Rensburg Sheppards

IHT Planner Q4 2009 Report

- Managed funds of £55 million with many clients invested for over two years making their portfolios free from Inheritance Tax.
- Continued largely resilient trading results, although some inevitable pressure on earnings.
- Average Key List price-earnings (p/e) multiple now recovered to 12, although still below its historic long term average.
- Investors should be aware that the value of portfolios could fall as well as rise and therefore there is a possibility of loss of the capital invested. Past performance should not be seen as an indication of future performance.

The UK equity market backdrop

The FTSE 100 index of leading shares consolidated on its healthy Q2 and Q3 gains closing 2009 at 5,413 showing a very welcome 22% gain for the year. After opening the year at 4,434, it fell to a nadir of 3,512 in March before a subsequent rise of 54% through to the year end. This dramatic bounce reflected the successful efforts of Central Banks around the world to restore confidence in the global financial system which collapsed following the failure of Lehman Brothers in late 2008. The IMF estimates that World economic activity contracted by 1.1% in 2009 and encouragingly they forecast a return to global growth of 3.1% in 2010, albeit heavily skewed towards emerging markets. It is worth noting that around a fifth of FTSE 100 companies' revenues now come from emerging markets and ironically, the FTSE 100 has been a net beneficiary of Sterling's weakness as Dollar and Euro profits are repatriated. Closer to home, legacy consumer debt and now mushrooming Government debt are strong headwinds but on the positive side, there are some encouraging signs of the economy beginning to rebalance.

Rensburg Sheppards IHT Planner portfolios

As existing investors will be aware, client portfolios are based on a Key List comprising core stocks to which further stocks are added from a wider list for larger portfolios. The Key List is kept under constant review with close monitoring of the stocks. Client portfolios reflect the composition and weightings of the Key List at the time of investment with subsequent changes limited to those required to maintain the qualifying status of the investments and, where possible, dealing out of under-performing stocks.

Index	5 years to 31 December 2009	12 months to 31 December 2009	3 months to 31 December 2009
IHT Planner clients (note)	17.90%	34.51%	6.69%
FTSE All Share (total return)	36.82%	30.12%	5.47%
FTSE AIM All Share (total return)	-31.24%	68.08%	1.58%
FTSE Small Cap (total return)	-2.23%	57.67%	-7.71%

Source: Datastream as at 31 December 2009

Note: Returns are based on the net investment after the initial fees, including IFA commission where appropriate. For new clients invested less than three months, their returns will be adversely impacted by these initial costs.

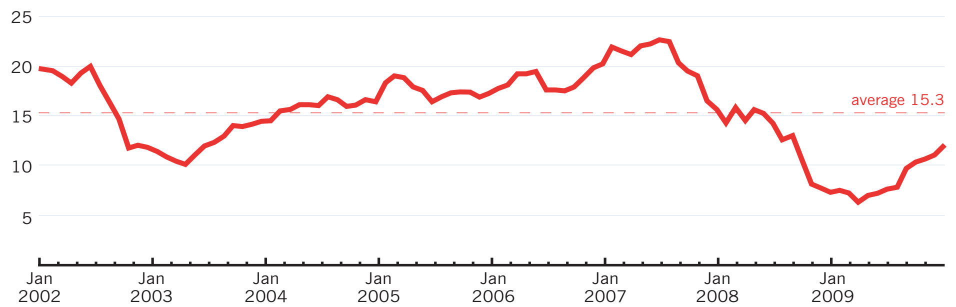
Performance commentary

It is encouraging to report that Q4 09 was another good one for investors building further on the strong gains in Q2 and Q3. In Q4, our IHT Planner portfolios showed an average gain of 6.7%, with an underlying range between 0.9% and 15.9%. It should be noted that the restrictions of Business Property Relief make the selected benchmarks very loose comparators as explained in more detail overleaf. The average rolling 12 months return for IHT Planner portfolios was 34.5%, with an underlying range between 18.9% and 56.4%.

For clients invested for the required two years by 31 December 2009, the average loss on their portfolios was 19.0%*. This is an average for the 301 client portfolios concerned ranging from an 85.1% gain to a 54.9% loss, depending on the market timing of investment, the portfolio size and its resulting stock weightings. Whilst the savage market conditions in 2008 plunged most portfolios into loss, early investors are showing good profits and the remainder have their loss covered by the 40% Business Property Relief, or substantially mitigated by it.

Our regular chart below tracks the average price-earnings multiple (p/e) for our Key List of IHT Planner stocks list since the launch of the service in early 2002. It shows the strong rise in p/es from March 2003 reaching a peak of 22.6 in June 2007 followed by a long steep decline to an all time low of 6.3 at the end of Q1 09 representing a daunting peak to trough fall of 72%. Since this low point, it has recovered strongly closing Q4 2009 at 12.0 reflecting the improved market confidence that has percolated down from the Full List. This has been the main driving force behind the very welcome restoration of value in client portfolios. At 12.0, the multiple is now in 'fair value territory', although it is still below its long term average since launch of 15.3.

IHT Planner p/e multiple since launch in January 2002



Source: Datastream as at 31 December 2009

* This is the average loss for those clients who have invested in the portfolio for at least two years, and remain invested. Please note that this is an average and not an illustration of any individual portfolio. Your attention is also drawn to the risk warnings overleaf.

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Rensburg Sheppards Investment Management Limited is registered in England. Registered No. 2122340.

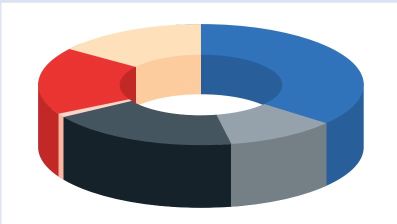
Underlying trading of Key List companies

Whilst the earlier p/es commentary demonstrates that market sentiment is crucial to valuations, the companies' corresponding earnings performance is clearly equally important. During Q4 09, 10 companies out of 26 on our present Key List reported trading results to 30 September 2009 with all except one company continuing to declare profits. Whilst the economic downturn is inevitably putting pressure on earnings, it was very encouraging to see 6 out of the 10 companies reporting trading results in the quarter showing growth in normalised earnings per share. When assessing corporate earnings, we make allowance for exceptional and non-recurring items to ascertain the underlying normalised figure. The average historic normalised pre-tax profit for all the companies on our Key List as at the close of Q4 was still a very healthy £9.6m with only 3 showing normalised profits below £1m and the highest being £32.2m. We pay close attention to dividend declarations and the outlook comments in the trading statement which taken together, should be a reasonable barometer of the Directors' confidence in the future. It was encouraging to see that 6 out of the 10 companies declared an increase in dividend. Looking at the outlook statements, 5 were confident in tone and 5 were cautious representing a modest improvement on Q3. Where we become concerned about a company, we retire the stock from our buying list and continue to closely monitor the stock with a view to either restoring it to the list when appropriate, or dealing out. Severe liquidity constraints have often though made it difficult to deal out where we would otherwise liked to have done so. During Q4 09, we dealt out of one stock where we felt uncomfortable with the longer term prospects and added Education Development International (EDI) to the Key List.

Review of Key List Stock Outcomes

The pie-chart below shows the various outcomes for the 73 companies that have been on our Key List since the launch of the IHT planner in early 2002. Whilst it shows the marked polarisation of outcomes that you would expect from investing in higher risk smaller quoted companies, there is also a welcome resilience in the portfolio with no recorded outright company failures. That said, it is worth noting that out of the 24 companies where we have managed to deal out, 6 have subsequently gone into Administration or Receivership demonstrating the effectiveness of the active management of portfolios. The most recent example was Aero Inventory. It is of course acknowledged that we are still sitting on a number of depressed stock valuations, but there has been a very encouraging recovery from the lows of March 2009 and we remain largely confident in the resilience of the companies concerned.

Rensburg Sheppards IHT Planner Key List Stock Outcomes
as at 31 December 2009 since launch in January 2002



36%	COMPANIES STILL ON THE KEY LIST
11%	GRADUATED TO THE FULL LIST
19%	ACQUIRED BY ANOTHER COMPANY
1%	DEALT OUT WITH PROFIT
18%	DEALT OUT WITH A CONTAINED LOSS
15%	DEALT OUT WITH MORE THAN 40% LOSS
0%	COMPANY RECEIVERSHIP OR ADMINISTRATION

Source: Rensburg Sheppards

Commentary on our benchmarks

We show our performance in relation to the FTSE All Share index, the FTSE AIM All Share and the FTSE Small Cap, excluding Investment Trusts. On the face of it, one would think that the FTSE AIM All Share would be a straightforward comparator, but this is not the case. The difficulty lies in the restrictions imposed by the Business Property Relief ('BPR') which is clearly an essential prerequisite for our IHT portfolios. BPR is not generally available for mining, investment and property companies or for businesses that do not have their main presence in the UK. Such excluded companies represent well over half of the market capitalisation of AIM and as at 31 December 2009, 42 of the largest 50 companies on AIM look ineligible for BPR. The larger mining companies in particular can also cause marked volatility in the AIM indices. As a result, the AIM All Share index is a very imperfect benchmark which is why we juxtapose the more demanding FTSE All Share and Small Cap indices. We continue to lobby for a separate AIM index covering 'UK Trading Companies' which would be a good proxy for BPR eligible companies.

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