

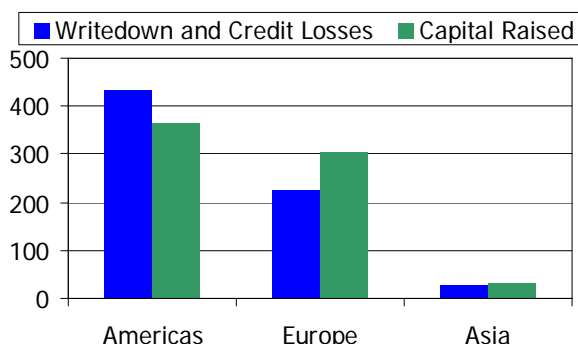
The Establishment Investment Trust plc

Performance Review

The share price declined 9.7% in October while the net asset value fell by a further 10.2%. In Sterling terms the MSCI World Index fell 10.7%, the MSCI Japan Index declined 6.1% and the MSCI Asia ex Japan Index dropped 16.3%.

Unavoidable

The can of worms opened as a consequence of the Lehman Brothers bankruptcy in mid September is clear for all to see. Perhaps the bankruptcy was inevitable, perhaps the firm could not have been "managed" back to health over a number of years but one thing is sure - there will be a place in the history books for the firm. Within one month of filing for bankruptcy vast swathes of the western banking system have effectively ended up in Government hands as market participants reacted immediately, and rationally, by hoarding liquidity and not lending to each other. Only a few institutions had sufficient liquidity (and reputation among depositors) to cope with the severity of deleveraging required and even these may have failed had Governments and central banks not belatedly rushed to the rescue of the entire system.



Source Bloomberg, data from 3Q07 to 4Q08, US\$bn

The chart above depicts the credit losses and capital raised by region since July 2007. According to the Bloomberg data a total of US\$250bn of capital was raised, or committed, last month in the Americas and Europe. Capital raising in Japan is inevitable following the damage to capital ratios inflicted by the decline in the equity market but the chart highlights where the real credit problems lie – the West.

The somewhat naïve view that Asian markets could tip toe round this western credit implosion has been very wrong. Economic growth is slowing rapidly around the region with obvious consequences for overall profitability. Specific problems at CITIC (unauthorised forex) and Bakrie Brothers (leverage) will not prove unique but we cling to the belief that the corporate sector in general is in pretty good shape.

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Key Data (as at 31st October 2008)

Share Price	107.50p
Net Asset Value	119.81p
Premium/(Discount)	(10.3%)
Shares Outstanding	20m
Market Capitalisation	£21.5m
Historic Yield	2.9%
Listed	London Stock Exchange
Bloomberg Ticker	ET/ LN <Equity>
ISIN	GB0031336919
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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.
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Management Fee	One per cent of the market capitalisation of the Company annually.
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Performance Fee	10% of any gain in the market capitalisation of the company that exceeds the 10% performance hurdle annually.
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Financial Year	31 st March
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Net Asset Value	Calculated weekly on Friday's closing prices and published the following Monday or Tuesday.
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Evidence of forced selling across regional markets was widespread during October and individual stocks recorded quite extraordinary declines. A whiff of leverage, hint of maritime activity or small cap status was sufficient to warrant immediate execution. With large hedge funds continuing to suspend withdrawals on a daily basis it is too early to suggest that the current process of deleveraging has run its course but we can only hope that process of liquidating equity positions (a ready source of cash in comparison to many other assets) is reasonably well advanced.

