

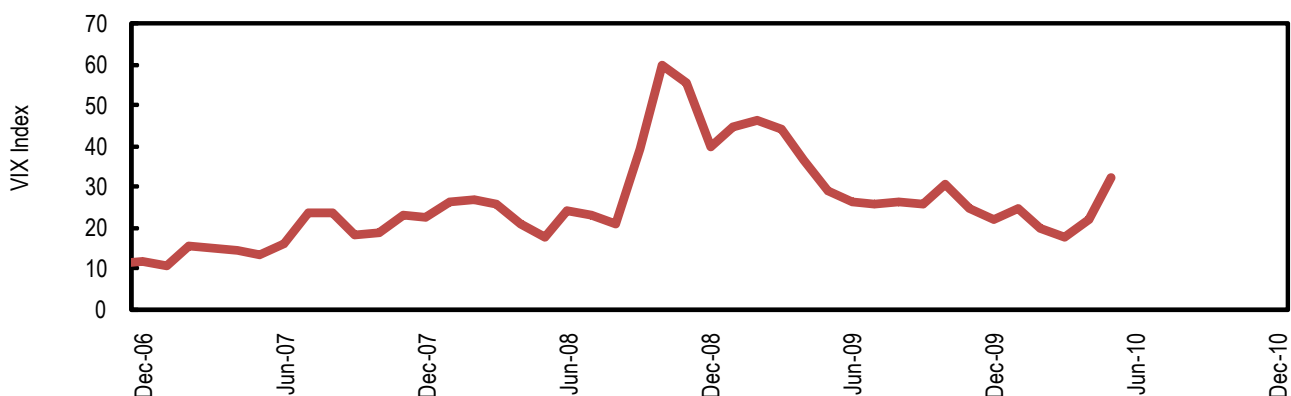
With many of our clients and their consultants contemplating the investment environment of 2010, both the 6 months thus far and the outlook for the remainder of the year, we thought it an opportune time to provide our views on the state of play in the Emerging Markets; including an overview of our core portfolio positioning and our thoughts on how we see things developing from here.

Background and Outlook

Despite the backdrop of the continued recovery in global economic growth and increased resilience across most Emerging Markets economies, we have seen a marked shift in investor sentiment during the early stages of this year to reflect a focus on issues such as the deteriorating debt dynamics and fiscal challenges in Europe, leading to questions around the long term viability of the Eurozone. These concerns dominated news headlines and resulted in heightened levels of volatility. It is fair to say that, generally speaking, these concerns have no direct and in some cases even negligible impact on Emerging Markets economies, however they have been reflected in the performance of the asset class with the MSCI EM Index falling by over 6.17% over the first 6 months of the year and over 15% during May before partly recovering to close at -8.80%. This comes at a time when the medium to long term prognosis of many Emerging Markets economies remains positive, as evidenced by their ongoing contribution to global GDP.

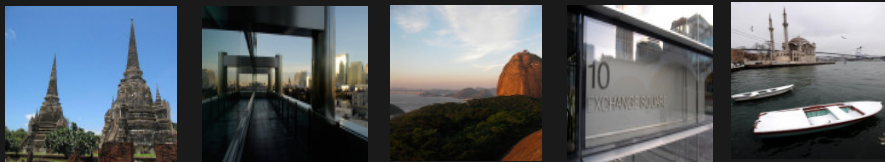
In terms of Emerging Markets economies, growth numbers continue to surprise on the upside. First quarter numbers for China (11.9%), India (11.2%) and Brazil (9%) were all at levels higher than expected. In terms of Developed Markets, many larger developed economies such as the US, Germany, France and Japan also all continued to show a steady recovery trend in GDP growth over the first quarter of this year.

We take the view that the global cyclical recovery remains well entrenched, not only on the basis of the continued strong outlook for growth in larger Emerging Markets economies but also as several Developed Markets economies continue to show steady trends in recovery. While we recognise there are some risks which may impact the overall 'shape' of the recovery, we firmly believe there is very low probability of a scenario whereby we will again see negative growth in the broader global economy (that is, the chance of a 'Double Dip').



So what are the risks?

Whilst we recognise that there is significant 'sentiment' risk in the global equity markets (as indicated by the news headlines) which has the ability to impact security prices, particularly as trading volumes are at relatively lower levels than has been the case in recent years (causing a situation where prices are 'trading away from fundamentals'). We believe we would need to see the current debt crisis in the European periphery escalate to encompass some of the 'more sound' markets in the region. The result of such an event could be another freeze in credit markets, such as what was seen at the time of the collapse of Lehman Bros.



We do not view this as a likely event given we have witnessed and expect to continue to see:

- Bold fiscal consolidation and monetary support measures;
- Pro-active actions by the European governments (as we have already seen) to manage through this crisis; and
- Continued ability of the Emerging Markets economies to “weather the storm” via their ability to use their reserves / lower levels of indebtedness to continue policies towards “domestic growth”

How are our portfolios positioned?

We have continued and maintained our key approach, one that we have held for some months and which resulted in an 11% relative return for our ‘core’ portfolios during 2009.

During periods when security prices (and markets as a whole) trade away from their fundamentals we believe there is little to be gained from short term trading in the portfolio, as often this leads to nothing more than an increase in transaction costs. During these periods we take the approach of retaining our disciplined focus on the portfolio over a market cycle.

In line with our disciplined approach, over the course of the previous months we have avoided entering into short term defensive positions with the view that the success of these in generating alpha for our portfolios will be short lived, due to their success being underpinned by market ‘noise’.

The portfolio does therefore exhibit a number of names which, while attractive on the basis of valuation and earnings factors, have higher “beta” relative to the market. This positioning has meant that during the short term (for example, the first 6 months of 2010) these names, or more correctly the stock price associated with these names, have come under some pressure. We believe these effects are temporary in nature and these names, based on the quality of their franchises etc, will be rewarded relative to the market in coming months.

Our approach focuses on those companies / sectors that we believe are best positioned to benefit from the continued growth of Emerging Markets economies and the global economic recovery. This remains consistent with the key themes driving portfolio construction during 2009, being concentrated in those names characterised by higher growth and higher return on equity and in those markets and sectors where there is either a rising or increase in domestic demand participation.

Not only do our portfolios remain positioned in line with our medium to long term view of the markets in which we invest but they are also ready to capitalise when the fundamentals of the asset class re-assert themselves. In our experience of nearly twenty years investing in the emerging markets equity asset class we have witnessed many periods of both market dislocation and the reversion of fundamentals. Our belief is that clients are best served by focusing on investing over a full market cycle in line with the manner in which we continue to invest.

We would like to take this opportunity to wish all our clients, their consultants (and their respective families) a safe and pleasant northern hemisphere summer.

Esemplia Emerging Markets
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