thesis
asset management

Thesis Asset Allocation

March 2011

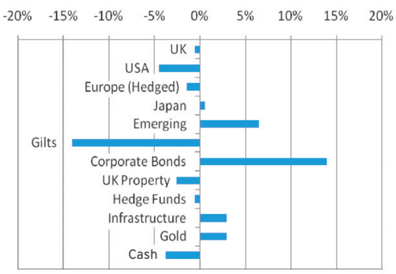
Please see below, the latest information on our asset allocation views for March 2011.

Performance attribution

During February our Balanced model returned 25bp (basis points) in excess of the 1.08% capital growth of the benchmark APCIMS Balanced Portfolio, a 22.8% outperformance. Our overweight position in corporate bonds relative to Gilts gained us 21bp as growing expectations of a rise in the UK Base Rate raised Gilt yields, but credit spreads on Sterling corporate bonds narrowed, particularly in the financial sector following a strong series of results from the banks.

The gold bullion holding added 14bp to the performance, as inflation fears and uncertainty over the political situations in states in North Africa and the Middle East persisted. Elsewhere in the alternative investments sector, our preference for infrastructure over UK commercial property cost us 2bp, as broker upgrades to a number of listed property companies edged their prices higher.

Balanced model weightings versus APCIMS



Our equity allocations gave a total 8bp underperformance. The overweight to emerging markets cost us 9bp, as inflation concerns and profit-taking led to a correction in several developing country stock markets. Our underweight to the US relative to the comparatively large APCIMS weighting also cost 9bp, although our decision last month to move part of our emerging markets weighting to the US in the light of continued positive corporate news-flow has meant that these effects are smaller than they otherwise would have been. Our decision to hedge the currency exposure on our Europe weighting has helped returns, with an 8bp outperformance as the euro finished the month moderately weaker.

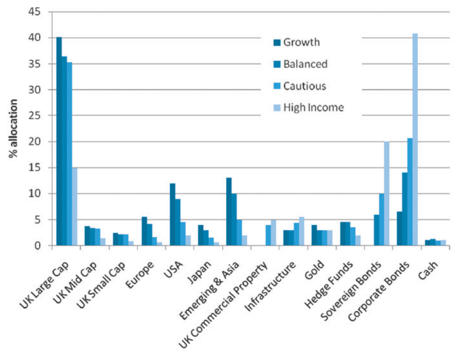
Our current thinking

Looking forward, we are continuing to keep our gold bullion holdings under review, and are not buyers at current levels. As gold has no intrinsic value or cash flows and few industrial uses it is difficult to set a target price analytically, and forecasts vary widely. We still see it as a useful diversifier for portfolios and may resume purchases if the price falls back.

We continue to look for a suitable entry point to our equity weighting to global agriculture, a theme which we believe will outperform over the medium to long term, as companies involved in all stages of the agricultural production process innovate to meet the growing global demand for food.

There is still considerable uncertainty surrounding the economic consequences of the earthquake and tsunami in Japan. As Michael Lally wrote in his Thesis Reaction at the beginning of last week, the loss of electricity production capacity from the damaged nuclear power stations at Fukushima Daiichi could have a detrimental effect on industrial production beyond the direct effect of the natural disaster itself. Although we are currently maintaining our weighting to Japanese equities, any outstanding purchases are being postponed pending a review later this week. Our thoughts are with all those in Japan who have been affected by the recent events.

Current allocations in our model portfolios



	Growth	Balanced	Cautious	High Income
UK Large Cap	40.2	36.4	35.3	14.9
UK Mid Cap	3.7	3.4	3.3	1.4
UK Small Cap	2.5	2.2	2.2	0.9
Europe	5.6	4.2	1.6	0.7
USA	11.9	9	4.5	2
Japan	4	3	1.5	0.6
Emerging & Asia	13	10	5	2
Total Equity	**80.9**	**68.2**	**53.4**	**22.5**
UK Commercial Property			4	5
Infrastructure	3	3	4.4	5.5
Gold	4	3	3	3
Hedge Funds	4.5	4.5	3.5	2
Total Alternatives	**11.5**	**10.5**	**14.9**	**15.5**
Sovereign Bonds		6	10	20
Corporate Bonds	6.5	14	20.7	40.9
Total Fixed Interest	**6.5**	**20**	**30.7**	**60.9**
Cash	**1.1**	**1.3**	**1**	**1.1**

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