



We are pleased to provide you with our latest Investment Market Review.

Eurozone troubles persist and continue to threaten stability despite numerous meetings between the relevant national leaders. The UK's involvement has been called into question and closer to home fears of following Europe toward economic contraction are growing.

Investment Committee



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The final quarter of 2011 saw changes to the UK's political status within Europe, further slowing in international growth and a continuation of the volatility in stock markets. 2011 saw a change in leadership in six major countries, notably Italy, Greece, Egypt and Libya, with varying degrees of conflict and consequence, the effects of which remain to be seen.

Market Review & Outlook – January 2012

2011	RPI (%)	CPI (%)	Unemployment (%)	GDP Growth (%)
July	5	4.4	7.9	
August	5.2	4.5	8.1	Q3 +0.6%
September	5.6	5.2	8.3	
October	5.4	5	8.3	
November	5.2	4.8	8.3*	Q4 +0.1*
December				

**Independent forecast data from HM Treasury & British Chamber of Commerce. Based on percentage change on previous year.*

Economy

UK economic growth for the third quarter was upwardly revised to 0.6% after the second quarter figure was amended to zero from 0.1%, reflecting a better period after some very lean months. The continuing muted growth figures indicate that interest rates will remain at current lows for a protracted period and very likely throughout the whole of 2012.

Inflation in the UK continues to decline, as the pressures of higher costs of food and oil are priced-out of the figures. We would expect this trend to continue for the next two quarters at least, to somewhere close to the Bank of England's target of 2%. This estimate may be skewed if the government decide to implement a further round of Quantitative Easing (QE) to improve the money supply, or the recent increases in the oil price are maintained.

Figures showed that UK unemployment reached a 17-year high in October as companies remain reluctant to take on new staff. Youth unemployment is especially worrisome, with over 1 million young people out of work. Some more troubled regions of Europe have even worse prospects, significantly Spain, which has over 40% youth unemployment.

US economic data was significantly more positive toward the end of 2011, with better than expected unemployment and manufacturing data.

The Eurozone summit in December followed the pattern of July's by exciting markets with rumours of resolutions but did not directly address the major issues, leading to falls which erased the earlier gains. It is likely that the region is already in recession, the effects of which will be felt by the UK, as a large proportion of our exports are to our nearest neighbours, but this may be short-term and followed by low, but positive growth later in 2012.

In the week leading up to Christmas, the demand for emergency loans from the European Central Bank (ECB) to European financial institutions was higher than expected and the total has now surpassed €4 billion. This was positive, as it should help to avoid another 'credit crunch', but it does highlight the scale of the issue. The ECB said they would not issue a common 'Eurobond', so the question of what might happen when the institution's reserves are exhausted must still be addressed. It remains to be seen whether the German Government will agree to further printing of money (QE).

Fears that more moderate growth in emerging markets would lead to a global slowdown seem to be overplayed and growth in China of around 8% looks likely for this year. Brazil also recently overtook the UK to become the world's 6th largest economy, but this may indicate more about the lack of growth domestically than the acceleration in South America.

So, what is the outlook for your portfolio?

Fixed Interest

The fixed income components of our portfolios have performed well over the last quarter and invest in a widely diversified range of assets. Globally, corporate debt looks to be good value as multi-national companies hold large sums of cash and are reducing the amount of debt they hold. This makes it attractive to invest globally in companies that can provide a reliable return, without having to invest in riskier areas (we maintain a very low exposure to Eurozone countries). Sovereign bonds from Australia and similar developed, but less challenged, markets look to be very good value investments as they offer a lower risk.

Government bond (gilt) prices remain at highly inflated historic valuations and inevitably the yields are very low. The reason for this is the relative safety that they provide, with the AAA-status retained they are an attractive prospect in troubled times. The inflation-tracking index-linked gilts, which we have held for some time, seem to be a better prospect, as returns are higher. Although inflation is falling at the present time, we have decided to retain our index-linked gilt exposure as we believe inflation will be higher than expected over the long-term and inflation remains with us, thus we foresee positive returns. Also, it is likely that the Government will, at some point, purchase index-linked gilts as part of the QE programme, as this has been noted in the Monetary Policy Committee's minutes.

Equities

UK equities enjoyed a relatively successful end to 2011 as the FTSE 100 rose around 10% in the final quarter resulting in a 5.5% loss for the year as a whole. Larger companies rose more swiftly than their smaller counterparts as we would expect in a recovery environment.

The US has tended to outperform the wider equity market in 2011 and it looks as though this may be the case again in 2012. This area seems the most likely to gain traction as market conditions improve and some growth looks possible. There may also be opportunities in merger & acquisition (M&A) transactions as many companies seem to be cash-rich, so smaller companies could outperform as confidence returns.

European holdings have clearly been hit harder than most sectors and some European-based companies have been pushed down to what appear to be very attractive valuation levels, although the short-term performance will be largely determined by the ability of the ECB to manage the debt crisis. The fact remains that of our European holdings, the more defensive vehicles have provided the better performance in a very volatile market.

Emerging markets should provide some much-needed growth to the global economy in 2012, although slower expansion is expected in the first quarter. Data released in November showed relatively good progress in China and increasing commodity demand, which is positive for the UK's many resource companies, eg. BP, Rio Tinto, who are becoming increasingly dependant on developing markets. 2011 saw China become the world's second largest luxury car purchaser (after the US), 81% of which are European brands.

With regards to emerging nations over the longer investment term, we believe that domestic demand will keep growth at attractive levels compared to the mature economies and this should help to produce good returns.

Property

Commercial Property in the UK has been a valuable asset over recent, more volatile periods by remaining largely unchanged. Income levels from these investments have been sustained and some small amount of growth in City of London office space was evident, but the major advantage of 'bricks and mortar' has been its resilience to short-term economic news.

We remain firmly committed to top quality prime property investment, which has the ability to retain its value through tough conditions. We believe that this area plays a valuable role in portfolios while the economic outlook for other risk assets remains uncertain.

Commodities/Specialist

There was a significant drop in the gold price in the final quarter after hitting a high of \$1923.7 in September of last year. The precious metal notched up an eleventh straight annual gain and there are very few forecasters who would bet against 2012 being the twelfth. Gold demand from central banks hit a 40-year high in November and its status as a safe-haven away from riskier assets and currencies is still an attractive proposition for investors. We maintain our holdings in gold companies as we believe there are sufficient forces to push the price higher and the equities tend to look undervalued compared to the metal price.

The price of oil has moved up over the quarter but has experienced some volatility along the way due to supply pressures in the Middle East and Libya's supply not yet back to full capacity. We would expect to see further significant increases if the US economy improves.

In general, crop prices have fallen significantly of late and we would expect this to continue into the first quarter of 2012. There should be further increases towards the middle of this year as supply limitations are starting to show up in some regions as well as seasonal factors and more erratic weather patterns persist.

Conclusion

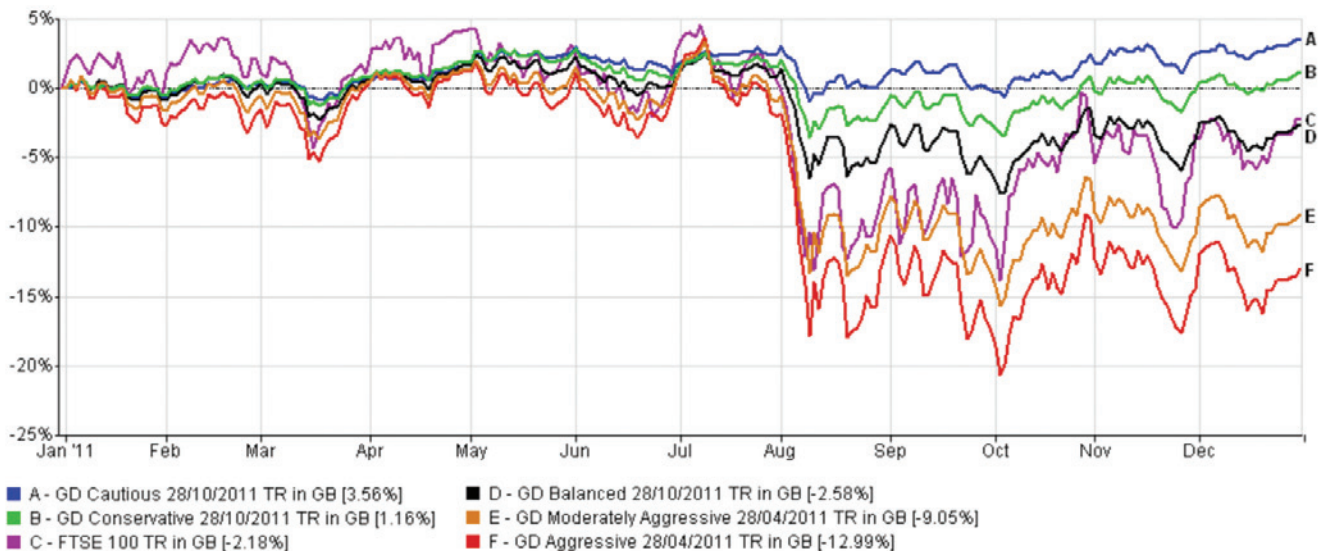
The small changes that we made following the last review have proved profitable as more defensive assets have tended to outperform their riskier counterparts. Income producing investments tend to be a good guard against the erosion of slow or zero growth environments.

We anticipate many similarities to 2011 in the new year, with high volatility, struggling economies and potentially more 'false dawns'. There will inevitably be setbacks, which may include further downgrades of Eurozone members and a possible withdrawal from the group by one or more of the weaker countries. While this would cause considerable turmoil, it may signal the darkest hour from which rebuilding can begin in earnest.

We maintain our view that the UK will probably escape a recession and have been buoyed by the upgrade of the most recent growth numbers, which although they are low, are encouraging. We have decided to retain the present allocations to each asset class as they reflect our view of a stock market characterised by high volatility and potential dangers. We will therefore not be making any changes to the investment models at this time.

Gibbs Denley Investment Committee
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One-Year Performance of Gibbs Denley Investment Models



31/12/2010 - 30/12/2011 Data from FE 2012



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