



Research Summary – April 2011

Summary of Opinions

The following is our interpretation of various opinions and statements taken from our research and meetings. This is not meant to be an exhaustive list and the opinions do not necessarily represent the views of Equilibrium. Clients should not act upon the information in this document without consulting their adviser.

General

Who	What	Source
Keith Wade, Schroder Chief Economist	Believes interest rates should rise in August and should be 2% by the end of the year. Their activity index indicates GDP growth should recover, but consumer spending growth is under pressure due to inflation.	Teleconference, 07/04/2011
Richard Buxton, Fund Manager, Schroder UK Alpha Plus	We know it is tough out there. We are in the worst six month period now with job losses and the VAT increase, but two years down the line we don't think things will be that bad. The UK economy is clearly struggling but the government is doing exactly the right thing and the UK sector is hugely tilted to global growth.	Teleconference, 12/04/2011
Citywire, Captial Economics	<p>The dovish tone of the Bank of England's MPC meeting notes for April hints the committee is unlikely to lift interest rates when it next convenes. Members of the committee voted 6-3 to keep interest rates low with the hawks failing to woo new recruits to their camp, the minutes revealed.</p> <p>Although the MPC maintains its belief that inflation could rise above 5%, its members were reassured by the absence of second-round effects.</p> <p>Capital Economics predicts the tone of the MPC's April meeting suggests rates will next month be kept on hold, as the committee has seen inflation come down 0.4% from 4.4% to 4% and export levels strengthen. An interest rate rise in May is not completely out of the question, a senior Capital Economics' economist, said.</p>	Citywire Update 18/04/2011



General (continued)

Who	What	Source
Azad Zangana, Schroder European Economist	<p>Our own view continues to be that the Bank will not raise interest rates until at least the August meeting. The Monetary Policy Committee will be keen to see evidence to suggest that households have not capitulated under the pressure of higher VAT and national insurance payments.</p> <p>At this point, we should clarify that, while not expecting the Bank of England to raise interest rates until at least the August meeting that does not mean that we agree with this course of action.</p> <p>For over a year now, we have consistently held the view that there is less spare capacity in the UK economy than the Bank of England believes. The OBR agrees with our view, having estimated a lower trend growth rate than previously estimated by HM Treasury. Given that we estimate that there is lower spare capacity available, we forecast inflationary pressure to return sooner than the Bank expects. As such, we support the committee's hawks in their call for a slow rise in interest rates. If interest rates do not begin to rise soon, then we expect an inflation overshoot in 2012 and 2013, which is likely to be driven by domestic factors. Our fear is that the BoE would then be forced to raise rates more quickly next year, which could cause the economy to head into its next recession.</p>	Email Update, 12/04/2011



General (continued)

Who	What	Source
<p>Mike Riddell, Fund Manager, M&G International Sovereign Bond Fund</p>	<p>In terms of the likelihood of sovereign debt restructuring, an interesting discussion point around the table was that if the market starts to view Spain as 'safe' and Spanish sovereign spreads tighten, then the likelihood of a sovereign restructuring at some stage in Greece actually increases since the authorities would deem it very unlikely that a Greek restructuring would result in a European 'Lehmans event'.</p> <p>However, if Spanish sovereign creditworthiness comes under pressure, then the likelihood of a Greek restructuring taking place would most likely fall, since the risk of contagion from a Greek restructuring to other sovereigns would be seen as too great.</p>	<p>www.bondvigilantes.com 15/04/2011</p>
<p>Consensus/Summary</p>	<p>The overall consensus now is that the BOE won't raise interest rates until at the earliest August due to more evidence to a struggling economy.</p> <p>Opinions remains split about whether it will remain high or fall back to BOE target level of 2% in later this year or in Q1 of 2012.</p>	



Equities

Who	What	Source
Keith Wade, Schroder Chief Economist	QE will end in the US by June and this could potentially affect markets. We are still in the recovery phase of the cycle, North American/Japan equities are undervalued at the moment. We are currently negative on emerging markets, but our view should move to neutral by the end of the month.	Teleconference, 07/04/2011
Richard Buxton, Fund Manager, Schroder UK Alpha Plus	Backing banks and miners to lead a continued general recovery and thinks a number of UK facing domestics stocks are being priced too negatively on a two to three year outlook. He is pinning much of his growth hopes on three UK mega cap miners because he believes continuing global growth will continue to drive commodity prices higher on a three year time frame while he expects UK banks to also do better than expected.	Teleconference, 12/04/2011
Simon Callow, Fund Manager, CF Midas Balanced Growth	He stated that he is nervous about equity as there has been no real correction yet. There is the problem of re-financing the banks that has yet to happen. Also the quantitative easing with more than likely stop in the US and we are yet to see how the markets will react to this. Equity markets are in denial. He is planning on taking some of the profits out of equity and locking them in fixed interest for the time being.	Face to Face meeting, 28/04/2011
Consensus/Summary	<p>There are some concerns over when the US stops QE in June and what kind of effect this will have on equity markets. One bullish fund manager believes mining still has room for further growth and that UK banks should perform better.</p> <p>Overall, opinions are still generally positive on equity and most believe in a continuing bull market for most of this year.</p>	



Emerging Markets

Who	What	Source
Stuart Parks, Head of Asian Equities, Invesco Perpetual	<p>Is cautious about Asian equities.</p> <p>"In the past three months we have become more cautious. One of the by-products of the monetary expansion has been inflation. Central banks are increasing interest rates which will lead to a slower rate of growth. We have taken off some of the more aggressive bets and moved more defensive."</p> <p>While inflation is a concern, he thinks it is a short-term issue and Asia remains a long-term attractive play.</p> <p>"I do think this will be a short-term pause, over the longer term I am very much positive."</p>	Investment week 6/4/11
Allianz Global Investors	<p>Russia: Social spending remains a priority and unemployment has peaked. High inflation and low nominal rates make savings less attractive at the moment. Domestic credit growth to private sector has recovered and is positive. Penetration levels still low for a middle income economy. The current high level of oil prices has provided a significant boost to the Russian economy.</p> <p>India: Inflation is currently high and we expect this to fall as food supplies increase in mid 2011. In 2010, India was the top performing BRIC market and so far in 2011 it has been the worst. We continue to observe the rise of the Indian middle class and an emergence of rural consumer demand.</p> <p>Brazil: Underperformance in 2010 is due to inflationary fears, a Petrobras stock overhang, and global jitters such as the Euro crisis and US real estate. There is a stable business environment. It has the lowest unemployment in its history coupled with record high consumer and business confidence.</p>	Allianz BRIC Email Update 18/04/2011



Emerging Markets (continued)

Who	What	Source
Allianz Global Investors	China: Domestic demand is starting to play an increasingly large role in the Chinese and world economy. 2010 saw China become the world's largest automobile market. The Chinese are gradually allowing the value of the Renminbi to rise against the dollar.	Allianz BRIC Email Update 18/04/2011
Jin O'Neill, Chairman, Goldman Sachs Asset Management.	The developed world cannot compete with the four BRIC countries in terms of growth and incremental consumption in the decade ahead and beyond. Indeed, by the end of this decade, the absolute size of the US consumer might be challenged. Whilst the rise of the BRICs and N-11 consumer is highly complex and uncertain process, we believe that it will underpin the most important investment themes in all markets, both directly and indirectly.	Goldman Sachs report, 17/04/2011
SWIP Weekly Update	China's inflation – driven primarily by food prices – reached a 32-month high, putting pressure on the country's government to treat it as a priority. The turbocharged growth of the world's second largest economy eased just a touch in the first quarter, but still beat analysts' expectations.	Email update
Mike Riddell, Fund Manager, M&G International Sovereign Bond Fund	In terms of emerging markets, capital flows have accelerated and this is causing policy dilemmas for a number of emerging market countries. Some nations (namely China, India and Turkey, but also some countries in Latin America) are experiencing worrying private credit growth rates, and authorities need to allow their currencies to appreciate to prevent overheating and the build-up of financial imbalances. While emerging markets do not look like they're about to pop, there are warning signs of bubbles developing.	www.bondvigilantes.com 15/04/2011

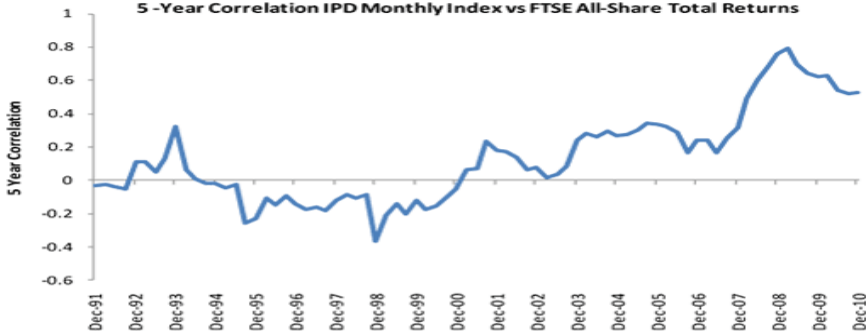
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Emerging Markets (continued)

<p>The Telegraph, Emma Rowley</p>	<p>The era in which cheap Chinese exports helped to keep prices down is now behind us, according to the insurance giant's fund division.</p> <p>Instead, "as inflation becomes more and more of a concern in advanced economies, China is going to be making things worse," said Brian Coulton, an emerging markets strategist at Legal & General.</p> <p>While many commentators suggest Chinese price rises are peaking, Mr Coulton believes that Beijing is not on top of inflation – expected to come in at 5.5pc for March – which threatens a more painful tightening process to rein in prices than many expect.</p> <p>"This means rising risk to the country's macroeconomic stability and of growth falling from the current 10pc a year to 4pc or 5pc." Mr Coulton said.</p> <p>If China's economic growth does halve as feared, it could have serious implications for the global recovery. L&G's argument is that soaring food prices are not a temporary driver of inflation, but reflect underlying pressures from rising demand rather than one-off supply shocks.</p>	<p>Website, 13/04/2011</p>
<p>Consensus/Summary</p>	<p>There is a general cautious outlook towards China, particularly regarding their inflation. Some opinions on emerging markets as a whole are swaying towards being neutral from negative earlier in the year.</p> <p>There is also the common consensus that emerging markets will outperform developed markets over the long term.</p>	

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Property

Who	What	Source
<p>Alan Gardner, Head of Real Estate Research, Ignis</p>	<p style="text-align: center;">Correlation: Commercial Property with Equities 5-Year Correlation IPD Monthly Index vs FTSE All-Share Total Returns</p>  <p style="text-align: center;">Source: IPD Monthly Index, Feb 2011</p> <p>The correlations between equity and property, very strong in the credit crunch, are now de-coupling. This could make property a “buy” again. Particularly in a high inflation environment, the stability of property could earn it increasing favour among investors versus equities and gilts. He forecast property to deliver a total headline return of 7% in 2011, comprised largely of income return, while returns from equities, currently viewed as expensive, will be flattish and more volatile.</p> <p>‘Average property yields will still compare favourably to other asset classes when considering the higher levels of inflation the UK is experiencing.’</p> <p>‘Equities are not cheap – pricing is a bit below pre-credit crunch levels – and gilt yields are at a point where gilt prices will only rise if the UK economy struggles to the extent where the stimulus provided by record low interest rates is still needed. This should support the view that property is fully but fairly valued.’</p>	<p>Citywire 6/4/11</p>

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Property (continued)

Who	What	Source
Gerry Ferguson, Fund Manager, SWIP UK Property	<p>Whilst availability of good quality stock remains low, the yield compression that has been driving the market appears to have halted. Returns are now almost wholly based on income. Properties offering asset management opportunities are becoming more attractive as investors look further up the risk curve in order to generate acceptable returns.</p> <p>Risk of tenant default and falling rental values/voids still having an impact on poor secondary values. Rental growth at an all property level has been marginally positive since the beginning of the year, with continuing positive growth for offices. Whilst we expect returns to be muted this year, we believe that we will see average total returns of 8.5% pa over the next 5 years, with double digit returns being achieved at the back end of that period.</p>	SWIP Property Email Update, 19/04/2011
Don Jordinson, Fund Manager, Threadneedle Property Fund	<p>In 2010, we saw some normalisation in the UK commercial property sector, and despite the absence of the market excitement accompanying the earlier breath-taking rebound from the extreme conditions of 2007-2009, the sector produced a quite respectable 14.5%. Less pleasing was the fact that most of this was achieved early in the year. So the story for returns was that capital growth came early in the year and it actually dwindled as liquidity diminished towards the end of 2010.</p> <p>Our predictions for commercial property returns are bearing up. We envisaged that an income return of 6.4% on the market would drive returns and so far this appears to be the case. The jury remains out on capital growth prospects. To the end of February, the market has returned 1.4%, comprising 1.1% income and a marginal 0.3% capital. Although rental values did rise, this was by a miniscule 0.1%.</p>	Threadneedle Property Fund email update, 11/04/2011
Consensus/summary	Overall opinion is for low growth within commercial property but with rents now stable. There is some chance of falls in prices and further growth is not expected for at least the next 12 months or even into 2012.	



Fixed Interest

Who	What	Source
James Foster, Fund Manager, Artemis Strategic Bond	<p>The outlook for government bonds remains difficult with interest rates in Europe likely to increase and UK rates likely to increase whilst inflation is so far above target. For this reason we are likely to retain our short duration position. Meanwhile our investment grade holdings tend to be financial bonds, which are less correlated with government bonds.</p> <p>We believe the high yield area will continue to offer some good returns as defaults will continue to fall. The consumer sector could be quite tough where retailers are continuing to suffer. But other areas offer opportunities.</p>	Email Update, 01/04/2011
Bank of England, Monetary Policy Committee	<p>Short-term sterling interest rates had changed little over the month as a whole and had continued to indicate that market participants expected Bank Rate to increase by 25 basis points around the middle of the year. Within the month, however, yields had reacted to a range of data releases and news.</p> <p>Long-term interest rates were little changed over the month and measures of uncertainty about them derived from options prices had remained elevated.</p>	Meeting Minutes – MPC meeting, 6/4/2011
Richard Hodges, Fund Manager, L&G Dynamic Bond	<p>Richard Hodges says central banks are propping up prices of short-dated government debt. He says the person that's sitting on the other side of this is central banks. A steeper yield curve is very good for banks.</p> <p>He points out that artificially lowering bond yields is good for the financial system, because it gives banks a chance to refinance and normalize by borrowing cheaply in the short term and lending at a higher rate over a longer period.</p> <p>He believes that central banks can no longer prop up these lowly yields. He thinks there is very little value in government debt. Two-year yields on US Treasuries are 0.66% – there is no value there whatsoever.</p>	L&G email update, 28/04/2011



Fixed Interest (continued)

Who	What	Source
Adam Cordery, Fund Manager, Schroder Corporate Bond fund	<p>Given the continued outperformance of credit over the past few months, it is clear that valuations are no longer as supportive as they were previously. That said, we believe that certain areas of the credit market still offer value for investors and the widespread search for yield remains supportive of the market.</p> <p>There are several potential triggers for market volatility over the next few months, but we generally see a backdrop of improving economic activity and corporate default rates that remain low. As default rates are one of the major drivers for overall credit spreads, this trend should be supportive for attractively valued corporate bonds.</p>	Schroder Fund Update Email, 21/04/2011
Consensus/summary	<p>The majority is still concerned regarding inflation and a potential early rise in interest rates which could see a fall in bond prices. The consensus has been the same, with government debt being negative, higher yielding corporate bonds potentially delivering high single digit returns, and high quality investment grade bonds delivering steady returns.</p>	



Research Summary – April 2011

Fund Manager Contact Summary

* Includes other key contacts and speakers such as analysts, economists, and others.

Event	Speaker(s)	Type of Contact
Teleconference	Keith Wade, Chief Economist, Schroders	Telephone
Dinner Meeting	Adam Avigdori, Fund Manager, Blackrock Income Fund	Face to Face
Teleconference	Richard Buxton, Fund Manager, Schroder UK Alpha	Telephone
Lunch Meeting	Graham French, Fund Manager, M&G Global Basic Fund	Face to Face
Teleconference	Tam Mcveigh, Fund Manager, Standard Life GARS	Telephone
Meeting	Simon Callow, Fund Manager, CF Midas Balanced Growth	Face to Face

This month we met 3 fund managers and spoken to 3 other key individuals.

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Monthly Figures – April 2011

Index	Value
FTSE 100 – last day of last month	5908
FTSE 100 – last day of this month	6074
% change (ignores dividends)	+2.8%
FTSE Allshare – last day of last month	3067
FTSE Allshare – last day of this month	3155
% change (ignores dividends)	+2.87%
Oil price (Brent Crude) \$	\$123.8
% change	+6.54%
US\$ to £ - last day of last month	1.63
US\$ to £ - last day of this month	1.65
% change	+1.2%
Euro to £- last day of last month	1.14
Euro to £- last day of this month	1.11
% change	+2.6%
RPI	5.3%
Change from last month	-0.2%
CPI	4.0%
Change from last month	-0.4%
BoE Base Rate	0.5%

Index	Value
UK 10 Year Gilt Yield	3.47%
FTSE Allshare P/E Ratio	14.5x
FTSE Allshare Yield	2.9%
Spread v Gilt	0.57%
IBOXX Sterling Corp Bond Yield	5.49%
Spread v Gilt	2.02%
IPD UK All Property Yield	6.4
Spread v Gilt	2.93%

Monthly Portfolio Figures	% Change
Fixed Interest	0.56%
Strategic Fixed Interest	0.59%
UK All Companies	1.87%
UK Large Companies	3.46%
UK Dynamic	2.25%
Global Established	-0.10%
Global Dynamic	0.14%
Global Speculative	-0.23%
Alternative Equity	0.63%
Property	0.37%

Sources: Financial Express Analytics, Indexco.com, National Statistics, Bloomberg, FT.Com, Google Finance, Yahoo Finance

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