martin currie

STRATEGY UPDATE

FOR PROFESSIONAL INVESTORS

August 2010

Tom Walker
Portfolio manager
North American strategy

David Forsyth
Portfolio manager
North American strategy

From this side of the Atlantic, recent news from the US has disappointed. Non-farm payroll data for May was poor and June brought weaker home sales and disappointing consumer-confidence and ISM surveys. Advocates of a second wave of stimulus spending repeatedly warn of a 'double-dip' recession and raise the spectre of deflation. Recent comments from US Federal Reserve chairman Ben Bernanke haven't helped: he warned the Senate that the country's economic outlook remains "unusually uncertain". (July 2010)

These are all valid concerns. But there are also reasons to be optimistic about North America and North American companies. Low inventory levels, rising capital expenditure, strong corporate balance sheets and the return of M&A activity all give us reason to believe that the US economy will continue its recovery even if Europe stalls.

There are ealry signs that stockpicking is increasingly being rewarded as share-price returns start to reflect earnings potential rather than the deratings and reratings of the last two years that resulted in such "top down" sentiment swings and sectoral rotation. Our North American Fund has outperformed the market over the year to date, delivering 1st quartile returns*.

* Source for all performance: Lipper Hindsight, 31 July 2010. Bid to bid basis with net income reinvested over periods shown. These figures do not include initial charges. If these were included, performance figures would be reduced. Performance of 'A' shares (retail class) in sterling. Past performance is not a guide to future returns.

REASONS FOR OPTIMISM

1. **Low inventory levels should support growth.** The business inventories-to-sales ratio is at record low levels, and any move towards a more normal level of inventory will boost activity. There is also pent-up need for capital expenditure. The capital asset base in the US has actually been shrinking, and fresh investment will ultimately be needed. Recent surveys show that managers intend to increase capital spending through 2010.

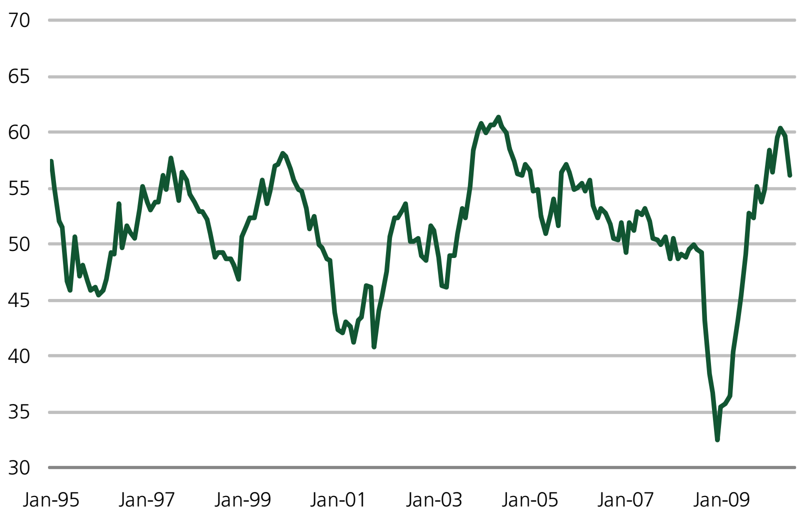
Business inventory/sales ratio

Source: RDQ Economics, July 2010

2. **Corporate balance sheets remain strong,** and we expect that mergers and acquisitions will continue to gain momentum. US companies remain highly 'cashed up'. Apple, Google and Cisco, three of the largest hoarders of cash, have all made bolt-on acquisitions in recent quarters. The strength of corporate balance sheets is also evidenced by share buybacks, the value of which rose by nearly 80 percent in the first quarter to US$55.3 billion compared to the same period last year. This should continue to lend support to valuations, which look favourable, especially relative to other asset classes.

3. **Surveys from the Institute for Supply Management (ISM) reported that 13 of the 18 industries it follows experienced growth in June.** While the pace of growth has slowed, the ISM has noted that given the robust nature of recent growth – we are now 11 months into the manufacturing recovery – a slowdown is not surprising.

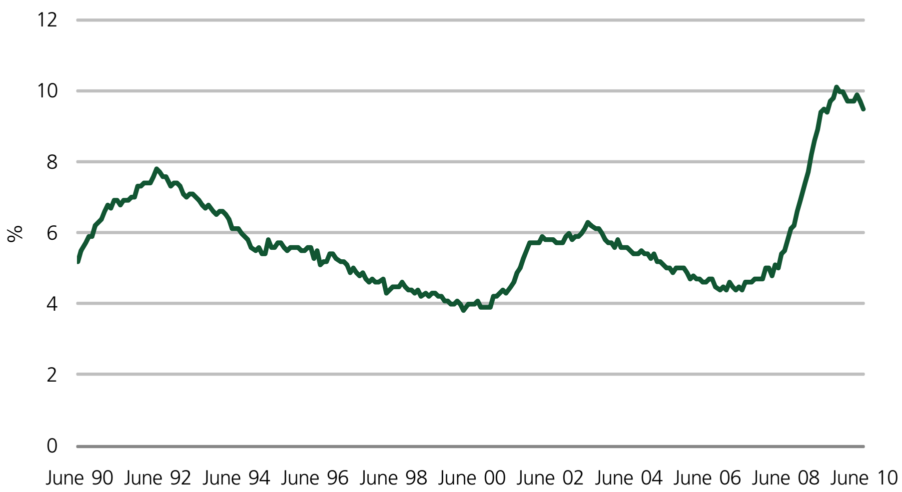
US ISM Purchasing Managers index (MFG survey)



Source: Thomson DataStream, as at 15 June 2010.

4. **As the following chart shows, the unemployment rate fell to 9.5 percent in June from 9.7 percent in May.** While the drop in the unemployment rate was due to a decline in labour force participation which fell from 65.0 percent to 64.7percent, and not stronger job growth, jobs are being created.

Civilian unemployment rate

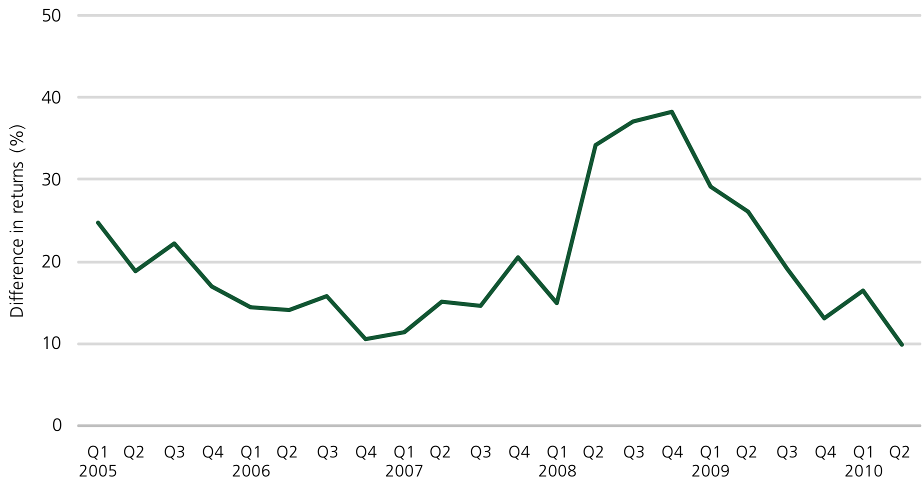


Source: RDQ Economics, July 2010

With the exception of June, which saw a small reversal, average hours worked have been rising steadily. The natural progression would be for hiring to commence on a wider scale as hours worked reach their historic peaks and output from the current workforce approaches full capacity.

5. **Stockpicking is being rewarded and sector dispersion is narrowing.** As the recovery continues and the market becomes less driven by 'top down' sentiment, share-price returns are starting to better reflect earnings growth. The market rotation that accompanied the massive de-rating of equities in 2008 (and their subsequent re-rating in 2009) led to huge differentials in returns between market sectors. For example, the technology sector rose by 61 percent in 2009 while utilities rose by just six percent, a difference of 55 percentage points. In the first quarter of this year, meanwhile, the difference between best and worst sectors was 17 percentage points. During the second quarter, however, the gap had narrowed: returns from the best-performing sector (utilities) and the worst (financials) were separated by just nine percentage points. This represents a more favourable environment for our stockpicking approach.

MSCI North America – sector dispersion



Source: Martin Currie, June 2010.

Attribution data shows that 110 percent of the value we added year to date came through stock selection*. This more favourable environment for stockpicking stands in stark contrast to what we have seen over much of the last two years, and represents a welcome trend back towards historic norms, in which 80 percent of the value we have added has come through stockpicking and 20 percent through sector allocation.

*Source: Martin Currie, 30 June 2010. Past performance is not a guide to future returns.

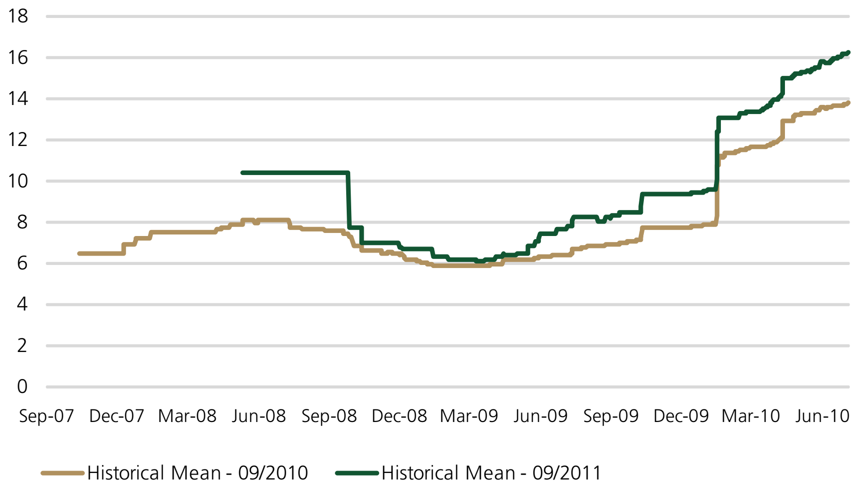
THE MARTIN CURRIE NORTH AMERICAN FUND

1. Portfolio positioning

Despite the 'uncertain' environment, we remain optimistic. We are finding plenty of stocks that exhibit all the signs of real corporate health: strong balance sheets, rising cashflows and share buybacks. Within a lacklustre 'macro' picture there are numerous positive 'micro' trends; plenty of niche markets are thriving and dozens of US companies are enjoying positive change despite the tentative nature of the recovery. These are the companies in which we invest and which will prosper despite the choppy market environment.

Technology remains the fund's largest relative overweight at a sector level. This is purely a reflection of the merits of stocks such as IBM, Apple, Cisco Systems and Hewlett Packard. For example, Apple enjoyed another strong quarter. To much fanfare, it launched the groundbreaking iPad 'tablet', sales of which have significantly outstripped expectations. On top of that, the latest iteration of the iPhone was launched late in the quarter and an incredible 1.7 million units were sold in just three days. The long queues of eager customers waiting to buy these products gave striking testimony to the persistent allure of Apple's products and the power of its brand. The launch of two such successful products in one quarter shows that Apple's ability to innovate remains undimmed. The significant earnings upgrades that followed the success of the iPad and the iPhone 4 saw Apple outperforming significantly.

Apple's strong earnings momentum



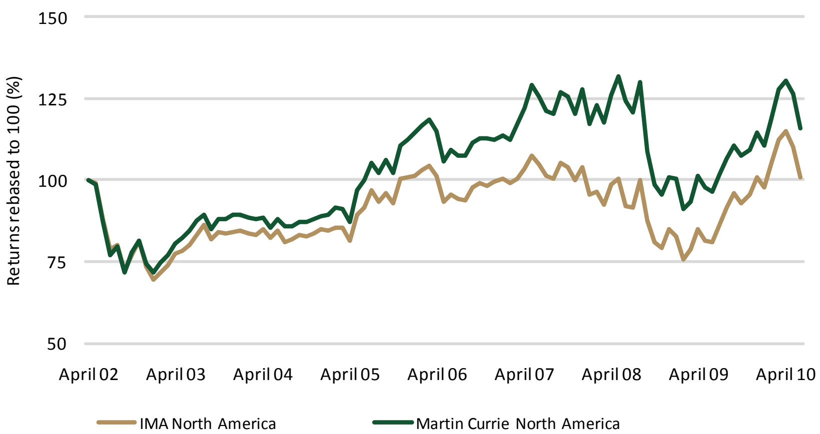
Source and copyright: 2010 Bloomberg Finance L.P.

We recently added to our weighting in the technology sector buying Microsoft. This is a stock that we had been monitoring for some time and a recent pullback in its share price gave us an opportunity to buy a holding at a compelling valuation.

We remain cautious on financials. We are currently 5.4 percent underweight in the sector, making it the largest negative active position in the portfolio. The prospect of greater financial regulation continues to cast a shadow over the sector.

2. Performance

As the graph shows, the fund has outperformed the IMA North America sector since April 2002.



Source: Lipper Hindsight, as at 30 June 2010; bid to bid basis with net income reinvested in sterling. Past performance is not a guide to future returns.

However, the fund's mid-term performance numbers now reflect the extraordinary market environment that prevailed from mid-2008 to the early part of this year. In particular, its two-year performance record reflects the hit to relative returns that the fund suffered in the second half of 2008. Happily, we believe that the market environment is normalising and we are encouraged that the portfolio has outperformed so far this year.

		Three years rolling to 31 July						Since
	YTD	2010	2009	2008	2007	2006	2005	manager's tenure *
Martin Currie North America (%)	**4.0**	**(1.6)**	**(5.2)**	**14.7**	**41.2**	**22.9**	**36.4**	**19.4**
IMA North America (%)	1.5	1.3	(8.1)	(5.4)	24.6	13.0	23.2	2.5
MSCI North America (%)	3.1	7.1	(4.1)	0.8	29.5	20.1	29.4	19.0
Quartile	1st	3rd	2nd	1st	1st	1st	1st	1st

Source for all performance: Lipper Hindsight, 31 July 2010. Bid to bid basis with net income reinvested over periods shown. These figures do not include initial charges. If these were included, performance figures would be reduced. Performance of 'A' shares (retail class) in sterling. *Tom Walker took over management of the fund on 30 April 2002. Past performance is not a guide to future returns.

CONTACTS

Andy Sowerby	Managing director, sales, marketing & client service	44 (0) 131 479 5955	asowerby@martincurrie.com
Allan MacLeod	Managing director, sales, marketing & client service	44 (0) 131 479 4615	amacleod@martincurrie.com
Jamie Skinner	Director, head of client service	44 (0) 131 479 5854	jskinner@martincurrie.com
Eric Bateman	Director, head of European sales	44 (0) 131 479 5963	ebateman@martincurrie.com
Simon Barrett	Director, business development (Germany and Nordic region)	44 (0) 131 479 4639	sbarrett@martincurrie.com
Dominik Issler	Country head – Switzerland	+41 44 214 6680	dissler@martincurrie.com
David Robertson	Sales and client service director	44 (0) 131 479 5930	drobertson@martincurrie.com
David Townsend	Director, head of UK institutional & global consultant relations	44 (0) 20 7907 1665	dtownsend@martincurrie.com
James Elks	UK institutional and consultant relations	44 (0) 20 7907 1660	jelks@martincurrie.com
Keith Burdon	Client service director	44 (0) 131 479 5954	kburdon@martincurrie.com
Alan Burnett	Director, head of UK intermediary business	44 (0) 20 7907 1666	aburnett@martincurrie.com
Magnus Graham	Sales manager – South West, Central, and North England	44 (0) 7786 251 175	mgraham@martincurrie.com
David Chambers	Sales manager – Scotland, Ireland, Channel Islands and the Isle of Man	44 (0) 7753 984 238	dchambers@martincurrie.com
Nick White	Sales manager – London	44 (0) 20 7907 1669	nwhite@martincurrie.com
John Long	Sales manager – London	44 (0) 20 7907 1663	jlong@martincurrie.com
Fergus McCarthy	Sales manager – South East and North England	44 (0) 7920 597 207	fmccarthy@martincurrie.com

Important information

The source for all information is Martin Currie Investment Management Ltd as at 31 July 2010 unless otherwise stated.

This information is issued and approved by Martin Currie Investment Management Ltd in its capacity as investment manager. It does not in any way constitute investment advice or an invitation or inducement to invest. Investments can only be made in accordance with the terms and conditions outlined in the Prospectus and the Simplified Prospectus. Past performance is not a guide to future returns.

All references to the North American Fund relate to the Martin Currie Investment Funds - North American Fund, a subfund of an Oeic. Martin Currie Investment Management Ltd is the investment manager of the Oeic.