

Electric & General Investment Fund: As at 31.08.11

International / Equity Growth



Investment Manager's Commentary

The beginning of August saw a return of very volatile conditions as longstanding concerns over the risk of recession and European credit were rekindled. Equity markets have moved from cheap to cheaper as investors have reacted to this period of economic weakness and stress. Towards the end of the month, sentiment - and prices - improved as the situation in Europe eased slightly and the US Federal Reserve appeared to leave open some prospect for further stimulus. However, the mood amongst investors is extremely gloomy. If the matters causing concern improve then there is now good potential for recovery. Longer term, we are of the firm opinion that equities are extremely good value, particularly when compared to other asset classes and past valuation ranges. The restructuring of the Fund was completed and we made a number of purchases to bring the Fund's holdings into line with our other global portfolios. These included **Gagfah**, **Murata** and **Actelion**, all of which have recently been purchased for our other global portfolios.

Gagfah owns and manages a large portfolio of residential property in major German cities. We have been investigating German residential property for some time and this is the first investment in this area for the Fund. Gagfah is controlled by Fortress Finance, a US private equity and investment company. The management style that the company has adopted is rather aggressive, particularly for the German market. This has led to some negative publicity, culminating in a legal suit brought by the City of Dresden, claiming large damages. We believe that a settlement is likely. Even if the full amount of the suit is awarded, the operating company concerned is ring-fenced and Gagfah would still have a book value considerably above the current share price: the share price is around €4.60 per share, the stated NAV is around €12 per share and the NAV per share without the affected operating company would be around €9 per share. The company has recently softened its tone and agreed to spend more of its cash flow on maintenance – a key demand of critics. In addition, the market is worried that the company needs to refinance a major part of its debt during the next two or three years. We believe that this is achievable. The underlying assets are attractive, vacancies are low, rents are low and there is generally considerable scope to increase rents in Germany – leading to improved capital values.

Murata

Murata is a world leading manufacturer of electronic components and modules used in mobile phones, PCs, audio-visual equipment and cars. The company is based in Kyoto and most of its production is in that region. Murata's technologies emerged from the ceramic industry. It has a long history of capitalising on in-house research and development through highly efficient manufacturing processes. The biggest selling product is the multi-layered ceramic capacitor. MLCCs are used in mobile phones, flat screen TVs and computer panels as well as auto electronics. Other products include Surface Acoustic Wave filters which are used to isolate specific frequencies, and a core component used in communications electronics. It is striking that despite 85 per cent of production in high cost Japan, hobbled by a strong Yen and with the bulk of sales being exported to largely US dollar and related markets, Murata has maintained a 35 per cent global market share in MLCCs and a 30 per cent market share in SAW filters. The company is well positioned to benefit from growth in our investment theme of increased mobile data. In particular, as demand for smartphones and tablets continues growing, there is a corresponding need for more MLCCs and other Murata products. The company is also enthusiastic about the potential for its products in medical technology and in environmental segments such as smart grid and smart home networks using wireless technology. Murata has achieved an average operating margin of around 11.7 per cent over the past few years and is set to have a record year, ahead of its previous peak set in 2007. Despite this, the stock price is currently around Y5200, compared to over Y8000 three years ago. R&D investment has been stable at around 7 per cent of sales and the company has already developed the next stage MLCC product, which has in the past had a five year product cycle. Maintenance capex has been roughly equivalent with depreciation for the past few years. The company has Y300bn in cash, held largely in corporate debt, which is equivalent to 25 per cent of the market capitalisation. Adjusted for this cash the stock is trading on 11x next year's earnings, or around 1x book value whilst paying a 2 per cent dividend yield.

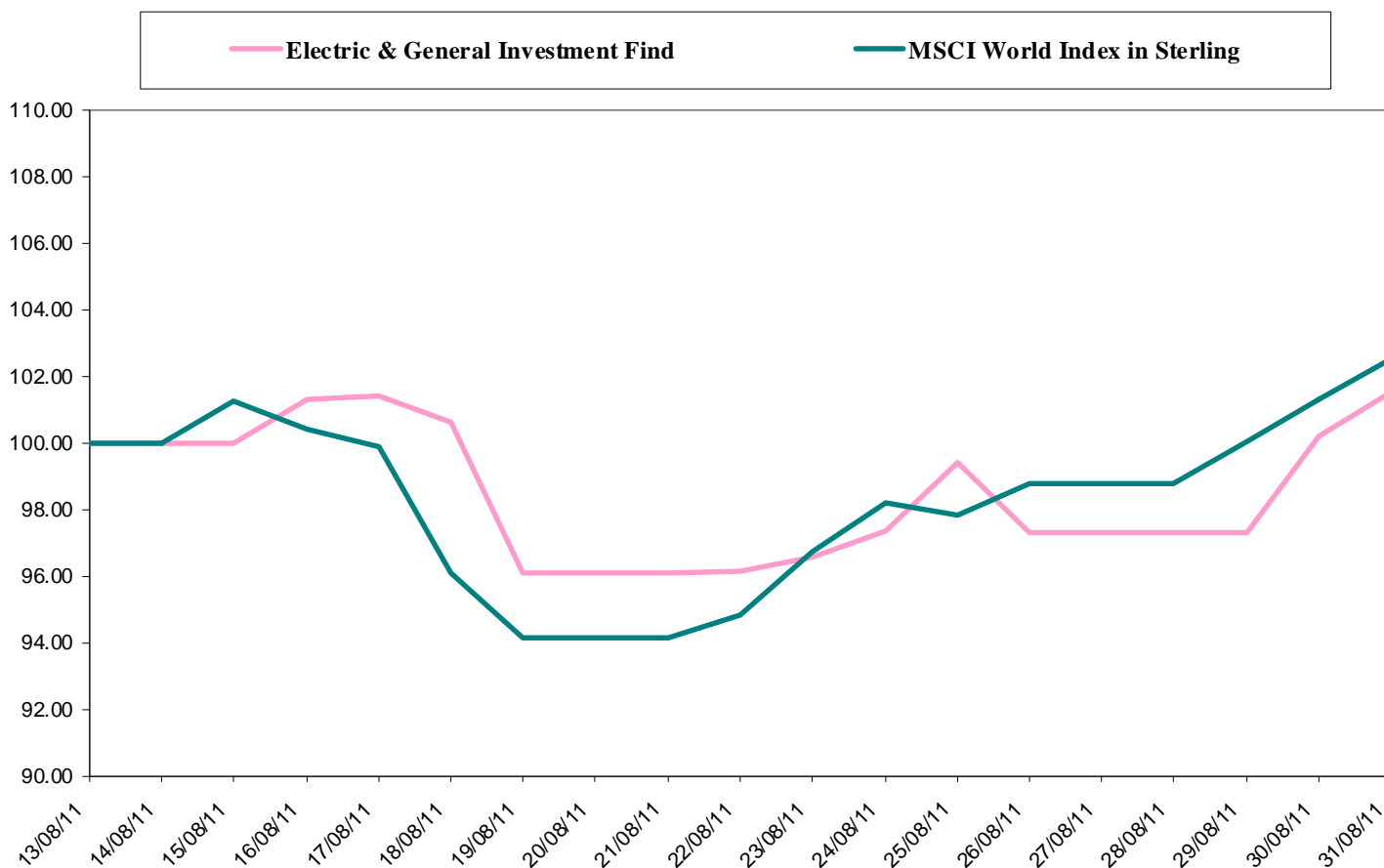
We began to purchase **Actelion**, the Swiss pharmaceutical company, which has a successful drug for PAH (Pulmonary Arterial Hypertension) – a serious lung disease. This has grown to blockbuster size and has financed the company's drug pipeline. Unfortunately, this pipeline has produced a string of failures and the management is now under increasing pressure to cut costs and consider selling the company. There is an important drug trial for a follow-up to the company's major drug which will produce results towards the end of the year. At this point, the shares will either increase substantially – if the trial is a success – or the management will finally be forced to take action. All analysts agree that the value of Actelion to a pharmaceutical major is substantially above the current share price, which means that there is good upside even without a pipeline success.

Top Ten Holdings (as at close 31.08.11)

1	TAG Immobilien AG	3.00%
2	ANF-Immobilier S.A.	2.76%
3	Nestle S.A.	2.60%
4	Newcrest Mining Ltd.	2.55%
5	Hutchison Whampoa Ltd.	2.30%
6	Fornebu Utvikling ASA	2.20%
7	Royal Dutch Shell PLC (CL B)	2.12%
8	Vodafone Group PLC	2.03%
9	News Corp. Cl B	1.99%
10	Fraport AG	1.99%

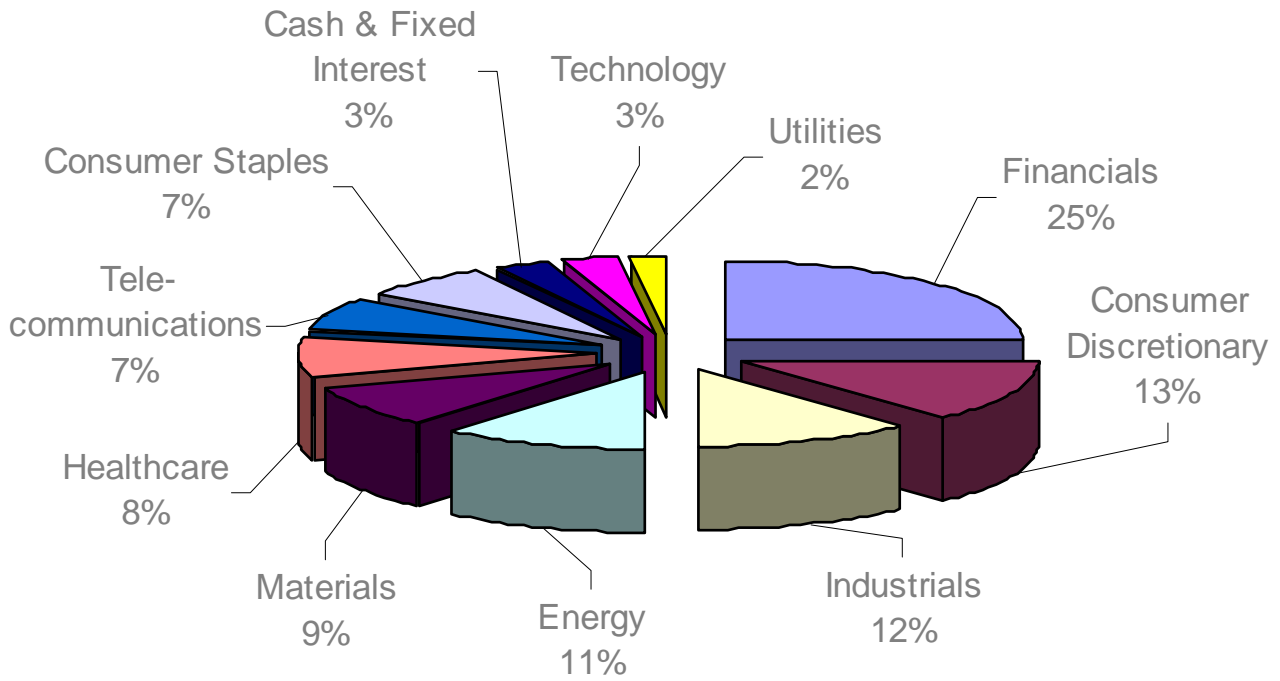
Source: THS

NAV per Share Performance 12.08.11 to 31.08.11



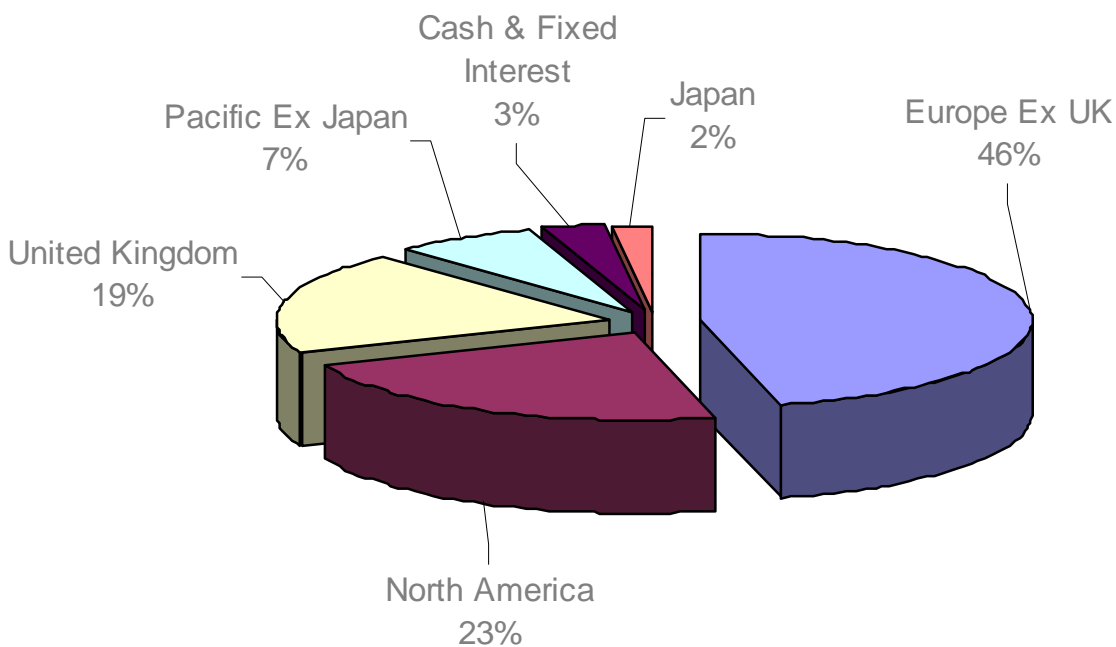
Source: Bloomberg

Sector Allocation



Source: MSCI Sectors

Geographical Allocation



Source: THS

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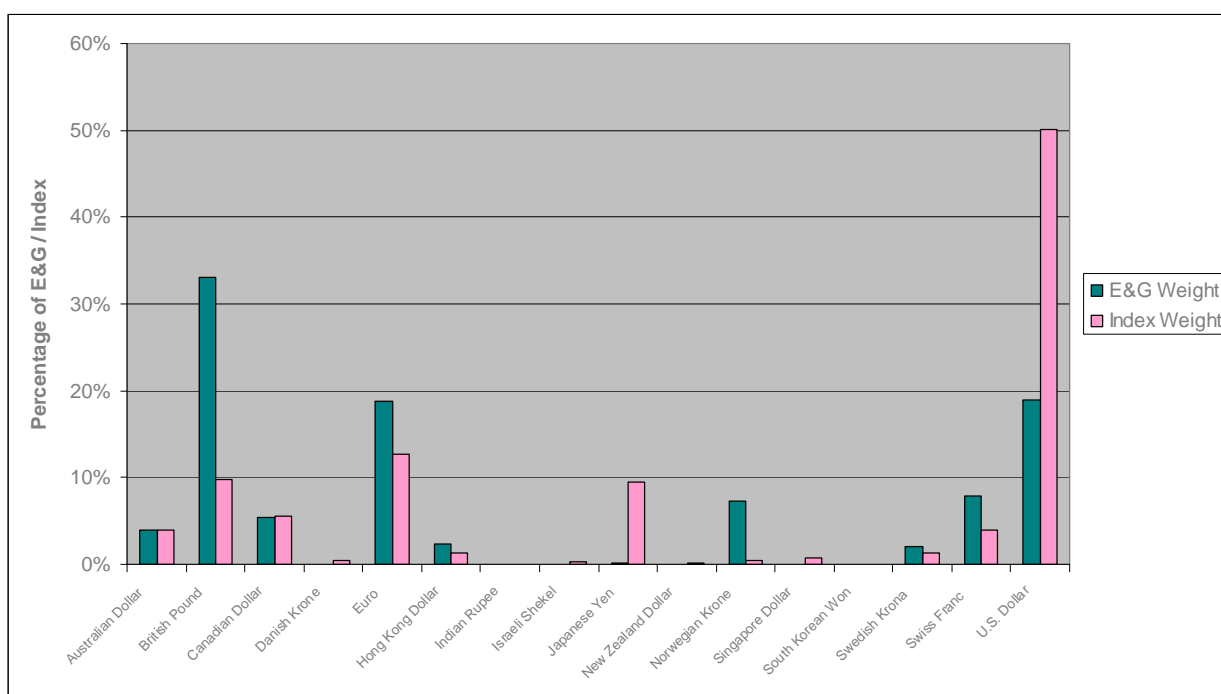


Currency Weightings (Including Cash & Hedge) Compared to MSCI World as at 31.08.11

	Electric & General (%)	Index: MSCI World (%)
Australian Dollar	4.0	4.0
British Pound	33.1	9.7
Canadian Dollar	5.4	5.5
Danish Krone	0.0	0.4
Euro	18.8	12.7
Hong Kong Dollar	2.3	1.3
Indian Rupee	0.0	0.0
Israeli Shekel	0.0	0.3
Japanese Yen	0.2	9.5
New Zealand Dollar	0.0	0.1
Norwegian Krone	7.3	0.4
Singapore Dollar	0.0	0.8
South Korean Won	0.0	0.0
Swedish Krona	2.1	1.3
Swiss Franc	7.9	3.9
U.S. Dollar	18.9	50.1

Source: FactSet / THS

E&G Details by Currency (Including Cash & Hedge) Compared to MSCI World as at 31.08.11



Source: FactSet / THS

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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:

£98,249,090.30 (As at 31.08.11)

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).