

Premier Discretionary Team

Asset Allocation

3rd May 2011

Minutes

Present:

Mike Jennings, Acting Chief Investment Officer

Fred Fulcher, Director of Portfolio Management

Raj Hallen, Investment Specialist, Portfolio Manager

Nigel Sidebottom, Investment Director, Closed Ended Funds

Paul Smith, Senior Investment Manager

Rosamond Borer, Head of Risk

David Pendlebury, Portfolio Manager

Kyra Cushway, Assistant Portfolio Manager

Nick Kelsall, Assistant Portfolio Manager

Market Overview

These are interesting times in financial markets. The macro would suggest weaker equity and bond markets, whilst the micro is largely supportive. The Swiss Franc reached a 40 year high against the US Dollar just before Easter and Gold has breached \$1,500 an ounce for the first time. Risk and uncertainty would seem to be rising although, interestingly, the Vix is at a 4 year low.

In the face of rising ECB short rates, rising oil prices and the Japanese disaster, GDP growth rates have been drifting lower of late. Real global GDP growth of 3.6% is reasonably acceptable; Citi's estimates suggest there is a big differential between 2012 Eurozone growth and that elsewhere in the world. Whilst CPI at nearly 4% globally is becoming a problem, Citi expect this to be alleviated in 2012.

Other macro issues include high oil prices, the price of gold and other metals soaring, whilst peripheral bond yields have taken off. Portugal now has yield spreads over 600 basis points and at a post Euro era high.

The other interesting macro issue is the first rate rise by the ECB. They are unusually pro-active, given that higher rates and a stronger currency is the last thing that the struggling periphery need. Citi analysts estimate two more repo rate rises in Europe before the end of the year, to 1.75% at year end. The first rise in the UK is expected in Q3 with another in Q4, to 1.0% at year end. No change in Fed Funds rates is expected until Q1 2012.

The macro seems to provide growing headwinds, i.e. rising short and long rates, dull growth, commodity headwinds, the end of QE2 in June, more peripheral European pain to come, and continued geo-political uncertainty in Libya and the Middle East. It is also worrying that rates are rising for defensive reasons, such as inflation concerns, and not with a backdrop of strong growth. On the other hand, rates have been exceptionally low and are still at "emergency" levels post Lehman's, so maybe we should not consider rate increases to be a "tightening" but the start of a "normalisation".

The conclusion, clearly, is that real short rates remain substantially negative in many areas, which argues for earlier rate rises in the US and UK. Looking at long rates, it also shows how tough life is for borrowers in Portugal.

Many strategists have tried to review what will happen to equities after the first rate hike in major Western economies. The ECB has always lagged the Fed by many months so we are in uncharted territory. What we can conclude though is that a rising short rate environment tends to produce slower gains in equity markets, so life is getting tougher.

Valuation remains one source of relief, with global equities now trading on 13x end 2011 PE (versus 17x average over 40 years and 16x average over 25 years). At the start of the year, we suggested that equities could rise in a similar magnitude to earnings, globally this suggested a 15% gain in each. Expected earnings growth improved slightly after year end results to reach 16% and recent US results so far have been significantly ahead of expectations. Interestingly, this has been the case across many sectors. Results have generally been good and outlooks have also been optimistic on the whole.

Global equities face multiple headwinds ahead. Liquidity remains healthy for asset class appreciation, but a high oil price,



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rising food prices, metals up, a turning interest rate cycle, overpriced sovereign bonds, fiscal deficits too high (with the US looking to tighten fiscal policy in 2012), peripheral Europe unresolved and getting worse and QE2 likely to end in 2 months time; does not make us want to take too aggressive risks.

On the other hand, liquidity is positive, valuations are reasonable relative to history and cheap relative to other asset classes, and earnings growth remains sound. The conclusion would seem to be that with 6% made in the US and Europe this year to date (in local currencies), there could well be further gains of 5% or 6% for the rest of the year. Into 2012, the combination of dull growth, tight fiscal policy, tightening monetary policy, and corporate margins that have already done most of their recovery, leaves valuation as the main prop for equities.

Portfolio Specific Issues

Paul Smith, Senior Investment Manager

Senior Investment Manager, Paul Smith, expects interest rates to rise more sharply than market expectations and has therefore shortened duration on the Cash fund to around 60 days. Within the defensive growth strategy, Paul is buying traditional zeros, where possible, which are currently at or around fair value but are expected to become fully priced over time as supply becomes limited. The Premier Corporate Bond Monthly Income Fund is positioned more in line with traditional bond funds although it has shorter duration than the overall market at approximately five and a half years. Paul is expecting bond yields to rise after the recent flight to quality and anticipates increasing M&A activity from companies with significant cash on their balance sheets, which may not be good for bond holders.

Fred Fulcher, Director of Portfolio Management

Fred Fulcher reported that phase two of the seeding of the Premier Alternative Strategies Fund and Premier Worldwide Growth Fund is almost complete. The two stocks affected most by the Japanese earthquake have had less of an effect recently. The main focus of the Premier Alternative Strategies Fund has been towards auto calls which do not require upward movements in underlying markets over the next twelve months to deliver attractive returns. Defensive auto calls have also been included, which have a falling knock in index level in their final year if they have not been triggered on prior anniversary dates. Currently, the Premier Alternative Strategies Fund holds c. 13% cash and the Premier Worldwide Growth Fund c. 15% cash. There is no rush to lower these levels in the short term. Another volatility linked fund may be included at some stage as a hedge against rising volatility.

Nigel Sidebottom, Investment Director, Closed Ended Funds

Nigel Sidebottom reported that over the last two months, the exposure to resources and commodities within the Premier Enterprise fund had been reduced, as has the holding in Geiger Counter which had suffered post the nuclear power station crisis in Japan. The exposure to private equity was raised where big discounts had been available. Although the private equity sector is not as it has been in the past, there is still good value to be found. Nigel has been adding to his holding in Alliance Trust at a discount of c. 16% to NAV. There are plans to initiate further corporate action to reduce the discount after pressure from large shareholder activists. He believes the discount has the potential to narrow to 5% over the next six months.

No changes were made to the portfolio models or the current asset allocation.

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