

Whitechurch Matters



Quarter 4 - 2010

Supplied by MI Financial Services



Gavin Haynes,
Managing Director

The Power of Dividends...

I believe that the current investment backdrop is providing an ideal opportunity to look past short-term sentiment and follow a strategy that has been at the core of Whitechurch's investment philosophy irrespective of short-term trends. I am talking about investing in dividend producing equities offering the best of both worlds, with the potential for an attractive total return through both rising income and long-term capital growth. At the current time I believe there are especially compelling reasons why equity income is a "must-have" within a well diversified investment portfolio.

Supportive backdrop

It appears that we are facing a climate of subdued growth and limited inflationary pressures in the leading developed economies. This will mean that interest rates are likely to remain low for the foreseeable future, resulting in continued miserly returns on cash investments. Cyclical shares, that have experienced a strong "relief rally" since early 2009 are beginning to run out of steam based on a low growth economic outlook. As a result I expect to see an increasing focus on dividend producing companies that operate in defensive areas of the economy, have solid franchises and are strongly cash generative.

Enticing yields

Investing in a portfolio of high quality blue chip shares in sectors such as pharmaceuticals, telecoms, utilities and food retailers/producers can easily provide a yield of close to 5% at present, significantly higher than cash or government bonds. These are companies that even against a difficult economic backdrop will be expected to grow their earnings and dividends going forward.

Long-term growth

It is important to stress the long-term importance of dividends both for investors looking to supplement their income but also for investors whose primary goal is long-term growth. The table below speaks volumes of how reinvested dividends form an important part of a stock's total return over the long-term.

Growing income

The power of dividend growth also makes these investments ideal for those investors who have reached a stage where they want their portfolio to start generating an income but can't afford to have capital eroded should inflation return. With people living longer in retirement, this is becoming more and more important. Income growth from dividends is a key differentiator from

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cash and bond investments. For example, if you start off with an income of 4% per annum and assume that dividends grow at 5% per annum, (which is not unrealistic) your annual income will have grown to 5% in five years time and 6.5% after ten years.

Home and abroad

The UK equity market is not the same as the UK economy, it is important to remember that UK blue chip companies derive significant earnings from overseas markets where growth prospects may be better. Also this investment opportunity is not exclusive to the UK stockmarket. For the past five years Whitechurch has been extolling the virtues of equity income investing in overseas stockmarkets. In 2005 there were only a handful of funds, but now there is a wide range of funds providing exposure to dividend producing companies in Europe, the US, Asia and even emerging markets.

Investors in Whitechurch's Monthly Distribution Strategy (page 5) and most strategies for clients under our Prestige Investment Management Service (page 6) will have significant equity income exposure. I believe this is a sensible stance to pursue at the current time.

Today's value of £100 invested at the end of 1945, gross income reinvested

	Nominal Return	Real Return
UK Equities (income reinvested)	£119,238	£4,011
UK Equities (income NOT reinvested)	£7,149	£241
Gilts (income reinvested)	£5,087	£171
Building Society (income reinvested)	£6,133	£206

Source: Barclays Capital (Equity Gilt Study 2010) Figures correct as at 1/1/2010.



Ben Seager-Scott,
Senior Analyst

Where to invest 4th Quarter 2010...



United States

The US had a fairly lacklustre third quarter in 2010. Although corporate earnings continued to be robust, several other economic indicators, particularly manufacturing output, were more mixed and unemployment remained stubbornly high, a key factor in keeping consumers subdued. Conversely, corporations are now looking relatively cash rich, and we favour areas such as technology which can benefit from increased capital expenditure and pent-up demand following corporate cost-cutting.



There continues to be a strong case for the 'Nifty-Fifty' style of investing that focuses on companies that can deliver superior growth because of their high geographic exposure to faster growing areas of the world, the industry in which they are operating, or because of their superior technology.

However, as with the rest of the developed economies, the stimulus package will have to be paid for at some stage. Exactly when the US joins the rest of the developed world in embarking on an austerity drive remains a key question.

Markets continued to exhibit significant volatility in the third quarter, though investors were largely rewarded for taking on risk as equity and bond markets trended upwards, regaining some of the ground lost at the end of the second quarter.



At a global level, investors seem to be switching between extremes of 'risk on' and 'risk off' and the resulting market movements are tending to be somewhat indiscriminate, which has made life difficult for stock-pickers and managers who are focused on fundamental valuation.

Developed economies are dealing with the back-end of recovery and now that stimulus measures have been withdrawn, investors are anxious to see how economies fare now they've been taken off life support.

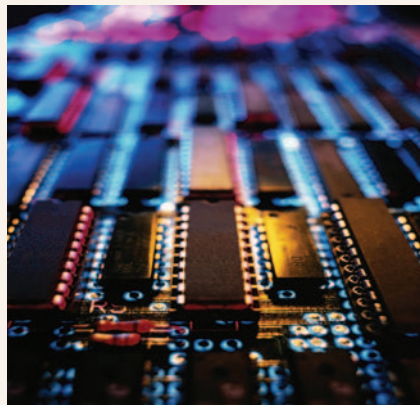
While the outlook remains uncertain, our house view is that a double-dip recession is unlikely, and growth will continue, albeit at a subdued rate. Market volatility is likely to remain elevated until investors have clarity on the effects of austerity in the developed markets. Investors can use this volatility to their advantage by taking these periods of induced short-term weakness as buying opportunities for risk assets, a tactic being employed by increasing numbers of fund managers in the current environment.



United Kingdom

In line with global markets the UK continued to witness considerable volatility over the quarter as investors have been digesting mixed economic and geopolitical news-flow, with the FTSE 100 crossing the emotionally significant mark of 5,000 on the downside before breaking through 5,500 on the upside. Despite the volatility, the general trend for UK equities has been positive following weakness in the second quarter.

Looking ahead, the upcoming spending review may well drag on investor sentiment. The domestic economic outlook remains muted with domestic consumption subdued and government cost-cutting the order of the day. However, it is important to remember that the UK equity markets are not the same as the UK economy, and UK companies deriving earnings from overseas continue to offer reasonable growth prospects. For this reason, income-yielding equity funds continue to look attractive, given their bias towards defensive areas as well as the income return which can compensate in the absence of capital growth.





Europe

Following a tough second quarter, returns from European equities stabilised over the last three months and investor sentiment is now looking more robust.

After the fairly indiscriminate sell-off at the end of the last quarter, there are now attractive opportunities for stock pickers who focus on good quality stocks, and globally dominant companies which are currently undervalued compared to their competitors listed in other regions.

We believe there are still a number of structural issues facing the region which could well give rise to further weakening in the Euro - although this would clearly be a boon for exporters. Even after the European bank stress tests, sovereign debt concerns are likely to be a perennial issue for the region. As a result of these concerns, we think investors should limit exposure to selective stock-picking and yielding funds. We also believe sterling investors should actively consider hedging out euro currency risk when investing in Europe at the current time.



Japan



favour a tactical overweight position in Japan as we believe areas of this market are long overdue a period of relative outperformance. Many companies still have global domination as well as strong trade links with China and the rest of emerging Asia - investing in Japan is more about the companies than the domestic economy. Export sectors are likely to be the best area to focus as we continue to see increasing consumer appetite in the emerging, as well as developed markets; further potential yen weakening should also promote export competitiveness.

However, it is difficult to get excited about the potential for domestic areas of the market which are under pressure due to a number of negative demographic pressures which is giving rise to a shrinking workforce and lowering average wages, fuelling continued fears of deflation. The country also has a number of structural economic headwinds which are likely to hamstring the country in the long-term, and for this reason we are clear that our current Japanese exposure is for tactical asset allocation only, and is not a long-term theme we favour.

Many commentators believe the yen is long overdue a weakening and this

would boost Japanese companies operating overseas. We therefore favour Japan exposure to have currency risk hedged out.



Asia-Pacific

In August we saw China become the world's second largest economy on the back of strong GDP data. Although short-term news-flow has been somewhat mixed, we continue to believe in the long-term trend of sustained economic development in this region.

In the nearer term, we remain concerned that the Chinese growth rate may fall back this year as the government cuts investment spending that was instrumental in supporting the global relief rally from March last year.

As we have discussed before, China seems intent on shifting its economic model towards more domestic consumption led growth. There are indications that this is starting to happen, but change won't come overnight which means there are now increasing opportunities outside the traditional investment targets of export companies.



Emerging Markets

Latin America has lagged other key emerging market regions this year.



However, growth prospects for the region remain positive on the back of good demographics and an increasing level of affluence driving the domestic economy. This presents opportunities to diversify away from commodity plays, although valuations are not particularly attractive following a strong run in 2009.

In contrast, Russia and Turkey are trading on compellingly low valuations, and are strongly tied in to the 'risk on/risk off' mentality that has been apparent from global investors. These countries look well positioned to outperform if we see investor confidence improving for a prolonged period.

In the recent market turmoil, India has emerged as the most insulated thanks to its solid corporate and national governance and a domestically focused economy. However, Indian equities are no longer looking cheap and it now seems likely that the government will continue to tighten monetary policy.

We believe the long-term outlook is still positive and that many long-term investors continue to be under-represented in this area.



Cash

Return on cash remains dismal as base rates remain at record lows. Whilst some outlying commentators are projecting rates rising up to 8%, we expect interest rates to stay at very low levels well in to next year and possibly even beyond that for short-term deposits.

That said, longer-term savers are



being rewarded to tie up cash for extended periods of time, with rates close to 5% available for those willing to tie up their cash for 5 years.

Although holding cash now risks capital depreciating in real terms, cash is likely to remain an important, if limited, part of most investment portfolios for providing liquidity as well as security.



Fixed Interest

With the exception of UK government bonds, fixed interest assets have had a strong quarter, and investors have been rewarded for taking on risk. In light of the tightening fiscal outlook, raising interest rates is something the economy is unlikely to bear and we therefore remain in the 'lower for longer' camp in terms of UK interest rates.

However, gilt yields below 4% are miserly and we believe that corporate bonds continue to provide more attractive opportunities. Within corporate bonds we currently favour selective financials, which still offer attractive yields for investment grade bonds, as well as high yield bonds where spreads still appear extended given the rapidly dropping default rate.



Whilst we cannot currently see domestic inflationary pressures we are conscious of the risk further down the line. From this regard, high-yield short-dated corporate bonds offer the opportunity to diversify bond exposure whilst receiving attractive yields with reduced interest rate sensitivity.

Although emerging market bond exposure is broadly considered a

higher risk offering, and remains prone to sentiment led volatility, these countries are increasingly demonstrating fiscal responsibility and don't have the high levels of public debt that is the case in developed economies. As a result there is a compelling long-term story to add exposure to this area of the asset class.



Commercial Property



After the fallout in 2008, commercial property has resorted to type and has been something of a 'steady Eddie' compared to most other risk assets. Whilst the weak economic outlook is likely to keep capital values down, commercial property remains attractive from an income perspective. From this regard, it is worth remembering that historically, around 70% of the total return from commercial property investing has come from income.

More recently we have seen property prices rising in London and the south east which has restored the price differential that is a normal characteristic in this market. There is some concern that capital values may stumble over the next 18 months, but these are likely to occur outside of the prime market.

We remain focused on the long-term view and favour investment in prime property, which as well as providing an attractive yield and diversification, should also act as a potential hedge against inflation, when this becomes a serious concern once again.



Ben Willis,
Head of Research

Whitechurch Monthly Distribution Strategy

...a balanced approach for income and growth.

As stated in our 'Where to Invest' article on pages 2 - 4, our belief is that interest rates are set to remain lower for longer meaning meagre cash deposit rates for the foreseeable future. For those who are looking for higher returns and who are prepared to accept a balanced level of risk, we believe our Whitechurch Monthly Distribution Strategy is worth serious consideration. This is our flagship strategy within our Portfolio Management Service and has attracted over £17 million from investors seeking a balanced portfolio that provides potential to receive an attractive total return through income generation and capital growth.

Key points

- **Generates income** (target yield is currently 4.5% gross per annum) paid monthly or reinvested for potential growth
- **Regular fixed withdrawal** facility available (subject to a minimum withdrawal of £20 per month)
- **Diversified portfolio** to provide a balanced investment strategy
- **Active management** - by Whitechurch's award winning investment team
- **Minimum investment of £3,000** - (ISAs / direct investments)
- **Regular monthly savings** from £250 per month (ISAs / direct investments)
- **Annual management charge of 1.5%** (plus VAT) taken from capital
- **Whitechurch risk rating of 5 out of 10** - ideal for a balanced investor

NB As with all investments, you may get back less than the sum you initially invested.

The Whitechurch Monthly Distribution Strategy pursues a balanced investment approach, providing a diversified portfolio of leading equity income, fixed interest and commercial property funds. We maintain our view that a blended mix of asset classes

provides a prudent approach, safeguarding the balanced investor from the vagaries of the stockmarket over the long-term.

Risk Rating

When choosing whether an investment is suitable, perhaps the most important factor is deciding whether the product fits your desired risk profile. This strategy has a Whitechurch risk rating of 5 out of 10. This means it is ideal for a balanced investor prepared to accept short-term fluctuations in capital in order to potentially generate an above average return over the medium to longer term. It is unsuitable for risk averse investors. You may not get back the full amount of your initial investment and commitment should be for a medium to longer term, i.e. a minimum of 5 years.

Strong income record

The Whitechurch Monthly Distribution Strategy targets a 4.5% gross income and over the last seven years the income distributed has exceeded target.

Below shows the annual income yield based on the initial investment sum.

2010 – 5.7%	2006 – 5.7%
2009 – 6.3%	2005 – 6.9%
2008 – 6.6%	2004 – 6.2%
2007 – 5.9%	

Total income since launch = 44.4%

(From launch, 10th March 2003 to 31st August 2010. Annual figures based on 12 months distributions up to 31st August and an initial investment of £3,000. Source: Whitechurch Securities. Past performance is not necessarily an indication of future performance)

Regular Fixed Withdrawals

The Whitechurch Monthly Distribution Strategy allows income seekers to withdraw a monthly income, plus the potential for capital growth. For those who require a fixed regular monthly income, you can request that a fixed amount of your original investment be paid to you every month. This is subject to a minimum payment of £20 per month. NB Using the withdrawal facility could erode capital if the regular withdrawals exceed the income generated by the underlying funds within the portfolio.

Growth through income

This strategy is also suited to investors seeking growth, whereby dividends and interest payments from the portfolio's underlying funds can be reinvested to offer a potentially attractive total return. The portfolio's asset allocation will be actively managed to exploit attractive opportunities while keeping close supervision so that the risk profile remains balanced.

Since the first client invested in this strategy in 2003 the Whitechurch Monthly Distribution Strategy has delivered 52.8% total return (income plus capital growth) compared to 49.1% from the IMA Cautious Managed Sector (source: Whitechurch Securities, from 10th March 2003 to 31st August 2010. All figures calculated on a bid-to-bid basis, within an ISA, including income received and net of annual management and administration charges. Source: Whitechurch Securities Limited. Prices can rise as well as fall and the stockmarket is not regarded as a suitable place for short-term investment.)



Whitechurch Prestige Investment Management Service

The Whitechurch Prestige Service offers an advanced investment management service for investors looking to invest a lump sum or transfer from another investment provider (current minimum investment reduced to £50,000).

Working closely with your financial adviser who will ascertain your investment objectives and attitude to risk, the Whitechurch Investment Team will specifically tailor a portfolio to meet your individual investment goals.

Key benefits

- **A dedicated Investment Manager** - will run your portfolio based on your requirements.
- **Your portfolio will be tailored to meet your objectives** - using a range of non-correlated assets - equity funds, bond funds, property funds, absolute return funds, cash and Exchange Traded Products.

- **The Investment Team has access to top fund managers** - this provides exposure to experts in each areas of the investment process and helping the team to identify emerging trends early.
- **We are unbiased** - we seek out the best funds, as we have no in-house funds and are not affiliated with any other institutions.
- **The service is fee-based** - so you know we will always be working with your best interests in mind.

Whitechurch Prestige SIPP Service...

We are all living longer and generally healthier than ever, making it essential that we save more so that we can retire in comfort. A Self-Invested Personal Pension (SIPP) is a great way to take control of your pension and allows a greater choice and control over where you can invest for retirement. Now you can maximise the potential of your SIPP by placing it in the hands of the Whitechurch Investment Team through the Prestige SIPP service, ensuring your SIPP is really working hard for your retirement.

You are able to access the Whitechurch Prestige SIPP through the following SIPP providers, selected for their very high levels of administration support:

- Hornbuckle Mitchell
- Merchant Investors
- SIPP Centre
- IPS
- Pointon York
- Suffolk Life

Fees & Charges

There are a number of fees levied by the parties involved in the Whitechurch Prestige SIPP Service. The cheapest way to access the Whitechurch Prestige SIPP Service is through Merchant Investors. Under our current offer fees are:

Merchant Investors fees:
Initial set up charge - £200

Annual charge - 0.15% per annum of the pension fund's value. These charges are taken from the SIPP cash account by Merchant Investors.

Whitechurch Securities fees:
Maximum advisory charge - 3% of the initial investment (all of which is payable to your financial adviser)

Maximum annual charge - 1.25% plus VAT (0.75% of which is payable to your financial adviser)

Therefore assuming an initial pension contribution of £50,000 the maximum initial charge on your Whitechurch Prestige SIPP will be £1,700, (or 3.4%).

Assuming a constant pension value of £50,000, the maximum annual charges will be £809 per annum (or 1.62%).

For more information about the Whitechurch Prestige Service, contact your financial adviser

IMPORTANT NOTES - PLEASE READ

The past is not an indication to future performance. The value of investments and any income they produce can go down as well as up and you may not get back the full amount invested. The stockmarket should not be considered as a suitable place for short-term investments. Taxation: Levels and bases of, and reliefs from, taxation are subject to change and are dependent on the circumstances of the investor. This publication is approved by Whitechurch Securities Limited which is authorised and regulated by the Financial Services Authority (FSA). All contents of this newsletter are deemed to be correct at the date of printing. We have made great efforts to ensure the accuracy of the information provided and do not accept responsibility for errors or omissions. This bulletin is intended to provide helpful information of a general nature and is not a specific recommendation to invest. The contents may not be suitable for everyone. We recommend you take professional independent advice before entering into any obligations or transactions.