GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Newsletter - Summer 2009

MARKET OUTLOOK

July is the time of year when stock markets traditionally experience their summer lull. With fund managers away from their desks, sunning themselves in warmer climes no doubt, the stock market loses one of its largest providers of liquidity.

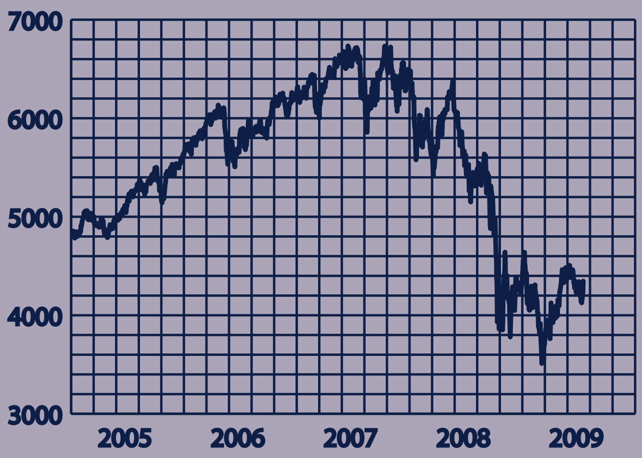
When combined with a seasonal rise in volatility, whose trend is expected to continue over the coming months, the markets could be in for a choppy ride.

Hence capital preservation is the name of the game and in this economic climate we are favouring companies operating in defensive industries with good earnings visibility and low levels of debt. Add to that an attractive dividend yield and we surely have a recipe for investment success.

The problems in the banking industry began to be felt in late 2007 and have continued to feed through into the real economy. The chart below demonstrates the extent to which the resulting economic crisis has affected the level of the stock market.

Although we would not want to say that the economic difficulties are now fully behind us, we do believe that a defensive approach to the stock market which is supported by strong dividends and corporate balance sheets, will generate consistent performance over a medium to long term time horizon.

FTSE Closing price over the last 5 years:



Source: ProQuote

INCOME PRODUCING SHARES

With interest rates at their lowest point in the Bank of England's 315-year history, income on deposit account savings has been decimated and there is no sign of interest rates rising any time soon.

However this does not have to mean a fall in income or the expense of capital. A portfolio of high-yielding shares can provide not only an attractive income stream but also a growing yield and capital value.

A portfolio consisting of predominantly high dividend-paying shares has several advantages, including:

i. lower volatility

They are less affected by market volatility than their more aggressive, riskier growth counterparts.

ii. performance

From 1998-2008 the average income fund returned 105% compared with the 81% from the All Companies fund.

iii. growing dividends

Dividends have a tendency to grow over time, and the capital base from which you are generating that income should also grow. Since 1965 dividends from the UK market have shown an annual increase in all but 5 years. Annual increases in dividend payments ran into double percentage points in almost half of that time.

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Dividend Producing Stock Picks

Quoted prices correct as at 15th July 2009

BAE SYSTEMS

Price: 335.25p Yield: 4.3% Dividend Cover: 2.6x P/E: 9x

52 Week High/Low: 492p/294p Market Cap: £11.82bn

BAE Systems plc develops, delivers and supports advanced defence and aerospace systems. The Group manufactures military aircraft, surface ships, submarines, radar, avionics, communications, electronics, and guided weapon systems for a global network of clients.

BAE's 2008 results emphasised the reasons to own the stock. We believe those attractions will last through 2009. BAE offers investors a defensive business, long term growth, a strong balance sheet with strong cash flow and upside EPS potential all on a relatively low valuation. The defence market is not dependent upon economic activity and therefore BAE provides investors with a solid defensive option against the ongoing global recession.

BRITISH AMERICAN TOBACCO

Price: 1740p Yield: 4.8% Dividend Cover: 1.5x P/E: 13.4x

52 Week High/Low: 2043p/1350p Market Cap: £33.73bn

British American Tobacco was founded in 1902 as a joint venture between the UK's Imperial Tobacco Company and the American Tobacco Company. It is second only to Philip Morris in the world cigarette market, with more than 300 brands sold in around 180 markets.

Sales of BAT's four leading brands; Dunhill, Kent, Lucky Strike and Pall Mall are strong. Acquiring new businesses allows BAT to reduce costs and drive further sales growth and BAT's strong balance sheet will allow it to make further big purchases.

The company is increasing its dividend payout as well as increasing share buy-backs. Despite flat sales in Europe, strong performances in its Asia-Pacific, Latin American as well as African and Middle East markets should enable BAT to meet its target of maintaining high single-digit earnings growth. This is a classic consumer defensive stock to own in a downturn; it has not seen a slowdown in sales and it will receive a further boost from currency gains as sterling takes an undignified dive.

BP

Price: 489.4p Yield: 6.8% Dividend Cover: 2.0x P/E: 4.3x

52 Week High/Low: 657.25p/370p Market Cap: £91.69bn

BP plc is an oil and petrochemicals company. The Company explores for and produces oil and natural gas, refines, markets, and supplies petroleum products, generates solar energy and manufactures and markets chemicals.

BP remains the quality big oil play in the UK market. The old British Petroleum has grown into one of the world's great oil, gas and petrochemical companies. BP looks attractive on a range of sectoral indicators such as reserve replacement, production growth and reinvestment. Being extremely cash generative, the dividend is well covered by its earnings. BP's sheer financial strength makes it a good core holding in a balanced portfolio, irrespective of the short-term gyrations of Brent crude.

Quoted prices correct as at 15th July 2009

SCOTTISH & SOUTHERN ENERGY

Price: 1132p Yield: 5.3% Dividend Cover: 1.7x P/E: 10.7x

52 Week High/Low: 1549p/1025p Market Cap: £10.41bn

SSE is the third largest supplier of electricity and gas in the UK. It supplies electricity and gas under Southern Electric, Scottish Hydro Electric, SWALEC and Atlantic brands and has over 7m customers.

SSE owns over 10,000 megawatts of generating capacity, which includes coal-fired, gas-fired, hydro electric and wind-generated power plants. It is in fact the UK's largest generator of renewable energy. By spreading its capacity across different types of generation, SSE is able to maximise its returns. Utilities are a core sector to hold, even more so in these uncertain times.

vodafone

VODAFONE

Price: 115p Yield: 6.5% Dividend Cover: 1.9x P/E: 9.2x

52 Week High/Low: 169.5p/96.4p Market Cap: £60.36bn

Vodafone is the world's largest mobile operator by revenue. Its European operations dominate the group's accounts, however it also has a broad collection of assets beyond Europe, the largest of which is a 44% stake in the US wireless operator Verizon Wireless.

Vodafone also has a large exposure to fast growing emerging markets including South Africa, Central and Eastern Europe and India. Although the stock has been under short term selling pressure, a sum of the parts price target comes out at circa 170p,

GLAXOSMITHKLINE

Price: 1112.5p Yield: 5.1% Dividend Cover: 1.5x P/E: 10.6x

52 Week High/Low: 2043p/1350p Market Cap: £57.72bn

GlaxoSmithKline plc is a research-based pharmaceutical group that develops, manufactures and markets vaccines, prescription and over-the-counter medicines, as well as health-related consumer products.

GlaxoSmithKline's cash generative powers and marketing firepower consisting of 43,000 representatives make it an attractive partner for other players seeking to maximise the sales potential of their new drugs. Cutting edge research is paying off and the company has a huge array of 'blockbuster' drugs.

Despite these advantages, the shares trade on a discount to the sector and "big pharma" rivals such as Roche and Novartis. This looks unwarranted given GlaxoSmithKline's resilience in a demanding environment.

Of all the UK pharmas and biotech firms, GlaxoSmithKline has the best pipeline of new drugs. Life expectency is increasing which means we will require more medical treatment and GlaxoSmithKline is a good play to profit from this trend.

For information on our online trading platform, telephone (+350) 20075181
For general company information, please visit our website at www.gam.gi