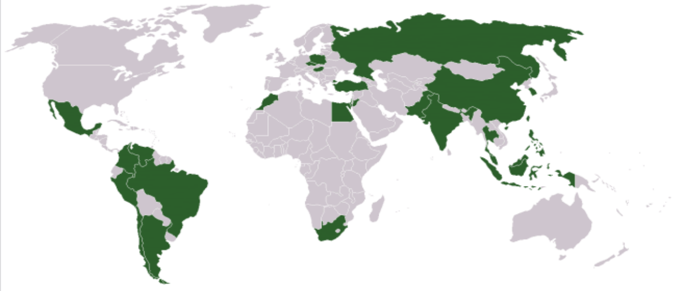
Gibraltar Asset Management
STOCKBROKERS & INVESTMENT MANAGERS

Fixed Interest



iShares Emg Mkt Local Gov Bond ETF - Buy 17th February 2012

Price	£61.03
Credit Rating	82% Investment Grade
Risk Rating	Medium
Index GRY	6.7%
Index Average Maturity	7.5 years

The Fund:

This exchange traded fund is a low-cost tracker of the "Barclays Capital Emerging Markets Local Currency Core Government Index", which offers exposure to emerging market government debt from eight countries-Mexico, Poland, Brazil, South Africa, Malaysia, Indonesia, Turkey & Hungary. The fund trades on the London Stock Exchange in sterling and has a total expense ratio of just 0.5%. The average maturity of the index is 7.5 years. The fund invests in physical securities to replicate the performance of the index. Dividends are paid twice a year in January and July, in US dollars.

Credit Analysts View:

The strong ability of emerging markets to repay their debts is reflected in their improving credit ratings-up from BB- in 1995 to BBB- in 2010, in contrast to developed markets which have seen a number of downgrades over the last several years. 82% of the funds holdings are investment grade BBB- and above, with just 1.52% not being rated.

The Case for Emerging Market Debt:

1.The credit crisis was primarily a developed market problem, while emerging markets were generally less leveraged. Average debt-to-GDP levels are forecast to be 35% by 2013, compared with 119% for advanced economies. Emerging market fiscal deficits stand at 2% of GDP, compared with 7.5% for developed markets. Today, almost half of emerging market countries are net lenders to the world.

2. Emerging market debt can provide powerful diversification in a portfolio, given its relative lack of correlation to other asset classes.

3. The investment case for emerging market debt echoes the arguments favouring emerging markets generally: their economies are growing much more rapidly than those of developed countries, supported by solid fundamentals such as positive demographics, economic reform and liberalisation, improving governance, growing industrialisation and strong demand. The theory is that as these nations grow in power and prosperity their currencies should become more valuable, leading to gains for sterling investors.

4. Investing in the bonds issued by the governments of emerging nations offers investors the opportunity to benefit from growth in emerging markets, but without the same level of volatility as stock market funds.

Gibraltar Asset Management Limited
One Irish Place, PO Box 166, Gibraltar
Telephone: +350 200 75181 Website: www.gam.gi

Fixed Interest (cont)

Local Currency vs. Hard Currency:

Emerging market debt tends to be issued in two forms - the "local" currency or a "hard" currency, such as the USD. In general, we prefer local currency bonds for the following reasons:

1. Historically, local currency emerging market debt has delivered superior risk-adjusted returns. Between 1993 and 2009, they returned 11% p.a. with volatility of 9% compared with 6.1% for emerging market equities with volatility of 25%. Thus, investors obtained equity-like returns without taking on direct equity risk.

2. Issuance of local currency emerging market debt has grown rapidly over recent years whilst issuance in dollar debt has been dwindling. This combination of growth in demand and supply has led to improved liquidity in local currency emerging market debt.

3. It is generally better in the long term to have exposure to the local currency rather than a hard currency. Apart from diversifying away from hard-currency sovereign bonds, you have the attraction of higher interest rates, higher yields and shorter duration. That should provide some insulation in an environment of rising US Treasury yields. You also have exposure to the potential currency appreciation.

4. Barings Asset Management believes that today local emerging market debt offers some of the most attractive risk-adjusted returns around.

Summary

Given the fact that the fund acts more like a share (it has no redemption date), the fund will exhibit greater levels of volatility than a bond. Particularly so in a "risk off" environment where funds tend to become repatriated to the US resulting in a stronger US Dollar.

However, given the benefits of diversifying your investments away from the traditionally safe developed world, a small allocation to the Fixed Interest asset class is an attractive prospect. With an index maturity of ~7.5 years, the fund suits medium-term investors with a medium attitude to risk looking to increase their yield through a growing part of the world's economy.