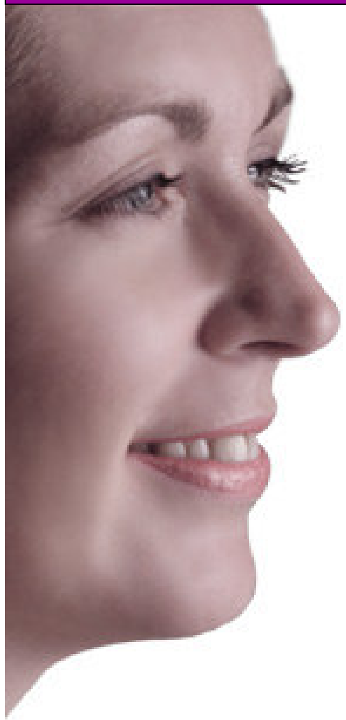
AFFINITY CONSULTING GROUP

April 2006

The Bulls Are Raging



Contents

1. Introduction

This year has been a busy one so far, which is why it has been so long since the last newsletter.

We are experiencing a period of strong global economic growth and this has resulted in a higher demand for commodities driving prices higher. Stock markets have been showing good growth, with the USA lagging behind somewhat. Economic expansion has produced increased liquidity in most markets which is driving all asset prices higher. Domestic property markets have slowed dramatically after 5 years of strong growth, however commercial property is still showing good returns. The IMF has said the world financial system is well based and finance ministers from Europe & Asia are predicting strong economic growth in 2006 and 2007 with global growth predicted at 4.5% this year.

As always, there are potential threats, if the Americans are stupid enough to bomb Iran, the repercussions could be severe; bird flu is a big worry; rising oil prices and interest rates combined with the high level of household debt could cause recession and there is the ever present threat of terrorism. The high level of the US balance of payments deficit is causing concern for the strength of the dollar.

To be positive though, there are plenty of opportunities at the moment as nearly all markets are showing good growth, with the exception of the bond market which always suffers as interest rates rise. The best approach is to have a diversified portfolio and to ensure that the asset allocation of your investments is actively managed. You will find the solution to this, along with some new opportunities, outlined in this newsletter.

I hope you enjoy the summer and as usual, I welcome your feedback.

Clive A Ward

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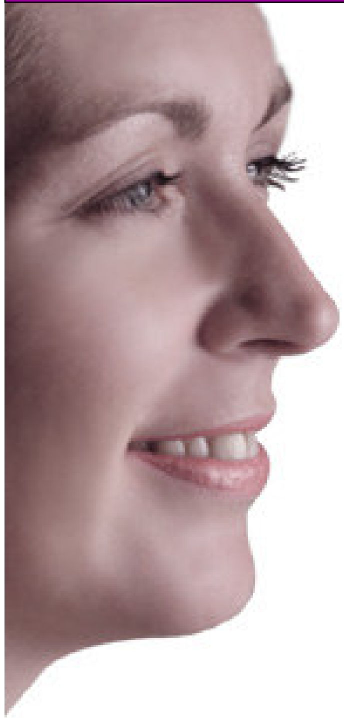
Director



2. Affinity Consulting Group News

We are still expanding steadily. I am pleased to announce that Affinity Solutions in Dubai has become a division of the Continental Group. The Continental Group comprises Continental Financial Services who hold a UAE Central Bank license to give financial advice and Continental Insurance Brokers. We chose to work with Continental as they are the largest firm of independent financial advisers in UAE with approximately 80 staff including 50 consultants and they are also one of the most professional financial companies in the UAE.

Continental work mostly in the Indian community in the UAE and Affinity's clients are mostly western expatriates. Each company has different experience and skill sets which can now be combined to the benefit of our clients under the full regulatory regime of the UAE, giving access to a wider range of products.

Affinity Solutions has the following consultants:

- David Davies (tax & trusts)
- Bernadette Hancock
- Bijay Shah
- Richard Thomas (mortgage manager)

Affinity Solutions has also started a mortgage broking business and can arrange mortgages for your property purchase in Dubai and in most places abroad that expats would want to purchase property.

The Singapore office of Affinity Financial Consulting Pte Ltd has the following consultants:

- Lee Sanders (manager)
- Fraser Morrison
- Mark Sekree

New joiners awaiting a Singapore financial representative licence:

- Nafisa Saleem
- Mark Bradshaw

Nafisa has worked in Hyderabad for the past 2 years as head of corporate sales for Morgan Stanley. Before that, she was an assistant VP with Merrill Lynch in their global private client group in Mumbai.

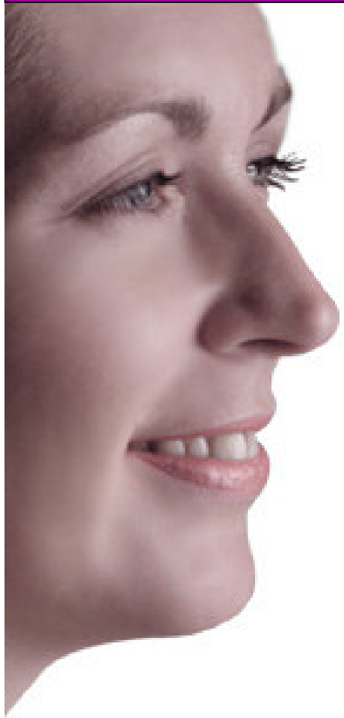
Mark Bradshaw is joining us from Lanson Financial, whilst still maintaining his practice in UK

I live in Dubai but travel to Singapore frequently.

We are a **"one stop shop"** for all your financial requirements. Our main focus is investment business but we can also provide:

- ⇒ Life insurance
- ⇒ Critical Illness insurance
- ⇒ Medical insurance
- ⇒ Mortgages
- ⇒ Currency exchange transfers
- ⇒ Trusts
- ⇒ Estate and inheritance tax planning
- ⇒ School fees planning
- ⇒ Retirement planning
- ⇒ Tax planning
- ⇒ Group insurance for health, death in service, personal accident.
- ⇒ Company pension schemes and gratuity funding
- ⇒ In Dubai: house & contents plus car insurance

If you would like a review of your investments or help and advice on any of the above topics, then please contact me or your usual consultant.



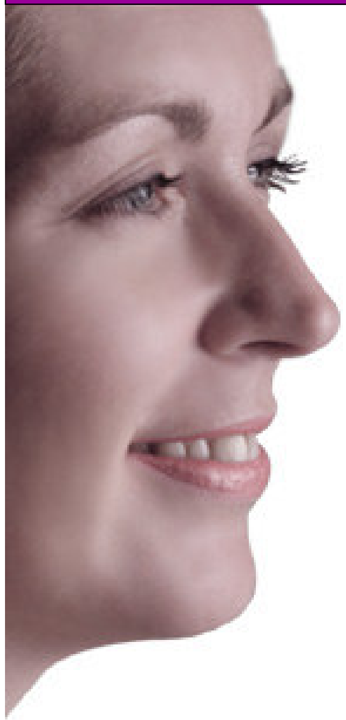
3. Market Indices Table at end of March 2006

Name	Currency	Price	1 month	1 year	2 years	3 years
MAJOR INDICES						
MSCI World CR	US Dollar	1335.07	1.96	15.97	26.05	78.34
MSCI World TR	US Dollar	3950.38	2.24	18.61	31.73	90.41
Dow Jones Industrial Average CR	US Dollar	11109.3	1.05	5.76	7.26	39
Dow Jones Industrial Average TR	US Dollar	17657.24	1.2	8.27	12.16	48.67
S&P 500 CR	US Dollar	1294.83	1.11	9.68	14.97	52.66
S&P 500 TR	US Dollar	1967.38	1.24	11.73	19.2	61.07
NASDAQ Composite CR (there is no TR index)	US Dollar	2339.79	2.56	17.03	17.33	74.46
MSCI Europe CR	US Dollar	1616.907	3.49	17.50	37.88	106.82
MSCI Europe TR	US Dollar	5978.67	3.93	21.22	46.52	126.53
FTSE 100 CR	UK Pence	5964.57	2.99	21.87	36	65.07
FTSE100 TR (started later than CR index)	UK Pence	3276.16	3.76	25.99	45.43	82.86
MSCI Emerging Markets CR	US Dollar	787.802	0.73	43.58	63.42	189.35
MSCI Emerging Markets TR	US Dollar	1248.69	0.9	47.98	73.17	215.44
MSCI Asia excluding Japan CR	US Dollar	379.048	1.7	28.74	38.61	131.57
MSCI Asia excluding Japan TR	US Dollar	597.518	1.87	32.66	47.05	152.79
Nikkei 225 (Japan) CR	Japanese Yen	333.07	3.72	48.12	46.71	119.28
Nikkei 225 (Japan) TR	Japanese Yen	367.212	4.18	49.43	49.42	125.09
CSFB/Tremont Hedge Fund	US Dollar	356.96	1.82%	12.43%	20.31%	40.51%
CSFB/Tremont Hedge Multi Strategy	US Dollar	302.34	2.05%	12.27%	19.22%	37.25%
CSFB/Tremont Investable	US Dollar	117.55	1.51%	7.37%	10.22%	21.76%
CSFB/Tremont Investable Multi Strategy	US Dollar	119.11	2.06%	11.42%	16.72%	21.40%
Gold Troy Ounce	US Dollar	583.64	4.67%	36.08%	37.30%	73.67%
Goldman Sachs Commodity TR	US Dollar	6535.38	5.13%	1.17%	31.98%	67.89%

CR = Capital return, - this is the index ignoring dividends and is the one quoted on TV and in the papers
TR - Total return - this is the index with dividends reinvested and should be used to compare with mutual fund returns
Note that many funds in the CSFB hedge fund index are closed to new investment, so they run an investable index of those that are still open.

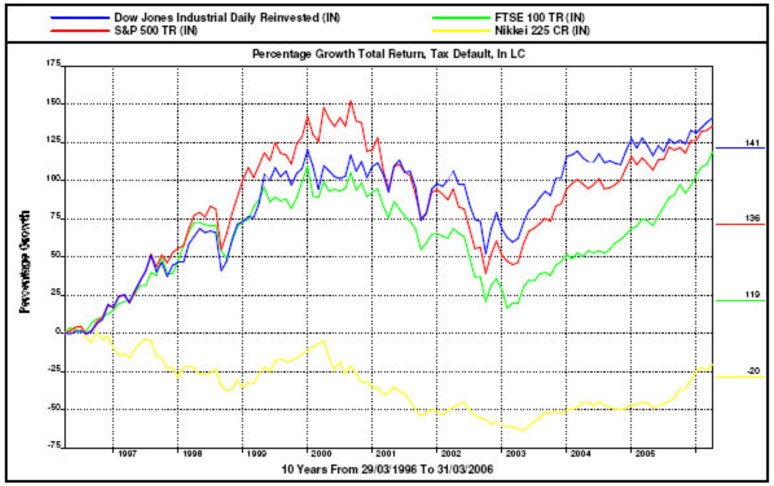
Source of all fund data and charts: Lipper Hindsight (unless otherwise stated)

Comment:
The MSCI world index has performed much better than the American market over the past year, due to strong growth in Asia, Emerging Markets, UK and Europe.
Hedge funds are picking up after 2 very slow years.

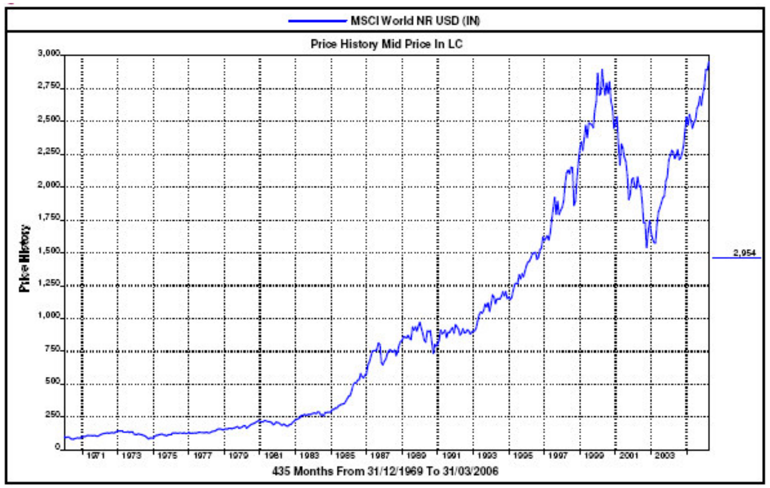


4. Graphs of Market Indices

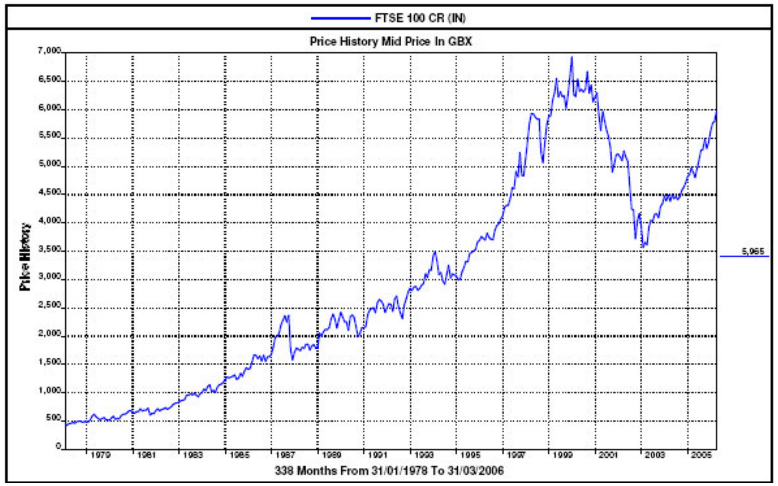
Major Indices - Last 10 yrs in local currency (with dividends reinvested)



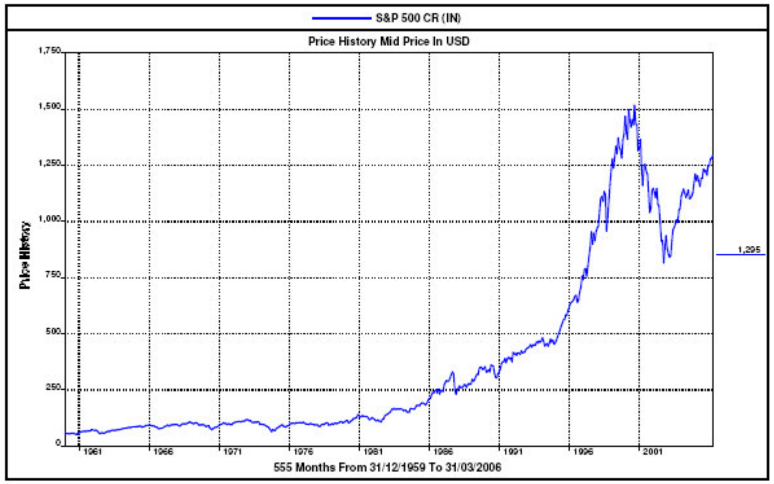
MSCI World Index since 1969



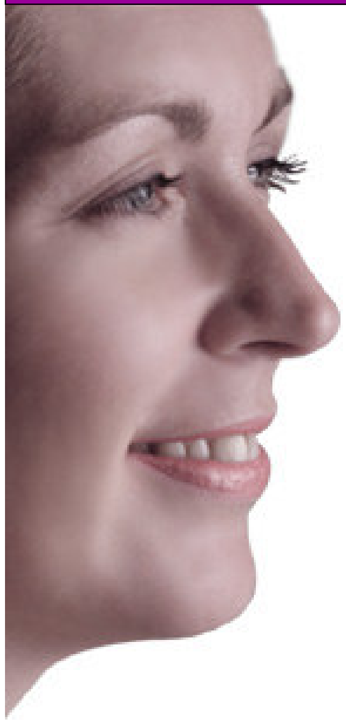
FTSE 100 since 1978



S&P 500 Index since 1959

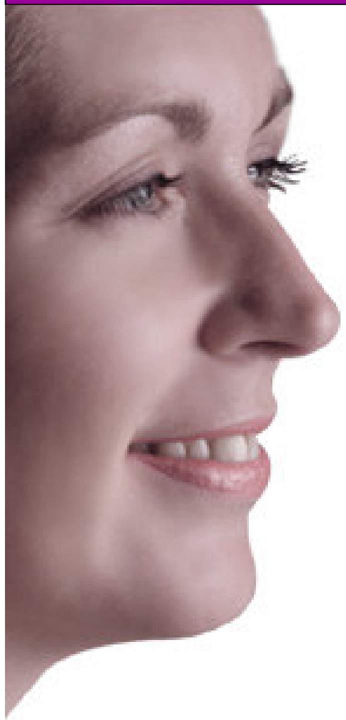


Sorry to test your eyesight!



5. Fund Performance Table at end of March 2006

Name	Currency	Price	1 month	1 year	2 years	3 years
FRIENDS PROVIDENT FUNDS						
Lanson Optima	US Dollar	0.744	1.50%	6.90%	10.22%	46.75%
Lanson International Growth	US Dollar	1.292	1.89%	11.00%	15.77%	56.99%
FPIL Collins Stewart Aggressive Managed USD	US Dollar	1.691	1.02%	21.13%	25.54%	81.83%
FPIL Collins Stewart Growth Managed USD	US Dollar	1.250	1.79%	13.22%	17.81%	58.43%
FPIL Ground Rent Income	UK Pound	2.133	1.09%	8.00%	15.11%	24.23%
FPIL Student Accommodation	UK Pound	1.418	1.14%	7.02%	14.82%	21.51%
FPIL Momentum AllWeather Liquidity	US Dollar	1.203	0.75%	5.34%	9.66%	17.83%
FPIL HSBC Brazil, Russia, India, China	US Dollar	1.340	0.68%			
FPIL Investec GS Global Strategic Value	US Dollar	2.086	3.68%	28.53%	57.67%	144.84%
OTHER FUNDS						
Protected Asset TEP GBP	UK Pound	1.5287	0.69%	8.00%	15.94%	27.65%
Protected Asset TEP USD	US Dollar	1.1731	1.30%	7.53%	15.03%	launch Dec 03
Protected Asset TEP EUR	Euro	1.1763	1.34%	7.74%	15.12%	launch Dec 03
Protected Asset TEP No.2 GBP	UK Pound	1.2439	0.69%	8.21%	18.26%	launch Dec 03
Protected Asset TEP No.2 USD	US Dollar	1.1469	0.66%	7.80%	launched May 04	
Protected Asset TEP No.2 EUR	Euro	1.1471	0.66%	7.92%	launched May 04	
Premier Optima 3	UK Pound	1.253	1.54%	25.30%	launched Apr 05	
Premier Optima 3	US Dollar	1.252	1.95%	25.20%	launched Apr 05	
Premier Optima 3	Euro	1.125	0.36%	12.50%	launched Apr 05	
Hedge Funds						
Barclays Infiniti Capital Note 138 (estimate)	US Dollar	1029.00	0.95%	2.49%	launch Dec 04	
Infiniti Security Fund (estimate)	US Dollar	904.50	0.36%	3.44%	1.87%	11.68%
Infiniti Growth Fund (estimate)	US Dollar	929.60	1.44%	7.05%	4.74%	22.94%
Infiniti Momentum Fund (estimate)	US Dollar	969.00	1..37%	7.30%	7.54%	40.19%
Quadriga GCT USD	US Dollar	2570.18	4.33%	6.31%	-5.62%	29.56%



6. Performance Commentary

6.1 Lanson Financial

The objective of Lanson International Growth (LIG) is to target its investments into funds showing good growth, regardless of country or region, whereas Optima tries to select broader based regional funds which are less volatile. LIG is quicker to invest in growth areas, whereas Optima likes to see a few months growth before investing. Both funds use proprietary stop loss management to sell a fund if it drops below its stop–loss target.

These 2 funds have stayed well ahead of the American markets and LIG has beaten the MSCI world index. YTD [to 21/4/06] Optima has gained 13.1% & LIG has gained 11.7%. The funds have outperformed their benchmarks by 5% & 2% respectively.

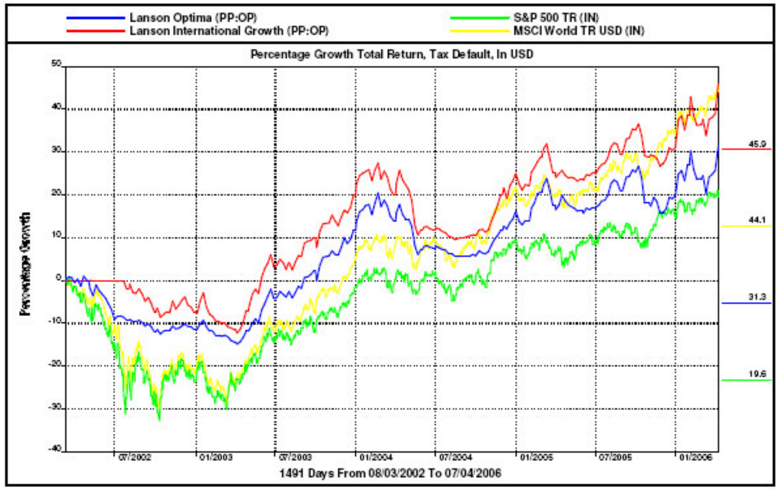
JF India showed the strongest growth during the period and the managers have now taken some profits from this holding. The managers have also sold JF Korea and slightly reduced the exposure to Fidelity Emerging Markets, which is the second largest fund holding, after a period of strong growth.

JF ASEAN and HSBC Chinese have both performed well and these holdings have been maintained.

Commodities remain a strong theme within the funds. A new position has been taken out in Merrill Lynch Gold & General & the holding in MLIIF World Energy has been maintained. Further commodity exposure is through Merrill Lynch Emerging Europe which has exposure to the Russian energy sector & Fidelity Emerging Markets.

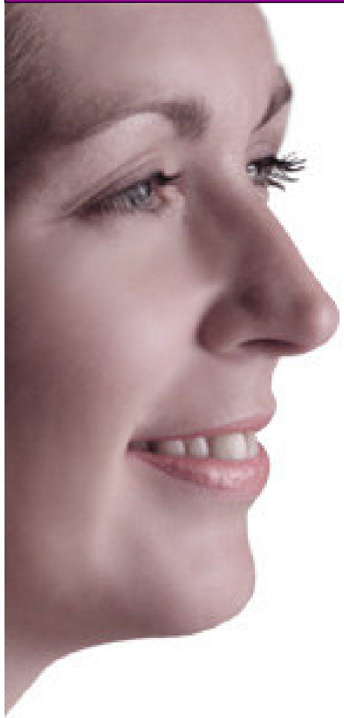
The managers have also reallocated the European holdings from Fidelity European to the Britannic Argonaut European Alpha fund whose major holdings are in Germany, France & Greece.

Lanson Optima & International Growth v Indices in USD since the launch of LIG on 8 Mar 2002



Lanson Fund Holdings on 6th April 2006

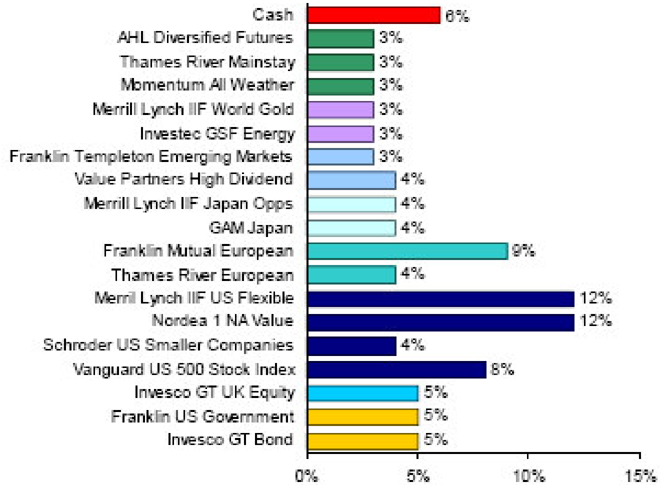
	% Market Value	
	Optima	LIG
Investments		
JF India	17.11	15.95
Fidelity Emerging Markets	15.86	10.44
HSBC Chinese	11.86	9.47
Schroder UK Mid 250 Acc	12.45	9.42
JF ASEAN	11.80	8.81
MLIIF Emerging Europe	10.99	8.78
Britannic Argonaut Euro Alpha	5.37	8.11
Merrill Lynch Gold & General	1.59	7.55
MLIIF World Energy Fund	4.96	4.04
AHL Diversified Futures	4.78	3.42
Equities	0.09	0.42
Cash & Deposits		
Cash	3.14	13.59



6.2 Collins Stewart

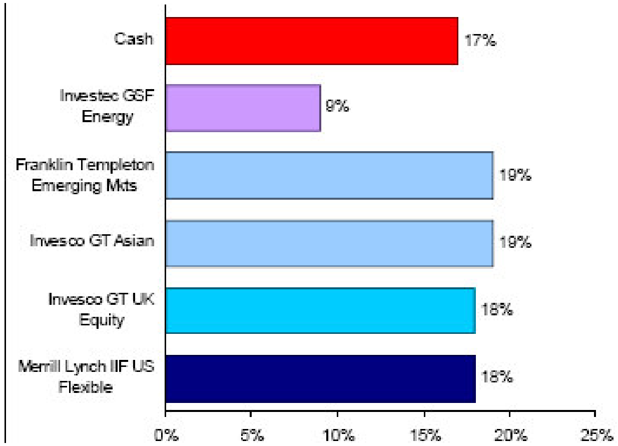
The CS Growth USD Fund gained 5.2% in 2005 and 5.0% in Q1 2006. It has grown 13.2% over the past 12 months which is ahead of the American market but just below the world index. The fund always maintains an allocation to fixed interest assets (currently 16%) such as cash and bonds. It tends to maintain a strong allocation to the US market (currently 36%) which is causing it to lag the world index. The sterling version of the fund also maintains an allocation to fixed interest but this is only 17% at present. Also, the sterling fund has lower allocations to the US (15%) and more in UK (35%). Investors viewing sterling as their base currency rather the US dollar, could do better to switch their holdings in the US Growth fund to the GBP Growth fund.

Collins Stewart Growth USD Fund Current Allocation

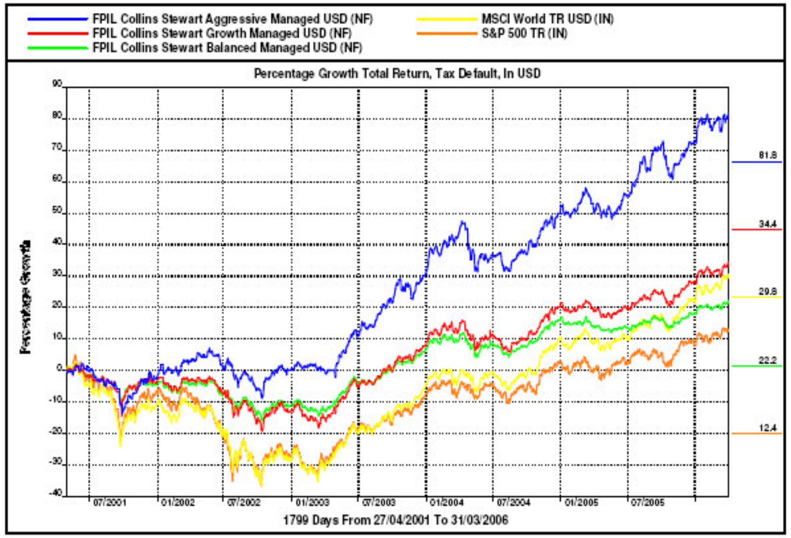


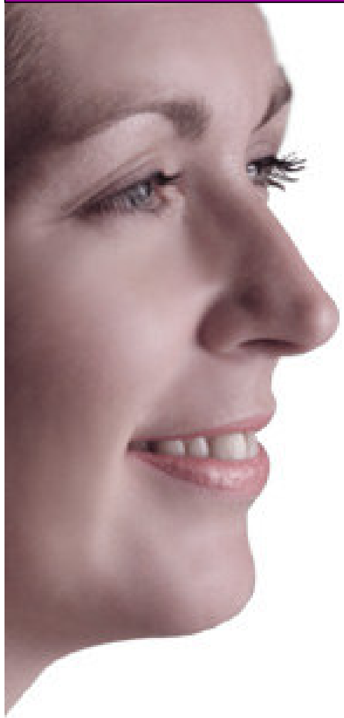
The CS Aggressive USD Fund gained 13.5% last year and 5.2% in Q1 2006. It has grown 21.1% over the past 12 months which is ahead of the world index and all western markets. The strategy of this fund is much more aggressive in that it does not favour any fixed allocations. It makes only a small number of allocations and targets them on regions showing fast growth. The USD fund gives a little more emphasis to the USA, whereas the sterling fund substitutes the UK, otherwise their allocations are very similar. There is less need here for sterling based investors to switch over, but you may still see better growth as each fund is optimised for its base currency and so if the dollar does weaken and the fund should have a higher allocation to cash, sterling investors would benefit more by using the sterling fund.

Collins Stewart Aggressive USD Fund Current Allocation



FPIL Collins Stewart USD Funds v Indices in USD since launch





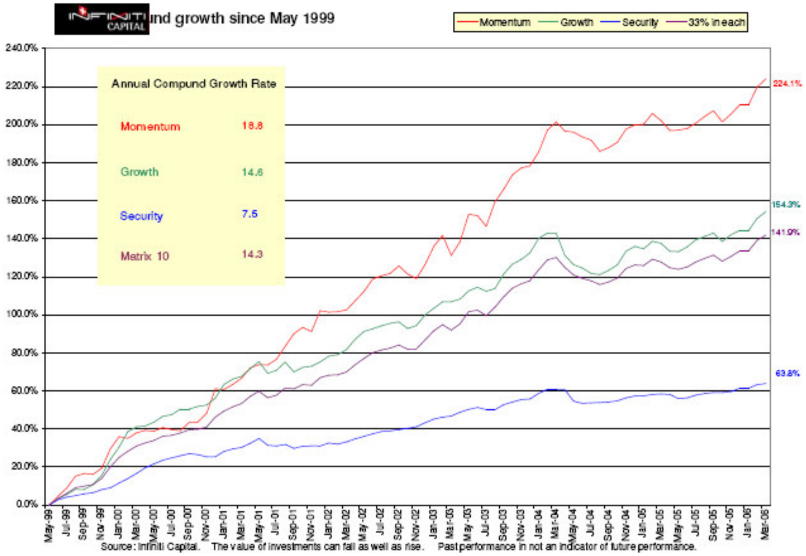
6.3 Brandeaux Property Funds

The Brandeaux Group manage 2 main funds, the first is Ground Rent Income which buys up the freeholds of properties, often from the aristocracy, and collects the ground rents and manages them efficiently. The second is Student Accommodation which buys university halls of residence and runs them efficiently for the students and provides additional services (laundry, bar, café etc).

These funds continue to show consistent low risk returns with Ground Rent yielding 8% and Student Accommodation 7.2% as FPIL mirror funds.

6.4 Infiniti Capital Hedge Funds

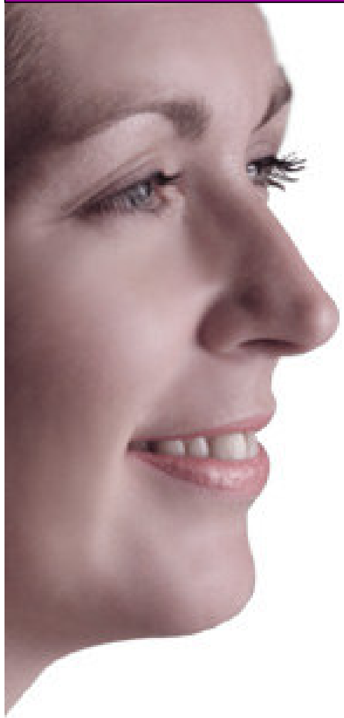
The hedge fund market has had a very slow 2 years but has picked up this year. The Infiniti Security fund has kept up with cash deposits and the Growth & Momentum funds have kept pace with the CSFB investable hedge fund index, but lagged the full CSFB hedge fund index. The Barclays Infiniti Capital Note has been disappointing. They tell us they are investing with a 5 year strategy and for the moment we advise clients to hold on to it and review it at the end of the year as there is a 5% penalty for surrendering this year.



6.5 Quadriga Managed Futures Hedge Funds

This sector has had a particularly bad year and Quadriga have not fared well. They took a big drop in the first quarter, more than most other funds in this sector. To be fair, it always has been a volatile fund and is showing a very strong gain so far this year. The mid April estimated price of $2710 is 5.5% higher than at the end of Mach. With commodity prices on the rise, there should be good opportunities for the fund to show good gains this year. It is highly leveraged and remains high risk.

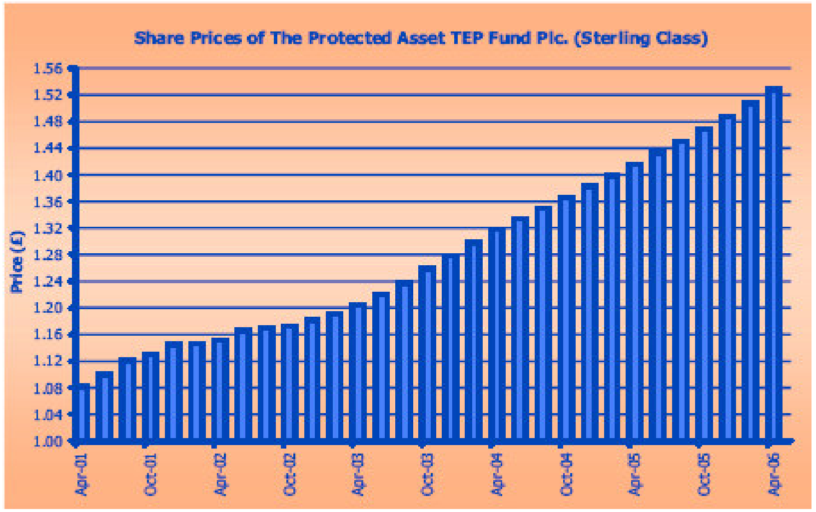
Source: Quadriga



6.6 Others

The FPIL Momentum All Weather Liquidity fund is achieving its objectives of having very low volatility and of beating USD cash deposits by at least 2% and has gained 5.3% over the past 12 months. It is a good safe haven for locking in profits or depositing money as you approach retirement.

The Protected Asset TEP Fund (PATF) invests in UK traded endowment plans and has been particularly skilful in the acquisition and accounting of these, enabling it to see consistent high returns for a low risk fund. The sterling funds are achieving 8% or more growth and the dollar and euro funds just a little less. The original version is suitable for short term deposits as there is no exit fee but a small entry fee. PATF2 has no entry fee but a reducing exit fee for redemptions within 5 years.



Standard Life has announced that they will pursue demutualisation in 2006. The PATF funds have about one third of their holding with Standard Life and so the fund will benefit from 'windfall' profits if the demutualisation goes ahead. They plan to call a shareholders meeting to approve this in mid 2006 and then float in the autumn.

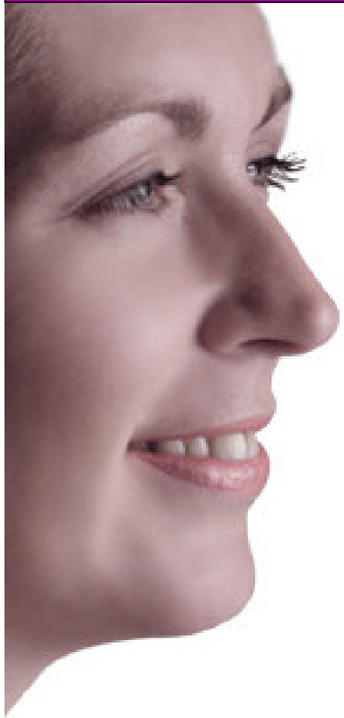
Premier Optima 3

This fund has now closed and the guarantee will be set at the 1st May 2006 price. As you can see from page 5, it has performed extremely well with 25% return in the first year in sterling and dollars, but only 12.5% in euros. The fund will redeem if it reaches a price such that the net gain after redemption costs is 30% from the launch price in the next 3 years. The successor, Premier Optima 4 has now been launched - see page 13.

Aviva IFS Singapore

Some of the best performing funds on this platform to mid April have been:

Fund	6mths	1 year
	% pa	
Aberdeen International Asia Pacific Fund	19.6	28.7
Aberdeen International China Opportunities Fund	8.3	18.0
Aberdeen International India Opportunities Fund	25.9	42.1
Citi Equity Emerging Mkts A Ord	13.4	37.8
Fidelity European Aggressive	9.6	23.6
MLIIF New Energy Fund	17.9	52.7
Schroder ISF Emerging Mkt A Acc	14.0	42.3



7. Where to invest now?

There are 2 key factors to successful investing, the first Is diversification and the other is asset allocation. The first one can be summarised simply as “don’t put all your eggs in one basket” and is largely self evident. There are exceptions to this and these involve cases where you are controlling the investment yourself and understand it; your own business for example. Even then it carries risks.

Asset allocation however is less well understood. It involves looking at the performance of your portfolio as a whole rather than concentrating on any one section of it. There will always be some sections of it that perform better than others. Several studies have shown that asset allocation plays a much more important role in investing than market timing or stock picking. For example, look back at the technology boom of the late 1990s, if you had not allocated some of your portfolio to this sector, you would have missed out on the growth. It almost did not matter which stocks or funds you picked, you would have done well. It was also an example of why you should not allocate all your money to one sector, no matter how well it is doing as it proved to be a bubble. Most assets go in cycles and good asset allocation spreads your investment across different assets that may be at different stages in their cycles so that the overall portfolio performance is smoothed.

Active asset allocation goes one stage further and reviews the allocations on a regular basis and tries to keep the money invested in assets that are on an up cycle. This is the approach adopted by the fund of funds mangers such as Lanson Financial & Collins Stewart who manage these for Friends Provident International.

Most clients do not have the skills or time to spend on asset allocation and even many financial advisers are too busy spending time with their clients, understanding their requirements and providing advice that they cannot spend their whole life behind a screen studying funds.

This is why we prefer to delegate this responsibility to managers who run actively managed funds of funds and outside of Singapore (apart from existing FPI clients there) we recommend Collins Stewart & Lanson Financial.

Their track record over the past 3 years has been good relative to the markets and to their peers. Over the period, they have made many changes of allocation and have used many of the Eastern Europe and Asian funds, also bonds, gold and commodities. They are mainly focussed on equities, as traditionally this is where there is most potential for growth, particularly on a world wide basis.

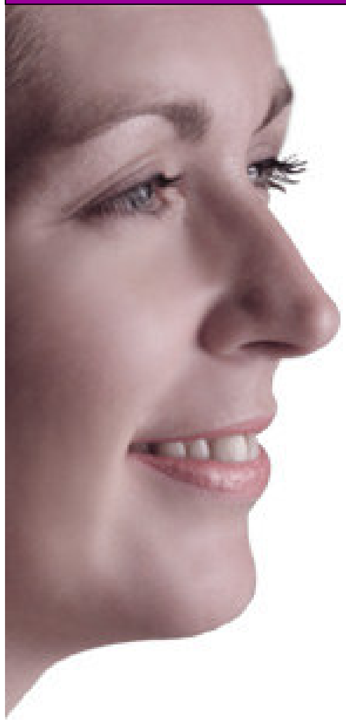
We compliment these by offering niche funds such as those mentioned here.

The other factors to consider are:

- How long you want to invest
- The amount of risk you are willing to take. Risk is about volatility and time, the longer you remain invested, the lower the risk becomes. Investing in equity funds for 1 year is very risky, but for 10 years, the risk is very small.
- Your base currency. Undoubtedly there are more funds available in US dollars but many either hedge to euro and sterling or offer investments in these currencies which have different asset allocations to the dollar versions. (Collins Stewart run sterling funds for example)

Prognosis

In general we do not see much growth in the US equity markets this year. Technical analysts have cogent arguments why we will not see growth for many years, as we have seen unsustainably high growth for the past 3 years. Even though stocks are now trading at their long term average price/earnings ratios, many believe the US economy is slowing and these will look expensive. As always there will be



exceptions in certain sectors, such as energy, healthcare and commodities.

Asia is booming and likely to continue to see good growth for some time to come. The emerging markets of Eastern Europe, and extent Latin America have also seen strong growth over the past few years and this is expected to continue for a while yet.

Energy, commodities and metals are in demand at present. Whereas energy and commodities are in short supply as the world economy is expanding, these assets have become a target of hedge funds which will add to their volatility. Several mutual funds have emerged specifically to invest in companies in these assets.

Commercial property funds have seen good growth for many years now and the European commercial market is particularly strong.

With interest rates rising over the past year, the yield of bonds is less attractive and so their prices have come down or been flat. Emerging market bonds continue to show reasonable growth, although less than in recent years.

Bond yields have risen recently but still remain very low, despite rising interest rates. They are expected to improve soon.

Fund Suggestions

All these are discussed in more detail later along with their risks. If you look at the allocations of Lanson Financial and Collins Stewart, you will see they have a good spread across all the asset classes that are showing growth. However if you wish to allocate more to any of these areas, there are specific funds available and I have started tracking the HSBC BRIC fund (Brazil, Russia, India & China).

Currency is causing concern and if you are headed back home soon it is worth reviewing the currency of any savings in view of the expectation of US dollar weakness. However, with your investments it is important to focus on the currency of the assets in which you are invested, rather than worry about the currency of the fund. For example, if your fund is denominated in USD but invests in Japan, then if the USD weakens, the value of the Japanese holdings, which will be in yen, will be worth more in dollar terms. To be even clearer, suppose a fund has $1,000 of holding in Toyota, then at 117 yen to the dollar this buys 117,000 yen of shares. If the dollar weakens (or the yen strengthens) to 105 yen to the dollar, then the same holding would be worth $1,114 without any movement in the share price of Toyota.

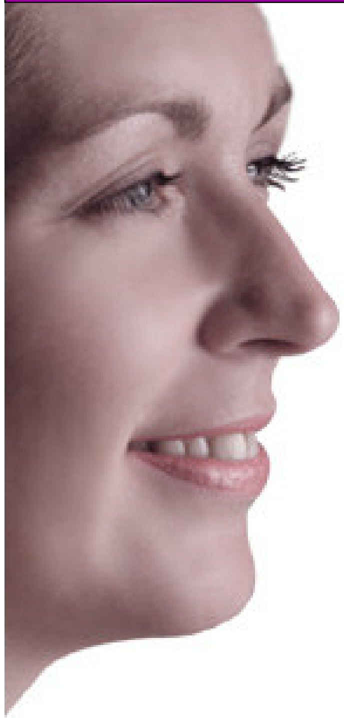
When looked at this way, then holdings in assets in the USA would loose their value if the currency weakens and global funds may dispose of them, putting further pressure on the US stockmarkets.

Please see the section on currencies towards the end of the report for further guidance.

Long term monthly savers are best served by diversifying between the Collins Stewart and Lanson funds. Particularly in the early years of the plan, as you are building up capital, the volatility is not so significant. For lower risk sterling investors, the Ground Rent & Student Accommodation funds offer a predictable and consistent growth of 7-8% pa. Higher risk investors could make an allocation to broad-based funds in developing areas such as the HSBC BRIC fund or the new Martin Currie Global Resources Fund. As USD investors near their maturity date, they could allocate some of their money to lower risk funds such as Momentum All Weather or bonds.

Cash deposits can be placed in the LM Currency Protected Australian Income Fund in Australia which offers 3, 6, 9 & 12 month fixed deposits at higher rates than the banks. See our website for details. The table on the next page shows rates from April 2006. *Simple rates assume distributions are paid out quarterly, effective rates assume that the distribution is reinvested. Rates are quoted net of fees. Rates may vary during the investment term. Past performance should not be used as an indicator of future performance.*

The Bulls Are Raging



Capital guaranteed fund of equities, bonds and commodity funds. High expectation of early exit.

Min investment $15,000

Withholding tax of 10% has to be deducted from these rates by the investment manager for non Australian residents.

Currency Options	12 month investment term		6 month investment term		3 month investment term	
	Simple Rates	Effective Rates	Simple Rates	Effective Rates	Simple Rates	Effective Rates
USDollar	6.5%	6.5%	6.25%	6.35%	6.01%	6.15%
Sterling	6.75%	6.75%	6.49%	6.60%	6.39%	6.55%
Euro	4.50%	4.50%	4.30%	4.35%	4.14%	4.20%
SGDollar	4.50%	4.50%	4.35%	4.40%	4.23%	4.30%
Yen	2.50%	2.50%	2.39%	2.40%	2.23%	2.25%
CAD	5.50%	5.50%	5.23%	5.30%	4.96%	5.05%
NZDollar	8.75%	8.75%	8.47%	8.65%	8.29%	8.55%
HKDollar	6.25%	6.25%	6.01%	6.10%	5.77%	5.90%

Lump sum savers need to identify their time frame and risk and diversify across a number of asset classes.

LOW RISK

- Brandeaux Property Funds (not licensed in Singapore). The FPI mirror funds achieve 7-8% pa. The combined funds are only available through a portfolio bond and are achieving 10% pa in sterling and 7.5% in US dollars and euros.
- The Protected Asset TEP Fund is averaging 8% pa in sterling and 6 - 7% in USD or euro.
- Australian dollar investors can use the LM Mortgage income fund returning 7% pa on the A$.
- The Premier Optima 4 is a fund comprising a European equity fund, an emerging market bond fund and a commodity fund *with a capital guarantee* and possibility of early redemption is a good choice for medium term money. See the next section. (minimum $15,000)
- Prudential With Profits Bond (not licensed in Singapore) has been one of the UK's strongest performing with profits funds with growth of over 7% per annum. Available in sterling and dollars.

MEDIUM RISK

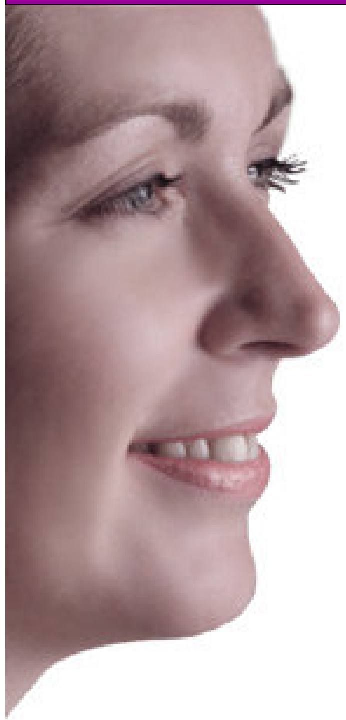
- The funds of funds managed by Lanson Financial and Collins Stewart are beating most of their peers and the world index.

HIGH RISK

- For clients interested in investing in Bollywood, a new fund has been launched (not licensed in Singapore) that will invest in movie productions (where the production company can provide a bank guarantee for completion) and multiplex cinemas in India (see our website)
- Within the FPI range you could look at the Merrill Lynch Gold Fund, the Martin Currie Global Resources Fund and the HSBC BRIC fund.
- Dominion PCC (not licensed in Singapore) offer a fund that leverages either the Prudential or the Norwich Union with profit bonds by 1x or by 2x. The 2x leverage has been growing at over 20% pa. Available in euro or dollars.

This newsletter is aimed at our worldwide clients and the Friends Provident clients we inherited in Singapore. For new Singapore investors, we use the funds of funds offered by Zurich Life or we construct and manage portfolios for you using the Aviva and iFAST platforms.

We have access to most funds on the market and I know some of you manage your own investments actively. If you would like a review of your investments please contact your usual consultant or let me know if you have lost contact.



Leverage your existing Isle of Man policies for high returns at a controlled level of risk.

Minimum policy size to pledge: $65,000

8. New Funds Full details are available on our website

8.1 Premier Optima 4

The Premier Optima 3 has grown 25% in its first year and has now closed to be replaced by this fund. The structure is the same except that the managed futures fund has been replaced by a fund that tracks a commodities index. The capital guarantee is valid in May 2016 but the likelihood of the early redemption feature being triggered in the next 4 years (3 years from the closing date of 1st May 2007) is high. It follows our preference of being a fund of funds and it also has a low entry amount of $20,000. In addition, there is a version with a loan facility to double your investment stake.

This is a fund of 3 funds, denominated in sterling, US dollars or euros:

- ♦ European equity fund: Gartmore European Select Opportunities invests in a broad range of European stocks with approximately 50% invested in large companies. Launched in 1984, the fund has achieved an annualised growth of 13.2% over the last 10 years and has £1.79 billion under management.
- ♦ Emerging markets bond fund:. ABN AMRO Global Emerging Markets Bond Fund invests in emerging markets fixed income securities with medium & long term maturity. Launched in May 1998, it has achieved an annualised growth of 20.8% and has $1.8 billion under management.
- ♦ Commodity index fund: The Diapason Rogers Commodity Index Fund invests in the Rogers International Commodity index. This index represents a "basket" of commodities employed in the global economy, ranging from agricultural products (wheat corn etc,) and energy products (oil, gasoline, natural gas etc) to metals and minerals (gold, silver, aluminium , lead etc.). Launched in July 1998, the fund has achieved an annualised growth of 18.9%.

Maturity in 10 years but with a unique early redemption feature:

i) if the reference price related to the underlying Notes (after redemption costs) reaches £1.30, US$1.30 or €1.30, before May 2008, they will be redeemed at that time or

ii) if the 3 year early redemption is not achieved, then investors have a second opportunity of early redemption if the reference price reaches £1.50, US$1.50 or €1.50 during the fourth and fifth year.

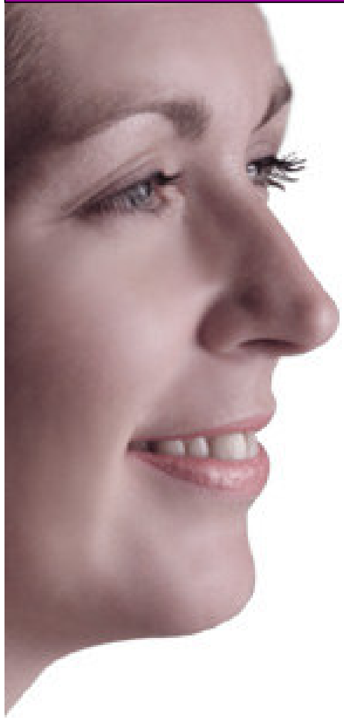
The fund launches on 1st May this year and the capital guarantee will be set at the highest price achieved by each fund prior to closing to subscriptions.

There are 2 ways of investing in the fund:

- ♦ **Managed Guaranteed Option.** This is a straightforward investment with protection of your initial investment.
- ♦ **Optima Select.** The investment amount will be matched with a 1 for 1 loan therefore doubling the investment stake, to offer increased exposure to the underlying investments and potentially greater returns. The loan doubles the amount invested but deducts the cost of the loan from the fund price.

The benefits of this are:

- ♦ access to a diversified portfolio of assets with outstanding potential performance
- ♦ participation in rising equity, commodity and emerging bond markets but with diversification of assets to protect against any single market exposure;
- ♦ tax efficiency - investments can be made to suit investors' personal circumstances;
- ♦ multi-currency - available in £, US$ and €; with a minimum investment of £10,000, US$15,000 or €15,000.



8.2 Foundations Program - Leverage your existing investment to get extra returns.

This exciting program allows you enhance your existing investment by making a temporary assignment to the Foundations Program who borrow against it to invest in a conservatively managed fund of funds. A bulk loan facility is provided by Barclays Bank and secured against the pool of assigned investments. The loan is drawn down over 26 months and invested in a conservative fund of funds managed by Barings Asset Management. The program has target average returns of 4%-6% per annum after costs over a 5 year period. Entrants to the program must be prepared to commit for 5 years. By using this program, you could potentially enhance the return of your existing investment by 20%-30% over 5-6 years. You still keep control over the asset allocation (choice of funds) in your existing investment. The gains (or losses) from this Program are paid upon exit.

It has been well devised to use the best features of hedge funds, with profits bonds and currency trading, which have been combined to reduce risk. It gives you the potential to enhance the return of your existing investments by borrowing against them and reinvesting the proceeds to generate an additional return. It does this without the normal levels of cost, administration, and risk associated with conventional leveraging.

Assignable assets are offshore life policies and other unitised collective schemes (subject to approval), which have liquidity and are easily valued.

The way that is works is:

- You assign your investment policy to FPP who use it to automatically borrow 70% of the value (if it is in equities, less for hedge funds, more for property or cash) and reinvest the loan to generate the additional return.

- The lending is provided by Barclays Bank as a single bulk loan to keep costs down and is adjusted each month to correspond to the value of the assets pledged. Only 25% of the facility is drawn down at the start and then this is increased by 3% per month over the following 25 months. This affords you the benefits of “dollar cost averaging” and helps protect against a sudden drop in the markets.

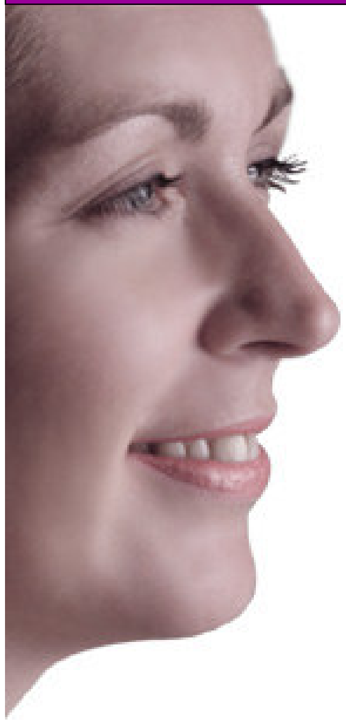
Projected total growth of the Program net of costs at the end of 5 years at various yields of FPP investment portfolio & growth rates of original investment (assuming 70% participation).

Original investment growth	Enhancement at 5% growth of FPP	Enhancement at 6% growth of FPP	Enhancement at 7% growth of FPP	Enhancement at 8% growth of FPP
0%	6.2%	9.2%	12.3%	15.4%
5%	7%	10.6%	14.2%	17.7%
7.5%	7.6%	11.4%	15.1%	19.0%
10%	8.1%	12.2%	16.3%	20.3%
12%	8.6%	12.9%	17.2%	21.5%

- The money is invested with Barings Asset Management on a drip feed over 26 months so it “averages in”. Barings run a conservatively managed fund of funds with a target return of 8% per annum. They have a very strong track record in running this type of fund.

- As profits are made, they are crystallised into low risk strategies. Low risk strategies are used as once these profits are realised, they have no borrowing cost to service.

- The Program also has a sophisticated currency management



mechanism, borrowing some in low interest currencies (such as yen) and hedging the currency.

- During the period of assignment you still maintain management control (fund selection) of your assigned investment.
- Minimum entry: US$70,000 (or currency equivalent) of assets pledged
- Over a 5 year period the expected returns vary with the growth of your original investment and the net growth of the FPP program as shown in the following table. FPP investment growth figures are before costs, which are expected to average 3.5% - 4.5% per annum.

To benefit from this, investors can join the Fund at any month end and they will start to accrue the return generated, which is based on the collateral security they provide from month to month.

The Program is an exciting and new way of leveraging your portfolio conservatively. It can substantially enhance the total return from an investment over the medium term at controlled levels of risk. The investment of the original portfolio should be unaffected, and the Program provides additional diversification. Instead of investing cash you are assigning your policy and the fund determines the collateral value each month and treats this as cash.

If you enter the Program, you need to remain in it for 5 years as there is a penalty fee of 2.5% if you exit in this time. Also, you do not keep any gains (above the 2.5% needed to pay the penalty charge) but are still liable for any losses. After 5 years you can continue in the Program and exit penalty free at any time. Please bear in mind that because of the slow take up of the loan facility (for your protection), this investment is unlikely to show much (if any) growth in the first year and only slow growth in the second year. Only after 26 months is the loan fully invested.

Performance for Q1 2006:

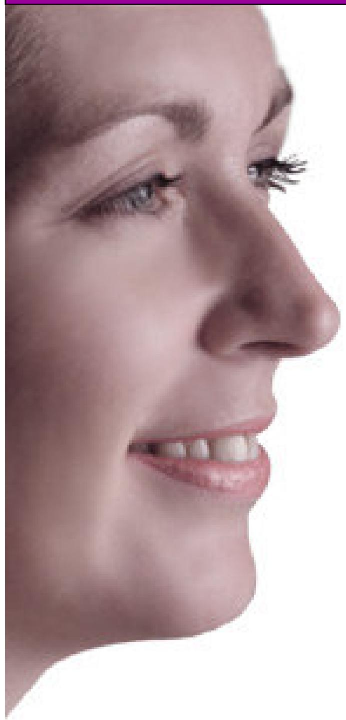
The figures for the end of the first quarter 06 are still being finalised, but Foundations confirm that they will be announcing a profit of around 2% of funds participating for the quarter after all costs. This is double their target rate of 4% net of costs.

Obviously, individual participator returns will vary based on how much they participated at over the quarter. This in turn is driven by the value and risk of their assigned asset and how long they have been in the Program.

Foundations also confirm that no participant since launch has any losses accrued to them, all are in profit and the fund is building a buffer against potential future drops in value. This will benefit both existing and new Participants.

Details of these funds can be found on our website at

www.affinity-consutling.com/investments.php



Global economy is set to continue good growth this year, but the USA could slowdown.

9. Economic Outlook

As usual, I have distilled a large number of economic reports over the past months. I have put together this summary for you and hope you find it useful.

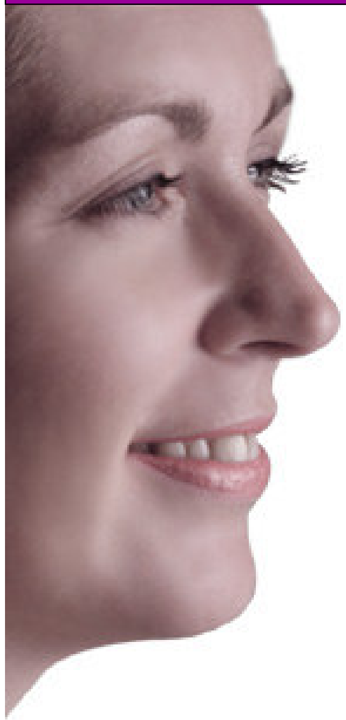
The global economy slowed as oil prices rose last year, but it has rapidly adjusted and is continuing apace. At 4.3% growth in 2005, the global economy exhibited the best growth for several decades. Asian & European finance ministers predict it will rise to 4.5% this year, driven mostly by the rapid development in India and China where growth is 3-4 times that of the industrialised countries. The American economy is strong and along with Asia, these regions are the engine of economic growth world-wide. However, the USA is expected to slow significantly towards the end of this year. The EU and Japan are also showing strong signs of picking up. Asian growth outside Japan is predicted at 7.6% this year.

This economic growth, particularly in oil exporting countries has led to more liquidity and thus a danger of too much money chasing too few assets. Central Banks have been keeping monetary conditions reasonably easy to avoid provoking a setback. Corporate profits are strong and inflation is low. These are perfect conditions for asset price appreciation. We have seen rises in most of the world's stock markets and these are still deemed to be good value. At the end of 2005, the US market was trading at a price-earnings ratio of 17.8, Europe at 16.5, emerging markets at 15.2, Asia (excluding Japan) at 15.2 but Japan was at 28.3. The Middle East markets had p/e ratios over 30 and suffered a drop of around 50% in the first quarter, which was predictable to international analysts, but not to the local population who are the largest investors in these new and immature markets with little experience. In fact, I wrote to all our UAE clients at the end of September to highlight the bubble. They now have p/e ratios in line with those above. [A price-earning ratio expresses the number of years of profit required to pay the market value of a company and conventional wisdom says that average p/e ratios of a market in the mid teens are generally sustainable.]

In my last newsletter I highlighted the world's spending and saving dilemma. To further back that up, I have discovered the Chinese on average save 40% of their earnings as there is no welfare state, whereas Americans had negative savings last year. This helps to keep buoyancy in the US economy but is causing the IMF to worry about the level of household debt in USA and in SE Asia with rising interest rates. In their April report prior to their last meeting, they said "the world financial system is well balanced and had been justified by recent events". It has taken increased commodity & energy prices and rising interest rate in its stride - so far. They highlight the following threats in 2006:

- Rising interest rates and changes in the cycle of credit could cause problems for households and businesses, increasing their debt burden and reducing spending. To some extent this is contained by many mortgages being taken at fixed long term rates.
- War, particularly the situation between USA and Iran. A war in Iran would be more devastating to the world economy than that in Iraq. Confidence would erode, commodity prices, particularly oil and gold would rise and the world could be tipped in to recession.
- Oil & gas supply problems resulting from war, terrorism or protectionism.
- Bird flu is harder to quantify as it is difficult to predict the severity of an outbreak, but it is exercising minds.
- Chinese lending. You might think this does not affect you, but there is a burden of non performing loans in China and a lack of transparency in the way loans are granted (this latter point also applies to India). Japan went through this problem of soft loans some years ago and the financial system ground to a halt and stagnated. If the Chinese economy slows down, it will have a significant effect on the rest of the world

The issue that has taken over from property prices in dinner party conversations is the price of gold. I mentioned last time that gold was set to move higher, and it has. Gold has now reached prices



Gold price to go higher but will meet technical resistance at $675.

Inflation is low.

UK economy is slowing down.

that have not been seen for 25 years. There are 2 ways at looking at this; if you have gold as part of your long term portfolio, you have now finally recovered what you paid for it 25 years ago. Almost any other investment (even cash) has performed better. However it does serve to prove that all asset prices go in cycles. More than any other asset, gold is a shining example of the free market as it is only worth what people are prepared to pay. It has no intrinsic value, you cannot count the square feet as with property or read its balance sheet. If demand exceeds supply, the price goes up. Very simple economics and worth remembering as it will come down again if investors find more interesting ways to preserve their wealth. The old adage that "an once of gold buys you a suit and pair of shoes" has held true through the ages - depending on where you shop. Four factors are driving the price up:

- The biggest consumers of the metal are in India and China and with their expanding economies, demand has increased. World supply is constrained and is mostly in inaccessible places in unstable countries.
- The cost of borrowing in Japanese Yen is about 0.25% pa and so investors have borrowed in Yen to buy gold.
- Another factor that swung sentiment towards gold and driven the price higher is the uncertainty over the strength of the US dollar and the general expectation that it will weaken soon under the weight of the US deficit.
- The other main driver of the price is the scare of war in Iran and there has been a big flight to the metal for "security".

I have read the bullish reports saying gold will reach $1000 an ounce, but none say which year. I have seen similar articles in the property market last year and in the technology market in 1999 before the bubble burst. From a technical point of view, there is strong resistance around a price of $675 and many institutions will be inclined to sell when it reaches that price. It will remain to be seen whether this will shake the market or whether demand will continue. It is likely to continue to rise until the situation with Iran is resolved.

The Central Banks of Europe disposed of most of their gold in favour of a "basket of currencies" some years ago. Shame that Gordon Brown sold the UK reserves at around $260 an ounce.

Inflation

As I discussed in the last newsletter, we are still seeing supply-side inflation but the profits this is generating are increasing global liquidity and asset prices.

Inflation %	05	06*	07*
US (core)	2.2	2.1	2.1
Japan	-0.3	0.6	0.5
Euro-12 (core)	1.4	1.6	1.8
UK (cpi)	2.1	1.9	1.6
G7 (headline)	2.3	2.1	1.6
Asia x Japan	3.5	3.8	3.5
World	4.0	3.8	3.4

Source: Datastream
* Henderson forecast

Real GDP Growth %	05	06*	07*
US	3.5	3.3	2.4
Japan	2.7	2.9	1.9
Euro-12	1.4	2.1	1.5
UK	1.8	2.3	1.9
G7	2.6	2.8	2.0
Asia x Japan	7.6	7.2	7.0
World	4.6	4.8	4.1

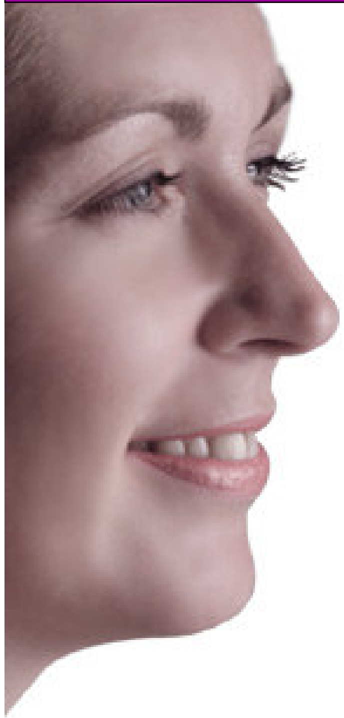
Source: Datastream
* Henderson forecast

Global GDP growth is strong but forecast to slow in the 2nd half of the year and into 2007. The slowdown is expected to be led by the weaker growth in US consumer spending as the housing market falls away.

Inflation is expected to remain at the present level, but note that Japan has changed from a long deflationary cycle to inflation.

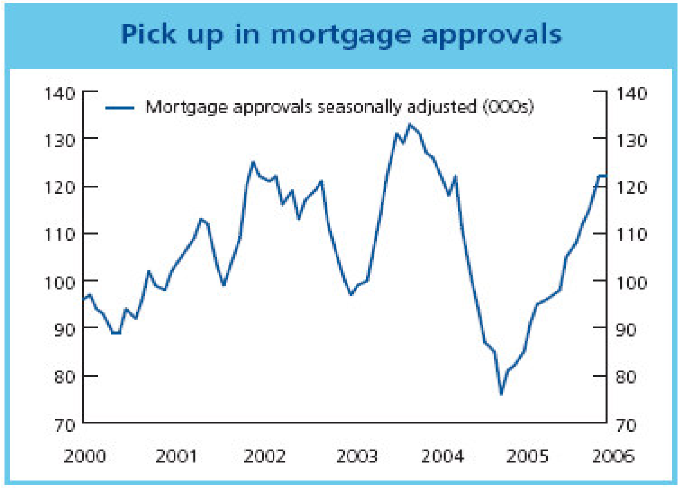
The British Economy

- Inflation is now falling and unemployment in March saw its biggest monthly jump since the 1992 recession. Worse still, while unemployment is now rising steeply, there is not much chance of relief in the form of lower interest rates. Wage increases have jumped from 3.6 per cent to 4.2 per cent, seriously raising the risk of accelerating inflation if the Bank were to try to boost the flagging job market and economy. Indeed, it is looking increasingly as if the next move in interest rates may be up from the



present level of 4.5%.

- London is now the acknowledged financial capital of the world. 70% of all European IPOs are done through the London Stock Exchange. Since the Sarbanes-Oxley legislation in the USA it has become more onerous (in terms of compliance) to list in USA. The introduction of money laundering regulations has made it more difficult to transfer money but it is even harder for Arabs using the US. Consequently, many set up subsidiary companies in London and blur ownership. Also, the introduction of the euro has led to a consolidation of financial markets around London which was the market leader already. Competition from Frankfurt has fallen away. The other reason is that UK employment legislation is much more flexible than in France or Germany and it has lower marginal rates of income tax ,making it the most attractive European centre. London needs clever government now to maintain this lead.



Source: Datastream

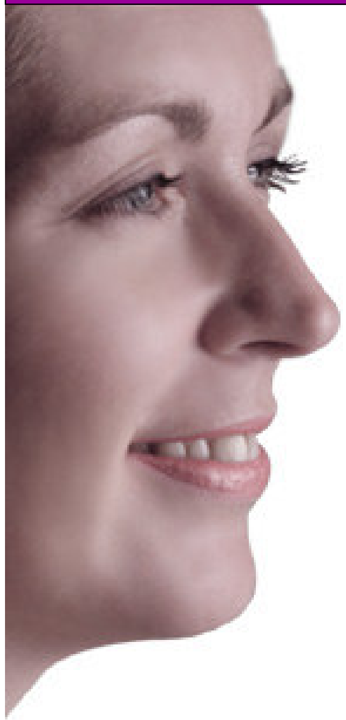
- The influx of people into the wealthy financial sector in London has driven up London property prices, while property prices in the rest of the country have slowed dramatically. Roughly 3000 financial employees in London received bonuses in excess of £1 million last year on top of high salaries. Much of this is being spent on high end property. This has caused the housing market to rebound quicker than expected (evidenced by the increase in mortgage approvals) and earlier predictions that the UK would see slow property growth this year are rapidly being revised, figures as high as 10% are being mooted.
- Conversely, employment in the north of England is very dependent on government jobs. Anatole Kaletsky of The Times suggests that wealth may be redistributed inadvertently by capitalism more effectively than by the deliberate efforts of a socialist government. The people on modest incomes are selling or renting their London property and moving to other parts of the country, taking their new found property wealth with them. "The growing significance of home ownership in redistributing the wealth accumulated in Britain by the world's financiers and bankers will result in big political and social changes. Home ownership has already helped to turn Britain into a much more capitalist society, with deeper public support for private property and free markets, than anyone would have imagined 20 years ago. In the decades ahead, the country may move even further in this direction. Soon Britain may not be just a nation of shopkeepers but a nation of financiers and *rentiers*."

The American Economy

- The economy is strong but the housing market has peaked.. Property in Florida was down 20% in February, year on year, and 15% in California. Mortgage applications have dropped and fewer people are moving house.
- In January, annual consumer expenditure rose 6.8%, retail sales (excluding autos) rose 8.9%, an increase on the 2005 figures.
- Annual consumer price index rose to 3.6% in February (3.4% in 2005)

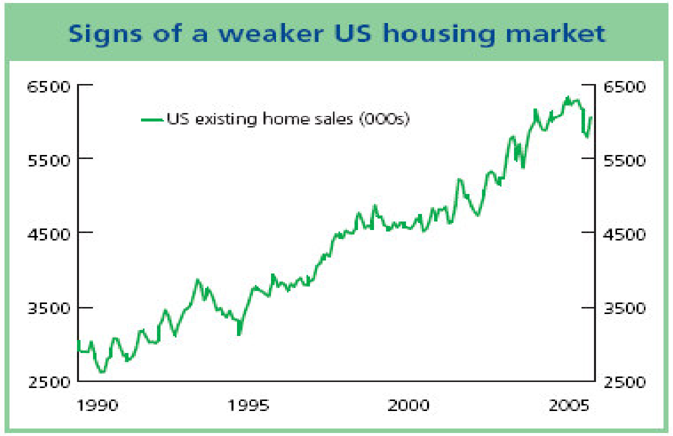
London is the world' primary financial centre, boosting London property price.

US economy strong but likely to slow this year. Property bubble has burst.



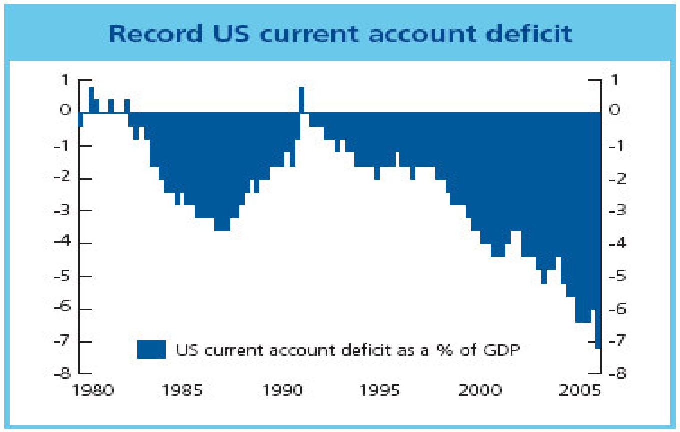
US interest rate rises to level off soon but concern over the dollar strength.

Europe doing better.



Source: Datastream

- The current account deficit has reached record levels and is of concern as other countries have run into problems when their current accounts have reached similar levels. It is expected to cause the dollar to weaken significantly and may even cause a US recession.

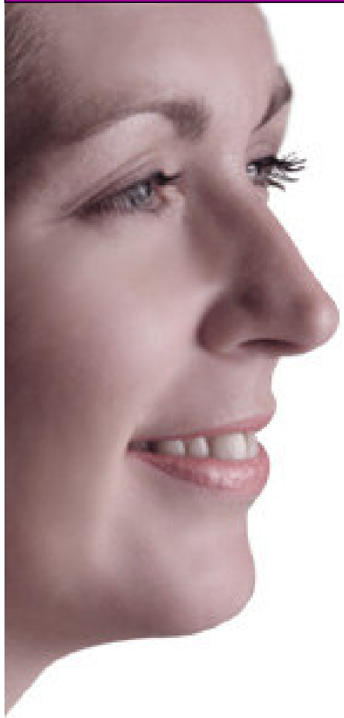


Source: Datastream

- After 15 rate rises, the Fed are expected to raise interest rates once more from 4.75% to 5% but there is a prospect they could fall by the end of the year. This may help counter recession but would of course, put more downward pressure on the dollar.
- Jim Jubak of MSN Money argues that with rising global interest rates and a weakening dollar, foreign holders of USD - notably China and SE Asia - will demand higher interest rates to compensate. If the US Treasury wishes these governments to keep their reserves in USD, then they may have to oblige.
- The Iraq war has now cost more than the Vietnam war after adjusting for inflation and shows no sign of abating and this is a drain on the economy. As one of the main engines of global growth, a slowdown, or worse, recession in the US will have significant global impact. By the end of 2006 Bernstein Research predict the US will be growing at 2.9% which will be below the average for the global economy at 3.4% (or 4.5% predicted by Asian & European finance ministers) and for the first time in 15 years, below that of Japan at an estimated 3.2%

The European Economy

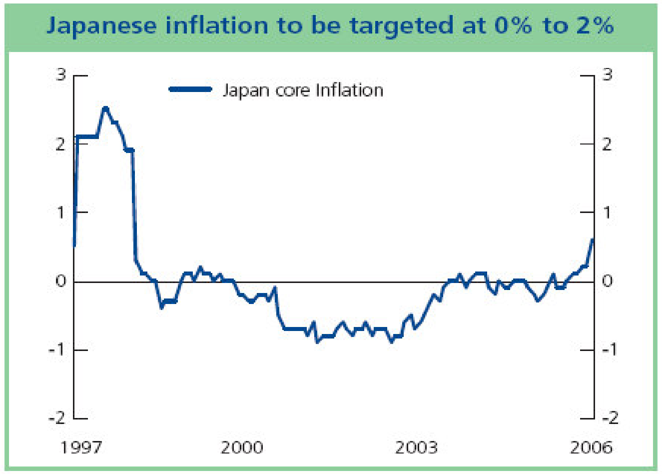
- The European economy is still struggling to get going. Company earnings growth is below that of the USA and well below Asia. It is expected that European growth will go above 2.5 this year, up from 1.4% last year.
- Germany has shown the strongest growth so far, as general business confidence has increased and exports rose 13% in January.
- Business confidence has gone down in France reflecting concerns over rising interest rates and the student demonstrations. The inflexible labour laws and high welfare costs in France are an impediment to economic growth. To protect their now outdated socialist system, they are becoming increasing protectionist in defiance of EC legislation. They are passing laws to protect strategic sectors from foreign takeovers covering biotechnology, computers, defence, energy & aviation.



- This poison pill has become contagious and Italy's economic minister says his country will have to follow suit. The change of leadership in Italy should make it more pro-EU as Romano Prodi was EU President, whereas Berlusconi was not so pro-EU. March saw an annual growth rate of business orders of 9.8% whereas February was negative. Business confidence is at a 5 year high.

The Japanese Economy

- Japan is the 2nd largest economy in the world but has suffered 10-15 years of stagflation. Now, its recovery is underway. After 5 years of negative inflation, core inflation is now at 0.5%. The Bank of Japan has announced the imminent end to its policy of easing and will return to having an interest rate target. This is good for equities and bad for bonds.
- Much of the recovery has come on the back of China's growth as that is one of Japan's biggest export markets.
- The economy grew by 2.8% last year, more than any G7 economy except USA. It has now risen to over 4% making it the fastest growing G7 economy. However, Japanese figures are notoriously prone to revision.
- Whatever the figures, there is no doubt that the recovery is solid and broad based. In the last quarter of 2005 fixed capital investment grew 7%, personal consumption jumped 3.2%. New housing starts are increasing and the house price inflation being experienced by Tokyo is spreading to Osaka and Nagoya.
- Employment growth at 0.5% is still sluggish and very regionally focussed. Tokyo has 1.5 jobs for every applicant, but in Hokkaido & Kyushu, the northernmost & southernmost islands, there are too few jobs on offer. This is likely to lead to uneven sharing of the fruits of the recovery.



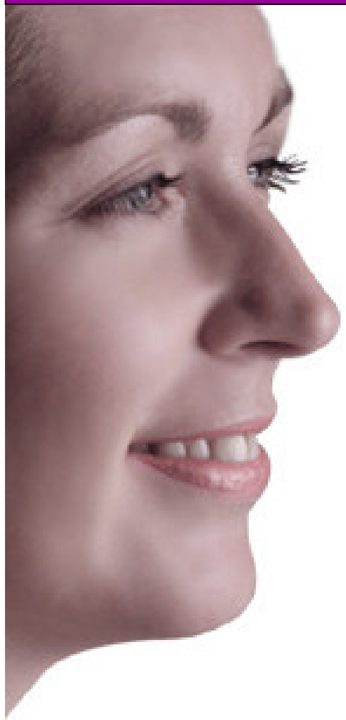
Source: Datastream

The Chinese Economy

- GDP growth was 9.9% last year following 10.1% in 2004 and 10% in 2003. China has overtaken France and UK and is now the world's 4th largest economy after USA, Japan and Germany.
- China remains a pivotal player in the global balance of payments. It ran a current account surplus of $150 billion last year (more than twice the US deficit). Its currency reserves are likely to exceed $1,000 billion this year. A measure of the force it can exert in international markets.
- Disposable income in urban areas rose 9.6% but only 6.2% in rural areas, which is to be expected.
- This growth has come from massive over investment in the export sector. Even after a year long campaign to reign in investment in fixed assets (steel mills, foundries etc), investment in this area grew 25% in 2005.
- This has resulted in massive overcapacity. Coke production (not the drink) exceeded demand by 100 million tons and steel production by 120 million tons. Yet there is still another 120 mt of coke capacity and 70 mt of steel capacity being built. It is a similar situation in textiles, autos, cement, aluminium and more.
- The only solution is to export like mad and cut prices until people

Japan has emerged from a 10 year recession and it may be fastest growing G7 country this year.

China is still the world's fastest growing economy but has overcapacity problems.



buy. This is likely to cause raw material prices to rise and prices of finished goods to drop.

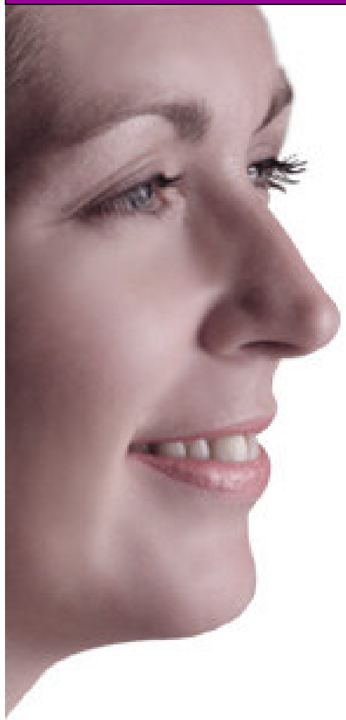
- As I discussed last time, the Chinese population save too much (40% of income) and so the government is trying to get them to spend more to soak up excess demand at home. This is showing signs of working.
- Part of the problem is that Chinese banks continue to make loans based on political connections rather than solid business plans. The government is increasing the pace of capital reforms, which could change the landscape of the financial industry.
- Over supply and the failure of businesses with soft loans could cause deflation at home.
- However, what China lacks is a pension and healthcare system that would give the population confidence to save less and spend more. Even if these are put in place, there is an inherent weakness in the ability of the central government in getting local officials to implement its decrees.
- Government spending is focused on rural areas, especially agriculture, education and infrastructure.
- The pressure for RMB appreciation remains, especially after Premier Wen said that China would increase the flexibility of its currency valuation system. Expectations of further RMB appreciation should keep liquidity abundant.

Other Australasian Economies

Asia is booming

Emerging Markets still showing good growth

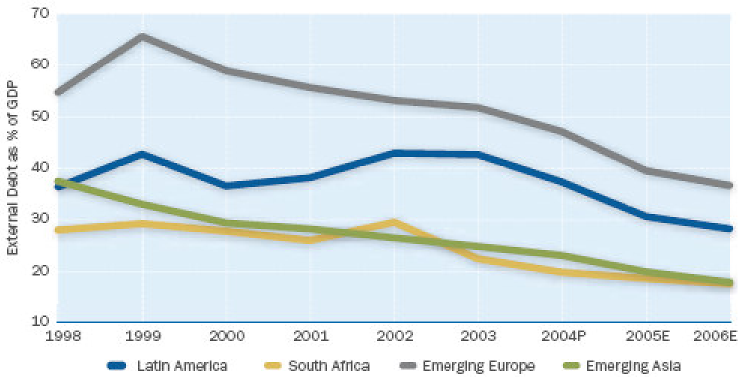
- China & India dominate the Asia stock markets. In India foreign and domestic funds have been propelling the market. Foreign fund inflow exceeded $10 billion in 2005 and $3 billion in Q1 2006.
- Indian budget changes were well received by the markets as they reinforced growth initiatives.
- ASEAN markets did well in 2005 and in in the first quarter of 2006, aided by currency gains against the US$. Liquidity accounted for much of the spectacular performance in these markets and it should remain buoyant, given the positive sentiment and the expectation of the peaking of interest rate cycle.
- Korea, Taiwan and Thailand markets have not performed as well as expected this year. Political events in Taiwan and Thailand have disrupted their markets. In Taiwan it was the imposition of tighter controls on economic exchanges with China and in Thailand it was the elections that subsequently caused the prime minister to resign. Korea suffered profit taking after a strong run up in 2005.
- Taiwan's exports rose 26% in the year ended February 2006 and electronics rose by 40% to $4.2 billion. Inflation in Taiwan is only 1%.
- Singapore's economy grew 9.1% in the first quarter 2006 over the same period last year, supported by demand for electronics and pharmaceuticals. Factory output grew 37% over last year in the same period. The property market has lagged behind that of the rest of the world and is now starting down the long road to catch up.
- Australia's economy fell away towards the end of last year, achieving a full year growth of 2.5%, as home building fell. Residential construction fell 2.7% in Q4 2005 but consumer spending rose 0.7%.
- However, Australia has picked up more this year, with consumer spending at 0.8%in Q1 and the stock market at new highs. The housing market is showing signs of picking up again. While early surveys show corporate capital expenditure to be weaker for 2006, reflecting a lack of labour and capacity, the need for capital expenditure is still very pressing. While the economy may take longer than expected to work itself out of a soft patch, there is a possibility that the current growth engine of business investment may be bolstered by consumption growth through the year.



Emerging Market Economies

- The economic outlook for emerging market economies looks solid in 2006 and seems increasingly sustainable beyond this. Projections by the International Monetary Fund (IMF) are for robust levels of economic growth in each region in the year ahead with inflation levels remaining well contained.

Emerging Market Debt Levels as a % of GDP are Declining



Source: JP Morgan, Pioneer Investments, December 2005

- Moreover, the sustainability of economic development in emerging markets is supported by declining levels of external debt as a proportion of GDP and current account balances are showing surpluses.
- Longer-term, the outlook for emerging markets is positive. Favourable demographics coupled with increased outsourcing from developed markets are supporting a progressive transfer of wealth to emerging markets which, in turn, should accelerate the growth of local capital markets.

At least one more US interest rates rise expected, also rises in the euro. Sterling rates may fall.
Japan may raise rates this year

US dollar and possibly sterling expected to weaken and euro to strengthen.

10. Markets

10.1 Interest Rates

Official interest rates %	27 Mar 2006	Mar 2007*
US	4.50	4.50
Japan	0.00	0.50
Euro-12	2.50	3.00
UK	4.50	4.25

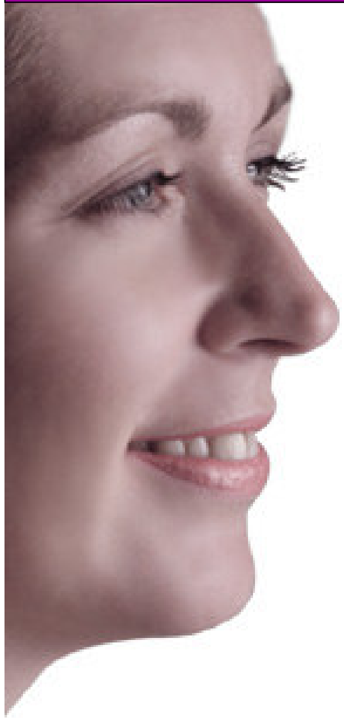
Source: Datastream
* Henderson forecast

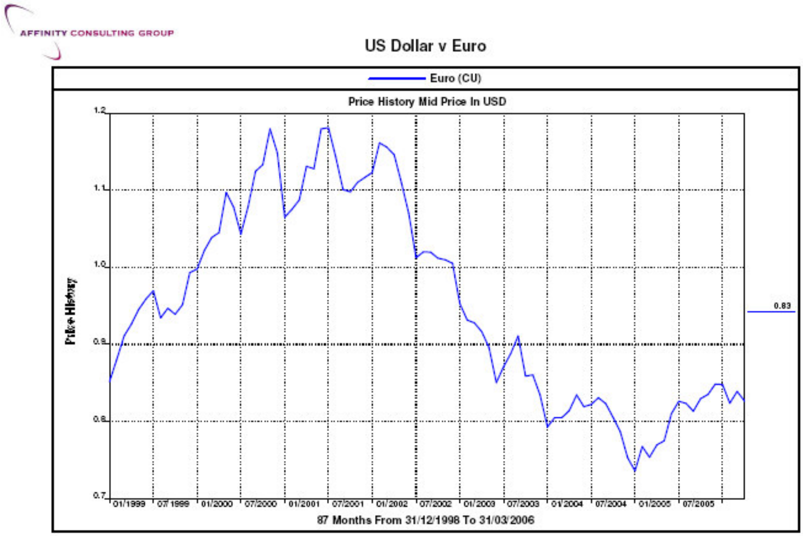
- The Fed is expected to raise rates at the next meeting to 5% but may then leave them for a while..
- The ECB has indicated it may raise rates as it is worried about money supply.
- Slowing consumer spending and rising unemployment is likely to prompt a further cut in UK rates.
- The almost zero cost of money in Japan has led to a "carry trade" - speculators borrowing yen to buy other assets, notably gold. With a strengthening economy, it is expected that interest rates will rise towards the end of the year.

10.2 Currencies (Rates at 21st April 2006 with change over 12 months))

- **The US dollar** is widely expected to weaken for all the reasons mentioned above. Bernstein Research predict a 7% fall against the euro and the yen.

- **The euro (EUR/USD 1.23** –5.7%**)** ended the first quarter slightly up on the USD and it expected this trend will continue as the European economy improves and the US economy slows.





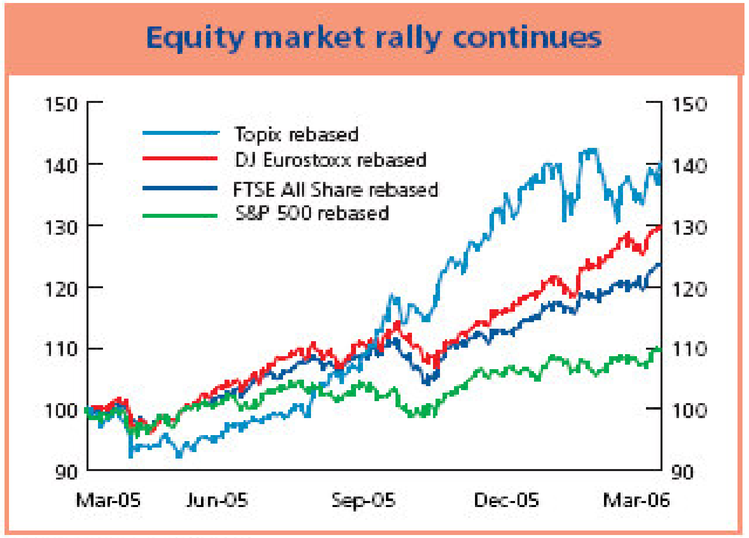
Source: Lipper. Produced using Hindsight 5 by Larson Financial Limited.
Hindsight is a registered trademark of Reuters Limited.

- **Sterling (GBP/USD 1.78** –6.8%**)** is now considered to be over-valued as the UK economy is weakening and it could fall along with the USD.

- **The Japanese yen (USD/JPY 117.3** +9.3%**)** weakened to over 120 just before the end of 2005 but has seen a strengthening this year to the 117 level. It is surprising that the yen has not risen more and is viewed as being undervalued.

- **The New Zealand dollar** which has been a favourite with foreign exchange markets has fallen away by 15% since its high. It is a similar position with **the Australian dollar**. Both currencies nearly doubled in value over the last 5 years and are now weakening. Their high interest rates are not as rosy now that rates have risen in other markets.

10.3 Stock Markets



Source: Datastream

- **The MSCI world index** this quarter surpassed its peak achieved in 2000. The growth has been led by the emerging markets and Asia. The UK, USA and Europe have yet to recover to their 2000 levels, which is why many pension funds are still in the doldrums.

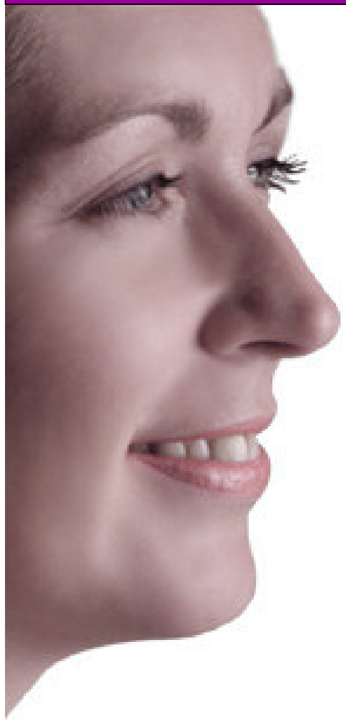
- **The US stock market** as a whole performed badly last year at only 3%. Some sectors, notably small companies, energy and healthcare did very much better. Performance this year is expected to fall well behind other global markets. It rose 3.7% in Q1 2006 (S&P 500), most of which arose from a recent rally. The flurry of merger and acquisitions that has propelled the European markets may give the US market a boost this year, otherwise it is expected to be very lack lustre. The Dow Index is now approaching its 2000 peak but the wider S&P 500 is still 13% below its peak. Most global funds are underinvested in the USA

Sterling, AUD & NZD may weaken.

Yen expected to strengthen.

World index now at all time high.

Western stock markets not back to 2000 level yet.



- **The European stock market is** performing better than the US. The MSCI Europe index grew 7.3% in 2005 and 10.3% in the first quarter this year. A large part of this is attributable to the flurry of M&A activity as previously mentioned. It is expected that this growth will be sustained and that the recovery in Germany will spill over to its neighbours. Inflationary pressures will be kept at bay by subdued wage rises as unemployment rates are high, but the oil price is a big threat. Funds managers like this sector and are generally over invested in Europe.

- **The Japanese stock market** grew by 40% last year, mostly in the last quarter and 5.9% in the first quarter this year. With sustained economic growth and domestic consumption expected to grow faster than exports, most fund managers anticipate further growth in Japan and have some allocation in this market.

- **Asian stock markets** measured by the MSCI Asia ex Japan index saw growth of 19.3% last year and 8.8% in Q1 2006. There are many IPOs scheduled and plenty of liquidity so the outlook remains positive. With p/e ratios around 15, these markets are definitely not over-valued.

- **Emerging Market stock markets** measured by the MSCI EM index grew 30.3% last year and 11.5% in Q1 this year. They are showing greater resilience to external shocks but liquidity remains an important factor. The performance of global emerging equity markets is closely linked to global liquidity conditions and may under-perform developed markets in the event of prolonged contraction (interest rates rise for example). However, economic fundamentals have strengthened and internal demand in the form of consumer spending and investment has grown. Continued global economic growth looks set for 2006 and fund managers are invested strongly in these regions.

M&A activity drives Europe stock markets higher than USA.

Japan showing good growth.

Asian and emerging markets still booming.

Bonds (except emerging markets) not good value.

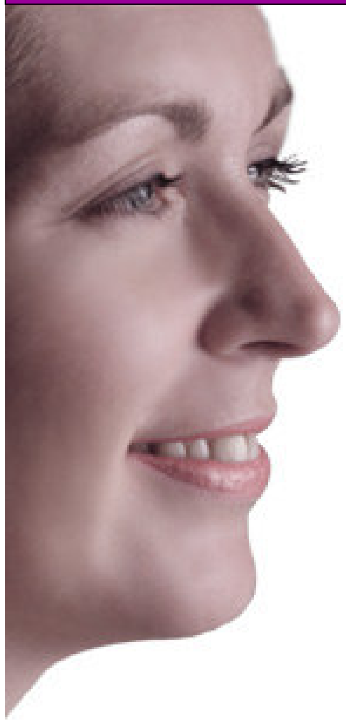
10.4 Bond Markets

Source: Bloomberg, 01/01/2005 – 17/02/2006

- Most fund managers are very negative about bonds at the moment. Rising interest rates have put pressure on bond yields. The 10 yrs US Treasury bond touched 4.8% in March, a 21 month high. When the yield on a long bond exceeds that of the short term bond (known as an inverse yield curve) it generally signifies an impending recession. The Fed, convinced that the US economy is strong, attributed the converging interest rates to an excess of liquidity in the world. With US interest rates now higher than most other countries, foreign investors are content to

10 year bond yields %	27 Mar 2006	Mar 2007*
US	4.70	4.25
Japan	1.68	2.00
Euro-12	3.63	3.40
UK	4.34	4.25
US-IL	2.23	1.85
UK-IL	1.14	1.30

Source: Datastream
* Henderson forecast



accept the rates and have pushed bond prices down (which increases yields as the interest rate on a bond is fixed)

- As very few of our clients invest in bonds, I will not expand this section further. Suffice it to say that bond prices are more likely to weaken than strengthen.
- The exception to this is emerging market bonds. These are more risky but are likely to continue to see good growth while these markets are expanding.

10.5 Property

- Commercial property is still showing good growth around the globe and is not affected by the potentially over-inflated residential market. The UK and Europe grew by 22-23% last year. The UK is expected to slow to around 15% this year but Europe still has the same momentum.
- The UK budget in March introduced Real Estate Investment Trusts (REITs) which give tax advantages to private investors and allow them access to the commercial property world. REITs only invest in bricks and mortar, unlike many property funds which sometimes invest in the shares of property companies (increasing the risk as you are exposed to the share market as well as the property market). This will give further impetus to this market.
- House prices in the USA have levelled off and started falling in places. The number of mortgage applications has dropped off significantly as 15 consecutive interest rate rises take their toll.
- The Australian market fell away last year, particularly in Melbourne and Sydney, however, it has picked up again lately.
- The Dubai property market is still slow, although the announcement of a property law has given the market a new impetus and we have seen more developments announced. The high level of rents is pushing up inflation and taking some of the competitive edge away from the country. Once the new law is implemented, we expect to see more banks entering the mortgage market resulting in more competitive rates. The banks in the UAE are very conservative ad the hope is that some international banks will now enter the mortgage market.

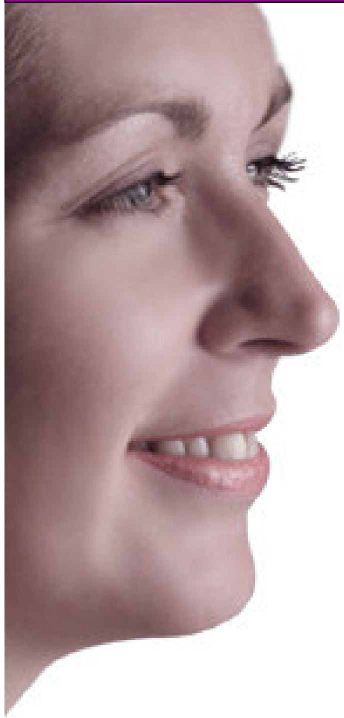
10.6 Commodities & Metals

- As commodity prices have risen, so many funds have been allocating money to this asset class. Hedge funds in particular have been active in these markets, which is something to remember if you are invested yourself. Hedge funds do not "buy & hold", they get out when the price turns and bet against the market by "going short".
- I have discussed gold extensively earlier. However to reiterate, South Africa's gold production fell 13% last year to 342 tons, the lowest since 1923. The price may continue to rise for a while due to geopolitical problems in Nigeria, Venezuela and Ecuador and strong demand from India. However, there will come a point when sentiment changes and the big investment funds that have served to push up prices, take their profits and bail out and this will have an knock-on effect on the price.
- Silver reached a 22 year high in March at $11.55 boosted by the launch of Barclays iShares Silver Trust and predictions that demand could increase. Copper is also at record levels.
- Oil has reached new highs, based on concerns over the US - Iran stand off and possible production disruption if it escalates, also the announcement that US storage reserves are lower than anticipated. OPEC does not see the need for production increase and maintains there is no supply shortage. The world economy has withstood the oil price rise remarkably well, but it will fuel inflation.

Commercial property is very strong,

Housing markets have slowed down significantly.

Commodity and metals prices rising very dramatically.



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Thanks for making it to the end. I hope you found it useful.

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