



Research Summary – August 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
Paul Dales, Capital Economics	<p>The US debt deal will not prevent the US from losing its AAA credit rating. The combination of only \$1trn in deficit reduction being "in the bag", the remainder \$2 trillion not being guaranteed and the danger that we will have to go through this all again at the end of the year, all falls short of the "credible solution" involving "a medium-term fiscal consolidation plan of \$4 trillion" that S&P has implied would be necessary to prevent a rating downgrade.</p> <p>It is possible that S&P will wait and see what kind of deficit reduction the bipartisan commission comes up with later this year. But would not be at all surprised to see a rating downgrade come as soon as this week.</p> <p>'Even if a deal is done, it is important not to lose sight of why this issue has arisen in the first place. The bigger picture is that the long-term fiscal position of the US remains perilous. A raising of the debt ceiling and a package to reduce the deficit by between \$1 trillion and \$3 trillion over ten years will do little to reduce net debt.</p> <p>'Much more fiscal consolidation will be needed, which is likely to act as a brake on economic growth for some years to come. GDP growth is already on course to disappoint this year and the next few years may be no better. In such a climate, equities will struggle and Treasury yields will remain low.'</p>	Citywire 1/8/11



General (continued)

Who	What	Source
Mansoor Mohi-uddin, MD of foreign exchange strategy at UBS	<p>Swiss franc, Canadian and Australian dollars are being increasingly traded in the foreign exchange markets as they represent an alternative group of "shadow currencies" for investors wishing to take directional views on the world's three leading economies: America, China and Germany.</p> <p>But investors should also note that the new-found status of the shadow currencies cuts both ways. If the eurozone debt crisis engulfs Germany, forcing it to raise taxes and cut spending to assist large economies like Spain or Italy, then the Swiss franc is likely to be dragged down too. A hard landing in China would knock the Australian dollar off its perch while a recession in America would weaken Canada's exports and currency just as the financial crisis did dramatically in 2008.</p>	FT 03/08/11
Warren Buffett	Said Standard & Poor's erred when it lowered the US credit rating and reiterated his view that the economy will avoid its second recession in three years. He told Bloomberg television, the US merits a "quadruple A" rating. He remains extremely positive about equities.	Bloomberg 7/8/11
Anthony Bolton, former fund manager, Fidelity Special Situations	<p>"I believe the recent stock market volatility reflects a familiar pattern during this bull market of short, but often very sharp setbacks, within a bull trend."</p> <p>"History shows that normally extreme equity market volatility as we are now experiencing should be seen as a time of opportunity rather than a time to become more defensive."</p>	Investment Week 7/8/11



General (continued)

Who	What	Source
Mervyn King, Chairman of MPC	<p>He dismissed the possibility of further quantitative easing and warned growth could remain weak for several months to come.</p> <p>He also predicted inflation could increase above 5% as energy bills continue to climb. 'The timing and fall back in inflation is highly uncertain,' He said inflation should fall back below the 2% target in the medium term.</p> <p>'It's almost four years since the start of the financial crisis. One way or another the losses built up will have to be shared between creditors and debtors.</p> <p>'The key question is whether that burden will be shared in the context of a downturn in the world economy or a rebalance in demand. We must work with our colleagues abroad to reduce the imbalance. But there are limits to what monetary policy can do to alter inflation.'</p>	Various, 10/08/2011
Standard Life, House View	<p>"Financial markets are becoming over bought (bonds) and over-sold (equities). They are beginning to price in a recession, which we do not think is likely. Hence, the current levels of volatility provide an opportunity for tactical trades. Corporate balance sheets are strong and do not suffer from the debt headwinds buffeting governments and consumers.</p> <p>"We warn, however, that it could be some time before markets return to their recent highs. Investors are beginning to realise that the outlook for global growth, in general, and corporate profits, in particular, will be very moderate by past standards. Governments are hamstrung in many countries and unable to stimulate a rapid expansion.</p> <p>"The end game of central banks adopting higher inflation targets has moved one step closer."</p>	Email 15/8/11



General (continued)

Who	What	Source
<p>Thanos Papasavvas, Strategist, Fixed Income and Currency, Investec Asset Management</p>	<p>Markets have reacted soberly to better than expected US employment data, with a slight improvement in the US unemployment rate from 9.2 to 9.1% on the back of 117,000 new jobs. However, this is just one piece of economic data. Markets are looking for additional positive data over coming weeks before they become confident in the recovery.</p> <p>Despite markets falling by almost 10% over past few days, we believe this is a correction rather than a full-blown bear market. Downside risk has increased however. QE3 will only become a reality if the US unemployment rate deteriorates towards 10% Italy is very unlikely to default with politicians and the ECB trying hard to contain the situation.</p>	<p>Email 5/8/11</p>
<p>Nick Gartside, Head of Fixed Income, JP Morgan</p>	<p>France and the UK are in danger of joining the US in losing their prestigious AAA-credit ratings. Both countries need to address their debt to GDP ratios, which are both well above the 60% average for AAA-issuers, to avert the threat of a downgrade.</p> <p>The ECB needs to increase the European Financial Stability Facility's (EFSF) capacity to ease the threat of contagion spreading to Italy and Spain. If the capacity is raised, this will help restore confidence in the market, but Germany and France's credit rating could still be at risk. "Italy and Spain combined have outstanding debts of about €1.5trn so clearly the EFSF's €750bn capacity is not enough and needs to be significantly higher,"</p> <p>"The risk of raising the borrowing capacity is that it potentially impairs the credit ratings of Germany and France. If you took on an average debt of 60% across the eurozone for Italy, Spain, Ireland, Greece and Portugal, this would raise debt to GDP in Germany and France to over 100%." He expects European leaders to implement a eurobond by the end of 2011 to boost growth across the continent.</p>	<p>Investment Week 9/8/11</p>



General (continued)

Who	What	Source
David Blanchflower, Economist & former MPC member	<p>The outspoken former member of the Bank of England's Monetary Policy Committee (MPC) branded the European Central Bank as 'buffoons' but said we should keep faith with the actions of the Federal Reserve.</p> <p>He argues that the next major threat to the Eurozone is in France where risks are growing by the day. He has also called for an emergency meeting of the MPC and suggested that the Fed may seek to pre-empt the market and release more quantitative easing rapidly.</p>	Citywire 9/8/11
Fisher Investments	<p>Believes this is a normal market "correction" and not the start to a longer term downturn ("bear market"). Many people do not realise the recent actions taken by the IMF, EU and ECB concerning Greece actually improve the situations in Italy and Spain as well. The approximately \$1 trillion European Financial Stability Facility (EFSF) and other bailouts, while not a permanent solution, provide ample backstop for all PIIGS nations through 2013. This diffuses any real risk of default before 2013 and allows time for a longer term solution.</p> <p>One would think with all of the hand-wringing over the US debt situation that default is around the corner. BUT...If the market believed default risk was increasing, then one would expect higher rates. Yes, rates on AAA-rated corporate bonds and on treasuries have been falling.</p> <p>Much of the present anxiety is based on reduced GDP figures. It's normal to have figures revised down or up after they have been released. It's also typical in the midst of economic growth to have quarters that are less than stellar. More importantly, GDP figures are backwards looking and are unable to point to the future.</p>	Email 16/8/11



General (continued)

Who	What	Source
Fisher Investments (<i>continued from above</i>)	<p>They believe the media are biased and they point out a few positive pieces of news that have been ignored:</p> <ul style="list-style-type: none"> • Global GDP is positive overall and economic data shows continued expansion Corporate earnings growth rates continue to beat expectations. • This is a 3rd year in a bull market – which historically are very volatile, but lead into a second “leg” • Global trade continues to expand • Corporations around the world have very strong cash balances on their books. 	Email 16/8/11
Colin McLean, Managing Director, SVM Asset Management	<p>The UK’s AAA rating is ‘anomalous’ and based on growth targets which will likely disappoint. Another round of quantitative easing is ‘necessary’ to keep the value of the pound down, and a credit rating downgrade could help with this.</p> <p>‘Expectations are changing most rapidly in Europe, but in all regions scope for further effective stimulation is limited. Both France and the UK face the risk of a credit downgrade. Governments cannot re-run the unprecedented stimulation of 2009.’</p>	Citywire 22/8/11
Joseph Stiglitz, Nobel Prize winning economist	<p>‘The unemployment situation in the US is very severe and very probably going to get worse. There is a very high probability we’ll go into double dip,’ he said Government spending would most swiftly improve the US employment picture, not more intervention from Bernanke.</p> <p>‘The most important way to address the deficit is to get America back to work, to get the economy back to full employment. Austerity is going to get us predictably into trouble. Spend the money on investments, and those investments will lead to higher growth.’</p>	Citywire 26/8/11

General (continued)

Who	What	Source
Martin Weale, Member of Monetary Policy Committee, Bank of England	<p>Does not think more QE is required right now but could be used later on.</p> <p>"Although the economy is weaker than we would like, business surveys do not suggest the picture is, at present, like that of the summer of 2008."</p> <p>However, "there is undoubtedly scope for further asset purchases to trigger further reductions in yields on government debt should the need arise."</p>	Investment Week 26/8/11
Consensus/Summary	<p>The majority of this month's opinions are bearish, with economic growth likely to be much lower than previous estimates. No one is now advocating a rise in interest rates. There is a split in opinion about whether there should be further rounds of QE in the US or the UK.</p> <p>There are concerns that the UK or France could lose their AAA ratings.</p>	



Equities

Who	What	Source
<p>Dave Fishwick, Head of Macro and Equities Investment, M&G</p>	<p>“There is a significant fundamental element behind the current market volatility, with European sovereigns facing very real problems and weaker economic data in the US undoubtedly threatening global growth. Market moves in the past few days, however, bear all the hallmarks of investor panic rather than a considered assessment of the true prospects for global assets. “We believe that little has changed in the past week other than asset prices. It appears to be the falls in asset prices that is driving markets at present, rather than fundamentals. Investors are almost certainly being painfully reminded of the events of 2008.</p> <p>“As a result, from a medium-term perspective, we believe that investors are still being well rewarded for taking risk. Although earnings growth for companies has slowed, we would need to see extremely poor results from the corporate sector from here to justify the current pricing in a number of markets.”</p>	<p>Email update 5/8/11</p>
<p>John Chatfeild-Roberts, CIO of Jupiter Asset Management</p>	<p>The recent sell off in equity markets has been mainly driven by investor concerns that the global economy is now slowing. Economic leading indicators remain under pressure at a time when many emerging market central banks are raising interest rates in a concerted effort to contain inflation, albeit at the expense of a slowdown in domestic consumption growth.</p> <p>“This is, in my view, the correct action to take to ensure that their long term structural growth prospects remain intact and are not de-railed. The European sovereign debt crisis is also a major concern that investors are rightly worrying about and one which is unlikely to resolve itself soon. It is at difficult times like these that we have to remind ourselves that companies are generally in excellent health. By way of example, two-thirds of the US companies in the S&P 500 Index have now reported Q2 earnings and 73% of those have exceeded analyst expectations. That said, they are understandably making cautious outlook statements to the market.”</p>	<p>Jupiter Email Update, 05/08/2011</p>



Equities (continued)

Who	What	Source
Marc Faber, Economist	<p>“I think that near-term stock markets around the world are very, very oversold and most oversold since February, March 2009 and 1987,” Faber said. “(It) doesn't mean that they can't go lower, but I think they will rebound.”</p> <p>“The strategists in the US, mostly brainless people, who are predicting S&P between 1400 and 1500 by year end, I think they will have to re-adjust their views and I think the markets may actually go lower.”</p>	CNBC Report, 08/08/2011
Hersh Cohen, CIO, ClearBridge Advisors	<p>What we cannot ever be sure of is movements in the market caused by either liquidity needs of leveraged investors or selling motivated by fear. Unfortunately, modern technology has created many tools that can have an exaggerated effect on market moves. That can make things seem better than they are during upswings, and have devastating effects during declines.</p> <p>We recognize the breakdowns in some stocks, even as earnings and dividends hold up, and even rise. Unlike 1999, when stocks were extremely overpriced, or 2008, when financial stocks were succumbing to years of bad judgment, this market is not obviously expensive. Compared to other types of assets, we would argue that stocks are the most attractive category. On an absolute basis, dividends are in many instances, higher than returns available on fixed income securities - not seen in decades. Dividends have been rising at rates at least commensurate with our expectations.</p> <p>Our way of being defensive in this market is different from how we behaved in past turbulent times, when we carried high levels of cash reserves. Given the quality of balance sheets, levels of dividends, and already moderate prices, raising large amounts of cash seems less compelling than in other periods.</p> <p>We will continue to assess our positions as markets react sporadically to news, but we don't want to be doing mass movements during these emotional upheavals.</p>	Legg Mason Email Update, 09/08/2011



Equities (continued)

Who	What	Source
Capital Economics	<p>The S&P 500 has now fallen 17% since its high on 21st July, and plummeted through our long-standing end-2011 forecast of 1,200. If the economic slowdown turns into a recession, we think the index could slide to around 850. But for now we think the economy is more likely to remain in a rut than fall into a recession despite the adverse feedback from the market upheaval. Accordingly, we do not expect to see a total meltdown in share prices and have decided to revise our end-year forecast for the S&P 500 only to 1,000, which would represent a further drop of just over 10% from current levels.</p>	Citywire Update, 09/08/2011
Jeremy Podger, Threadneedle, Head of Global Equities	<p>We know the triggers that have caused this drop in equity markets, and you can spot one or two as the straw that broke the camel's back. This confluence of the US downgrade, which was inevitable, along with Europe's sovereign debt crisis, has also been compounded by bad economic data, with US growth in particular not as fast as economists had predicted.</p> <p>People are now unsure where the real value lies, and are unwilling to put fresh cash to work. So the central case scenario of decent global growth was not as strong as it was, and the more likely scenario now is unsustainable debt levels.</p> <p>But, not all results are bad. The US corporate earnings is strong and even in Japan, these have been 30% above what was expected.</p> <p>The real disappointment, however, are companies missing forecasts in Europe where earnings are also worse than expected. This is also partly to do with the currency effect, because of the strength of the Euro and Swiss franc.</p>	Threadneedle Email Update, 09/08/2011



Equities (continued)

Who	What	Source
James Henderson, Fund Manager, Henderson UK Equity Income	<p>“I am doing very little for the funds other than buying small amounts of stock in a few companies I feel will not disappoint on the severe downward movements in the market such as GKN and Elementis. Otherwise, I am meeting companies and trying to reconcile what they are telling me with the large falls in their stock prices. I find this impossible to do unless the markets are predicting a severe worldwide global recession. This seems unlikely given the growth drivers in place in the global economy.</p> <p>“As the markets make little sense to me and until things become clearer, I will stay buying in small sizes wondering what I am missing. Companies are strong, dividend cover is high, cash generation is impressive and valuations are low. I believe we will look back and think this was a buying opportunity.”</p>	Henderson Email Update, 09/08/2011
Dominic Rossi, Global CIO of Equities Fidelity International	<p>“Savers needing income should look at equity markets. Since the global financial crisis, many good quality companies have been rebuilding their balance sheets and generating strong cash flow and good profits. Even if equity markets are showing volatility in growth, equity funds can provide a good alternative source of income. For the last 20 years, investors have bought equity markets for capital growth, but now is the time to buy equities for income.”</p>	Fidelity Email Update, 09/08/2011
Alistair Mundy, Fund Manager, Investec Special Situations	<p>“Nothing happened to make markets sell off last week. Everyone already knew that Greece and various other European countries were basket cases. Indeed, while this news has become more apparent over the last twelve months, markets have been reasonably stable. As much as we would all love to have reasons for events, life is not that easy. I can still find no reason why the TMT bubble burst when it did.</p> <p>“We have been asked a number of times whether the market sell-off has created a larger universe of buy ideas. The simple answer is no and the main reason is the sell-off has only taken markets back to levels at which they stood about a year ago – and we weren’t buying much then either.</p>	Citywire Update, 09/08/2011



Equities (continued)

Who	What	Source
<p>Alistair Mundy, Fund Manager, Investec Special Situations <i>(continued from above)</i></p>	<p>“Of course, volatility does always provide a number of individual opportunities and we have used weakness in individual stocks to add to those of our existing holdings trading at a significant discount to fair value.</p> <p>“It’s not quite as suitably bullish as the marketers would wish but our focus on stocks rather than markets precludes any grander statement.”</p>	<p>Citywire Update, 09/08/2011</p>
<p>Keith Skeoch, CEO, Standard Life</p>	<p>The past week has seen pure emotion dominate financial markets for the first time since the depths of the crisis. For long term investors this type of overreaction typically creates opportunity for those able to take a longer view of value. The dramatic rally in bonds which has pushed yields back towards their post war lows provides clear evidence that markets have quickly adjusted to a world of slow growth, low inflation and low interest rates. Pure emotion has also pushed the world’s major equity markets to levels that discount low, if any, growth.</p> <p>The catalysts for releasing this value remain uncertain over the short term. Current emotions are driven by both the slowdown in the world economy and the inability or unwillingness of politicians to tackle the structural head winds holding back the world economy.</p> <p>While markets may remain subdued and volatile in the short term, the emerging value suggests that investors should avoid overreacting, particularly against a backdrop where corporate balance sheets are strong and do not suffer from the debt head winds buffeting governments and consumers.’</p>	<p>Standard Life Email Update, 09/08/2011</p>



Equities (continued)

Who	What	Source
Neil Woodford, Fund Manager, Invesco Perpetual Income	<p>“During this dramatic sell-off, as on previous occasions, the market is indiscriminate. Typically, some of the biggest share price falls are in companies whose shares are most liquid, not those that might be most exposed to weaker growth.</p> <p>“Although our funds have held up very well during the sell-off, many of the companies in which we have high levels of confidence that have seen their share prices fall dramatically. We believe this provides a very attractive investment opportunity for those prepared to take a longer-term perspective.”</p>	Invesco Perpetual Email Update, 16/08/2011
Richard Buxton, Fund Manager, Schroder UK Alpha Plus	<p>Equity valuations are cheap, with many securely-financed companies offering reasonable growth, rising dividends or good long-term prospects at prices which look very attractive.</p> <p>Whilst there will be downgrades to earnings forecasts for numerous companies over the coming weeks, the precipitous falls in share prices have priced in much of the bad news. The impact of falling markets on business and consumer confidence is not to be ignored, but equally the oil price now falling significantly is a real boost to activity.</p> <p>At current levels there is no merit in being a panicked seller on any medium-term view. Many of the fund’s holdings have recently reported good results and represent very good value, which will be realised over time and in steadier conditions.</p>	Citywire Update, 09/08/2011
UBS Multi Asset Team	<p>Since the 4th quarter of 2008, one of the key investment strategies of our multi-asset investment team has been overweight exposure to equities. We have recently changed our stance from overweight equities to a more neutral equities exposure. The pace of economic recovery has dropped and corporate earnings growth is likely to slow. Most of the recent surprises in economic data have been negative, with indicators such as the ISM manufacturing index in the US coming in worse than expected.</p>	Email 5/8/11



Equities (continued)

Who	What	Source
Richard Turnill, Head of Global Equities Team, Blackrock	<p>Earnings downgrades are now coming through which could weight on markers for some time. However, the cash position of corporates remains strong, particularly in comparison to that of sovereigns. Equity valuations are compelling but that means that equity risk premiums are high. Furthermore, cheap valuations in turbulent market conditions do not lead immediately to market snap backs. We favour high quality stocks, particularly as the recent selloff has been broad based and relatively indiscriminate, despite strong cash positions. We also favour emerging markets.</p> <p>To see a big rebound they are looking for at least one of three key events to be a trigger:</p> <ul style="list-style-type: none"> • A true solution to the European sovereign debt issues, which they think will be some way off • More QE in the US, which <i>may</i> happen if negative GDP looks likely • An end to fiscal tightening in China, which they think is the most likely/soonest scenario. 	Conference call 9/8/11
Bob Doll, Chief Equity Strategist, Blackrock	<p>The S&P 500 is now priced very low, at around 12x trailing earnings. The last time this occurred was decades ago, when the yield on 10-year Treasuries around 8%.</p> <p>With the bulk of second-quarter earnings now released, 75% of companies exceeded earnings expectations and 72% exceeded revenue expectations. He thinks dividends, M&G and share buy backs will increase due to cash on balance sheets. Big companies are likely to outperform smaller companies. In previous cases where sovereigns have been downgraded, the equity market of that country has been up by an average of 17% 1 year later.</p>	Conference call 9/8/11



Equities (continued)

Who	What	Source
Bloomberg article	<p>More executives at Standard & Poor’s 500 Index companies are buying their stock than any time since the depths of the credit crisis after valuations plunged 25 percent below their five-decade average. 66 insiders at 50 companies bought shares between Aug. 3 and Aug. 9, the most since the five days ended March 9, 2009, when the benchmark index for U.S. equities reached a 12- year low, Morgan Stanley CEO James Gorman and two other managers purchased 175,000 shares of the New York-based bank as the shares fell to the lowest level since March 2009, according to filings with the U.S. Securities and Exchange Commission.</p> <p>“It’s a fire sale and the insiders are stepping up to buy at these prices,” Daniel Genter, who oversees about \$3.7 billion as president of Los Angeles-based RNC Genter Capital Management, said in a telephone interview. “The insiders are saying that the lower valuation is unreasonable because they believe the earnings power of their companies is likely to go up.”</p>	Bloomberg 11/8/11
Investec House View	<p>Have cut their prediction for the FTSE 100 index to 5,800 from 6,600, citing the ‘striking’ similarities between recent sector performance and the sharp falls in the second half of 2008. They warned that current earnings estimates appeared to ignore the fact that many sectors remained highly operationally geared and vulnerable to a slow-growth environment.</p> <p>‘While we are not currently forecasting an outcome as severe as 2008/9, we believe forecasts in a number of sectors remain too high with the greatest risk clustered around financials, commodity, capital goods and consumer cyclical sectors,’ The strategists estimated that under their ‘hard landing’ scenario, earnings by FTSE All Share companies could decline by 10% – excluding the banking, mining and oil sectors – compared with current estimates of 11% growth. In this case, 2013 price-to-earnings ratios would be 12.6x, against the 9.7x currently forecast ‘This encourages us to believe that equities remain undervalued.’</p>	Citywire 23/8/11



Equities (continued)

Who	What	Source
Sanjeev Shah, Fund Manager, Fidelity Special Situations	<p>UK share prices look their most attractive for two years following the sell-off in markets. He said shares are trading at historically low multiples of earnings, while also offering attractive dividend yields.</p> <p>As such, he said the market today looks as attractive as 2009, when shares rallied off lows by as much as 70% over the next year and a half.</p>	Email update 24/8/11
Various Investment banks	<p>Year end FTSE predictions:</p> <ul style="list-style-type: none"> • Goldman Sachs – 6,200 • JP Morgan – 5,900 • Cazenove – 5,900 • UBS – 6,100 • Investec – 5,800 • Citigroup – 6,200 <p>The average expected index level is 6,040. However, UBS did warn of what would happen if we entered a deep recession: 'On a black-sky scenario, the European market would fall below the 2009 low,' The index hit 3,460 in March 2009.</p>	Thisismoney.co.uk 28/8/11
Consensus/Summary	There are plenty of various opinions on where equity will go from here, but the majority believe that the asset class is now significantly undervalued and at these current levels, equities are looking very attractive.	



Emerging Markets

Who	What	Source
<p>Michael Konstantinov, Fund Manager, Allianz RCM BRIC Stars Fund</p>	<p>I believe right now is the right time to go back into emerging markets. In the last two weeks we have seen some more positive news from key emerging markets (EMs), with an improvement in fund flows and the potential peak of monetary tightening in China. This can be coupled with problems in the developed world caused by instability in the Eurozone and the US as well as an apparent slowdown in global growth.</p> <p>As investors start to react to this news flow we should see the reversal of funds from developed markets to those in the emerging world: this should lead to a rebound in emerging market equities. The fundamentals in most emerging economies are also strong with healthy sovereign balance sheets and companies less affected by events in Europe and the US. On top of this across emerging markets, after the selloff of the first six months of the year, valuations are beginning to look appealing, particularly in the BRICs.</p>	<p>Investment Week, 05/08/2011</p>
<p>Kristof Bulkai, Fund Manager, Thames River Global Emerging Markets Absolute Return Fund</p>	<p>We remain convinced emerging markets will continue to drive global growth and the fundamental case for investing in these regions should run for several decades amid favourable demographics and low levels of public, private and corporate debt versus the developed world. Although emerging markets are likely to remain the primary source of global growth, as they mature we are likely to see increased volatility and a divergence of performance across sectors and geographies.</p> <p>No asset class in history has risen in a straight line and, after such a strong run, investors need to anticipate some setbacks along the way. GDP growth in GEMs has historically been driven by the expansion of exports and significant investment in infrastructure.</p> <p>Domestic consumption and the appetites of the middle classes will become increasingly important. As consumption replaces exports many structural changes will create opportunities, particularly for those who adopt a long/short strategy.</p>	<p>Investment Week, 05/08/2011</p>



Emerging Markets

Who	What	Source
<p>Kim Catechis, Fund Manager, Martin Currie Emerging Markets Fund</p>	<p>Earlier this year, we saw substantial flows out of EMs and into the developed world. The main factors in this were inflation in larger emerging economies and the tightening measures adopted to combat it.</p> <p>Consequently, emerging markets have underperformed this year. So far, inflation in the developing world has remained stubbornly high. But, as the European sovereign debt crisis rumbles on and the US recovery appears to falter, the attractions of developed markets have begun to pall.</p> <p>Now there are signs emerging market inflation may soon peak, with a recent softening of Chinese pork prices and real rates of 6% in Brazil. Once tightening policies appear to have worked, investors should again come to appreciate the strong reserves and robust balance sheets of the developing world not to mention the diverse opportunities offered by its companies. The current relative weakness offers an attractive entry point.</p>	<p>Investment Week, 05/08/2011</p>
<p>Dean Newman, Head Of Emerging Markets Equities, Invesco Perpetual</p>	<p>Investor sentiment towards emerging markets in recent months has been dented by worries over inflation and higher interest rates. Risk appetite has also been influenced by events in the developed world, such as the sovereign debt crisis in the Eurozone. Encouragingly, we are now seeing signs inflationary pressures in emerging economies are starting to abate and the peak in the headline rate may not be too far away.</p> <p>This may prompt a shift in focus towards growth, in particular, to countries that offer strong secular demand stories, such as Brazil, Russia and Turkey. We believe the strong fundamentals of emerging countries higher growth rates, lower fiscal deficits and sounder banking systems are not being reflected in equity valuations, where they trade at a discount to developed markets. We remain positive on emerging market equities for 2011 and beyond as we continue to see healthy domestic fundamentals, supportive valuations and broadly sustainable earnings.</p>	<p>Invesco Perpetual, Email Update, 05/08/2011</p>



Emerging Markets (continued)

Who	What	Source
William Calvert, Fund Manager, Polar Capital Emerging Markets	<p>Valuations in emerging markets are now reasonable with historic price to book value below the 15-year average of 1.8x and the prospective P/E ratio for 2011 being just over 11.5x - but there is no reason to rush back into the asset class. This is not because we have no confidence in the long-term story but because we think the tightening cycle still has some mileage left in it. This will not take the form of rising interest rates in developed markets, but through the transmission mechanism of a falling US current account surplus.</p> <p>This will be accompanied by diminishing global FX accumulation as emerging markets bite the bullet on the mercantilist growth model and allow their currencies to appreciate. With the situation in Europe deteriorating, and limited likelihood of a third round of QE, there seems certain to be a great opportunity to buy into parts of the world that have tremendous growth opportunities and very limited leverage.</p>	Investment Week, 05/08/2011
Craig Farley, Investment Manager, Ashburton Chindia Equity Fund	<p>Is it time to go back into emerging markets? "The short answer is no. It is difficult to get excited at the moment, but by and large that is down to events elsewhere. "Against an extremely fragile global backdrop, the employment, housing and manufacturing data in industrialised nations all continue to deteriorate, suggesting those hoping for a return to long-term trend growth will be disappointed. "While emerging markets will not be immune from a slowdown, in the main they have the advantage of strong balance sheets, flexibility in taxation and labour markets, and strong underlying demand. "Perhaps the most important differentiator is that public debt in EM economies is substantially lower (38% of GDP) than industrialised nations where sovereign, bank and consumer debt all remain uncomfortably high.</p> <p>"And while rising inflation, fuel and food prices have given investors plenty of sleepless nights, most EM central banks are now at, or nearing, the end of the tightening process. A more attractive entry point will likely present itself in the coming months and a significant correction in EMs (particularly China and India) stemming from issues in the West should be used to increase exposure."</p>	Investment Week, 05/08/2011



Emerging Markets (continued)

Who	What	Source																																								
Francis Salvesen, Investment Executive, Fund Management Group	<p>The Rout in Developing Countries, stemming from Euro debts and the US budget deficit, is not confined to Western shores. Investment is linked across the world, even when many of the Emerging Markets have ample credit and savings.</p> <p>While inflation is higher than we would like, it is not dangerously high, and both food and oil prices are coming back to more acceptable levels. Higher interest rates are having the desired effect, gently reducing inflation, while allowing growth to continue at slightly reduced levels.</p> <p>Of even more importance, valuations have fallen markedly. As a cross reference I looked back to 2007, to see what kind of Price/Earnings were being paid then. Emerging Markets in particular look cheap now, and earnings are growing solidly.</p> <table border="1" data-bbox="645 863 1615 1142"> <thead> <tr> <th></th> <th>Consumer Price Inflation</th> <th>GDP Growth</th> <th>P/E Ratio</th> <th>compared to '07</th> </tr> </thead> <tbody> <tr> <td>Russia</td> <td>9.6%</td> <td>4.8%</td> <td>6x</td> <td>17x</td> </tr> <tr> <td>India</td> <td>8.9%</td> <td>8.2%</td> <td>15.4x</td> <td>26x</td> </tr> <tr> <td>Brazil</td> <td>6.8%</td> <td>4.1%</td> <td>9x</td> <td>18x</td> </tr> <tr> <td>China</td> <td>6.4%</td> <td>9.6%</td> <td>10.8x</td> <td>48x</td> </tr> <tr> <td>UK</td> <td>4.2%</td> <td>1.5%</td> <td>12x</td> <td>14x</td> </tr> <tr> <td>US</td> <td>3.6%</td> <td>2.5%</td> <td>15x</td> <td>18x</td> </tr> <tr> <td>Europe</td> <td>2.7%</td> <td>2.0%</td> <td>9x</td> <td>13x</td> </tr> </tbody> </table> <p>(Source IMF)</p>		Consumer Price Inflation	GDP Growth	P/E Ratio	compared to '07	Russia	9.6%	4.8%	6x	17x	India	8.9%	8.2%	15.4x	26x	Brazil	6.8%	4.1%	9x	18x	China	6.4%	9.6%	10.8x	48x	UK	4.2%	1.5%	12x	14x	US	3.6%	2.5%	15x	18x	Europe	2.7%	2.0%	9x	13x	Email 9/8/11
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Emerging Markets (continued)

Consensus/Summary	As equities, most opinions believe emerging market investments now look attractive based on these levels. However, some believe that the time to go back into the asset class isn't now as economic data remains fragile and the risk/reward trade off is high.	
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Property

Who	What	Source
SWIP Property Team	<p>“The market volatility and concerns about debt etc is likely to have a negative impact on UK Property. Property is now ever more quickly interlinked with the strength of the underlying economy. What we have seen from the BoE (and the Fed) is the acknowledgement that that the economies there are going to take longer to regain much momentum. Consequently, it would be expected that rental growth will take longer to appear.”</p> <p>“There are good points, however, from recent events: interest rates remaining lower for longer suggests that property yields should not be under as much upward pressure - they will stay roughly where they are for longer - and perhaps the construction sector may benefit from the rebuilding required in Croydon, Manchester etc.”</p>	Email Update 12/8/11
Fiona Rowley, Fund Manager, M&G Property Portfolio	Has begun taking some more “leasing risk” so that the fund can benefit from exposure to a cyclical upturn in rental growth as it emerges. Has been doing so by purchasing offices on shorter leases, upping the risk/return dynamics of the previously very cautious fund.	Email 8/8/11
Philip Nell, Fund Manager, Aviva Property	<p>We are continuing to see a slowing-down of general market activity as concerns are growing amongst investors that the already fragile economic recovery in the UK is stalling, and all but a few hot-spots of occupier activity are seeing static or downward rental pressures. The recent announcements of the failure of a number of high profile retailers also suggest that the pressures on consumer expenditure of falling real incomes and increasing taxes are now starting to bite.</p> <p>That said, the UK commercial property market needs to be seen in the context of global, multi-asset markets. There are significant parts of the UK market which remain attractive to overseas investors. Global economic uncertainty, political unrest and weak sterling are encouraging investors from outside the UK to consider investing here, primarily in Central London. Investors are still focusing on prime assets; good quality buildings in desirable locations with strong tenants and longer-than-average leases.</p>	Monthly email, 20/08/2011



Property (continued)

Consensus/Summary	Consensus for property is not positive due to its increasing link to economic growth, which is likely to be poor. Income levels remain attractive but little growth is foreseen. However, fund managers see some pockets of value.	
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Fixed Interest

Who	What	Source
Andrew Wells, CIO of Fixed Income, Fidelity	<p>“While there will be continued volatility, there is a growing sense that the ECB have introduced some core stability to European bond markets by purchasing the government bonds of Spain and Italy. Jean-Claude Trichet, President of the ECB, has been talking about being in the market for these bonds all week which has helped to bring Spanish 10-year bond yields under the 5% level. The other supportive factor is that Standard & Poor’s has reaffirmed the AAA sovereign credit ratings of France and the UK in the wake of the US downgrade.”</p>	Fidelity Email Update, 09/08/2011
Ben Lord, M&G, Fund Manager, Fixed Interest Funds	<p>Two months ago I questioned whether the decoupling between credit spreads and economic fundamentals could continue for much longer. I felt at the time that at some stage the weakening economic data would start to drag credit spreads wider, at least relative to government bonds. I also asked whether we might enter an environment in which high quality investment grade credit could see a flight to quality rally, whilst some of the lower quality, higher beta credit could sell off. Let’s see how government bonds and credit have fared since this blog was posted.</p> <p>Bunds, Gilts and Treasuries have had a fantastic couple of months as shown in the chart below, with 10 year benchmark returns of 7%, 5.25% and 5%, respectively. However, this did not happen solely because economic data turned so horribly south, although it clearly did. These government bonds were boosted because of the peripheral sovereign debt concerns in Europe, and debt ceiling negotiations almost bringing about a technical default in the US. The markets panicked and sold risk and bought traditional, relative safe havens.</p>	M&G Fixed Interest Update, 09/08/2011

Fixed Interest (continued)

Who	What	Source
Adam Cordery, Fund Manager, Schroders Corporate Bond	<p>He Compared the gilt market to the tech market in 2000.</p> <p>“I find it quite difficult to buy things that look hideously overvalued,” he said. “Gilts are priced for complete panic, and panic rarely lasts forever. When the panic is over people will look at inflation and see it is much higher than the gilt yield and wonder why on earth they own gilts.”</p> <p>Cordery noted RPI is at 5%, and a 10-year gilt is on a yield of 2.5%, so inflation is twice the yield on a 10-year gilt. He said that has never been a healthy relationship historically.</p> <p>“In the dotcom boom, everything looked overvalued on conventional metrics, but people kept on buying, and those that held out felt sillier and sillier, but all of a sudden, almost overnight, people suddenly remembered the traditional valuation metrics and the whole thing collapsed.”</p>	Investment Week 22/8/11
Consensus/Summary	The overall opinion regarding sovereign debt seems to state that it is currently overvalued during this period of global economic uncertainty due to investors moving into ‘safer’ investments and volatility in the bond market will continue to persist.	



Research Summary – August 2011

Fund Manager Contact Summary

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

Event	Speaker(s)	Type of Contact
Conference call	Robert Fairbairn, Head of Global Client Group, Blackrock	Telephone
Conference call	Ewen Cameron Watt, Chief Investment Strategic, Blackrock	Telephone
Conference call	Peter Fisher, Head of Fixed Income Portfolio Management, Blackrock	Telephone
Conference call	Bob Doll, Chief Equity Strategist, Blackrock	Telephone
Conference call	Richard Turnill, Head of Global Equities, Blackrock	Telephone

This month we met had telephone/web contact with 5 fund managers and other key individuals.

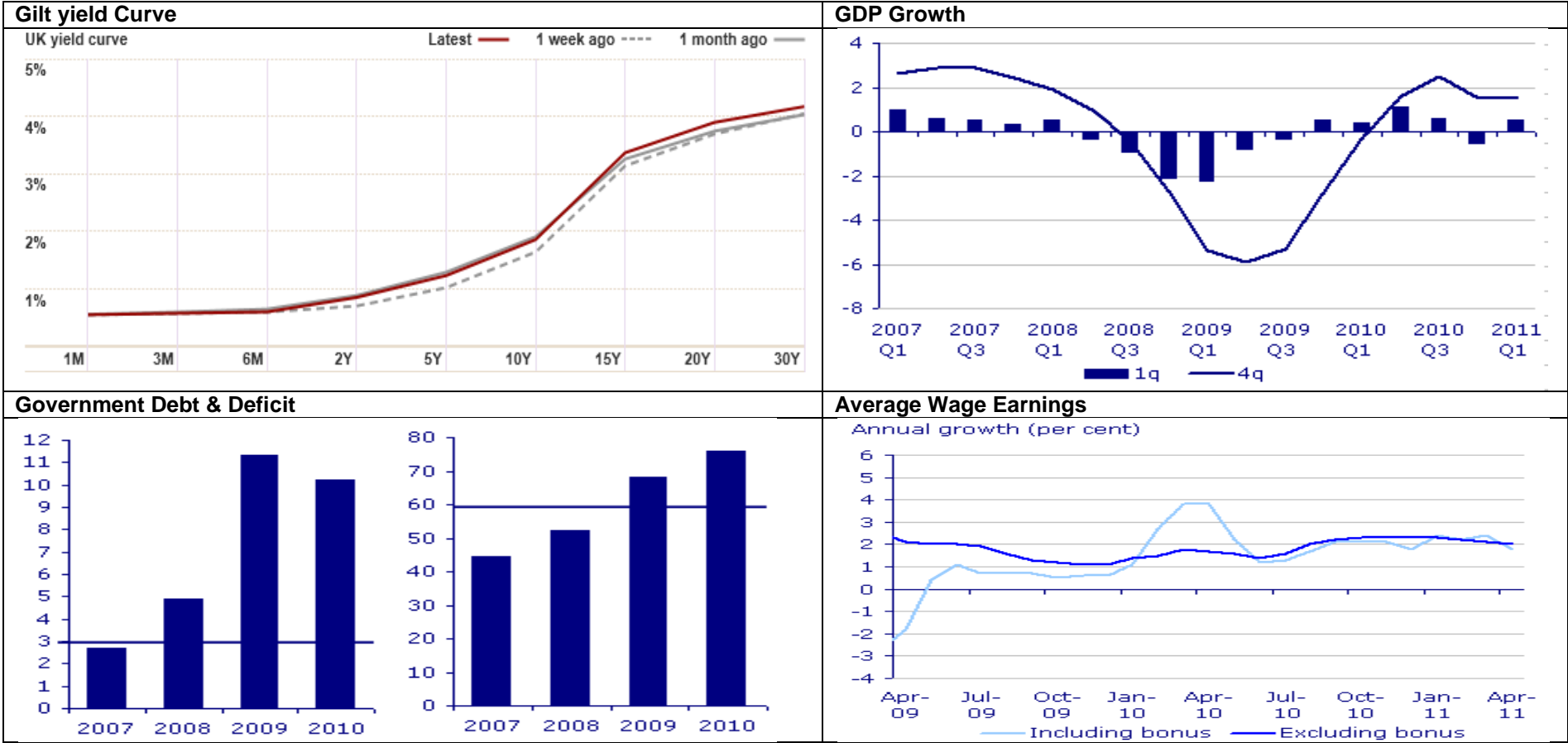


Monthly Figures – August 2011

Index	Value
FTSE 100 – last day of last month	5945
FTSE 100 – last day of this month	5394
% change (ignores dividends)	-9.2%
FTSE Allshare – last day of last month	3096
FTSE Allshare – last day of this month	2787
% change (ignores dividends)	-10%
Oil price (Brent Crude) \$	\$114.60
% change	+3.75%
US\$ to £ - last day of last month	1.60
US\$ to £ - last day of this month	1.62
% change	+1.25%
Euro to £- last day of last month	1.10
Euro to £- last day of this month	1.13
% change	+2.7%
RPI	5.0%
Change from last month	-
CPI	4.4%
Change from last month	-0.1%
BoE Base Rate	0.5%

Index	Value
UK 10 Year Gilt Yield	2.62%
FTSE Allshare P/E Ratio	10.8x
FTSE Allshare Yield	3.4%
Spread v Gilt	0.78%
IBOXX Sterling Corp Bond Yield	5.82%
Spread v Gilt	3.2%
IPD UK All Property Yield	6.1%
Spread v Gilt	3.4%

Monthly Portfolio Figures	% Change
Fixed Interest	-2.99%
Strategic Fixed Interest	-3.03%
UK All Companies	-8.10%
UK Large Companies	-6.03%
UK Dynamic	-10.34%
Global Established	-8.25%
Global Dynamic	-10.81%
Global Speculative	-10.39%
Alternative Equity	-6.46%
Property	+0.13%



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