June 2008

the View

A **Thesis Asset Management** view of the market

TheView

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JUN June 2008

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Introduction

Naomi Morgan-Tolworthy

Welcome to the June edition of TheView.

This month in 'OurView' Michael Lally touches on the current state of the market and speculates on whether a proverbial White Knight (or two) will enter the arena to save the day!

Giles Marriage lightens the general doom and gloom undertone of the News section with a humorous joke and continuing Michael's theme, makes further references to vultures...

And Steven Richards takes us through last month's Optima fund performances.

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OurView

Michael Lally

"Pessimism, when you get used to it, is just as good as optimism" Arnold Bennett

All the current speculation in markets and around dinner party tables is of how deep the recession will be, how far house prices will fall, how high will the oil price bubble rise and how bad the next set of unemployment figures will be. Consumer debt is being exacerbated by inflationary pressures and, as we've all been bad little children, the central bankers are now even threatening to take away our sweeties in the form of no more interest rate cuts.

Following a benign couple of months on markets the spectre of inflation is again spooking investors, analysts and central bankers, hence falls in government bonds, jittery equity markets and rising commodity prices. Although this spiral of volatility is likely to be around most of this year, there are those who are quietly looking to take advantage of these conditions.

When a company is the subject of an unwelcome takeover bid they will often look to a proverbial White Knight to save them. But where can we find such heroic mortals today, and with pockets deep enough to bail out the beleaguered fallen angels of the market? Enter right two candidates with notably different agendas, Sovereign Wealth Funds (SWFs) and Vulture Funds.

Sovereign Wealth funds

These are (foreign) government owned investment vehicles, largely unregulated, with assets estimated currently at around $3 trillion but growing at a rapid rate. They have been an important stabilizer in the financial sector in particular, effectively recapitalizing the likes of Citigroup ($7.5bn) and UBS ($11.5bn). China invested $7bn into US private equity companies Blackstone and J C Flowers, Chinese and Singapore funds invested heavily in Barclays, the London Stock Exchange is now one third owned by two Middle Eastern based funds, and supermarket group Sainsburys now has some significant SWF shareholders.

There are concerns at the source of these funds, the political connections, the power they can wield and the potential to destabilize markets. Well over $2 trillion is controlled, indirectly, by just five governments - Abu Dhabi, Singapore, Saudi Arabia, Kuwait and China - not exactly all your standard stable democracies. Having said this, their intentions so far indicate a longer term investment strategy.

Before the protectionists get too paranoid one should remember that there is already a major group of investors with significant shareholdings, ie the pension funds and foundations. Also, whilst the SWF war chest seems impressive, in total they represent probably less than 2% of the value of global securities markets.

Vulture funds

My Collins dictionary defines a vulture as "a person or thing that preys greedily and ruthlessly on others, especially the helpless". When share prices are depressed some companies can become vulnerable to predators, be they potential bidders or investors, such as private equity firms and hedge funds, seeking to unearth hidden value through either management changes or asset sales. In some cases, from a shareholders', and indeed employees', perspective this can be a beneficial move, particularly where management is ineffective and/or the company undercapitalized.

Like SWFs the financial muscle available to these entities is awesome, hence I expect to see increasing activity over the next year and a plethora of new funds (although some will just be thinly disguised 'recovery' funds – ie sheep in a wolf's clothing!). In particular funds will be focused on specific sectors, eg there have been a number set up this year to concentrate on the, mainly commercial, property sector.

I don't believe that, by themselves, these white knights will turn markets around. But they will be a permanent and influential feature of the changing financial landscape and their importance should not, therefore, be underestimated.

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News June 2008

Giles Marriage

Markets

Indices	Value as at 31/05/08	% change on month	% change 2008 year to date	% change on 12 months
FTSE 100 Share	6053.51	-0.56%	-6.25%	-8.58%
FTSE All Share	3082.26	-0.57%	-6.22%	-10.37%
Dow Jones	12638.30	-1.42%	-4.72%	-7.26%
DJ Euro Stoxx 50 E	3777.85	-1.23%	-14.13%	-16.28%
Nikkei 225	14338.54	3.53%	-6.33%	-19.79%
FTSE A British Government All Stocks	143.72	-2.73%	-4.05%	0.38%

A political activist named Dave was just arriving in Hell, and was told he had a choice to make. He could go to Capitalist Hell or to Communist Hell.

Naturally, Dave wanted to compare the two, so he wandered over to Capitalist Hell. There outside the door was Rockerfeller, looking bored. "What's it like in there?" asked Dave. "Well," he replied, "In Capitalist Hell, they flay you alive, boil you in oil, chain you to a rock and let a vulture tear your liver out, and cut you up into small pieces with sharp knives."

"That's terrible!!" gasped Dave. "I'm going to check out Communist Hell!" He went over to Communist Hell, where he discovered a huge line of people waiting to get in; the line circled around the lobby seven times before receding off into the horizon. Dave pushed his way through to the head of the line, where he found Karl Marx busily signing people in. Dave asked Karl what Communist Hell was like.

"In Communist Hell," said Marx impatiently, "they flay you alive, boil you in oil, chain you to a rock and let vultures tear out your liver, and cut you up into small pieces with sharp knives."

"But... but that's the same as Capitalist Hell!" protested Dave. "True," sighed Marx, "but sometimes we don't have oil, sometimes we don't have knives..."

This seems a topical tale, as over the last month we have seen crude oil spike to $135 a barrel, ironically driven by supply constraints, growth in China, yet now produced (in part) by Russia! Whilst vultures circulate the market seeking fallen capitalist companies, knife crime spiralled in the UK and doom & gloom returned. But after such a fantastic April what could we expect?

"He knows where the action is!"

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News June2008

Giles Marriage

Sectors

The strongest performing sector in the FTSE All Share was Software and Computer services, closely followed by Industrial Engineering. On the other end of the scale we saw Banks, Real Estate and Leisure Goods as the weaker performing sectors again!

Banks

Whilst speaking at a conference in May the legendary fund manager, Anthony Bolton, said he would be snapping up rights issues from troubled UK banks if he was still running money.

"Many of the financial shares look cheap against history and I would be buying the rights issues," he said. "I see all of the concerns but those have been there for a while anyway".

While liquidity is improving, Bolton believes banks will continue to feel aftershocks so contrarian bets may not reward immediately. "The liquidity part of this cycle is nearly over but on the other hand, not all of the losses have been accounted for," he added. "Bank lending standards will continue to tighten and when banks go from being free with their money to very restricted, that tends to go on for a while".

Certainly, we at Thesis share this contrarian view and during the month we have taken up **RBS**'s rights issue, but escaped the carnage at **Bradford & Bingley**. The market continues to pummel **Barclays** (-17.9% in May), as the jury is still out as to whether it will need to seek funding.

Housebuilders

Just when you thought it couldn't get any worse, the housebuilders look likely to come to the market seeking cash in a similar fashion to the banks. With implied land values being lower than stated on balance sheets, this has placed a number of companies in a precarious position. Dividends are certainly likely to be cut, but based on current share prices **Persimmon** and **Taylor Wimpey** now yield 13.6% and 26.5% respectively. One of my braver contemporaries has taken the plunge personally and bought shares in the sector, which for those happy to experience a very volatile ride could turn out to be a good move in time. Whatever happens over the next few years, it is worth remembering that there remains a shortage of homes in the UK.

Resources

Johnson's Matthey's figures came in 5% ahead of consensus and were accompanied by a positive statement. Profits rose 16% helped by strong platinum prices and good demand for catalytic devices, whilst the dividend was raised 9%.

For Borat fans, shares in **Eurasian Natural Resources** jumped 21.6% in May following **Kazakhmys** surprise move to acquire a further 7.66% stake in the company from the government of Kazakhstan.

More recently talks aimed at resolving the dispute among key shareholders of Russian oil group TNK-BP broke down. **BP**, which owns 50 percent of TNK-BP, rejected proposals by joint venture partners Russian shareholders **Alfa-Access-Renova** (AAR) for the resignation of TNK-BP chief executive Robert Dudley and a cut in the number of foreign staff in the joint venture.

Pubs

Enterprise Inns was one of the better risers in May, as the tenanted pubs group announced plans to convert its trading estate into a Real Estate Investment Trust (REIT). Despite some negative comments about pub companies converting to REITs, it does offer shareholders the twin benefits of a more efficient tax structure and the prospect of higher dividend payments.

The company has seen the number of distressed landlords asking for financial support more than double to 800 over the past six months as trading conditions have worsened. The current difficult trading environment is leading to concessions on rent and discounts on beer. "Trading conditions over the past six months have been the worst I can ever remember", group chief executive, Ted Tuppen, told reporters.

The smoking ban and pressures on consumer spending have weighed heavily on pub profits recently. Some industry statistics have suggested that beer volumes have fallen by around 9% since the start of the smoking ban in England and Wales last year.

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NewsJune2008

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Property

British Land reported a 10% year-on-year increase in fourth-quarter underlying pre-tax profit to £284m, but warned that investor sentiment in the UK commercial property market remains volatile. Net asset value (NAV) for the year to end March fell 20% to £13.44 from £16.82 in the year earlier period.

The group's exposure to retail warehouses was felt acutely, down 14% in value for the year, but there was almost no value decline at Meadowhall and only a small decline at Broadgate. Brokers remain sceptical of believing the worst is over.

Australian investment bank Macquarie Group is back in the race for Trillium, the outsourcing and infrastructure arm of Land Securities, according to report in The Independent on Sunday. The newspaper said Macquarie has now teamed up with Telereal, one of the successful teams when the number of bidders was cut to a shortlist of three last month.

Retail

Kingfisher's total first quarter sales increased 8.6% to £2.49 billion, an increase of 1.1%. UK retail profit fell 8.5% to £33m, with B&Q's like-for-like sales down 8.1% against a tough comparative figure. In the first quarter last year **B&Q**'s like-for-like sales increased 5.9%. The company commented that, "this year spring was cold and wet and consumer spending has slowed sharply, with shoppers hit by higher bills and a weakening housing market. Last year saw hot spring weather, a later Easter and more benign economic conditions." Last month Kingfisher's UK rival Homebase, owned by Home Retail Group said it had made a "weaker than anticipated" start to its new financial year.

Round up

So looking ahead, given the extreme sell-off in the Mid 250 and Smaller Companies sectors and the amount of private equity money, where the sensible are holding high cash levels, I think we could actually see an increase in corporate activity over the coming six months. The Bradford & Bingley investment by **Texas Pacific** being potentially the first of many such large deals, which some argue are at the expense of shareholder value. However, in a recent study, typically a private equity stake has led to better share price performance versus comparable companies with no private equity investors. So perhaps the so called vultures are not so bad after all...

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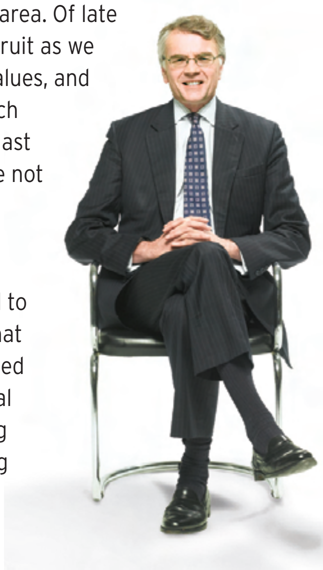
Market Outlook
Commercial Property

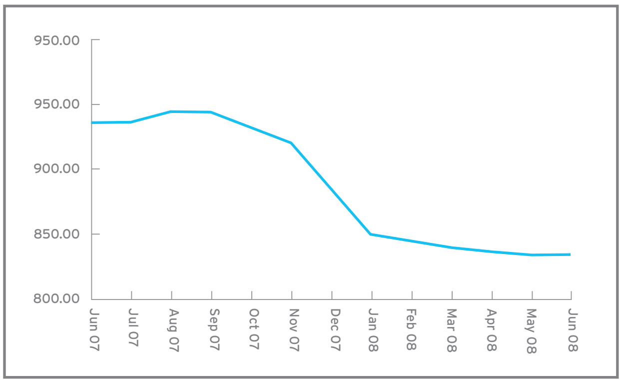
Giles Hedley-Dent

Our decision to allocate away from UK Commercial Property and focus exclusively on International Commercial Property had seemed to be a good call only in so far as it was also an overall reduction in allocation to the asset class. This was because the US led financial uncertainty sweeping the global marketplace, despite the US and UK being two of the most vulnerable economies given their highly developed financial sectors, acted to produce a near universal de-risking of investor portfolios. The effect was to cause heavy fallbacks not only in the UK, but also amongst a wide variety of property assets worldwide, where our view had been that the opportunity for managers to arbitrage between the various regions and markets would provide the requisite flexibility to succeed in the tougher environment.

Even when values fell (and most global exposure is closed ended, through which sentiment can exacerbate price movements) we maintained our investment thesis, believing the large discounts at which assets were trading was only increasing the compelling value in some areas of the marketplace. We also felt that once conditions started to improve, the deep value in these positions would be one of the first areas to unwind. As a result, Thesis has been cautiously adding to its buy list in the global area. Of late this seems to be starting to bear fruit as we have seen appreciation in asset values, and narrowing of the discounts at which these assets are trading over the last months. In the UK however, we are not yet ready to re-enter the market, as the economy is especially vulnerable, the UK commercial property market is highly exposed to the financial sector, and we feel that at the present time the risk-adjusted opportunities lie more in the global arena, where we are indeed seeing non-Western countries moderating positively the effect of the US slowdown on global growth.



IPD Index



Assumptions: Positive

- Offers a secure & stable income stream
- Defensive attributes
- Low correlation with returns from equities & bonds

What can go wrong?

- Could be volatile in adverse conditions
- Valuations are a matter of opinion
- Interest rates rise by more than anticipated
- Inflation affects income in real terms

	Current	2001	2002	2003	2004	2005	2006	2007
IPD	819.90	410.94	439.96	485.94	540.55	642.68	763.67	852.60

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Market Outlook
UK Fixed Interest

Michael Lally

The rally in credit spreads, which began in mid March 2008 with the Federal Reserve's intervention at Bear Stearns, was halted as bond markets changed focus to the impact of rising inflation on real yields. The global economy is being assailed by rising inflation and tighter credit conditions, which are creating material downside risks to world activity. The UK bond market has now become more concerned about inflation than at any point since the inflation target was established in 1997.

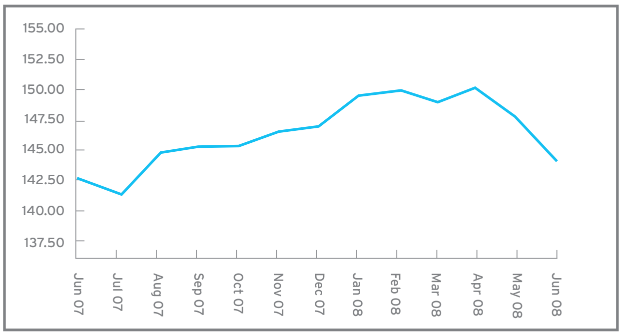
Investment credit spreads only managed to narrow by 0.045% to 2.86% in May, as measured by the IBOXX Sterling Corporate Bond (BBB) Index. Despite their rally, investment-grade corporate bonds, especially financial names, remain unusually cheap, while low-rated high yield bonds now look somewhat expensive.

The global banking sector continues to be overshadowed by risks and uncertainties. Improvements in credit markets, increased government intervention, the near-end to market-to-market (MTM) write-downs, and bank capital raisings have significantly reduced market risks compared to the extreme levels of mid-March 2008. However, the banks are now deleveraging and increasing their lending rates to businesses and consumers - a period of credit rationing.

Liquidity within the money markets was showing some signs of improvement in April with the Bank of England's £50bn loan swap to UK banks. However, this did not follow through into May with the 3 month LIBOR rate remaining at around 5.85%. It is likely that the return 'to normal market conditions' will take many more months and may even last until next year.

Inflation is expected to continue to rise in the short-term as higher commodity prices for food and energy continue to filter through. Real yields are now compressed to around 0.5% to 1% with high inflation levels making conventional Gilts appear expensive. The hawkish stance of the Monetary Policy Committee (MPC) to inflation has reduced its ability to provide greater interest rate cuts. The slow and measured pace of the rate cuts will mean that the UK economy could now suffer a more prolonged downturn than currently expected and eventually rates would have to be cut far more drastically than is currently being discounted by the market. On this basis we see good value at current levels in both corporates and gilts, particularly at the medium to longer end of the maturity scale. Meanwhile Chancellor Darling has little room to provide any form of fiscal stimulus to the UK economy with record levels of Government borrowing and expectation of falling tax receipts.

FTSE Gilts All - Stocks Index



Assumptions: Positive

- UK interest rates fall to 4.5% by Q4 of 2008 & 4% next year
- CPI inflation peaks in Q2 & eases down to 2% by the year end
- Consumer debt moderates

What can go wrong?

- Input costs increase, pushing inflation higher
- Run on lower grade debt markets
- Default rates accelerate above forecast
- Credit squeeze forces yields higher

	Current	2002	2003	2004	2005	2006	2007	2008e
FTSE Gilts Allstocks	143.72	157.16	151.62	152.88	156.58	149.85	149.78	157.00

12 month volatility 5.291%

	Current	2002	2003	2004	2005	2006	2007	2008e
Short rate	5.00%	4.00%	3.75%	4.75%	4.50%	5.00%	5.25%	4.50%
Bonds (10yr)	4.53%	4.40%	4.80%	4.50%	4.30%	4.74%	5.00%	4.00%
Currency $/£	1.98	1.50	1.63	1.83	1.82	1.97	1.98	1.85

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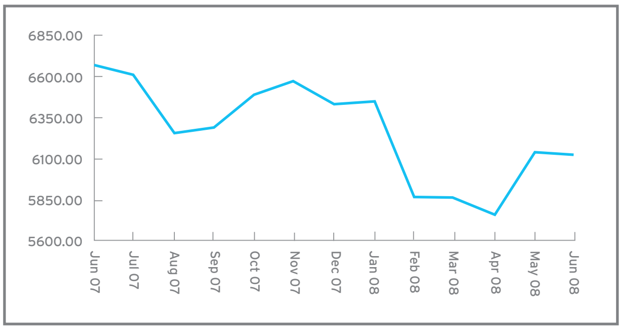
Market Outlook
UK Equities

Steven Richards

Although the FTSE100 at the end of May remained above the 6,000 level, recent renewed weakness confirmed our feeling that April's rebound was something of a relief rally following the measures announced by the Bank of England to 'defrost' the lending freeze in the financial system. Falling house prices are now a fact but as yet the labour market remains healthy. However, we are starting to see redundancies from City banks and other services companies which does not auger well. Retail sales data remains mixed with recent better weather seeing a pick up on the High Street, but sales growth is below levels seen over the last two years. Moreover, there is evidence that shops are trying to pass on their rising costs to consumers who are presently suffering from the higher petrol price and no relief through lower mortgage payments. Indeed, latest minutes suggest the Bank of England is likely to keep the Base Rate at 5% for longer than expected. All this paints a picture of an equity market that is sitting uncomfortably with the economic reality, especially when implied earnings growth and the price earnings (PE) ratio look unsustainable alongside the slowdown in the growth of macro-economic profits, and the downturn likely over the coming quarters as the economy continues to slow.

On the positive side, the market's PE is below its historic average suggesting that equities are pricing in a weaker economy and are reasonably valued for the longer-term investor. In addition, UK equities have become cheaper compared to equities in the US and Europe while the earnings streams of UK companies are probably better positioned to participate from the continued economic growth in the Far East. And finally, equities continue to look attractive relative to other asset classes with the yield gaps vis-à-vis bonds and property favouring equities. Despite all this, what looks cheap can still become cheaper and the market looks vulnerable to further weakness. So whilst it is too early to expect a sustained recovery in equity prices, we feel this volatility presents the best opportunity for investors to still make gains and we maintain our year-end target for the FTSE which would represent a negative calendar year, but a gain from present levels.

FTSE 100 Index



Assumptions: Positive

- Robust corporate profitability
- Scope for the BoE to cut interest rates
- Global growth remains supported by Far East
- Housing market/ consumer remain stable

What can go wrong?

- Significant earnings slowdown
- Inflationary pressures too strong
- Chinese economic slowdown
- Bad debts/higher credit costs

	Current	2001	2002	2003	2004	2005	2006	2007	2008e
FTSE 100	6053.50	5165.00	3940.00	4477.00	4750.00	5520.00	6221.00	6456.90	6250.00

12 month volatility 18.47%

	Current	2001	2002	2003	2004	2005	2006	2007	2008e
Short rate	5.00%	4.00%	4.00%	3.75%	4.75%	4.50%	5.00%	5.25%	4.50%
Bonds (10yr)	4.53%	5.10%	4.40%	4.80%	4.50%	4.30%	4.74%	5.00%	4.00%
Currency $/£	1.98	1.44	1.50	1.63	1.83	1.82	1.97	1.98	1.85

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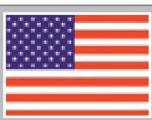


Market Outlook
US Equities

Michael Lally

After the sharp gyrations in March and April, the market marked time in May underpinned by another 25bp cut in interest rates and better than expected first quarter Gross Domestic Product (GDP) figures. The legacy of the weak dollar (down 80% against the Euro over the last 7 years) is still being reflected in profits of the large corporations - where profit margins had been standing at record levels. We believe concensus earnings forecasts, despite downward revisions this year, are still too optimistic which could lead to further volatility.

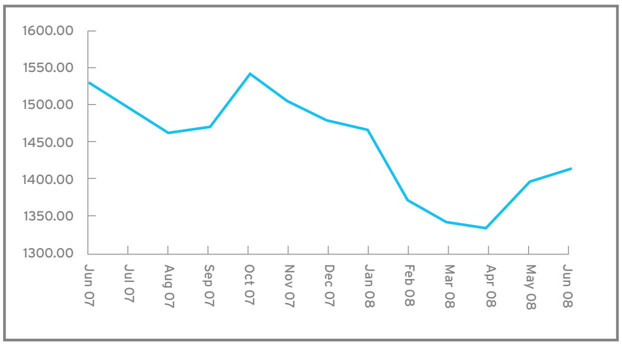
Reflecting problems in the financials sector it is interesting to note that technology has overtaken the banking sector in the main index, this underpinned by generally positive results from the majors.

Whilst energy and commodity sectors continue to do well, the trade off is hitting retailers and particularly airlines (eg American Airlines is grounding dozens of older planes, cancelling flights and reducing domestic capacity by around 12% by the year end). On the retail front Home Depot and Target, two of the largest retailers, announced falls in quarterly sales in most (but not all) states and increases in credit card write-offs. The $1200 tax rebates will soon hit consumer pay packets - historically these have had an immediate impact on stocks in the retail, travel and leisure sectors. However, this time round may be different, and it will be interesting to see whether consumers choose to spend or save/reduce debts.

Take-over and merger activity remains buoyant with latest entrant Nucor (the largest steel company in the US) announcing its intention to raise $3bn to fund expansion and acquisitions.

Short term, given some of the uncertainties, we remain comfortable with our underweight position. The widely forecast second half recovery is beginning to look more like next year now, reinforced by the latest poor unemployment figures, whilst the recent rally in the dollar may also run out of steam.

S&P 500 Index



Assumptions: Positive

- Financial sector stabilises in Q2
- Economy expands in H2
- More Merger & Acquisition activity
- Further interest rate cuts/tax rebates stimulate consumption

What can go wrong?

- Unemployment increases - extended recession
- Breakdown of US market premium assumptions
- Consumer spending drops heavily
- Dollar weakens further
- House prices fall heavily

	Current	2001	2002	2003	2004	2005	2006	2007	2008e
S&P 500	1400.38	1130.00	935.00	1070.00	1200.00	1270.00	1418.00	1468.36	1400.00

12 month volatility 3.7%

	Current	2001	2002	2003	2004	2005	2006	2007	2008e
Short rate	2.00%	1.75%	1.25%	1.00%	2.25%	4.25%	5.25%	4.25%	3.00%
Bonds (10yr)	3.64%	4.70%	4.20%	4.40%	4.20%	4.50%	4.60%	4.50%	4.50%
Currency $/£	1.98	1.46	1.61	1.79	1.95	1.77	1.96	1.98	1.85

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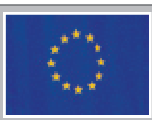


Market Outlook
European Equities

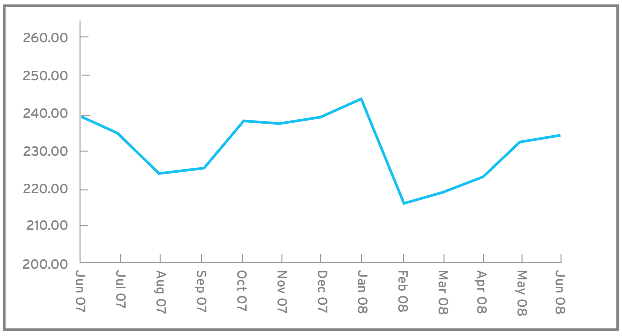
Kate Nathoo

The strong euro is starting to have a detrimental impact on European company earnings, which have suffered a bigger fall in first quarter profits than their US counterparts. Net earnings have fallen by 23.4% among 2138 companies within Europe in the first quarter, and a higher percentage of companies in the Eurozone also produced negative surprises in their earnings than those in the US. Some of Europe's leading industrial groups such as Siemens, BMW and Philips saw profits fall and others such as Michelin and Ciba have warned that higher raw material prices will affect their outlook for profits this year.

Other issues are also at play in European equity markets. Dresdner Kleinwort estimates that Europe's banking sector is worth about 17% of the market whereas it is only 6% in the US. Recent Producer Prices figures show that cost pressures are still rising which has undoubtedly encouraged the ECB to leave interest rates on hold at their June meeting. Producer Price Inflation climbed from 5.8% to 6.1% in April equalling the highest rate increase since 1988.

Overall, the general strength of both activity and pricing pressures in the Eurozone has left the ECB with little choice but to leave interest rates at their current level. The Bank has also indicated that it will raise rates in July or August as they confirmed their 'heightened alertness' to inflationary pressures at their recent June meeting.

FTSE - All-World Index Series (Europe Ex-UK) Index



Assumptions: Positive

- Merger & Acquisition activity continues
- Corporate European profitability
- Attractive equity valuations

What can go wrong?

- European Central Bank unresponsive
- Earnings disappointments
- Slowing global economic growth
- Strong Euro

	Current	2001	2002	2003	2004	2005	2006	2007	2008e
FTSE AW Euro ex	234.89	149.82	106.37	135.95	152.01	185.89	216.47	245.22	-

12 month volatility 13.90%

	Current	2001	2002	2003	2004	2005	2006	2007	2008e
Short rate	4.00%	3.25%	3.25%	2.00%	2.00%	2.25%	3.50%	4.25%	3.50%
Bonds (10yr)	3.89%	4.50%	4.50%	4.40%	3.60%	3.40%	4.00%	4.50%	3.80%
Currency $/£	1.27	0.91	0.98	1.17	1.35	1.20	1.32	1.47	1.50

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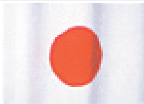


Market Outlook
Japanese Equities

Tony Gammon

Japan continues to be a very difficult market to judge. We have emphasised the apparent value in the stock market for some time, but sentiment remains poor as expressed by a recent headline on the market 'Unwanted and Unloved'. This highlighted the weak performance experienced by the market during 2007.

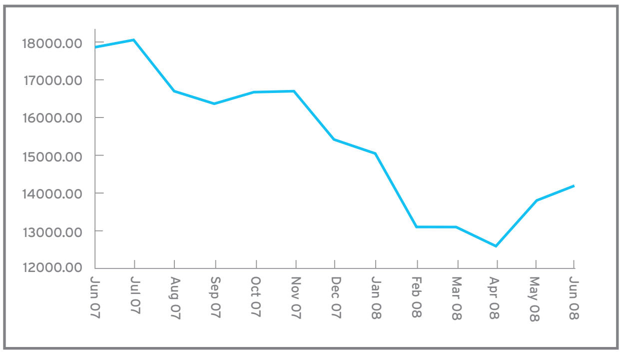
This underperformance can be explained by the failure of the Japanese domestic economy to overcome the problems of deflation and the subsequent reliance on export growth at a time of a global economic downturn and yen strength. Foreign investors, who represent 30% of the market but a much higher percentage of turnover, have been reducing their holdings so that they are now underweight, usually an indication that the market is ripe for improvement. We are beginning to see the first signs of this, with the market outperforming it's Far Eastern counterparts so far this calendar year.

Valuations are more attractive than for some years. Japan has always been regarded as an 'expensive' market but it's PE ratios are now on a par with those of other developed markets and other measures are at 30 year lows. Just as importantly the yield on the stock market as a whole now exceeds that available on 10 year Japanese Government bonds, this is generally regarded as a very positive sign for any equity market. It is also worth noting that there is no 'credit crunch' in Japan, the banks have excess funds on deposit and are ready to lend.

The latest economic figures, released at the end of May, highlighted the difficulties of gauging the market. Industrial production fell, as did household spending, but the number of people in work grew.

In our previous Japanese commentary we highlighted the pickup in construction orders, caused by the botched imposition of a new housing code last year, this is still continuing but the immediate rush of orders has now moderated although this will continue to boost 2008 GDP. Against this backdrop we have maintained our 'overweight' position in Japan expecting that the technical factors outlined above will enable the market to outperform despite the uncertain economic data currently being posted.

Nikkei 225 Index



Assumptions: Positive

- Market yield supports equity attractions
- Reduced cross-holdings/ restructuring
- High savings ratio
- Focus on Return on Equity

What can go wrong?

- Corporate or political scandal
- The lack of Merger & Acquisition activity compared to other markets
- Negative effects of high oil price
- Political inertia following 2007 election

	Current	2001	2002	2003	2004	2005	2006	2007	2008e
Nikkei	14338.54	10371.00	9174.00	10403.00	11000.00	15460.00	17255.00	15300.00	15500.00
12 month volatility 21.18%									
Short rate	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.25%	1.00%	2.00%
Bonds (10yr)	1.70%	1.40%	1.00%	1.40%	1.40%	1.50%	1.90%	2.50%	-
Currency Yen/$	107	120	123	111	103	118	118	112	100

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Optima Portfolio Service
performance of our funds

Steven Richards

Available for investments of £10,000 upwards, our Optima Investment Portfolio service offers a range of unit trust funds designed to meet different investment objectives. Our Optima service provides the investor or their adviser with a portfolio account within which to invest these funds.

Optima funds are invested in different asset classes in varying proportions with different levels of risk. This is coupled with a choice of styles, including relative and absolute return approaches to investments, as well as multi-manager and direct investment.

The information below shows the past performance of each of the funds within our Optima service. Past performance of the model portfolios within our more bespoke Personal Investment Portfolio service is available on request.

Thesis Optima Income fund

Actual performance to date

Rolling performance					Fund technicals	
	3 month	6 month	1 year	To date	Sharpe ratio	0.01
Optima	-0.22	-2.43	-4.08	0.18	Sortino ratio	0.01
Benchmark	-2.22	0.12	5.66	5.81	Max gain	1.78

Discrete performance													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2008	-2.36	-0.71	-0.77	1.33	-0.76	x	x	x	x	x	x	x	**x**
2007	-1.04	1.35	-0.03	0.57	0.16	-1.24	-0.54	-0.35	0.65	1.01	-1.22	0.87	**0.15**
2006	0.52	0.80	-0.31	-0.95	-0.67	-0.98	0.84	0.87	0.75	-0.06	0.45	0.37	**1.60**

Thesis Optima Income fund

The UK Gilt market (our benchmark) saw a further 1.4% (total return) decline during May against which our fund's accumulation units fell 0.78% in price. The start of our move out of Gilts into Corporate debt is already adding relative value as the fund's holdings in Old Mutual Corporate Bond and F&C High Income out performed the positions in L&G and Royal London's Gilt funds. Fixed Interest securities as whole, however, had a weaker month as minutes from the Bank of England's last meeting and other data suggest that the base rate may not fall further anytime soon. Our feeling that April's rebounds in the equity markets were something of a relief rally may also be starting to be affirmed as May saw the UK market give up 1% of the ground it had reclaimed. It was, however, a better month for stock picking fund managers as even third quartile performers over the 30 days, such as the Rensburg Equity Income fund, made a positive gain. This coupled with gains from the Newton European Higher Income and Global Higher Income holdings as well as progress from the 3i Infrastructure and Henderson Global Property Companies trusts, to at least offset the falls from the much greater proportion of the fund that is in bonds. All these latter investments have significant income yields which do not either dilute our fund's overall yield where we are expecting another strong dividend payment this quarter end.

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Optima Portfolio Service
performance of our funds

Steven Richards

Thesis Optima Balanced fund

Actual performance to date

	Rolling performance				Fund technicals	
	3 month	6 month	1 year	To date	Sharpe ratio	0.20
Optima	0.92	-0.57	-3.13	15.68	Sortino ratio	0.23
Benchmark	1.62	-1.90	-1.44	13.65	Max gain	4.54

Discrete performance													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2008	-4.27	1.61	-1.96	2.84	0.09	x	x	x	x	x	x	x	**x**
2007	0.05	1.49	1.18	1.51	0.81	-0.80	-2.27	-0.74	2.32	1.57	-2.59	1.28	**2.71**
2006	2.07	1.79	1.37	-0.05	-3.09	-0.37	1.82	0.79	0.78	1.69	0.48	2.18	**9.74**

Thesis Optima Balanced fund

Thesis' Optima Balanced fund gained 0.18% during May, out performing its peer group and the benchmark FTSE/APCIMS Income index by 60 basis points. The start of our move out of Gilts into Corporate debt is already adding relative value as the fund's holdings in Old Mutual Corporate Bond and F&C High Income out performed the positions in L&G and Royal London's Gilt funds. Fixed Interest securities as a whole however, had a weaker month as minutes from the Bank of England's last meeting and other data suggest that the base rate may not fall further anytime soon. Our feeling that April's rebounds in the equity markets were something of a relief rally may also be starting to be affirmed as May saw the UK market give up 1% of the ground it had reclaimed. Our holding in the Blackrock UK Absolute Alpha fund (+1.6%), therefore, returned to the fore but it also proved a better month for our other long only stock picking fund managers who similarly delivered positive returns. Indeed, even the weaker of our UK funds over the month, Rensburg Equity Income and JOHCM UK Opps, delivered positive returns despite being third quartile. The latter saw weaker performance due to his underweight position in oils and miners.

Overseas our exposure to Japan, Global Emerging Markets and the US is provided by high conviction funds where our experience with such unconstrained managers is that they tend to be either first quartile or fourth quartile over short periods such as a month depending upon their positioning. It was therefore perhaps to be expected that the Soc Gen Japan Core Alpha and Lazard Emerging Markets funds were due a weak 30 days after their recent top quartile months, but this does not mean we have lost faith with these managers. At a broader strategy level however, I am now looking to increase the number of holdings in the fund and diversify some of our exposures with other complementary funds. Action during May included taking profits on Artemis, Standard Life and Rensburg UK Income funds to invest into Walker Crips UK Equity Income fund.

Our fund posted another 2nd quartile performance amongst its IMA Cautious Managed fund of fund peer group and remains 1st quartile over six months and since launch. With so much uncertainty in the strength of economies and market direction, I feel a more diversified approach will help to consolidate our position at the top of the sector until such time that we can have more conviction.

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Optima Portfolio Service
performance of our funds

James Grayson
Fund Manager

Thesis Optima Bond fund

Actual performance to date

Rolling performance											Fund technicals	
	3 month (qtl)		6 month (qtl)		1 year (qtl)		3 year (qtl)		5 year (qtl)		Sharpe ratio	-0.03
Optima	0.29	3	-2.42	2	0.35	1	8.01	1	21.65	1	Sortino ratio	-0.03
Benchmark	-0.23	-	-2.24	-	-2.28	-	2.99	-	15.58	-	Max gain	2.27

Discrete performance													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2008	-0.93	-1.82	-0.15	1.08	-0.63	x	x	x	x	x	x	x	**x**
2007	-0.48	0.99	-0.26	0.50	-0.27	-0.49	0.36	0.59	0.52	1.42	0.43	0.04	**3.36**
2006	0.08	0.03	-0.30	0.14	0.49	-0.47	0.70	0.51	0.66	0.73	0.41	-0.41	**2.59**

Thesis Optima Bond fund

The rally in credit markets grounded to a halt with bond markets changing focus to the impact of rising inflation on real yields. Investment credit spreads only managed to narrow by 0.045% to 2.86% in May, as measured by the IBOXX Sterling Corporate Bond (BBB) Index. A high level of primary issues in financial paper also helped to slowdown the rally, as the various issues were absorbed by the market. Liquidity within the secondary credit markets has improved considerably, although the money markets remain tight with 3 Month LIBOR at 5.85%. The 'sell off' in Gilts continued as the markets changed focus to the prospect of continued rising inflation from rising oil prices. In this backdrop bond yields rose, eliminating some of the previous months gains. No portfolio transactions were completed in May.

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Optima Portfolio Service
performance of our funds

Steven Richards

Thesis Optima Growth fund

Actual performance to date

Rolling performance					Fund technicals	
	3 month	6 month	1 year	To date	Sharpe ratio	0.19
Optima	0.82	0.00	-3.50	17.14	Sortino ratio	**0.17**
Benchmark	3.70	-2.27	-4.13	18.32	Max gain	**6.02**

Discrete performance													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2008	-5.35	2.92	-3.02	3.40	0.55	x	x	x	x	x	x	x	**x**
2007	-0.18	1.66	0.45	2.08	1.15	-0.88	-3.54	-0.92	3.15	2.52	-3.67	1.82	**3.42**
2006	2.34	2.60	1.73	0.64	-5.82	-0.39	1.28	0.98	0.58	1.84	0.00	2.94	**8.77**

Thesis Optima Growth fund

Our feeling that April's rebounds in the equity markets were something of a relief rally maybe starting to be affirmed as May saw the UK market give up 1% of the ground it had reclaimed. It was however a better month for stock picking fund managers as even third quartile performers over the 30 days, such as the JOHCM UK Opps fund and Rensburg Equity Income fund, made positive gains. During a FTSE down month our holding in the Blackrock UK Absolute Alpha fund (+1.6%) also returned to the fore but even this was a second quartile performance for Mark Lyttleton to the first quartile performance of his long UK Dynamic fund (+2.7%). Tellingly though, Mark has been reducing the small net long exposure he has held in the former fund which perhaps indicates where he feels the market is turning next.

One selection that is not paying off yet is our move into the Schroder UK Growth investment trust. Here the share price was down 2.6% over the month whilst Richard Buxton's mirror UK Alpha OEIC fund actually saw a first quartile 1.8% gain in its NAV. The price decline was therefore solely a widening in the discount which I have decided to buy into further. Elsewhere other actions this year such as providing exposure to a theme of global Infrastructure development through the 3i Infrastructure trust are starting to reward with a 3% gain from this investment over the month. Similarly our exposure to other alternative assets such as Hedge funds saw further positive moves in their prices (Goldman Sachs Dynamic Opportunities +2.5%) after March's difficulties.

Overseas our exposure to Japanese, Global Emerging Market and US equities are provided by high conviction funds where our experience with such unconstrained managers is that they tend to be either first quartile or fourth quartile over short periods such as a month. It was therefore, perhaps to be expected that the Soc Gen Japan Core Alpha and Lazard Emerging Markets funds were due a weak 30 days after their recent top quartile months. Meanwhile the first quartile performances from Martin Curries' North American (+4.7%) and JPM New Europe (+10.4%) funds continued. With such a blend our own performance over the month (+0.55%) is proving more consistent as we added value against our FTSE/APCIMS Growth index benchmark (+0.4%) and continue to remain first quartile year to date and six months and now extend this into a rolling year amongst our Balanced Managed fund of fund peer group.

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Optima Portfolio Service
performance of our funds

Steven Richards

Thesis Optima Cash fund

Actual performance to date

	Rolling performance				Fund technicals	
	3 month	6 month	1 year	To date	Sharpe ratio	0.04
Optima	1.32	2.20	5.01	9.99	Sortino ratio	0.04
Benchmark	0.77	2.13	4.98	11.00	Max gain	0.75

Discrete performance													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2008	0.38	0.10	0.38	0.56	0.38	x	x	x	x	x	x	x	**x**
2007	0.29	0.31	0.40	0.61	0.40	0.39	0.49	0.39	0.29	0.76	0.39	0.39	**5.23**
2006	x	x	x	x	0.36	0.27	0.27	0.41	0.22	0.49	0.30	0.31	**x**

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Optima Portfolio Service
performance of our funds

Steven Richards

Thesis Optima Absolute Return fund

Actual performance to date

Rolling performance					Fund technicals	
	3 month	6 month	1 year	To date	Sharpe ratio	0.02
Optima	-0.29	2.29	0.54	6.80	Sortino ratio	0.02

Discrete performance												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2008	-0.30	2.38	-2.71	2.09	0.39	x	x	x	x	x	x	x	**x**
2007	0.20	1.10	0.00	0.74	0.39	-0.88	-0.79	-0.30	1.69	0.15	-1.56	0.50	**1.20**
2006	x	x	x	x	x	x	0.01	-0.42	0.85	0.67	0.58	0.44	**2.10**

Thesis Optima Absolute Return fund

Thesis' Optima Absolute Return fund accumulation units put on a further 0.38% during May which was a month that saw the FTSE 100 fall 0.6% and Gilts 1.4% on a total return basis. This further positive month has extended our Absolute Return fund's record to 70% of up months, whilst we remain in positive territory +1.6% Year to Date and also on a rolling year basis (+0.54%). Even the HFRX Global Hedge fund index is down over 1% over the last year to 31st May 2008.

Our feeling that April's rebounds in the equity markets were something of a relief rally is starting to be affirmed as May saw the UK market give up 1% of the ground it had reclaimed. Our holding in the Blackrock UK Absolute Alpha fund (+1.6%) therefore returned to the fore and we have now reduced some of our equity overweight by completely selling out of the FTSE100 ishares position. Meanwhile the Blackrock autocall warrants are providing good relative traction (+1%) as they approach their first autocall date although the CitiGroup 11% Autos did not pay out this year. These will now rollover to May 2009 where provided the FTSE100 is trading above 6419 they will pay a 22% return.

Property had a better month with investors buying into the deep discount opportunity of the Henderson Global Property Companies investment trust (+6%) to narrow its discount however Terra Catalyst moved equally in the opposite direction. The present environment should be providing the perfect background for them to pursue their strategy and we await newsflow from the company. Among the fund's commodity exposure precious metals strengthened over the month with Gold up 2.5% and the wider Dow Jones AIG All Commodity index up similarly. This will have been largely driven by the further advance of the oil price as soft grain prices typically fell over the month. Meanwhile within our other Alternative Assets/PE theme nearly all holdings made positive progress with JZ Equity's reconstruction helping their poor share price performance (since we acquired) to recover 11.6%. Likewise corporate action in the form of buybacks whilst their discount was over 5% helped the Investec Capital Accumulator Trust to gain 2.9% in price, as did the price of the 3i Infrastructure trust where we have increased exposure this year. Fixed Interest securities however had a weaker month as minutes from the Bank of England's last meeting and other data suggest that the base rate may not fall further anytime soon. This is better news for the rate at which we can fix cash whilst we favour Global Bond exposure where have taken a position in the Legg Mason Global Multi Strategy Bond fund.

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