



April 2010

Welcome to the second of Quartet Capital Partner's newsletters. As with our first newsletter the format remains the same - we report on our investment performance, our views on portfolio asset allocation going forward and Quartet Capital's development.

Quartet Capital focuses on providing discretionary investment management services to high net worth private clients. We believe that the approach we take really is *different* and as a reminder, we have set out what we do at the end of this newsletter.

Absolute Return Partners LLP (ARP) is a founding partner of Quartet Capital and we rely heavily on their economic views and analysis in constructing Quartet Capital's portfolio asset allocations. ARP's latest newsletter is attached for your interest.

Investment Performance

Although all our client portfolios are bespoke, we reference each portfolio against one of four model portfolios dependant on risk profile to ensure we are not deviating too far from how we would like to position a client for assuming a defined and agreed level of risk. We are glad to report that all of our model portfolios have continued to deliver good risk adjusted returns into the first quarter of this year:

Investment Performance	01-Aug-09 30-Sep-09	01-Oct-09 31-Dec-09	01-Jan-10 31-Mar-10
Model Portfolio Risk Profile			
- Capital Preservation	3.83%	2.43%	2.57%
- Cautious	4.47%	3.97%	4.01%
- Balanced	7.90%	7.18%	4.75%
- Aggressive	8.40%	6.77%	5.90%
Portfolio Comparators			
FTSE Gilts UK All Stocks Index	3.85%	-2.01%	1.14%
FTSE All Share Index	5.62%	7.79%	5.41%
FTSE World Index	7.84%	6.86%	7.59%

In appraising our model portfolios investment performance it is interesting to note that for Q1 2010 the allocations to equity markets across the four portfolios were as follows:

Capital Preservation	0%
Cautious	20%
Balanced	45%
Aggressive	65%

This shows that all portfolios delivered strong returns over the quarter without assuming significant amounts of equity market risk.

Given that around half of client portfolios are invested in passive or index tracking investments where the returns match their respective index, any outperformance (or under performance!) is due to one of two factors: our tactical asset allocation and/or the performance of our “alpha enhancing” investments.

Over the course of the quarter the strong investment performance was aided by both good tactical asset allocation as well as positive returns from our “alpha enhancing” investments:

Tactical Asset Allocation:

- As reported in our last newsletter we maintained a short duration across our government debt positions. This protected us against the rise in the long end of the yield curve as investors became concerned over the amount of debt issuance that needs to take place as well as concerns that the UK’s credit rating might be lowered.
- Our decision to continue to hold significant parts of the portfolios outside of Sterling, primarily in US Dollars paid off as the US Dollar strengthened considerably against Sterling over the quarter.

Alpha Enhancing Investments:

- Our commodity investment holding appreciated substantially off the back of strong underlying demand for commodities.

Asset allocation going forward

In terms of our positioning of client portfolios going forward our views on the major asset classes, based on the conclusions from our Investment Committee meeting in early April, are as follows:

Equities *(Neutral)*

Despite a strong performance in March major equity markets still offer some value. Global growth has been stronger than most commentators expected and we feel this will continue to provide short term momentum to markets. We have a preference for the US and UK and possibly as a contrarian play (especially after what is happening in Greece) parts of Europe. Emerging market stocks and, in particular, BRIC markets remain expensive and in our opinion do not offer good risk adjusted value at current levels.

Fixed Income *(Neutral)*

We see no changes to our position from our earlier newsletter. The long end of the yield curve for government debt in the UK, US and Japan looks risky on a short term outlook but, as highlighted in the ARP newsletter, may turn out to be an interesting longer term position. As we still fear deflation in the short term we think the short

end of the yield curve offers decent upside potential. We believe some value exists in better quality corporate bonds albeit that yield spreads have compressed. We would now steer clear of high yield and emerging market debt as the risk spread is as narrow now as pre-Lehman's and does not represent good value on a risk adjusted basis.

Currencies (Positive US\$; Neutral £; Negative €)

We prefer the US Dollar relative to Sterling and are very wary about the Euro which could come under significant future pressure as highlighted by what is happening in Greece. We are trying not to be too adventurous at present; Sterling and US Dollars are being held in the main.

Commercial Property (Positive/Neutral)

Whilst we may not have quite reached the bottom of the property cycle, value is emerging. All of our commercial property vehicles have now been subject to bids so we continue to investigate new opportunities. This is proving difficult but we do not feel under pressure or in a hurry.

Commodities (Negative)

What little exposure we had at the time of the last newsletter has now risen in price substantially over the quarter. We are wary about markets at these levels and think a speculative bubble has built up in many commodity markets. One can see this in Gold where Exchange Traded Funds now hold over 20% of the world's supply.

Hedge & Absolute Return Funds (Positive)

We remain positive towards this asset class. Hedge fund returns have been mixed year to date but managers see good opportunities. We have a bias towards managers that are macro orientated in nature and have little exposure to equity-related strategies. This we view as a reasonable hedge should equity markets pull back at some point.

Quartet Capital's progress

We continue to be delighted by the positive response that we have received from professional advisors, clients and potential clients. We are glad to report that assets under management continue to grow at a healthy rate. More is always welcome!

The Quartet Capital team continues to grow and, as we commented in our first newsletter, Nigel Olliff will be joining us in a week to further bolster our client management team and also broaden our research effort into structured products.

A reminder of what we do:

We believe that there are a few key points about Quartet Capital's investment approach that make us different.

- Bespoke portfolios. We do not believe in shoehorning clients into predetermined investment solutions, therefore all client portfolios are managed on a bespoke basis.
- Portfolio construction. We start by addressing each individual client's risk profile which in turn yields a strategic asset allocation. This is then adjusted tactically depending upon our macroeconomic views to finally arrive at a bespoke client portfolio.
- Asset allocation. We believe (and studies have shown) that asset allocation is by far the biggest driver behind investment performance. This is what we focus on getting right and where we believe we add significant value.
- Investments. Very few fund managers consistently beat their respective index and they also tend to have high fees and costs. We therefore use passive investment vehicles for core portfolio holdings. Tactical investments which make up the balance of most portfolios are specific investment counters or actively managed funds which are included to try and produce the best risk-adjusted returns (add alpha). All portfolios are managed on a multi-asset basis to diversify risk.

If you have any questions, queries, comments and feedback, good and bad(!), or if you are interested in a confidential meeting with Quartet Capital, please contact Colin McInnes, Managing Partner, on (020) 8939 2920 or via email at cgm@quartetcapitalpartners.com.

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The portfolio performance information presented in this letter is estimated, unaudited, net of applicable fees and is subject to change. No representation is being made that the portfolios will or are likely to achieve profits or losses similar to those shown on the monthly performance table. Past performance is not indicative of future results and a client may not get back the amount originally invested.

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