

## Margetts Providence Strategy Fund

### Portfolio Objective

To achieve long term capital growth with increasing income from distributions. The fund will invest in cash, fixed interest securities, domestic and international equities, with a view to minimising volatility.

### Manager's View

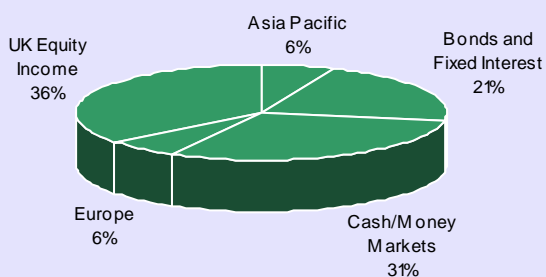
The economic cycle has now moved into the tightening phase following the increase in interest rates by central banks and with the downturn in property prices, especially in the US, has also led to the crisis in the sub-prime market with evident shortage in liquidity. Growth in the world economy is being maintained, principally in South East Asia and Emerging Markets led by China, but in these areas there are signs of inflationary pressures. These are giving rise to noticeable signs of divergence with recessionary influences now developing in the more mature economies as public and private debt becomes affected by the credit crunch, especially in the main financial centres of New York and London. While property and bonds generally look over-valued, areas of the equity markets in which earnings growth can be maintained continue to look under-valued, and remain the investments of choice. The fund managers increased the cash and low duration elements of the portfolio, while adjusting equity holdings towards earnings and dividend growth, and in addition have taken advantage of the opportunities arising from market volatility.

### Portfolio Holdings

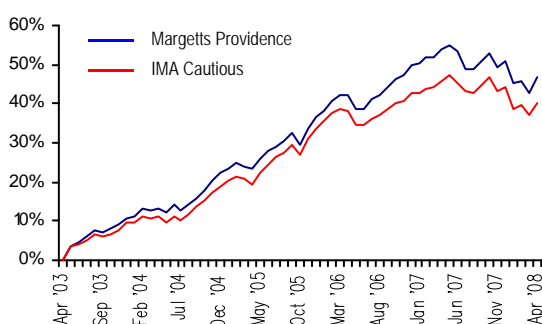
as at 30/05/2008

	Weighting
<b>Asia Pacific</b>	<b>6.32%</b>
Newton Asian Income Inst Acc	6.32%
<b>Bonds and Fixed Interest</b>	<b>21.27%</b>
Standard Life Inv Global Index Linked Bd Inst	6.11%
Schroder All Maturities Index Linked Bond	5.97%
Invesco Perpetual Corporate Bond Gross Inc	5.55%
Gartmore High Yield Corporate Bond Inc	3.64%
<b>Cash/Money Markets</b>	<b>30.60%</b>
Goldman Sachs Sterling Liquid Reserves Ad	16.59%
JPM Sterling Liquidity Premier Dist	7.11%
Cash	6.90%
<b>Europe</b>	<b>6.11%</b>
ResolutionAsset Argonaut European Income	6.11%
<b>UK Equity Income</b>	<b>35.69%</b>
Artemis Income	6.62%
UBS UK Equity Income B Net Acc	6.07%
Newton Higher Income	5.96%
Invesco Perpetual Income Inc	5.81%
Jupiter Income	5.66%
Schroder Income Inc	5.59%

### Geographical Breakdown



### Performance over Five Years vs Benchmark



Source: Lipper Hindsight, bid to bid, net income reinvested

### Key Facts

Minimum Lump Sum Investment:	£1,000
Minimum Monthly Investment:	£100
Fund Valued Daily at:	08:30
Deals can be placed between:	09:30-17:00
Launch:	27th Jan 1995
Preliminary Charge:	5%
Annual Management Charge:	1.475%
Units Available as:	Accumulation and Income

## The Margetts Risk Rated Actively Managed Portfolio System

Margetts manage four funds in the Risk Rated Portfolio range, each of which is a portfolio of underlying funds chosen and monitored by the Margetts Fund Management team. Each of the Margetts funds has a different risk rating and recommended timescale for investment. These funds cover the risk spectrum from cautious to aggressive.

Below illustrates the risk profile of this particular fund on a scale of one to ten. One is the lowest risk (i.e. cash) and ten is the highest risk (i.e. geared investments & derivatives).



### Investment Selection Procedure

The Margetts Fund Management team takes a top down - bottom up approach to investment management. The team monitors economic themes and investment trends and adjusts the allocation of funds to areas which offer the most potential or fit the objectives of each of the Risk Rated Strategy funds most appropriately.

Once the Investment Team identifies and sets the asset allocation of the Risk Rated Strategies, the managers then evaluate the funds which fit the objectives, themes and strategy of Margetts. Funds are filtered using quantitative analysis to identify which are consistently in the top or second quartile. Evaluation is conducted on the risk return trade off by analysing charts, standard deviation and other financial ratios.

A central element of researching funds is to consider the qualitative data which will include the underlying fund manager's themes, strategy and technique. This will involve a combination of talking to the manager, analysing performance against different technical indicators and examining the underlying holdings and allocations.

During periods considered to be outside of normal market conditions, such as increased volatility or inflexion points, technical analysis is less reliable. An example of this would be when low quality funds climb performance tables in temporary market rallies. It is easy to be deceived by just looking at technical analysis as many low quality, high beta stocks rally with little volatility, but when the rally is short-lived, any strong performance can be easily lost and if the deal is timed incorrectly the portfolio will suffer. Margetts Fund Management invests in funds which are considered to be long term investments. Markets are both irrational and erratic, making short term fluctuations difficult to gauge accurately. In uncertain times, Margetts Fund Management believes research into the underlying manager's themes and strategy plus a good long-term track record give a better indication of expected future long-term performance.

A key factor to the performance of Margetts Fund Management is its sell discipline. The managers run comparatively concentrated portfolios so that each underlying holding can be scrutinised. A fund may under-perform for many reasons, not all of which are a reason to sell the holding, e.g. defensive funds will under-perform more aggressive funds in a market rally. However, this would be expected as the fund offers diversification from the more aggressive funds in the strategy and is likely to outperform in market falls. A fund will not be sold if it is meeting its objectives, unless the Investment Team decides to change the asset allocation and the fund's objectives are no longer in line with the company's themes.

### RISK WARNINGS

This document is produced by Margetts Fund Management Ltd, solely for use by authorised and qualified professional financial advisers. The information provided is not meant as investment advice but may form part of your overall research. Performance data is published on a bid to bid basis with net income reinvested. Past Performance is no guarantee of future performance and investors may not get back the original amount invested.

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Authorised and Regulated by  
the Financial Services Authority

**HEAD OFFICE**  
6 SOVEREIGN COURT  
GRAHAM STREET  
BIRMINGHAM  
B1 3JR  
TELEPHONE: 0121 236 2380  
FACSIMILE: 0121 236 2330

**DEALING**  
PO BOX 23705  
EDINBURGH  
EH7 5NJ

TELEPHONE: 0845 607 6808  
FACSIMILE: 0131 525 9900