

Monthly Economic Summary

General Economy

As the country sets up to go to the polls on May 6th, the Labour, Conservative and the Liberal Democrat parties, are scrambling to persuade voters that they are committed to curtailing the budget deficit, while securing the economic recovery. The UK is in an uncomfortable fiscal position as it faces a budget deficit of over 12% of its GDP. In April, the Bank of England left the bank rate at the record low of 0.5% and explained it would keep its asset buying programme unchanged at £200billion, as expected by the market. UK inflation data surprised to the upside in March. The Consumer Prices index accelerated to 3.4% y/y from 3.0% and the Retail Prices Index rose to 4.4% y/y from 3.7%. The Gross Domestic Product for the first quarter of 2010 came in below forecast at 0.2%q/q, compared with an increase of 0.4% in the previous quarter. The decrease in the growth rate was due to weaker growth in services. Whilst the March claimant count rate fell to 4.8% from 4.9%, the fourth decline in the last five months. The broader ILO measure for February increased to it highest since September 1996. March retail sales rose a smaller than forecast 0.4% m/m and 2.2%y/y. Public finances figures showed a smaller than expected rise in FY 2009/10 public borrowing of £152.8bln, £13.2bln below the Treasury forecast. The manufacturing PMI rose to 57.3 last month, from 56.5 in February, and was ahead of analysts' forecasts. It was the best monthly growth figure since October 1994, as the Services' PMI also showed robust growth with a 50+ reading of 58.0 in March. The GfK consumer confidence index fell by 1 point to -16, suggesting that confidence in the recovery is beginning to stall.

Housing Market

According to the Nationwide, property values grew by 1%m/m in April and 10.5%y/y, to an average of £167,802, reaching within 10% of their peak in October 2007. The Halifax house price index rose by 1.1%m/m and 5.2%y/y in March, resulting in the average price at £168,521.

Currency

The Euro endured a tormented trading month, due to the fears of the Greek debt problems. Sterling started the month at \$1.529 and reached a low of \$1.516 before ending the month at \$1.527. Sterling against the Euro ended at \in 1.156 having started at \in 1.126. The Euro started the month at \$1.350 against the dollar, before ending the month at £1.329.

Forecast

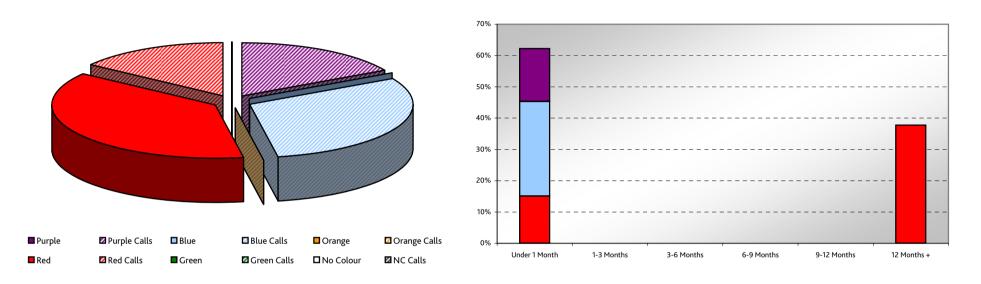
Sector believes that the Bank rate will remain at 0.5% for the rest of the year and expects the next upward move to be Q1 2011 and eventually reaching 4.50% in Q1 2013. UBS believe that the bank rate will start to increase in Q4 of 2010, reaching 2.25% by the end of 2011. Capital Economics have not changed their forecast and believe that rates will be held at 0.5% for up to five years, if things do not improve.

Bank Rate	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Sector	0.50%	0.50%	0.50%	0.50%	1.00%
UBS	0.50%	0.50%	0.50%	0.75%	1.00%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
Alliance & Leicester	2,000,000	0.80%		Call
Bank Of Scotland	2,000,000	0.80%		Call
Natwest	2,000,000	0.80%		Call
Insight	2,235,000	0.49%		MMF
Nationwide	2,500,000	6.25%	28/05/2008	27/05/2011
Barclays	2,500,000	7.05%	17/07/2008	16/07/2011
Borrower - Icelandic Exposure	Principal (£)	Interest Rate	Start Date	Maturity Date
Landsbanki	1,000,000	5.86%		
Total Investments	£14,235,000	3.16%		
Total Investments - excluding Icelandic exposure	£13,235,000	2.96%		
Total Investments - Icelandic Exposure Only	£1,000,000	5.86%		

Portfolio Decomposition by Sector's Suggested Lending Criteria



Up to 2 Years	Up to 1 Year	Up to 1 Year	Up to 6 Months	Up to 3 Months	No Colour

WARoR = Weighted Average Rate of Return WAM = Weighted Average Time to Maturity

			% of Colour	Amount of	% of Call				Exclı	iding Calls/MMFs
	% of Portfolio	Amount	in Calls	Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Purple	16.89%	£2,235,000	100.00%	£2,235,000	16.89%	0.49%	0	0	0	0
Blue	30.22%	£4,000,000	100.00%	£4,000,000	30.22%	0.80%	0	0	0	0
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	52.89%	£7,000,000	28.57%	£2,000,000	15.11%	4.98%	298	781	417	1094
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	£13,235,000	62.22%	£8,235,000	62.22%	2.96%	158	413	417	1094

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
01/04/2010	730	Westpac Banking Corporation	Australia	L/T and Individual ratings upgraded, other ratings affirmed, L/T placed on 'Stable Outlook'
07/04/2010	732	Yorkshire Building Society	UK	All ratings affirmed with a 'Stable Outlook' following merger with Chelsea BS
07/04/2010	732	Chelsea Building Society	UK	L/T and Individual ratings upgraded and withdrawn, other ratings withdrawn following merger with Yorkshire BS
07/04/2010	733	Irish Life & Permanent plc	Ireland	Individual rating downgraded, support rating affirmed
09/04/2010	734	Anglo Irish Bank Corporation	Ireland	S/T rating downgraded, L/T and S/T on 'Rating Watch Evolving', support rating placed on 'Rating Watch Negative'
09/04/2010	734	EBS Building Society	Ireland	Individual rating downgraded, L/T rating on ' Rating Watch Positive'
13/04/2010	735	Newcastle Building Society	UK	L/T, S/T and Individual ratings removed from 'Rating Watch Negative', L/T placed on 'Negative Outlook'

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
01/04/2010	731	Bank of Ireland	Ireland	FSR placed on 'review for possible upgrade', L/T rating on 'Stable Outlook'
01/04/2010	731	Allied Irish Banks	Ireland	FSR outlook changed to 'Positive' from 'Developing', L/T rating on 'Stable Outlook'
01/04/2010	731	EBS Building Society	Ireland	FSR outlook changed to 'Positive' from 'Developing', L/T rating on 'Negative Outlook'
22/04/2010	736	Chelsea Building Society	UK	All of the ratings withdrawn following the merger with Yorkshire BS

Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
23/04/2010	737	Intesa Sanpaolo	Italy	L/T and S/T ratings downgraded, L/T placed on 'Stable Outlook'
23/04/2010	737	Banca IMI	Italy	L/T and S/T ratings downgraded, L/T placed on 'Stable Outlook'
27/04/2010	738	Portugal Sovereign Rating	Portugal	Sovereign rating downgraded with a 'Negative Outlook'
28/04/2010	739	Banco Santander Totta SA	Portugal	L/T and S/T ratings downgraded, L/T placed on 'Negative Outlook'
28/04/2010	739	Caixa Geral de Depositos	Portugal	L/T and S/T ratings downgraded, L/T placed on 'Negative Outlook'
28/04/2010	739	Banco Espirito Santo	Portugal	L/T and S/T ratings downgraded, L/T placed on 'Negative Outlook'
28/04/2010	739	Banco BPI	Portugal	L/T and S/T ratings downgraded, L/T placed on 'Negative Outlook'
28/04/2010	740	Spain Sovereign Rating	Spain	Sovereign rating downgraded with a 'Negative Outlook'