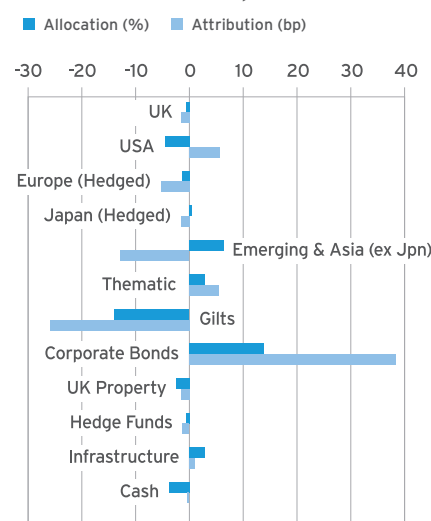


Thesis Asset Allocation

May 2011

Our balanced model performed broadly in line with its APCIMS benchmark in April, with 1bp (basis point) overall outperformance from asset allocation, to give a 1.67% total return.

Thesis Balanced Model compared to APCIMS



UK interest rates to stay low to 2013

April saw a tempering of the risk appetite in markets, as weaker economic data reduced confidence in the pace of recovery. UK first quarter GDP growth was reported at 0.5%, leaving national income flat over the last six months. The Bank of England is still predicting growth of 1.7% for 2011 as a whole, but many analysts' forecasts are less optimistic. Taken together with a temporary easing in price pressures in the March CPI figures, this low level of growth makes interest rates increasingly likely to remain at their current historic lows for some time to come.

Lower interest rate expectations and potentially some safe-haven flows from the Eurozone and US dollar bond markets, caused gilts to rally over the month. Our underweight position cost us 28bp, but this was more than made up for by the corporate bond allocation, leaving us 12bp ahead of the benchmark on fixed interest overall.

Our Fixed Interest Committee, who have maintained a higher duration (interest rate sensitivity) policy than many fund managers for some time, believing that the risk of rate

risks has been overstated, are currently anticipating that if the Monetary Policy Committee does not raise rates at the tail end of this year (Nov/Dec) then they are likely to remain at their current level until 2013. The Fixed Interest Committee has raised buy-up-to levels for gilts, expecting that the drop in yields will continue, and is looking to eliminate a small floating rate exposure which had been introduced to portfolios as a hedge against rising rates.

Equity markets attractively valued

Equity markets remain attractively valued despite poor macroeconomic context and value shares to outperform growth.

The UK equity market ended the month at a P/E of 13 1/2, which is somewhat below its long-term average. Dividends are predicted to grow faster than earnings over the next few quarters, so value stocks should outperform their more growth focused counterparts. A re-rating of the pharmaceutical sector has led this trend, with GlaxoSmithKline gaining 9.75% during the month.

The US is in a similar situation to the UK. Retail sales are stalling, inflation is higher than desired, and interest rates seem destined to remain low. Standard and Poor's fired a shot across the bows of Washington policy-makers, by announcing a negative outlook on the United States' creditworthiness, indicating that the country's AAA rating may be unsustainable if steps are not taken in the next two years to address its fiscal deficit. Despite this, we believe a fiscal consolidation is unlikely before the next presidential election. After a brief setback, markets shrugged off the news, viewing a downgrade as highly unlikely. In many ways the announcement parallels a similar warning to the UK in May 2009, which was reversed in October last year once the government's commitment to deficit reduction had been made clear. The US equity market was down slightly overall during the month, giving a 6bp contribution to our relative performance.

The same themes are reflected in Europe, as retail sales remain weak, inflation is rising and fiscal and sovereign credit concerns dominate the macroeconomic landscape. Major changes in that area seem unlikely ahead of the French and German elections within the next eighteen months however. We lost 5bp here, as our currency hedged position worked against us,

although we continue to feel that the downside risk from the currency outweighs any potential gains that we could make from holding euros.

Japan behaved in line with the other major equity markets. Economically it seems likely that the country is now in recession, and there is little good economic news on the horizon, as industrial production continues to be depressed by parts shortages following the earthquake. We lost 1.5bp on our Japanese allocation. The yen was generally flat over the month, so our currency hedge did not affect performance.

Our high emerging markets weighting cost us 13bp, but we remain bullish on the long term prospects for these markets. P/E ratios stand at around 11 on average, with 5% growth predicted this year.

Alternative investments generally gave small positive returns over the month, so in relative terms we have gained where we are overweight and lost on our underweight positions. Returns to UK commercial property continue to vary by quality, with good performance from high-end London properties, but mixed returns elsewhere.

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Thesis Asset Allocation

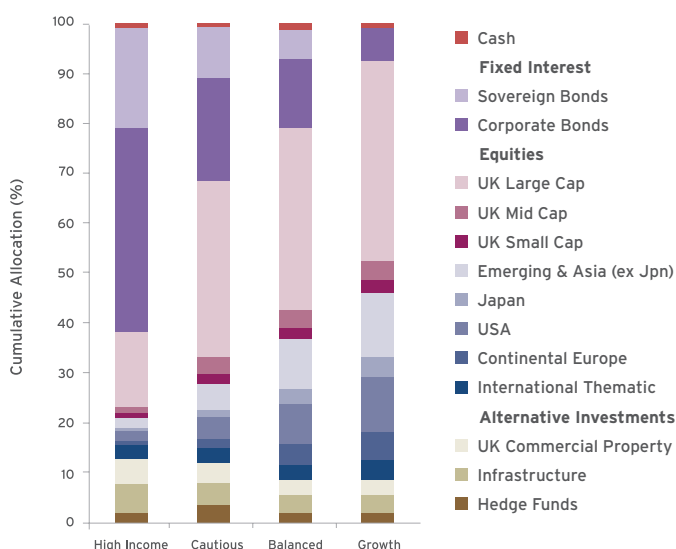
May 2011

Gold back to a buy for higher risk models

Taking into account our revised interest rate expectations, we are reinstating gold as a buy. Low or negative real interest rates tend to be positive for the price of gold, as they reinforce the metal's role as a store of value, and reduce the opportunity cost of holding gold by comparison to assets that yield income. Target prices for gold vary, but higher levels than \$1,500 per ounce do not look unattainable if the current demand from investors and central banks continues. As this outlook is rather more speculative than our previous defensive allocation to gold, we are only going to be buying it for new clients in our two higher risk models, and only at a 2% weighting.

The new gold weighting is being funded by a reduction of 1% in the US equity allocation, following reasonable performance since we increased that weighting in February, and 1% taken from our allocation to funds of hedge funds, whose performance has looked disappointing in relative terms, though they have fulfilled their mandate to generate low consistently positive returns so far this year.

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
Total Equity	25.5	56.4	70.2	83.9
UK Commercial Property	5	4		
Infrastructure	5.5	4.4	3	3
Hedge Funds	2	3.5	3.5	3.5
Gold			2	2
Total Alternatives	12.5	11.9	8.5	8.5
Sovereign Bonds	20	10	6	
Corporate Bonds	40.9	20.7	14	6.5
Total Fixed Interest	60.9	30.7	20	6.5
Cash	1.1	1	1.3	1.1

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

Thesis Asset Management 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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