



T.BAILEY

Six-Monthly Investor Update

for the six months to 31 March 2010

Masters of Funds

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Introduction: Your update from our CEO, Peter Letley

Whilst volatility remains ever present in world markets and some still face challenging times ahead, I am pleased to inform you that the previous six months have again been extremely positive for T. Bailey as we continue to drive forward and strive for success. This edition of our Six-Monthly Investor Update outlines a brief selection of the steps we have taken for each fund and the positive outcomes we have seen.

A major new development that I am particularly pleased to report on is the launch of our new fund: the T. Bailey Growth Fund LITE which has received extremely positive press coverage. This pioneering new product invests in passive holdings, while being based upon the investment process of the successful T. Bailey Growth Fund. This doesn't mean we have changed our view on active fund management, but that we now have products to suit fans of both active and passive approaches.

In December 2009 we very proudly saw our flagship fund; the T. Bailey Growth Fund, celebrate 10 years of impressive outperformance of the IMA Global Growth sector average. The benchmark

of the T. Bailey Growth Fund was also simplified after we listened to clients and acted upon their feedback. The benchmark update coupled with the innovative new product launch demonstrates just how much our clients' needs matter to us.

As we continue into 2010, the next six months look set to be just as exciting and challenging. I am pushing forwards and continue to spearhead this very important growth phase for our business. In our bid to deliver an outstanding fund range and to provide the highest levels of customer service, we are working on further product developments and are strengthening our internal processes. We would be delighted to hear from you if you have any feedback regarding the existing range, or indeed additional funds you would like to see featured - please use the contact details printed on the back page of this update to speak to a member of our dedicated team.

We truly appreciate your belief in our business and I hope that you find this update informative and of interest.



Looking back: market movements over the last six months. By Assistant Fund Manager, Elliot Farley

The World economy has proved much stronger than most economic predictions of a year ago and the immediate need of investors for risk free assets has abated considerably. Furthermore, in the current low interest rate environment, the returns available on cash have appealed much less.

The obvious next step to 'up the ante' has been gilts, but after their stunning returns in 2008 associated with dramatically falling yields, this asset class now appears much less attractively priced in a time when sovereign risk is tabloid headline news and a sizeable supply lies ahead over the coming years. No wonder investors in this asset class were largely disappointed in 2009.

Moving further up the risk scale, corporate bonds have been in vogue with net retail sales recorded by the Investment Management Association of £5.9bn in 2009, accounting for almost a quarter of all net retail fund sales. However, the last 6 months have been somewhat lacklustre for investors here too, particularly in investment grade credit where spreads over government bonds have narrowed considerably as default risks have subsided.

It has therefore fallen to those asset classes generally considered more risky to deliver performance. Indeed, industrial commodities performed very strongly as fiscal stimulus packages, perhaps most notably in

China, targeted the building of new infrastructure. In addition, the more positive outlook for the World economy and the realisation that global trade would continue prompted the need for companies and economies to rebuild their inventories.

Equity markets too have made an impressive recovery from their lows of just over one year ago. For UK equities these were marked by 3 March 2009 and since then we have seen the FTSE 100 Index rise by 61.7% in price terms and by 68.9% with the addition of dividends reinvested. As a result the UK equity market is now 15.6% below its peak in October 2007.

Yet most crucially for UK based investors in the last 6 months, the choice of currency has been the most decisive driver of returns. Indeed for UK based investors returns from overseas equities have significantly benefitted from the weakness of Sterling and while individual countries and economic regions continue to implement their own strategies for unwinding the stimuli of recent times, it remains essential that investors consider and implement strategies to exploit or counter continuing currency movements ahead.



Fund review: An overview of our global growth funds from Investment Analyst, Mark Wright

T. Bailey Growth Fund

The T. Bailey Growth Fund celebrated a remarkable 2009 not only by returning first quartile performance for the calendar year, but also for the fund's 10 year anniversary on 13 December 2009.

In the final quarter of 2009 global equity markets began in negative territory before rebounding to mark an extremely strong rally from the bottom of the market in March 2009. During the quarter the T. Bailey Growth Fund benefitted from the strategic asset allocation to emerging markets and tactical asset allocation via Brazil. Notably the holding in the iShares MSCI Brazil ETF returned 8.6% during November alone and 104% during the holding period from December 2008 to February 2010.

In addition the only notable portfolio changes during this period were the sale of the Martin Currie North America Fund into the iShares S&P 500 ETF and a small allocation to the Henderson Global Technology Fund. The latter has been a strong performer since our initial investment in December, returning 14.8% versus the MSCI World Index of 11.99% as at 31st March 2010.

In the first quarter of 2010 markets continued to rally but we remain tentative in the short-term. We favour Japan and in particular exposure to Japan smaller

companies. Holdings within the region have attributed positively to our performance. We also decided to hedge the T. Bailey Growth Fund's currency exposure to the Japanese Yen. While this detracted from performance during the first quarter of 2010, we are seeing this reverse in our favour and continue to believe our views will be rewarded.

T. Bailey Growth Fund LITE

The T. Bailey Growth Fund LITE was launched on 25 January 2010 and is a 'LITE' version of the T. Bailey Growth Fund.

The new LITE fund invests mainly in global equities and has the objective of outperforming the IMA Global Growth sector over rolling three-year periods. You would expect to see the very same investment themes as the T. Bailey Growth Fund, however what differentiates it is that we then select passive funds such as trackers and ETFs, rather than active holdings to meet the T. Bailey Growth Fund LITE's investment objectives.

This does not mean that we no longer believe in active fund management, far from it, however we felt it right to have a product to appeal to those who only want to invest in passive funds.

Fund review: An update on the T. Bailey Cautious Managed Fund and the T. Bailey UK Equity Income Fund from Investment Analyst, Victoria Davies

T. Bailey Cautious Managed Fund

During the reporting period the fund ranked in the first quartile of the IMA Cautious Managed sector. This was driven by our exposure to equities and our tactical position to gold; we sold our gold position as US results caused gold's positive momentum to end.

Elsewhere we reduced our exposure to investment grade corporate bonds. This was due to the flow of assets into the somewhat illiquid sector during the year, the closing of the spread over gilts and a noticeable increase in volatility. The proceeds were moved into strategic bond funds (which have more flexibility, crucial at this stage of the cycle) and high yield bonds (where more value remained to provide cushioning against the threat of rising government bond yields).

We re-introduced an exposure to property and moved some of our UK and global equity exposure to the US on thoughts of the US strengthening. With more positive thoughts focused on Japan we introduced the GLG Japan CoreAlpha Fund and a Japan small cap ETF holding. This entire Japan holding has been hedged to Sterling as whilst we are positive on Japan we currently dislike the Yen.

T. Bailey Equity Income Fund

The last few years have been challenging for income funds although signs are emerging that the sector is beginning to work well again, with the Financial Times reporting on 22 March 2010 that pay-outs are expected to rise 18% for the FTSE 100 groups over the next 12 months. We ended 2009 by reducing our exposure to corporate bonds and used the proceeds raised to add a new holding in the Gartmore UK Equity Income Fund. With concerns over Sterling weakness, 10% of the portfolio was moved from the UK to the US at the beginning of March, giving us a US Dollar based equity exposure.

We have maintained our income record with an estimated distribution at 31 March 2010 of 0.65 pence per unit. This is lower than the exceptional 0.85 pence per unit paid this time last year but is in line with recent payments and encouraging against the lower dividends being paid by companies. Although the next quarter may prove more challenging for distributions (few funds pay out in April, May or June) we are optimistic of continuing to deliver a good income profile over the remainder of 2010 and beyond.



Looking forwards: Our views on markets for the next six months. By CIO & Fund Manager, Jason Britton

Hyperopia, or farsightedness, is a condition in which distant objects are clearly seen but closer ones less so. It is an appropriate term for 2010's investment outlook where there are three distinct trends appearing.

Firstly countries are leaving recession at different speeds and at different times. Witness the discrepancy between the US and the UK in the most recent GDP data, which is often a measure of a country's well-being. Whereas the US economy grew by 5.6% in the fourth quarter of 2009, the UK recorded just 0.4%. The differing states of health of the World's major economies will provide a number of investment opportunities over the long-term.

Secondly, we have a distinct widening of fiscal policies between governments. Some are raising their central bank rates (e.g. Australia and Norway) and others are tightening more subtly (e.g. China and the US). As well as these 'tighteners' there are a large number of 'ditherers' where the loosening has stopped but the policy makers are unsure whether they should now tighten. Going against the trend somewhat Japan has continued to extend its program of quantitative easing thus heightening expectations of a Yen devaluation.

Ironically, many of the emerging economies have much stronger finances with less debt, more output and a growing population of working age. We remain strategically overweight to emerging markets even if short term we feel they have got ahead of themselves.

Against these three trends is a higher than normal level of what we term 'headline risk', the risk that a few misspoken words by a senior government official or central banker will result in hysteria and rapid movement in the markets. This is especially true in the UK as we approach an election and the risk of a hung parliament.

Thanks to our hyperopia we believe we can clearly see the longer-term trends but to deal with the short-term issues we feel that an active, flexible approach to asset allocation that can react to the changing circumstances is a sensible way of investing and why fund of funds will continue to reward long-term investors. The investment approach we first laid down at the end of the last century continues to work and we remain confident it will navigate us through the current short-term noise just as it has done in the past.

T. Bailey performance review

Cumulative to first valuation point in April 2010

12 months ended first valuation point in April

Performance*	3 mths	6 mths	1 yr	3 yrs	5 yrs	2006	2007	2008	2009	2010
T. Bailey Growth Fund Retail (launch date 13 Dec 1999)	6.11%	10.34%	46.99%	4.16%	46.91%	36.04%	3.68%	(2.35)%	(27.43)%	46.99%
IMA Global Growth Sector Mean	8.09%	11.98%	44.22%	6.42%	43.46%	31.25%	2.71%	(3.85)%	(23.26)%	44.22%
T. Bailey Cautious Managed Fund Retail** (launch date 2 May 2006)	4.55%	8.86%	27.69%	(5.21)%				(8.36)%	(18.99)%	27.69%
IMA Cautious Managed Sector Mean	4.19%	6.25%	27.47%	0.93%	20.79%	14.87%	4.18%	(4.88)%	(16.76)%	27.47%
T. Bailey Equity Income Fund Retail** (launch date 23 Nov 2004)	4.59%	9.20%	37.97%	(15.88)%	16.12%	23.26%	11.98%	(14.31)%	(28.85)%	37.97%
IMA UK Equity Income Sector Mean	4.92%	7.79%	45.55%	(11.69)%	23.72%	26.39%	10.85%	(13.83)%	(29.59)%	45.55%
FTSE All-Share Index TR	6.42%	12.24%	52.30%	(0.70)%	41.29%	28.02%	11.15%	(7.74)%	(29.33)%	52.30%

* Performance can only be shown for periods when the relevant funds were launched, hence blank cells for some periods.

**Performance shown for Income unit classes.

Source: Lipper Hindsight. Total Return, Bid to Bid, Tax UK Net. Past performance is not a reliable indicator of future results.

As the T. Bailey Funds are fund of funds, fund figures (cumulative columns) are to the first valuation point in April 2010 and IMA and FTSE figures are to 31 March 2010.

Due to regulatory requirements we are unable to publish performance data for the T. Bailey Growth Fund LITE until the fund has been launched for 12 months.

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