MAR March 2008

the View

A Thesis Asset Management view of the market

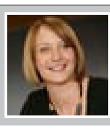
Clearly different. Uniquely rewarding.

thesis

the View

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

Introduction



Naomi Morgan-Tolworthy

Welcome to the second edition of TheView.

This month in **OurView**, Michael Lally takes a look at some of the underlying causes of the market's volatility and touches on the effects of Mr Darling's fledgling and largely anticipated budget announcements.

It's not all doom and gloom though as Michael finishes with some of the more positive returns to be found in the markets.

In our **News** section, Giles Marriage takes a retrospective look at February's market performance across some of the major sectors. And with Banks, again, at the forefront of speculation, Giles comments some of the main players.

And last, but not least, Steven Richards comments on the performance of our own Optima Portfolios over the past month.

We've had some great feedback from you about the first edition of TheView, so thank you and please do keep your comments coming.

Contents

Naomi Morgan-Tolworthy ***Tel: 01293 575155 Email: naomi.morgan-tolworthy@thesis-plc.com***

OurView

Michael Lally

With 2008 proving to be the worst start in 25 years for many major markets, possibly culminating in the collapse (and rescue) of Bear Stearns last weekend, I am reminded of the immortal catchphrases of two of the leading characters in the classic British comedy series Dad's Army, ie 'We're all doomed' (Private Fraser) and 'Don't panic' (Corporal Jones). As always when markets hit a turbulent patch the bears emerge from the wood, dusting off their copies of Nostradamus and quoting all manner of historical data to justify their argument.

So what has happened in the last two months to put the skids under share prices and is there an end in sight? Deteriorating US economic data had been widely forecast by economists for the last year and as such should not have had a material effect on markets. However, as I mentioned last month, many analysts have been slow to sufficiently discount the effects on corporate profits. Many have never lived through a real credit squeeze, particularly when it is combined with dramatically higher commodity prices. This is a fundamentally different scenario from a standard correction, the latter often triggered by a political or corporate scandal or overheating economy and mainly impacts on the value of equities.

As the current problems originated in bond markets, then spilled over into credit markets - and with these two areas a key source of funding for companies - then it is here that we will focus attention when deciding whether any of the periodical rallies in equity markets are likely to be the basis of a more durable recovery. Interest yields are seductively high (some longer dated blue chip financial bonds yielding around twice the equivalent gilt) but currently the big institutional investors have no appetite for corporate debt, perhaps still counting the costs of chasing speculative high yield bonds and the various exotic structured debt instruments. With further casualties in the financial sector still in the offing then it is likely to be some months yet before the first green shoots appear. When the moneymarkets stabilise that will give the banks free money (as they borrow short and lend long), which will help to restore their capital bases and increase liquidity, ie for credit.

In the UK Mr Darling's first budget, after the nationalisation of Northern Rock (which apparently is now an asset rather than a liability - hence the PSBR doesn't look as bad as forecast!), was greeted in the City with uniform indifference. To be fair most of the key contents were already well flagged last October, although the abolition of stamp duty on shared ownership properties is a clever wheeze which should not be underestimated. With little in the kitty and the economy slowing then his room for manoeuvre was always going to be limited.

With further volatility expected in markets this year we have been increasing our exposure to the hedge fund sector (primarily through the medium of multi-strategy funds of funds). These funds have served us well since last summer, being one of the few asset classes able to capitalise on both falling and rising markets. Individual funds have of course received a bad press, particularly highly geared and single strategy funds, and there have been some high profile casualties. They also share a fair amount of the blame for some of the more extreme movements in market segments over recent months.

Another area we see as offering sound medium term growth prospects, and good income yields, is infrastructure. Although highlighted in the UK by the PFI initiatives, Government outsourcing and joint ventures for projects such as schools, hospitals, roads and airports is a global trend. Until relatively recently the choice of quality vehicles offering access to this sector for smaller investors has been fairly limited but we expect to see interest increase and product providers respond accordingly. Given the much lower correlation with equities generally, then it just goes to show that, even in these difficult times, it is still possible to find good value in alternative asset classes.

Michael Lally **Tel: 01243 753409 Email: michael.lally@thesis-plc.com**

thesis

NewsMarch2008

Giles Marriage

Markets

Indices	Value as at 29/02/08	% change on month	% change 2008 year to date	% change on 12 months
FTSE 100 Share	5884.28	0.08%	-8.87%	-4.65%
FTSE All Share	3013.02	0.43%	-8.33%	-5.79%
Dow Jones	12266.40	-3.04%	-7.53%	-0.02%
DJ Euro Stoxx 50 €	3724.50	-1.80%	-15.35%	-8.87%
Nikkei 225	13603.02	0.08%	-11.14%	-22.73%
FTSE A British Government All Stocks	149.06	-0.79%	-0.48%	0.44%

In terms of overall movements, February has certainly been a quieter month than January! However, in respect of newsflow the reporting season is now very much underway. In summary, the market seems to have a 'bear' feel about it, with any positive results going relatively unnoticed, whilst negative announcements are causing severe share price reactions.

When reviewing the last 12 months as a whole, the variation in terms of sector performances has been quiet staggering, with an 80% differential occurring between the best and worst. Even when one successfully manages to avoid some of the worst hit areas, such as property and housebuilders, there have been few places in which to hide low. Thus we have a situation often described by fund managers as a 'stock pickers market' and with a third of the FTSE 100 held in financials it is of little wonder that there has been limited progress.

Banks

As widely expected the banks were most in focus in February, with some wide ranging results, the market's concerns for the sector have certainly not been alleviated. The ongoing concerns with regards the whole financial system, in terms of how assets/liabilities are actually hedged and counterparty risk, unsurprisingly won't just disappear!

At the positive end of the spectrum **Standard Chartered**, which generates over two-thirds of its revenues in Asia, reported full year profits ahead of market expectations. This was helped by a particularly strong showing in wholesale banking, with a measured but upbeat outlook for the coming year. Growth in lending in emerging markets is still expected to be strong. The company also booked write-downs related to asset securitisation of only $300m!

Despite being a predominantly UK based bank, **Lloyds TSB** reported a 6% increase in full-year profit, with strong growth in its core UK retail banking business offsetting a downturn at the wholesale banking division as the 'credit crunch' took its toll. The turmoil has been positive for Lloyds' performance from a defensive viewpoint, but it is hard to envisage the company being on the receiving end of a bid from a US bank in the short term.

Barclays and **Royal Bank of Scotland** both announced results that were fairly resilient and reassuring given circumstances, with dividend increases a big vote of confidence. However, Barclays looked in the better shape of the two, despite profits being slightly down on 2006, its balance sheet is certainly stronger. RBS appears to now be paying the price for its ABN Amro deal last year.

At the bottom end, the UK mortgage banks would appear to have really come unstuck due to the pressures of having a relatively low amount of deposit accounts, higher borrowing rates, combined with a weaker housing market. **Alliance & Leicester** and **Bradford & Bingley** were both casualties in terms of negative share price reactions. Whilst Alliance & Leicester has secured funding through to Q1 2009, (twice the amount as usual before the Northern Rock crisis!), because LIBOR has remained high this has come at the expense of interest margin, so depressing future profits. Asset write downs in percentage terms have certainly hit the smaller banks harder. Whilst the dividend yields are relatively high, Alliance & Leicester has put a stop to its share buy backs and further write downs could still hit the dividend. Main support is likely therefore to be re-emergence of bid speculation, but who has the money or inclination nowadays?

For the foreseeable future it would appear that investors are deeply suspicious that further losses are still lurking in the depths – it's a case of 'damned if you do' declare losses but also 'damned if you don't!'

Giles Marriage **Tel: 01590 613583 Email: giles.marriage@thesis-plc.com**

NewsMarch2008

Giles Marriage

Media

BSkyB's shares rallied on the announcement that they would challenge the Competition Commission's verdict that their 17.9% stake in **ITV** has to be reduced to 7.5%, resulting in a potential loss of approximately £340m. The appeal process is likely to be a drawn out convoluted affair and it is difficult to call if it will be successful or whether the amount they can retain rises. The two recent rallies in the price have been on the back of decent results and this widely expected legal challenge. We continue to rate Sky for its ability to harness a great one-stop shop for consumers in terms of TV, Broadband and Telephony.

Mining

Good final figures were announced for **Xstrata** and were a little above consensus. They produced sales growth of 12%, increased profits and raised the dividend by 20%. To some extent, the results are not that relevant as we are awaiting the announcement of an offer for the group from **Vale** of Brazil. Rumour has it that the delay is due to Glencore holding out over favourable marketing rights for the combined company. Glencore (the Swiss commodities trader) holds 35% of the Xstrata. Meanwhile **Anglo American** is also rumoured to be interested in Xstrata again. That means the downside is probably limited if the Vale talks fail. After five excellent years for the mining sector there are some commentators questioning whether these big deals have any of the 'Vodafone/Mannesmann ring' about them.

Food and Retail

Still talking commodities, the effect of industrialising emerging markets and increased personal earnings, is leading to higher prices for all manner of 'softs' such as wheat, barley and sugar. Increased income essentially causes people to consume more meat, which in turn then requires the production of more grain (to feed the animals). Downbeat outlooks came from many in the sector such as **Cadbury Schweppes**, **Northern Foods** and **Unilever**.

The worst reaction to this story has been **Premier Foods**, where the impact of rising input costs is likely to hurt profits, during a period where they are highly leveraged after the acquisition of RHM (Rank Hovis). This has undoubtedly caused a 'double whammy effect' on the shares. Concerns have therefore been raised over their ability to service the debt with reduced cashflows, whilst cheap borrowings are now not so easy to find. This has resulted in the hedge funds having a field day and there have been several 'bear raids' on the stock, causing significant share price falls. Management does have a good track record of integrating businesses and the shares look oversold, but timing is everything...

Some speculation has arisen over **M&S** potentially bidding for **Next**, but until interest rates see further falls, it is unlikely that the retail sector will make up much of the ground lost over the last year.

Support services

Carillion and **RPS** produced excellent results with earnings growing at rates of 16-17% respectively. Carillion is benefitting from a number of recent acquisitions and infrastructure spending on projects in the Middle East, whilst RPS is continuing to enjoy a surge in environmental based consultancy work. However, the sector has come under pressure due to a number of factors, such as a reduction in government spending on PFI/PPP initiatives, weaker house prices and the wider sell-off in the Mid 250 sector. However, there are some positive signs emerging and parts of the Mid 250 have started to improve recently following their significant de-ratings over the last year.

Rentokil's results were very disappointing, with the potential turnaround story becoming even longer than originally hoped. Three years ago, upon the appointment of a new and highly regarded management team, the company embarked upon a restructuring strategy of disposals and acquisitions in an attempt to improve profitability. Progress had been slow, but the company had begun to make some headway until prior to Christmas when they announced a surprise profit warning in their City Link division. Initially the message from management was that these problems were not company specific, but it has now come to light that this was not the case, causing the shares to fall further still. Despite the break-up chatter, it would appear that we are now virtually back to square one, with the Chairman about to depart and question marks arising over management.

Given the valuation extremes in certain parts of the market it is quite possible that we could witness a sharp reversal of fortunes for some sectors. The key questions on everyone's mind are what will cause this to happen and when...

Giles Marriage Tel: 01590 613583 Email: giles.marriage@thesis-plc.com

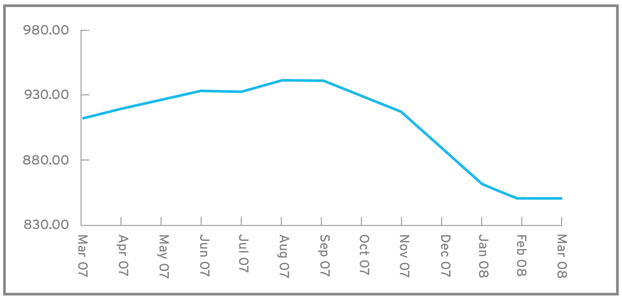
Market Outlook
Commercial Properties

Giles Hedley-Dent

Negative sentiment continues to be the dominant force in UK commercial property, with valuations having fallen as the market slows from the excellent returns seen over the last five years. Although initially this was partly due to rising interest rates, the continued weakness is now largely a reflection of investors' fears that the market has become overinflated and is set for a cyclical downturn. Whilst there are still a limited number of areas that are still expected to outperform over the next year or so, we have recently taken the view that it should be possible to achieve better returns for our clients by re-investing capital currently allocated to UK commercial property elsewhere. Consequently, all of our investment models have moved to a zero weighting in this asset class. It is currently anticipated that we will stay out of UK commercial property for at least a year but will continue to closely monitor the situation.

On an international basis, we remain more optimistic about commercial property as an asset class and have maintained our exposure to this area. We feel that several overseas markets offer an arbitrage between property yields and interest rates that can no longer be exploited in the UK. In addition, the prospect of strong rental growth in recovering Continental Europe and economic growth in Asian markets that should lead to greater demand for property assets. In essence, we believe that the economic backdrop for commercial property markets globally remains reasonably encouraging, with Japan, Germany, Hong Kong and Singapore seen as countries that exhibit strong or improving growth.

IPD Index



Assumptions: Positive

- Offers a secure and stable income stream
- Defensive attributes
- Low correlation with returns from equities and 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	839.30e	410.94	439.96	485.94	540.55	642.68	763.67	839.30e

Giles Hedley-Dent Tel: 01293 575152 Email: giles.hedley@thesis-plc.com

Market Outlook
UK Fixed Interest

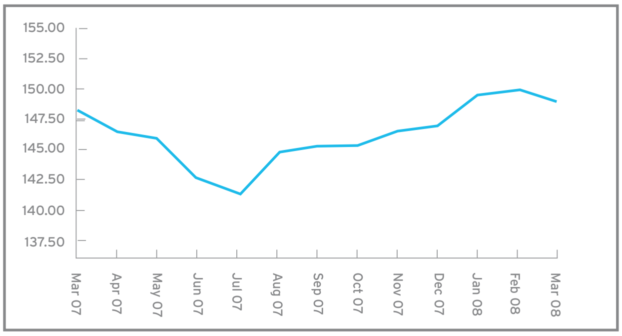
Michael Lally

Last year we highlighted the yield gap between corporate bonds and gilts as being too narrow and considered that the revaluation would probably continue for most of this year. Since then the flight to safety has caused a significant increase in the risk premium – to the extent that it is now possible to buy long-dated 'blue chip' bank bonds at yields around 75% above equivalent gilts. Whilst we are now reaching a level where some corporate bonds are beginning to look underpriced, the effects of a tighter credit environment means that a reasonably high risk premium will still need to be maintained to ensure market stability and successful new funding requirements. Prices will also be sensitive to movements in general money market interest rates.

Adding to the generally bearish tone have been rumours over the financial stability of the Monoline insurance companies (as a result of defaults in the US real estate sector). Rather like personal Term Assurance policies, for a fee these companies guarantee a bond against default, effectively giving it the highest credit rating, ie AAA. With around $3 trillion in issue, any downgrading of the Monolines themselves would bring forced sales of the underlying bonds from those institutions who must hold only AAA debt. In the UK nearly half the longer-dated sterling AAA bonds in issue are 'monolined', including utilities, PFI project companies and quasi-government entities such as the BBC.

The nationalisation of Northern Rock has added £100bn to public sector debt, and as such, means that the potential for the government to provide a fiscal 'adrenalin shot in the arm' on US lines is severely restricted. Therefore any inflationary worries, and sterling strength, are likely to be short term. The Bank of England's Monetary Policy Committee has, by stark contrast to its US counterpart, been particularly sparing in terms of interest rate cuts. With the February US unemployment figures pointing to their interest rates being cut to as low as 1%, then we believe that the MPC will be pressured into more aggressive action later in the year, with interest rates here likely to fall well below levels currently being discounted in the market. This should underpin medium dated gilt prices (where we are currently focusing attention) and eventually lead to a rally in investment grade corporate bonds.

FTSE Gilts All - Stocks Index



Assumptions: Positive

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

What can go wrong?

- Input costs increased, 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	149.06	157.16	151.62	152.88	156.58	149.85	149.78	157.00

12 month volatility 5.29%

	Current	2002	2003	2004	2005	2006	2007	2008e
Short rate	5.25%	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 $/£	1.99	1.50	1.63	1.83	1.82	1.97	1.98	1.85

Michael Lally Tel: 01243 753409 Email: michael.lally@thesis-plc.com

Market Outlook
UK Equities

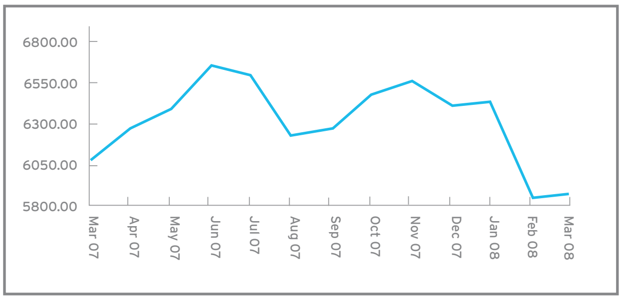
Steven Richards

Evidence of a slowing economy during the fourth quarter of 2007 and growing concerns that this will continue in 2008 have impacted the UK equity market. The fact that this has been led by the services sector indicates it is as a direct result of the credit crisis. Although the Bank of England surprised the markets with its early action in reducing the base rate back in December and again in January 2008, short-term LIBOR indicates that the credit crisis is far from over. Bank lending is still being reigned in and one consequence of this appears to be a slowing residential property market. Annual price growth rates have not yet turned negative although four months of falling rates might have revealed the peak in this market.

Last year consumer confidence held up well throughout the summer's equity price falls, but back then the housing slowdown was not showing through and consumers did not have the utility price hikes announced since the start of this year to contend with. These cost increases, along with stubbornly high petrol prices, suggests that consumer confidence is unlikely to get better anytime soon. Meanwhile, as manufacturers try to push through what price increases they can to maintain their margins, the Bank of England finds itself between a rock and hard place as it tries to balance inflation pressures with the need to cut interest rates.

The recent decline in the UK market represents an overdue catch-up with economic realities. Looking forward, this should provide some reason for optimism. As long as the economic outlook does not deteriorate any further than anticipated, equity prices should at least consolidate. We are, however, wary of secondary impacts from the credit crisis and also that analyst forecasts are only coming down slowly, perhaps indicating equities are not as cheap as perceived, especially when corporate bonds have got even cheaper.

FTSE 100 Index



Assumptions: Positive

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

What can go wrong?

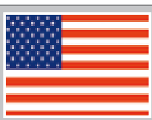
- Significant earnings slowdown
- Inflationary pressures too strong
- Chinese economic slowdown
- Bad debts/higher credit costs

	Current	2002	2003	2004	2005	2006	2007	2008e
FTSE 100	5884.30	3940.00	4477.00	4750.00	5520.00	6221.00	6456.90	6250.00

12 month volatility 18.47%

	Current	2002	2003	2004	2005	2006	2007	2008e
Short rate	5.25%	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 $/£	1.99	1.50	1.63	1.83	1.82	1.97	1.98	1.85

Steven Richards Tel: 01483 406108 Email: steven.richards@thesis-plc.com



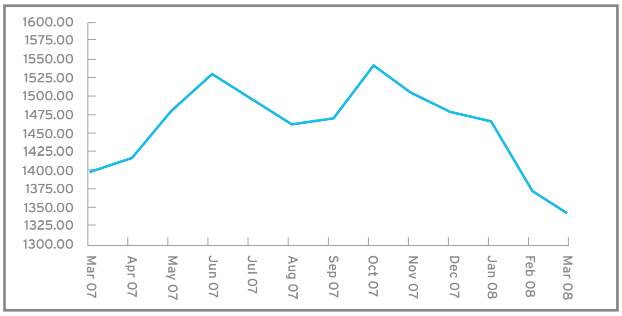
Market Outlook
US Equities

Michael Lally

The 10% fall in the market in the first two months of the year reflects the growing evidence of a material slowdown in economic activity. Despite the Federal Reserve cutting rates twice in nine days by a total of 1.25%, the credit squeeze means this had little impact on either corporate or household borrowers - indeed, costs have actually increased. Not to be deterred the Government voted through a $168bn fiscal stimulus package, the benefits of which should be seen in the 2nd and 3rd quarters with tax rebate cheques being received in May. A more telling concession could be the (temporary) 75% uplift in the cap on mortgages offered by government-backed firms. No surprise that by the time the effects wear off the election will be over!

Whilst capital expenditure will be constrained by borrowing costs, the non-financial sector remains in relatively robust shape. An interesting example of this is that it actually spent less on investment than it earned in profits in the last quarter of 2007, using the surplus to reduce debt. Longer term, lower interest rates could weaken the dollar and lead consumers to buy more domestically produced goods. In historic terms the market valuation is beginning to appear more attractive, particularly relative to government bonds. The dividend and earnings yields, as well as price earnings multiples, are all back to the levels of 2002, ie just before the last major rally in the market.

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
- Oil price remains high
- Dollar weakens further
- House prices fall heavily

	Current	2002	2003	2004	2005	2006	2007	2008e
S&P 500	1330.63	935.00	1070.00	1200.00	1270.00	1418.00	1468.36	1400.00

12 month volatility 15.91%

	Current	2002	2003	2004	2005	2006	2007	2008e
Short rate	3.00%	1.25%	1.00%	2.25%	4.25%	5.25%	4.25%	3.00%
Bonds (10yr)	3.64%	4.20%	4.40%	4.20%	4.50%	4.60%	4.50%	4.50%
Currency $/£	1.99	1.61	1.79	1.95	1.77	1.96	1.98	1.85

Michael Lally ***Tel: 01243 753409 Email: michael.lally@thesis-plc.com***

Market Outlook
European Equities

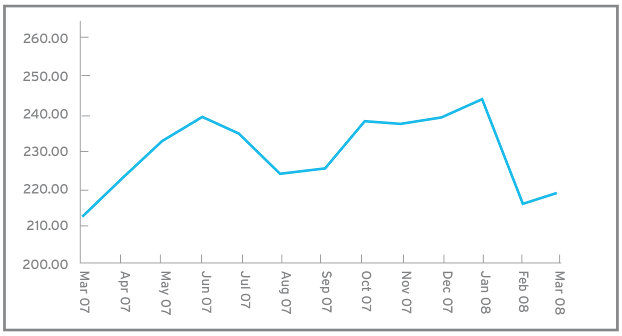
Kate Nathoo

European markets continue to be influenced by movements on Wall Street and remain highly volatile. Eurozone interest rates have been left unchanged at 4% by the European Central Bank against the backdrop of a fresh surge in the Euro against the dollar. Rates have been at this level since June 2007. The Bank's major concern has been to cope with the combination of slowing economic growth and higher inflation. However, the Euro's rise above $1.53 for the first time has complicated this task, threatening increased political pressure for lower Eurozone interest rates. Additionally, the recent deterioration in the outlook for economic activity, with the central forecast for GDP growth in 2008 falling from December's 2% to 1.7%, makes a reduction in interest rates more likely in the future.

At the moment the ECB is clearly concerned about the outlook for inflation. Forecasts indicated that CPI inflation in 2008's first two months rose from December's 2.5% to 2.9% - above the ECB's target of 'close to, but less than 2%'. The message seems to be clear that the ECB does not intend to cut interest rates in the very near future. Nonetheless, the pressure on the ECB to soften its stance and follow other Central Banks in loosening policy is likely to build over the coming months, as news on the economic front continues to weaken and concerns over the impact of a renewed surge in the Euro intensifies.

Within the European equity markets, bank and other financial shares continue to suffer whilst companies associated with the global commodities boom continue to move sharply ahead. Likewise, the telecom and utilities sectors have seen strong support as investors continue to favour defensive sectors.

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	2002	2003	2004	2005	2006	2007	2008e
FTSE AW Euro ex	222.19	106.37	135.95	152.01	185.89	216.47	245.22	-

12 month volatility 29.30%

	Current	2002	2003	2004	2005	2006	2007	2008e
Short rate	4.00%	3.25%	2.00%	2.00%	2.25%	3.50%	4.25%	3.50%
Bonds (10yr)	3.95%	4.50%	4.40%	3.60%	3.40%	4.00%	4.50%	3.80%
Currency $/£	1.31	0.98	1.17	1.35	1.20	1.32	1.47	1.50

Kate Nathoo Tel: 01483 406104 Email: kate.nathoo@thesis-plc.com

Market Outlook
Japanese Equities

Tony Gammon

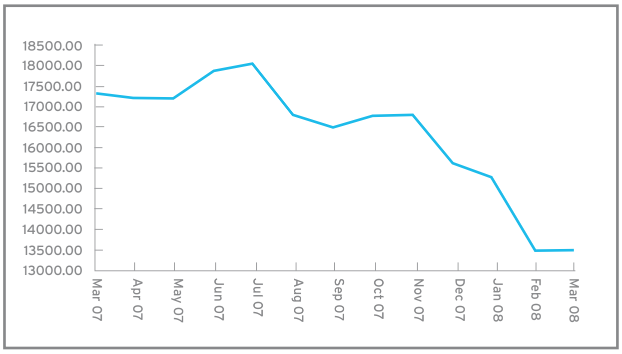
The recent economic news from Japan has largely been positive. GDP for 2007 grew by 2.1%, a higher rate than has been seen for sometime and above the estimate for Japan's sustainable growth rate, but given the underperformance seen over previous years this is not regarded as a problem. Last year growth fell back during the mid two quarters and in fact was being sustained by Government spending and the export trade, this meant that technically the domestic market had been in recession during the 2nd and 3rd quarters but since then, consumer spending has picked up and employment growth remains strong.

We do feel there is a good chance that although the whole economy has not endured a recession, Japan will be one of the first major economies to enjoy a rebound in 2008 and beyond. One of the difficulties in recent months was the problematical launch of a new building code which cut construction activity markedly. The rules have now been relaxed again and therefore the pickup in this area is now being confirmed with building starts improving over the last three months. This construction boom could add as much as 0.5% to GDP during 2008.

The recent Tankan survey of business conditions also gave some cause for optimism and the corporate sector remains in good shape to weather a potential US led global slowdown, especially if commodity prices have peaked. It is also worth noting that Japan's external trade balances are very strong, currently the surplus is equivalent to around 5% of GDP. One area of the market that has previously bypassed Japan is corporate activity, but recent developments have included a pickup in share buybacks and purchases by companies of the shares of listed subsidiaries not already owned.

Away from the economy and on to the Stock Market. The Nikkei was the worst performer among major equity markets in 2007, but it could be argued that this just reversed the out-performance of Japanese stocks from late 2005 through to the middle of last year. Japanese equities, particularly small-caps, now look attractively priced on most of the usual valuation measures. It is also true that an unusually high 81% of Japanese equity market participants surveyed anticipated foreign investors as major buyers of the market this year.

Nikkei 225 Index



Assumptions: Positive

- Corporate profits recovery
- Reduced cross-holdings/ restructuring
- High savings ratio
- Continued economic strength

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 recent election

	Current	2002	2003	2004	2005	2006	2007	2008e
Nikkei	13603.02	9174.00	10403.00	11000.00	15460.00	17255.00	13603.00	15500.00

12 month volatility 21.18%

Short rate	0.50%	0.00%	0.00%	0.00%	0.00%	0.25%	1.00%	2.00%
Bonds (10yr)	1.70%	1.00%	1.40%	1.40%	1.50%	1.90%	2.50%	-
Currency Yen/$	106	123	111	103	118	118	112	100

Tony Gammon Tel: 01273 322436 Email: tony.gammon@thesis-plc.com

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 Growth fund

Actual performance to date

Rolling performance					Fund technicals	
	3 month	6 month	1 year	To date	Sharpe ratio	0.21
Optima	-0.82	1.03	-0.72	16.18	Sortino ratio	0.20
Benchmark	-5.76	-4.39	-0.79	14.10	Max gain	6.02

Discrete performance													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2008	-5.35	2.92	x	x	x	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 Balanced fund

Actual performance to date

Rolling performance					Fund technicals	
	3 month	6 month	1 year	To date	Sharpe ratio	0.23
Optima	-1.48	-0.26	-1.60	14.62	Sortino ratio	0.26
Benchmark	-3.46	-1.81	0.74	11.84	Max gain	4.54

Discrete Performance													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2008	-4.27	1.61	x	x	x	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**

Steven Richards **Tel: 01483 406108 Email: steven.richards@thesis-plc.com**

Optima Portfolio Service
performance of our models

Steven Richards

Thesis Optima Income fund

Actual performance to date

Rolling performance					Fund technicals	
	3 month	6 month	1 year	To date	Sharpe ratio	0.04
Optima	-2.21	-1.79	-3.20	0.40	Sortino ratio	0.04
Benchmark	2.40	5.06	5.66	8.22	Max gain	1.78

Discrete performance													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2008	-2.36	-0.71	x	x	x	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 Bond fund

James Grayson, Fund Manager
01243 753410 james.grayson@thesis-plc.com

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	-2.71	3	-0.39	2	0.03	1	10.16	1	27.00	1	Sortino ration	-0.03
Benchmark	-2.02	-	-1.47	-	-3.79	-	5.40	-	20.13	-	Max gain	2.27

Discrete performance													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2008	-0.93	-1.82	x	x	x	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**

Steven Richards ***Tel: 01483 406108 Email: steven.richards@thesis-plc.com***

Optima Portfolio Service
performance of our models

Steven Richards

Thesis Optima Cash fund

Actual performance to date

Rolling performance					Fund technicals	
	3 month	6 month	1 year	To date	Sharpe ratio	0.05
Optima	0.87	2.32	5.10	8.56	Sortino ratio	0.05
Benchmark	0.86	2.28	5.06	9.62	Max gain	0.75

Discrete Performance													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2008	0.38	0.10	x	x	x	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**

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	2.87	3.12	2.10	7.40	Sortino ratio	0.02

Discrete performance													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2008	-0.19	2.38	x	x	x	x	x	x	x	x	x	x	**x**
2007	0.19	1.45	-0.09	0.81	0.38	-0.75	-0.95	-0.38	1.73	0.05	-1.51	0.67	**1.60**
2006	x	x	x	x	x	x	0.01	0.05	0.89	0.69	0.58	0.39	**2.60**

Steven Richards **Tel: 01483 406108 Email: steven.richards@thesis-plc.com**

Optima Portfolio Service summary of performance

Steven Richards

Thesis Optima Growth fund

After outperforming its peers in the IMA Balanced Managed sector during the down month of January, our Growth fund has remained first quartile amongst its Fund of Fund peer group during the better month of February which saw markets pick themselves up off the floor a little. We resisted the urge to switch out of Blackrock's UK Absolute Alpha fund and up Beta in anticipation of markets bouncing back, but were rewarded with this fund remaining a second quartile performer amongst all UK funds. However, had we switched into Mark Littleton's long fund in which we already hold a 10% portfolio position, we would have added even further value as his UK Dynamic fund gained over 5%. There was however, less differentiation between equity income and lower yielding funds as our fund's one equity income holding - Rensburg's UK Equity Income trust – performed as well as Growth staples such as Schroder's UK Alpha fund. Rensburg also rewarded our recent switch into their UK Mid Cap fund which out peformed the FTSE-Mid-250 index by almost 5% during February. Overseas our different geographic exposures are concentrated through Martin Currie for North America, Soc Gen for Japan and JPM for Europe where only the latter's European Dynamic fund was outside the first quartile within its respective peer group. Contrastingly though, within the Emerging Market space our holding in JPM's New Europe fund more than made up for the weaker performance of their main market offering with a 9% gain for the month driven by Russian oil shares.

Thesis Optima Balanced fund

Returning to the first quartile amongst its Fund of Fund peer group within the IMA Cautious Managed Sector, our fund was aided by its holdings in Merrill Lynch's UK Dynamic, Martin Currie's North American, SocGen's Japan Alpha and JPM's New Europe funds, which were all also first quartile performers over the month, the latter up 9% since acquisition in January. This fund is heavily weighted to Russia and its oil producing companies which, with Brent above $100 a barrel, has seen this exchange move ahead strongly. Another switch from January that is already adding value was our move into Rensburg's Mid Cap Growth fund for exposure to FTSE-Mid-250 companies. This fund was the best performer amongst all Mid Cap OEICs during February and out performed the 250 index by almost 5%. Activity in February has centred around our Balanced fund's fixed interest exposures where we are switching High Yield corporate debt funds into investment grade corporate bond funds which we believe have over priced default risk against the background of the continuing credit crisis. Elsewhere our fixed interest Hedge fund selection - Acencia Debt Strategies - had a poor month seeing a 3% fall in its share price but we are told the company will still be declaring a dividend. Otherwise Goldman Sachs Dynamic Opportunities and Thames River's Mutli Hedge Plus funds form the greater part of our Fund's Hedge exposure and continued with positive NAV performances for the month.

Thesis Optima Income fund

The end of February has seen our Income fund pay a strong dividend to start 2008 where we are hoping the yield on our fund will increase to 4.5% gross. Away from the Income return though, the capital performance of the fund remains hamstrung between continuing weakness in the Fixed Interest markets and the poor start to 2008 for equities. This space did however see some recovery in value during February with the fund's Rensburg UK Equity Income and Newton Global Higher Income holdings up 3% and 6% respectively, the latter helped by Sterling weakening against many of the world's major currencies. The UK's bond markets continued downwards though as the tick up in 3 month LIBOR rates indicate the credit crisis is far from over. Holdings, such as Old Mutual and Royal London's Corporate Bond funds, remain overweight financial issues which are weighing on their performance. Historically the bonds of financial issuers trade at a lower spread over Gilts to non-financial issues reflecting the margins that banks make as part of their business model. Presently however, this spread is non existent reflecting the higher credit risk of financial paper but also suggesting this area has been over sold. As such we are choosing to retain Old Mutual and Royal London and have indeed started to switch out of the fund's high yield corporate debt into these investment grade funds. Elsewhere our fixed interest Hedge fund selection - Acencia Debt Strategies - had a poor month seeing a 3% fall in its share price but we are told the company will still be declaring a dividend.

Thesis Optima Absolute Return fund

February saw the fund's strongest ever monthly gain +2.38%. Commodity prices continued strongly upwards with Silver again up 15% for the month and the wider Dow Jones AIG index +12%. Perhaps we took some profit a little too early, however the recycling of this money into equities also rewarded as we turned 3.5% on some of the FTSE100 ishares whilst the Blackrock UK Absolute Alpha fund put on a further 2.1%. The UK's bond markets continued downwards though as the tick up in 3 month LIBOR rates indicate the credit crisis is far from over. Holdings such as Henderson's Diversified Income and Old Mutual's Corporate Bond fund lost a further 3% of their capital value. At some point bond markets will stabilise and their recovery will be swift, so we continue to pound cost average with new inflows. Activity during the month included taking a position in Terra Catalyst the newly launch AIM listed Property Activist fund, and if the gains in holdings such as Matrix and Rutley European Property funds (both +12%) are anything to go by, this vehicle is already stirring up the market.

Steven Richards Tel: 01483 406108 Email: steven.richards@thesis-plc.com

Contact us

Head Office
Exchange Building
St John's Street
Chichester
West Sussex
PO19 1UP

T. 01243 531234
F. 01243 539094

Office director:
Michael Lally

Brighton
3 Frederick Terrace
Frederick Place
Brighton
East Sussex
BN1 1AX

T. 01273 728188
F. 01273 724236

Office director:
Tony Gammon

Gatwick
Belmont House
Station Way
Crawley
West Sussex
RH10 1JA

T. 01293 575150
F. 01293 575151

Office director:
Giles Hedley-Dent

Guildford
98/110 High Street
Guildford
Surrey
GU1 3HE

T. 01483 304183
F. 01483 304185

Office director:
Kate Nathoo

London
75/76 Shoe Lane
London
EC4A 3JB

T. 020 7842 3969
F. 020 7842 3968

Office director:
Kate Nathoo

Lymington
48 High Street
Lymington
Hampshire
SO41 9ZQ

T. 01590 625841
F. 01590 677346

Office director:
Giles Marriage

Visit our website

www.thesis-plc.com

Designed by The Upper Room. T. 020 8406 1010