

Equity sales

Investment Funds – Sales comment

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Sales Commentary

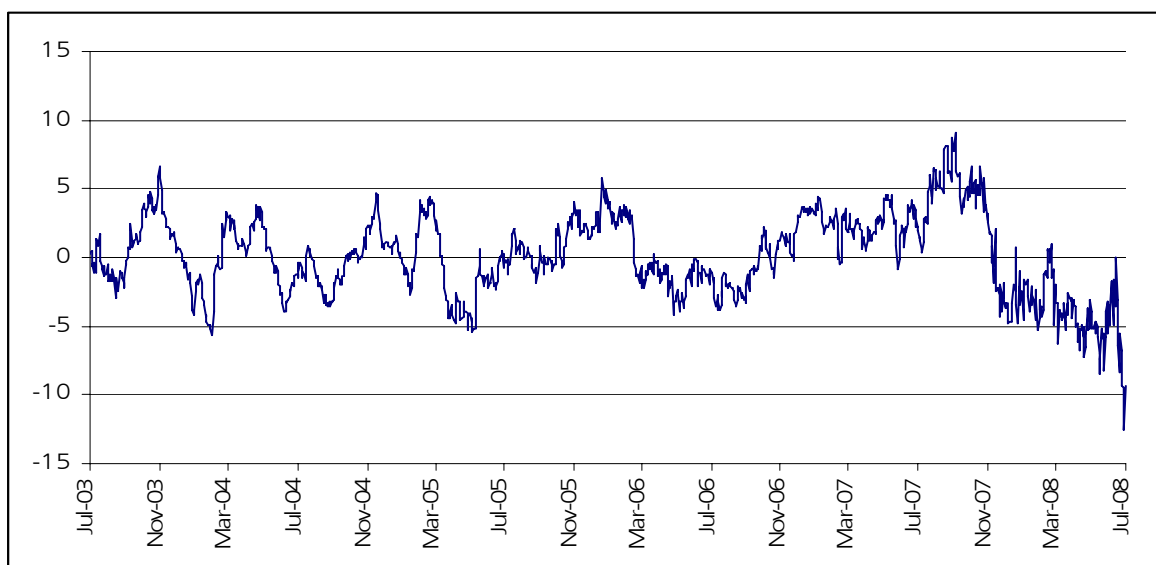
Lowland (LWI.L) – Sticking with contrarian approach despite underperformance

We recently met with James Henderson, who has been the manager of the Lowland Investment Company since 1990.

- **Objective:** With the FTSE All-Share Index as a benchmark, Lowland's policy is to invest in a broad spread of predominantly UK companies of differing sizes with normally not more than half by value coming from the largest 100 UK companies and the balance from small and medium companies. The fund's objective is to give shareholders a higher than average return with growth of both capital and income over the medium to long term.
- **Investment style:** James's style is contrarian and value-oriented. Over the long term this approach has often delivered superior returns and – despite recent underperformance - we note that over the last five years, LWI's NAV TR performance (+64%) is marginally better than the average for the UK Income Growth peer group NAV TR +54%. James's philosophy has consistently been to look for companies that trade below book value, have robust balance sheets and for stocks – regardless of size – with above average yield and growing dividends.
- **Strategy:** James believes that current market weakness has presented a number of interesting opportunities. He has continued to build positions in a number of areas that are currently out of favour including: property, housebuilders, banks and small cap. Previously underweight banks, he believes that bad debt assumptions are too bearish, that banking margins will rise again by 2010 and – despite problems with the consumer – that corporate UK balance sheets are in reasonably good shape.
- **Sectors:** The fund remains overweight industrial engineering and aerospace companies too. James feels that many capital goods companies (e.g. aerospace) are beneficiaries of strong order books arising from Middle East and Emerging Market demand. The evidence is further supported by good results and attractive valuations. The trust retains an almost zero weighting in the mining sector – a position that has impacted performance in recent months – as James is worried about valuations and the impact of slowing global growth on commodity prices.
- **Leverage:** LWI has aggressively used its leverage facility to enhance returns in the past. Having positioned the fund defensively last summer (net cash c10%), James used the sell-off in the latter part of 2007 to reduce cash and increase leverage. Net leverage currently stands at c17% and James expects this to rise to almost 25% later this year, to allow him to take advantage of the opportunities he sees as being available in the market.
- **Performance:** By his own admission, the decision to move from cash into debt at the end of last year as well as buying into unfavourable areas, was premature. Over the year to June 30th, NAV TR fell 28% yoy vs. a fall of 13% in the FTSE All Share (total return) benchmark. James believes that rising oil prices, inflation and the impact this has had on rates impacted LWI's performance. However, James is firmly sticking to his investment style and believes that following previous periods of weak performance – like in 1992 and 2002 – that the fund will pull through.

UBS Sales View: *The discount on LWI is 8% which is close to the widest discount for about 8 years and a far cry from the 8% premium the stock traded on last September. Investors looking for a contrarian manager with an excellent long term track record (10 year NAV TR +114% to June 30th vs. FTSE All-Share TR +40.5%) should consider this fund.*

Lowland: Premium / discount over 5 years to 21 July 2008



Source: Thomson Financial

Lowland: sector breakdown at 30 June 2008

Sector	% NAV	Sector	% NAV
Financials	27.5	Basic Materials	6.2
Industrials	23.9	Telecommunications	4.2
Oil & Gas	10.5	Utilities	2.2
Consumer Goods	7.3	Technology	0.2
Consumer Services	6.5	Cash & FI	5.2
Health Care	6.4	Total	100

Source: Lowland

Lowland: largest holdings at 30 June 2008

Sector	% NAV	Sector	% NAV
Royal Dutch Shell	5.2	AstraZeneca	2.5
BP	4.7	GlaxoSmithKline	2.3
Senior	4.2	Aviva	2.1
HSBC	3.0	Vodafone	1.8
RBS	2.9	Hill & Smith Holdings	1.8
		Total	30.5

Source: Lowland

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