

August 2010

Technology leads the way

July provided a welcome boost to equity investors as markets rallied into the quarterly earnings season. Once again results were well received, with profits growth coming through strongly in most sectors. This is consistent with our expectation that corporate news this year will generally reflect the tremendous growth from the lows of last year and the ongoing emphasis on cost control.

In some areas though earnings momentum has faded, causing weakness in retailers, house builders and other consumer related stocks in both the US and UK. This trend seems likely to persist as consumers face an uncertain jobs market and tighter credit conditions than they have become used to but does not mean that there are not areas where the consumer will still spend money. For example Apple's iPad and iPhone continue to walk out of the door and sales at internet retailers such as the UK's fashion retailer Asos go from strength to strength. There are always exceptions.

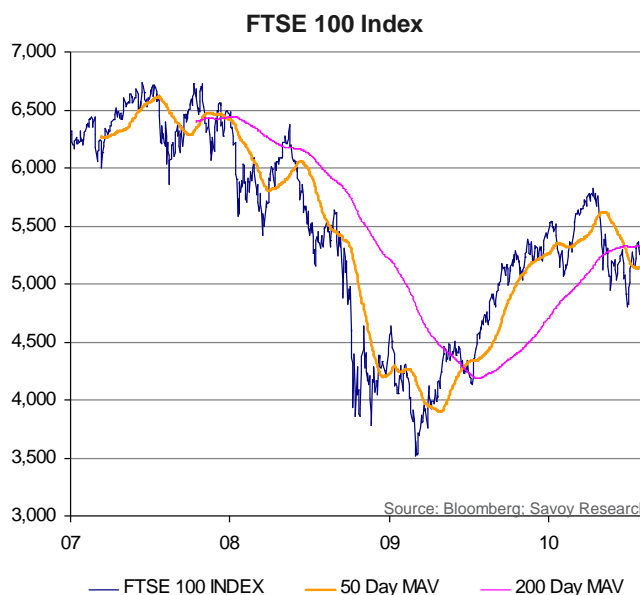
The ubiquitous PC is under threat from a new phenomenon, 'Cloud Computing'.

One area where growth is strong is technology where the internet continues to transform how people, companies and governments operate. The ubiquitous PC is under threat from a new phenomenon, 'Cloud Computing', which will see us move back to a model many readers will recognise where the software runs on a mainframe and users access it from dumb, slave, terminals. In the new world this means that you will work on your emails, letters, spreadsheets and other files from anywhere in the world over the internet with no need for an expensive PC loaded with expensive software. Payment could be via a monthly contract or on a pay per use basis. We already use something similar provided by US company Citrix to let investment managers "use" their office PC from anywhere in the world. Primarily a US technology story the major players in this new, virtual world include old stalwarts IBM, HP, Cisco and EMC and in the UK Telecity (TCY), a leading data centre provider.

Performance - 12 months

Index	Level	Change
FTSE 100	5,258.0	13.5%
S&P 500 (\$)	1,101.6	11.6%
MSCI Europe ex UK (Eur)	95.4	11.1%
MSCI Emerging Markets (\$)	991.4	18.9%
Nikkei 225 (Y)	9,537.3	-6.2%
FTSE Private Investor Balanced	2,743.7	13.5%
Gold (\$)	1,166.0	25.1%
Oil (\$)	78.2	-0.1%

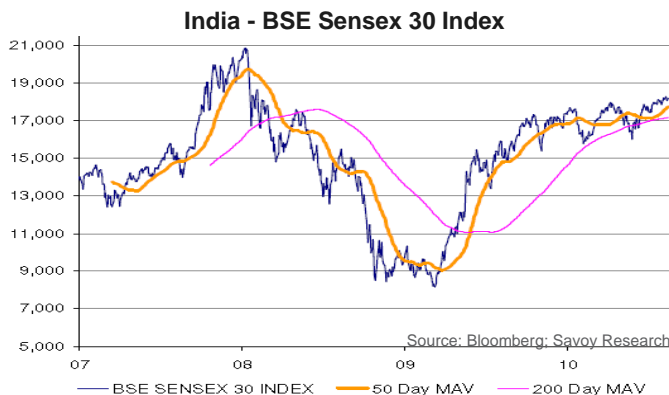
Source: Bloomberg; Fidessa



The rise in equities saw the UK add 6.8%. Leading sectors included banks up 13.9% on strong results and easier than expected requirements for new capital under new European banking rules. We remain concerned that banks are undercapitalised and that this will act as a drag on economic growth for some time to come.

Results and declining fears of a double-dip recession saw a strong rally in energy stocks (+10.8%), general industrials (+12.5%) and technology hardware (+14.4%). It was a similar story in the US which added 6.9% and in Europe which added 4.7%.

Developing markets continued to perform well as the chart of India below shows. We saw some buying of investment trust JP Morgan Indian (JII) which provides a good way in, standing at a modest 7% discount to net asset value.



London
+44 (0)20 7659 8000

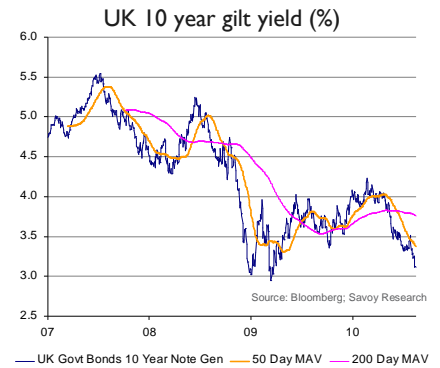
Stockport
+44 (0)1663 761980

Lincoln
+44 (0)1522 721984

Income and savings

With bond yields continuing to fall the search for income from “low risk” investments has become even harder. The chart of the 10 year gilt yield shows how yields have collapsed recently, a phenomenon not limited to the UK. Unless you believe in deflation, a decrease in the general price level of goods and services, it is difficult to argue that a 3.1% return for 10 years is a good investment with inflation running at the same level based on the CPI.

There are always alternatives that offer better returns and sometimes with only a modest increase in risk. For example, many institutions including the large private client firms will not invest in an issue unless they can build a large position or a holding for each client. This dynamic means that some issues are consistently mispriced and yield significantly more than they should for the risk involved - which is often negligible. Alternatively there are plenty of large companies that yield over 4% and are growing their dividends.



Name	Price	M Cap £bn	FTSE 100 %	Price Earnings Ratio				Yield %				Dividend Cover Y1e
				H	Y1e	Y2e	Y3e	H	Y1e	Y2e	Y3e	
FIRSTGROUP PLC	349.1	17	-	14.8	8.5	7.6	7.1	5.9	6.3	6.8	7.3	1.86
ROYAL DUTCH SHELL PLC-B SHS	1,715.0	109.0	3.4	10.9	8.7	7.1	6.4	6.3	6.3	6.5	6.8	1.83
AVIVA PLC	387.4	11.1	0.8	3.7	6.6	6.2	5.7	6.3	6.2	6.7	7.7	2.43
VODAFONE GROUP PLC	153.3	81.1	5.9	9.3	9.8	9.6	9.5	5.4	5.7	6.2	6.7	1.78
TUI TRAVEL PLC	201.2	2.2	0.1	223.6	8.9	8.0	7.1	5.3	5.5	5.9	6.6	2.03
TATE & LYLE PLC	4217	2.0	-	100.4	10.1	9.3	8.6	5.4	5.5	5.8	6.0	1.79
BAE SYSTEMS PLC	309.1	10.5	0.8	18.7	7.2	7.2	7.0	5.4	5.5	5.8	5.7	2.55
BT GROUP PLC	138.4	10.8	0.8	9.7	8.3	7.6	7.0	5.0	5.4	5.9	7.2	2.23
GLAXOSMITHKLINE PLC	1,224.5	63.9	4.7	15.5	10.0	9.7	9.2	5.1	5.0	5.5	6.0	1.98
AMLIN PLC	424.3	2.1	-	4.5	8.5	7.2	7.0	4.7	5.0	5.4	5.9	2.33
ASTRAZENECA PLC	3,295.0	47.3	3.5	8.7	8.1	8.2	8.7	4.3	4.8	5.1	5.3	2.55
BALFOUR BEATTY PLC	255.8	1.7	-	7.2	7.6	7.3	7.1	4.5	4.8	5.1	5.2	2.75
ICAP PLC	390.0	2.6	0.2	15.3	11.3	10.1	8.9	4.5	4.7	5.1	5.7	1.88
MARKS & SPENCER GROUP PLC	331.4	5.2	0.4	9.9	10.6	10.0	9.2	4.5	4.7	4.9	5.3	2.01
LEGAL & GENERAL GROUP PLC	90.8	5.4	0.4	4.2	7.3	7.1	6.6	4.2	4.6	5.1	5.6	2.95
IMPERIAL TOBACCO GROUP PLC	1,850.0	18.9	1.4	12.5	10.4	9.6	8.9	4.1	4.5	5.1	5.6	2.13
INVESTEC PLC	464.3	3.8	0.2	10.5	9.4	7.4	6.4	3.4	4.3	5.4	6.4	2.50
CENTRICA PLC	327.8	16.8	1.2	9.6	13.2	12.3	11.1	4.0	4.2	4.5	4.9	1.80
REXAM PLC	297.5	2.6	0.2	29.6	9.4	8.9	8.4	4.0	4.0	4.4	4.8	2.65
UNILEVER PLC	1,705.0	52.1	1.6	14.9	14.1	12.8	11.6	4.2	4.0	4.2	4.5	1.78

BOLD = FTSE 100 constituents; Source: Bloomberg

Y1e = Next corporate year end

Recommendations

We rate investment strategies, themes and securities as either positive/attractive or negative/unattractive. This recognises that your attitude to risk, time horizon, financial position, tax position and tolerance for loss versus gain is unique. Your investment manager will only adopt those ideas that in their opinion are suitable for your portfolio and investment strategy at the time.

Regulatory Information

This document/communication is issued by Savoy Investment Management Limited (“Savoy”), which is authorised and regulated in the UK by the Financial Services Authority with Firm Reference Number 145877. Our regulatory details can be viewed on the FSA Register <http://www.fsa.gov.uk/register/home.do> using that reference number. Savoy is a member of the London Stock Exchange.

This document does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe or purchase any shares or any other interests nor shall it or the fact of its distribution form the basis of, or be relied on in connection with, any contract thereof. This document is not directed at you if we are prohibited by any law of any jurisdiction from making the information in this document available to you. Recipients of this document who intend to apply for shares or interests in any investment are reminded that any such application may be made solely on the basis of the information and opinions contained in the Prospectus or other offering document relating thereto, as and when they become available, which may be different from the information and opinions contained in this document. Securities and derivatives markets may be construed as high risk and may be subject to high levels of volatility. It is possible that Directors and employees of Savoy may from time to time own securities that are mentioned in this communication.

All data and statistics are sourced from Savoy unless otherwise stated. Performance statistics are not necessarily based on audited financial data. Past performance is not necessarily indicative of future results and you may not retrieve your original investment. Changes in rates of exchange may affect the price of units or shares.

For non-professional investors: if you have any doubt as to the suitability of any product, please consult your financial advisor.

Please use the following internet address to view important information about Savoy: <http://www.savoyim.com>