Warrants Alert Professional

INDEPENDENT ADVICE ON UK WARRANTS - PUBLISHED SINCE 1989

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July was an odd month for global equities. They started the month beset by some severe bouts of selling as confidence in the prospects for an early economic recovery ebbed away. Then, quite suddenly, investor sentiment made a prompt u-turn and equities returned dramatically to favour. Indeed the **FTSE 100 Index** posted 11 straight days of consecutive gains, equalling a record which has been struck only twice before in the 25-year history of the index. The catalyst for this sudden improvement was a string of better-than-expected corporate results in the US. A number of large companies such as Goldman Sachs, Apple, Intel, IBM, and Google have pleased investors with their results and strengthened investor confidence in the US, which was then followed by equity markets elsewhere. Economic news has been less supportive, but buyers have not been deterred from taking fresh positions. Bullish investors are quoting Warren Buffett, who has incidentally profited handsomely from his judicious purchase of a stake in Goldman Sachs last year. He said in an interview with CNBC a fortnight ago that equities are still the place to be.

We hope he is right and that we can look forward to more gains to come - in the last quarter, if not immediately. This month we take the opportunity afforded by a slight lull in newsflow to run through the new issues from the resurgent investment trust sector, and we also look at a couple of trusts in detail, including **BlackRock New Energy** and **Quorum Oil & Gas.** In the covered warrants realm we range widely as usual, from the **GBP/CHF** exchange rate to an update on the **Nikkei 225 Index,** and then to a look at how swine flu might be transforming the prospects for **GlaxoSmithKline.**

MARKET STATISTICS

It is with some irritation that we report the statistics provided by the London Stock Exchange on covered warrants seem to have deteriorated. Regrettably this means that we have less comprehensive data on the sector now, and can no longer compile the figures which we have been reporting since covered warrants were first listed in 2002.

Instead, we are including three new items which we hope you will find equally interesting and useful. First, the total number of covered warrants listed on the London Stock Exchange, currently 1,212, has been creeping up, and

CORPORATE WARRANTS - MAJOR PRICE CHANGES

One Month

Rises

Kenmare Resources	36.8%
Finsbury WW Pharma	32.7%
JPMorgan Chinese	27.1%
Advance Developing Mkts	20.2%
Peter Hambro Mining	19.5%
New India Inv Trust	15.8%
Perpetual Inc & Gr Sub	14.4%
Pantheon Leisure	12.5%
JPMorgan Asian	12.4%
SR Europe	9.5%
City Nat Res High Yield	7.6%
Aberdeen Asian Smaller	6.2%

Falls

Titanium Asset Mgmt	-68.1%
Infrastructure India	-30.4%
India Capital Growth Fd	-27.3%
RCM Technology	-17.9%
Jupiter Green	-14.3%
Ecofin Water & Power	-12.1%
Utilico Emerging Markets	-11.7%
Utilico Emerging Mkts ‘S’	-10.7%
Oakley Capital Invs	-10.0%
Henderson Opportunity	-7.1%
Midas Income & Growth	-5.9%
The Cayenne Trust	-4.9%

Three Months

Rises

Oakley Capital Invs	1306.3%
Epicure Qatar Equity	290.2%
Antonov	100.0%
RCM Technology	91.7%
JPMorgan Asian	86.8%
JPMorgan Indian	81.9%
New India Inv Trust	81.6%
Aberdeen Asian Income	76.5%
Advance Developing Mkt	75.9%
Utilico 2012	75.0%
SR Europe	64.3%
Infrastructure India	60.0%
Finsbury WW Pharma	55.8%
Advance Frontier Mkts	43.8%
City Nat Res High Yield	39.2%
Aberdeen Asian Smaller	36.1%
JPMorgan Chinese	35.0%

Falls

Marwyn Value Inv ‘B’	-79.9%
Titanium Asset Mgmt	-68.1%
The Core Business	-50.0%
Astek Group	-40.0%
IRF European Finance	-38.5%
ADDLeisure	-30.8%
Midas Income & Growth	-30.4%

Twelve Months

Rises

Peter Hambro Mining	365.8%
JPMorgan Chinese	100.0%
Aberdeen Asian Income	59.3%
Finsbury WW Pharma	48.9%
New India Inv Trust	37.6%
Aberdeen Asian Smaller	13.2%

Falls

Clean Energy Brazil	-96.5%
Origo Sino-India	-95.3%
Int'l Consol Minerals	-95.0%
Utilico 2012	-94.4%
India Hospitality Corp	-94.1%
Origo Resource Partners	-93.5%
Globe Specialty Metals	-92.9%
PME African Infr Opps	-92.2%
Ukraine Opportunity	-89.9%
Prospect Epicure J-REIT	-85.6%
CEPS	-85.2%
Quorum Oil & Gas	-82.7%
Advance Frontier Markets	-82.6%
Kenmare Resources	-81.9%
Titanium Asset Mgmt	-81.1%
Astek Group	-80.0%
IRF European Finance	-80.0%
Marwyn Value Inv ‘B’	-79.9%

COVERED WARRANTS - MAJOR PRICE CHANGES

Major Price Rises Over the Month

R306 Dow Jones Ind 10,000 17-Sep-09 Call	+160.00%
SC20 FTSE 100 5500 18-Dec-09 Call	+116.90%
R304 DJ Eurostoxx 50 2700 17-Sep-09 Call	+75.61%
SB89 Aluminium 2400 02-Dec-09 Call	+73.88%
R146 Dow Jones Ind 9000 17-Sep-09 Call	+72.34%
SH06 Antofagasta 5.7032 18-Sep-09 Call	+72.02%
R077 FTSE 100 4750 17-Sep-09 Call	+70.45%
SB88 Aluminium 2200 02-Dec-09 Call	+69.56%
R151 DJ Eurostoxx 50 2500 17-Sep-09 Call	+66.67%
R420 Dow Jones Ind 10,000 17-Dec-09 Call	+64.52%
R061 FTSE 100 5000 17-Sep-09 Call	+64.29%
SI77 GlaxoSmithKline 10 18-Sep-09 Call	+64.19%

Falls

R195 FTSE 100 3000 17-Sep-09 Put	-87.50%
R060 FTSE 100 3500 17-Sep-09 Put	-87.50%
R142 FTSE 250 6000 17-Sep-09 Put	-87.18%
R059 FTSE 100 3750 17-Sep-09 Put	-83.33%
R254 GlaxoSmithKline 9 18-Sep-09 Put	-83.02%
R445 Rio Tinto 16.52 18-Sep-09 Put	-82.76%
R148 Dow Jones Ind 7000 17-Sep-09 Put	-82.76%
R427 Dow Jones Ind 6500 17-Sep-09 Put	-82.35%
R260 BHP Billiton 9 18-Sep-09 Put	-82.35%
SM14 FTSE 100 4000 18-Sep-09 Put	-80.07%
R160 Nasdaq 100 1000 17-Sep-09 Put	-80.00%
R058 FTSE 100 4000 17-Sep-09 Put	-79.35%

provides an indication of how active the issuers are in making a full range of warrants available for investors. The covered warrants market swamps the UK corporate warrants sector by the number of issues, but we should be under no illusions about the importance of the sector. London is a tiny market compared to most other developed European countries, where covered warrants operate on a far, far grander scale. In Germany, for example, there are 27 issuing banks and more than 100,000 covered warrants currently listed. By tracking the total number listed in London we'll have at least one indicator to show whether the market is developing and growing over time.

Second, it is useful to see whether investors are actually trading the covered warrants that are listed. The figure for 'average trading per day' shows the value of the covered warrants traded, in pounds. For June, the latest month for which we have the full data, just over £1.5m of deals were placed on an average trading day. It will be interesting to see how this figure fluctuates with market fortunes. Third and finally, we have calculated the average size for each covered warrants trade, using the latest monthly information. For June the figure was just over £6,000. No trades are excluded, so this figure will include any large institutional deals. Our view is that the figure demonstrates how covered warrants are largely a market for private investors – which is exactly how the market was designed, with a suitable regulatory framework. Again, we'll see how this figure changes over the coming months.

Corporate Warrants		**Covered Warrants**	
Average Warrant Price:	23p	Total Number Listed:	1,212
Average Premium:	53.45%	Average Trading Per Day:	£1,515,214
Average Final Exercise Date:	20th September 2011	Average Deal Size:	£6067.47
Average Gearing Factor:	4.8 times	Average Warrant Price:	£0.48
Average Capital Fulcrum Point:	27.15%	Average Final Exercise Date:	19th January 2010

In the corporate warrants sector we think the price changes have been a little muted over the last month, with only a couple of special situation warrants managing gains in excess of 30%. On the downside, **Titanium Asset Management** became the latest SPAC (special purpose acquisitions company) to disappoint, although we are not sure why. The only recent news we could find on Titanium concerned the strong performance of one of its funds, which obviously does not explain the 37.5% drop in its share price over the month. The warrants fell 68.1% in response, to US$0.255. Moving on to the covered warrants sector, call warrants on the **Dow Jones Industrial Average** are prominent amongst the risers after the index added almost a thousand points from its intra-month low of 8130 on the 10th July. At the time of writing the index has risen to 9070, and is hovering close to its recent highs. Analysts say the lack of too much profit-taking after such a big gain is a welcome sign of stability, but also that more good news is needed for stocks to resume their climb.

NEW COVERED WARRANT ISSUES

It has been a quieter month for new covered warrant issues, although more than 100 have still been forthcoming. SG issued 21 new covered warrants and two new turbos on 22nd July, all based on the **FTSE 100 Index.** As you would expect, there is a very good range of products available on the FTSE 100 Index, which is the most actively traded underlying asset. And just as we go to press, SG is launching 39 new covered warrants and ten new turbos. The new covered warrants include currency warrants on **GBP/CHF** (Swiss franc), plus the usual suspects – **GBP/EUR, GBP/JPY, GBP/USD,** and **USD/JPY.** We do not know too much about the **GBP/CHF** exchange rate, but we can see from the chart that it has been in a steady uptrend since the turn of the year, rising from around CHF1.55 to CHF1.78. This upward trend channel is quite well recognised by chart analysts, and the current consensus seems to be that the trend is most likely to continue. There are also new warrants on the **FTSE 100** and **FTSE 250 Indices.** SG's new turbos are all on market indices, namely the **FTSE 100, DAX,** and **Dow Jones Eurostoxx 50.** RBS has also been fairly quiet, but the bank has issued two new tranches. The first, on 8th July, comprised 15 new currency warrants on **GBP/EUR, GBP/USD, USD/JPY** and **GBP/JPY.** The second tranche of 19 new covered warrants was released on 23rd July, on **Barclays, HSBC** and **Lloyds.** As usual, all of the details are in the table below.

Code	Underlying	Type	Expiry	Parity	Strike	Knock Out
T222	FTSE 100	Call	18/12/2009	1,000	4,100.00	4,100.00
T223	FTSE 100	Put	18/12/2009	1,000	4,500.00	4,500.00
SM80	FTSE 100 Index	Call	21/08/2009	1000	3900	
SM81	FTSE 100 Index	Call	21/08/2009	1000	4100	
SM82	FTSE 100 Index	Call	21/08/2009	1000	4300	
SM83	FTSE 100 Index	Call	21/08/2009	1000	4400	
SM84	FTSE 100 Index	Call	19/03/2010	1000	4000	
SM85	FTSE 100 Index	Call	19/03/2010	1000	4300	
SM86	FTSE 100 Index	Call	19/03/2010	1000	4500	
SM87	FTSE 100 Index	Call	18/06/2010	1000	4400	
SM88	FTSE 100 Index	Call	18/06/2010	1000	4600	
SM89	FTSE 100 Index	Call	18/06/2010	1000	4800	
SM90	FTSE 100 Index	Put	21/08/2009	1000	3700	
SM91	FTSE 100 Index	Put	21/08/2009	1000	3900	
SM92	FTSE 100 Index	Put	21/08/2009	1000	4100	
SM93	FTSE 100 Index	Put	21/08/2009	1000	4300	
SM94	FTSE 100 Index	Put	19/03/2010	1000	3700	
SM95	FTSE 100 Index	Put	19/03/2010	1000	3900	
SM96	FTSE 100 Index	Put	19/03/2010	1000	4100	
SM97	FTSE 100 Index	Put	18/06/2010	1000	3600	
SM98	FTSE 100 Index	Put	18/06/2010	1000	3800	
SM99	FTSE 100 Index	Put	18/06/2010	1000	4000	
SQ01	FTSE 100 Index	Put	18/06/2010	1000	4200	
R624	HSBC	Call	18/06/2010	1	500	
R622	Lloyds	Call	18/06/2010	1	90	
R619	Barclays	Call	18/06/2010	1	450	
R621	Lloyds	Call	18/12/2009	1	120	
R623	Lloyds	Call	18/06/2010	1	120	
R620	Lloyds	Call	18/12/2009	1	80	
R631	Lloyds	Put	18/12/2009	1	60	
R632	Lloyds	Put	18/06/2010	1	90	
R629	Barclays	Put	18/06/2010	1	200	
R630	Lloyds	Put	18/12/2009	1	80	
R628	Barclays	Put	18/06/2010	1	250	
R627	Barclays	Put	18/06/2010	1	300	
R626	Barclays	Put	18/12/2009	1	300	
R636	HSBC	Put	18/06/2010	1	500	
R635	HSBC	Put	18/12/2009	1	400	
R637	HSBC	Put	18/06/2010	1	400	
R625	Barclays	Put	18/12/2009	1	250	
R634	HSBC	Put	18/12/2009	1	500	
R633	Lloyds	Put	18/06/2010	1	60	
R604	GBP/EUR	Call	18/12/2009	10	1.3	
R615	GBP/USD	Put	19/03/2010	10	1.6	
R616	GBP/EUR	Put	18/12/2009	10	1.2	
R605	GBP/EUR	Call	19/03/2010	10	1.2	
R606	GBP/EUR	Call	18/06/2010	10	1.3	
R617	GBP/EUR	Put	19/03/2010	10	1.1	
R607	USD/JPY	Call	19/03/2010	10	100	
R608	USD/JPY	Put	19/03/2010	10	90	
R609	GBP/JPY	Call	18/12/2009	10	160	
R610	GBP/JPY	Call	19/03/2010	10	160	
R613	GBP/USD	Call	19/03/2010	10	1.7	

Code	Underlying	Type	Expiry	Parity	Strike	Knock Out
R612	GBP/USD	Call	18/12/2009	10	1.8	
R611	GBP/JPY	Put	19/03/2010	10	150	
R618	GBP/EUR	Put	18/06/2010	10	1.2	
R614	GBP/USD	Put	18/12/2009	10	1.6	
SQ02	GBP/CHF	Call	18/06/2010	0.1	1.8	
SQ03	GBP/CHF	Call	17/12/2010	0.1	1.9	
SQ04	GBP/CHF	Put	18/06/2010	0.1	1.7	
SQ05	GBP/CHF	Put	17/12/2010	0.1	1.6	
SQ06	GBP/EUR	Call	18/12/2009	0.1	1.15	
SQ07	GBP/EUR	Call	18/06/2010	0.1	1.2	
SQ08	GBP/EUR	Call	17/12/2010	0.1	1.25	
SQ09	GBP/EUR	Call	17/06/2011	0.1	1.3	
SQ10	GBP/EUR	Put	18/12/2009	0.1	1.15	
SQ11	GBP/EUR	Put	18/06/2010	0.1	1.2	
SQ12	GBP/EUR	Put	17/12/2010	0.1	1.25	
SQ13	GBP/JPY	Call	18/12/2009	0.1	150	
SQ14	GBP/JPY	Call	18/06/2010	0.1	160	
SQ15	GBP/JPY	Call	17/12/2010	0.1	170	
SQ16	GBP/JPY	Put	18/12/2009	0.1	150	
SQ17	GBP/JPY	Put	18/06/2010	0.1	140	
SQ18	GBP/JPY	Put	17/12/2010	0.1	130	
SQ19	GBP/USD	Call	18/12/2009	0.1	1.6	
SQ20	GBP/USD	Call	18/06/2010	0.1	1.7	
SQ21	GBP/USD	Call	17/12/2010	0.1	1.8	
SQ22	GBP/USD	Put	18/12/2009	0.1	1.6	
SQ23	GBP/USD	Put	18/06/2010	0.1	1.5	
SQ24	GBP/USD	Put	17/12/2010	0.1	1.4	
SQ27	USD/JPY	Call	18/12/2009	0.1	90	
SQ28	USD/JPY	Call	18/06/2010	0.1	100	
SQ29	USD/JPY	Call	17/12/2010	0.1	110	
SQ30	USD/JPY	Put	18/12/2009	0.1	90	
SQ31	USD/JPY	Put	18/06/2010	0.1	80	
SQ32	USD/JPY	Put	17/12/2010	0.1	70	
SQ33	FTSE 100 Index	Put	17/12/2010	1000	4000	
SQ34	FTSE 100 Index	Put	17/12/2010	1000	3800	
SQ39	FTSE 100 Index	Put	18/06/2010	1000	4700	
SQ40	FTSE 100 Index	Put	18/06/2010	1000	4900	
SQ41	FTSE 250 Index	Call	18/06/2010	1000	8500	
SQ43	FTSE 250 Index	Call	17/12/2010	1000	9000	
SQ44	FTSE 250 Index	Put	18/06/2010	1000	7500	
SQ45	FTSE 250 Index	Put	17/12/2010	1000	7000	
SQ46	FTSE 250 Index	Put	16/12/2011	1000	7000	
SQ48	FTSE 250 Index	Put	17/12/2010	1000	6500	
T224	FTSE 100	C	19/03/2010	1000	4200	4200
T225	FTSE 100	C	19/03/2010	1000	4300	4300
T226	FTSE 100	C	19/03/2010	1000	4400	4400
T227	FTSE 100	P	19/03/2010	1000	4800	4800
T228	DAX	C	19/03/2010	1000	4800	4800
T229	DAX	C	19/03/2010	1000	5000	5000
T230	DAX	P	19/03/2010	1000	5900	5900
T231	DJ EuroStoxx 50	C	19/03/2010	1000	2400	2400
T232	DJ EuroStoxx 50	P	19/03/2010	1000	2800	2800
T233	DJ EuroStoxx 50	P	19/03/2010	1000	3000	3000

NEW LEVERAGED EQUITY ETFs

We introduced the new leveraged equity ETFs from ETF Securities last month, expressing some reservations about how they work. We still have those reservations, but we are nevertheless interested to report that they have attracted some business over the last month. According to information from ETF Securities, 2x long and short leveraged ETF trading volumes surged last week, with volumes up 412% and 200% respectively compared to the previous week. Leveraged ETF trading volumes have seen average weekly growth of 57% per week since their introduction on June 22nd, although we imagine they started at a low base. Last week saw a dramatic reversal of the ratio of 2x short/2x leveraged traded volumes with the 2x short:leveraged trading volume ratio dropping from 3:1 the previous week to 0.3:1 last week as volumes in the leveraged ETFs (particularly the FTSE 100) surged, indicating investors turned more bullish.

COVERED WARRANT IDEAS

Just before we plunge into our usual round-up of covered warrants ideas, there is one important factual item to note. SG has changed the price format for its covered warrants from pence to pounds, which aligns it with RBS, who also quote their prices in this way.

Last month we wrote about the imminent 'golden cross' signal for the **Nikkei 225 Index,** which was duly delivered at the start of July. It had no immediate success, and the index continued to fall for a few days, but the index has since recovered strongly and is now higher on balance at just over 10,000. Our reading of market reports from Tokyo suggests that sentiment is reasonably positive at present, with investors keen to buy on dips and upbeat interim corporate earnings results outweighing worries over a stronger yen. The three top news reports on a major Japanese news site at present summarise the mood, we think. The first report says that shares in Honda Motor Company have risen sharply after the firm upgraded its group profit outlook for fiscal 2009. Second, Nomura Holdings shares are also up, inspired by the firm's announcement that it posted a group net profit of ¥11.4bn in the April-June period, the first positive figure in six quarters. And finally, macroeconomic news is helping too. Japan's industrial output rose 2.4% from May to a seasonally adjusted 81 (2005=100) in June, the fourth straight month of increase, the Ministry of Economy, Trade and Industry said on Thursday. Whilst this is admittedly a somewhat arbitrary collection of news snippets, there is no way we would have seen a string of positive news headlines six months ago, and Japan's corporate sector in particular does seem much more confident now.

We would be happy to stay with a long position for the moment, in the hope of further gains to come. The **R481 RBS Nikkei 225 10,000 17-Jun-10 Calls** have slipped marginally from 82.5p to 79.5p over the month, and now offer leverage of 4.54 times with a delta of 0.56. We continue to rate them a BUY, and unless there is some shift in the newsflow, we would be inclined to add to the position on any setbacks.

We also looked at **BP** last month from a chart perspective, suggesting that it could be forming a new positive channel. This argument still looks intact to us, and the shares have risen from 490p to 510p over the month, buoyed by slightly better than expected second quarter results. The **R444 RBS BP 4.00 18-Dec-09 Calls** are up from 92.5p to 105.5p, having been as high as 113.5p in the interim. BP has been successful in making significant cost savings across its business, having rightly adopted a cautious stance on oil prices and economic activity. This timely cost-cutting has saved the company from an even worse fate than the halving of profits it announced in the second quarter, and critically, the dividend looks safe for now. Whilst warrants on BP do not rank for the dividend, its importance can barely be overstated. The highly attractive dividend yield of 6.4% is a key support for the shares, and for the broader investment community as a whole. A lot of investors and funds would find a big hole in their income statements if BP was forced to cut its payout. That's why the results were greeted with some relief in spite of the rather grim headline profit figures. In the short-term, we are fairly NEUTRAL on BP shares now that they have recovered from their oversold position. The imminent ex-dividend date on 12th August should not disturb the warrant prices, by the way, as the expected dividend is built into the sophisticated pricing models which the issuing banks operate.

This month we'll take a quick look at **Vodafone**, which is sometimes considered a slightly dull income stock these days. It does offer a yield of 6.5%, which is one reason for buying the ordinary shares, but we also wonder whether Vodafone could be heading for a PR boost in the UK. The company has signalled that it is prepared to be aggressive when it needs to be, and has said that it wants to challenge the incumbent O2 in selling Apple's popular iPhone in the UK. We'll see what happens with this, but from what we have read in the electronic trade press, this certainly seems like a possibility, for the 3G iPhone at least (but not the new 3G-S model, which has some extra functionality and which will almost certainly remain under O2's control). If this happens, we think this could provide Vodafone's shares with a boost. For the moment, the market seems reasonably happy with Vodafone after the company's latest quarterly results met expectations and Vodafone's management said that trading is in line with its previously published outlook. The shares have risen from around 113p in early July to 120p now, and whilst the relatively low volatility of the shares suggests a sharp move is unlikely, we would not be surprised to see the shares edging higher. If this scenario does unfold, then we could see an improvement in the value of the **SI88 SG Vodafone 1.20 18-Dec-09 calls,** currently trading at 9.55p. These warrants have been on a generally downward slope since April, and we will be interested to watch them now.

Another stock on our radar is **GlaxoSmithKline,** which has been recovering very well and has seen its shares move up over the last month from £10.94 to £11.70. The company's second quarter results, released on 22nd July, indicated a marked improvement over the first quarter, which the company expects to continue into the second half of 2009 as the year-on-year comparative effect of US generic competition reduces and it sees further sales contributions from new products and from its influenza portfolio. GlaxoSmithKline's chief executive, Andrew Witty, says that progress has been good since he set out the company's new strategic priorities last year. In the second quarter, a drop in sales in the US dragged overall group turnover down by 2%, but in contrast, revenues across all other areas of GSK's business grew. Sales in emerging markets were up 14% to £0.7bn. In relation to the US, the company says it is working through its issues, most particularly a phase of extensive generic competition. GSK says it is building new capabilities to compete effectively in what is a rapidly changing environment for the pharmaceutical industry. In the meantime it is also striving to diversify and to broaden GSK's portfolio and geographic sales contribution. Over the last twelve months, the company has entered into eight transactions to accelerate sales growth in emerging markets. Four of these transactions were announced this quarter: an extension of its partnership with Aspen, a new alliance with Dr Reddy's, further product acquisitions from BMS and a commitment to establish a joint venture in China with Neptunus to develop influenza vaccines.

On the subject of 'flu, GSK has of course seen the emergence of pandemic (H1N1) 2009 influenza – swine flu - as a global pandemic threat. The company has thrown its resources into tackling the problem, and by the end of 2009 expects to have an annual production capacity of its anti-flu drug Relenza of 190m treatment courses. This will represent more than a threefold increase to its previously announced maximum capacity of 60m courses. Last month, GSK started production of an H1N1 adjuvanted vaccine and it says it is on track to meet the orders placed by many governments and the World Health Organisation for the vaccine and its novel adjuvant (a modifying agent). To date GSK has contracts in place to supply 195m doses of the vaccine, plus a variety of agreements in place with the US government to supply pandemic products worth US$250m. Andrew Witty says that discussions with over 50 governments are ongoing, with many at advanced stages, and "I therefore expect further significant orders. Shipments are expected in the second half of 2009 and early 2010." He adds "in these last three months, governments have rapidly strengthened their pandemic stockpile and prevention strategies, and whilst we are currently seeing a heightened period of demand, it is likely that we will see a sustained level of orders for pandemic products over the next few years.

These orders for swine flu vaccines have not escaped the attention of the media, or of analysts, and they are certainly one of the big reasons why investors are now looking at GlaxoSmithKline with fresh eyes. We noticed an article this week in the Daily Telegraph, outlining the reasons why Cazenove rates GlaxoSmithKline a buy at £11.60. Commenting on the second quarter results, Cazenove said that they "materialised at the top end of forecasts." A solid sales performance was enjoyed across all key brands, while cost savings also aided performance, it added. In conclusion, Cazenove believes GSK may have reached a turning point, with investment costs easing and management upgrading earnings guidance.

We agree there is a strong case to be made for GSK now. To back this view we favour the **SI78 SG GlaxoSmithKline 12.00 18-Dec-09 Calls,** currently trading at 7.75p. Effective gearing is 7.1 times, and the delta is acceptable at 0.48. If GSK shares can rise to £13 by the time these warrants expire, they will gain around a third; and if GSK really accelerates and hits £14 then these warrants could produce a profit of 150%. We rate them a BUY.

WARRANTS ALERT TRADING PORTFOLIO (2)

The portfolio had a slightly disappointing month, dropping in value by 2.30%, or £628.68. Our timing was unfortunate on the new **R481 RBS Nikkei 225 10,000 17-Jun-10 Calls** which fell through the stop-loss level and were sold before they recovered sharply. Sometimes this happens with stop-losses. The portfolio also saw falls in the value of the **Ecofin Power & Water** subscription shares and the **R524 RBS GBP/EUR 1.10 18-Dec-09 calls,** although these were offset to some degree by a good start for the new holding in **New India Investment Trust** warrants.

Warrant	Number	Bought	Current	Profit	%
SG16 DJ Eurostoxx Proct.	2	£2,118.50	£1,264.00	-£854.50	-40.34%
Ecofin Power & Water Sub Shs	15,000	£1972.25	£1,800.00	-£172.75	-8.73%
ETFS Leveraged Gold ETC	60	£1,564.48	£1,375.37	-£189.11	-12.09%
JPMorgan Asian	6500	£1,972.25	£1,950.00	-£22.25	-1.13%
New India	4000	£2,022.50	£2,240.00	+£217.50	+10.75%
R524 GBP/EUR 1.10 calls	2500	£1,875.00	£1,600.00	-£275.00	-14.67%
SG66 SLS Emerging Index Prct	2	£2,008.10	£2,139.00	+£130.90	+6.52%
Cash			£12,427.52		
Interest			£1,866.25		
Total			**£26,662.14**		

For the **SG16 SG DJ Eurostoxx 50 Protected Accelerator** certificates there is no stop-loss. **Ecofin Power & Water** subscription shares have a stop-loss of 12p on the mid-price. The stop-loss for the **ETFS Leveraged Gold ETCs** is US$33.00. On **JPMorgan Asian** subscription shares there is a stop-loss of 22p. For **New India Investment Trust** we are going to edge up the stop-loss from 38p to 43p. On **the R524 RBS GBP/EUR 1.10 18-Dec-09 calls** the stop-loss is 52p. Finally, there is no stop-loss on the **SG66 SLS Emerging Index Protector** certificate, as it already has a level of protection built in. This month we are buying two more holdings. The first is a purchase of 25,000 **SI78 SG GlaxoSmithKline 12.00 18-Dec-09 Calls** at 7.9p each, with a stop-loss of 4.7p. The second is a purchase of 2000 **JPMorgan Indian** subscription shares at 101.5p, with a stop-loss at 80p.

We have another new subscription share issue to outline this month, and there is no sign of the flow stopping. More issues are expected as investment trusts become more creative in their methods of fund-raising and of keeping their shareholders. Not everyone thinks subscription share issues are a good idea though, and they have their critics in the investment trust industry.

Numis Securities, for example, acknowledges that the popularity of subscription shares is gathering pace, but believes the main beneficiaries are the fund managers and advisers rather than shareholders. The brokers say "as far as we are concerned, there is little doubt that the current popularity of short dated subscription shares reflects the desire of managers/boards to find a way to increase assets even though their fund is trading at a discount. Whether or not the warrant issue is good for shareholders is debatable, in our view." An even more voluble critic is Nick Sketch, the head of investment trust research at Rensburg Sheppards. In an interview with Financial Express recently, he said "we object strongly to claims that warrant offers or bonus issues of subscription shares add value for existing shareholders when in actual fact they usually reduce it, whether they take them up or not. These issues are effectively delayed rights issues - but at a discount." Mr Sketch does concede though that "for new investors it can be beneficial because they can perhaps buy mispriced securities", which for us is a real advantage of the market illiquidity.

For warrant investors the surge in issuance is undoubtedly a good thing, offering more choice and more opportunities to profit from short-term price misalignments or from longer-term asset performance. Where we agree with the criticism is on the subject of liquidity, which is very poor in most cases. It is frustrating that it is not easier to deal in subscription shares in reasonable size.

The Throgmorton Trust plc (THRG)

The latest investment trust to announce a new issue of subscription shares is **Throgmorton Trust,** a smaller companies trust which is using them partly as a way of enticing existing shareholders to stay with the trust. This £100m trust is to implement a tender offer for its shares, enabling shareholders to tender their shares for cash, subject to a maximum of 10% of the share capital in aggregate. With the shares at 102p on a 15.1% discount to net assets, we would think many shareholders will consider the tender. At the same time, Throgmorton is considering proposals for a bonus issue of subscription shares to shareholders on the register after the tender offer. This is a neat little incentive to keep shareholders on board, and means that those who are ambivalent about the tender might prefer to stay put and collect some subscription shares instead. The trust is, incidentally, in the middle of the pack in terms of performance and rating. Over the last year, since BlackRock took over the mandate, Throgmorton is ranked 9th out of 19 peer group trusts, and the discount is largely in line with its own average and that of the sector.

You might think that Throgmorton is simply a plain vanilla UK smaller companies trust, but actually it has one big distinguishing feature. Last year, the board chose to adopt a differentiated and innovative approach to the company's future which was approved by shareholders at an EGM in September. The modified investment policy adopted at that point allows the trust to have up to 30% of its net assets invested in a portfolio of contracts for difference (CFDs) to provide both long and short exposure to UK small and mid cap equities. The idea is that the CFD capability increases the flexibility for the managers during bad times, but of course it will only add value if it used wisely. So far we would have to say the results have been mixed. In the six months to 31st May, the CFD portfolio incurred a loss of £1.8m, although it has still generated net gains of £478,000 since its inception (through to 31st May). Overall, the CFD portfolio is now net long, with a bias to high quality growth companies and the board says it is confident that it will contribute significantly to performance in the future.

Generally, the trust's portfolio is defensively positioned, although the managers – Mike Prentis and Richard Plackett - have added a little more risk to the portfolio of late with the purchases of early cyclical recovery stocks. The managers say that they plan "to continue the process of the last few months, adding beta and recovery stocks with potentially very attractive upside, whilst maintaining faith in our core holdings but trimming the size of some of these. We may also revisit the microcap space where many valuations are very low and where investor appetite is rekindling." Recent performance has been strong over the last three months, with a gain in net assets of 14% placing the trust fifth out of 19 peer group trusts. Its largest holdings, for those who follow the small cap universe, include Fidessa, Rathbone Brother, Rensburg Sheppards, Brewin Dolphin, Aveva, Domino Printing, Dechra Pharmaceutical, Pace, Emerald Energy, and Chemring Group. The portfolio is heavily weighted towards industrials, financials, and to technology.

We have no further details of the subscription shares just yet. The trust has said that a circular seeking shareholders' approval for the issue is expected to be sent to shareholders in early September 2009. All shareholders on the register after implementation of the tender offer will be eligible for the bonus issue of subscription shares. We will await the details when they are announced.

Schroder UK Growth Fund Limited (SDU)

Further to our coverage in the June newsletter, Schroder UK Growth has now announced the details of its proposed subscription share issue. Subject to shareholder approval, the trust will issue the new subscription shares on a 1-for-5 basis to ordinary shareholders on the register at the close of business on 5th August. Each subscription share will confer the right, but not the obligation, to subscribe for one ordinary share on each of 31st January and 31st July between (and including) 31st January 2010 and 31st July 2012. The rights will be exercisable using the now-standard formula of a stepped exercise price, equal to the net asset value per share on the calculation date of 5th August, plus a premium as follows: (i) if exercised on either 31st January 2010 or 31st July 2010, a premium of 10%; (ii) if exercised on either 31st January 2011 or 31st July 2011, a premium of 15%; and (iii) if exercised on either 31st January 2012 or 31st July 2012, a premium of 25%. All exercise prices will be rounded up to the nearest penny.

It is expected that an announcement setting out the subscription price will be made on 6th August, with dealings due to start the following morning. We expect the new ticker code to be SDUS. Here, as usual, is our estimate for what might be a reasonable opening price for the subscription shares. Schroder UK Growth ordinary shares are currently 93.5p, and the latest net asset value is just over 96p. Accordingly, we calculate the possible exercise prices to be 106p, 111p, and 120p. On this basis, our view is that a price of 10p would be about right, implying gearing of 9.4 times for a CFP of 12.81% (on the last exercise opportunity). The subscription shares are likely to be highly geared, and could therefore be volatile.

Invesco Asia Trust plc (IAT)

We also have the terms for the new issue from Invesco Asia, which we also covered in the June newsletter. The prospectus has now been issued with the full proposals. The bonus issue will be made on a 1-for-5 basis to ordinary shareholders on the register at the close of business on 11th August. Holders of the (roughly 18.77m) subscription shares will be entitled to exercise their subscription rights on 31st August (or, if later, the 30th day after the date on which copies of the audited accounts of the company for the immediately preceding financial year are despatched to shareholders) in any of the years 2010 to 2012 (inclusive). Each subscription share will entitle the holder to subscribe for one ordinary share at the subscription price, which shall be equal to the latest unaudited net asset value per share prior to the day the subscription shares are issued and rounded up to the nearest five pence.

It is expected that an announcement regarding the subscription price will be released on 11th August, and dealings are scheduled to start on 13th August. We presume the ticker code will be IATS. We noticed in the documentation, incidentally, that there is a provision for a trustee to be appointed after the final exercise date to realise any value which any unexercised subscription shares have at that point. This is a sensible clause which we always like to see – it works for the benefit of shareholders and the company alike.

Invesco Asia Trust ordinary shares are trading at 114.75p, and the latest net asset value per share is around 124p, in which case the subscription price might be 125p. Using these figures, we think the subscription shares could start at around 19p, which would imply gearing of 6 times for a CFP of 9.00%. As we have noted a few times for other issues, it is probably not worth buying the shares in anticipation of the bonus issue, as at our estimated price the bonus issue is only worth 3.8p per ordinary share.

JPMorgan Private Equity Limited (JPEL)

You may remember from last month's newsletter that the new warrants from JPMorgan Private Equity are due to start trading on 20th August. We have already estimated an initial price of US$0.09, but we thought we may as well update our numbers. The ordinary shares have risen over the month from US$0.96 to US$1.01, and the latest net asset value figure was US$1.42 per share. Using these figures, we would be inclined to nudge up our estimate for the new warrants from US$0.09 to US$0.10, implying gearing of 10.1 times for a CFP of 11.18% (on the last exercise opportunity).

SPAC WARRANTS

ReSearch Pharmaceutical Inc is asking shareholders and warrantholders for permission to cancel its listing on AIM. The company, which came out of the original SPAC Cross Shore Acquisition, wants to save money by cancelling its listing. It does not have a listing on any other exchange, so if the proposals are passed there will be no further market in the shares or warrants. In effect there is no liquidity anyway, so perhaps this is not quite as weighty a move as it first seems. The special meeting is on August 26th, and ReSearch Pharmaceutical plans to cancel the listings on the AIM on or about 4th September. Interestingly, if the shareholders vote for the cancellation but the warrant holders do not, this will spell the end for the warrants' listing in any case. If the share listing is cancelled, the company's nominated adviser will resign, which would mean the warrants would have to be suspended from trading. Whilst we don't like to see any quote disappear, it looks likely in this case. The only consolation here is that ReSearch Pharmaceutical warrants looked highly unlikely to achieve value before expiry next April, with the latest share price at US$1 comparing unfavourably to the US$5 exercise price.

CORPORATE WARRANTS NEWS

3i Infrastructure has released an interim management statement for the period from 1st April to 15th July 2009. The highlight is that the company has invested £27.4m over the period, the vast majority (£23.9m) accounted by the purchase of part of 3i's stake in Anglian Water. This increases 3i Infrastructure's ownership of Anglian Water from 9% to 10.3%. The trust still has cash balances of £338.1m, down from £368.8m at 31st March 2009 but reflective of the dividend paid and the new investments during the period. The £225m revolving credit facility remains undrawn. Peter Sedgwick, the chairman of 3i Infrastructure, said "the portfolio is continuing to perform in line with our expectations. The board welcomed the opportunity to purchase a further stake in AWG, a company which we expect will continue to generate good returns for shareholders." Cressida Hogg, the managing partner for infrastructure at 3i Investments, added "the market opportunity for investing in infrastructure is still attractive but we remain highly selective in evaluating potential new investments." The broker Cazenove estimates the live net asset value at 109.3p per share, to which the shares at 94.25p trade on an estimated 13.8% discount. The discount has narrowed since the beginning of this year but with cash still 37.9% of the portfolio, Cazenove say the implied discount on the unlisted assets remains comparatively wide. They conclude "with the shares offering an estimated forward yield of 5.6% we continue to find this valuation compelling and reiterate our outperform recommendation."

Looking at the warrants at 12p, their valuation has improved since last month. Gearing is now 7.9 times for a CFP of 7.73%. That's not bad, but as a key attraction of the stock is its dividend income, we might look for an ever better valuation for the warrants before marking them as a buy. We continue to rate them as a HOLD for now.

BlackRock New Energy subscription shares started trading as expected on 16th July, with the ticker code BRNS. They closed on the first day at 6.5p, which was exactly the price we had predicted. It came as more of a surprise when the price soared to 11.5p six days later, before falling back again to 8.25p. Let's take a look at the valuation now, starting with the confirmed exercise terms. A total of 48,749,811 subscription shares have been allotted, exercisable on each of 31st January, 30th April, 31st July and 31st October between 31st October 2009 and 31st July 2014 (both dates inclusive). If subscription share rights are exercised on any day between and including 31st October 2009 and 31st July 2010, the subscription price is 46p; between and including 1st August 2010 and 31st July 2012 it is 50p; and between and including 1st August 2012 and 31st July 2014 it is 59p. With the shares at 46.5p, on a modest 6% discount to net asset value, the subscription shares offer gearing of 5.6 times for a CFP of 9.04% (based on the last exercise opportunity). This is towards the upper end of the valuation range we would consider acceptable, so we would rate them a HOLD at present. Investors looking to buy in might be better off waiting to see whether the price slips back further, particularly as the shares look fairly fully valued themselves.

Before leaving the trust, we'll summarise the contents of detailed research note on the stock issued by the stockbroker WINS on 2nd July (when the share price was 43.75p). WINS noted that the fund's investible universe has matured significantly since its launch in 2000 and says that a majority of portfolio companies are now profitable, with around half dividend paying. The key theme in the portfolio is exposure to government mandated growth and key sectors include wind, solar and transmission grid Investment. Stock selection is based on a combination of qualitative and quantitative factors. The first stage is to assess a company's market potential, technological leadership, time to commercialisation, management track record and support and investment by industry partners. Once potentially attractive investments have been identified, these companies are valued using a variety of quantitative methods including: discounted cash flow models (to test assumptions and assess sensitivity to key factors), earnings relatives, cash burn/financing requirements, time to IPO and liquidity.

While the trust's performance in recent years has shown a high degree of correlation to energy prices, WINS believe there are a number of other key performance drivers, including technology and government policy. In terms of the latter, the brokers suggest that conditions for the sector look positive, with significant commitments being made to renewable energy by both the US and China. Not surprisingly, the management team of Robin Batchelor and Poppy Allonby also believe the key drivers for the sector appear to remain intact, namely (i) government policy – driven by climate change and energy security; (ii) long term rising oil, gas and coal prices versus falling alternative energy costs; and (iii) technological and operational advances. Governments have invested heavily in renewable energy, with the dual incentives of providing security of energy supplies and dealing with the very high profile and political issue of climate change. The recent US stimulus bill included very large provisions for the support of renewable energy, including the extension of tax credits to wind farms to 2012, a US$6bn loan guarantee fund, US$4.5bn in smart grid funding, and further promises of US$150bn of investment in clean energy over the next ten years. A smart grid, incidentally, delivers electricity from suppliers to consumers using digital technology to save energy, reduce cost and increase reliability and transparency. Such a modernized electricity network is being promoted by many governments as a way of addressing energy independence, global warming and emergency resilience issues. On this subject of government funding, China has also set very aggressive targets, and BlackRock expect Chinese spending on new energy following their upcoming stimulus package to be US$440bn, including investment of around US$150bn in wind power and US$50bn in solar power.

BlackRock New Energy's portfolio has become more diversified over recent years with an increase in the number of holdings from 40 to around 65, of which four are unlisted. In addition, the portfolio is now more broadly spread by geography, with exposure to companies listed in North America reduced from two-thirds of assets to below 50%. The maturing of the investment theme is reflected by the fact that almost 90% of the fund's NAV is invested in companies that are net income positive and almost half of the portfolio is invested in companies that pay dividends. This compares with a third profitable and just 20% paying dividends at the start of 2004. Likewise, the distribution of the portfolio by market capitalisation has also changed significantly over the last five years, with just 15% invested in stocks under US$1bn market cap, compared with over 80% at the start of 2004. The manager will still invest in micro-cap stocks, but the emphasis has shifted from early stage technology companies to cash generative businesses. By sector, the portfolio is 53% invested in renewable energy, 11% in materials technology, 15% in alternative fuels, 14% in enabling energy technology, 2% in auto and on-site generation, and 5% in cash. Geographically, it is nearly all in North American (48%) and Europe (44%).

WINS conclude "we believe this fund benefits from a well resourced and experienced team. For those who are looking for 'pure-play' exposure to alternative energy, we believe this fund is an attractive choice, particularly on its current discount."

Our last update on **Elephant Capital** warrants (ECAW) was in May, when the warrants were 9.5p. They are the same price now, and there has been no movement in the shares either. They are still 97p. As time has passed though, so the CFP has crept up, and the warrants now offer gearing of 10.2 times for a CFP of 13.90%. The lack of movement does concern us when the CFP is relatively high, and we are slightly uncomfortable as well with the shares being 97p when the net asset value is only 88p per share. This asset value is heading in the right direction, and was up by 5.4% over the three months to the end of May, but even so, the shares on a premium rating look highly vulnerable to us. Our sense is that the data is no longer as supportive as it was when we recommended the warrants in January. We are downgrading our rating from high-risk buy to HOLD, and will continue to monitor both the warrants and the shares for developments. We would especially like to hear some news on further investments, as Elephant is sitting on a high cash level which we would think it might be able to invest profitably.

An odd situation presented itself during the final trading days of the **Finsbury Worldwide Pharmaceutical** warrants (FWPW) which have just expired. The market price of the warrants was 60p-66p, yet the warrants had intrinsic value of 80p. It would have been possible to buy the warrants at 66p, let them lapse, and then wait for the trustee's payout (as explained last month), which should be closer to that intrinsic value unless the share price falls over the next couple of weeks. A potential return of 20% was implied, although there is of course a risk that this could all disappear – and worse – before the trustee arranges the exercise, share sale, and payment. We'll report next month on exactly what happens with the payout for the lapsed warrants.

There has been a bumper 41% jump in the value of **JPMorgan Chinese** subscription shares over the last month, in response to an 11.9% rise in the underlying share price. At 30p we think the subscription shares might be modestly overvalued, with gearing of 4.4 times for a CFP of 14.03%. It might be worth considering a SWITCH into **JPMorgan Emerging Markets** subscription shares, which look better value at 39.75p, with gearing of 10 times and a CFP of

8.77%. We also like the look of **JPMorgan Asian** subscription shares, on a discount if you perform the calculations using the next exercise opportunity, and **JPMorgan Indian** subscription shares, which offer an attractive technical position. At 103.75p, gearing is 3.1 times for a CFP of just 4.44%. The other point in favour of the JPMorgan Indian subscription shares is that they have the largest market capitalisation of all of the recent subscription share issues, which should make them easier to deal.

Kenmare Resources, which recently announced an extension to the life of its warrants, has successfully concluded its rights issue to raise £10.3m, and has seen some fluctuation in its share price over the month, in the range between 17p and 21p. At the time of writing the shares are 20.5p. An article on the 'Mineweb' website explains that with operations at one of the world's largest mineral sands deposits now online and contributing to earnings, Kenmare reckons it has now fully recovered from the start-up problems which had plagued it and delayed the onset of commercial production. Speaking at a Proactive Investors/Mineweb One2One forum in London a couple of weeks ago, Kenmare's chief executive Michael Carvill expressed "considerable confidence" in the project and said that the company's trials and tribulations over construction and equipment failures at its big Moma titanium rich mineral sands deposit in Mozambique are now over. The current two-dredge operation is ramping up to full production, which should be achieved by the year-end, and July marked the point where the company achieved the transition from developer to operator.

The Moma mineral sands deposit is situated virtually on the coast in northern Mozambique and has sufficient reserves of mineral sands containing ilmenite, rutile and zircon to last for over 100 years of mining. The first section to be mined - the Namalope orebody - has reserves now estimated at 26m tonnes - sufficient for 25 years mining at the current rate, while the subsequently discovered Nataka deposit, located close by on the other side of the operation's process plant has a resource estimated as sufficient for over 100 years of mining. Overall the resource is estimated as containing some 160m tonnes of ilmenite. Initial problems for Kenmare at the big operation revolved around construction at the mine site, the breakdown and slow replacement of both dredge pump motors and then problems caused by Cyclone Jokwe, all of which conspired to affect operations in 2008. Indeed the delays necessitated the deferment of 2009 capital repayments and the article says "the fact that this deferment was able to be negotiated at the nadir of the market collapse last year does give some indication of long term confidence by the lenders in the project."

At full output, Moma will produce 800,000 tonnes a year of ilmenite, 47,000 tonnes a year of zircon, and 18,000 tonnes a year of rutile. The Moma production is sufficient for about 7% of world supply according to Carvill, but it is likely that once things really get under way, with the large size of the deposits, Kenmare will substantially expand production further. Michael Carvill pointed out also that at a total capital cost of around US$500m, the Moma development has been achieved at around half the cost of the similarly sized Rio Tinto mineral sands development in Madagascar, which is still a year away from completion. Cheap power at Moma from hydro-electric capacity means that mining costs will be at the bottom end of the cost quartile, and with virtually all-new highly experienced operating management in place, Carvill reckons the problems which have beset the company are behind it. Mineweb concludes "now the company will need to show good operating results, in a difficult market, to prove itself, but the portents are good if, indeed, the teething problems are behind it."

We are very glad that Kenmare has given warrant holders some extra time – until the end of 2009 – to benefit from the progress at the Moma plant. Kenmare is all set now to reap the rewards from its sterling efforts in developing the mine up to this point. With a strike price of 19p, the warrants currently have intrinsic value of just 1.5p, and trade in the market at 2p-4.5p. That dreadful dealing spread precludes the possibility of short-term trading, but we do think it is worth keeping an eye on the Kenmare share price to see whether any opportunities arise over the next couple of months.

Quorum Oil & Gas warrants have the potential to come to prominence in our tables of risers and fallers over the next nine months. They are in a classic 'knife-edge' position which could see them lose their remaining value, or alternatively multiply that value dramatically. It's worth learning a little more, we think. Quorum is an unusual US$60m trust, managed by the Quorum Group, a 23 year-old strategic sector private equity firm, headquartered in Toronto. The trust provides expansion capital to unlisted companies predominantly in North America, Europe and the Middle East which own and/or are developing proven proprietary technology which may have a potentially significant effect on the oil and gas industry. Quorum aims for long-term capital growth from these holdings, which are generally working to provide technological solutions to the following challenges in the oil and gas industry: (i) the need to develop new exploration technologies to identify new global oil and natural gas fields; (ii) the requirement for new technologies to increase recovery rates from known fields; (iii) the reduction of exploration and production costs and to turn under performing prospects, projects or shut-in wells into attractive investments; (iv) the need to develop unconventional oil and natural gas resources; and (v) the requirement to address the environmental footprint of the industry's activities and products.

This is a highly specific remit, but one which has been very well researched by Quorum. We agree there is a strong argument in favour of oil service companies as the world continues to wrestle with energy costs, with environmental concerns, with huge demands from new economies, and with the introduction of new technologies. To date, the trust has made eight investments, and these have shown revenue growth of over 20% in 2008. One particularly exciting area, in the view of Wanda Dorosz, the chief executive of Quorum, is in the technology which will help oil companies to improve their extraction processes. She says that a 1% improvement in the extraction of oil would be equivalent to no less than 10 billion barrels of oil. Furthermore, she says that current extraction rates are very low – particularly in some countries such as Russia, which is only able to extract around 27% of the oil which it has. Elsewhere, where technology is better, the extraction rates can be as high as 45%. Wanda says that technology which is centred on the idea of getting more for less is very much in tune with the times. All oil operators around the globe, including those in the Middle East, are becoming increasingly cost conscious and focused on efficiency – hence the strong performance of the holdings last year.

Quorum is keen to stress that although it is a cutting edge technology investor, it makes its investments with old-fashioned values. It is not a financial engineer, not a private equity investor seeking short-term returns using leverage, but is instead looking for long-term capital growth from junior companies which can grow into more substantial enterprises using their own proprietary technology. Tellingly, when Quorum is looking for new companies in which to invest, it hunts for those which are already making sales of between US$10m and US$25m, and where a portion of the sales are repeat sales to existing customers. The point here is the belief that the sales are a much better barometer of whether the technology is good than a fund manager's opinion. That makes good sense to us. It is also impressive that the trust did not suffer any nasty write-downs last year, in spite of the dreadful economic and financial conditions, so it is well placed to add to the managers' highly impressive 22 year track record which shows a net internal rate of return of 18.4% per annum. The managers have created an international expert advisory board which covers the whole of the oil & gas sector which Wanda says is invaluable. Certainly the recent performance is very reassuring – over 2008 the trust's net asset value was down by only 2.6%, which outstrips almost any other private equity investor you care to name.

Now, Quorum has invested US$5m to set up a new entity to market the services of its existing holdings in the Middle East and North America. 'QMENA', as it is called, aims to generate annual revenues in excess of US$150m within five years, and to maximise investor returns. Wanda says QMENA is targeting "the major powerhouses" of the region, and will expand into other emerging markets wherever possible. Quorum, then, is working very actively with its holdings, which is can do because it insists on being the lead investor with each one. It is highly focused on adding value, using its strategic skills.

The net asset value per share was US$9.60 as at 31st December, down only marginally from US$9.69 at the end of last September. As Wanda explains using graphic language, “we did not lose our investors' capital in the hurricane, tornado, apocalypse of 2008.” Its challenge now is to grow that capital. Wanda says she is “excited about” the portfolio, which she believes is balanced and stable, with good potential for growth.

Let’s turn now to the warrants (ticker code QOGW), which carry the right to subscribe for one share at US$10 on 1st April 2010. With Quorum shares currently US$9.295, the warrants are out-of-the-money, with comparatively little time to run. This explains their low price of US$0.19 (dealing spread US$0.14-US$0.24). Gearing is 48.9 times for a CFP of 14.93%. There is a strong chance that the warrants will expire worthless – if the shares fail to make it up to US$10 over the next eight months. Should markets turn decidedly for the better though, and the shares move up sharply over this short period, then the warrants have the potential to become ‘multi-baggers’ and to deliver remarkable profits. Certainly we think this is a trust to watch, and one which could attract much more attention in future. The main worry we have at the moment is that the trust is still in its early stages, and as such we would be very surprised if it were able to dramatically realise any great value in the short term. The shares are very stable and do not move a great deal. While that has clearly been a valuable asset over the last year, warrant holders need that to change - and sooner rather than later.

A research note from Oriel Securities published on 28th July pondered whether this could be a good time to rotate into growth and technology funds. This is a contrarian view, as at the moment investor fashion appears to favour funds offering high dividend yields, but Oriel say “we do not expect this enthusiasm for yield to continue indefinitely. Once the market rotates away from income and higher yielding companies, the question is what will the next big idea be? We suspect it could be a renewed enthusiasm for growth stocks and we do think the technology sector could be a prime beneficiary of any such enthusiasm.” The broker notes that the technology fund sector has remained under a cloud since the technology bubble burst in the early 2000s. However, in recent months there has been some good performance delivered by technology indices both in the US, where the NASDAQ has outperformed the S&P Composite, and in the UK, where the FTSE Techmark has been outperforming the FTSE All Share Index. Oriel rates **RCM Technology Trust** as an ‘add’ at 214p. Cazenove rate the trust as ‘in-line.’

The trust announced its interim results to 31st May on 16th July, showing a 19% increase in net asset value against a 21.7% increase in its benchmark index. Towards the end of the period, manager Walter Price increased the portfolio’s exposure to mid-cap, growth oriented companies, believing they have a better chance of growing earnings in a modest consumer and corporate spending recovery. Walter says “we believe that a weaker dollar against most major currencies can provide a helpful tailwind for many of our holdings, by improving the competitiveness of their products globally. We do not expect a material recovery in the United States and North America before the fourth quarter of 2009. However, for companies that have controlled their costs, we believe that there is the possibility of a significant upturn in profits with only moderate increases in revenues in 2010. We will continue to focus on companies that offer the business sector opportunities for efficiency gains and we see further potential in smart phones and the roll out of 3G technology in Asia.” Our view is that the trust’s medium-term prospects are quite attractive, and that the technology sector is showing some signs of improvement in its relative performance. RCM technology subscription shares (RTTS) look ABOUT RIGHT to us at the moment at 23p, having fallen back from a slightly overvalued position last month. Gearing is 9.2 times for a CFP of 13.87%, which still looks fairly speculative, but the subscription shares run until April 2012 and we think the economic picture is likely to look radically different by then.

York Pharma has finally reached the end of the road. The company's shares and warrants had been suspended since the end of March, when the company fell into financial difficulties. It had been hoped that an American company called Uluru might acquire York, but an announcement last week dashed those hopes. Uluru announced it has no intention of making an offer, after which York Pharma called in the administrators. York Pharma cannot repay

US$750,000 outstanding of a US$1m loan from Uluru, and has not been able to recover from its funding crisis. This is a sad end for a company which once showed a lot of promise, and unfortunately there will be no value for warrant holders.

Any subscribers who followed Andrew McHattie's charity bike ride from John o'Groats to Land's End last year might be interested to know that he is cycling across the country at its widest point this month. He is again supporting the CHICKS charity which provides holidays for disadvantaged children. The web page for more details is http://www.mchattie.co.uk/c2c.html.

TECHNICAL MERIT

This 'technical merit' section is devoted to a brief overview of some of the corporate warrants which have been highlighted by our computer model as undervalued or overvalued. We should just stress that this valuation is not based upon a full analysis, but solely upon 'technical merit' - ie: premium, time to expiry, capital fulcrum point and gearing factor. Our undervalued selections have outperformed our overvalued selections in 201 out of 237 months to date, an 85% success rate.

Undervalued Warrants	Shares	Warrants	Exercise	Expiry	Prem	Gearing	CFP
3i Infrastructure	94.25p	12p	100p	13-Mar-12	18.83%	7.9	7.73%
Aberdeen Asian Smaller Cos	295.5p	188.5p	100p	30-Nov-10	-2.37%	1.6	-4.92%
Advance Developing Mkts	342p	73p	291p	31-Oct-11	6.43%	4.7	3.54%
City Nat Res High Yield	141.25p	49.75p	85p	31-Oct-09	-4.60%	2.8	-24.88%
Globe Speciality Metals	US$7.00	US$1.875	US$5.00	31-Oct-09	-1.79%	3.7	-12.76%
JPMorgan Asian	169.5p	31.75p	137p*	31-Mar-10*	-0.44%	5.3	-0.81%
JPMorgan Emerging	393p	38.75p	543p	31-Jul-14	48.03%	10.1	8.90%
JPMorgan Indian	321.25p	98.25p	227p**	02-Jan-10**	1.25%	3.3	4.22%
New India Inv Trust	158p	56.75p	100p	31-Jul-10	-0.79%	2.8	-1.23%
Perpetual Income & Growth	186.5p	29.75p	218.9p	31-Aug-13	33.35%	6.3	8.51%

Performance last month: average change +7.15% (6 rises out of 10 selections).

** these warrants have further exercise opportunities and run until 31st March 2014, but this is currently the most attractive of the exercise terms*

*** these warrants have further exercise opportunities and run until 2nd January 2014, but this is currently the most attractive of the exercise terms*

Overvalued Warrants

We consider the following warrants to be overvalued on technical grounds, so if you are interested in the following companies then we would suggest the shares rather than the warrants (capital fulcrum points in brackets): Antonov (506.87%); Bankers Petroleum (189.69%); BCB Holdings 2013 (140.27%); BCB Holdings 2014 (86.28%); Blue Planet Financials (121.26%); CEPS (455.41%); Chromex Mining (32.76%); India Hospitality Corporation (1297.94%); Infrastructure India (38.33%); International Consolidated Minerals (114,428.47%); Messaging International (3390.15%); Origo Sino-India (1821.22%); Pantheon Leisure (903.39%); Peter Hambro Mining (111.05%); Southern Bear (34.53%); Strathdon Investments (n/a); Twenty (n/a); Ukraine Opportunity (85.00%).
Performance last month: average change -1.23% (1 rise out of 17 selections).

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