The Search for Income

Where to find small caps that can grow their yield

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Agenda

- Trends of the last 25 years
- Prospects for dividends and other income
- What are the characteristics of those stocks that will buck the trend
- The optimised investment strategy
- Implementation in the GGO Trust

The Smallest Stocks Tend to Deliver the Highest Returns

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> Differential between UK Large and UK Small Cap reduces portfolio volatility for those who hold both

> Small Cap deliver higher returns over time

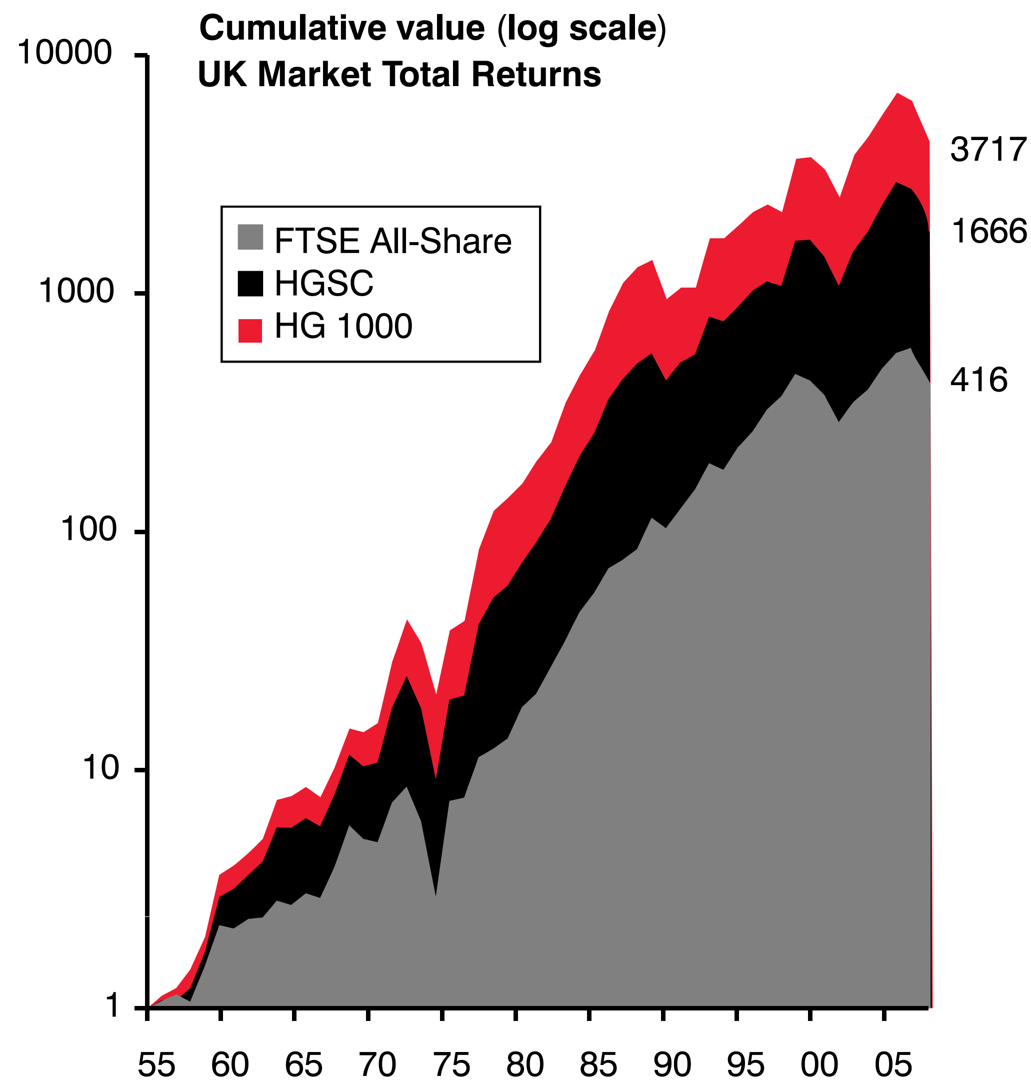
>The Small Cap effect tends to be evident in many equity markets

<u>At the start of 2009:</u>

> FTSE All-Share: £99bn and below

> HGSC: £1,911m and below

> HG 1000: £232m and below

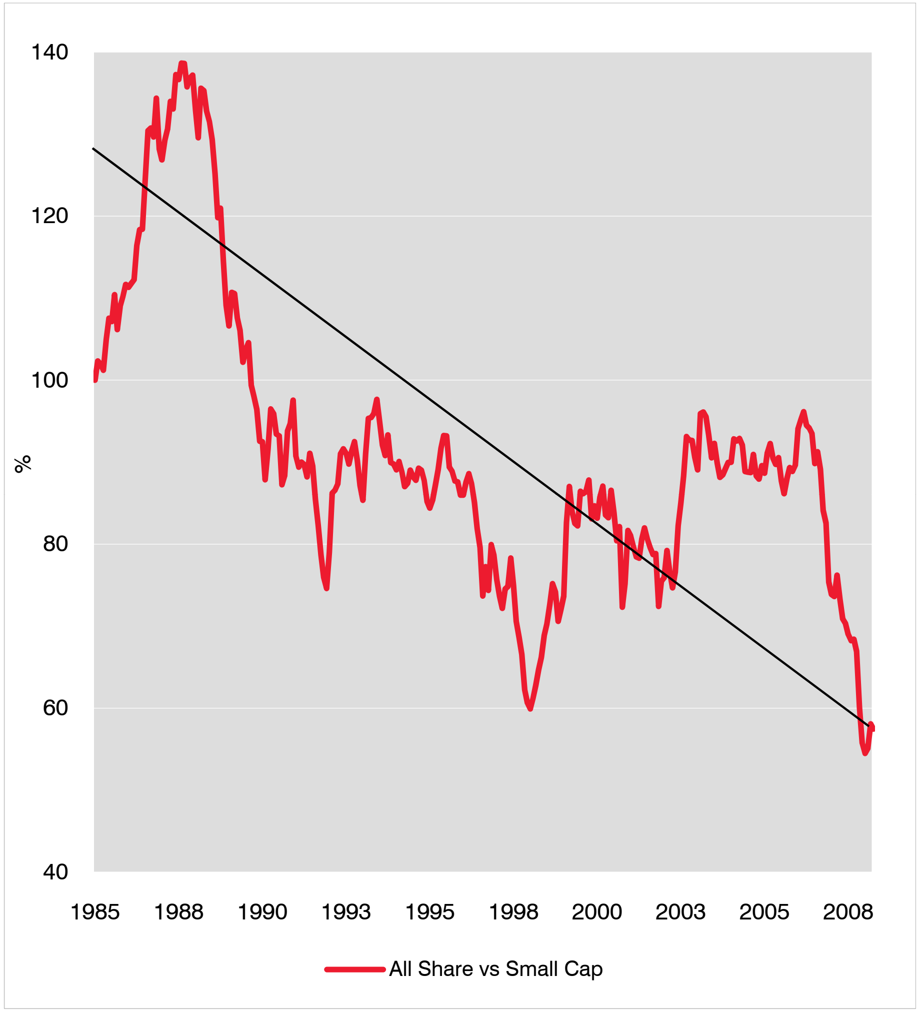


Source: ABN AMRO/London Business School, Paul Marsh and Elroy Dimson. As at 1st January year end. Years 1955 to 2009
Past performance is not a guide to future performance. Smaller companies are riskier and less liquid than larger companies which means their share price may be more volatile

The Small Cap Opportunity

Small Cap underperformance for whole of credit cycle

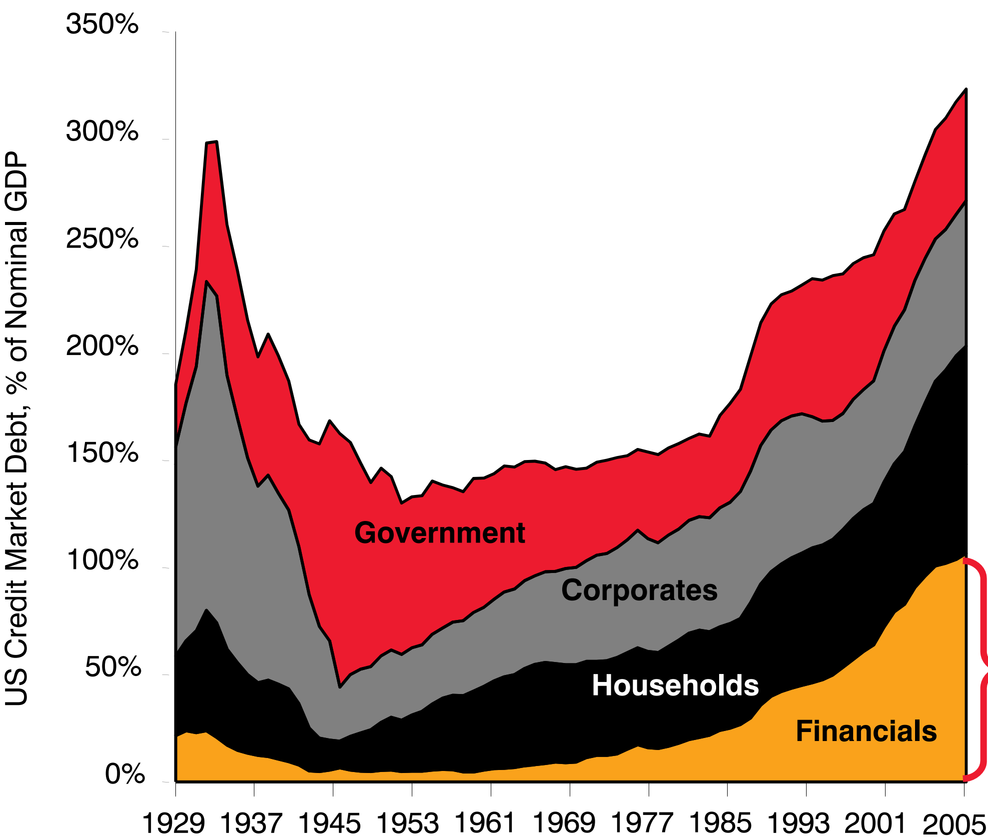
FTSE Small Cap ex IT vs. FTSE All Share



Source: Thomson Datastream, as at 31st May 2009
Rebase to 100

- Despite the long term trend of small cap outperformance, the UK Small Cap sector has underperformed for over 25 years
- Almost all investors dislike small caps
  - Underperform
  - Illiquid
  - Outside benchmark
- Most portfolios have largely abandoned the sector for richer pickings elsewhere

Where has Dividend Growth come from the Last 25 Years



- The credit cycle has lead all corporate capital structures to become over optimised to enhance ROE
- This trend has been highly beneficial to the financial sector who have grown their dividends particularly rapidly
- The extended period of the credit cycle has caused many quoted companies to over distribute dividends

Excessive Debt principally concentrated in the financials

Source: Morgan Stanley Research, Bureau of Economic Analysis/Bloomberg/The Statistical History of the US: From Colonial Times to Present, as at October 2008

Sharp Dividend Cuts are Coming Through

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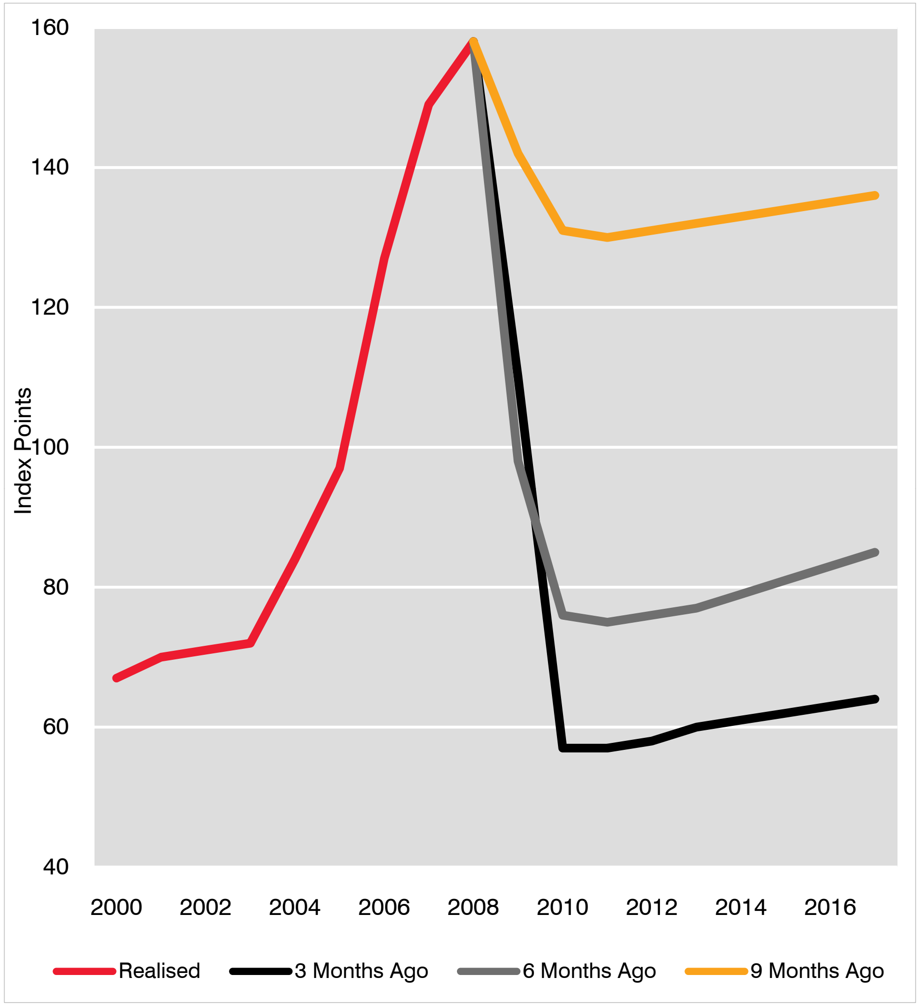
Realised and implied dividends (DJ Eurostoxx 50)



Source: Barclays Capital/FTfm, as at 23rd February 2009

- Substantial dividend cuts have come through initially in those businesses most highly geared
  - Banks
  - Retail
  - Property
  - Utilities
- This will be followed by those with large pension schemes where deficits balloon on the falling dividend income
  - Large Cap stocks
  - Insurance

Sustained Income is Becoming Difficult to Find

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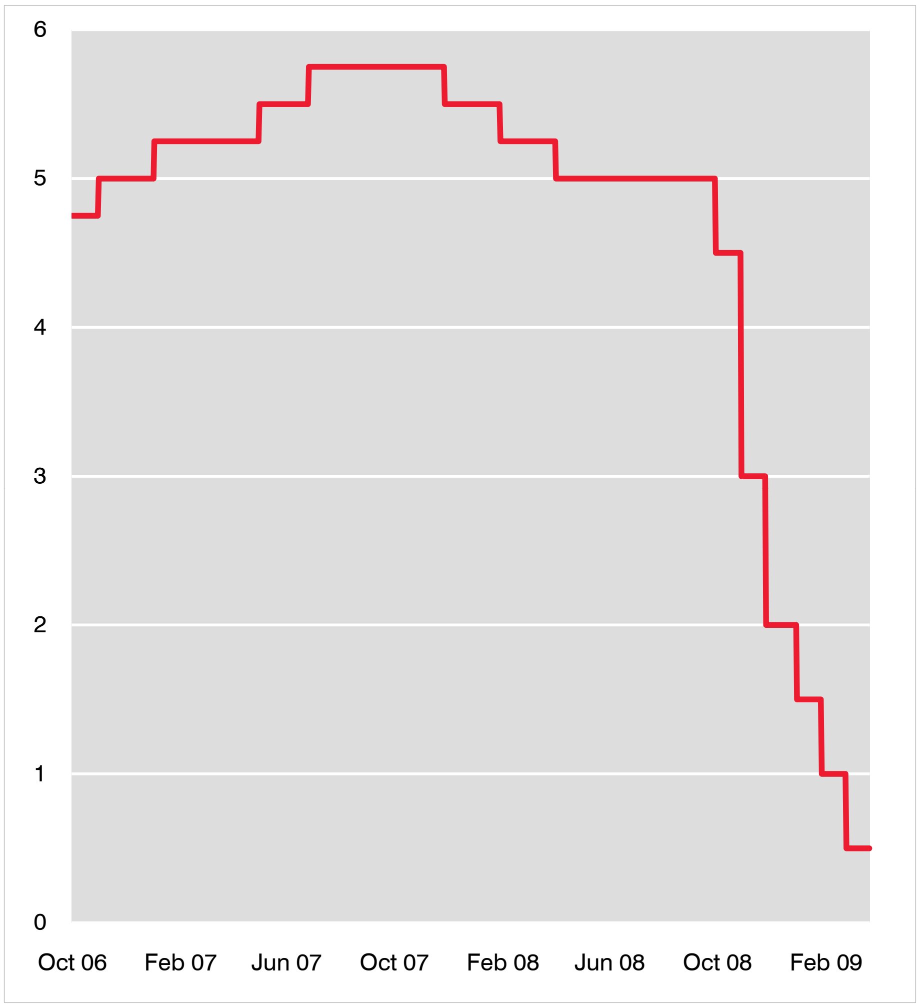
UK Interest Rates



Source: Bloomberg/Bank of England, as at 21st April 2009

- Equity dividends are expected to fall sharply
- Income on cash balances has fallen substantially
- Income on bonds has also reduced even at the long end of curve. The policy of Quantitative Easing is making matters worse
- Corporate Bonds offer more significant yields, but also carry equity type risks with no compensating yield growth and limited capital appreciation
- A sizeable increase in the void ratio is expected to reduce income from the property sector

Investments with Good and Growing Dividends will be Valuable

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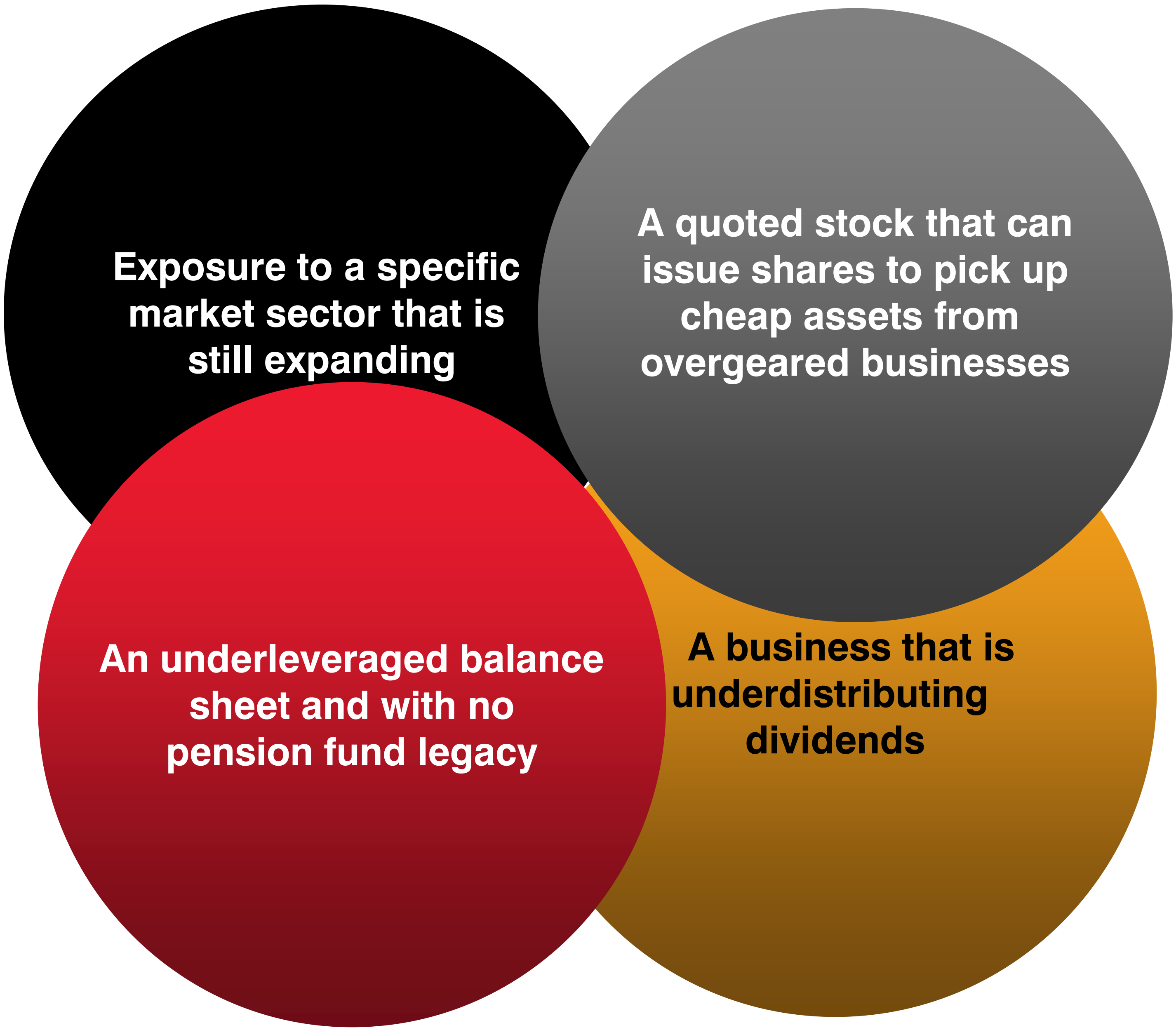
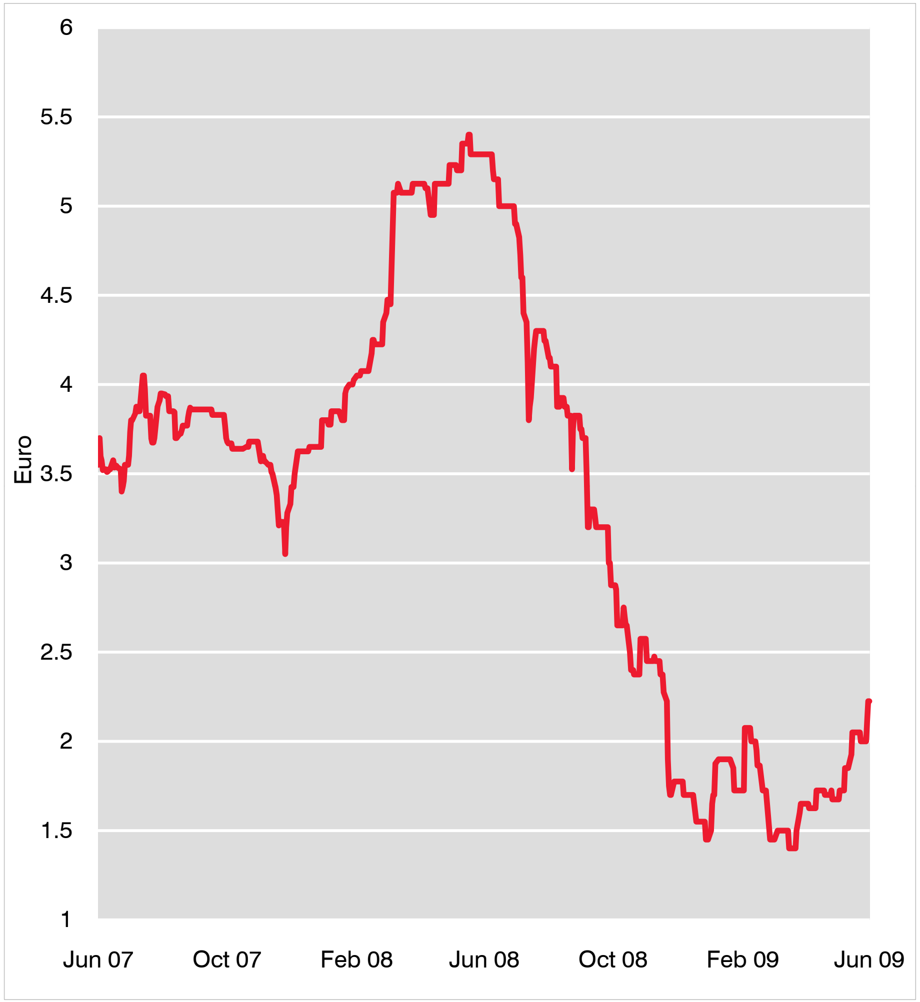


- Most large cap stocks will find their existing dividend under pressure and many will cut it
- International diversification is unhelpful at present as all major economies are seeing a slowdown or a recession
- Overall equity index returns likely to be unattractive for an extended period
  - Little capital growth
  - Falling dividend income

Origin Enterprises

Origin Enterprises Share Price



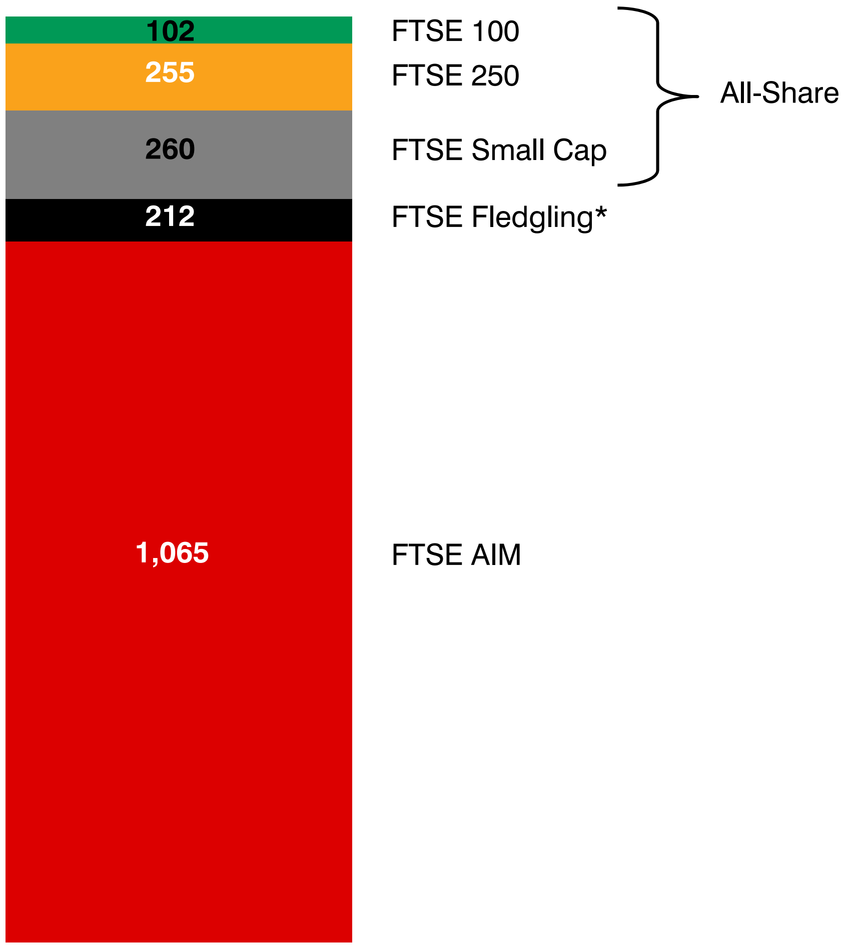
Source: Thomson Datastream, as at 4th June 2009

- Agricultural business that works with farmers to maximise crop yields
- Strong markets position with significant scope to grow the business
- Under leveraged balance sheet with financial headroom on gearing at €150m
- Recently announced that it will pay a 4% yield, having not paid a dividend previously. Plenty of scope for dividend growth as business expected to expand and dividend growth as business expected to expand and dividend cover 6x
- Scope to grow at a faster rate by incremental acquisitions. These will be easily fundable by equity if necessary

Sources of Sustained and Growing Dividends

- The best opportunities for sustained income growth principally lie outside the largest stocks
- Large numbers of AIM stocks in particular are under distributing dividends
- Those with good and growing dividends are likely to be rewarded with scarce investment capital and make disproportionate returns on this incremental investment
- Portfolios will gradually move capital from large to small cap to take advantage of this trend

Number of Constituents



Source: Gartmore, London Stock Exchange as at 13th January 2009
* FTSE Fledgling ex IC Index

Premium Growth of Smallcap Dividends has Happened in the Past

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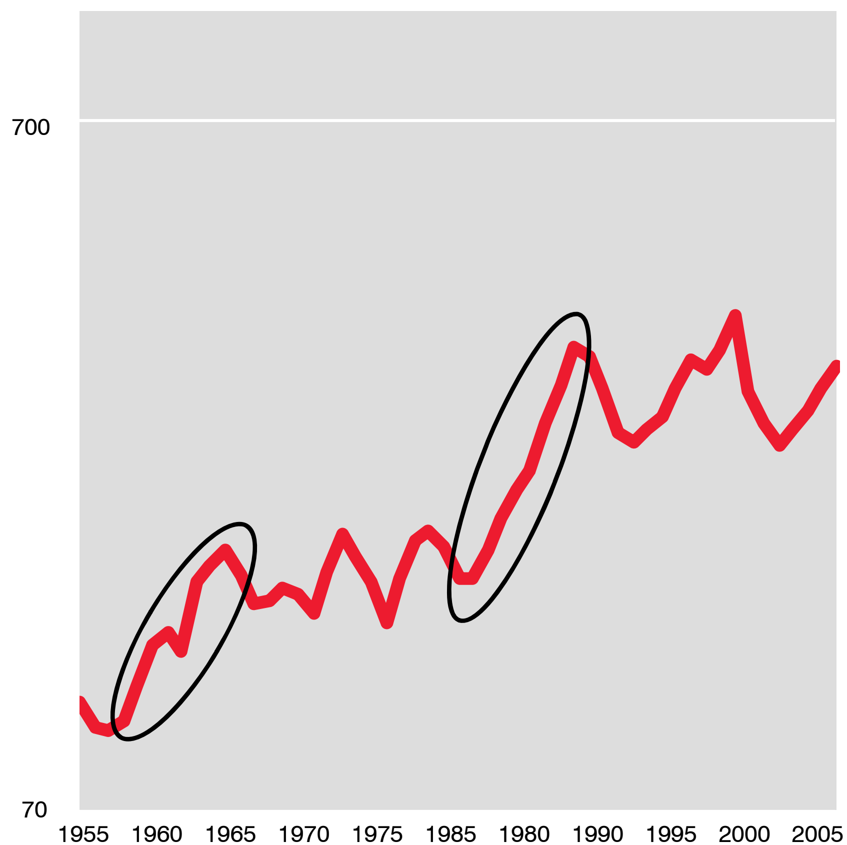
Real Dividend Income of HGSC



- Many AIM stocks have been advised that dividends are irrelevant to investors and don't pay a dividend yield
- Two periods of rapid real dividend growth in the last 50 years
- In those two periods small caps outperformed large caps for a multiyear period

Source: Thomson Datastream, as at 3rd November 2008
Basis: Log Scale

Optimum Investment Strategy

- Credit bubble has inflated large cap (financials in particular)
- All forms of income likely to be under pressure
- There is a subset of the quoted market, made up of stocks with improving prospects, strong balance sheets, and will be able to take advantage of the weakness of others, that are now likely to pay out a growing stream of dividends
- Investments with these characteristics are likely to have good and growing income plus capital growth in time

Our clients positioned to benefit from this trend

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Performance		
As at 31st May 2009	Gartmore Growth Opportunities %	FTSE Small Cap ex IT %
1 Month	5.95	1.35
3 Months	37.73	35.27
6 Months	38.93	27.44
1 Year	12.41	-30.06
3 Years	10.37	-42.59
5 Years	49.15	-23.93
10 Years	136.12	-23.82

- FTSE Small Cap market peaked out in 2007
- GGO fell back in 2008 but the FTSE 100 put option added substantial value to offset this
- Now positioning for the market recovery
  - Portfolio geared 10%

Source: Gartmore/Lipper/Thomson Datastream, as at 31st May 2009
Basis: All fund returns calculated in Sterling on NAV at par. All index returns are capital only

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All data as at 31st May 2009, unless otherwise stated.

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