

28 September 2011

Henderson Fledgling Trust

12 Months Ending	Total Share Price Return* (%)	Total NAV Return* (%)	Total Return FTSE Fledgling* (%)	Total Return FTSE Small Cap* (%)	Total Return FTSE All-Share* (%)
26/09/08	(30.6)	(32.6)	(33.1)	(30.9)	(18.7)
26/09/09	45.4	45.6	45.3	15.7	5.5
26/09/10	(0.9)	5.0	3.7	6.5	14.5
26/09/11	8.5	(2.1)	7.3	(3.2)	(5.7)

Note: *12 month rolling discrete performance.

Investment summary: New management house, same management team

The move to Henderson Global Investors is now complete and Harnesh Suniara remains lead manager of Henderson Fledgling Trust (HFT). Formerly Gartmore Fledgling Trust, the name was changed in June 2011 to reflect the move. However, the team responsible for managing HFT remains intact, and a distinct unit within Henderson's operations. We believe the uncertainty surrounding Gartmore and the trust's management will have done nothing to help share price performance and Henderson now intends to step up the marketing of the trust. Valuations are attractive in a historical context based on consensus expectations and the manager also sees attractive M&A potential.

Investment strategy: FTSE Fledgling companies

HFT is managed using a hybrid investment style, whereby at least 65% of the portfolio is broadly replicated against the FTSE Fledgling Index. An active overlay is then applied to the remainder of the portfolio, up to a maximum of 35%, with stocks that are strongly favoured or less favoured by the manager being over or underweighted. The active overlay is intended to generate added value to offset the sometimes significant annual and quarterly rebalancing costs and the manager's fee, so that the NAV of the trust outperforms the benchmark over the longer term.

Sector outlook: M&A and long-term growth opportunities

The smaller companies sector has seen a progressive reduction of institutional interest over the last 20 years, which has helped to depress valuations. The manager believes that a carefully selected portfolio of smaller companies will find it easier to achieve above-average growth in a generally sluggish economy and so will be able to support faster dividend growth. Tentative signs of a return of institutional interest to the sector have abated as market and economic uncertainty have increased once more, but the manager still sees good stock-picking opportunities and attractive M&A potential.

Valuation: Discount below long-term averages

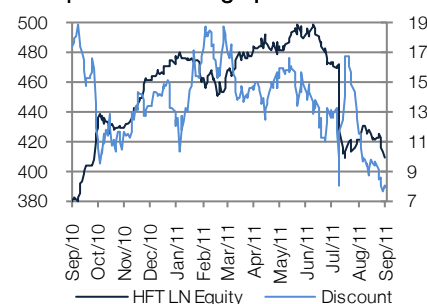
The discount at 8.0% is below its three- and five-year averages of 15.2% and 14.4% respectively. Despite this, we consider that HFT remains an attractive means of gaining exposure to the sector. The outlook remains positive particularly given the potential benefits from M&A uplift and a return of institutional interest in the sector.

Price	409.62p
Market Cap	£67.5m
AUM	£83.3m
NAV	445.2p*
Discount to NAV	8.0%*
NAV	454p**
Discount to NAV	9.8%**
Yield	2.0%

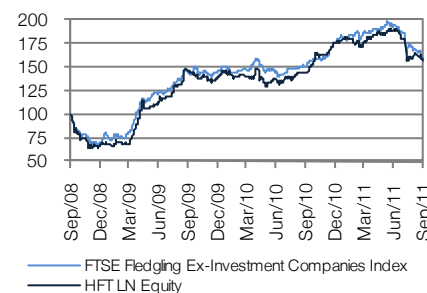
*Excluding income, as at 26 September 2011.

**Including income, as at 26 September 2011.

Share price/discount graph



3-year cumulative performance graph



Share details

Code	HFT
Listing	FULL
AIC Sector	UK Smaller Companies
Shares in issue	16.5m

Price

52 week	High	Low
Price	499.0p	380.5p
NAV*	587.1p	447.4p

*Excluding income

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Exhibit 1: Trust at a glance

Investment objective and fund background				Developments last quarter	
Henderson Fledgling Trust's investment objective is to provide long-term growth in capital and dividends from investment predominantly in the constituents of the FTSE Fledgling (ex. Investment Companies) Index.				19 September 2011: Monthly factsheet released. 20 July 2011: Interim management statement released. 31 August 2011: Financial year-end.	
Forthcoming		Capital structure		Fund details	
AGM	December 2011	Total expense ratio	1.2%	Group	Henderson Global Investors
Preliminary	November 2011	Net Gearing	10%	Managers	Harmesh Suniara, Adam McConkey
Year end	31 August	Annual mgmt fee	See pg 7	Address	201 Bishopsgate, London EC2M 3AE
Dividend paid	May, December	Performance fee	None		
Launch date	December 1994	Trust life	Indefinite	Phone	+44 (0)20 7818 1818
Wind-up date	See pg 7	Loan facilities	See pg 7	Website	www.hendersonfledglingtrust.com
Dividend policy and history				Share buyback policy and history	
Two dividends annually, interims paid in May and final paid in December. HFT seeks to pay an increasing dividend.				Renewed annually, the trust has authority to purchase up to 14.99% of issued share capital.	
<p>DPS (p)</p> <p>2001 2002 2003 2004 2005 2006 2007 2008 2009 2010</p> <p>■ Ordinary Dividends ■ Special Dividends</p>				<p>No. of shares (m)</p> <p>Cost/proceeds (£m)</p> <p>Sep/10 Oct/10 Nov/10 Dec/10 Jan/11 Feb/11 Mar/11 Apr/11 May/11 Jun/11 Jul/11 Aug/11</p> <p>■ Repurchases ■ Allotments — Total cost - - - Total proceeds</p>	
Shareholder base (as at 30 September 2010)				Geographic distribution of portfolio (as at 31 August 2011)	
<p>■ M&G Inv Mgmt (39.7%) ■ Axa Inv Mgmt (16.5%) ■ HSDL Clients (6.0%) ■ L&G IM Clients (3.8%) ■ Henderson Gbl Inv (3.2%) ■ Other (31.0%)</p>				<p>■ UK (100%)</p>	
Portfolio composition (as at 31 August 2011)				Portfolio composition (as at 28 February 2011)	
<p>■ Gleeson Group (3.6%) ■ Office2Office (3.5%) ■ Tamar Euro Ind (3.1%) ■ Zotefoams (3.0%) ■ STV Group (2.9%) ■ AXA Property Trust (2.9%) ■ Thorntons (2.9%) ■ Local Shppng REIT (2.8%) ■ Future (2.8%) ■ Dee Valley Group (2.4%) ■ Other (70.2%)</p>				<p>■ Anglesey Mining (4.2%) ■ French Connection (3.8%) ■ Acal (3.5%) ■ Future (3.4%) ■ Cadogan Petrol'm (3.4%) ■ AEA Technology (3.0%) ■ Norcros (2.8%) ■ Avon Rubber (2.7%) ■ Creston (2.6%) ■ STV Group (2.5%) ■ Other (68.1%)</p>	

Source: Henderson Fledgling Trust/Edison Investment Research

Exhibit 2: Key trust holdings at a glance

Office2Office		Code: OFF LN	Market Cap: £56.1m
	Div Yield (trailing 12 m'ths)	8.20%	
	Industry/Sector	Support Serv's/Business Support	
	Listing	UK – FULL	
	Website	www.office2office.co.uk	
<p>Office2Office (OFF) supplies office and business-related products in the UK and Ireland. OFF is structured around two broad areas: managed procurement and business critical services. OFF recently secured sole supplier status to all UK central government departments. The manager considers OFF is trading on 7.5x, has a decent yield, has good growth prospects and expects all government departments will be mandated to deal with OFF.</p>			
Gleeson Group (M.J.)		Code: GLE LN	Market Cap: £54.0m
	Div Yield (trailing 12 m'ths)	N/A	
	Industry/Sector	Hshld Goods & Home Construction	
	Listing	UK - FULL	
	Website	www.migleeson.com	
<p>Gleeson Group (GLE) is a housebuilder focused on producing low-cost homes for housing associations and local authorities. GLE also has land trading interests. The manager considers that GLE has £19m net cash on the balance sheet and is trading at a 46% discount to NAV. The manager believes that GLE has room for margin improvement and its business benefits from ongoing shortages of both housing and pick up in mortgage availability.</p>			
STV Group		Code: STVG LN	Market Cap: £41.1m
	Div Yield (trailing 12 m'ths)	N/A	
	Industry/Sector	Media/Broadcasting & Entertainm't	
	Listing	UK - FULL	
	Website	www.stvplc.tv	
<p>STV Group (STVG) produces and broadcasts television. The manager considers that STVG is cleaning up its operations. It has settled litigation, improved cash generation and reduced pension deficits. The manager believes STVG is evolving into a digital media company and is poised to benefit from both a general rate hardening as well as an improved advertising outlook for both the Olympics and Euro 2012.</p>			
Thorntons		Code: THT LN	Market Cap: £31.8m
	Div Yield (trailing 12 m'ths)	14.47%*	
	Industry/Sector	Food & Drug Retailers/Food Retail	
	Listing	UK - FULL	
	Website	www.thorntons.co.uk	
<p>Thorntons (THT) manufactures, retails and distributes chocolate and other sweet foods and confectionary primarily in the UK. The manager considers that THT has a strong brand, a new CEO and a new strategy. THT is focusing on its licensing and wholesale operations and on new product launches. THT plans to reduce its stores (currently 364) to c 200, over the next three years, and to improve manufacturing capacity utilisation.</p>			
Moss Bros Group		Code: MOSB LN	Market Cap: £37.3m
	Div Yield (trailing 12 m'ths)	N/A	
	Industry/Sector	General Retailers/Apparel Retailers	
	Listing	UK - FULL	
	Website	www.mossbros.co.uk	
<p>Moss Bros Group (MOSB) is a UK suit manufacturer and retailer with a strong presence in the suit hire market. It has a new management team and is undertaking a restructuring process. Store disposals have generated c £22m of cash. There are plans to expand MOSB's own brand manufacturer and retail. The manager considers competitor failures have increased MOSB's market share and that MOSB is trading on 2.6x EV/EBITDA.</p>			

Source: Thomson Datastream/Edison Investment Research

Note: *Thorntons held its interim dividend constant at 1.95p but cuts its final dividend, which goes ex on 26 October 2011, from 4.1p to 0.25p. An equivalent yield based on the 2011 total dividend is 4.73%.

Fund profile

Launched in December 1994, Henderson Fledgling Trust (formerly Gartmore Fledgling Trust) is unique in that it is the only UK-registered investment trust with a primary focus on FTSE Fledgling companies. HFT was part of the Gartmore stable until April 2011, when Henderson's acquisition of Gartmore Group was completed. The trust's name was changed in June to reflect this move. The investment management team moved in its entirety and remains a separate unit within Henderson's operations as part of Henderson Volantis Capital. Harmesh Suniara, co-manager of HFT since July 2008 and lead manager since September 2010, is assisted by Adam McConkey, previously the head of Gartmore's UK Smaller Companies team and now a director of Henderson's UK Smaller Companies team. Marketing and investor relations have been absorbed into Henderson's operations allowing HFT to benefit from Henderson's increased scale. HFT's wholly owned trading subsidiary, GFT Dealing, undertook some limited trading for the first time in the year ending 31 August 2011. HFT's benchmark is the FTSE Fledgling Ex-Investment Companies Index (FTNSIX).

The fund manager: Harmesh Suniara

Manager's view

UK small-cap valuations remain low by historical standards and the manager considers that the sector represents a key growth opportunity. Fledgling companies typically have lower price to sales and price to book ratios than FTSE All-Share companies, and a higher average return on equity. The manager considers that in the current financial climate there are many fledgling stocks with relatively strong balance sheets and low reliance on bank borrowings, and so are a key area for potential dividend growth. There is evidence that real dividend growth has driven the performance of the small-cap sector in the past. Two periods of rapid small-cap dividend growth, between 1959-64 and then 1983-90, saw the small-cap universe outperform the main market. UK smaller companies have seen a progressive reduction of institutional interest, over the last 20 years, which the manager thinks has helped to depress valuations. The manager believes that in a low growth environment, where credit is constrained, larger businesses will find growth opportunities scarcer and so a carefully selected portfolio of smaller companies will find it easier to achieve above-average growth in a generally sluggish economy and so will be able to support faster dividend growth. The manager had started to see renewed institutional interest in the sector. This retracted in the face of recent market turmoil but the manager expects this will return and sees the potential for M&A activity. As such, the long-term prospects for the sector are interesting and the investment case remains sound.

Asset allocation

Investment process

The investment manager applies a universal active investment approach when selecting stocks, to under- and overweight, using the following five questions as screens:

- 1) Is the company's submarket in a period of expansion? If so, are there prospects for natural growth?
- 2) Does the company have strong market franchises/market positions? This aids growth and allows cost increases to be passed through to customers.
- 3) What is the calibre of management? How well does it understand its business, the economic environment it operates in and the cycle?
- 4) How well would the business cope with economic or financial stress? Is there adequate cash, or other headroom, on the balance sheet?

- 5) Is there some ambiguity about the company's prospects? This creates the opportunity for superior analysis to establish appropriate valuations that differ from those of the market.

Rebalancing and the financial year end

The Fledgling Index is for companies considered too small for the All-Share – the two indices are mutually exclusive. FTSE actuaries set a threshold market cap to distinguish between the two and they are rebalanced accordingly. In the past, the major rebalance took place in December, but this was shifted to June in 2010. As HFT's portfolio also requires a significant rebalance, to reflect the index changes, the accounting date was also moved to 31 August in 2010 (previously 30 June) to avoid publishing accounts mid-rebalance. HFT's major 2011 rebalance, while largely complete, has taken longer to execute than usual. In addition, there has been an increase in the neutral weighting to 4.75% and so it now takes longer to build positions. From November 2007 the proportion of the portfolio allocated to the active overlay was increased to a maximum of 35% (previously 15%) to give the manager greater opportunities to actively add value and also increase flexibility for rebalancing. HFT's tracking error against the Fledgling, during the 12 months to 20 September 2011, was 5.22%.

Overview

As at 31 August 2011, HFT had 95 equity investments. The top 10 holdings account for 29.8% of the portfolio, with the remaining 85 equity investments accounting for 70.2% of the portfolio. As displayed in Exhibit 3, HFT's asset allocation is close to that of the benchmark index, reflecting that 65% of the portfolio is indexed against the fledgling. As shown in Exhibit 1, the portfolio is fully invested in the UK. Of the total portfolio, 2.6% is invested in AIM stocks that were previously fledgling stocks.

Exhibit 3: Sector allocations, as at 31 August 2011

	Trust Weight (%)	Benchmark Weight (%)	Trust Active Weight (%)	Trust Weight/Benchmark Weight
Consumer Services	22.1	18.9	3.2	1.17
Industrials	27.2	26.1	1.1	1.04
Consumer Goods	5.0	4.2	0.8	1.19
Technology	6.5	6.4	0.1	1.02
Basic Materials	5.9	5.9	0.0	1.00
Oil & Gas	0.0	0.0	0.0	N/A
Utilities	2.0	2.1	(0.1)	0.95
Financials	4.0	5.3	(1.3)	0.75
Health Care	18.0	19.3	(1.3)	0.93
Cash	0.0	0.0	0.0	N/A
Total	100.0	100.0	0.0	

Source: Henderson Fledgling Trust/Edison Investment Research

Underweights

HFT is underweight healthcare and has a small underweight in utilities. HFT is also underweight financials, which reflects the manager's view that, at least in the medium term, growth prospects for financials remain limited.

Overweights

HFT is overweight consumer services, industrials, consumer goods, technology and basic materials. All are cyclical areas and would benefit from an uplift in economic activity.

Current portfolio positioning

The requirement that at least 65% of the portfolio is broadly indexed against the Fledgling means the portfolio's positioning will reflect that of the benchmark index. At present HFT has a slightly less defensive allocation than the benchmark.

Top holdings

The benchmark has risen by 7.3%, during the 12 months to 26 September 2011. As Exhibit 4 shows, six out of HFT's top 10 holdings have outperformed the benchmark during this period.

Exhibit 4: 10 largest equity holdings as at 31 August 2011

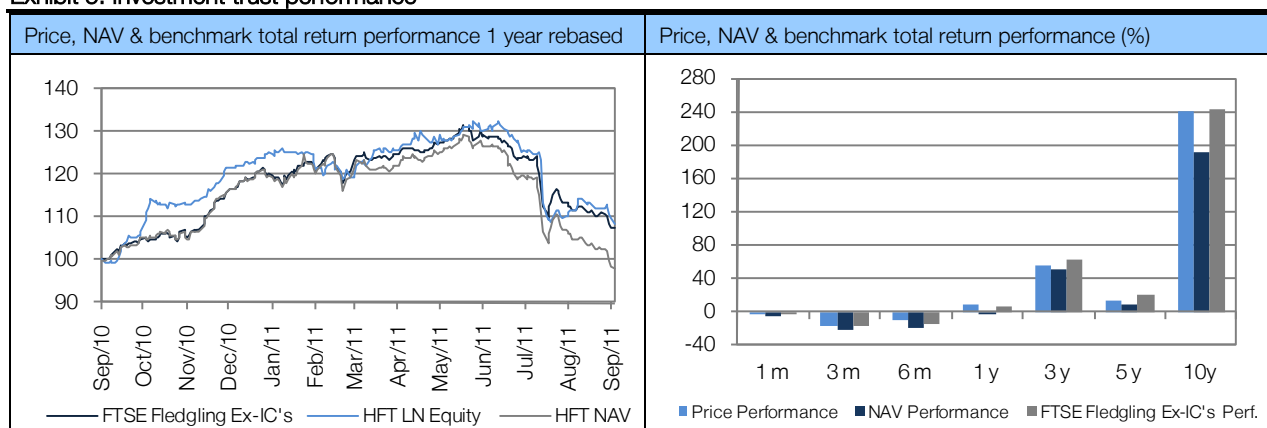
Note: FTSE Fledgling Ex- Investment Companies Index one-year total return performance to 15 September 2011 = +10.9%.

Holding	%	One year total return price performance (%)	Performance relative to FTSE Fledgling Ex-In Cos Index (%)
Gleeson (M.J.) Group	3.6	(9.5)	(16.8)
Office2Office	3.5	45.4	38.2
Tamar European Industrial	3.1	35.5	28.2
Zotefoams	3.0	7.6	0.3
STV Group	2.9	16.9	9.7
Axa Property Trust	2.9	5.9	(1.4)
Thorntons	2.9	(46.1)	(53.4)
Local Shopping REIT	2.8	20.9	13.7
Future	2.8	(34.5)	(41.8)
Dee Valley Group	2.4	27.2	19.9
Total	29.8		

Source: Thomson Datastream/Henderson Fledgling Trust/Edison Investment Research

Recent performance

Exhibit 5: Investment trust performance



Source: Thomson Datastream/Edison Investment Research

Exhibit 6: Share price and NAV total return performance (sterling adjusted), relative to benchmarks

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to FTSE Fledgling	0.8	0.5	2.7	1.2	(5.2)	(6.9)	(3.4)
NAV relative to FTSE Fledgling	(2.9)	(5.7)	(6.9)	(9.4)	(11.9)	(11.3)	(52.6)
Price relative to FTSE Small Cap	1.2	(3.0)	1.7	11.7	37.1	22.0	172.6
NAV relative to FTSE Small Cap	(2.5)	(9.1)	(7.9)	1.1	30.4	17.6	123.4
Price relative to FTSE All-Share	(2.1)	(6.1)	1.4	14.2	42.5	8.5	175.1
NAV relative to FTSE All-Share	(5.8)	(12.2)	(8.3)	3.5	35.8	4.1	125.9

Source: Henderson Fledgling Trust, Thomson Datastream, Edison Investment Research

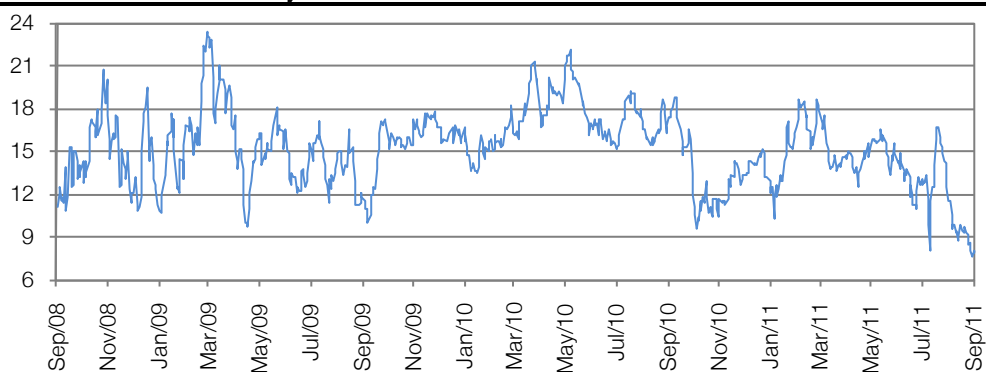
As illustrated in Exhibit 6, HFT has, in terms of NAV total return, underperformed its benchmark Fledgling Index over all of the time horizons provided. However, portfolio holdings are valued at bid price (the index at mid-market prices) and spreads can vary over time. More importantly, the performance must also carry the significant cost of rebalancing the portfolio to remain index focused. This appears to be a cost worth paying; the NAV total return has outperformed both the FTSE Small Cap and FTSE All-Share over one, three, five and 10 years by some margin.

Discount

HFT has an active share repurchase policy aimed at minimising the volatility and level of the trust's discount when compared to its peers. An explicit commitment to maintain the discount at a

particular level has not been provided, but the board has indicated its desire to maintain the discount at a small premium to the sector average. As Exhibit 7 illustrates, after reaching its five-year high of 23.4% towards the end of March 2009, the discount narrowed and its volatility decreased. However, between January and May 2010 the discount experienced a substantial widening, which saw the board expressing its dissatisfaction with the discount in the 2010 interims. The last 16 months have seen an overall trend towards a tightening, albeit with considerable volatility. HFT has been active in the market for its own shares during the last 12 months, repurchasing 1.6m shares at a cost of £7.1m. We expect that HFT will continue with its repurchase programme aiming to keep the discount at a better than historical premium to the sector average, which is currently around 14%.

Exhibit 7: Discount over three years



Source: Thomson Datastream/Edison Investment Research

Capital structure

HFT is a conventional investment trust, having only one class of share in issue – 25p ords. HFT is, in effect, an ungeared vehicle. However, the periodic rebalancing of the portfolio requires finance, which is met by a £9m uncommitted borrowing facility with the Royal Bank of Scotland. The facility is used primarily to allow HFT to choose the best timing to make the portfolio adjustments required by the rebalancing and, as such, any borrowings tend to be short term. HFT's net gearing is 10%. The management fee, paid monthly in arrears, is 0.8% per year of the first £75m of total assets and 0.5% per year of the excess. There is no performance fee and the management contract can be terminated at six months' notice by either side. The total expense ratio (TER) was 1.2% for the 14 months ended 31 August 2010 (1.3% for the year ended 30 June 2009), which is not unreasonable given the specialist nature of the trust. As illustrated in Exhibit 8, HFT's TER ranks ninth out of 11 when compared to its peers. Although HFT does not have a fixed life, a resolution to allow the company to continue in existence as an investment trust is put to shareholders at each AGM. If the continuation vote is not passed, proposals for the voluntary liquidation, unitisation or other reorganisation of the company must be drawn up within 90 days and be put to shareholders by special resolution. If these proposals are then rejected, a further meeting will be convened at which an ordinary resolution to wind up the company will be proposed. Given current market conditions, and the performance of the trust to date, we expect shareholders to approve the continuation vote at the December 2011 AGM.

Dividend policy and record

While the company seeks to provide shareholders with long-term growth in dividends, the investment mandate does not include a specific requirement to provide income and, as such, there is no explicit dividend policy. However, assuming adequate profitability, two dividend payments are made each year. A smaller interim was paid in May (2011 = 4.0p) and a larger final was paid in December (2010 = 4.0). For the 14 months ended 31 August 2010, HFT paid a total dividend of

7.5p (year ended 30 June 2009 dividend = 7.5p). With the exception of transaction costs on the acquisition of investments, all expenses are charged against the revenue account. This affords capital a degree of protection although the level of dividends may fluctuate. Management has advised that the levels of future dividends will depend on how the index rebalances. HFT's interims indicate the trust had, at 28 February 2011, revenue reserves equal to 1.2x last year's total dividend. As such, we expect that, even with the increase in the interim of 0.5p to 4.0p, HFT will at least be able to maintain the final dividend for the year ending 31 August 2011 at 4.0p. We also believe that with the addition of revenues generated in the second half, HFT will retain the capacity to smooth dividends as necessary in future. Over the last five years, the trust has increased its ordinary dividend by a total of 114.3%, which is an average yearly increase of 17.8%, or 16.5% annualised.

Peer group comparison

As Exhibit 8 illustrates, the AIC UK Smaller Companies sector is a relatively comprehensive peer group. There are 11 constituents but HFT, with its focus on fledgling companies, is distinct from the rest and the environment within which HFT operates and the investment opportunities available to it may vary quite widely. Within this peer group, HFT ranks seventh over one year, fifth over three years, and seventh over five years, when considering share price total return.

Exhibit 8: UK Smaller Companies sector, as at 26 September 2011

Company	Share price total return on £100			Total Expense Ratio	Disc/ Net Prem (100= no gearing)	5 Year Dividend Growth (%)	Div yield	
	1 year	3 year	5 year					
Sector average	107.0	144.9	119.7	1.1	(13.9)	110.0	11.3	2.4
Henderson Fledgling	108.5	156.4	113.4	1.4	(10.2)	110.0	14.9	2.0
Aberforth Smaller Companies	102.9	126.5	96.3	0.9	(13.2)	113.0	7.7	3.6
BlackRock Smaller Companies	113.0	161.8	150.7	0.7	(16.0)	109.0	8.0	1.6
Dunedin Smaller Companies	107.8	152.6	114.9	1.1	(8.9)	100.0	5.8	3.7
Henderson Smaller Companies	99.3	136.9	109.8	0.6	(16.9)	112.0	16.2	1.4
Invesco Perpetual UK Smaller Co's	112.1	134.1	124.0	0.9	(16.3)	100.0	6.4	2.3
JPMorgan Smaller Companies	103.8	124.1	98.8	1.3	(20.1)	108.0	11.2	2.0
Montanaro UK Smaller Companies	110.6	159.0	139.0	1.5	(17.3)	110.0	20.6	2.1
Standard Life UK Smaller Companies	117.9	197.1	206.6	1.2	0.7	108.0	28.0	1.4
Strategic Equity Capital	122.1	148.0	78.8	1.7	(18.2)	98.0	N/A	0.6
Throgmorton Trust	110.6	165.6	121.4	1.3	(15.3)	106.0	10.3	2.0

Source: The Association of Investment Companies

The board

All directors are non-executive and independent of the manager. They are Jimmy West (chairman), John Hancox (senior independent director), Tom Bartlam, Peter Dicks and Rod Birkett (directors). The average length of director service is 9.1 years.

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