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P. Baker, Esq.,
Health Professions Council,
Park House,
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Our Ref : JM/LW

19th January 2004

Dear Paul,

Health Professions Council

I am writing to enclose the quarterly report for the period 30th September to 31st December 2003. As at 31st December, the portfolio was valued at £1,284,414 compared to £1,196,159 on 30th September, an increase in value of £88,255 or 7.4%.

The fixed interest proportion, which accounts for 21.5% of the portfolio, showed a small appreciation of 0.8% compared to the FTA Government All-Stocks Index which fell by 0.3%. Economies have continued to recover but bond markets have remained little change on the expectation that interest rates will have to rise in due course.

Most equity markets continued to rally during the recent three-month period in local currency terms, although the rise in Sterling has rendered the picture more mixed for UK investors. Strong economic news emerging from the US and surveys suggesting further improvements in the offing elsewhere encouraged a year-end rally after an earlier period of consolidation. Global equities rose by 10% in local currencies but only 5% in Sterling terms, having risen 4% in the prior three-month period.

The UK, having been a laggard for most of 2003, recently outperformed most other markets rising by 9% in the three-months to end of December. The US rose by 3% in Sterling terms, hit by a 7% fall in the Dollar. Europe rose 13% with profits holding up surprisingly well given the strength of the Euro and weak domestic growth. The Japanese and Far Eastern markets consolidated after strong earlier rallies, Japan virtually unchanged in Sterling terms and the Far East up a relatively sedate 3%.

The UK equity proportion appreciated by 8.8% compared to 9.4% for the FT All-Share Index and 10.0% for the FTSE Index. Because of the withdrawals from the Fund over the recent past, the portfolio does have a defensive bias and therefore has slightly underperformed in this strong quarter for the stock market. However, individually we have seen some strong performances with stocks like Rio Tinto appreciating by 20%, ICI by 20% and Land Securities by 18%. Vodafone, which now accounts for 9.1% of the FTSE 100 Index and 7.6% of the FT All-Share Index, appreciated by 15%. The Fund has a holding equivalent to 5.3% of the UK equity proportion and consequently benefited

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from this appreciation but will have underperformed relative to the Index because of the lower weighting. However, Vodafone only yields 1.3%, significantly behind the average of 3.2% for the FT All-Share Index.

The Fund is relatively fully invested with just 1.6% in cash at the beginning of the quarter and 3.8% at the end following sales of Abbey National and BOC. BOC was successfully sued for the affect of its welding rods on Parkinson's Disease. Although, ideally, BOC does have the cyclical exposure which markets like at present, we felt it was probably not appropriate to hold BOC in the Health Professions Council portfolio.

At the present time the re-financing of pension fund deficits is providing a stimulus to cashflows in the market; evidenced by supportive buying on any setbacks. However, the one serious concern is the US Dollar's continuing weakness. Initially the weakening, particularly against the Euro but also the Japanese Yen, was relatively gradual but recently has been increasing and has taken some of the strength out of the year-end rally. Compared to Sterling, the US Dollar has recently reached eleven-year lows and is providing a headwind to overseas earnings for UK multinationals. However, Dollar weakness is also providing a positive stimulus ensuring the economic rebound of the world's largest economy, the US, and will possibly help contain the structural problem of the enormous US trade deficit.

Were the Dollar's depreciation to accelerate, this could cause instability in world markets. As yet, Dollar weakness has not translated into a need for higher US interest rates or increased US bond yield differentials with other major economies. However, were this to happen, the economic landscape would alter significantly. For the time being, one continues to invest optimistically with an improving economic and corporate background.

The rally in equity markets has reflected the reduced global tensions and the evidence of improving economic growth. The key now is corporate earnings growth. This is likely to make for a more discriminating market where delivery counts for more than hope alone. The US Presidential Election in November and the possibility of a UK General Election next year will also concentrate minds. The chance of a synchronised global recovery in 2004/5 appears greater than could have been imagined six months ago. If it is achieved, earnings growth could fuel further rises in global equities.

If you should have any questions regarding my letter or the report, then please do not hesitate to contact me.

With kind regards.

Yours sincerely,

James Minett