INTEREST

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Zenith International Funds (ZI) restructure update

The key elements of the proposed changes we wish to make to the funds have been broadly approved by Guernsey Financial Services Commission. The diagram on pages 2 and 3 sets out the main changes and how these will be phased.

We will require the relevant shareholders' approval for each phase. If you hold shares in any of these funds Hume Capital (Guernsey) Limited will be writing to you over the coming weeks setting out each change highlighted in detail with the options available to you plus any the action you need to take. Just to remind you the funds were set up as four separate companies, umbrellas with a choice of similar types of fund. The main change we are making brings all the funds under one umbrella. The main benefits of the changes are:

- Reductions in costs over a period – bringing all Hume's ZI funds under the same umbrella gives a larger asset base to share the fixed costs across and thus we expect to reduce each fund's Total Expense Ratio.
- Simpler fund switches with increased choice under the same umbrella.
- The new umbrella takes advantage of protected cell companies under Guernsey law; each fund's assets and liabilities are segregated and protected from other funds.
- The ZI funds' document were drafted over 10 years ago, the new umbrella allows an update of documentation using modern legal, regulatory and market practice to provide a better, more practical solution for both investors and the Manager alike.

Hume are paying all costs associated with the change, there are no costs for shareholders.

Murmeltiertag – Groundhog day

Eurozone: A Greek Tragedy, the political soap opera continued through the second quarter becoming prime time viewing for millions. Unfortunately advertisers are yet to be drawn in. Each episode has been carefully scripted by its creators (Eurozone politicians) to swing between optimism and pessimism - ending on a high or a low; leaving viewers (investors) desperate for more. Markets, as result, continued to seesaw throughout the quarter.

Markets' interest waned and the ordinary man was forgotten. First the man in the streets of Greece, Portugal, and Spain etc. was distressed at being forced to swallow the world's newest and least tested remedy – Austerity. A remedy with an awful taste, very unpleasant side effects, takes a long time to work and you feel worse before you get better. Then the man in the German street, upset as he is expected to foot the bill for treating all those afflicted.

As a result, political revolt ensued. The Dutch government collapsed, the French elections saw Mr Hollande sweep into power with his stance against the drug Austerity and his vow to renegotiate the prescription with the German doctor, Mrs Merkel.

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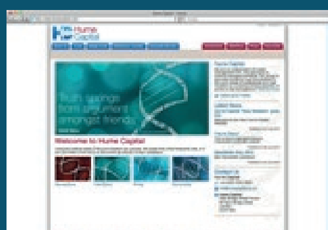
New Website goes live www.humecapital.com

We have integrated the Zenith International and Zenith Funds websites with Hume's own site. For investors in the funds you may still access your account using the ClientZone area which brings together the most used information for convenience. If you have not already done so on the old site, you may register your email to receive updates by email.



Hume Capital

www.humecapital.com

Zenith International Funds (ZI)
– proposed restructuring and timetable

Phase 1

Set up new Umbrella

Hume Global Investors PCC Ltd

1. Add first fund: Hume Global Equity Fund

Phase 2

ZI Multi-Manager Funds added to new umbrella

1. Balanced Fund merged with European Fund
   New Fund name: *Hume Diversified Multi-Asset Fund*
2. International Equity Growth Fund renamed: *Hume Dynamic Multi-Asset Fund*
3. European Capital Growth Fund renamed: *Hume European Equity Fund*

Phase 3

ZI Bond Funds added to new umbrella

1. Following Funds amalgamated:
   - European Bond Fund
   - European High Income Bond Fund
   - US Dollar Bond Fund

   Into: Alpha Bond Fund
2. Alpha Bond Fund
   - Fund renamed:

   Hume Global Bond Fund

Phase 4

ZI Reserve Funds added to new umbrella

All three funds renamed with Hume prefix replacing ZI:

Hume Sterling Reserve Fund

Hume US Dollar Reserve Fund

Hume Euro Reserve Fund

Phase 5

1. Hume European Equity Fund
   - converts into a feeder fund that invests directly and/or into funds
2. Hume Global Bond Fund
   - converts into a feeder fund wholly invested in:

   Hume International Bond Fund

Completed

The single umbrella for all the ZI funds

Hume Global Investors PCC Ltd

Fund choices:

1. Sterling Reserve Fund
2. US Dollar Reserve Fund
3. Euro Reserve Fund
4. Global Bond Fund
5. Diversified Multi-Asset Fund
6. Dynamic Multi-Asset Fund
7. Global Equity Fund
8. European Equity Fund

Estimated Dates

July 2012 — **August 2012** — **September 2012**

Equities retain allure

2012 year to date has seen equity returns running at an annualised run rate of 10%, somewhat higher than our long term projected returns of 7% per annum.

We believe the medium term outlook for equities is reasonably attractive with the corporate sector in good health (corporate defaults are running at a 50 year low of 2.5%) and equity valuations at a 20 year low relative to bonds. Respected research house Bank Credit Analyst argued recently that returns on investment have lagged the cost of capital since 2000 but that these would turn up from as early as 2013 as companies look to re-invest following a 12 year cash build-up and this will ultimately bring the secular bear market in equities to an end. By contrast, the 30 year bond bull market is long in the tooth (with western sovereign bond yields at sub-2%, real returns on conventional bonds are zero) and investors are sheltering in a very crowded house indeed. European and Asian high yield investments (bond and equity), Asian growth companies and US and western European technology and manufacturing companies will lead the market in our view.

The EU Summit at end June produced a more favourable outcome than hardly seemed possible only a week before. While no panacea, politicians have at last set in place a formal roadmap towards banking reform which is crucial as recapitalisation of banks is key to eventual European economic recovery. Equity markets had become oversold in June, with sentiment indicators at extremely depressed levels, allowing the bulls the opportunity to gain the upper hand again. By end June MSCI World had returned 5.1% (GBP) year to date. However nothing in life is ever straightforward and the combination of a Chinese economic slowdown and the coming US fiscal cliff, with associated automatic spending cuts in 2013 following the US presidential election, means volatility will likely rise again towards year end. Equity markets ultimately though we believe do have downside support from central bank and robust corporate earnings.

Murmeltiertag – Groundhog day (continued)

The Greek electorate went one further and threw in that wonderful dramatic device - a hung parliament. No coalition government could be formed. The process was replayed, with the Greek electorate being 'persuaded' that, given they want to stay in the Euro, they had better vote for a government which will complete the medication prescribed – Austerity.

As all this was going on, Eurozone infection spread to Spain - a much bigger patient whose illness would be severely injurious to the entire Eurozone economy; pressure for action from European leaders grew relentlessly. Spanish bank shares saw serious strain as Bankia, one of its largest lenders, had to be rescued. As a result bond yields in peripheral Eurozone countries steadily rose back toward the landmark 7%.

Meanwhile those investors who changed channel to watch something else had programmes highlighting China's economic growth slowing and the potential impact on the rest of the world's economies, the flop that was the Facebook float, or the disaster that ensued at JP Morgan – reputedly the world's 'most conservative' bank. Consequently markets gave up the gains of the first two months of 2012 to spend the first two months of Q2 in a slump.

Fortunately, the script writers decided it would be good if the pressure persuaded Chancellor Merkel that she must compromise on some issues at the heart of the Euro's problems. So following Greece's second election and yet another political summit of European leaders, a compromise strategy including direct recapitalisation of problem banks was agreed.

Whether these measures work remain to be seen but markets have responded with cautious optimism and the 'reflation' trade reappeared at the end of the quarter. What markets probably require most is a period of increased clarity and certainty during which investor confidence can be rebuilt. Our portfolios are positioned to match this cautious optimism. The volatility in markets offers potential opportunities in companies with exposure to long term sector trends unaffected by short term concerns and at reasonable valuations.

Beneficiaries of cheaper oil

With oil prices having slumped in Q2, we focus on the winners and losers from such an abrupt change in market dynamics. At a general level, energy users have been put in a much more comfortable position versus producers for the first time this year. Clear winners are airlines, travel and leisure companies as well as intermediate chemicals and automobile manufacturers. Clear losers are energy suppliers, oil service companies, mining suppliers as well as oil and bulk commodity shippers. At the country level, among the higher profile beneficiaries are China, India and Japan, while prominent losers are Middle Eastern countries and the big oil producing nations like Russia. Among the strongest performers in equities in the quarter for example have been airline stocks like Delta Airlines and UAL Continental, while among the worst performing stocks have been miner Xstrata and machinery stocks like Joy Global, as investors fret that capital spending in the oil and gas industry and mining industries will slow.

Aerospace suppliers optimistic

Our analysts spent some time interviewing several key suppliers to Airbus and Boeing when Farnborough hosted its 48th International Air Show in the UK last week. Exhibiting there were major European suppliers like Lisi, Rolls Royce and Senior as well as US and Asian suppliers like Timken and Mitsubishi Materials. The feedback we had was that despite a moderate slowdown going on in the volume of new orders, with the two major Original Equipment Manufacturers receiving only US$72bn worth of orders down from US$110bn in Paris in 2011, the key book to bill ratio remains above 1 and order books for the newer A320 NEO and B737 stretch out for the two market leaders through 2020 and beyond. While Rolls Royce stock itself we believe is fairly valued and we have taken profits in our holdings following a 30% rise in the last 12 months, technology suppliers like GKN, Mitsubishi Materials and Smiths Group remain undervalued in our view given such profitable order books.