



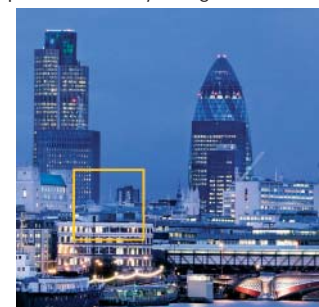
Equity markets were again muted during the second quarter of 2008 with economic and corporate data giving investors plenty of reasons for concern. The UK market fell 1.5% during the 3 months as a rally in April and May was given up rapidly in June and markets globally fell close to the lows seen in mid-March. Major currency markets were relatively stable over the period, however the oil price continued to rise rapidly achieving a new high of \$140 per barrel in June, a rise in excess of 30% over the quarter.

Economic growth appears to be slowing in much of the developed world, and there are tentative signs that the developing world will also grow less rapidly in the coming period than it has in the last few years. Of greater short term concern is the global synchronised pick up in inflation driven largely by commodity prices, most notably oil and food. The tone from central banks is becoming more biased towards higher interest rates, even in those regions where growth is weakest, such as the US, UK and Continental Europe. Whilst interest rates have not actually been raised in these developed markets it seems unlikely that further monetary stimulus will be provided during 2008 even if economic growth continues to disappoint. In emerging markets there are now around 50 countries with double digit inflation, and monetary policy is being tightened progressively. The key issue now is whether slowing economic growth reduces inflationary pressures before they become embedded in wage increases. For this to happen commodity price increases need to be arrested, either from reduced demand or an easing of supply constraints. There are early signs of falling demand for oil in Western economies, for example in the purchase and use of cars. In emerging markets the authorities are gradually moving to cut subsidies on oil which have been preventing higher world prices from reducing local demand, but have also been putting increasing stress on government budgets. It seems likely that slowing growth will ultimately reduce

inflation expectations during 2009, but that the elevated price of fuel, food and credit will continue to squeeze consumer budgets.

Financial markets' relief from the Federal Reserve orchestrated bail out of Bear Sterns by JP Morgan, on 16 March has given way to the reality that the consequences of the credit crisis are pervasive and likely to be prolonged. Credit is now highly restricted and banks are aggressively rebuilding their balance sheets. In the US and UK mortgage debt is effectively rationed, and this is contributing to house price falls in both of these economies, where consumer confidence has fallen to 20 year lows as a result. A prolonged period of deleveraging of financial markets, property prices and consumer balance sheets is now likely. Corporates, with the exception of those directly impacted by the financial crisis or discretionary consumer spending, remain robust. Few of the companies we meet are yet to feel the impact of slowing economic growth and for the most part have strong balance sheets. Whilst this remains the case the prospect for a sharp increase in unemployment seems unlikely, although jobless rates have begun to tick up from historically low levels in both the US and UK in recent months.

The UK equity market continued to be driven by the major market themes of the last year, with commodity related sectors performing spectacularly well, and financials, property and consumer related sectors remaining under substantial pressure. With oil, mining and pharmaceuticals important constituents of the All Share Index these sectors supported the market from greater falls. The FTSE 250 mid-cap index underperformed the FTSE100 by 6% during the quarter and gives a better indicator of the underlying performance of many of the stocks in the market. The house building stocks were particularly weak in this period with many falling by as much as 50% or more. The best performing stocks tended to be oil exploration and production companies such as Dana Petroleum, or the rare target of corporate activity such as Enodis, Taylor Nelson, Expro or Chloride.



DISCLAIMER: This document has been issued in the UK by RCM (UK) Ltd. RCM (UK) Ltd is authorised and regulated by the Financial Services Authority. FSA Registration: 122219. Registered in England No. 2014586. Registered office: 155 Bishopsgate, London, EC2M 3AD, telephone +44 (0) 20 7065 1407. Please remember that past performance is no guide to future performance. The value of investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount originally invested. The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation and anyone who acts on it, or changes their opinion thereon, does so entirely at their own risk. The opinions expressed are based on information which we believe to be accurate and reliable, however, these opinions may change without notice. All figures in US dollar terms unless otherwise noted.