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## My Asset Allocation:

BY MICHAEL LALLY

Michael Lally, an investment director at Thesis Asset management, has been increasing exposure to equities through structured products.

The Chichester-based manager has also been restructuring his equity allocation in a number of other ways by purchasing direct equities, alongside investment trusts and unit trusts, with particular focus on increasing his weighting towards mid-caps.

Lally has become more positive on structured products on the back of his expectations for equities.

He said: 'I don't envisage year-on-year gains on the market, but you can lock in double-digit returns on the secondary market [for structured products].

'We need to adjust our expectations.

It is the same with shares. Rather than thinking about only top-slicing unless you make 20-30%, you should consider that 10% in this market is quite good.'

Meanwhile, Lally has reduced his holdings in market-neutral funds, including the BlackRock UK Absolute Alpha Fund. He is bullish on the emerging markets, which he is playing through the Threadneedle Asia, Pacific Assets Trust, Veritas Asian, Lazard Emerging Markets and GLG's MENA funds.

Lally said: 'We are not looking for fantastic growth but the emerging markets are not suffering as much from the hangover of the credit crunch.'

Within his fixed income allocation, he is now looking more closely at high yield, highlighting the M&G High Yield, M&G Optimal Income, Legal & General Dynamic Bond and Thames River High Income fund as among his favourite picks.

Looking ahead, Lally expects valuations to move up in November, but he is concerned that markets will drift again in 2010 and will not necessarily live up to expectations.

