

McFARLANE & PARTNERS

Dear Client,

The second quarter of this year was almost a mirror image of the first with Global Equity markets staging a huge fight back from the lowest point having been reached around the middle of March. There were record levels of cash and by the 28th July we had seen the 11th consecutive daily rise in the FTSE 100 which equalled the record there. The economic data that has been coming out since our last report would indicate strongly that the rate of decline has been moderating and there is now regular talk of recovery.

Commodity and Oil prices continued to rise throughout this last quarter in part due to the stockpiling of the Chinese authorities looking to build reserves at prices, in some cases, less than half of the levels of those in the middle of 2008.

Quantitative easing, a term we are all now familiar with, appears to have lowered financial stress though there is little evidence that this has led to more general credit growth.

There is much talk at the moment of the recession bottoming out and recovery beginning. Our house view is that this is probably a bit premature.

Certainly we expect current recessionary forces to diminish and stabilise over the next 6-9 months. Also, we believe that for the immediate future the threat of inflation is not a serious one and therefore we can expect authorities to favour maintaining low interest rates for a while to come.

Turning then to the various asset classes, we have decided to hold our asset allocation as per our last quarterly review.

In the bond and gilt sector we are happy with our current balance however we have decided to hedge against inflation risk with some tweaking. We will be reducing the Scottish Widows gilt holding in favour of some index-linked gilt exposure. We will do this by giving a few percent to the Schroders All Mature index-linked bond fund and the I-Shares index-linked Gilt tracker. The latter has been chosen to reduce costs on the portfolio as well as giving exposure to the pure index. These changes will only apply to our Cautious and Balanced portfolios however. We feel the general asset mix within the adventurous portfolio is suitably positioned to benefit from inflationary forces and benefits more from the deflation hedge offered by the existing fixed income investments.

Most property funds continue to have a torrid time as while the residential sector appears to continue turning the corner, the outlook for the commercial sector is still pretty unclear. Unfortunately it is the latter where most of the funds we would look to for our clients direct their funds. Obviously we continue to be very happy with our holdings in Brandeaux as these have very little correlation to the rest of the property sector. We are monitoring this situation closely as there will clearly be attractive opportunities in this area once we are able to ascertain what the shape of the industry will be and who will survive.

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The commodity sector we are finding particularly tricky to call as Gold seems to have levelled for a few weeks now however until recovery is "official" we are still comfortable with this safe haven. Oil is trickier still as rising prices have become unpopular as an inflationary pressure. We definitely got the call right to get involved with this commodity a few months ago and this was always meant to be a relatively short term play. However, if we see evidence that the price is to fall dramatically, we may need to make a mid-quarter change very quickly or decide to accept the losses and hold for a longer-term gain.

The UK equity market is looking less gloomy as the markets have re-bounced strongly from their lows. Sterling has also been strengthening against other currencies. However, Mervyn King fuelled the debate by giving a gloomy assessment of the UK's economic outlook back in June. We are of the opinion that the UK equity market offers good value and will outperform other major asset classes in the coming years.

The Eurozone has also seen signs of improvement. May saw its economy shrink but the pace of contraction eased for the 3rd month in a row indicating the deepest part of the recession has passed. However, in order to keep up this momentum the ECB cut interest rates in May by 25bp to 1.0% and followed up with other unconventional measures to stimulate the economy more recently with offerings of huge loans to the banks.

The US situation is still very fragile though there are various signs that recovery has started. Despite this we expect the Federal Reserve to hold interest rates throughout much of 2010. We continue to be comfortable with the US exposure within our portfolios.

Far East and Emerging markets sectors have seen growth well above global averages and have really been the star performers. China's growth has been robust and their market, as well as many Asian markets, did not re-test the lows of 2008 as the US and other Western markets did in March. Cyclical recovery in China remains intact. That said we have finally decided to change one of our holdings and that is the Martin Currie Asia Pacific. There is nothing toxic in this fund but we have been following the First State Asia Pacific fund for some time and believe this will offer some better returns moving forward.

So, for the next few months we have various areas of focus.

We are monitoring the New Star International Property fund situation very closely as the locked in monies here have had a detrimental impact on our portfolios. Of course, those clients who invested post November '08 will not have had any of this fund and are probably looking close to having positive returns now.

We will also be looking closely at increasing our Far East and Emerging markets exposure. Particularly we are looking to make some aggressive changes to the Adventurous portfolio including possibly some extra commodity exposure as well as India and China specific investment opportunities.

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In the Cautious to Balanced mandates we are looking to seek out some better growth figures while still maintaining lower volatility and risk by decreasing our bond and gilt holdings in favour of some Absolute Return funds.

Generally speaking we are very happy with the way we are leading our clients out of the stock market collapse and the feedback from you has been extremely positive and complimentary which we thank you for.

As always, comments and opinions on our reports are welcome and we look forward to seeing you soon.

Please inform us if you agree to the changes in this report and we will carry out the switches for you.

Yours sincerely

Danny McFarlane

Director.

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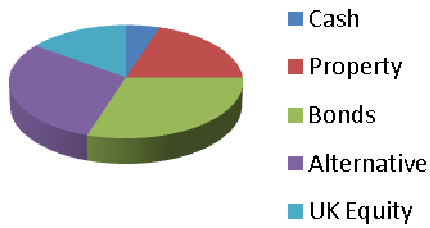
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Asset Allocation of our portfolios

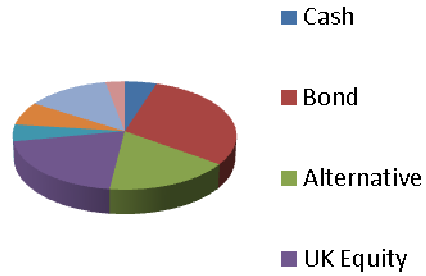
Cautious GIA/PP Portfolio

Asset Allocation



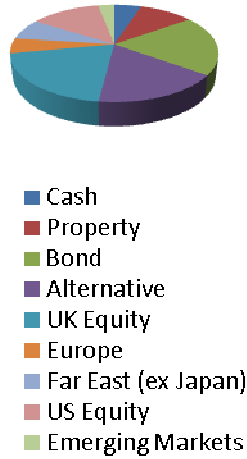
Cautious ISA Portfolio

Asset Allocation



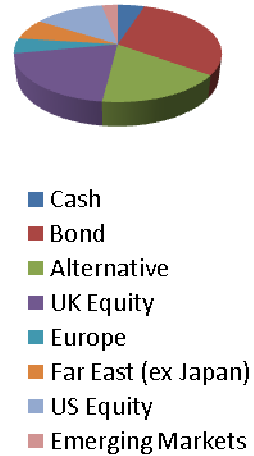
Balanced GIA/PP Portfolio

Asset Allocation



Balanced ISA Portfolio

Asset Allocation



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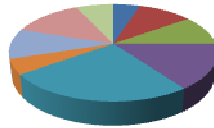
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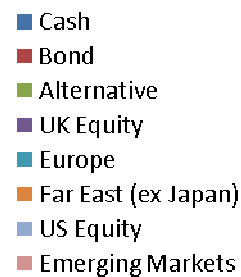
Adventurous GIA/PP Portfolio

Asset Allocation



Adventurous ISA Portfolio

Asset Allocation



Performance record of our portfolios compared with the FTSE All Share as a benchmark:*

Portfolio name	1y July 08 to July 09	Year to Date
Cautious ISA	-7.63%	6.42%
Balanced ISA	-4.17%	9.95%
Adventurous ISA	-2.39%	11.89%
Cautious GIA/PP	-1.50%	6.40%
Balanced GIA/PP	-0.28%	9.95%
Adventurous GIA/PP	-2.15%	11.93%
FTSE All Share	-17.56%	7.62%

The views held in this report are based on information available to date and are subject to change. Please note that these figures are representative of our model portfolios and do not represent actual performance of any individual clients' portfolio. The figures above do not account for any charges. You could expect performance to be reduced by around 1.5% per annum by charges. Please be aware that past performance is no indicator of future performance. You must take independent financial advice before making investment decisions. The comments on fund selection are not intended as personal advice and that it is vital that your full financial circumstances and objectives are taken into account before investment decisions are made.

*Figures taken from the individual fund managers and google finance.

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