

# The Establishment Investment Trust plc

## Performance Review

The Company's share price rose 1.9% in January while the net asset value advanced by 2.1%. In comparison the MSCI World Index declined by 3.3%, the MSCI Asia ex Japan Index fell by 5.2% and the MSCI Japan Index gained 2.8%.

## It's all about the Dollar

We are interested by the fact that the US Dollar Index has successfully tested, and bounced off, the lows recorded in the first half of 2008. Regular readers will be aware of our long held opinion that the direction of the US Dollar remains the KEY determinant of the direction of global equity prices. A stronger Dollar, ceteris paribus, is generally associated with weaker global equity prices and this holds especially true in South East Asia where currencies continue to be pegged, formally or informally, to the Dollar. We expect the Dollar to continue to strengthen over the next few quarters for the following three reasons;

First In, First Out - the US economy led the global economy into recession and, as evidenced by the preliminary 4Q 09 GDP report last week, is likely to be the first major developed economy to recover. Commentaries complaining that the headline 5.7% number is heavily influenced by inventory build miss the point. Relatively rapid growth is Dollar bullish.

Deleveraging - regardless of the rights or wrongs of President Obama's proposed "Volcker Rules" (generally rights in our humble opinion), the reality is that proprietary desks are likely to have substantially reduced access to cheap, deposit based, funding. The likely reduction in the size of their trading books, and the reversal of bank capital flows in hedge and private equity vehicles, merely adds to ongoing and well established deleveraging trends. These trends are Dollar bullish.

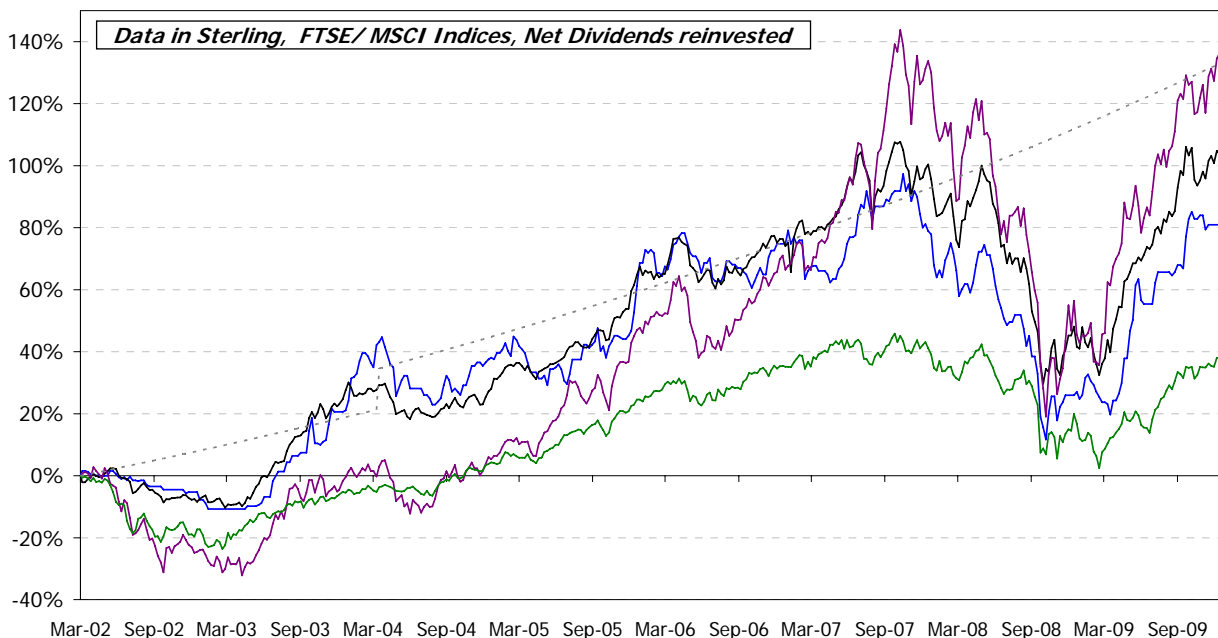
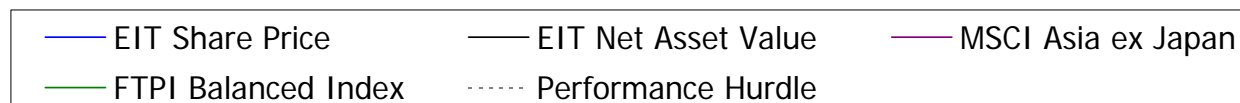
The Euro and Club Med - Readers are advised to dig out Martin Wolf's excellent article (The Greek Tragedy deserves a global audience, FT 19th January 2010). The most salient point of the article is the chart showing how labour costs in Ireland, Greece, Spain and Portugal have soared relative to German labour costs since the inception of the Euro. If Paddy and Pedro had become 20% more productive relative to Fritz and Hans over this period there would not be a problem. However, they have not and there is. While the Irish in particular understand this, and are making great efforts to regain competitiveness, the Club Med countries are belatedly staring down the barrel of deflation, default or Euro exit. 2010 may prove an interesting year for those, such as Andrew Hunt, who have never trusted this politically driven and economically unproven monetary experiment.

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## Key Data (as at 29<sup>th</sup> January 2010)

Share Price	160.00p
Net Asset Value	181.47p
Premium/(Discount)	(11.8%)
Shares Outstanding	20m
Market Capitalisation	£32.0m
Historic Yield	2.1%
Listed	London Stock Exchange
Bloomberg Ticker	ET/ LN <Equity>
ISIN	GB0031336919
Website	www.bdtinvest.com
Manager	BDT Invest LLP 4 <sup>th</sup> Floor, 52 Jermyn St London, SW1Y 6LX +44 (020) 7659 1300 <a href="http://www.bdtinvest.com">www.bdtinvest.com</a>
Administrator	Phoenix Administration Services
Sponsor	JPMorgan Cazenove
Directors	Dr James King (Chairman) Sir David Cooksey Henry Thornton Richard Thornton Harry Wells Thomas Waring
Investment Objective	To achieve long-term capital growth from a managed international portfolio of securities. The preservation of capital will be of primary importance to the investment objective.
Management Fee	One per cent of the market capitalisation of the Company annually.
Performance Fee	10% of any gain in the market capitalisation of the company that exceeds the 10% performance hurdle annually.
Financial Year	31 <sup>st</sup> March
Net Asset Value	Calculated weekly on Friday's closing prices and published the following Monday or Tuesday.

In Asia it is clear that the Chinese authorities are seeking to remove a large part of the monetary and fiscal stimulus that propelled economic growth in 2009 and the stock market is understandably nervous as a result. Without wishing to appear too sanguine, we suspect the current vigorous recovery in the private sector will do much to offset a more restrictive lending stance. The edict to the banks from on high will impact the State Owned Enterprise sector but less so the private sector which, in all honesty, has never really had access to credit from the domestic banking sector.



While Dollar strength will, presumably, result in further Sterling weakness it is a moot point as to whether a Sterling denominated asset value can hold steady in the face of weaker Asian markets. The portfolio performed well in January, thanks to minimal exposure to Chinese financials (aside from China Taiping) and a zero weighting in energy and commodity stocks.

We have increased exposure to Japan by a few percentage points and funded this by reducing the Company's exposure to the BDT Oriental Focus Fund. We have also taken opportunistic profits in some

recently purchased Korean stocks but the effective equity exposure of the Company remains nearly 80%. During a recent visit to the region we met with a number of portfolio holdings (Johnson Electric and RexLOT stood out in particular) and remain reasonably convinced that the growth prospects of the Company's investments remain intact. While the very short term outlook is admittedly looking uncertain, your manager is simply grateful the mandate is not European equities!

BDT Invest LLP  
2<sup>nd</sup> February 2010

Currency Exposure		Asset Type		Direct Equity by Country		Equity by Sector		
US Dollar	23.4%	Listed Equities	57.2%	Hong Kong / China	22.6%	Financials	26.7%	
Hong Kong Dollar	19.4%	Absolute Return Vehicles	22.2%	Singapore	8.8%	Industrial	6.3%	
South Korean Won	9.7%	Cash	13.7%	Malaysia	7.6%	Materials	5.9%	
Singapore Dollar	8.8%	Gold Bullion	5.5%	India	4.9%	Consumer Discretionary	3.6%	
Sterling	7.4%	Unlisted Equities	1.4%	Indonesia	4.2%	Health Care	3.1%	
Taiwan Dollar	7.0%	Sovereign Bonds	0.0%	Taiwan	3.1%	Telecoms	3.0%	
Malaysian Ringgit	8.3%	Derivatives	0.0%	Korea	3.0%	Consumer Staple	2.9%	
Japanese Yen	9.1%	Other	0.0%	Philippines	2.0%	Property	2.6%	
Indonesian Rupiah	4.2%	Loan	0.0%	UK	1.1%	Energy	2.1%	
Philippine Peso	2.0%			Other non Asian	0.0%	Information Technology	1.1%	
Other	0.7%			Other Asian	0.0%	Utilities	0.0%	
Top Ten Equity Holdings		Top Bond & ARV Holdings		Performance		18-Mar-02	29-Jan-10	+/- %
Rexlot Holdings	7.5%	BDT Invest Oriental Focus \$	6.9%	EIT Share Price #	100.0	160.0	60.0%	
China Taiping Insurance	7.3%	BDT Invest Japan Focus \$	6.8%	EIT Net Asset Value #	100.0	181.5	81.5%	
First Ship Lease Trust	5.9%	SR European IT	4.2%	Premium/Discount		-11.8%		
Minth Group	3.6%	BDT Invest Japan Small Cos ¥	3.3%	UK Equity #	670.2	642.8	-4.1%	
Top Glove	3.1%	Lindsell Train Inv Trust	0.9%	World Equity #	714.8	699.2	-2.2%	
KT Corp	3.0%			Asia Free ex Japan #	153.8	284.3	84.8%	
ITC	2.9%							
Johnson Electric	2.2%							
Mermaid Maritime	2.1%							
Jasa Marga	2.1%							

*# excluding dividends  
all MSCI indices in Sterling terms*

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