THIS SUPPLEMENT:

Chris Wright: An enhanced income fund

Fund Manager of the Premier Optimum Income Fund talks to Selftrade's Stephen Barber.

Daniel Wills: Playing the US Cycle

Senior analyst at ETF Securities Ltd talks about The Russell 1000 and Russell 2000 indexes.

Asset Outlook

Consensus views

Bear necessities

selftrade research

Asset Allocator

SUMMER 2009

Selftrade offers an execution only sharedealing service. No part of this newsletter should be construed as an invitation to invest or advice. The views of the authors are not necessarily those of Selftrade or indeed their own organisations. Selftrade is a trading name of Talos Securities Ltd, which is authorised and regulated by the Financial Services Authority (FSA No. 208271) and is a member of the London Stock Exchange and PLUS Markets. Selftrade, Boatman's House, 2 Selsdon Way, London E14 9LA Tel: 0845 0700 720 Email: info@selftrade.co.uk www.selftrade.co.uk

IN CONVERSATION

Chris Wright – Investing for Income

Senior Fund Manager of the Premier Optimum Income Fund talks to Selftrade's Stephen Barber about the advantages and disadvantages of investing within this fund.

What is the Premier Optimum Income Fund?

The Premier Optimum Income Fund is effectively an enhanced income fund. We believe that this Fund might be particularly suitable for investors who are looking for an enhanced regular income stream with the prospect of capital growth over the long-term and who are willing to accept a medium level of risk.

How does the Fund achieve a high level of income?

The Fund predominantly invests in UK and European high-yielding equities as well as some smaller cap very high yield equities. These are often smaller companies with good balance sheets and very high yields which are temporarily overlooked by the market. To achieve the enhanced level of income, the Fund Manager uses a modern investment technique, known as an 'active option' strategy.

Why should investors consider this type of Fund in the current economic climate?

The past year has seen the Bank of England slash interest rates to historic lows. This has been bad news for savers who are perhaps dependent on a regular income stream. Worryingly, investors may now find themselves having to delve into savings to make up any income shortfall. Furthermore, with the average savings account interest rate hovering just above zero, investors also have to face the rather depressing realisation that any income they do receive is likely to be eroded by inflation. Amidst the doom and gloom, the Premier Optimum Income Fund is a positive ray of light for income seeking investors.

Since the Fund was re-launched in October 2008, we have created approximately 1 % of additional income per month through the strategy mentioned earlier, as well as outperforming both the FTSE All Share and the IMA UK Equity Income Sector average.

However, it is very important to bear in mind that the excessively high additional income which we are currently reaping (current historic yield is 16.57 % as at 31.03.09) is not sustainable. It has really only been made possible by the excessive levels of volatility witnessed in the markets recently and where we have been able to take full advantage of high-yielding opportunities.

Looking forward, it is expected that through a typical cycle, the investment process may still be able to generate approximately 4 - 5 % of extra income on top of the dividend yield of about 4.5 %. Which, when compared with the meagre offerings of the average cash account, still makes for a rather pleasant outcome.

In what sort of market conditions would you expect this Fund to do particularly well?

If the Fund creates 7.5 % income per year, as is its aim, then it is, by definition doing well.

In relative terms, the Fund is likely to perform well in a gently declining market, a flattish market and a gently rising market. In the event of a very sharp downturn or market collapse, we would expect the Fund to outperform, but still be down as well. In a roaring 'bull' market, where the markets are rising sharply, the Fund will not benefit from all of the upside. However, it is important to bear in mind that these two 'extreme' scenarios are usually considered quite rare. During 'average' or normal market conditions, where the ups and downs are gradual rather than severe, we would generally speaking, expect the Fund to outperform.

What are the potential down-sides to this strategy?

Contrary to what you might expect, the real risk to the portfolio is possibly a strong 'bull' market, where markets enjoy a prolonged period of fast growth. In such a scenario, as share prices rise, stock that may have yielded 5.5 % may only yield 4.5 %. We would expect the portfolio itself may underperform in such market conditions. However, as mentioned earlier, very strong bull markets are a rare occurrence.

How successful has the Fund been so far?

The figures speak for themselves really. The Fund has already exceeded all expectations since its launch just six months ago. Whilst, as mentioned previously, the high levels of income generated over this period may be exceptional due to the unprecedented market conditions, there is no doubt that the Fund is well on its way to fulfilling its objective of providing investors with a high level of regular income. We generally expect good quality, dividend paying companies to significantly outperform cash and bonds over the next few years which should help to further increase this income stream

One final word on the use of options.

As the Fund only uses Exchange Traded Options, there is no risk in terms of the counterparties used. In effect, the Exchange takes all the risk.

PREMIER
ASSET MANAGEMENT

Chris joined Premier in 2008 from Thames River Capital where he managed the successful Tybourne hedge fund and was part of the European Hedge fund team.
He has over 24 years' experience n the investment industry and a wealth of Pan-European equity and derivative experience.

Selftrade is delighted to add the Premier Funds range to its platform.
Selftrade is offering the funds at a discounted initial charge of 0.25%.

The following Premier portfolios are now available:

Premier Absolute Growth Fund
Premier China Enterprise Fund
Premier European Growth Fund
Premier Global DSR Fund
Premier High Income Bond Fund
Premier Optimum Income Fund
Premier Pan European Property Share Fund
Premier UK Money Market Fund, and
the two Premier Multi-Asset Distribution and Growth funds.

Check out our Fund Selector tool for more information.

Playing the US Cycle: Small vs Large Cap Equities

Daniel Wills, senior analyst at ETF Securities Ltd talks about The Russell 1000 and Russell 2000 indexes.

The Russell 1000 and Russell 2000 indexes are now available together for the first time on European exchanges via the ETFS Russell 1000 and 2000 (RONE and RTWO) ETFs, quoted both in EUR and GBP. Russell indexes are used as investment industry benchmarks by almost 2/3 of all US institutional funds. The high beta Russell 2000 index tracks small-cap companies while the Russell 1000 large-cap index, provides strong defensive returns, providing investors with ideal tools for playing the US cycle.

Russell Equity Benchmarks

Russell Investments aim to provide the most comprehensive coverage of the US equity 'universe' with its range of benchmark indexes. The Russell 3000, the combination of Russell 1000 and Russell 2000 large- and small-cap indexes, covers 98 % of the listed US equity market. This compares with the 66 % coverage of the US equity market by the S&P 500. The breadth of equity coverage by Russell indexes has encouraged widespread adoption by US institutional equity funds.

- $4.3 trillion of assets are benchmarked to a Russell Index
- Of US institutional equity funds reporting a benchmark, 63 % are benchmarked to a Russell index, twice as many as those products benchmarked to an S&P index
- $1.3 trillion is benchmarked to Russell 1000® Indexes
- Russell 2000® accounts for 98 % of small cap mandates

Russell index construction is modular – investors can choose the segment(s) of the market they wish to have exposure to through the combination of indexes tracking exclusive portions of the market. This compares with other indexes that often have overlapping memberships between indexes. Investors now have European-listed access to the large-cap (RONE) and small-cap (RTWO) segments of the US market, or the US equity market overall, by combining RONE and RTWO. This strategy enables individual investors to replicate the 'alpha' returns (outperformance) created by fund managers via selection in large- or small-cap equity portfolios in a simple, low cost trade.

Russell also aims to be the most accurate, transparent and timely index provider in the US. The criteria for company inclusion is determined by pre-set rules covering areas such as size and liquidity of the security, compared to committee-based decisions for inclusion in some other indexes such as the S&P 500. This rules-based methodology enables the index to be reconstituted regularly (rebalanced monthly) to reflect the new opportunity set of investible companies as they become available. For example Google was included in the Russell 1000 index several years prior to its addition to the S&P 500.

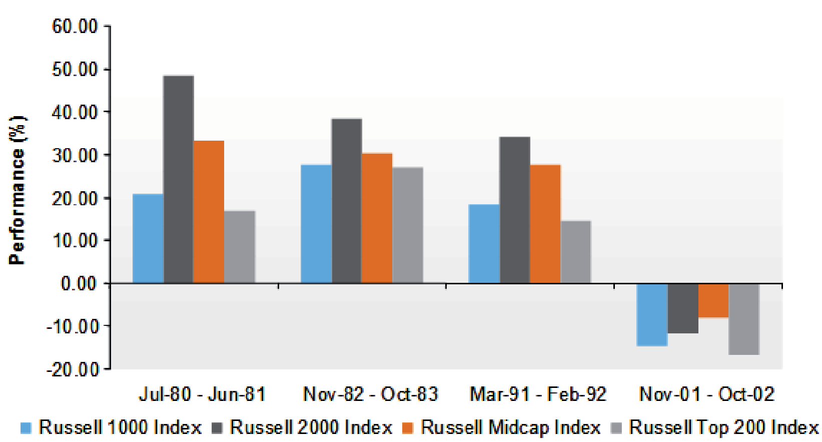
ETFS Russell 1000 Fund (RONE) – Large-Cap Defensive Growth

RONE offers the opportunity to take a defensive play on US growth, with the ability to capitalise on the next economic upswing in the US. It follows the largest 'best of breed' US stocks with market capitalisations exceeding US$2 billion. Many of these companies are international industry benchmarks such as Exxon Mobil for energy and Microsoft in computer software. The Russell 1000 has tended to match other benchmarks in downswing phases of the business cycle, whilst outperforming other benchmarks when growth is rising rapidly. This has seen it outperform other benchmarks such as the S&P 500 and MSCI US over long time horizons without additional costs in volatility.

ETFS Russell 2000 Fund (RTWO) – Small Cap High Beta Growth

RTWO offers the opportunity to leverage up on earnings growth opportunities from the next US growth upswing. It follows the small-cap segment of US equities for those with market capitalisations below US$2 billion. Growing from a small base, these firms tend to expand the fastest in US upturns. The growth-centric nature of the index has seen it capitalise the most from US upturns (fig. 1), boosting long run return growth. The Russell 2000 has been one of the few equity indexes in the US market to maintain positive 10 year return growth through the credit crisis in 2008. It has outperformed the S&P 500 by 21 % and MSCI US by 23 % over the past 10 years with similar return volatility.

Fig 1 - Performance following a recession



Source: Performance from Russell, Recession Data from National Bureau of Economic Research

Conclusion

ETFS Russell 1000 and 2000 ETFs (RONE and RTWO) offer defensive and high beta investment options representing the full spectrum of large- and small-cap US equity investments. This suite of options is available for the first time in Europe via EUR and GBP ETFs from ETF Securities. RONE and RTWO returns have outperformed other major US equity benchmarks over the long run with similar volatility. ETF Securities Russell ETFs are also backed by Russell's commitment to provide the most accurate and transparent representation of a rapidly evolving US equity investment marketplace.

Daniel Wills, senior analyst at ETF Securities Ltd.

Global asset views

Consensus views on world markets and sectors drawing expertise from fund management groups.

	UK	US	Europe	Emerging	China	Property	Gilts	Corp. Bond
Aberdeen	0	0	0	1	1	0	1	2
BlackRock	0	1	0	2	2	-1	1	2
Gartmore	-1	1	-2	1	1	-1	-2	2
JP Morgan Asset Management	2	2	-2	0	0	0	2	2
M&G	0	2	2	2	1	1	1	2
Selftrade Research	0	1	0	0	1	-1	1	1
Schroders	0	-1	0	0		-2	0	2
Société Générale Asset Management								
Scottish Widows Investment Partnership	0	1	0	0		-1	-1	1
Threadneedle	0	0	1	0	1	1	1	1

KEY: -2 Negative; -1 Underweight; 0 Neutral; +1 Overweight; +2 Positive

	UK	US	Europe	Emerging	China	Property	Gilts	Corp. Bond
Autumn 07	-0.1	-0.5	0.8	0	0.2	0	-0.8	-1
Winter 07	0.4	-0.1	0.9	0.8	0.4	-0.6	-0.7	-0.8
Spring 08	-0.4	-0.5	0.6	0.1	0.2	-1.1	-0.2	-0.3
Summer 08	-0.5	0.2	0	0.3	0.3	-1	-0.4	-0.3
Autumn 08	-0.4	0.8	0	0	-0.1	-0.8	-0.4	-0.6
Winter 08	-0.1	0.5	-0.1	0.2	0.5	-1.3	0.3	0.7
Spring 09	-0.3	1	0.4	0.3	0.2	-1.1	-0.5	1.2
Summer 09	0.1	0.8	-0.1	0.7	1.0	-0.7	0.4	1.7

Consensus

The market rally in the first half of 2009 has had a mixed effect on this quarterly snapshot of consensus views. On the whole, sentiment is more optimistic with the UK notably moving into positive territory for the first time since Winter 2007. While China and the US have slipped a tad, Europe is the only sector to have moved back into the negative. Gilts and corporate bonds show as positive and even property is shaking off the doom and gloom. It will be interesting to see if this new found optimism is sustainable into the second half of the year as recovery struggles to take hold.