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May 2010

Menzies Wealth Management Portfolio Service

Investment Update Spring 2010

Since writing this update the recent turmoil in world markets has been headline news and we intend to send you a further update very shortly.

Introduction

Welcome to the latest Investment Update from Menzies Wealth Management. After a solid finish to 2009, both in terms of economic and market performance, 2010 has brought more mixed news. On the positive side, the corporate earnings season in both Europe and the US has surpassed already quite optimistic hopes, providing grounds for further optimism. On the other hand, the momentum of improvement in economic data has begun to wane (witness recent US employment and consumer confidence trends). This raises fears for the growth picture once the one-off impetus of inventory re-stocking and government stimulus plans falls away. In addition, the first signs of policy tightening from China have heightened nervousness. Finally, adding extra spice to the situation has been the re-emergence of "sovereign" risk in debt markets.

Sovereign risk has come to the fore as currency speculators have challenged the ability of the most indebted and profligate governments to repay their obligations - with Greece the first to come under scrutiny.

Notwithstanding, it is quite impressive how well equity markets have resisted the freshening headwinds. Over the period, the broader UK and US markets rose 5% with the European Markets up 3%.

Menzies Wealth Management Portfolio Service

We have just completed the latest review of the asset allocations used in the portfolio service. The asset allocations are reviewed at the end of every quarter. Any changes to them are partly due in changes to the underlying economic assumptions that we use, which are provided by Towers Watson, one of the world's leading investment consultancies. These assumptions are also reviewed quarterly. This quarter, no changes have been necessary to the asset allocations. Property was one area that was reviewed in detail. Property yields continue to fall and the assumed returns for commercial property were reduced accordingly this quarter. This would normally have led to reduced property allocations, but because these have already been capped at 15% of the portfolios there was no effect on the final asset allocation.

Although no changes have been made to the asset allocations as a result

of the latest quarter-end review, market conditions have evolved. This has led to some changes to the underlying assumptions which make it more likely that asset allocations may change at future reviews.

Back to Basics - Risk Profiling

The starting point to building an investment portfolio for our clients is "risk profiling". We establish your attitude to loss and then we set about constructing a portfolio to match your requirements. Thereafter we regularly review your circumstances and portfolio to ensure we remain on track to meet your objectives. mwm utilise a Risk Profiler developed in conjunction with Towers Watson. The Risk Profiler quantifies the level of risk that you are willing and able to accept for a particular investment. You are taken through a series of questions about your views on assuming investment risk and your unique financial position. Only then can we choose how much of your proposed investments can be in each investment market. Asset Allocation will be reviewed in our next Investment Update.

Fund Focus - Aberdeen Emerging Markets Fund

One of the funds held within the mwm Portfolio stable of funds is the Aberdeen Emerging Markets fund.

An emerging market economy (EME) is defined as an economy with low to middle per-capita income. Such countries constitute approximately 80% of the global population, and represent about 20% of the world's economies.

Although the term "emerging market" is loosely defined, countries that fall into this category, varying from very big to very small, are usually considered emerging because of their developments and reforms. Hence, even though China is deemed one of the world's economic powerhouses, it is lumped into the category alongside much smaller economies with great deal fewer resources, like Tunisia. Both China and Tunisia belong to this category because both have embarked on economic development and reform programs, and have begun to open up their markets and "emerge" onto the global scene. EMEs are considered to be fast-growing economies.

Aberdeen Asset Management PLC is an international investment management group, managing assets for both institutional and retail clients from offices around the world. The group manages some £129 billion of assets worldwide.

The fund aims to achieve long-term capital growth from direct or indirect investment in emerging stock markets worldwide or companies with significant activities in emerging markets. Over the last five years the fund has consistently outperformed the MSCI Emerging Markets Index and has been given a five star rating by Morningstar for the consistency of its performance, which is the best rating available. Some 49% of the fund is invested in the Asia Pacific (ex Japan) region and about 29% is invested in Latin America. The remainder is mainly spread over Africa, the Middle East and Europe (ex UK).

The manager, Devan Kaloo, is ranked 1st out of 32 managers in the Emerging Markets sector and is 'A' rated by Citywire, which is a rating only conferred on 10% of the top fund managers. Both Standard & Poors and Old Broad Street Research (OBSR) have rated the fund as 'AA' for strength of the management team.

Region Focus – North America

Stockmarkets were unsettled by Greek debt developments and speculation over how long interest rates would be kept low, but it did not stop indices from climbing over the quarter. The majority of sectors gained, led by consumer discretionary, industrials and materials, reflecting the strength of the recovery, but some defensive sectors produced negative returns. Corporate news was generally good. Most S&P 500 companies had reported by the end of February and three quarters of them beat earnings estimates. Among those reporting positive fourth-quarter results were Visa, Mastercard and Cisco Systems. Those falling

short included Wal Mart and Pfizer.

Consumer confidence fell as potential customers anticipated little improvement in job or business conditions in the near term. Although January's unemployment rate fell to 9.7%, a five-month low, other employment reports, such as initial jobless figures and payrolls, generally disappointed over the course of the month. In addition, the disposable income of consumers fell sharply as taxes increased and non-earned income, such as dividend income, reduced.

Looking more widely across North America, Canada's GDP grew at 5.0% (quarter-on-quarter, annualised) in Q4 2009, its fastest rate since Q3 2000, on higher consumer spending, capital investment and trade.

If you would like to know more about saving options please call us on 01784 497100 or email us at advice@menzieswm.co.uk.

Yours sincerely,

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