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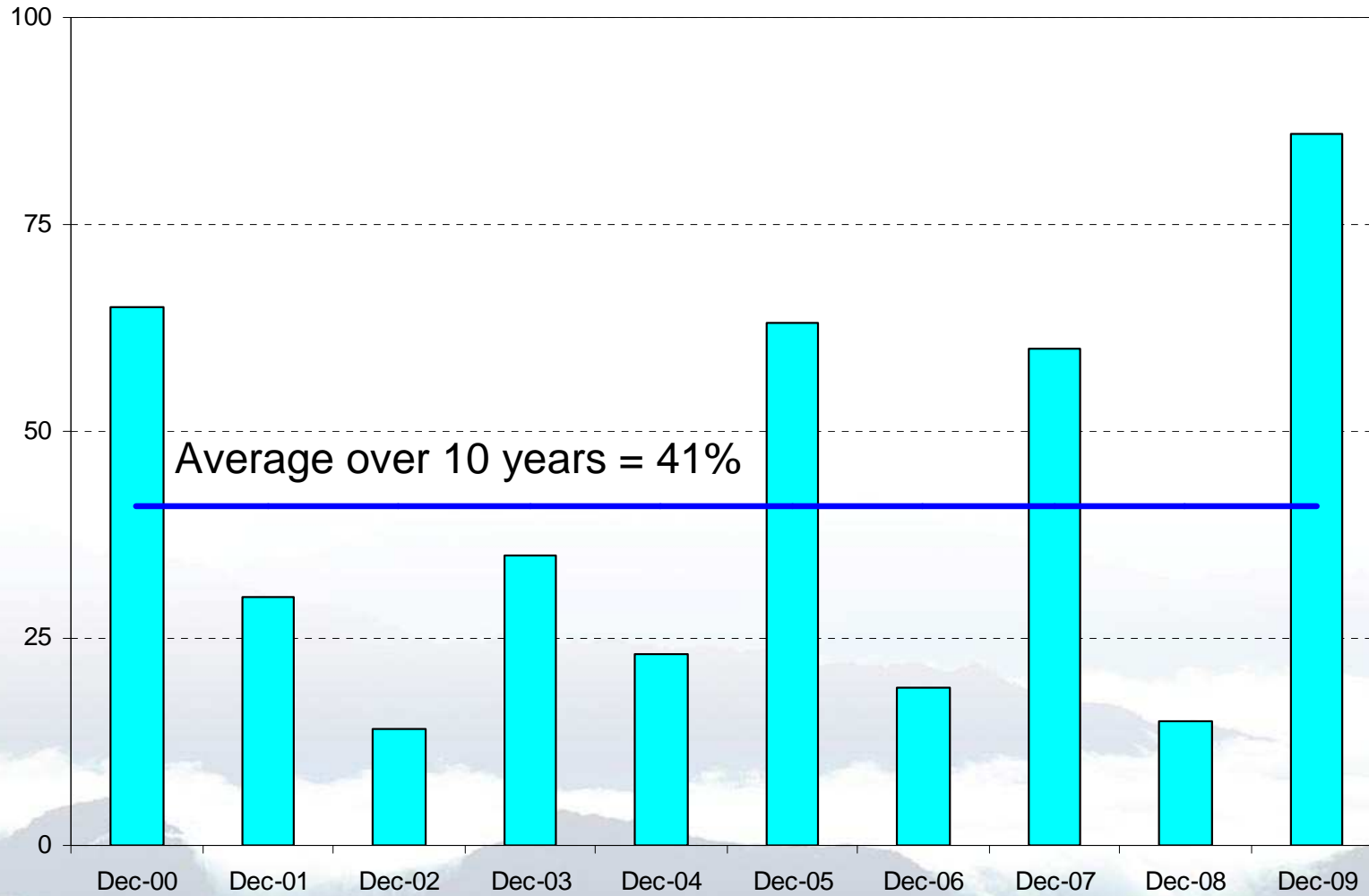
North

9 November 2010

What are trackers?

- Index tracking is not new
- Seek to match the index return less costs
- Usually replicate the index i.e. buy both good & bad stocks
- Remain fully invested i.e. no market timing
- Exchange Traded Funds (ETFs) have changed investors attitude to passive investment
- Access to alternative asset classes
- No valuation point
- Simple, efficient and low cost

Performance of active managers



Source: Lipper Hindsight. Ten calendar years from 1.1.00 to 31.12.09, £ returns, Bid to Bid & net income reinv.

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Example - iShares S&P 500

- Inception April 2002
- To match return of US stockmarket, S&P 500 Index
- Expense ratio 0.4%
- Base currency US Dollar
- ETF replication methodology
- Total assets approx US\$7bn

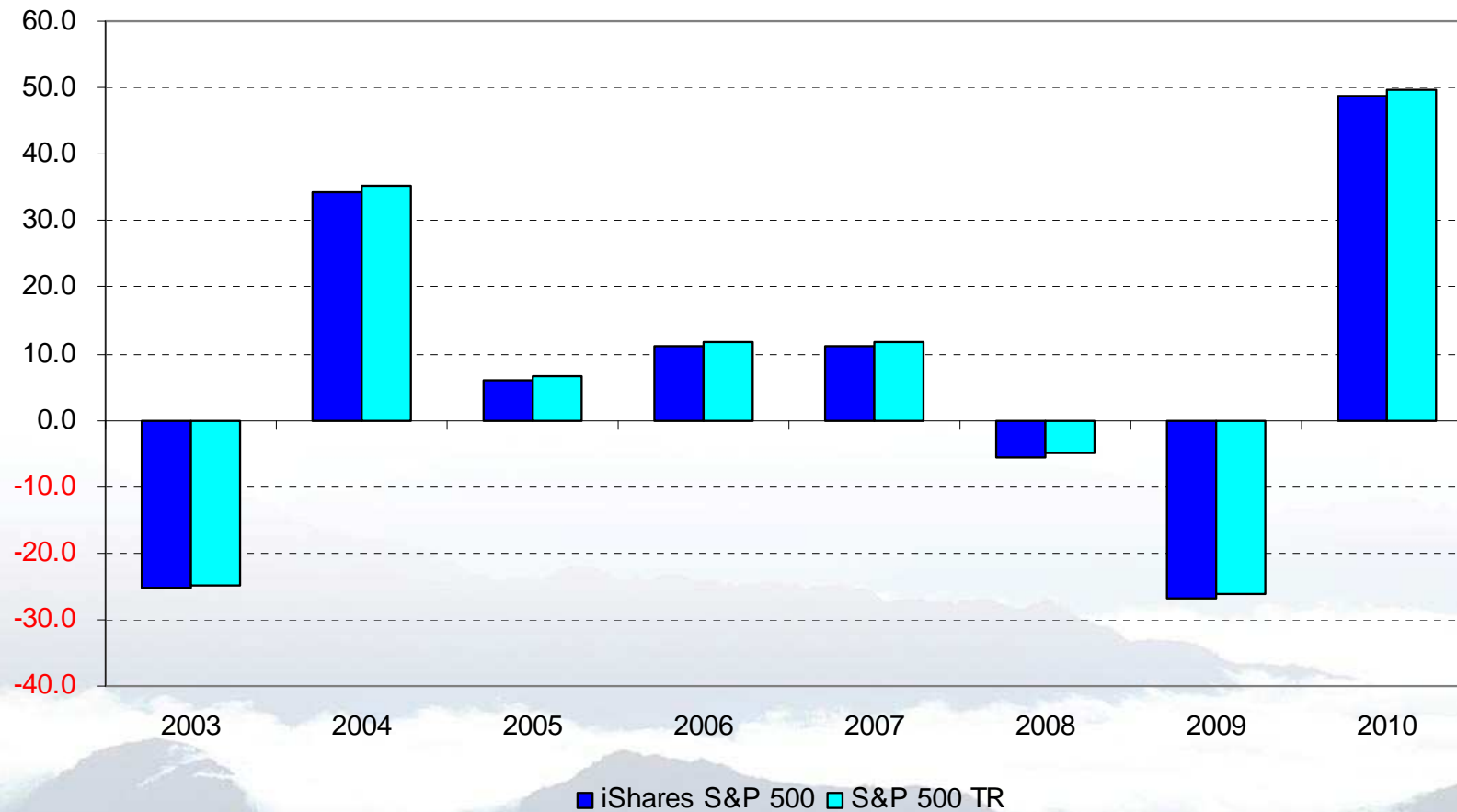
iShares S&P 500 characteristics

100M 30/04/2002 to 31/08/2010	% Growth	R-Squared	Tracking Err	Std Dev	Max Drawdown
S&P 500 TR	14.9	1.00	0.00	16.50	-30.6
iShares S&P 500	8.7	1.00	0.39	16.48	-31.7
5%	23.3	0.78	9.22	19.00	-39.6
25%	15.8	0.80	7.73	17.50	-34.3
Median	7.3	0.85	6.68	17.13	-31.5
75%	-1.1	0.88	6.05	16.48	-30.0
95%	-6.4	0.93	4.87	15.99	-27.0

Source: North/ Lipper Hindsight. Performance from 30.4.02 to 31.08.10, £ returns, Bid to Bid & net income reinv.

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Comparing the tracker to an index



Source: North/ Lipper Hindsight. Performance from 30.4.02 to 31.08.10, £ returns, Bid to Bid & net income reinv.

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What asset classes can we access?

- Equities – investment styles e.g. small cap or value/ growth
- Bonds – government & corporate
- Property – REITs
- Commodities – e.g. gold, oil, wheat etc
- Other alternative assets



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Investing in gold via an ETF



Source: North/ Lipper Hindsight. Performance from 30.4.07 to 29.10.10, £ returns, Bid to Bid & net income reinv.

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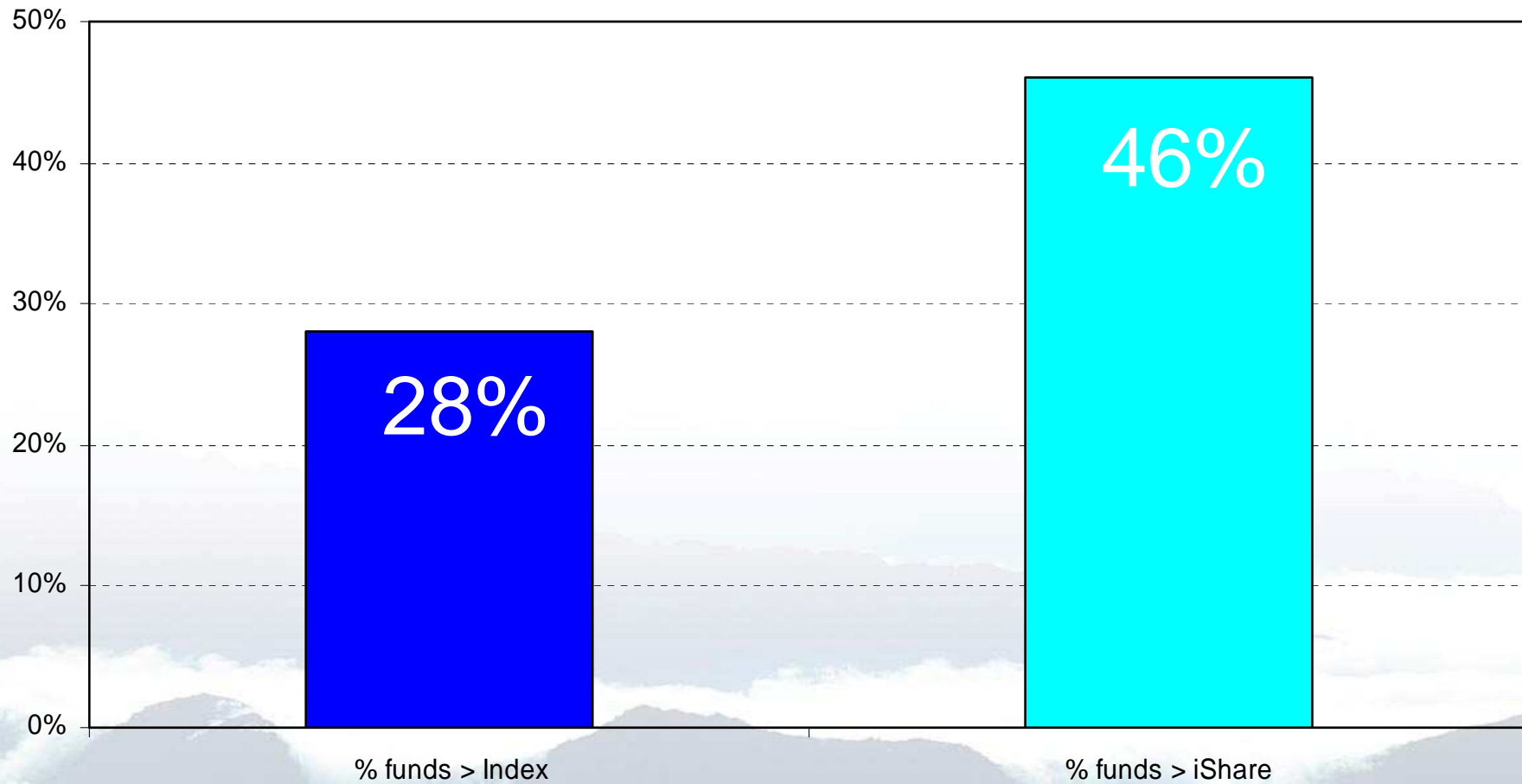
iShares S&P 500 long term returns



Source: North/ Lipper Hindsight. Performance from 31.3.02 to 31.08.10, £ returns, Bid to Bid & net income reinv.

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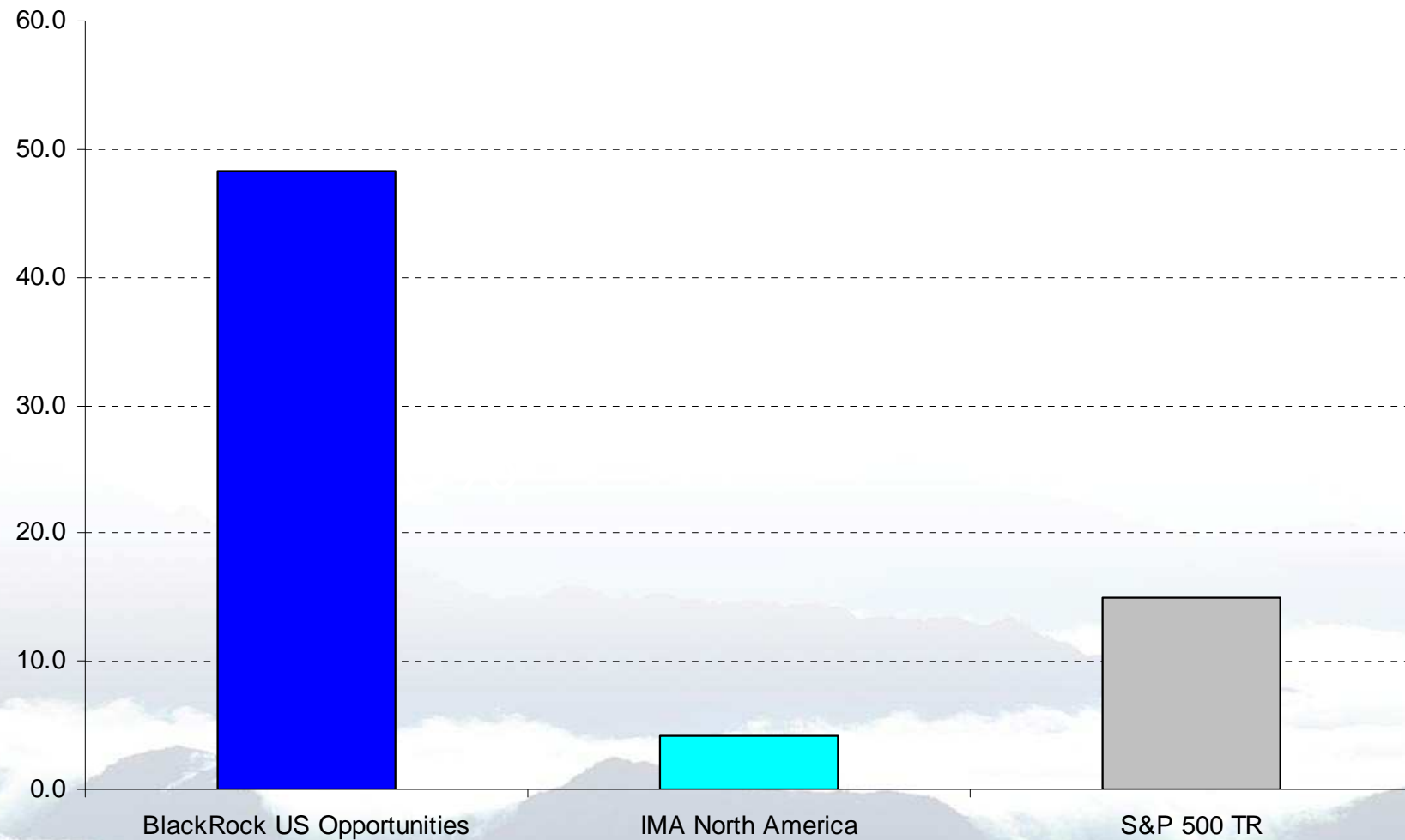
iShares S&P 500 vs active management



Source: North/ Lipper Hindsight. Performance from 30.4.02 to 31.08.10, £ returns, Bid to Bid & net income reinv.

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The case for active management



Source: North/ Lipper Hindsight. Performance from 30.4.02 to 31.08.10, £ returns, Bid to Bid & net income reinv.

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Market timing – asset class

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
UK Equity	24.2	71.9	42.3	7.1	13.8	35.6	25.2	35.7	18.1	14.3
Global ex UK Equity	19.5	71.7	40.9	5.9	10.5	28.5	18.9	26.1	14.9	13.3
UK Bonds	16.5	30.9	28.1	2.5	10.2	20.5	11.5	23.4	14.6	9.0
Global Bonds	14.0	28.4	10.5	1.8	7.9	18.8	10.2	20.1	6.1	7.9
UK Property	12.2	16.1	10.4	-11.8	-13.4	11.5	7.0	18.8	4.8	6.9
Absolute Return	7.8	14.1	8.9	-14.6	-23.4	11.2	6.6	16.4	0.6	6.6
Commodities	-27.8	-1.2	-4.6	-17.4	-25.8	3.0	2.7	7.9	-7.1	5.2
Private Equity	-32.9	-2.0	-6.3	-18.6	-27.7	2.1	1.8	4.5	-10.5	-5.5

Source: North/ Lipper Hindsight. Ten year calendar performance 1.1.1998 to 31.12.07, £ returns, Bid to Bid & net income reinv.

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Market timing - country/ region

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Asia Pacific	27.0	146.1	17.7	0.0	5.4	86.5	34.5	59.4	60.7	80.7
UK	21.6	91.7	2.1	-0.3	2.5	50.0	27.4	53.6	24.3	70.2
US	10.1	69.5	1.6	-1.4	-15.9	41.1	19.9	51.1	23.7	33.9
Europe ex UK	6.1	57.8	-2.9	-1.5	-16.1	36.9	13.3	42.1	22.2	31.3
Japan	-0.9	44.4	-3.7	-11.9	-17.9	32.4	12.4	31.9	17.6	25.7
Eastern Europe	-5.6	37.9	-8.0	-12.9	-22.6	26.7	7.2	23.8	15.6	12.2
Latin America	-28.5	27.2	-22.8	-20.0	-24.6	24.0	6.7	20.0	14.4	5.0
China	-29.8	25.9	-24.2	-20.4	-28.9	21.3	2.1	18.2	-1.9	2.4
India	-37.1	23.9	-27.2	-27.3	-31.2	15.1	-4.5	17.0	-12.2	-8.9

Source: North/ Lipper Hindsight. Ten year calendar performance 1.1.1998 to 31.12.07, £ returns, Bid to Bid & net income reinv.

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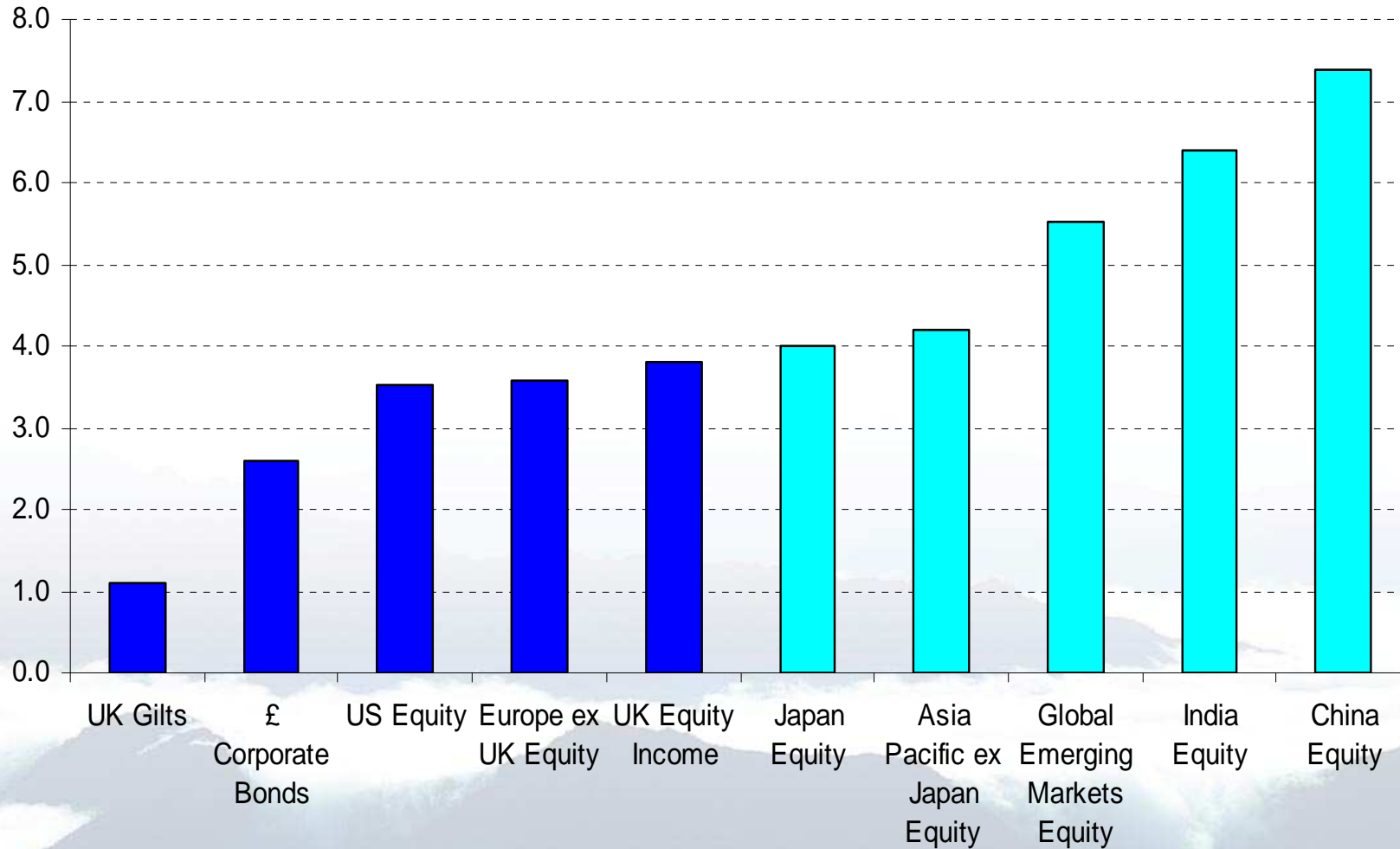
Market timing - investment style

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
All Market	35.6	26.4	9.1	-11.1	-12.1	41.2	21.7	31.4	32.0	18.1
All Growth	32.7	25.7	8.0	-15.8	-18.1	38.6	20.7	30.0	31.5	16.5
All Value	30.5	23.5	7.7	-17.0	-22.6	35.9	19.5	28.6	30.9	15.9
Large	28.9	22.5	3.2	-18.3	-24.1	34.4	17.2	26.4	24.0	14.9
Small	25.4	22.0	2.6	-20.1	-25.0	32.7	16.0	25.4	21.7	14.6
Large Growth	25.1	20.5	0.0	-20.6	-25.9	31.1	15.3	25.0	21.5	13.2
Large Value	23.5	18.2	-0.7	-24.0	-27.7	29.2	13.9	24.4	19.0	8.6
Small Growth	21.8	15.7	-2.4	-24.5	-29.2	27.7	13.3	24.1	18.6	8.3
Small Value	20.2	8.8	-9.3	-26.5	-30.3	25.8	11.7	23.2	15.5	8.1

Source: North/ Lipper Hindsight. Ten year calendar performance 1.1.1998 to 31.12.07, £ returns, Bid to Bid & net income reinv.

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Inefficient markets favour active funds



Source: North/ Lipper Hindsight. Five years from 31.8.2005 to 31.8.10, £ returns, Bid to Bid & net income reinv. Difference between Upper and Lower Lipper Global sectors.

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Summary

- ETFs are a useful tool – simple, cheap and efficient
- Allow core and satellite approach
- Index funds match the index less costs
- Passive performs better in efficient markets
- Are active managers exploiting the inefficiencies
- Can your investment manager find them?