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A member of the Investec Group

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P Baker, Esq
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Dear Paul

Health Professions Council

I am writing to enclose the quarterly report for the period 1st July to 30th September 2004. Over this period the value of the portfolio has increased from £1,316,035 to £1,348,424 an increase of £17,944.

On a total return basis the portfolio has appreciated by 2.6% and by 12.2% for the rolling twelve month period.

In the most recent quarter the UK equity proportion returned 2.0% compared to 2.9% for the FT All Share Index but the fixed interest proportion has produced a return of 5.8% compared to 2.9% for the FTA Government All Stocks Index, as a result of the exposure to PIBs and preference shares.

These gains were against a background of a major change in the expectation for the near term peak in interest rates following a "growth dip" over the summer months in most areas of the world. Early signs of containment in the rate of growth of consumer spending, and borrowing, in the UK and anecdotal evidence of a cooling in house price momentum have also helped. Whether this was due to poor summer weather or the four ¼% interest rates rises is subject to debate but the influence has been significant. The perception in mid August was for interest rates to possibly rise to a peak of over 6% before containing consumer habits. Now however the consensus view believes rates will peak close to current levels, with possibly one more rate rise of a ¼% from the current 4.75%.

The continuing high oil price also impacted sentiment. The current view that oil at US$50 a barrel will slow the rate of world economic growth is helping to contain the need for interest rate rises whether in the UK, or particularly the US and Far East. That it may also introduce inflationary pressures does not, as yet, seem to concern either bond or equity markets.

The UK equity market continued to trade in a very tight range, by historic standards. In the early part of the quarter it fell towards the lows for the year on concerns about slowing

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growth and fears of the "collateral damage" that rising rates will inflict on additional parts of the economy as well as the consumer.

When interest rate expectations were reined in, equity markets breathed a sigh of relief and rallied to the top of their year to date range, producing a 6% turnaround in the last six weeks of the quarter. At a stock level the portfolio has benefited from the bid for Abbey National by Santander, which has since been sold and the attempted bid for Marks & Spencer by Phillip Green. Subsequent to the bid we have also sold the holding of Marks & Spencer on concerns about current trading and that it may be some while before management action will gain credence with the market. Unfortunately, however, it appears that we have inadvertently sold 3462 shares in Marks & Spencer, rather than the holding of 3642, and I will arrange for this to be amended. The market has also been very quick recently to punish any disappointments, with Unilever falling by 17% when it failed to meet very modest revenue targets. BSkyB fell by 23% when it announced it would have to increase marketing expenditure to maintain the rate of subscriber growth and Compass Group fell by 34% following an unexpected reduction in annual profit expectation from £650m to £610m and a £200m increase in working capital to cover the cost of a failed supplier and the increased inventory required to support the UK presence in Iraq.

At a sector level, the resources sector has continued to be strong resulting from high oil prices and continuing strong demand from China. Utilities have been the next best performing sector as regulators are now beginning to conclude that for utility companies to make the necessary future investment they do need some pricing flexibility. Also, the RPI minus x pricing formula does give some protection against inflation.

At the other end of the scale the technology sector has continued to underperform along with food manufacturers (which are being squeezed by the supermarkets) and media, where despite the economic recovery there has not been a commensurate rebound in advertising. However, this has recently rebounded on a number of companies including Unilever, BSkyB and Coca Cola, all of whom are now looking at increasing their advertising spend.

Against a background of four interest rate rises and a 50% increase in the price of oil this year equity markets have done well to hold their own. Corporate profitability has continued to recover strongly with earnings expected to grow by over 12% this year, putting the UK equity market on a prospective PE of 13.4 x. Earnings are currently forecast to grow by approximately 6% in each of the next two years. Dividends have also grown by approximately by 5% this year and are also expected to grow by nearly 10% next year. Before the recent rally the valuation of the market was below the start of the Iraq war (and as low as any time in the last 10 years) and therefore there was scope for a reasonable rally on any good news.

At the moment we are slightly more optimistic about equity markets, and there may be a market rally, led by the US, should President Bush be re-elected, but this may prove relatively short lived. Historically, in the year after a Presidential Election markets have fared less well. Also, fears of higher oil prices, inflationary pressures and uncertainty about consumer expenditure and future economic growth means that our enthusiasm with the current recovery should be contained.

If you should have any questions regarding these reports please do not hesitate to telephone me.

With kind regards.

Yours sincerely

James Minett

Encl.