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CARR SHEPPARDS CROSTHWAITE

A member of the Investec Group

Our Ref : JM/VM/COUNC0004

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Dear Paul

I am writing to enclose the quarterly report for the period 31st December 2004 to 31st March 2005. Over this period the portfolio has increased in value by £29,873 of which £19,223.56 was due to capital appreciation and £10,649.44 from accumulated dividends and interest.

On a total return basis the portfolio has appreciated by 2.4% for the quarter and by 15.8% for the rolling twelve month period. In both cases the performance has been helped by UK equities which appreciated by 3.3% in the quarter, compared to 3.0% for the FT All Share Index and over the twelve months appreciated by 18.5% compared to 15.6% for the FT All Share Index.

Over the quarter the fixed interest proportion was virtually unchanged and overseas equities produced a return of 2.1% but over the twelve month period both these proportions have produced good returns with the fixed interest proportion appreciating by 12.1% compared to 5% for the FTA Government All Stocks Index and the overseas equity proportion appreciating by 14.6% compared to 7.5% for the benchmark index.

The oil price is a key determinant to what happens next in world stockmarkets. It has now risen by 80% over the past year. In October the increase was thought to have been temporary and self-correcting in that higher oil prices would reduce the rate of economic growth. However, no slowdown materialised over the turn of the year and with oil prices having now risen to new highs, concerns are that it is more permanent and that price increases are being passed through to compensate for the higher oil price, rather than slowing demand. Indeed Goldman Sachs recently introduced a new phrase to the financial vocabulary "a super spike" suggesting oil prices could rise to US$105; which shows how far the perception about future oil prices has changed.

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Global demand is potentially vulnerable especially in countries like the US and some emerging markets where, because of the low taxation on oil, the full effect of the increase has been felt. China imports 30% of it's oil requirement and has been a major cause of the increased demand for oil over the past few years. The increased costs may cause it to act to restrain economic growth. The Ruan peg to the US$ has not protected it against the rise in US$ priced commodities. The majority of the increase in the vast US trade deficit over the last 18 months has been caused by the oil price increase, imports in total value are now virtually twice exports and it will not be possible to close this gap materially without a signification reduction in the oil price. The US trade deficit was thought to be supporting the purchase of manufactured goods from the Far East but in fact a large proportion is now going to OPEC countries to fund oil imports.

High oil prices are also introducing some cost push inflation not only because of directly higher input costs but also because of consequently higher transport costs. Therefore, if oil prices remain high, or rise further, they could have negative implications for both equities and possibly bonds. If, however, they were to have a normal seasonal Spring fall, that could be very positive for markets. With OPEC constantly increasing production either world economic growth has reached a point where there is a structural imbalance of supply and demand, or, possibly, whereas previously the increase was only considered temporary, higher prices are now feared to be more permanent and the scramble to buy at low prices only exacerbates the price spike.

The General Election in the UK is now underway but the current feeling is it will have little impact on markets. Opinion polls and betting indexes are predicting a significant win for the Labour Party. The IG Index for example is quoting Labour to win 353 seats, Conservatives 201 seats and Liberals 67 seats giving Labour a clear majority of 85 against the combined opposition parties (currently it is 165). Whilst the gap in the opinion polls has narrowed to around 3% apparently the Conservatives need a 6% majority to win a majority of seats, because of the way the constituency boundaries are drawn. As seems to be the norm these days the Government has gone to the polls a year early.

There is always conjecture as to why but it could be that they are concerned that the electorate is about to find life a bit more difficult. Consumer spending appears to be slowing, possibly as a result of increased mortgage rates coming through, especially as favourably priced fixed rate mortgages of a couple of years ago are re-priced. According to the Nationwide Building Society the rate of house price growth has slowed significantly over the last four quarters from 4.7% in Spring last year, to 3.1%, to 1.1% and then just 0.7% for the first quarter of 2005. Mortgage payments have jumped from 25% of take home pay at the end of 2003 to 31% in the last quarter and wage growth is being hampered by higher taxes and allowances that are not keeping pace with inflation.

Given this background we have taken a number of actions with regard to the portfolio. We already have a low exposure to consumer related areas of the market but we have reduced exposure to those areas which are valued relative to bonds like PIBs, preference shares and utilities which have all performed very well over the last few

years. We have reduced the holdings of HBOS, Tesco, Unilever and National Grid and sold the holding of AWG. With have also sold the holding of Portman 7.25% PIBs.

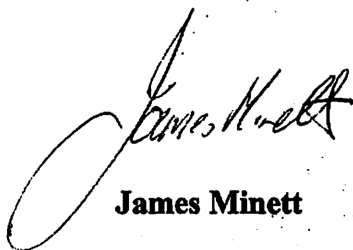
We have reinvested into Standard Chartered, Prudential, AstraZeneca and Amvescap. Standard Chartered were weak recently following the acquisition of a Korean Bank. Prudential is benefiting from an upturn in the life assurance industry. We have used a set back in the AstraZeneca share price to acquire a position. The stock has 20% compound earnings growth albeit a limited supply of new drugs. We have also added to Amvescap the fund management company which incorporates Invesco (no relation to Investec). We have also added to Throgmorton Trust a UK smaller companies fund managed by Roger Whiteoak at Framlington.

In overseas markets we have retained our relative preference for Europe over the US, although the conundrum continues of Europe being a weak economy and a strong currency and the US a strong economy with a weak currency. However we are watching this closely as referendums across Europe on the European Constitution highlight some of the sensitive issues. Also, the revision of the growth and stability pact or "sloth and debility pact" may serve to exaggerate regional differences. Conversely, the US economy does have many non-cyclical growth companies and may in due course become more attractive. We have purchased 2,000 units in JP Morgan Fleming Japan, increasing the holding to 9,000 units, as the Japanese economy continues to recover.

In total we are currently more cautious but would also acknowledge that a fall in the oil price could be very positive for equity markets and as this is long overdue it can no longer be viewed as highly likely.

With kind regards.

Yours sincerely,



James Minett

Encl.