	n/a	-	-	-		
All Commodities	Strategic	2.4	5.0	22.5	●	●	n/a	●	●	●	Overweight	Underweight
All Commodities (Ex Energy)	Strategic	2.4	5.0	22.5	●	●	n/a	●	●	●	Overweight	Underweight
Timber	Tactical	0.0	5.0	30.5	-	-	n/a	-	-	-	Neutral	Neutral
Cash as Asset Class												
Sterling Cash	Strategic	5.5	0.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Underweight	Overweight
Cash versus Sterling												
Dollar	Tactical	2.5	1.0	22.2	●	●	n/a	●	●	●	Overweight	Overweight
Euro	Tactical	4.5	1.0	15.5	●	●	n/a	●	●	●	Neutral	Overweight
Yen	Tactical	0.7	3.0	28.3	●	●	n/a	●	●	●	Overweight	Overweight

Reference: One Year Sterling Cash 6.4

Reference: UK Inflation 4.4



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

As many commentators including us suspected, the early summer bounce in markets now stands revealed as no more than a bear market rally. The credit crunch in the west and its effect on real economies is proving extremely serious – perhaps rather more than just the usual business cycle. In the developing world many economies are now overheating.

The news background is almost universally grim and markets usually drift in the summer months anyway so it is pretty tempting to do nothing at all. The counter argument is that if, like us, you believe (i) in the long term case for investment in “real” assets, (ii) recognise that markets often rally, however briefly, at the moment of greatest despondency and (iii) favour pound averaging as the way of dealing with the problem of timing, then periods of market weakness represent opportunity. Experience has taught us to be conservative investors but also contrarian investors so, on balance, we favour combining holding high cash levels with continuing to take advantage of selective “vulture buying” opportunities in good quality asset classes.

Government Bonds - General outlook no longer so supportive with inflation rising and reduced prospects of further interest rate cuts - the next move could well be up in the US, Europe and even the UK. The monetary authorities are showing an uncertain approach, alternating between tightening for fear of inflation and loosening for fear of recession. Bonds are best avoided unless held for reserve or income-generating purposes. Inflation linked stocks looking expensive – holding them is best viewed as a costly but potentially valuable insurance policy against further upside inflation surprises. Despite their yield advantage, corporate bonds still best avoided by risk-averse investors until the credit crunch shows more signs of easing since banks and other financial sector borrowers account for a major part of the corporate bond market. Risks to this view more on the side of stronger returns from government bonds if commodity prices ease and the economic slowdown results in sharply reduced inflation expectations.

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 government 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. Equities will only make sustained progress once the commodity bubble has burst and when monetary authorities are able to ease conditions

Property - General outlook in the UK is poor on valuation and sentiment grounds with valuations adjusting sharply downwards. There is likely to be a substantial overhang of space in the City for some time adversely affecting rents and values. The residential market is now beginning to fall after a period of low volume with people waiting on events. However, listed UK Real Estate Investment Trusts are already discounting much and offering some vulture buying opportunities. Similar arguments apply internationally where REITs have also been much weaker than physical property. Risks to this view more on the side of even weaker property prices as economic slowdown results in weaker tenant demand.

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 successful funds with moderate perceived risk. We confine ourselves to multi-strategy funds of funds. There are funds of hedge funds which have protected assets in the downturn and which have provided a decent real rate of return over most time periods.

Private Equity - General outlook deteriorating for operational, financial and sentiment reasons. Risks to this view more on the side of weaker private equity returns if slowing growth unmasks unsustainable loadings of debt. However, good vulture buying opportunities appearing.

Commodities - General outlook becoming less supportive as global growth slows. The long term story still holds but some prices appear over blown 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.

Cash - Short Sterling interest rates now close to bottom and short Dollar interest rates probably now more likely to rise. Dollar exchange rate steadier in short term and more attractive than Sterling which is still over-valued and likely to move lower against all major currencies in both short and long term. Risks to this view more on the side of weaker dollar and even weaker sterling for trade deficit reasons.



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

PanALTERNATIVES

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

Investing in alternative assets is not always a straightforward prospect. A great deal of research and specialist knowledge is required for investors to be confident they really know what they are buying. For some asset classes substantial sums of money are required to participate at all, let alone to be properly diversified.

PanALTERNATIVES offers charities and private investors the opportunity to make a well-diversified investment into private equity, hedge funds, global property and commodities with relatively modest sums of money and without paying large management fees. Our approach avoids the problems of illiquidity normally associated with private equity, the difficulties of managing property investments in other countries and the risks which come from being over-exposed to any one commodity.

PanALTERNATIVES uses low-cost index tracking Exchange Traded Funds (ETFs) as the portfolio building blocks for the listed private equity, listed global property and commodity investments. This enables the portfolios to achieve a broad diversification in each asset class at modest overall cost and ensures that there is low risk of under-performing materially in any of them. Our model looks like this:

Asset Class	Weighting
Global Property	25%
Hedge Funds	25%
Private Equity	25%
Commodities	25%
Grand Total	100%

The investments in hedge funds are made using a selection of funds of hedge funds diversified across a wide range of hedge fund strategies to limit risk. Like the ETFs in the portfolio, these funds of hedge funds are all listed on the London Stock Exchange and trade daily, avoiding the problems of illiquidity often associated with the asset class.

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

Our methodology can easily accommodate the requirements of individual investors by adjusting the weightings shown above. A portfolio can be constructed in the light of each investor's individual circumstances, tax position and appetite for risk. For example, an investor already exposed to direct holdings in UK property might wish to avoid further exposure. The portfolio can be adjusted to reflect this and give exposure only to overseas property. Alternatively, an investor may already have sufficient exposure to funds of hedge funds and this can also be taken into account.

PanALTERNATIVES does not rely on complicated strategies or involve direct investment in derivatives, structured products or other exotic investments. It does not use any gearing (leverage) and does not use 'shorting' as part of its process. Each investment in the portfolio is listed on the London Stock Exchange, trades during market hours and its price move will have a proportionate relationship to the move in the price of the underlying asset class. This means that if the price of an underlying asset moves by 2%, the price of the ETF in which we have invested will also move by approximately 2%. PanALTERNATIVES aims to protect investors' upside while avoiding the spectacular losses sometimes associated with alternative investments.

So, if you are an investor or charity who values liquidity, wants to diversify and has been wondering about the best way to gain exposure to alternative investments, our PanALTERNATIVES strategy could be the perfect solution for you.

Talk to us about it by calling
 Christopher Aldous or Robert Brown on 020 7398 5840
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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

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