Market Update Note – Annabel Betz

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Overview

- Equities have sold off indiscriminately, particularly in emerging marktes.
- The fundamental case for infrastucture equities is sound.
- The current environment is an opportunity to buy strong companies with good fundamentals and earnings visability at very attractive prices.

Following the global falls in Equity markets on 21 January 2008 Annabel Betz, Emerging Markets Equities Strategist at Credit Suisse, and close collaborator with Neil Gregson in the management of the Fund, spoke to us about the recent falls, their impact on the fund and our outlook:

What happened in Global markets to result in such sharp falls on the 21st?
The falls on 21 January are a continuation of the volatility that has been in place since late 2007. A wide variety of factors, such as the continuing credit crunch, inflationary pressures in Asia and the housing slump in the US have made markets less certain about the future. This, combined with recent announcements of disappointing economic data from the US and additional tightening measures in China, has led to a fresh sell-off in global markets since the start of the year, as consensus has moved toward expectations of weaker US and global growth.

Exactly what caused the sharp falls is still open to question, but it would appear that a combination of stop-loss triggers, leveraged investors (who had borrowed to buy and could not afford steep losses) and regulatory requirements (particularly for insurance funds) caused a spiralling wave of forced sales – with each successive fall triggering further sales, and more market falls.

The fund is exposed to both developed and emerging markets, though with a strong emerging markets bias. The negative newsflow has, so far, been related largely to the developed world. Clearly emerging markets are not totally unrelated to economic events elsewhere, but the fact that markets all fell does suggest that the falls were related largely to panic or forced selling.

What has the effect been on CS EF (Lux) Infrastructure?
The sell-off was indiscriminate, with Cyclical and Capital Goods stocks being hardest hit. Few markets were unscathed by the turmoil. As such the Fund has suffered a fall in value.

However, we have a relatively large cash position at present, which should have cushioned the decline to some extent, and the falls present an excellent buying opportunity for a number of high quality stocks which have been marked down.

What is the fund looking currently doing? What is it looking to invest in?
We believe that the search for earnings visibility and profit delivery will continue to support the investment case for infrastructure-related stocks. Many infrastructure projects have been committed to, often with public money, over the coming several years. As a result, the contractors that are to complete the work, the companies which supply the contractors with material and the various other companies in the supply chain all have fairly visible and calculable earnings flows for the coming years. This level of certainty in a time of volatility is likely to make such stocks particularly attractive.

Rather than seeing the current sell-off as a reason to panic, we consider it an opportunity to invest in companies in various infrastructure sub-segments where we believe there will be strong growth going forward and that offer very attractive valuations.

We are particularly interested in stocks exposed to domestic rather than global cycles in specific emerging markets. This is because we can see extremely healthy fundamentals within a number of emerging economies (Russia, India and Indonesia, for example) that are unrelated to the health of the global market. While we hold strong views about these countries' internal prospects, our views on global growth are less positive, and therefore we are seeking opportunities to tap into domestic strength and shield the fund from potential global weakness.

Have you been making any changes to the portfolio in light of current market volatility?

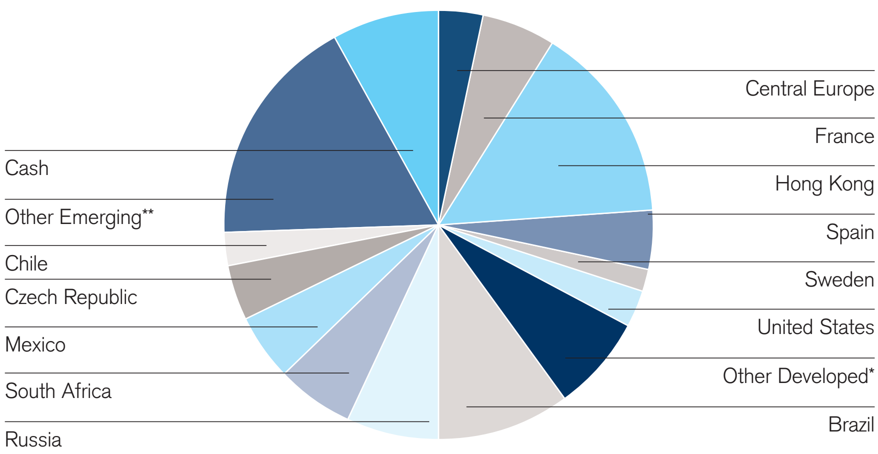
Not as yet. As mentioned above we are considering a number of investments which now appear much more attractive, but we believe that there may be further volatility and have therefore not rushed to buy. The fundamental factors which we consider particularly attractive are not what is driving the market at present. We want to see a stop to the (apparently) mechanical selling which has been occurring before we commit new investment.

What is the current Sector/Geographic breakdown of the fund?

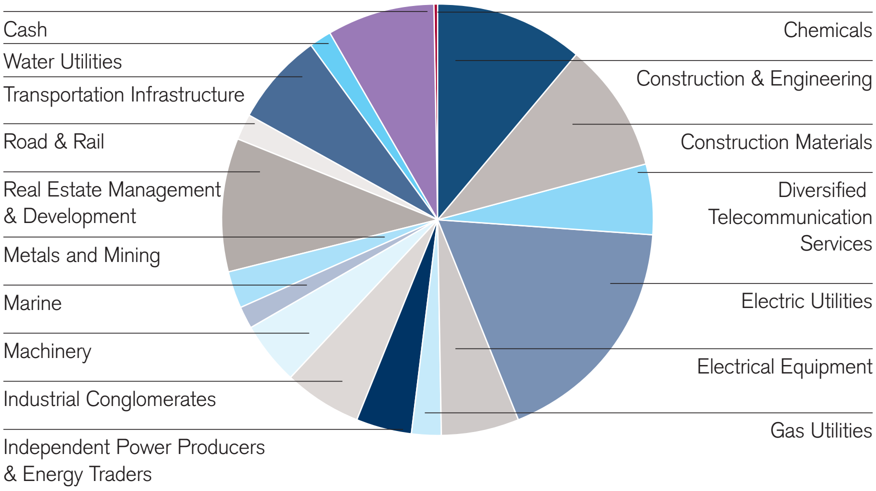
We have not significantly changed position since the beginning of the year. Our current positions are shown below:

Country Allocation as at 31 December 2007

Source: Credit Suisse



Sectors as of December 31 2007



Source: Credit Suisse

What is your outlook going forward?

While it is difficult to predict when the current environment will give way to greater stability, the fundamentals and valuation case for infrastructure, in emerging markets in particular, is sound.

Given the increasingly uncertain outlook for US growth, investors are likely to focus on areas of earnings growth visibility and profit delivery. In our view, infrastructure-related equities offer some defensive qualities as their earnings are less vulnerable to the global cycle.

What factors in particular influence your positive view?

The improvement in fiscal balances within emerging markets over the past decade and greater macro stability have allowed governments to embark on infrastructure spending after severe neglect over the 1990s – a theme that did not go unnoticed by investors in 2007, as infrastructure-related sub-segments (construction and engineering, transport) began to outperform. Expansion in ports, airports, highways, rail systems and power generation capacity is a multi-year phenomenon that will continue to support overall growth, regardless of the global cycle - and could even been stepped up as a countercyclical policy tool by many emerging market governments.

In addition to these areas, urbanisation will continue apace and will be a major driver of not only power and transportation demands but also the real estate sector. Within emerging markets the real estate sector is now providing many great investment opportunities as while the stocks have shared the poor performance of their developed market counterparts the fundamentals are almost exactly opposite, i.e. strong, and just at the start of long term trend in home ownership with prudent lending (i.e. high deposits) the norm.

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