Quartet Capital Partners LLP

February 2010

Welcome to the first of Quartet Capital Partner's newsletters. In this letter we report on our investment performance, our views on portfolio asset allocation going forward and Quartet Capital's development since its launch towards the end of last year.

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 client portfolios are bespoke, we reference each portfolio against one of four 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 our model portfolios have started the year well, continuing the good performance enjoyed in the second half of last year:

Investment Performance	**01-Aug-09 30-Sep-09**	**01-Oct-09 31-Dec-09**	**January 2010**
Risk Profile			
- Capital Preservation	3.83%	2.43%	1.68%
- Cautious	4.47%	3.97%	0.64%
- Balanced	7.90%	7.18%	-0.69%
- Aggressive	8.40%	6.77%	-1.41%
Benchmarks			
FTSE Gilts UK All Stocks Index	3.85%	-2.01%	0.69%
FTSE All Share Index	5.62%	7.79%	-3.63%
FTSE World Index	7.84%	6.86%	-4.57%

16 Water Lane, Richmond, Surrey TW9 1TJ
T +44 (0) 20 8939 2920
F +44 (0) 20 8939 2925
E partners@quartetcapitalpartners.com
www.quartetcapitalpartners.com

Our returns are always influenced by one or two factors: our tactical asset allocation decisions and/or the performance of our "alpha enhancing" investments. Given that around half of client portfolios are invested in passive or index tracking investments we know that these returns match their respective index.

Over the course of the month the outperformance of the portfolio benchmarks was aided by both good tactical asset allocation and also positive returns from our "alpha enhancing" investments.

Tactical Asset Allocation:

- We shifted our government debt exposure from long to short duration in Q4 last year. In January this protected us against a rise in the long end of the yield curve caused by market concerns that the UK's credit rating might be lowered.
- Last December we moved from holding all of our client cash in Sterling to approximately half in US Dollars. We also continued our policy of not hedging any US Dollar exposure back into Sterling in any of our underlying assets. This equated to approximately a third of all portfolios. The US Dollar strengthened considerably against Sterling in January.

Alpha Enhancing Investments:

- Our commercial property holding was subject to a bid and rose by over 20% in January.
- Our holdings in hedge and absolute return vehicles produced marginal positive returns.

Asset allocation going forward

In terms of our positioning of client portfolios going forward our views based on the conclusions from our investment committee meeting in late January on the major asset classes are as follows:

Equities *(Neutral)*

Major markets still offer reasonable value based on price/ forward earnings ratios. We have a preference for the US, UK and parts of Europe. Emerging market stocks and in particular BRIC markets look expensive and do not offer good risk adjusted value at current levels. We expect modest positive returns over 2010 punctuated by bouts of volatility.

Fixed Income *(Neutral)*

The long end of the yield curve for government debt in the UK, US and Japan looks risky and overvalued. As we still fear deflation in the short term we think the short end of the yield curve offers decent upside potential. We believe value exists in better quality corporate bonds and would shy away from high yield and emerging market debt as the risk spread is as narrow now as pre-Lehman's (not 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 in the ARP newsletter. Potentially a basket of Asian currencies may well do well but that all depends upon how China dampens down its own asset bubbles. University lecturers always told us that if in doubt match your assets to your liabilities so 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.

Commodities *(Negative)*
Longer term statistics show that as a basket they provide a very small real return but are subject to periods of extreme upside and downside volatility. Having benefited from a part of this recent rally we have taken most of the exposure off and are watching from the sidelines for value to re-emerge. A statistic (courtesy of Goldman Sachs) shows that Gold is generally useless as a hedge against inflation and sharp equity markets falls and we therefore question the merit of holding gold at these price levels.

Hedge & Absolute Return Funds *(Positive)*
After the turbulence of 2008/9 assets have fled the asset class and that makes us positive that the better managers will have greater opportunities to make money. We have a bias towards managers that are macro orientated in nature and have little exposure to equity related strategies.

Quartet Capital's progress
It has been a really fast track experience for all of us here at Quartet Capital since we launched the business in October 2009. The support from our partners ARP has also been invaluable.

We have been delighted at the positive response and feedback that we have received from professional advisors, clients and potential clients and the steady growth of assets under management has meant that we have hit the ground running.

The Quartet Capital team continues to grow and we look forward to Nigel Olliff joining us in April to further strengthen the portfolio management team. Nigel joins us from Berry Asset Management where he managed a range of private client portfolios as well as researching structured products. His experience in running private client portfolios as well as analysing structured products will prove a useful addition to the team. We look forward to welcoming him on board.

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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