

# Thesis

## Asset Allocation

June 2011

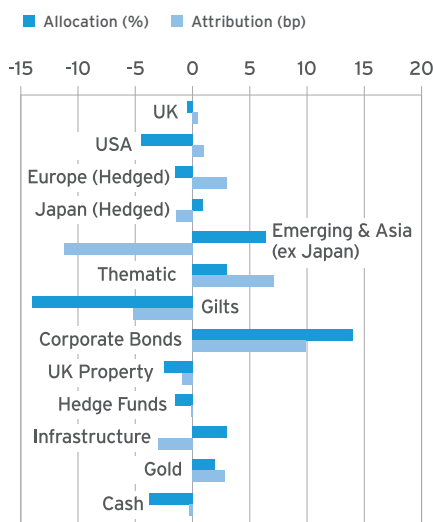
Our attribution analysis for May shows the asset allocation for our balanced model coming in a fraction of a basis point (bp) behind the APCIMS Balanced Portfolio. We picked up performance in stock selection, however, leading to an overall loss to the portfolio of 0.12% in total return terms, compared to a 0.24% loss for the APCIMS portfolio.

### Equity markets weaken

Commodities trader Glencore raised \$10 billion in the London market's largest ever IPO. Later in the month social network LinkedIn and Russian search engine Yandex also had successful flotations, sparking brief talk of a new technology bubble. Equity and commodity markets were generally slightly weaker, however, as debt concerns and fears over slower economic growth and inflation took their toll. The trend for income stocks to outperform growth stocks continued, with support services companies and pharmaceuticals among the top performers in our UK equity model. We lost 9bp overall from our geographical equity allocations, with the largest deduction coming from our overweight position in emerging markets. Our thematic allocation to global agriculture and food production opposed the trend however, gaining us 7bp.

The infrastructure allocation shows a 6bp asset allocation loss, although our preferred funds (3i Infrastructure and International Public Partnerships) which invest in long term infrastructure projects rather than infrastructure equities performed much better than this, showing their value as a diversifier with low correlation to equity markets.

Thesis Balanced Model compared to APCIMS



### Debt concerns return

Sovereign debt concerns came back to the markets' attention in May as ratings agencies downgraded their assessments of Greece yet again, and an IMF report gave a stark warning on the state of the country's finances. Portugal was forced to call on the IMF and EU for a rescue package, and Italy and Japan were placed on negative ratings watch. Even the US was not immune, with uncertainty over the extension of federal borrowing limits.

These events reignited concern over the need for further action on sovereign debt in the Eurozone periphery, which has continued into June (for more information please see our Thesis Reaction of 24th June). Gilts gained from some safe-haven flows from other sovereign issuers, and from acceptance by the market that an interest rate rise in the UK is unlikely in the near term. Our underweight allocation to Gilts cost us 5bp, but we gained 10bp from our overweight corporate bond allocation.

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This Month's Asset Allocation written by:

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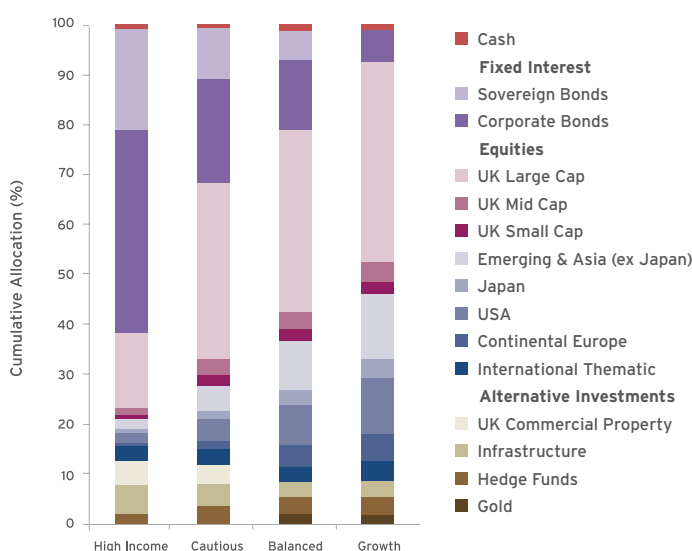
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## Policy changes

Meeting early in June our Asset Allocation Committee decided that while sentiment is certainly weaker, there is not enough hard news to indicate a long term reversal in the markets that would require significant changes to our asset class weightings. We view the current dip in equity markets as a buying opportunity as earnings ratios remain low by comparison to their historical averages.

Following continued strong performance, including a 2.8bp contribution to our balanced portfolio performance in May, the committee decided to take some profit on our gold holdings when the relative movements of the metal and the dollar created an appropriate selling opportunity (most clients had a hold position of 3 or 4% in gold, from our previous weightings which were moved to a hold in February). The sale was carried out on 22nd June following several days of dollar strengthening, and leaves clients in line with our current 2% buy weighting.

## Current allocations in our model portfolios



	High Income	Cautious	Balanced	Growth
UK Large Cap	14.9	35.3	36.4	40.2
UK Mid Cap	1.4	3.3	3.4	3.7
UK Small Cap	0.9	2.2	2.2	2.5
Europe	0.7	1.6	4.2	5.6
USA	2	4.5	8	10.9
Japan	0.6	1.5	3	4
Emerging & Asia	2	5	10	13
International thematic	3	3	3	4
<b>Total Equity</b>	<b>25.5</b>	<b>56.4</b>	<b>70.2</b>	<b>83.9</b>
UK Commercial Property	5	4		
Infrastructure	5.5	4.4	3	3
Hedge Funds	2	3.5	3.5	3.5
Gold			2	2
<b>Total Alternatives</b>	<b>12.5</b>	<b>11.9</b>	<b>8.5</b>	<b>8.5</b>
Sovereign Bonds	20	10	6	
Corporate Bonds	40.9	20.7	14	6.5
<b>Total Fixed Interest</b>	<b>60.9</b>	<b>30.7</b>	<b>20</b>	<b>6.5</b>
<b>Cash</b>	<b>1.1</b>	<b>1</b>	<b>1.3</b>	<b>1.1</b>

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This update is for information only and is not an invitation to engage in investment activity.

Thesis Asset Management plc is authorised and regulated by the Financial Services Authority. Investors should be aware that the value of their investments and the income from them can fall as well as rise and investors may not receive back the full amount they invest. Past performance is not necessarily a guide to future performance. Investments denominated in foreign currencies are subject to fluctuations in exchange rates which can be favourable or unfavourable.

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