

# Thornhill Capital Trust

Quarter end report - September 2008

**Authorised Corporate Director:** Thornhill Unit Trust Managers Limited  
**Fund Manager:** Gillian Lakin  
**Launch Date:** November 1989  
**Depository:** HSBC Bank plc

PRICE/VALUE			PERFORMANCE DATA					
Bid price (p)	Offer price (p)	Net Assets (£'m)	CAPITAL RETURN			FTSE 100 INDEX		
			Quarter	YTD	Since Launch	Quarter	YTD	Since Launch
130.92	139.13	40.88	% Gain/Loss			% Gain/Loss		
			Quarter	YTD	Since Launch	Quarter	YTD	Since Launch
			-17.82%	-27.50%	175.62%	-12.86%	-24.07%	126.95%

DISCRETE ANNUAL RETURNS TO 30 SEPTEMBER					
PERCENTAGE GROWTH	30/09/03 - 30/09/04	30/09/04 - 30/09/05	30/09/05 - 30/09/06	30/09/06 - 30/09/07	30/09/07 - 30/09/08
FUND	9.86%	20.92%	7.92%	7.46%	-26.49%
FTSE 100 INDEX	11.72%	19.84%	8.82%	8.49%	-24.19%

Source: Lipper Hindsight. Capital Return.

These figures relate to past performance. Past performance is not a reliable indicator of future results.

## Overview

The FTSE 100 fell by 12.86% in the third quarter. The deterioration in the economic outlook and the worsening impact of the credit crisis resulted in major falls in markets globally and a significant rise in market volatility. In this environment, defensive sectors such as Pharmaceuticals and Healthcare performed relatively well and Mining and Basic Materials performed badly as commodity prices fell in anticipation of weakening demand.

The third quarter of 2008 witnessed a dramatic escalation in events caused by the credit crisis. At the beginning of September, Freddie Mac and Fannie Mae, the major US mortgage market intermediaries were taken under Government control. This move temporarily reassured investors that US policy makers would intervene as they had in the case of Bear Stearns to avoid a major corporate collapse. The following week, the news that Lehman Brothers had filed for bankruptcy proved a considerable shock to markets. The US government then took control of insurance group AIG as the failure of this business was perceived to be a potential systemic risk to markets. A few days later, the takeover of HBOS by Lloyds Bank was announced. The combined company will hold a major share of the UK retail banking sector and such a concentration of market power may not have gained regulatory approval under normal circumstances. At the end of September, the announcement of the US TARP (Troubled Asset Relief Programme) caused a significant rise in markets but when this was initially rejected by the US Congress, the S&P 500, the major US market index fell by almost 9% to its lowest level since October 2004. In the UK, the government announced the nationalisation of Bradford and Bingley and the transfer of its branch network and deposit business to Santander.

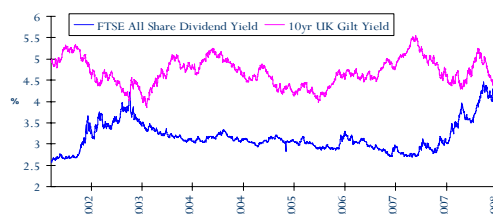
## Portfolio activity

During the period under review, additional purchases were made to a number of the more defensive positions in the portfolio including Smith and Nephew and Serco. The holding in Vodafone was sold outright in the light of concerns that this business might prove susceptible to a slowdown in consumer spending. The trust's exposure to Lonmin was reduced following a takeover approach from Xstrata.

## Outlook

The UK equity market continued to fall following the period end as fears surrounding the extent and duration of a global recession intensified. The UK Government announced a bank rescue package including the recapitalisation of UK banks on 8<sup>th</sup> October. This was followed by concerted action from global central banks including US, Europe and UK to cut rates by an emergency 0.5%. There have been some tentative signs that these policy responses have begun to ease tensions in credit markets. Volatility remains extremely high relative to historic levels and sentiment is fragile. The valuation case for UK equities remains well supported, with the yield on the UK market at a modest premium to UK 10 year gilt yield. This last occurred in 2003 and was followed by a significant recovery in equities.

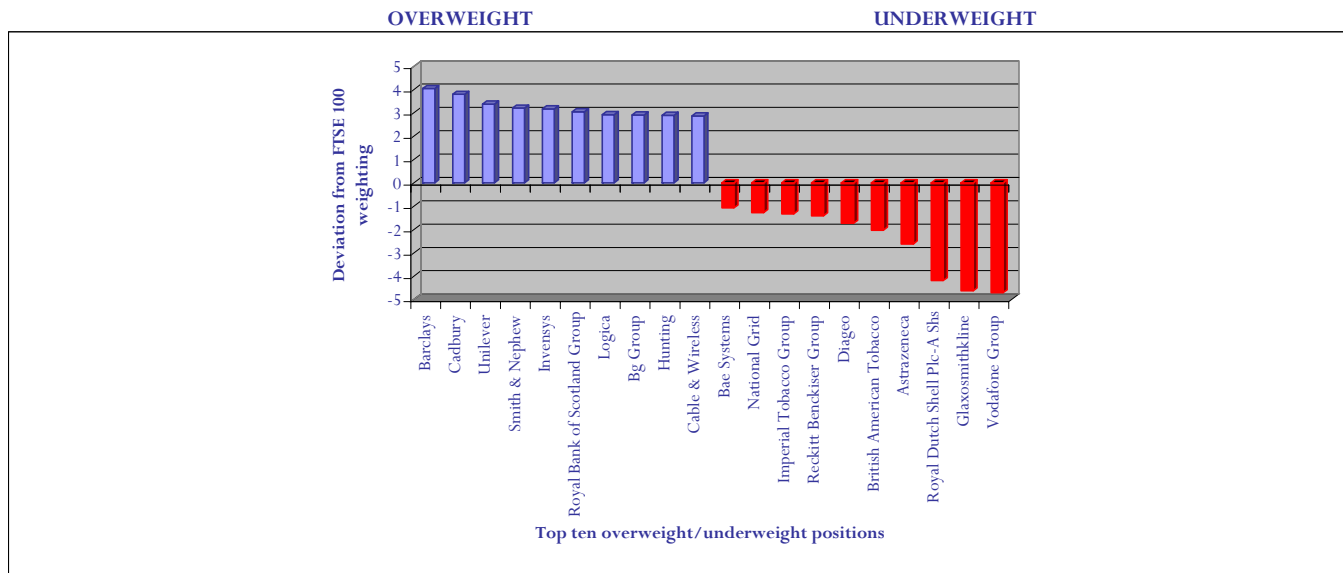
The UK Equity market is cheap relative to gilts



### Top ten holdings at 30.09.08

HSBC	10.11%	Unilever	4.81%
BP	7.63%	Cadbury	4.35%
Barclays	5.98%	Tesco	4.20%
BG	5.40%	BHP Billiton	3.73%
Royal Bank of Scotland	5.22%	Smith & Nephew	3.59%

### Top ten active stock positions against FTSE 100 index



Source: UBS Portfolio Analytics System using data from HSBC as at 30 September 2008.

#### Investment policy

The Thornhill Capital Trust was launched in November 1989 and Gillian Lakin was appointed fund manager in 2006. The aim of the fund is to provide a return in excess of the FTSE 100 index over the medium to long term. The fund typically invests in 35 to 40 blue chip stocks, most of which are selected from the benchmark FTSE 100 index with some additional investments in companies quoted on the FTSE 250 index.

#### Minimum holding

The minimum holding and minimum amount for any subsequent investments is 1,000 units. The minimum number of units that may be redeemed in one transaction is 200 units.

#### Charges

The Manager may impose a charge on the sale of shares to investors. The current initial charge is 5% of the amount invested by the prospective shareholder. The Manager may also make a charge on the redemption of shares. At present no redemption charge is levied. An annual management charge of 1.50% of the mid-market value of the fund is also charged. Half this periodic charge is deducted from the capital and half from the income of the fund.

#### Dealing

Dealing and administration: 0845 6081464  
9.00am - 5.00pm (priced forward)  
Valuation point: 08.00am each business day

#### Ex-distribution dates

Interim 1 January Final 1 July

#### Share Class

Income

#### Sedol Code

890160

#### ISIN number

GB0008901604

The Trust Prospectus, Key Features and Application Forms may be obtained from Thornhill Unit Trust Managers Limited. The value of investments and the income derived from them may go down as well as up and you may not get back the amount originally invested. The comparative benchmark is that of the FTSE 100 which is composed of the largest 100 stocks in the FTSE All-Share by market capitalisation. The value of any tax relief depends on individual circumstances and may be subject to change in the future. If you have any doubts about your tax position, you should seek professional advice.

Thornhill Unit Trust Managers Limited, 77 South Audley Street, London, W1K 1DX

Telephone: 020 7629 0662 Facsimile: 020 7629 7332 Company No. 2148675

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