

S U C C E S S I O N

Platform based Discretionary Model Portfolios

Managed by Evercore Pan Asset

3rd October 2011

Model Portfolio Update

September Performance

If August was a bad month in the equity markets, September was worse, ending a quarter in which most major equity markets fell between 10% and 15%. Some, like Germany and France, fell by 25%.

Investor fear has been at record levels and at times selling has been indiscriminate. Even gold had a bad month. The VIX index which charts the volatility of the S&P index can be a good measure of fear in the market and is currently standing at over 40%, compared to below 20% for most of the first half of the year. In addition, 'short' interest in the S&P 500 is near the record levels reached in 2008.

The markets fear global economic slowdown and Euro collapse in equal measure. The case for recession is arguably not borne out by the economic numbers and may already be priced in. In any case, both developed and developing countries still have policy tools to create monetary stimulus if they wish to. However, the uncertainty over the Euro and the Eurozone remains a crushing weight on sentiment and it is hard to see how markets will stabilise properly until a workable medium term solution is found.

The portfolios have had higher cash levels than usual recently and have avoided Euro-related exposures. Nevertheless, they have been hurt by indiscriminate selling of some high growth asset classes such as China equities. The price earnings multiple for China is now 7.2x and the dividend yield is 4% - extraordinarily cheap for an economy growing at almost 10% p.a. China is also a long way through its phase of monetary tightening and will benefit from lower commodity prices.

Markets such as these bring great opportunities. The portfolios are invested into a mixture of cash, or near cash, and good quality risk assets which should benefit when the panic subsides and rational market conditions return. We do not like to lose money for our investors even if the losses (shown below) are within the tolerance of each portfolio. We are firmly focused on the portfolios' longer-term return objectives and remain positive that we can achieve them over time. In any case, 2011 is not over yet!

	1 month	3 months	6 months	12 months	2010	Since Inception
Defensive	-1.2	-4.3	-2.1	-5.3	3.7	11.7*
Cautious	-2.2	-6.7	-4.7	-5.6	7.3	6.8†
Balanced	-4.9	-12.1	-10.7	-10.5	13.3	21.3*
Growth	-5.9	-13.5	-12.5	-10.9	14.2	7.4†
Adventurous	-6.5	-15.2	-14.8	-11.1	17.0	26.0*

Note: Data to end September 2011

*Inception date April 2009

†Inception date August 2009

Below is a more detailed analysis and commentary from John Redwood.

The third quarter of 2011 has been a bad quarter for most investments. In the second half of the period there was a sharp sell off in most risk markets. The ever present Euro area crisis undermined sentiment in Europe. Markets were spooked by the drying up of bank liquidity, as banks feared to lend to each other. Analysts fuelled fear by pointing out how much banks could lose on sovereign bonds, as Italian and Spanish bonds were put under the same spotlight that had brought Portuguese, Irish and Greek bonds down.

S U C C E S S I O N

Platform based Discretionary Model Portfolios

Managed by Evercore Pan Asset

3rd October 2011

Model Portfolio Update

Meanwhile on the other side of the Atlantic there were unwelcome signs of premature slowing in the recovery of the US economy. The stand-off between a Democrat President, wanting more stimulus from spending and borrowing, and a Republican House, wanting the stimulus of tax cuts and a lower deficit from spending cuts, also alarmed investors.

In the UK the government kept telling markets they are dedicated to deficit reduction, but the numbers stayed poor, with August reports of record government borrowing for that month. UK activity slowed, with some arguing that was the result of the tax rises and cuts introduced so far. Others argued that it came from slowing world output, and from the weakened state of the banks and shortage of credit.

The emerging market economies continued to grow much more rapidly than the west. Their programmes to curb price inflation through higher interest rates and banking restrictions continued. China is at last visibly slowing, with bears worried that local authority debt and property prices remain vulnerabilities that could stand in the way of early recovery. Brazil has probably reached the peak of her interest rate cycle, whilst India has some way to go to get on top of inflation.

Bond markets were divided into three. The bonds of the weaker Euro area sovereigns were badly hammered, as markets tested out the European Central Bank's resolve to try to keep Italian and Spanish 10 year interest rates around 5% through a large buying programme. The markets in corporate and emerging market sovereign bonds were dull, with investors keeping the coupon payments at best and losing some capital at worst. Holders of UK, US and German government bonds continued to do well, as these bonds were bid up to high prices and new very low yields.

Commodity prices started to fall in response to stories of weakening worldwide demand, and fears of another recession. The Chinese cooling was an especially bearish factor for copper and other industrial metals. Gold and silver continued to surge at the beginning of the period, but suffered a very sharp setback towards the end of the quarter. The best explanation we saw was that investment funds and traders desperate to cut their overall exposures decided to dump some precious metal holdings where they had good profits and were easy to sell.

Over the quarter we did raise cash levels in portfolios, to offer some protection against the falls. We concentrated on removing Euroland exposures, as we judged this to be the centre of the worst storm. We also cut other western market exposures. P/E ratings looked quite high when you started to factor in slow growth or no growth. The lower exposure to risk assets was intended to help cut losses from market movements.

We also removed some of our corporate bond exposure, where we thought bank corporate bonds could be harmed by the gathering gloom about the prospects of banks, especially in Europe. We prefer the safer haven of near cash whilst the crisis is unfolding. We did not buy UK government securities, though we saw their popularity with certain investors. We do not think current low yields offer a good running return, and do not believe these very low yields can be sustained indefinitely. Of course more quantitative easing can delay adjustment, but these yields are out of line with normal experience for a heavily indebted country that still wants to borrow a lot of money. The big price declines in Italian and Spanish bonds shows how much you can lose if and when market perceptions change for the worse.

The result of selling more risk assets was to orientate the remaining holdings towards emerging markets where possible, rather than western markets. Over the quarter, as we expected, Germany and France fared very badly, with price falls of 29%, compared to 14% down for the UK market and 12% for the US (all in sterling). The Chinese mainland market fell by 11%, but Hong Kong fared less well, though still beating France and Germany. Asian assets suffered, both because investors feared a slowing west would be bad for their export industries, and owing to fears about domestic problems in the leading countries.

We remain bearish of India, where we sold out last year. The market on 16 times earnings and a 1.4% yield still looks expensive to us. In contrast China on 7.4 times earnings and a 3.9% yield looks cheap; we believe the government has the fire power to stand behind the local authority debts. The property market has gone up a lot, but it is mainly on cash purchases and not on mortgage finance, so it is more stable than the US and UK equivalents.

S U C C E S S I O N

Platform based Discretionary Model Portfolios

Managed by Evercore Pan Asset

3rd October 2011

Model Portfolio Update

Over the year to date, property holdings held through Real Estate Investment Trusts have proved more resilient in the advanced markets than ordinary shares. Advanced country property is still low compared to the peaks it reached prior to the Credit Crunch, but we should not expect any early climb back to the old heights, given the state of economies and the weakness of credit. Asian property REITs have fallen more, and look cheap.

We are still concerned about the prospects for Euroland. We do not think the Euro 440 billion package is sufficient to sort out the problems. There are likely to be more losses in Euro sovereign bonds, and continuing need for bank recapitalisation. Even though these markets have fallen a lot now, as we expected, we are not yet ready to buy into them. German bunds, the one asset to do well this year in Euroland, look dear. Germany's own credit status will be damaged if Euroland decides on the issue of more common debt.

We think the UK will experience worsening figures for a bit, with the need to revise downwards the official growth figures and therefore to revise up the size of the deficit and the magnitude of the government borrowing needs. The FTSE 100 Index has substantial representation from mining companies and banks. Both sectors still have their own special problems in this cycle. We see no compelling reason to increase UK holdings.

The US could fare a bit better. The final quarter of 2011 should see accelerated capital spending to take advantage of tax breaks that are still available. There is some evidence of some relaxation of bank credit to the private sector. The President will be very keen to take any action he can to promote growth and jobs that does not need the support of the House. US shares are towards the cheaper end of their valuation range.

Some of the emerging markets look cheap. What we need from them is a sign that China, Brazil and the other leaders are going to shift from reining in their economies to curb inflation, to more expansionary policies. When they do we would like to add to risk assets from the substantial cash holdings we have amassed.

There will also be a time to enter the corporate bond market more aggressively. There we are watching for the next round of bank capital raising to go well, possibly supplemented by state help in the EU. We are very conscious of the need to find assets that can make a positive return. Inflation hedges are needed, as countries increasingly turn to extraordinary monetary means to try to keep activity going.

Regards,

Evercore Pan-Asset Investment Committee

Important Notices and Risk Warnings: The Succession Model Portfolios are not suitable for all types of investor. Investor accounts on the Succession Investment Platform may only be attached to it by the instruction of your professional Financial Adviser. The information in this email is for private circulation and is believed to be correct but cannot be guaranteed. No representation or warranty (express or otherwise) is given as to the accuracy or completeness of the information contained in this email and Evercore Pan-Asset Capital Management Limited and its employees accept no liability for the consequences of acting or not acting upon the information contained in this email. This email does not constitute professional advice and does not constitute an offer to sell or a solicitation of an offer to purchase any security or any other investment or product. Opinions expressed in this publication are solely the opinions of Evercore Pan-Asset Capital Management Limited. All expressions of opinion are subject to change without notice. This factsheet may not be reproduced or distributed in any format without the prior written consent of Evercore Pan-Asset Capital Management Limited. Investing in Exchange Traded Funds may expose the investor to a number of risks, some of which are specific to Exchange Traded Funds and some of which are general investment risks. Not all Exchange Traded Funds are suitable for all investors. The value of investments and the income from them can go down as well as up and investors may not recover the amount of their original investment. The sterling value of overseas investments, and the income from them, will fluctuate as a result of currency movements. Past performance is not necessarily a good indication of likely future performance. The tax treatment of investments depends on each investor's individual circumstances and is subject to changes in tax legislation.