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ASSET MANAGEMENT (C.I.) LIMITED

INVESTMENT MEMORANDUM

Despite unsettling geopolitical and economic news, 2025 provided positive returns for investors in international equities. International bonds provided mixed returns. There were some significant foreign exchange movements which affected sterling based investors, with the weakness of the U.S. dollar and yen particularly notable. Gold showed a strong performance against the background of the troubled international background.

The tables below detail relevant movements in markets :

International Equities 30.09.25 - 31.12.25

Total Return Performances (%)				
Country	**Local Currency**	**£**	**US$**	**€**
Australia	-1.1	-0.4	-0.5	-0.4
Finland	+14.1	+14.1	+14.0	+14.1
France	+3.4	+3.4	+3.3	+3.4
Germany	+2.5	+2.5	+2.4	+2.5
Hong Kong	+1.1	+1.2	+1.1	+1.2
Italy	+7.0	+7.0	+6.9	+7.0
Japan	+9.3	+3.1	+3.0	+3.0
Netherlands	+4.1	+4.1	+4.0	+4.1
Spain	+13.0	+13.0	+12.9	+13.0
Switzerland	+9.3	+9.9	+9.8	+9.9
UK	+6.8	+6.8	+6.7	+6.7
USA	+2.4	+2.4	+2.4	+2.4
All World Europe ex UK	+6.2	+6.5	+6.4	+6.4
All World Asia Pacific ex Japan	+4.7	+3.8	+3.8	+3.8
All World Asia Pacific	+6.1	+3.6	+3.5	+3.5
All World Latin America	+8.0	+7.6	+7.5	+7.6
All World Emerging Markets	+2.6	+1.9	+1.9	+1.9
All World	+3.8	+3.5	+3.4	+3.4

Source : FTSE All World Indices

FTSE Actuaries UK Conventional Gilts All Stocks Index (total return) : +3.1%

International Bonds - Benchmark Ten Year Government Bond Yields (%)

	30.09.25	31.12.25
Sterling	4.70	4.47
US Dollar	4.15	4.17
Yen	1.64	2.05
Germany (Euro)	2.71	2.85

Sterling's performance during the quarter ending 31.12.25 (%)

	Quarter Ending 31.12.25
US Dollar	+0.2
Canadian Dollar	-1.4
Yen	+5.5
Euro	+0.1
Swiss Franc	-0.5
Australian Dollar	-1.5

Other currency movements during the quarter ending 31.12.25 (%)

	Quarter Ending 31.12.25
US Dollar / Canadian Dollar	-1.4
US Dollar / Yen	+6.2
US Dollar / Euro	+0.2
Swiss Franc / Euro	+0.2
Euro / Yen	+6.0

Significant Commodities (US dollar terms) 30.09.25 - 31.12.25 (%)

	Quarter Ending 31.12.25
Oil	-8.7
Gold	+12.6

PERFORMANCE DURING 2025

International Equities 31.12.24 - 31.12.25

Total Return Performances (%)				
Country	**Local Currency**	**£**	**US$**	**€**
Australia	+8.2	+8.5	+16.6	+2.8
Finland	+41.2	+49.1	+60.1	+41.2
France	+13.9	+20.3	+29.2	+13.9
Germany	+21.1	+27.8	+37.3	+21.1
Hong Kong	+31.5	+22.2	+31.3	+15.8
Italy	+39.2	+47.0	+57.8	+39.2
Japan	+25.4	+17.1	+25.8	+10.9
Netherlands	+22.4	+29.2	+38.8	+22.4
Spain	+60.9	+69.9	+82.5	+60.9
Switzerland	+18.0	+25.7	+35.0	+19.0
UK	+24.4	+24.4	+33.6	+17.8
USA	+18.0	+9.8	+18.0	+4.0
All World Europe ex UK	+20.8	+27.9	+37.4	+21.1
All World Asia Pacific ex Japan	+27.9	+20.7	+29.6	+14.3
All World Asia Pacific	+27.0	+19.5	+28.3	+13.2
All World Latin America	+33.7	+41.5	+52.0	+34.0
All World Emerging Markets	+24.8	+17.8	+26.5	+11.5
All World	+20.5	+14.7	+23.1	+8.6

Source : FTSE All World Indices

FTSE Actuaries UK Conventional Gilts All Stocks Index (total return) : +5.0%

International Bonds - Benchmark Ten Year Government Bond Yields (%)

	31.12.24	31.12.25
Sterling	4.56	4.47
US Dollar	4.57	4.17
Yen	1.07	2.05
Germany (Euro)	2.36	2.85

Sterling's performance during the year ending 31.12.25 (%)

Currency	Year Ending 31.12.25
US Dollar	+7.6
Canadian Dollar	+2.5
Yen	+7.0
Euro	-5.2
Swiss Franc	-6.1
Australian Dollar	-0.5

Other currency movements during the year ending 31.12.25 (%)

Currency	Year Ending 31.12.25
US Dollar / Canadian Dollar	-4.7
US Dollar / Yen	-0.2
US Dollar / Euro	-11.8
Swiss Franc / Euro	+0.9
Euro / Yen	+13.0

Significant Commodities (US dollar terms) 31.12.24 - 31.12.25 (%)

Currency	Year Ending 31.12.25
Oil	-18.2
Gold	+65.8

MARKETS

- International equity markets ended the year with a positive quarter. Bond markets experienced mixed returns.
- For the full year, equities showed a positive performance, with some areas showing notable strength. Bond markets also improved but there were exceptions.
- In currency markets the Yen was weak in Q4. Other currency movements were generally quite small. Over the year as a whole, the U.S. dollar and Yen were noticeably weak performers. The Swiss Franc and euro currencies were strong, all these movements against sterling.
- In commodities, gold had an outstanding year. The oil price fell sharply.

ECONOMICS

In our year end review we find it useful to look back at what we said twelve months earlier to see if our views of market prospects for the year ahead were correct, incorrect or, more likely, a mixture of the two. So, as we look back on our December 2024 review, we put forward several thoughts about the prospects for 2025.

We highlighted the very large budget deficits being run by many countries and thought that bond prices would be under pressure as a result. We believed that there was a particular risk in the eurozone bond market if France could not put forward a credible plan to bring down its budget deficit towards the EU maximum level of 3% of GDP.

So, how did bond markets perform in 2025? The returns on the Bloomberg Global Aggregate Index in US dollar terms was 8.2%. In isolation, this was a satisfactory return but, because of US dollar weakness against, for example, the euro, Swiss Franc and sterling, this return was reduced for investors based in these currencies. Returns, however, differed significantly between countries and regions and we will take ten year government bonds as a benchmark. Interestingly, US Treasuries show a strong return despite the very large size of the US budget deficit at over 6% of GDP. Over 2025, the gross redemption yield on the 10 year US Treasury bond fell by around 0.40% to 4.17%. This could have been due to several factors but is also slightly puzzling given the weakness of the US dollar. However, it does not seem that foreigners have been heavy sellers of US Treasuries. As at September, foreign holdings of US Treasuries were 5.5% up on a year earlier. Whilst short term US interest rates have been reduced, it doesn't necessarily follow that yields on longer term bonds should also decline with such a large borrowing requirement. In this case the easing of monetary policy by the Federal Reserve also affected longer bond maturities The US does have the advantage of having the world's major reserve currency so it has some safe haven status and also it is important to look at the "rivals" relative positions and here we come to Europe which we highlighted in last year's review. Our concerns about France were well founded as the political instability arising from the last inconclusive parliamentary elections held in 2024 meant that it proved impossible to take the necessary steps to tackle France's unsustainable budget deficit forecast to be 5.4% of GDP in 2025. Not surprisingly, the French bond market reflected investors' concerns and the gross redemption yield on the 10 year French government bond rose by 0.37% to stand at 3.56% and the country's credit rating was downgraded by the agencies. In September, Fitch Ratings downgraded France to A+ from AA- with a stable outlook. S&P Global, in October, downgraded France to A+ from AA- with a stable outlook, whilst Moody's affirmed its Aa3 rating but with a negative outlook. The end of year outcome is that French 10 year government bond yields start higher than those of Italy, long considered vulnerable because of its high level of government debt to GDP at round 138%, and Greece which has made a remarkable recovery as it impresses investors with the steps which it has taken to move on from the crisis which threatened its membership of the eurozone at one stage. At the other end of the scale, the eurozone's best credit, AAA rated Germany, has also seen a sharp rise in its 10 year government bond yield which has risen 0.49% in 2025 to end the year at 2.85%, still, of course, well below that of the equivalent French government bond yield. The cause of the sharp rise in yields was the German government's decision to end the debt brake and substantially raise spending on defence and infrastructure including climate related investment, which means that the government will be raising very large sums in the debt market. The German moves on spending and the resultant rise in German government bond yields as its borrowing requirements increase markedly have had a knock on effect across the eurozone, with 30 year bond yields rising even more sharply, as one might expect. Although remaining fiscally challenged, the UK government bond market has been a bit of a bystander. The 10 year government bond yield has fallen slightly by 0.09% to 4.47%, whilst the 30 year bond yield edged up by 0.09% to 5.22%.

In our year end 2024 review, we confirmed that we preferred equities to bonds and cash (as an investment rather than being held opportunistically). Overall, that was the correct call with the FTSE All World Index returning 23.1% in US dollar terms and 14.7% in sterling terms against 8.3% for the Bloomberg Global Aggregate Index in US dollar terms, so a comfortable margin for equities over bonds. Qualifying the preference for equities was our overcaution in expecting it to be an uneven journey. Apart from a sharp short term impact around the 2nd April tariff announcements by President Trump, the trend has been steadily upwards for international equity markets, so we erred on the cautious side, with the positive returns from equities being more pronounced than we expected. We confirmed that the USA remained our favoured area and although the market performed well, led by the NASDAQ, other markets performed as well, or better, in local currency terms, with this effect being magnified by weakness in the US dollar.

So, to summarise the outcome in 2025, against our expectations set out in our December 2024 review, we can say that the equity versus bond call was correct and, in particular, our concerns about French bonds in the light of the political instability and its effects on addressing France's fiscal problems, was also borne out. As far as equities were concerned, whilst the overall view was correct, the relative, as opposed to the absolute, performance of the USA did not meet our expectations, with some other important areas performing better especially when currency considerations were taken into account. Also, because we were expecting the geopolitical and economic problems in the world to cause an uneven journey in markets, albeit in the context of an upward trend, the fact that they were largely ignored made our expectations err on the cautious side. It is also important to mention what we didn't discuss, gold, which had a stellar year as investors piled into it as a store of value in uncertain times.

As often happens, when an asset class has performed well, the temptation is to think that the trend will continue. So it is that most analysts expect 2026 to be another good year for equities. Before we consider why this may or may not be the case, it is worth looking at the OECD's latest economic forecasts published in December 2025. For the G20 economies, the OECD predicts growth of 2.9% in 2026 and 3.1% in 2027 compared with its forecast outcome of 3.2% for 2025. In the G20, India, China and Indonesia lead the way in terms of growth. For India, the predicted growth rates for 2025, 2026 and 2027 are 6.7%, 6.2% and 6.4%. For China, the figures are 5.0%, 4.4% and 4.3% and, for Indonesia, they are 5.0%, 5.0% and 5.1% respectively. Looking at the developed economies, the USA is expected to show the fastest growth rate in 2025 at 2.0%. However, if the OECD is correct, the USA will lose its leading developed country position in 2026 and 2027 to Australia and South Korea. For 2026, the OECD predicts growth of 1.7% for the USA and 1.9% for 2027 whilst Australia will show growth of 2.3% for both years and South Korea 2.1% for both years. The figures for the UK, Europe and Japan are pretty dismal, although no country is forecast to go into recession. The three years' figures for the UK are 1.4%, 1.2% and 1.3% respectively. Looking at Germany, the figures are 0.3%, 1.0% and 1.5%. For Japan, they are 1.3%, 0.9% and 0.9%

For the USA, positives for 2026 are the contribution of huge AI investment and tax cuts benefiting businesses and individuals. Whilst AI associated investment will be very strong, other businesses are also likely to be spending more. Consumer spending may also be strong as a result of tax cuts and reforms. Tariffs are a possible negative as the OECD forecasts that they will keep US headline inflation at the highest level in the developed economies in 2026, 3.0%, and the third highest in 2027 at 2.3% after Australia at 2.5% and Germany at 2.4%. There may also be some labour market weakness. Interest rates have been coming down, Japan being an exception, but inflation levels will be important in determining if they can fall much further, if at all. President Trump is keen that the Federal Reserve cuts interest rates further but, if inflation in the USA remains elevated and fiscal policy is lax which it is certain to be, inflation could easily start to tick up again. For the USA, investors are still likely to be encouraged by the high level of M&A activity. The Administration's deregulation agenda has been helpful in this respect unlike the position of the previous Administration. While the favourable window of opportunity for M&A activity remains open, investors can expect more of the same in 2026. Potential negatives for the USA are an AI bubble burst. Some investors are likening the present situation of AI to the dot.com bubble burst of the early 2000s. There is no doubt that AI is going to have a huge influence on the world economy and the way we do things, but what is not known are the returns from these large investments which were supportive of growth in the US economy in 2025 and will continue to be so in 2026. There is the chronic issue of the very large US fiscal deficit which in most other countries would have led to problems in the bond market but the USA has the "exorbitant privilege" of issuing the world's largest reserve currency and the demand for US dollars means that it can probably sustain its current budget deficit level for a while, but not indefinitely. What it means is that, notwithstanding the strength of the US bond market in 2025, although to qualify this the 30 year bond yield trended marginally higher, there can be no guarantee that investors will look with insouciance at this continued fiscal laxness. And then there are the November mid term elections. For investors, the situation is probably as good as it gets at the moment in terms of tax, deregulation and pro business policies. However, the President's approval rating is falling, almost certainly for cost of living reasons. If the mid term elections prove difficult for the Republicans, the mood on Wall Street might start to shift.

The UK and Europe share some of the same issues. If we look at the UK, we see a fiscally challenged economy. Public spending is proving very difficult to control for political reasons and the Chancellor has chosen tax increases to try to hold borrowing at a level which does not frighten the markets. However, businesses have been hit hard by an increase in employers' national insurance contributions, increased business rates and steep increases in the minimum wage to one of the highest levels in the OECD. New employment legislation will also add to business costs and risks. We avoid political judgements in our reviews preferring to stay with economic judgements and not many economists would disagree with the view that these increased financial and regulatory impositions on business will have, and have already had, negative effects on the UK economy. Other negative factors like high energy costs are also highly relevant. Two effects should be fairly clear. One is that there will be cost push effects on inflation mitigated to an unknown extent by the inevitable increase in unemployment, which will contribute to downward pressure on consumer spending and therefore the pricing power of some companies. The other is what we have discussed in previous reviews, namely the importance of messaging for markets but also for direct investment. For businesses in the UK, the messaging is not good but not only for businesses. Individuals face heavy tax increases not only on incomes whether it be through the extended freeze on allowances, or higher taxes on unearned income but also taxes on assets coming down the line like the so called "mansion tax". The ending of non-dom status has led to an exodus of wealthy individuals which will have direct and indirect effects on economic activity. These are economic points. The Chancellor has chosen her course of action for dealing with the weak state of the UK's public finances. The economic consequences are beginning to be seen, with weak growth and rising unemployment. For an investor who can invest anywhere in the world, whether by direct investment or through indirect investment in the stock market, the UK would come well down the list and this is why our exposure to UK equities is modest. In favour of the UK is the fact that it has a number of world class large companies with relatively little domestic exposure which can mitigate a challenging UK backdrop and that is where the bulk of our UK exposure lies. For domestically orientated UK companies, the tax and regulatory background will be challenging. So we could expect the shares of large internationally orientated companies to continue to outperform more domestically focused ones in 2026.

Turning to Europe, the outlook is similarly problematical. As we indicated earlier, the OECD forecasts that growth for Germany will have been 0.3% in 2025, 1.0% in 2026 and 1.5% in 2027. As the eurozone's largest economy, what happens in Germany will be felt elsewhere in the eurozone and further afield. There are a number of reasons why Germany is in a difficult economic position and some of the reasons are common to other eurozone economies. Bureaucracy and over regulation are significant problems for the eurozone. There is some evidence that EU leaders recognise this but change can only ever proceed slowly. Particular problems for Germany include the high cost of energy which has hurt the country's competitiveness. Germany is famously known for the high quality of its manufacturing but its car industry, for example, has been badly affected by Chinese EV competitors. China has also encroached on other areas of manufacturing and, as an export led economy, Germany has been badly affected, with US tariffs an added problem. However, 2025 has seen a dramatic change in German economic policy with the debt brake, which held back public spending, being dramatically released to free money for sharply increased defence spending in the aftermath of the Russian invasion of Ukraine and also for infrastructure where Germany has lagged behind as well as climate investment. These measures will take time to come into effect because supply capacity has to be increased so it's not possible to turn on the spending taps and expect immediate results. However, over time the results should become apparent, not only for Germany but for other eurozone countries in particular, as a result of the economic multiplier effect. Furthermore, Germany's important advantage is that its strong finances enable it to increase spending without rattling the bond markets. At the end of 2024, the government debt to GDP ratio was 62.2%, so it has plenty of room to increase spending sharply even though the prospect of that debt level rising significantly over the years did prompt a sharp rise in German borrowing costs as our table at the beginning of this review shows in relation to 10 year government bond yields. There are, of course, no creditworthiness issues with Germany.

Within the eurozone, the main concern has to be what happens in France in 2026. The fiscal situation is serious, as different Prime Ministers have tried to impress on voters, but there is a very public lack of acceptance among voters of the need to rein in public spending and this is mirrored by deputies in the French National Assembly. As we noted earlier in this review, concern about the French fiscal position is reflected in the price that France has to pay to borrow. Just before Christmas, the French parliament passed an emergency bill to keep the government running into 2026 until it can agree a budget. It is worth quoting the words of the French Budget Minister, Amélie de Montchalin, as she said "It's a bare minimum service that responds neither to the emergencies nor to the demands of the French people. Every day of the special law will be, in 2026, one day too many". With the French budget deficit forecast to be 5.4% of GDP in 2025, the highest in the eurozone, and outstanding public debt at the end of 2024 at around 113% of GDP and rising, the position is precarious. It is made worse by France being a member of a currency union because the problems of the second largest eurozone country cannot be isolated. How will this all end? The President could call snap legislature elections but it looks like, as at present, populists would dominate as the French public appears to have no appetite for measures to rein in public spending and have often taken to the streets. The bond markets are often an investor's best friend in that they are the one force that politicians recognise as a restraining influence which may force governments to take the necessary measures to rectify the public finances. Whether that would ultimately work in France is difficult to say. Budgetary developments, or lack of them, in France will be a key issue for investors in 2026.

There are no other specific country issues in the eurozone approaching anything like the importance of what will happen in France in 2026. The rise in French bond yields relative to those of previously considered weaker members of the eurozone is the canary in the mine and, as we start 2026, is one of the most obvious risks for investors in the eurozone.

The general problems for the eurozone and investors in the relevant markets surround low growth. Compared with the USA, productivity growth lags and, with that, the potential for raising the economic growth rate, not only in absolute terms but relative to that of the USA. There are a number of obvious reasons why Europe lags the USA in terms of economic growth. Its regulations appear to be excessively restrictive. The precautionary principle means that innovations are sometimes held back. If we look at AI, Europe is being left behind. Investors in Europe will, in 2026, be looking for signs that measures to boost growth like improving the flexibility of their economies, including through some nod towards deregulation, are occurring as a precursor to improving growth prospects for the area. European shares, especially taking into account currency movements, have been a rewarding area for investors in 2025 but have challenges in 2026, such as we have outlined.

Japanese equities had a very good year in local currency terms but this was pared back in sterling terms by the weakness of the yen. Nevertheless, sterling returns were still very acceptable. For bond investors, the results were different, as our table shows. Unlike elsewhere, the Bank of Japan tightened monetary policy and the official rate and longer term bond yields rose sharply with the election of a new Prime Minister. The Bank of Japan policy rate started 2025 at -0.1% and ended it at 0.75%. Sanae Takaichi's policies are aimed at tackling inflation, including abolishing the temporary gasoline tax. Various tax reliefs including increasing income tax exemptions and a new system of deductions and cash benefits were proposed. The aim is "Responsible and Proactive" fiscal policy which aims to raise incomes and boost tax revenue through growth, not just tax hikes, and investing in crisis resistance. It is a fiscal policy which has worried the Japanese bond market, fearing that it will lead to higher budget deficits in a country which is very heavily indebted, with outstanding public borrowing and nearly 240% of GDP. Most of Japan's public debt is held domestically, including by the Bank of Japan (about 52% of all domestic government bonds), so there is not so much danger of an overseas led run on the Japanese government bond market. So, it looks as if the new Prime Minister's policies may be good for Japanese equities but not so good for bonds. All the while, corporate governance reforms are making Japanese shares more attractive to investors. At this stage, with problems elsewhere, Japan looks one of the more attractive areas of investment for 2026.

An area which has shown recovery in 2025 after previous underperformance is Emerging Markets. These do not represent an homogenous group of countries but the feature that most share in common is that a weak US dollar is helpful in terms of taking off some pressure from their interest rates and currencies as the lure of higher US dollar interest rates and currency gains is lessened. Significant EM borrowing is $-denominated. The Chinese market performed quite well in 2025 but behind some others, but its movement will be partly a function of how US/China relations develop, as well as the ability of the government to kick start the economy by encouraging consumers to raise consumption at a time when the property market has been weak and firms are competing hard, which has led to overcapacity in some industries and price weakness. But, of course, as the world's second largest economy, it remains enormously influential and, for investors, the key will be if the temporary tariff truce lasting until November 2026 becomes permanent, since an all out trade war between the USA and China will damage the world economy and, by extension, be negative for investors. On the international front, the Taiwan issue is always in the background. The trade and geopolitical events make China a difficult market to call because of the high level of uncertainty. Interestingly, the country at the top of the OECD's table for economic growth, India, has performed relatively poorly in 2025. Although up in local currency terms, the weakness in the Indian rupee has meant that most foreign holders showed negative returns in 2025. Foreign investors are estimated to have sold US$18 billion of Indian shares, although domestic buying has provided some support with IT shares the most affected by foreign sales. India was hit with a 50% tariff rate by the USA which was a negative for the market. However, there are reasons to be more optimistic for 2026. At the end of 2025, significant changes aimed at boosting the Indian economy were announced, covering GST reforms, income tax reviews, Reserve Bank of India interest rate cuts and the introduction of four new labour codes. The aim of these reforms is to boost consumption as a driver of economic growth.

Looking back on 2025 and earlier, one is struck by the observation that very little seems to unsettle equity investors and, if it does, they soon recover their poise. So, if we go back to an arbitrary date, say the beginning of 2020, there have been only two significant downturns in equity markets, Covid in February and March 2020, which was quickly recovered, and April 2025 after President Trump's tariff announcements but that dip, too, was quickly recovered and both years ended on a positive note. The world has experienced some terrible events, the Russian invasion of Ukraine and the Middle East conflagration to name but two, yet has taken these in its stride, something that may not have happened in earlier times. This is not meant to be a callous remark, it just recognises what has happened. So, with the geopolitical situation remaining very unsettled, it might appear that investors have incorporated these conflicts into their investment thinking. We cannot be sure but that's the way it appears at present. Similarly with tariffs, after the initial shock last April and some rowing back on them by President Trump, markets appear to have taken them in their stride although there are bound to be long term consequences for trade and supply patterns. In economic terms, as we have described in relation to our caution on the bond markets, our concerns surround the fiscal challenges of many countries and the effect on bond markets as vast new supplies of bonds come on to the markets. In economic and market terms we can have a high level of confidence in saying that AI and those businesses involved in it, directly or indirectly as suppliers, will be a major theme. But will this be a bubble? As we said earlier, it is obvious that the advance of AI is going to be very consequential in practical terms but will investors conclude that the vast amounts of money spent will dilute companies' and therefore investors' returns? Whilst we may say that the USA remains our favoured investment area because there are fewer problems there than in other major markets, there may still be a shake up in the sectors favoured by investors. So, if we look at the different sector returns within the S&P 500 Index, not surprisingly Communication Services and Information Technology Services come out as the two top performers, whilst, at the other end of the table, came Real Estate and Consumer Staples, the former showing a negative return. We may well see sector rotation, so a foot in both camps in a market we like is a sensible balance given the suddenness with which sector rotation can appear. The dot.com bubble of the early 2000s should be borne in mind, although the big companies involved in AI tend to have strong financial positions as a result of the profitability of their existing businesses.

In conclusion, as we look forward to 2026, we believe that there will be just enough growth in the world economy to support equities. Because of the potential for negative geopolitical and economic events to occur, we believe that progress may be uneven, just as we said last year. We do not see a lot of room for lower short term interest rates because of uncertainty about the course of inflation, particularly in the USA and UK. Also we believe many countries' challenged fiscal positions will prove problematical for several countries' bond markets. For sterling based investors, our comments on the UK make it important to have significant geographical diversification. We recognise, however, that after a strong run, a number of markets are on historically high ratings with the USA, in particular, coming to mind. So the stakes are getting higher in relation to investors' reaction to unexpected geopolitical or economic developments and, for this reason where portfolios' income is not paid away, we have been allowing cash to accumulate, against a background of largely fully invested portfolios, ready for opportunistic purchases in the event of s significant setback. Our long term preference for equities over bonds remains in place.