INVESTMENT REPORT AT 31ST MARCH 2004

The Committee is asked to note the report and valuation at 31st March 2004 that has been received from brokers, Carr Sheppards Crosthwaite.

2 Gresham Street
London EC2V 7QN
Tel: (020) 7597 1234
Fax: (020) 7597 1000

CARR SHEPPARDS
CROSTHWAITE

A member of the Investec Group

HEALTH PROFESSIONS COUNCIL

Report for the Period
1st January - 31st March 2004

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P. Baker, Esq.,
Health Professions Council,
Park House,
184, Kennington Park Road,
London,
SE11 4BU.

Our Ref: JM/LW
COUNC0004

19th April 2004

Dear Paul,

Health Professions Council

I am writing to enclose the quarterly report for the period 31st December 2003 to 31st March 2004. Over this period, markets have traded in very tight ranges and as at 31st March the portfolio had shown a small fall in capital value of £3,506 to £1,280,908. This is a fall in value of 0.3%. The 2.2% increase in fixed interest stocks, which was slightly ahead of the FTA Government 5-15 Year Index, was offset by the 0.8% fall in UK equities. This was exactly in line with the movement of the FTSE 100 Index but behind the 0.6% appreciation of the FT All-Share Index.

Within the portfolio, we have actually moved to reduce the cyclicality following the good performance over the past year selling holdings in ICI, Trinity Mirror, RMC (formerly Readymix Concrete) and Herald Investment Trust, the technology fund. We sold 3,500 ICI shares at 201p which was the sale of the second tranche of the rights we had taken up in May last year at 125p. We also sold the remaining half of the holding in Trinity Mirror by selling 1,000 shares at 592p having acquired them in November 2002 at 385p. The holding of 3,000 RMC shares were sold at 642p which compares modestly with the purchase price of 560p on 12th July 2002 but is substantially above the low point of 380p at the time of the Gulf War. Problems with the German division of RMC has dogged the company but signs of a slightly better trading performance and a strong Euro has helped the share price to recover. Herald Investment Trust has performed well following the rebound in the Technology sector but also a narrowing of the discount from 18% in March last year to just 6.8% at the time of sale. Interestingly, as the market has lost some of its tempo over the last few weeks, the discount has widened back out to 15%.

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Conversely, we have added to two slightly less cyclical shares, National Grid Transco, which yields 4.2% and BAA, the airports operator, which is continuing to see an improvement in passenger numbers and with ownership of Heathrow, Gatwick and Stansted, dominates the South Eastern part of the UK.

Bonds reversed earlier weakness in 2004 as hopes of continued low rates, edginess about the US payroll numbers and renewed terrorism fears weighed more heavily than the evidence of improving economies and rising government deficits. Over the most recent three month period the benchmark 10-year yields declined 0.4% in the US and Europe, but rose 0.1% in the UK. The Bank of England initiated a cycle of rising rates, with ¼% moves in November and February with signals in recent days that another move will probably happen in May. Although the Bank stresses that it is not trying to shock the markets, it is concerned about continued strength in the housing market and consumer spending. The US Federal Reserve has indicated that, subject to residual worries on job creation being laid to rest, interest rates there are likely to rise this year. Economic weakness has rekindled hope of a European rate cut and may act to slow rate rises in the UK.

Global demand has been supported principally by the US consumer but also China, both in terms of its own growth but also increasingly as the world's manufacturing country. Monthly car-sales in China have increased over the last three years from 50,000 per month to 250,000 per month. However, this compares with the United States which has approximately one-third of the population but sells 1.25m cars per month.

Liquidity to the world's financial systems has also been provided by the US with the Federal Reserve keeping the Federal fund's rate at 1% since June last year, encouraging other economies to also follow low interest rate policies. For example, in an ideal world, UK interest rates would now be higher, but interest rate differentials have a significant influence on currency levels and a country's competitiveness.

The key ingredient enabling this structure of strong demand and high liquidity to be maintained has been US employment growth. The US economy has displayed very poor jobs growth over the last year, keeping inflationary concerns at bay, giving the authorities the argument for rates to remain low.

As the last quarter progressed without jobs growth, markets became increasingly concerned that US growth was not sustainable and therefore confidence started to ebb from some of the more cyclical areas and some of the lower quality sectors of the market started to become more risk-averse. Also, it is a year since markets started their post-Iraq recovery and some of the initial euphoria has now been replaced by an expectation for stocks, that have been re-rated, to deliver on analysts' earnings expectations.

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The weakness of the US Dollar undermined many of the larger UK equities like HSBC, BP, Glaxo and Vodafone, all of which have significant US Dollar earnings, and are held in the portfolio, but also both BP and HSBC now produce US Dollar denominated dividends.

On 2nd April (just after the end of the quarter) the US non-farm payrolls recorded an increase of 308,000 jobs in March, way ahead of expectations of around 120,000 new jobs in the month. This has, I believe, significant ramifications. If the US economy is recovering it will help provide support to the US Dollar which has recently started to stabilise.

The prospect of interest rate rises by the Federal Reserve will now also be brought into view, causing bond markets to be more volatile. In US politics, employment growth has been one of the main platforms of political debate. With the early concentration of the Democratic vote behind Senator Kerry the political risk premium had been increasing on the expectation of a change in the White House. However, the improved jobs outlook will now be seen as positive for the chances of a Republican re-election.

For equity markets, whilst the prospect of economic recovery is reassuring, the prospect of interest rate rises may temper enthusiasm. US Federal Fund's rate of 1% is substantially below more "normal" levels. Therefore, initial increases may have a limited impact on the economy, but may influence stock markets, although we think markets will be able to weather gradual initial increases.

The stubbornly high oil price coupled with higher commodity prices, could cause a drag on world economic growth. The near-term unrest in Iraq and the increased terrorist fears following the Madrid bombings could well influence voting intentions in the US Presidential Elections towards the end of the year. A careful watch on the situation will need to be kept to ensure that adverse sentiment does not take hold.

In the UK, the Government produced a more benign Budget than had been expected and was viewed as providing the incumbent Government the opportunity to go for an early Election. There was no attempt by the Chancellor to move to contain consumer borrowing, which has now been left to the MPC to use the blunt instrument of UK bank base rates to effect a moderation.

One of the interesting features of the last twelve months has been the lack of volatility in the general trend of the equity markets. As the year progresses we feel this is more likely to increase. That said, the UK equity market is moderately valued with expectations for corporate earnings growth providing the opportunity for share prices to move higher, rather than a general revaluation from this level.

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If you should wish to discuss the portfolio in greater detail, then please do not hesitate to telephone me.

Kind regards.

Yours sincerely,

James Minett