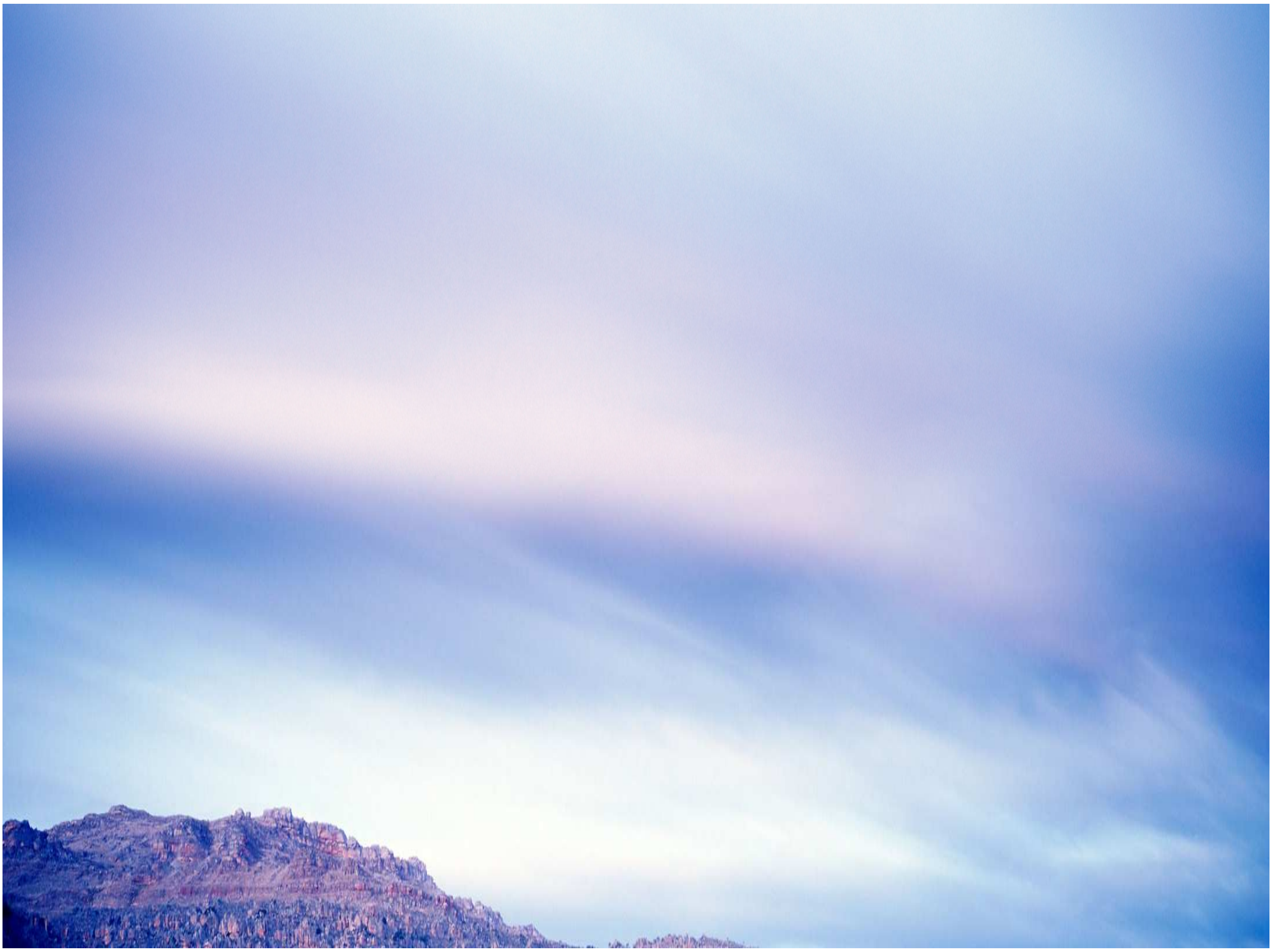

**Sentinel OEIC**

**Fund Manager Quarterly Questionnaire**

Period 2
1st August to 31st October 2008

**FUND DETAILS**

Fund: Defensive Fund

Managing Group: Premier Asset Management

Manager: Paul Branigan

**PERSONNEL**

Please detail any significant changes to the personnel involved in the management of the fund and the analysis of underlying stocks/funds. In particular, please detail the length and type of experience/qualification for any new team members.

There has been no change to the existing team

Please give an approximation of total funds under management by the team managing the portfolio.

£ 85m

**INVESTMENT POLICY**

Has there been any change to your investment research systems or your style of management?

No

What changes have you made to the Asset Allocation of the Fund?

The fund has seen consistent inflows over the quarter, so there have been very few sales. The original allocation was weighted towards zero dividend preference shares but in recent weeks we have looked to increase the exposure towards funds of hedge funds. The current allocation as at 11/11/08 is 33% zeros, 37% structured products of which 23% is defensive autocalls and 8% is synthetic zeros, and 29% is alternatives. Leaving around 1% in cash.

What is the rationale for these changes and what impact do you expect this to have on performance?

This shift towards funds of hedge funds has been made to take advantage of the huge discounts which are prevalent in the sector. The sector has existed for around five years and during this time it has traded within a fairly tight range between a 5% premium to assets and a 55 discount. In the past few weeks this has widened out to an average of 30% with some trading as low as a 40% discount. When these funds were set up they included provisions that would allow shareholders to vote on winding them up should they trade in excess of an average of 5% discount. There is a strong likelihood of continuation votes taking place early in the New Year unless these are addressed immediately. This is a great opportunity to buy defensive assets at a large discount which will almost inevitably close in the near term.

What has been your portfolio turnover level and is this higher or lower than you would normally expect?

Very low, almost no sales made.

Are you confident that you have negotiated the best possible terms and have all discounts and rebates against initial charges and AMCs on underlying funds been negotiated by you and notified to Premier so that they can ensure these are received by the fund?  Are you actively aiming to reduce the TER of the fund?

Yes , trail fees claimed where available. TER already very low

Please supply 1 or 2 examples of good investments decisions you have made at stock level which have contributed to your performance.

I have arbitraged between different currency classes in Goldman Sachs Dynamic & Dexion Absolute and locked in some useful gains.

The purchase of Marshall Wace TOPS at an 11% discount (800p) on 13th October after the tender offer was announced. The stock is now being bought back by the company at 870p and has an NAV of 915p. We will be tendering the stock shortly.

Please also provide an example of a poor investment and how you have dealt with this to minimise the loss to the fund.

The purchase of Real Estate zdps has not been helpful as there has been a marked increase in uncertainty about their finances due to the liquidity crisis. Whilst we expect this to be resolved and have kept closely in touch with the company the absence of any positive news coupled with some selling of the stock (and the closure of the company broker – Landsbanki) have all put downward pressure on the share price. The first week of November saw some good news on debt rescheduling and the share price reacted positively.

How have you managed the cash content in the portfolio with a view to maximising the return to the fund?

Yes. This is dealt with by my colleague Andrew Houghton who looks after our Treasury operations. Andrew compares the daily rate available on cash from our administrators with what is available on overnight rates from Treasury. Invariably this involves him putting the money out on overnight.

Are you happy with your stock selection across each sector?

Yes, I believe we have achieved a well diversified, defensive portfolio that will react very well to any stabilisation in markets. By remaining fully invested we have not attempted to find the bottom of the market but have concentrated on investing in stocks and vehicles that will produce healthy positive returns even in markets that are moving sideways or even falling gently (not when there is wholesale carnage though). I have already discussed the likely upside to come from the Fund of Hedge Funds area and the Zeros we own, with the possible exception of REO, are very well covered with most having negative hurdle rates between 20% and 40% per annum i.e the assets in the underlying funds can fall by that amount every year and the zeros will still pay out in full.

Turning to structured products, the large proportion of our exposure is in defensive autocalls with around four years left to run. Most will pay out at levels below the current FTSE level. The levels on our seven autocalls are 2659, 2854, 3250, 3525, 3654, 4703 and 4753. Several of them will pay out earlier at higher levels. As an example Merrill Lynch Capital Accumulator II potentially pays out 150.6p in June 2010 if the FTSE is above 4255,failing that it pays out 162.4p in June 2011 above 3457 and the final ‘kick out’ in June 2012 pays 174.3p above 2659. The stock is currently priced at 114p !

If, not what changes are you looking to make over the next quarter and why?

I believe there to be excellent value in all areas of the portfolio and do not envisage any material reallocation of assets. However new cash is likely to continue to go into Funds of hedge funds in the short term.

Are there any particular factors which you feel have affected the performance or volatility of the fund?

Yes, A Global banking crisis and fears of a global economic meltdown. The impact this has had on credit spreads, volatility, and equity markets, in particular in the past four weeks, has been nothing short of calamitous.

The current crisis has materially impacted on all areas of our fund it has been, for want of a better phrase, a Perfect Storm. Hedge funds investments have been hit by counterparty and then regulatory concerns, neither of which we would have anticipated. Whilst the first of these has had little impact on asset values it has certainly adversely affected sentiment. The deleveraging that has taken place across the market has certainly hit asset values and has cost the fund an estimated 3% (10%x 30% exposure). However the change in sentiment, which I believe will only be temporary due to the continuation votes, has cost us a further 7% (23% x 30% exposure). Therefore I would estimate that more than half the value that has been lost in the Defensive fund is attributable to this area. Of this I believe around two thirds is recoverable and does not represent a permanent loss of value.

Structured products have cost the fund around 6% due to the impact on mark to market pricing. This has been adversely impacted by the unprecedented rise in levels of volatility, combined with a significant widening of credit spreads as well as the severe falls in equity markets. Some restoration of normality will see volatility reduce (it has already fallen from 89 to 60 although this compares with below 20 in normal market condition). The actions of Governments are restoring some stability to the banking system and this will narrow credit spreads in due course. Both these events will help structured product pricing in the near term  longer term, as can be seen from what was outlined above, the FTSE does not need to rise much or even at all for these vehicles to pay out handsomely.

Even zeros have been adversely affected by widening credit spreads and worries over diminishing cover, however our losses here were restricted due to the defensive nature of our stock selection and whilst REO has cost nearly 2% losses elsewhere are no more than 1% In total.