



BREWIN DOLPHIN

INCORPORATING BELL LAWRIE



PERSPECTIVE

Tough in the City

Convertibles for everyone	2
Media should ride out the storm	5
Asset Allocation Committee	7
A brave new world for UK banks	9
Income and growth diversity	12

June 2008



Charlotte Black
Editor and Director
Corporate Affairs

SCRIP DIVIDENDS

It is disappointing that HBOS, RBS and the Bradford & Bingley have coupled their respective Rights Issues with announcements that their interim dividends will be paid in shares rather than cash – a scrip dividend or in effect another Rights Issue and a further dilution of shareholdings. Only a few months ago, the banks showed unjustified bravado in announcing greater increases in dividends than were expected and are now ignominiously paying them in shares.

TOUGH IN THE CITY

At the end of last year, a City of London Research report showed that London accounted for 19% of the country's GDP and made a net contribution to the Exchequer after all spending in London of over £12 billion, having paid taxes of more than £80 billion.

The City was riding high and widely acknowledged as the leading international financial market place in the world, attracting more new listings, especially from emerging markets to the London Stock Exchange than any other stock market. More European Banks head quartered here than anywhere else and it was acknowledged that the City had moved ahead of the over-regulated Wall Street.

So it is the greatest pity to see its fortunes falling in such a short time. The failure of the tripartite regulatory regime to control the Banks properly has led to calls from some EU Heads of State for an EU wide 'super regulator' to supersede our FSA. The 80% increase in CGT for entrepreneurs and employee shareholders, that was confirmed in the Budget and the tax attack on the Non Doms making many of them consider leaving the UK, have all combined to leave the City reeling.

Scrip dividends are unwelcome for several reasons.

Firstly, they are taxed in the same way as cash dividends so you must take the shares and find the cash to pay income tax at your highest rate. Scrip dividends lead to confusion of capital and income with particular significance for life tenants of trusts, who may have to persuade their trustees to sell the scrip dividend shares on their behalf in order to pay them their income. These banks are well and truly hoist by their own petard, while shareholders will be left feeling more than a little peeved.

Now several multinational companies are openly talking about relocating to Ireland, where corporation tax is 12.5% rather than 28% here.



However it is against this background that we can still find some grounds for optimism as you will read in this issue and indeed, our Executive Chairman, Jamie Matheson has just announced our very creditable interim results in full for the half year to 30th March 2008 of Brewin Dolphin Holdings PLC, which you will be able to see on our new website at www.brewin.co.uk

AT LAST, A REASON WHY EVERYONE SHOULD OWN A CONVERTIBLE



Peter Smart
Director,
Channel Islands
Fixed Interest
Division

Not such a long time ago, it was possible to run, almost, a complete Sterling investment portfolio with convertible bonds. The market provided investors with so much choice, not only in terms of company type, but also through a mass of issues that provided either high levels of growth, high levels of income or a good combination of the two for some balance. Today, for a Sterling investor it is very different. There are now only seven Sterling denominated convertible bonds and in my opinion, only two can be considered as bonds that make any real investment sense.

It is little wonder therefore that British investors have, by and large, ignored this market for quite a few years now. Most issuance is in US Dollars, Euros or Yen. This currency factor has meant a dramatic decline in interest in the sector amongst British Investors.

However, we are missing out. Convertibles can be attractive investments and there are now several funds that provide share classes specifically for Sterling investors.

As the convertible has become such a rare sight to investors in the UK it makes sense to re-examine the asset class and highlight its features.

A convertible is an income paying bond that provides terms to enable investors to buy the shares of the issuer, using the nominal value of the bond, at a

predetermined share price, at certain intervals up to its maturity date. In many senses a convertible is a compromise. Is it a bond? Well yes of course, but it does not pay a very high interest rate (coupon). Is it an equity, well no, not really, but it does move in line with the share price of the issuer, but not to the same extent.

For the technically minded a convertible can be clearly seen to have two different sets of characteristics:

Bond/Debt Characteristics

- Principal paid at a set future maturity date
- Periodic coupon payments
- Priced as a percentage of par – like a bond
- Investor often has a put option
- Issuer often has a call option

Equity Option Characteristics

- May convert to shares during the life of the bond
- Fixed conversion price – normally set at a premium to the equity price at time of issue
- Fixed number of shares per bond

A convertible can be viewed as a means of potentially offering higher levels of performance to a bond portfolio at the expense of income and an increase in risk. Or it can be viewed as a way of increasing income in an equity portfolio and providing a degree of downside protection by virtue of its bond floor, at the expense of outright upside performance.

In many respects convertibles are a separate asset class from both bonds and equities and can be, somewhat simplistically, viewed as a complete “balanced” investment.



Convertibles derive their returns from two areas; income flow from the coupons and capital growth from the aspect of convertibility. It is the second driver of return that is possibly the most interesting.

Coupons are generally set at much lower levels than those of a direct, plain vanilla counterpart and this is the attraction to the issuer. A lot of convertible issuers are, or would be, rated lower than the investment grade cusp of BBB. Because of this, if they were to approach the debt markets with a conventional bond issue, they would find the interest cost to be quite a lot higher. Thus for these companies convertible bonds are a relatively cheap way of obtaining finance from the capital markets.

From these basic set concepts, a large and sophisticated market has evolved that is now the domain of the professional or fund manager investor.

As convertibles are effectively a hybrid investment with bond and equity characteristics, fund managers can elect to adopt three strategies:

1. A bond strategy: looking for convertibles where the price of the underlying stock has fallen a long way below that of the conversion price. Once the conversion price becomes irrelevant because of a fall in the equity, the price of the convertible falls to a level where the bond components provide for a return which is equivalent to that of the company's conventional bonds – this level is called “The Bond Floor”.
2. An equity strategy: the manager is concentrating the portfolio on convertibles which possess more of an equity characteristic. This is usually the case when an equity has noticeably improved in value from the original issuance terms to such an extent that the terms of conversion are so far in the money that the convertible moves almost in tandem with the equity.
3. The third section is where most convertible managers wish to be invested – the sweet spot. Where a convertible is neither a bond nor is it equity.

This is where the convertible is deemed to be a balanced investment. Where the downside bond protection is not too far away should the underlying equity unexpectedly fall, the loss in the convertible is not too great and also where the convertible premium is small enough to provide worthwhile upside performance in the event of an equity improvement.

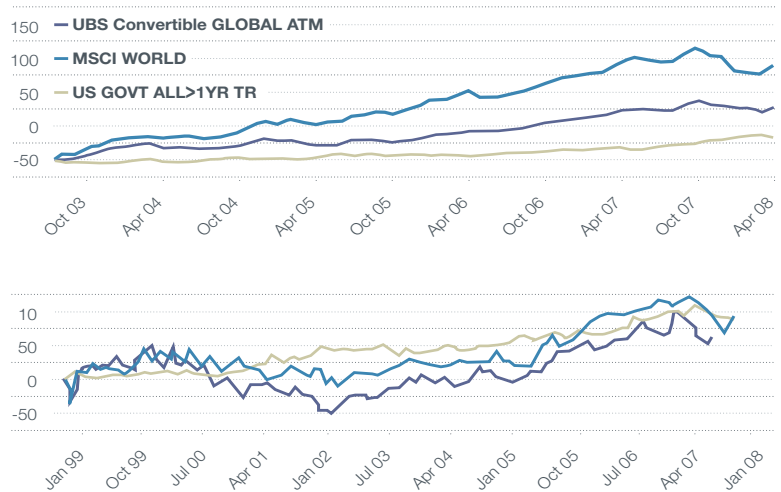
The main attractions of the third strategy are simply that the bond floor is not too far away should things go wrong, whilst if things go right, the convertible will participate to a large extent in the resultant pick up in pricing.

On top of this, the investor receives an interest payment, which, whilst not being exactly high is still worthwhile.

The performance of the Global Convertible index – as shown in the 5 and 10 year charts below - does indeed demonstrate that the asset class lives up to its claims as a good and viable half way house between bonds and equities.

So the long and the short of it is that convertibles are a valid addition to an investment portfolio. However they are mainly the domain of the professional investor. They are accessible however to private client investors via funds and there are several good offerings available in this area. Your Investment Manager will be able to advise you in this respect.

UBS at the money world convertible bond index (USD) vs the Morgan Stanley Capital World Index (USD) vs US Govt Bonds (all stocks above one year)



The value of investments can fall and you may get back less than you invested. Past performance is not a guide to future performance

Source: Bloomberg

MEDIA SHOULD RIDE OUT THE STORM



Jon Rees

of Financial Mail
on Sunday.

TURMOIL in the financial markets and cash-strapped consumers used to send advertisers running for cover and media companies into administration, but things are not so simple now.

When the dotcom bubble burst seven years ago a swathe of advertising disappeared from our television screens and newspapers overnight. Media shares fell faster than some US investment banks could recommend a duff tech stock to a gullible punter at the height of the mania.

However, even then it was the stockmarket value of media companies which fell sharply rather than profits which actually remained relatively robust, dropping only about a fifth from their peak. It became rare, though, to find a media business valued at more than fifteen times earnings.

Since the last economic blip (it was the Financial Times which said recently that to remember a true recession you had to be at least 42 years old; who would have thought such an age existed?) most, though not all, media companies, have taken pains to ensure they will never be such easy prey again.

For example, it used to be a truth universally acknowledged that the mere fear of an economic slowdown would send share prices in the likes of WPP, owner of the world's most famous advertising agencies including J. Walter Thompson and Ogilvy & Mather, or the UK's other major advertising stock Aegis, into free-fall as investors feared rapid cut backs in advertising spend.

Now, WPP in particular is a truly diverse, global business with significant operations in fast-growing emerging markets like China and India. About a quarter of its revenue now comes from emerging markets and only about half its profits come from advertising with the remainder from consultancy, research and public relations.

In the developing world, the proportion of economic growth spent on marketing is rising fast and, at less than 1% in most emerging markets compared with 1.7% in the US, there is plenty of room for further growth still.

WPP's chief executive Sir Martin Sorrell reckons 2008 ought to be manageable with the European football championships, the Beijing Olympics and the US presidential elections all good for business. It is hardly a parochial view.

The influence of digital technology in general and the internet in particular can be overstated – after all digital newspaper revenue accounts for about 7% of total and even digital music sales only account for about 15% of total. Indeed, internet advertising revenue grew more slowly in 2007 than 2006.

However, it is the rate of growth which counts and that is astronomical even at 34% rather than 48%. Ultimately, the UK will rely on the internet for its media and marketing growth, says advertising space buyer Group M. Aegis, for instance, now makes about a fifth of its revenue from the internet.



Next year the UK is predicted to become the first major economy to see advertisers spend more on the internet than on TV commercials. UK internet advertising revenue is likely to climb by 30.8% this year to £3.4 billion compared with just 1% year-on-year growth in TV advertising spend to around £3.56 billion.

By the end of the year the internet will account for nearly 25% of media spend, just behind television advertising at 26%; next year those positions will be reversed.

This is bad news for traditional, free-to-air broadcasters – it is partly why there will not be a major quoted radio company for much longer. Meanwhile, EMI's failure to adapt to the internet's ability to connect directly with music consumers was largely responsible for its departure from the stock market last year so it could lick its wounds in private.

Television companies which fail to adapt will suffer. ITV, for instance, actually made a £12 million loss in 2007 on its online activities despite its promise that 'as audiences move online, we will move with them'.

ITV has a successful collection of digital channels but still gets two-thirds of its revenue from its fifty year old main channel ITV1. Since multi-channel television now has an absolute majority of the crucial, high spending 16-34 year old audience for the first time at 54%, ITV's woes seem set to multiply.

In contrast, the other major UK-quoted broadcaster, satellite pay-TV operation BSkyB, is not dependent on advertising, which contributes a little more than 10% of its revenues, while its subscription model is on course to see it reach its target of 10 million customers by 2010. It is also the fastest growing broadband supplier in the country.

Sometimes, though, media firms can do most things right and still suffer in a slowdown. Johnston Press, publisher of strong local titles like *The Scotsman*, has the highest margins in the sector at more than 29%. It was one of the faster regional newspaper groups to develop its digital business.

However, about three-quarters of its total revenue comes from advertising, most from its print publications, and its biggest advertising category is property. Here there are good online alternatives while the housing market is stuttering ominously. Consequently, it has lost about 70% of its value in a year. Now it has been forced into a £212 million rights issue to raise cash to pay down debt. It will also sell 20% of the firm to Malaysian company Usaha Tegas for a further £42.7 million.

However, should the current economic squall develop into something more menacing the UK's media businesses, with some notable exceptions, ought to be rather more capable of riding out the storm than they have been in the past.

Please note that the views are those of the author, and do not necessarily reflect those of Brewin Dolphin.

ASSET ALLOCATION COMMITTEE REPORTS



Mike Lenhoff
Chief Strategist
and Head of
Research
Brewin Dolphin

Since the last issue of Perspective, the volatility in the credit and equity markets has diminished considerably. The flight to quality has been shunned – yields at the short end of the US Treasury market have edged up and now exceed the Federal Funds rate – and high yield spreads in corporate bond markets have narrowed. Equity markets have rebounded strongly and, if anything, look a little overbought now.

Three questions relevant for asset allocation and sectors were explored at our last investment policy meeting. The first was, whether having now seen the worst of it in terms of market turbulence, the worst of it was still to come for global economic activity? Second, how prepared was the Bank of England to lower interest rates if the economy continues to weaken, bearing in mind the scope for cutting rates is limited by the Monetary Policy Committee's inflation brief? Third, what degree of confidence can one attach to the outlook for equity markets, given that any slowdown in economic activity will bring a slowdown in corporate earnings growth?

One noteworthy feature of the overall investment backdrop is the contrast between the developed and the developing economies. Inflation, due to increasing energy and food, is rising pretty well everywhere. However, in the developed economies growth is slowing and, in proving to be weaker than expected, forecasts for economic activity are being lowered. Although forecasts for economic growth are also being revised down somewhat for the developing economies, the point is that these economies are still growing more strongly than expected. This is especially so in the case of China and India. Meanwhile, inflation is accelerating to worrying levels.

Thus, while stagflation, that uneasy combination of slow or stagnant growth and mounting inflationary pressure, best characterises the developed economies, that other uneasy combination of buoyant economic activity with accelerating inflation, namely overheating, best characterises the developing economies. Typically in such phases, the conventional policy response from the central bank has been much higher interest rates. Invariably, this has resulted in recession. While this may be the eventual downside for the developing economies, the policy response has some way to go before the tipping point is reached. For the developed economies, stagflation is limiting the extent to which the Bank of England can bring down interest rates. The European Central Bank has yet to budge on interest rates and following its quite aggressive easing in policy, the Federal Reserve is now likely to put policy on hold, at least for a time.

What we have then is a global economy in which one part is still moving full steam ahead while another part is rapidly losing steam but with inflation stubbornly on the march. What complicates the picture is the rising oil price. Forecasts of oil prices reaching \$200 per barrel seem far fetched but so did forecasts of \$100. Oil prices of \$200 hardly seem sustainable and, indeed, it is questionable whether such a price could even be reached, though here we are with the price at around \$130 at the time of writing. Yet, there can be little doubt that current oil prices are squeezing real disposable income and the growth of consumer spending. That can't be good news for corporate earnings and equity markets.

As always though the question is what equity markets are discounting and the call on this is largely judgemental. The concern is that having seen a severe downgrading of earnings for the banks, the next in line to see more downgrades will be the non-bank corporate sector, but current valuations in equity markets probably reflect some, if not a large part, of this downside already.

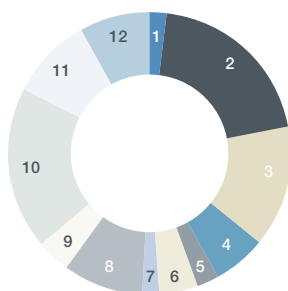
The other point is that interest rates have been reduced considerably in the US. In the UK, the Bank of England has been cautious in bringing interest rates down and has justified the cuts on the grounds of balancing two sets of risks; the short term risk of higher food and energy prices on inflation expectations and the medium term risk on inflation expectations of a weakening economy. The housing market has not only come off the boil but prices are falling and a pronounced slowing in consumer spending looks to be on the cards. The Bank of England will probably be forced to cut interest rates again, but not in the immediate future and possibly not until late in the year.

It is easy to be negative on the outlook for equity markets but Brewin Dolphin's Asset Allocation Committee believes they have discounted a lot of the bad news. And more bad news there will be. The economic fallout induced by the credit crisis is far from over. On the other hand, valuations in the major equity markets are at levels last seen in the early 1990s – around about the time of the recession then. In view of this, the Committee took the decision at its last meeting not to recommend any further

change to the overall balance between cash, bonds, equities, hedge funds and property. However, two changes have taken place since the beginning of the year. First, the allocation to high grade corporate bonds was increased. To affect this change the allocation to cash and gilts was reduced accordingly.

Second, because of the dreary outlook for the UK economy, the Committee felt that sterling was likely to be one of the weakest, if not the weakest, of the major currencies and so took the decision to increase the allocation to overseas equities at the expense of the UK market. Specifically, the weighting for US equities was increased partly because of the expectation that the dollar was due a period of remission from its lows and because it was felt that the US economy was further along the adjustment path in this cyclical downswing than any of the other major economies. Granted, stability in the housing market is a necessary condition for stability in the US economy. Policymakers in Washington are taking steps aimed at helping homeowners and reducing foreclosures. But the Fed has been far more active in attempting to mitigate the damage of the credit crisis than any other central bank. Also, thanks to the Bush Administration, US consumers have become recipients of tax rebates and this should provide a stimulus for the economy. So, while a US recession may still be on the cards, it is likely to be short and shallow and, meanwhile, equity markets could prove to be surprisingly resilient – just like they have thus far.

Asset Allocation and Sector Strategy Q2 2008



Source: Brewin Dolphin

- 1 Cash, 2.0% (4.0%)
- 2 Gilts & Bonds, 20% (17.0%)
- 3 Equities US, 14% (10%)
- 4 Equities Europe, 6.0% (6.0%)
- 5 Equities Japan, 2.5% (3%)
- 6 Equities Far East (ex Japan), 4.5% (5.0%)
- 7 Emerging Markets, 2.0% (2.0%)
- 8 Equities UK - Cyclical, 9.0% (10%)
- 9 Equities UK - Growth, 4.0% (6.0%)
- 10 Equities UK - Defensive, 18.5% (19%)
- 11 Equities UK - Financial, 9.5% (11.0%)
- 12 Hedge Funds, 8.0% (7.0%)

(December 2007 Allocation)

CAPITAL ISSUES IN A BRAVE NEW WORLD FOR UK BANKS



Mark Durling
Divisional Director,
Research
Department

On August 8th 2007, global credit markets came to a grinding halt. Central banks, regulators, politicians and banking CEO's spent the next several months trying to fathom out solutions to the well publicised global credit crunch. Although intervention from Central Banks has eased areas of the credit market, it is likely that a return to some form of normality may not occur until the end of 2008.

Before we look at the capital issues currently affecting the UK banking industry, and our opinion of the longer term outlook, we believe we need to re-visit the basic fundamentals that were an important factor behind the unbroken profits growth generated by the UK banking sector over the last ten years. Banks effectively borrow money from a wide range of sources – traditional banking used to be described as the 3-6-3 model – borrow money at 3%, lend it out at 6%, and on the golf course by 3.00 pm. In a low inflation and low interest rate environment, banking assets (the loan book) have grown at an exponential rate – evidenced by UK consumer debt outstanding running at around £1.4 trillion. The assets are risk weighted – quality corporate debt would generally be risk weighted at less than 10%, a standard mortgage 50%, and unsecured lending such as personal loans and credit cards 100%.

Regulation requires that banks have enough capital on their balance sheets to meet all potential defaults in order to protect depositors and other creditors (their liabilities). Historically, banks would boost capital ratios by buying the most liquid assets in the form of government bonds. The more capital on the balance sheet, the more aggressive a bank could grow its loan book. However, in a low interest rate environment, Government bonds have become more expensive and returns on the underlying assets have diminished. For several years, the asset backed securities market had been performing well, liquidity was in abundance and acquiring triple A rated bonds offered higher returns. As far as the banks were concerned, cheap capital on tap with very low risk was the ideal model to ramp up revenue growth.

The UK banking reporting season in February 2007 produced over 50% of the total dividend paid out in the FTSE 100, and payout ratios, until most recently had continued to rise. Double digit dividend growth and 20%+ return on equity targets had become the norm. However, the UK banking industry was conscious that house price inflation would slow quickly as interest rates had risen five times in just six months. Competition for loans had seen margins fall to almost uneconomical levels, and bad debt charges were beginning to creep up.

The first real indication that all was not well was when HSBC announced a modest profits warning, driven by deteriorating conditions in the large

Although intervention from Central Banks has eased areas of the credit market, it is likely that a return to some form of normality is still a way ahead.

US housing market, and in particular, US sub-prime business, where defaults had risen to alarming levels. By the autumn of 2007, it had become apparent that the conventional business of packaging mortgages into asset backed securities had been mixed up with sub-prime packages. The uncertainty that followed was immense as neither UK banking management, auditors or the market were clear what triple A rated paper was worth.



By the UK banking reporting in February, the extent of the damage from the credit crunch was finally revealed and write downs of assets on bank balance sheets ran into billions of pounds. Nevertheless, UK banks continued to protest that they were coping with the difficult conditions. Then in March, the credit markets took another turn for the worse as the US housing market continued to fall.

The asset backed securities market had now been frozen for several months, and more worryingly, these so-called low risk assets were taking huge write downs, and could no longer be used for capital as security against banks' loan books.

On average, banks require £1bn of capital in order to increase assets by around £10bn, so something had to give, either banks had to slow lending considerably, or, substantially raise capital. Access to capital via wholesale money markets continues to be too expensive, funding via customer deposits has also become ultra competitive and therefore uneconomical, and even though Central Banks are now swapping 'quality' assets for government bonds, the penal rate is high.

The outcome has been that some UK banks have effectively stopped new lending, or are planning disposals of assets. Now the market will have to absorb substantial cash calls from three UK banks to boost capital ratios. RBS started the ball rolling by announcing a rights issue to raise £12bn net of expenses. This was followed by HBOS asking shareholders for £4bn of capital, and Bradford & Bingley (B&B) has asked shareholders for £300m. The rights issues represent sizeable discounts – ouch!

RBS, HBOS and B&B had consistently reported that capital ratios were comfortably within regulatory parameters, and that was certainly the case back in December 2007. However, the market was adamant that capital raising would be the only way to allay concerns as the US housing market and credit markets continued to deteriorate. The market won the credibility war in March 2008 as the credit crunch intensified.

Of the three banks rationale for shareholders to raise more cash for the deeply discounted shares issues, we prefer both RBS and B&B's offers, as they appear to have targeted growth opportunities within their chosen markets.

HBOS, rightly or wrongly is battering down the hatches to preserve capital until the credit markets return fully back to normal, which, we believe to be many months away.

The last few months have been a painful reminder that risk controls, can, and continue to be, undermined when exotic forms of financing fail to be understood by senior management.

Regulation could now intensify for the UK banking industry, stifling innovation, restricting alternative banking products which will inevitably impact on the UK retail consumer. John Varley, CEO of Barclays Bank, recently went on record stating that a healthy economy required a healthy banking system. It will be interesting to see how the Bank of England and the regulatory authorities deal with this in the coming months.

We believe the environment will be one of less leverage in UK retail markets, which, will lead to lower volumes, but importantly, higher margins. Return on equity ratios are expected to fall from 20% + recorded in the last few years to low teens. Double digit earnings and dividend growth is likely to turn into middle to high single digit growth. Balance sheets will shrink and capital will be replenished.

There will effectively be less choice for retail consumers at a time when confidence in the housing market is at a 30 year low. Repossessions are increasing and the burden of tax and higher energy and food bills are also adding to consumer woes.

We expect to see better capitalised and diversified banks, but the macro environment is likely to remain very tough over the short to medium term. For existing monies exposed to the UK banking sector, we recommend investors hold on for a longer term recovery, albeit, in the new banking environment.

The information contained in this publication has been taken from the sources disclosed and is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness. The opinions expressed in this document are not the views held throughout Brewin Dolphin Ltd. No Director, representative or employee of Brewin Dolphin Ltd. accepts liability for any direct or consequential loss arising from the use of this document or its contents.

We or a connected person may have positions in or options on the securities mentioned herein or may buy, sell or offer to make a purchase or sale of such securities from time to time. In addition we reserve the right to act as a principal or as agent with regard to the sale or purchase of any security mentioned in this document. For further information, please refer to our conflicts policy which is available on request or can be accessed via our website at www.brewin.co.uk

The value of your investment and any income from it may fall and you may get back less than you invested. Past performance is not a guide to future performance. If you are in any doubt concerning the suitability of these investments for your portfolio, you should seek the advice of a qualified investment adviser.

Prices and graphs are as at the close of business on the day preceding the date of the note.

INCOME AND GROWTH DIVERSITY FROM THE INVESTMENT TRUST SECTOR



John Newlands
Head of Investment
Trust Research

The UK investment trust sector has been around since the idea was conceived by London solicitor Philip Rose in 1868. Both the original trust, Foreign & Colonial, and Rose's legal firm, Norton Rose, thrive to this day.

Investment trusts are, quite simply, companies that buy a diversified spread of underlying investments to which private investors, of whatever means, can gain access by buying a single share in the trust of their choice. Furthermore, by doing so, they become stakeholders and part-owners of the trust. That allows them, if desired, to turn up at the annual general meeting every year and, face-to-face, praise the Board or vent their spleen as circumstances, such as the trust's recent performance, dictate.

Now, with more than 700 investment companies listed on the London Stock Exchange, covering everything from Black Sea property through Latin American equities to nuclear waste, UK retail investors are being presented with a vast and potentially daunting range of choice.

(By way of an aside, I fondly recall the occasion in the late 1990s when a retired mathematician turned up at Foreign & Colonial's AGM and asked Kenneth Clarke, QC MP, who was then a director, whether his approach was elliptical or modular. Quick as a flash, Clarke replied, "I don't know about that but I have been described as globular!"

On another occasion, I saw a shareholder filling an entire rucksack with sandwiches from the buffet. Sad investment trust enthusiasts like me treasure such moments, which are rare with other types of investment).

Such quaint anecdotes might give the impression that little has changed over the years and that staidness remains the order of the day. Little could be further from the truth. The reality is that the trust sector – which should now correctly be called the investment company sector – has changed out of all recognition over the last decade or so.

In times gone by, the industry was dominated by a couple of dozen large and generally worthy names, plus a range of sector specialists focusing on, say, smaller companies or Japan. Now, with more than 700 investment companies listed on the London Stock Exchange, covering everything from Black Sea property through Latin American equities to nuclear waste, UK retail investors are being presented with a vast and potentially daunting range of choice.

One thing has not altered, however. Now, as then, the first port of call for most investment trust investors will be the creation of a core portfolio of top-quality 'generalist' trusts to ensure a proper spread of regional, industrial and sectoral diversification.

Taking that point as read, this broad new investment company universe gives the opportunity to gain very specific exposure if so desired.

Infrastructure investment trusts typically offer decent dividend yields, often in the 5-6% range at launch. Moreover, with skillful management, they offer the prospect of a certain amount of growth both in dividend income and in capital over the years.

Should the required niche area be, for example, emerging markets, the environment or even global timber, the chances are that our investment trust research department will be able to work with your Brewin Dolphin client manager to locate a investment company that fits the bill.

Many of these new and sometimes fairly exotic company launches are focused primarily upon capital growth. Others, including those that buy portfolios of distressed corporate debt, can carry risk and are a story for another day. What I want to concentrate on now is an interesting new type of income-bearing fund much nearer to home – the infrastructure trust.

The development of infrastructure trusts stems from the British government's Private Finance Initiative (or PFI for short). What this boils down to in plain terms is

that if the government wishes to provide a new hospital, police training college or the like, instead of fronting up with cash from the public purse, via a gilts issue or whatever, it invites the private sector to quote for the job, typically on 25-year terms. In that sense PFI is a cross between a mortgage and good old-fashioned hire purchase, albeit with no initial deposit and on very long repayment terms.

Without debating the merits of such 'off-balance sheet' financing, as it is known – and which other governments are starting to adopt both in Europe and the US – it suffices to say that investment companies have been devised which invest in a substantial portfolio of such PFI projects.

Infrastructure investment trusts typically offer very decent dividend yields, often in the 5-6% range at launch. Moreover, with skillful management, they offer the prospect of a certain amount of growth both in dividend income and in capital over the years.

It helps that PFI projects are being launched to fund, for example, Dutch tramways, Australian toll roads and,



looking ahead, bridges and freeways in certain American States. These are giving infrastructure fund managers the chance to add further shareholder value and, through active management, to extend the average lives of their PFI portfolio holdings. As ever, this is where choosing an absolutely top-grade investment vehicle – and individual fund manager – can make a significant difference and where our dedicated research team is ready to help.

In summary the beauty of infrastructure trusts for private investors, is that they can obtain a very worthwhile – and potentially growing – income yield from a diversified managed fund, the core holdings in which are founded primarily upon government and local government contracts.

That is a pretty attractive proposition in these uncertain times.



Please Note

This document is not intended as investment advice. Value of investments can fall as well as rise. No investment or service is suitable in all cases, and if you have any doubts, you should contact your financial adviser. The benefits of the tax reliefs mentioned above are dependent upon your individual circumstances and are based on current legislation which is subject to change.

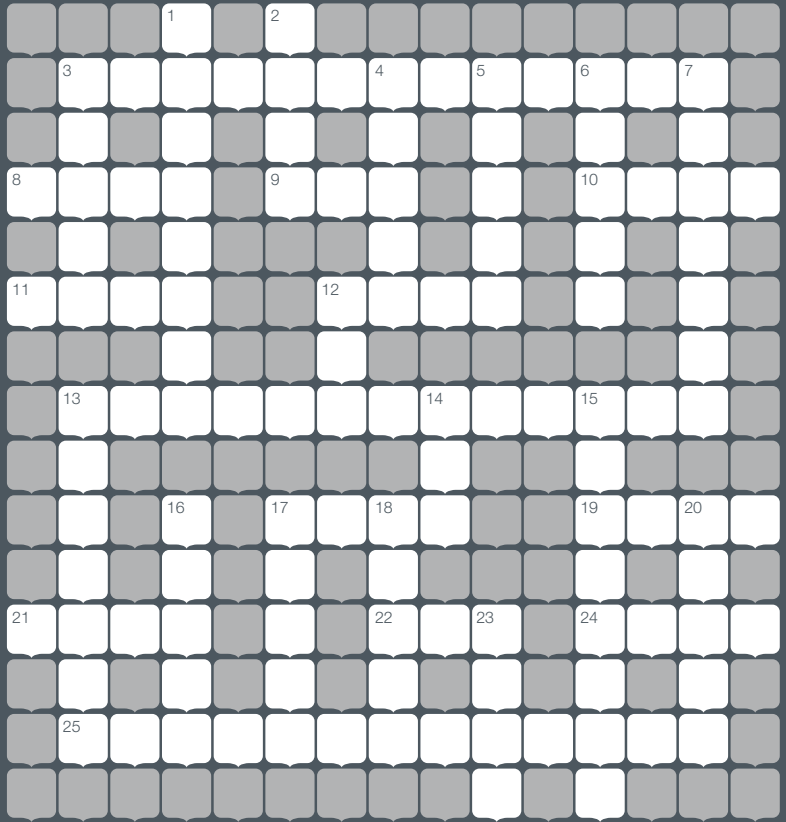
Aberdeen	Dumfries	Hereford	London	Plymouth
Belfast	Dundee	Inverness	Lymington	Reigate
Birmingham	Eastbourne	Jersey	Manchester	Scarborough
Bradford	Edinburgh	Keswick	Marlborough	Stoke-on-Trent
Cardiff	Elgin	Leeds	Newcastle	Swansea
Cheltenham	Exeter	Leicester	Norwich	Taunton
Chester	Glasgow	Lincoln	Nottingham	Teesside
Dorchester	Guernsey	Llandudno	Oxford	York

W brewin.co.uk

E info@brewin.co.uk

Brewin Dolphin Ltd is a member of the London Stock Exchange, authorised and regulated by the Financial Services Authority No. 124444. Regulated under the Financial Services (Jersey) Law 1998 by the Jersey Financial Services Commission for the conduct of business in Jersey, and licensed in Guernsey by the Guernsey Financial Services Commission for the provision of investment business. Registered office 12 Smithfield Street London EC1A 9BD. Registered in England & Wales No. 2135876.

Answers are available
on our website at
www.brewin.co.uk



Perspective is printed
on recycled paper

CLUES ACROSS

3. Check to see as to whether or not a new issue is on the cards (9,4)
8. What a rights issue isn't for (4)
9. Traded option deposit (3)
10. Equips oil vessels (4)
11. Undervalue part of an energy company's assets. (4)
- 12 & 4. Sue to send counterfeit paper money (4,5)
13. She's in undertaking (13)
17. Profit from taking a drink (4)
19. Group in the banking sector (4)
21. Optimistic investor (4)
22. Fuel takeover speculation? (3)
24. "Is in debt" admitted the Felixstone stevedore (4)
25. Entrepreneur backing Tessa the entertainer (5,8)

CLUES DOWN

1. Means for them to occupy the substitute's bench (8)
2. Cut price bargain (4)
3. Super swimming pool (5)
4. See "12" across
5. Concede an investment return (5)
6. Rouse to raise capital (5)
7. What to do with one's belt if feeling the pinch? (7)
12. Employ in "12" across (3)
13. Tax haven to rub dame the wrong way (7)
14. The offence "13" across committed (3)
15. Members of the fairer sex cleaning up on the Stock Exchange? (3,5)
16. Grasps neutral investment recommendations (5)
17. General concession (5)
18. Lump of metal scheming Otto pocketed (5)
20. The kind of profit busy Clare made (5)
23. Export in the main (4)