

Electric & General Investment Fund: As at 31.10.11

International / Equity Growth



Investment Manager's Commentary

Developments in Europe continued to lead markets. The agreement over the Greek bailout package caused equities to rally strongly although the announcement early in November that the Greeks are to hold a referendum caused markets to give back some of their gains. The debate is beginning to move on from Greece – to Italy in particular – and it is now crucial that the eurozone ensures that Italy can continue to fund itself. The crisis grinds on, but it is increasingly clear that Germany and the rest of the eurozone have no choice but to contain the situation.

Economic statistics out of the US tended to be a little better in October but in general figures were mixed, with the world economy seemingly bouncing along the bottom. In response to a poorer outlook, the UK restarted its programme of quantitative easing and Japan expanded its asset purchasing programme by ¥5trillion. The ECB cut rates and further action from the US Federal Reserve also looks likely.

During the month, we continued to switch from non-voting to voting shares in **Roche** and topped up the position in **Archer**, the Norwegian oilfield services company. A new investment was made in **HeidelbergCement**.

HeidelbergCement is the world's fourth largest cement company and, since its acquisition of Hanson in 2007, the world's largest aggregates company. We have followed the company for a while as we have come across it in our US Housing Recovery and Infrastructure themes.

Cement is a cheap (ranging between \$40 and \$100 per ton), efficient and irreplaceable material; its consumption is roughly equally divided between housing and infrastructure. Its production costs are based on three factors: energy, capital and transportation costs. The latter two are the drivers of the cement market. As a bulky low value commodity, cement cannot be transported far without the cost becoming prohibitive; and the expense of building a new plant usually means it is not worth opening a plant unless high utilisation rates are expected. Consequently, cement plants tend to operate as local monopolies with significant barriers to entry.

The story is similar for aggregates (stones), which are even cheaper (\$8-10 per ton) and therefore prohibitively expensive to transport so the quarry nearest the site of construction will be the lowest cost provider. In the developed world, and increasingly in the emerging world, it is nearly impossible to obtain

permission to open new quarries close to densely populated areas, which is where most construction takes place. Entry to the industry is, therefore, difficult – so quarries, like cement plants – tend to operate as local monopolies. This is reflected in the price of aggregates, which have tended to increase by 4-8 per cent a year regardless of the economic situation.

Volumes in both cement and aggregates are not, however, immune to the economic situation and consumption is currently at historically low levels in Europe and the US, which between them account for roughly 60 per cent of Heidelberg's business. Despite the current growth plateau, we expect the demand for aggregates in the next few years to recover in the West and US house construction to improve. In this environment, Heidelberg should experience strong growth because of its significant operational leverage. The remaining 40 per cent of the business, based in emerging markets in the Far East, Eastern Europe and Africa, has been performing well and we expect this trend to continue. Heidelberg also has minimal exposure to China where we are concerned cement consumption is at unsustainably high levels.

HeidelbergCement has the industry's best geographical footprint of cement plants and quarries, and the industry's best management team, led by CEO Dr Scheifele, which has used the crisis to cut costs dramatically and improve operations. Despite this, the shares are available for purchase at 10x this year's depressed earnings, providing an excellent opportunity to buy into a company which is likely to show 15-20 per cent year on year bottom line growth over the next few years and, as its plants and quarries are already established, no significant capex will be needed to achieve this growth.

At the end of the month, we started to sell **McKesson** – the drug distribution and health care IT company – which has performed extremely well. We also started to sell the pharmaceutical company, **Actelion**. Its lead product, Traclear, has stopped growing earlier than expected, which reduces the margin of safety in the valuation. In addition, we had assumed that a failure of its main drug candidate would lead to a sale of the company and this may still be the case; however, a leading activist investor which had been pushing the company to consider a sale gave up and sold its holding. In a world with so many equity opportunities, we decided that Actelion was no longer attractive.

Cumulative Performance to 31.10.11 (%)

	1 Month %	Inception to Date %	
NAV	8.73	3.40	
Morgan Stanley Capital International	6.41	4.87	Source: Bloomberg
World Index in Sterling			Note: Price is month-end mid-price. Benchmark is not total return index.

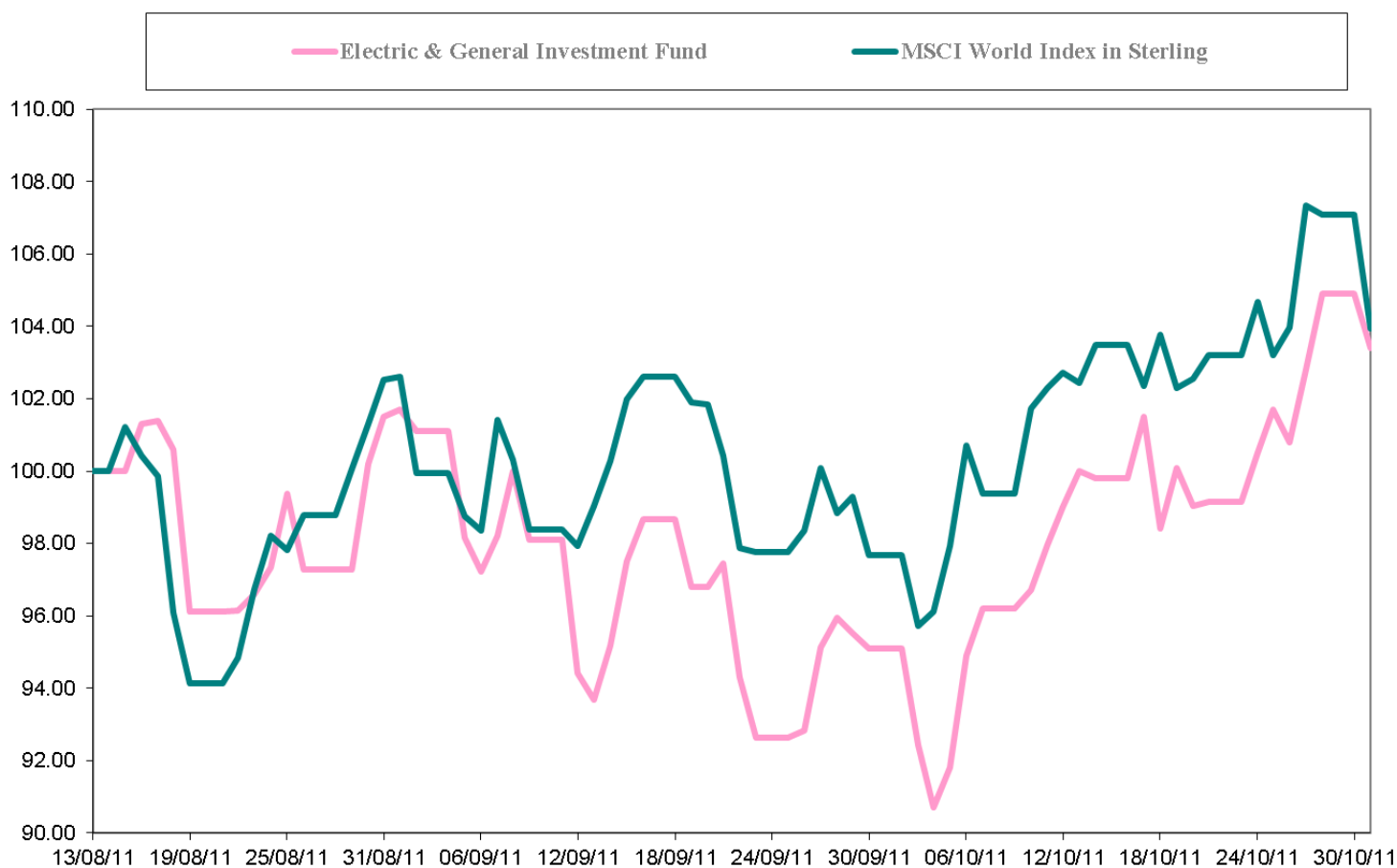
Past performance is not a guide to the future. The value of the shares and the income from them can go down as well as up and you may not get back the full amount originally invested.

Top Ten Holdings (as at close 31.10.11)

1	TAG Immobilien AG	2.91%
2	ANF-Immobilier SA	2.67%
3	Nestlé SA	2.47%
4	Royal Dutch Shell PLC (Class B)	2.28%
5	Hutchison Whampoa Ltd.	2.25%
6	Vodafone Group PLC	2.18%
7	Intel Corp.	2.17%
8	Newcrest Mining Ltd.	2.12%
9	News Corp. (Class B)	2.06%
10	Orkla ASA	2.05%

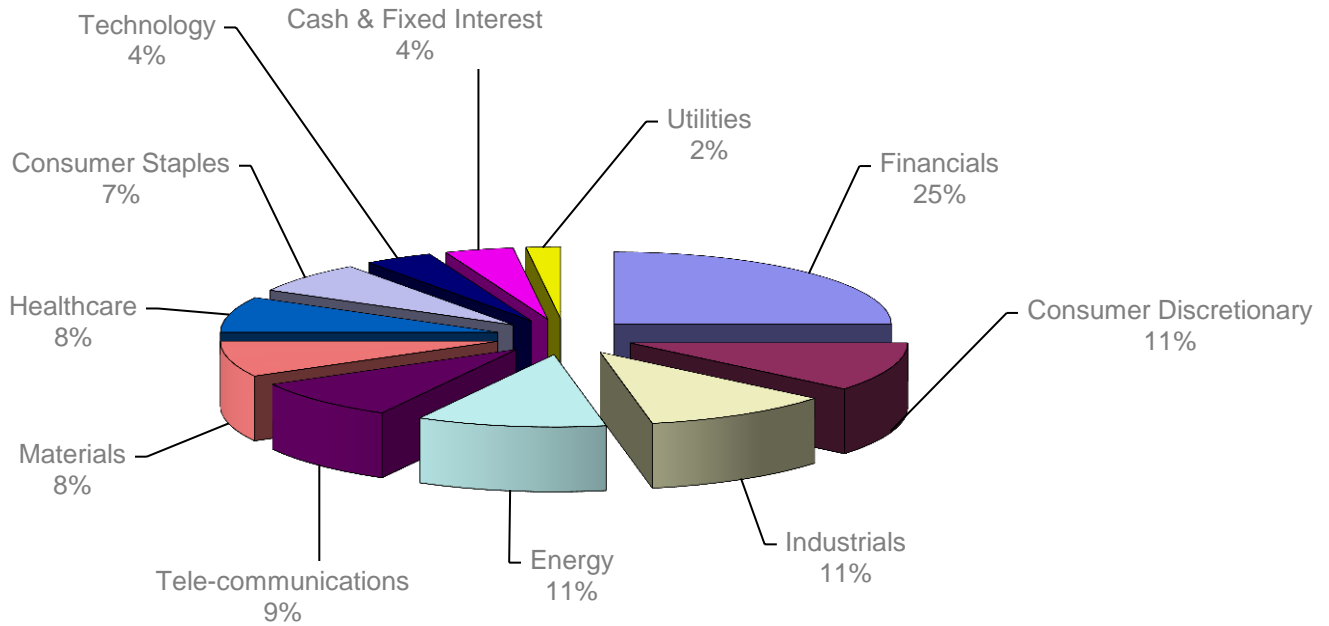
Source: THS Partners

NAV per Share Performance 12.08.11 to 31.10.11



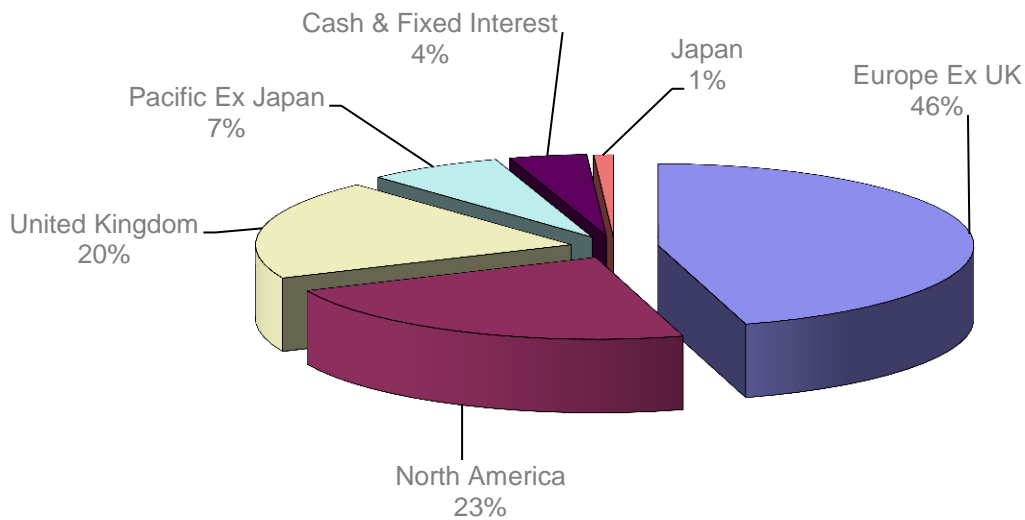
Source: Bloomberg

Sector Allocation



Source: MSCI Sectors

Geographical Allocation



Source: THS Partners

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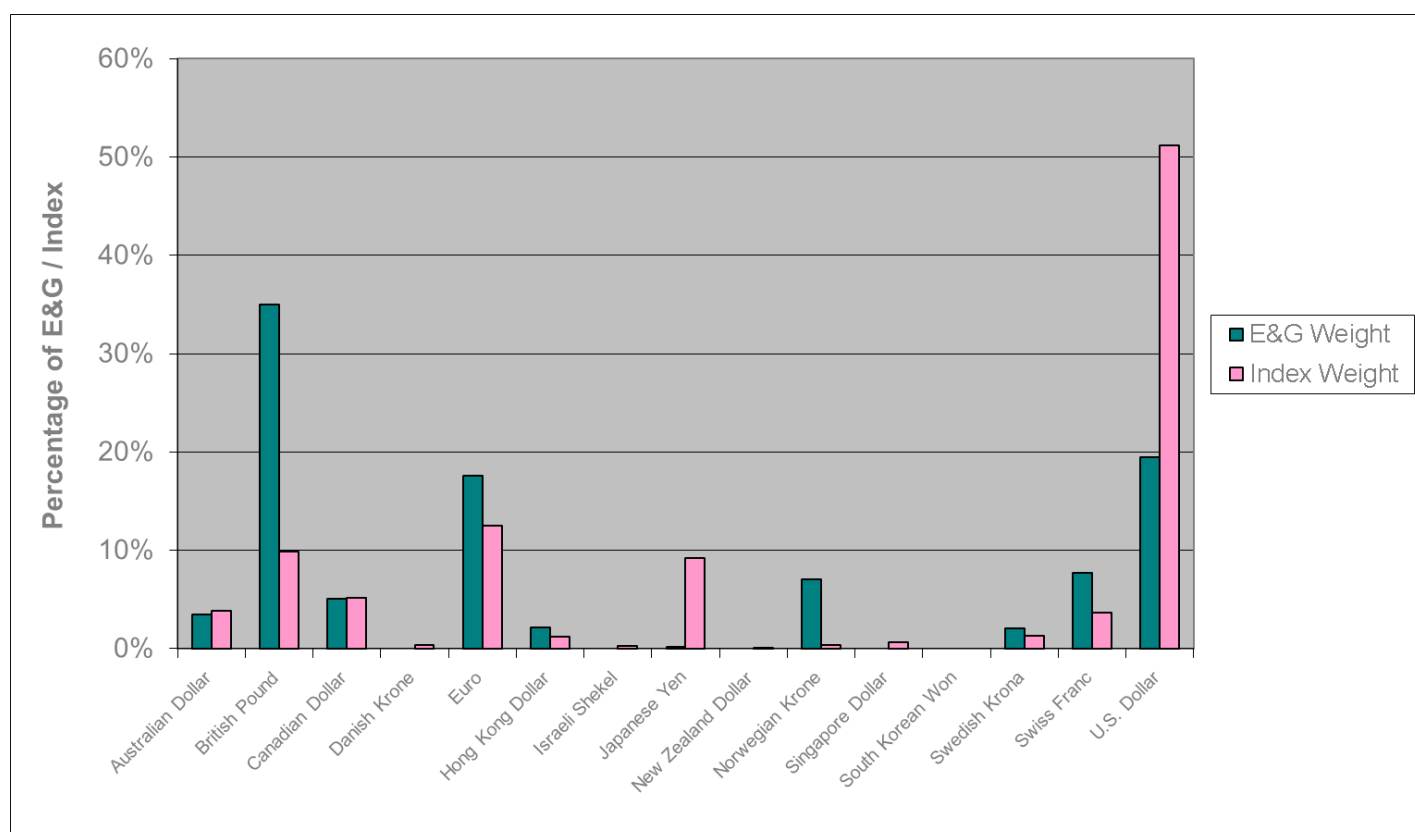


Currency Weightings (Including Cash & Hedge) Compared to MSCI World as at 31.10.11

	Electric & General (%)	Index: MSCI World (%)
Australian Dollar	3.5	3.9
British Pound	35.0	9.9
Canadian Dollar	5.1	5.2
Danish Krone	0.0	0.4
Euro	17.6	12.5
Hong Kong Dollar	2.2	1.2
Israeli Shekel	0.0	0.3
Japanese Yen	0.2	9.2
New Zealand Dollar	0.0	0.1
Norwegian Krone	7.1	0.4
Singapore Dollar	0.0	0.7
South Korean Won	0.0	0.0
Swedish Krona	2.1	1.3
Swiss Franc	7.7	3.7
U.S. Dollar	19.5	51.2

Source: THS Partners

E&G Details by Currency (Including Cash & Hedge) Compared to MSCI World as at 31.10.11



Source: THS Partners

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Investment Objective

The Company's investment objective is to seek to achieve long-term capital growth with some potential for income. To achieve the investment objective, the Company's investment policy is to invest principally in a portfolio of global equities, and may also invest in other transferable securities, bonds, units and/or shares in collective investment schemes, warrants, money market instruments, cash, near cash and deposits. There is no limit to which the Company can be invested in each sector or asset type, nor is there any particular geographic focus. The Company may borrow and may enter into underwriting arrangements. It is the ACD's intention that derivatives and forward currency transactions will only be used for the purposes of efficient portfolio management, including hedging, as defined by the Regulations. From time to time the liquidity of the Company may be increased substantially if judged to be in the interests of investors.

Charges

Basic Management Fee: 0.3% of net assets per annum.

Performance Fee: 10% of the outperformance versus the MSCI World Index in Sterling over the relevant performance period (maximum of 0.7% in a period of increase and 0.3% in a period of decrease of net assets).

Fund Details

Total Gross Assets:

£95,912,329.41 (As at 31.10.11)

Dealing:

Daily

NAV Frequency:

Daily

Legal Status:

Open Ended Investment Company

Dividends:

February & August

Investment Manager:

Taube Hodson Stonex Partners LLP

Authorised Corporate Director:

Carvetian Capital Management Limited

Wrapped Products

The shares of Electric & General Investment Fund ("Electric & General") are offered within the Alliance Trust Savings Scheme and ISA. Further details can be obtained from the 'How to Save' section of the Electric & General website on www.electricandgeneral.com or by calling the Investor Services Helpline on 0845 850 0255.

Important Information

The prices of shares in unit trusts and income received from them can go down as well as up and investors may not get back the full amount invested. Past performance is no guarantee of future performance. Quoted yields are not guaranteed. Changes in the rates of currency exchanges may have an adverse effect on the value or price of the shares. Investments in a currency other than your own currency will be subject to movements in foreign exchange rates. Reference to any specific securities should not be construed as a recommendation to buy or sell these securities but is included for the purposes of illustration only. Investors should also note that the views expressed may no longer be current and may have already been acted upon. The Fund may invest in emerging markets which tend to be more volatile than more established stock markets and the value of your investment could move sharply up or down. If you have any questions about the suitability of this investment for your portfolio, you should contact an independent financial adviser. Nothing in this factsheet should be construed as advice nor be considered an offer or solicitation to deal in investments. Issued by Taube Hodson Stonex Partners LLP, which is authorised and regulated by the Financial Services Authority, (Firm No 480219). Registered office: Cassini House, 1st Floor, 57-59 St. James's Street, London, SW1A 1LD (OC333502).