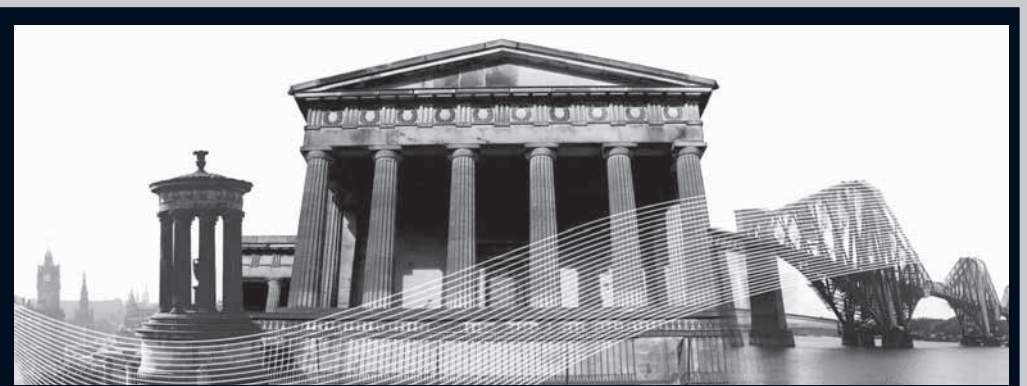


Cartesian Capital Partners



Traditional values, independent thinking

COGITO • ERGO •
SUM •



Philosophy - what's in a name?

The work of Rene Descartes, one of the world's greatest philosophers, included the application of algebraic terms to describe geometric curves and resulted in the Cartesian Principles and Method. Descartes is most commonly known for concluding the 'Cogito ergo sum' or 'I think therefore I am', which is known as the Cartesian Circle.

The questioning of perceived wisdoms and detailed study of numbers has resonance with Cartesian Capital Partners. David and Jeremy are qualified accountants and Andrew a qualified actuary. All three have a passion for detailed analysis of company accounts and use their combined 40 years' experience to form their own, independent views of a company's prospects, while maintaining a healthy scepticism of the stock market consensus.

“ The first precept was never to accept a thing is true until I knew it as such without a single doubt. ”

Rene Descartes, Les Discours de la Methode 1637

Cartesian Capital Partners

Cartesian Capital Partners is an investment boutique based on traditional values and independent thinking. The experienced Cartesian fund management team employs an unconstrained approach to identifying the best opportunities across the UK equity universe. This incorporates the careful, diligent aspects of fund management that the reputation of Scottish investment management was built upon.

The Cartesian approach, while traditional in part, is at the same time innovative and free thinking. The partners retain a healthy degree of scepticism of consensus market views and have consistently uncovered opportunities missed by the wider market. The team runs high conviction, concentrated portfolios, which, while possibly unsuitable for more risk averse investors, have the potential to generate high levels of outperformance.

Cartesian's investment process, developed by the team during their time at SVM Asset Management, has produced almost a decade of consistent outperformance from both a long-only and long/short perspective. This has attracted strong institutional support over the years, testimony to the validity of the process. This brochure seeks to explain what makes the Cartesian approach different and so successful.

A dynamic team with strong backing

The Edinburgh-based Cartesian boutique was launched in December 2005, and is a 50-50 joint venture between Cartesian's David Stevenson, Andrew Kelly, Jeremy Hall and Susan Rafferty on the one hand, and Ignis Asset Management on the other. The partnership enables Cartesian to focus entirely on investment management while Ignis, which has around £69 billion of assets under management[†], delivers the distribution, sales, marketing and back office operations. Cartesian has approximately £475 million of assets under management*.

[†]Source: Internal, at 31/03/10. *Source: Internal, at 31/05/10.

The Cartesian investment approach – standing out from the crowd

- 40 years' combined investment experience
- analytical rigour – two accountants and an actuary
- deep understanding of companies and markets – assessed with a business ownership mindset
- Investment approach employed successfully for over a decade
- Careful, diligent approach to risk




Cartesian
Enhanced Alpha Fund



Cartesian UK
Opportunities Fund

Ratings are at 31/05/2010.



Andrew Kelly, Susan Rafferty, David Stevenson and Jeremy Hall



An investment approach steeped in tradition

The Cartesian philosophy is influenced by the 'safety-first' traditions on which Scottish investment management was built. Managing money entrusted by wealthy and aristocratic families required a careful, diligent approach to risk and a detailed understanding of the companies invested in. This was not an attempt to chase short-term gains or asset bubbles but a considered, long-term approach to investing in companies with genuine potential and no hidden risks.

This forms the basis of the Cartesian approach. The team is naturally sceptical of investment opportunities and this caution remains until the fund managers have been comprehensively persuaded otherwise. A healthy scepticism is very much the default option. Consensus stock market views on a company are registered by the team but always challenged. The Cartesian fund managers prefer to analyse company reports and accounts themselves to form their own opinion before checking the verdict of the wider market. This approach, with its focus on the true health of a company rather than consensus views, is perfectly suited to shorting strategies.

The tools for the job

The fund managers' actuarial and accountancy backgrounds mean they are well equipped to examine whether a company's balance sheet and accounts support the 'investment story'. Opportunities are approached with a business ownership mindset, rather than as short-term investments. The closely aligned interests of the Cartesian team and their investors mean potential portfolio constituents have to satisfy stringent requirements. If the managers would not be entirely happy investing their own money, the company will be quickly discarded from the ideas pool of the portfolios.

It is this diligence and attention to detail that has helped Cartesian avoid many of the bursting asset bubbles and subsequent downgrades in the last ten years. These included sharp falls in the financial, commodity and technology sectors. By the same token, Cartesian's short strategies have benefited from investments in these sectors.

“ It is only prudent never to place complete confidence in that by which we have even once been deceived. ”

Rene Descartes, Meditations on First Philosophy 1639

Keeping it simple

In the same way as managers of Scottish investment trusts in the past were careful how they chose investments, so Cartesian goes to great lengths to understand a company's business model. Many of the key measures the team uses to judge a company's likelihood of success are similar to those analysed in years gone by. Cashflow, for example, is a prime consideration, providing a 'hard and fast' barometer of the health of a company and not subject to potentially 'creative accounting'.

The Cartesian fund managers believe they should be able to explain in straightforward terms the investment case for all the holdings in their portfolios. This means they need a detailed understanding that encompasses all aspects of the business. They actively avoid companies overly reliant on complex financial gearing or high levels of engineered debt. Notably it was these companies that were hit the hardest during the credit crunch. By avoiding such companies, or shorting them, and establishing a detailed knowledge of the workings of all their portfolio holdings, the Cartesian team has been able to produce strong performance and build trust with their investors.

“ Each problem that I solved became a rule which served afterwards to solve other problems. ”

Rene Descartes



Cartesian – a wealth of experience

Cartesian Capital Partners is a specialist UK equities boutique offering institutional and individual clients a range of long, short and blended products. Cartesian was launched as a joint venture with Ignis Asset Management in December 2005 by highly regarded investment managers, Andrew Kelly and David Stevenson and joined by investment manager Jeremy Hall in 2007. Formed at SVM Asset Management, the team’s success and reputation is built on confidence, consistency and conviction. This has attracted high levels of institutional backing.

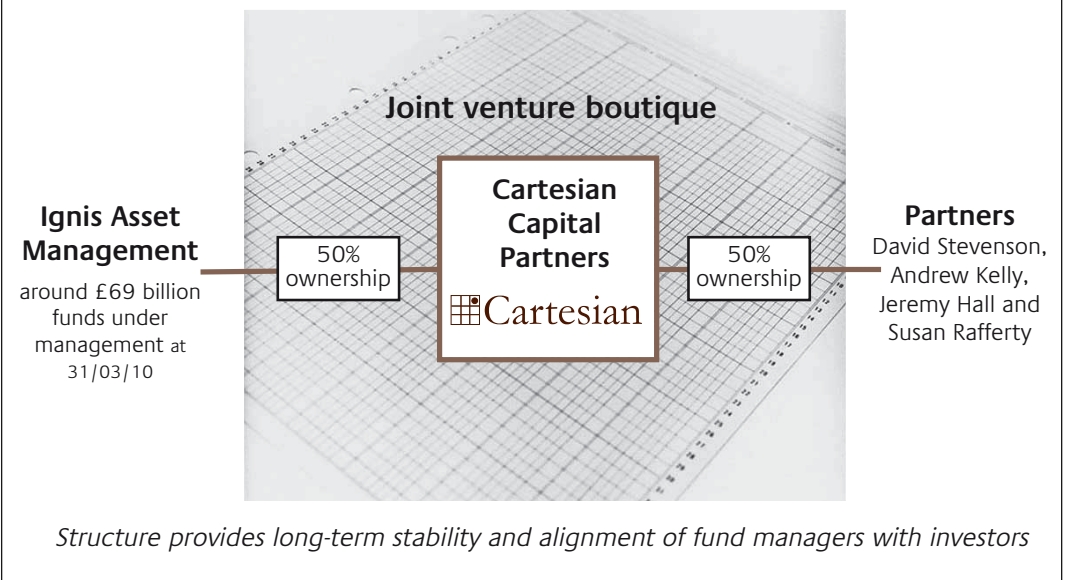
Boutique benefits on an institutional platform

The boutique structure means the Cartesian team maintains the flexibility to manage money in a timely manner in line with their investment convictions. There are no cumbersome investment committees and no house views. Open discussion is carried out on an informal daily basis ‘across the desk’ as well as on a formal regular basis when key themes and issues are discussed.

One of the advantages of a smaller, more dynamic team is that changes to the portfolio can be made quickly. This flexibility is present throughout the team’s investment process. Cartesian does not fall into conventional fund management boxes but employs a tried and tested approach based on the managers’ self-generated high conviction ideas.

The joint venture with Ignis Asset Management gives Cartesian freedom, while retaining the support of a financially secure institutional business. Ignis has around £69 billion of assets under management (at 31/03/10) and owns 50% of Cartesian Capital. The remaining 50% is split between the three Cartesian investment partners and Susan Rafferty, the administrative partner. This structure aligns the interests of the team with those of its investors, with remuneration based on revenues earned at a partnership level. The Ignis infrastructure provides operations, risk management, compliance, sales and marketing. In short, the investment managers provide the intellectual capital while Ignis provides the business infrastructure. This allows the managers to concentrate on what they do best – managing money and picking stocks in the best interests of investors.

Ownership structure – *the advantages of a boutique plus the strength of Ignis*



“ ...a straightforward proposition, delivered in a high quality way.. ”



The Cartesian Fund Range

Ignis Cartesian UK Opportunities Fund

Fund manager: David Stevenson (lead)
Ratings: 'AA' fund rating by Old Broad Street Research (OBSR) (at 31/05/10)
Fund size: £64.4 million (at 31/05/10)
Launched: 29 December 2005
Objective: To achieve above average returns by investing predominately in UK listed companies. The fund will consist of a concentrated portfolio of approximately 30-60 high conviction stocks. It is a 'best ideas' UK all-cap stock-picking fund, completely unconstrained and designed to deliver consistent long-term outperformance through varied economic and stock market conditions.

Ignis Cartesian UK Equity Long/Short Fund

Fund manager: Andrew Kelly (lead)
Awards: Short-listed for 2008 EuroHedge Best UK Equity Hedge Fund Award
 Short-listed for 2007 Hedge Fund Review European Performance Awards – Best Fund on a Risk Adjusted Basis
Fund size: £36.8 million (at 31/05/10)
Launched: 28 April 2006
Objective: To generate strong absolute returns from long and short strategies from across the entire UK equity market. The emphasis is on medium-sized companies, with selective exposure to small and large caps. The target return of the fund is 12-15% per annum. The fund is designed to achieve both long and short alpha over time, and has low correlation with other long/short managers.

Ignis International Cartesian Enhanced Alpha Fund

Fund manager: Jeremy Hall (lead)
Ratings: 'A' rating by Standard and Poor's (at 31/05/10)
Fund size: £38.2 million (at 31/05/10)
Launched: 8 November 2007
Objective: To provide long-term capital growth through investments primarily in equity and equity derivative products, which may include contracts for difference (swaps), traded options and financial futures. The fund aims to hold long positions of up to 130% and short positions of up to 30% while generally maintaining close to 100% market exposure. The fund blends Cartesian's proven process of investment in long and short strategies across the whole UK equity marketplace.

In addition to the funds listed above, Cartesian manages segregated UK all cap institutional mandates totalling around £335 million (at 31/05/10).

Ignis Cartesian UK Opportunities Fund	long only	UK-domiciled
Ignis Cartesian UK Equity Long/Short Fund	long/short	Ireland-domiciled
Ignis International Cartesian Enhanced Alpha Fund	long/short	Ireland-domiciled
(The Enhanced Alpha Fund has UK distributor status)		



The Cartesian Team



David Stevenson

Investment experience: 20 years

David graduated from Edinburgh University with a degree in Economics and Accountancy before training as a chartered accountant with KPMG. He was involved latterly in corporate finance before moving into venture capital with Dunedin Fund Managers. In 1993 David moved to SVM, where he managed the SVM UK Opportunities Fund from its launch to the end of October 2005. He also had co-responsibility at SVM for an institutional client base with funds totalling £600m. In December 2005, David became one of the founding partners of Cartesian.



Jeremy Hall

Investment experience: 10 years

Jeremy graduated in History and Management Studies from Glasgow University. He is a Chartered Accountant and CFA Charterholder with investment experience across European and UK markets. He worked on the European desks at Scottish Life and Abbey National Asset Managers before joining SVM in January 2004 as a member of the UK team. Between March 2006 and April 2007 Jeremy was a UK equities analyst with stockbroker Teather and Greenwood. Jeremy joined Cartesian in August 2007.



Andrew Kelly

Investment experience: 18 years

Andrew began his career at Standard Life in 1987 shortly after completing a Mathematics degree at Durham University. While at Standard Life, Andrew qualified as a Fellow of the Faculty of Actuaries, and completed an MSc in Investment Analysis (with Distinction) through Stirling University. He moved to SVM in early 1996 and was a contributing analyst to hedge funds and to various long-only funds. Andrew was also portfolio manager of the SVM Saltire Long Short Equity Fund. In December 2005, Andrew became one of the founding partners of Cartesian.



Susan Rafferty

Investment experience: 26 years

Susan Rafferty has over 25 years' experience working in the financial sector for companies such as Baillie Gifford and Aegon. In 1996, Susan joined SVM, where she first met Andrew Kelly and David Stevenson. Andrew and David invited Susan to join them in setting up Cartesian where her role is to take care of all non-investment activity, acting as the link between the managers and Ignis Asset Management. Susan became a partner of Cartesian Capital Partners in 2008.



Investment Process

Truly active stockpicking

Cartesian employs an unconstrained approach to stockpicking. The team's investment universe spans the full spectrum of the UK market and the team deliberately maintains a high degree of flexibility rather than fitting neatly into 'pigeon-hole' fund management categories. The team is agnostic in terms of company size and sector, preferring to explore the best opportunities wherever they sit in the marketplace.

The heavy coverage of the UK universe by brokers and analysts means the prospects for most companies are fairly valued by the stock market. Subsequently share prices generally offer only modest returns. A small subset of the universe is, however, not properly analysed. It is here that more material investment potential can be found, providing a fund manager has the proper analytical tools and capabilities to do so. This is Cartesian's area of expertise.

Typical long positions taken in the subset by Cartesian may include:

- companies offering premium growth that has been overlooked by the stock market,
- companies offering long-term, sustainable growth that is undervalued by the stock market,
- companies going through a process of change or value release that the stock market has been slow to understand.

The same principles are applied to Cartesian's search for short positions. A subset of the market includes poor quality companies that have been over-valued by the stock market. In the same way as detailed analysis can reveal uncovered potential, so it can reveal fundamental faults in a business that the wider investment community has yet to understand.

Understanding a business

Cartesian's approach is to understand in detail how business models work, rather than spending too much time watching share price charts. Good and bad business models do not change overnight and tend to outlive stock market sentiment or share price trends. The Cartesian aim is to exploit anomalies between the managers' valuations of a business, which tend to remain stable, and the more volatile share price. Investment is made on a medium to long-term view and Cartesian's funds remain invested throughout the stock market cycle.

The Cartesian approach is based upon the belief that value can be added as much by avoiding bad investments as finding good ones. While it is sufficient to own only a sample of the best performing stocks to outperform, it is crucial to avoid the bad ones. Cartesian's emphasis on caution and scepticism, combined with the team's analytical rigour, means they are well equipped to unearth potential pitfalls when assessing company prospects. The fund managers' experience in corporate finance and private equity means they are quick to spot potential balance sheet risks. This technical ability has led to Cartesian uncovering both some of the best and worst performing stocks. It means the same investment process works equally well in long/short strategies as well as long-only funds.

“*If you would be a real seeker after truth, it is necessary at least once in your life you doubt, as far as possible, all things.*”

Rene Descartes



Valuation is key

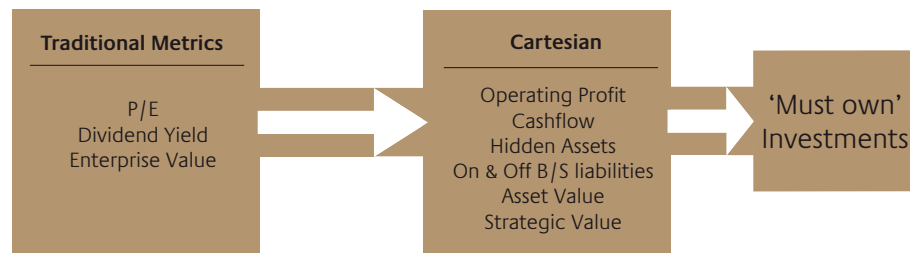
There are many attractive companies in the stock market but at any point in time most have valuations that already reflect their potential. This is relevant to Cartesian's long and short portfolios. For them, the valuation must offer significant material up or downside.

The valuation approach employed by Cartesian treats investment as part-ownership of an individual business. The team therefore values the entire enterprise, adjusting for debt and off balance sheet commitments, such as pensions, as well as assets that are less apparent or 'hidden'. The value of a company's equity is calculated as the residual value after the other assets and liabilities have been taken into account.

A wide range of valuation measures are used as part of the process. The Cartesian fund managers are conscious that simple earnings multiples can be distorted by the effects of capital structure and tax strategy, and may not truly reflect underlying operating performance. For this reason they also use operating profit, cashflow multiples and asset-based valuations.

This approach is more aligned with the mindset of a company's finance director or a trade investor. It leads Cartesian to naturally favour areas of the market in which bid activity frequently takes place, although there is no attempt to second guess the next individual takeover candidate.

Valuing businesses



The analytical process

The starting point for assessing a potential investment, whether long or short, is to analyse the business and financial components of a company. There are a number of distinct characteristics, good and bad, that Cartesian looks for.

Cartesian favours companies with the following characteristics:

Growth:	Sustainable in the long term. May come from organic development or be supplemented by sensible acquisitions. If possible, should be supported by a historic pattern of sales volume and profit margin progression.
Market position:	Secure position based on supply barriers and/or excess demand, providing some pricing power.
Free cashflow:	Sufficient to fund a combination of organic growth, acquisition activity, sustainable dividends and share buybacks.
Financial strength:	Robust under a range of market and economic conditions. Likely to reflect asset-backing and sensible levels of gearing.
Restructuring:	Potential for strategic change leading to value release through divestment or demerger.
Corporate activity:	Background transactions involving private equity or trade buyers at premium valuations.
Recovery:	'Below-normal' trading performance with catalyst for change either through management or market environment.

Cartesian avoids or shorts companies with the following characteristics:

Aggressive accounting:	In spite of the implementation of International Financial Reporting Standards, there is still scope for companies to manipulate their earnings and financial position, for example through accelerated revenue recognition, cost deferrals or off balance sheet liabilities. Cartesian is alert to this and unexpected changes in accounting policies.
Low earnings quality:	Cartesian likes to see a close relationship between reported profit, cash generated and tax paid. Poor conversion of profit into cash, low effective tax rates or cash tax paid to the Inland Revenue, are all warning signals of low earnings quality. The team also looks for recurring exceptional costs, which may indicate underlying trading difficulties. They are also suspicious of profit margins that significantly exceed a company's historic record, or that of its peer group, and which may be unsustainable.
Financial weakness:	Symptoms include heavy on and off balance sheet debt levels, overdependence on short-term facilities, large working capital requirements and significant pension or lease commitments. This could lead to excessive dependency on the support of capital markets. Cartesian also monitors rating agencies and debt market activity to identify distress potential.



Long portfolios

The long portfolios run by Cartesian consist of the team's current best ideas. This is a high conviction process with individual weightings sufficient in size to have a material impact on performance. An overall portfolio size of 30-60 stocks is targeted. All positions are held on a 'need to own' basis, continually challenged by fresh ideas, with benchmark considerations of secondary importance.

Holding periods depend on a variety of factors. Cartesian invests with a clear view as to valuation targets and the time limits to deliver investment returns. This view can, however, be flexible through time. The team is prepared to run with particularly strong stocks, and has held some positions for more than five years. When targets are approached, however, the Cartesian fund managers are ready to take profits or liquidate holdings unless the investment case has changed. With a steady stream of replacement ideas, there is no reason to run overly large or stale positions.

Share price weakness is also not an automatic trigger for liquidation. If the fundamentals remain intact, then the immediate reaction would be to exploit a buying opportunity. If, however, the story has changed, then Cartesian may sell immediately. Stocks can also be 'timed out' of the portfolio, by not generating the required return within an acceptable timescale.

Shorting

The Cartesian team's short positions are a product of the same analytical process as that used to select long positions. This is not to say that shorts are simply the mirror image of long decisions.

Share price appreciation with longs can be much more gradual than adverse price movements with shorts. Equity markets are typically long-biased in terms of the weight of analytical effort and, with the exception of bid approaches, longs tend to accrue performance steadily. In contrast a much more violent reaction can be expected from shares in companies that disappoint, or become financially distressed.

Identifying shorts, or stocks to avoid in a long-only fund, follows the same process of business model assessment and valuation described above. Nevertheless, there are a number of specific issues relevant to the management of the short books in the Cartesian Enhanced Alpha Fund and Cartesian UK Equity Long/Short Fund.

The fund managers see good stock selection in shorts as an equally important source of alpha as high conviction longs. They look to keep a focused, well-researched short portfolio, and retain short exposure throughout market cycles. Short weightings will, on average, be smaller in size than long positions.

Cartesian does not use stop loss as a method of risk control. Experience has shown that significant downward moves in share prices can often be interrupted by short-term spikes. The decision to retain a short will be primarily based on the team's company analysis and valuation view. Cartesian's dynamic boutique approach provides a competitive advantage in this respect.

Most investor and broker commentary still focuses on a narrow range of companies and Cartesian actively looks to avoid crowded short trades that can move against the fund despite the underlying company newsflow.

As with longs, the Cartesian fund managers are pragmatic about holding periods for shorts. As indicated, however, a successful short can see a swift and extreme price correction, fully recognising investment expectations quicker than would necessarily be the case with longs. For this reason the average holding period for shorts is typically somewhat less than for longs.

In depth company research

The use of broker research notes is limited to providing background information and initial forecasts. The added value in the Cartesian process comes from an in depth understanding of the financial dynamics of a company or sector. This includes the stress-testing of forecasts under various scenarios, for example adjusting for cost sensitivities, revenue slippages and a variety of cashflow changes.

Cartesian's unconstrained approach means that when the managers identify a company characteristic that has been mis-priced, related stocks or areas of the market are searched for further opportunities.

A key aspect of the value Cartesian can add remains the diligent application of fundamental analysis. The fund managers make a point of thoroughly reading company announcements and accounts, which they believe remain the best source of good quality and legally verified information, before they pay any attention to media and market views and commentaries.



Investment themes

The team's research effort is also influenced by significant investment themes that have an impact across the whole market. While the fund managers recognise the relevance of important macroeconomic factors, such as interest rate changes or currency moves, these are generally well understood by the market. Share prices can, however, be slow to react to new secular themes, such as pension funding issues or the growth of outsourcing.

Brokers

Cartesian maintains a wide range of contacts. This reflects both the diversity of companies researched and also the valuable contribution of many of the smaller, boutique brokerages. Rather than taking brokers at face value, however, the Cartesian managers prefer to focus on areas of the market they have identified as particularly interesting and challenge consensus views. The process is very much two-way with brokers challenged to provide arguments to counter the fund managers' initially sceptical view of a company's investment case. This fits with the over-arching emphasis on care and diligence applied throughout the Cartesian process.

“ In order to improve the mind, we ought less to learn than to contemplate. ”

Rene Descartes

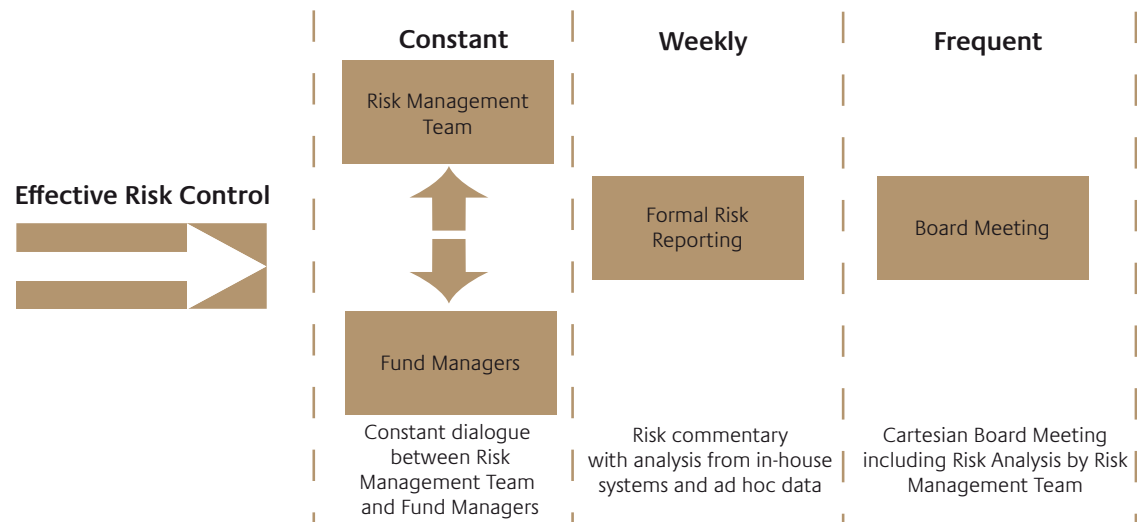
Risk management

Risk management in the portfolios takes various forms. The primary source of risk control comes from the fund managers' detailed understanding of the concentrated pool of companies invested in. Running a focused fund makes it easier to maintain full coverage of all positions, and to recognise the stock specific risk inherent within the portfolio.

As a consequence of the heavy benchmark weight of the leading four sectors in the UK (banks, telecoms, pharmaceuticals and oil), many managers carry a high absolute exposure to a limited number of stocks and sectors, which are not necessarily representative of the wider economy. Outside these heavyweight sectors, however, the stock market offers a good level of diversity and the Cartesian fund managers maintain a broad spread of ideas within their portfolios.

Stock liquidity is another aspect of risk control that must be constantly monitored to maintain weightings as the portfolio sizes increase and also to achieve ultimate liquidation. The Cartesian team is not, however, afraid to take a significant stake in a good company.

Formal controls involve communication with the Ignis risk analysis team, who provide Cartesian with regular reporting on portfolio parameters such as tracking errors, volatility and value-at-risk. This risk decomposition is built upon an EM Applications, which Cartesian supplements with in-house attribution tools based on Bloomberg real time pricing. These spreadsheets measure daily stock contributions within each portfolio, allowing the managers to monitor longer-term correlations with the UK stock market.



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