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Research Summary – January 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
IHS Global Insight	They predict: GDP growth in 2011: 1.8%. Consumer Price Inflation to average 3.2% in 2011 and stay above 3% for most of the year. Unemployment to rise to 2.68 million by end-2011 and peak at 2.75 million in first half of 2012. Bank rate to edge up to 0.75% at end-2011. No more quantitative easing Government to modestly miss its fiscal target for 2011/12 but not tighten fiscal policy further. House prices to fall by further 6% in 2011, bringing losses from 2010 peak levels to 10%.	Investment Week 4/1/11

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General (continued)

Who	What	Source
Mark Holman, Fund Manager and Director, Twenty Four Asset Management	"Undoubtedly the next trend in UK rates is higher, the real question is when will this happen and by how much. Here we must recognise that the inflationary pressures in the UK, that the MPC said would subside 12 months ago , are even greater today and are still growing. If we couple this with the gradual and ongoing improvement in the UK economy, the case for raising rates has grown significantly over the last few months. We would not be surprised to at least see the bias amongst the MPC members change in quite short order even if a rate hike does not occur until later in the year. Our base case currently is that the first hike will be in the second half of the year with perhaps a second before year end. However it is easy to make a case to act sooner. If we don't see this happening, we think that the market could take its own view around long term inflation and punish the Gilt market heavily, which is something that has already begun to creep into prices. "	Email 11/1/11
Richard Buxton, Fund Manager, Schroders UK Alpha Plus	The current sovereign debt crisis is effectively a banking crisis, testing whether the PIIGS can support their banks. Over the course of 2011 markets will continue to test the resolve of politicians and the ECB to support these countries. The only long term solution is a guarantee from Germany that they will support the PIIGS indefinitely. This is unlikely to come and as a result bond holders will be forced to take haircuts. People's worst fears over unemployment will not materialize. Historic precedent was set between 1992 and 1997 when the government shed 600,000 public sector workers while the public sector took on 1.8million.	Seminar 12/01/2011

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General (continued)

Who	What	Source
Anthony Hilton, Financial Commentator	With prices rising ever higher, many people are wondering why the Bank of England's rate-setting committee – whose job it is to try and keep inflation (as measured by CPI) around the 2% mark – are keeping interest rates at 0.5%. The problem is that we have the wrong kind of inflation. The oil price for example, isn't influenced by UK interest rates. There's another reason: our public debt. Governments throughout history have dealt with debt by inflating their way out of it, and when the alternatives entail street riots it's not hard to see why.	Citywire 14/1/11
Richard Jeffrey, Economic, Cazenove	"If the financial markets perceive the authorities are becoming less committed to reducing inflation, then the likely consequences will be that sterling depreciates and bond yields rise. Depreciating sterling would put further upwards pressure on prices, while rising bond yields would boost funding costs for both the private and public sectors. "So, as unpalatable as it may seem, the MPC may well find itself being forced to raise interest rates, despite weakening domestic growth trends."	Investment week 19/1/11
Bill Gross, Managing Director and fund manager, PIMCO	Believes that central bankers think soaring food and energy prices will "mean revert", meaning that they will return to their historical average level. "If you think we've mean reverted in oil after two recessions then you must be living on Mars. China is a structural long term phenomenon that offers no promise of mean reversion. Countries are walking up the protein trail from rice, beans and corn to poultry and ultimately meat and beef. To assume mean reversion is to diagnose wrongly the developing world." Believes owning inflation-linked securities helps.	FT 21/1/11

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General (continued)

Who	What	Source
Azad Zangana, Schroder European Economist	Today's poor economic growth results should put an end to fears of rate rises in the next six months. As the economy is growing sub 2% per annum, in the Bank of England's mind, the output gap, and therefore deflationary pressure, is increasing. We could even see a return of quantitative easing being the next favoured policy move.	Email 26/01/2011
Richard Buxton, Schroder UK Alpha Plus Fund	We continue to take comfort from the underlying improvement in the private sector labour market, the peak in the unemployment claimant count a year ago, and the health of significant parts of the corporate sector. Whilst the consumer is bound to be subdued in the coming months, we expect the growth in corporate sector spending and hiring to ensure that the UK does continue to grow this year, albeit in uneven fashion. Coupled with the continuation of very low interest rates, this underpins our expectation of further progress from the UK equity market during 2011. One could argue that less debt-fuelled private consumption and public spending with more private investment and exports could be exactly the gradual economic rebalancing that the UK economy needs.	Email 26/01/2011
Consensus/Summary	**There is a real division of opinion about when interest rates will need to go up in the UK. Economic growth numbers from the last quarter of 2010 were dreadful, reducing the likelihood of near term rate rises, but 2 member of the MPC have now voted for an increase.** **Inflation will remain above Bank of England target for at least the next 12 months. After that, opinion is split about whether it will remain an issue or die back.**	

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Who	What	Source
Richard Buxton, Fund Manager, Schroders UK Alpha Plus	In equity markets 2010 was less volatile than expected, though volatility will be a feature in 2011. This volatility will offer air pockets providing buying opportunities. Equities are unloved and under owned. Institutional investors are underweight equity and equity funds have seen 3 years of outflows. Despite this corporate balance sheets are in rude health and many companies will decide to start spending again during 2011.	Seminar 12/1/11
Keith Skeoch, chief executive of Standard Life Investments,	Predicted the FTSE would end the year at 6,900 - just below the record high of 6,930.2 achieved on December 30, 1999, before the dot-com bubble burst. "We expect the positive momentum behind the market will be maintained in 2011," Skeoch said. "Continued global economic recovery and UK equities' high exposure to overseas earnings will deliver another year of strong cashflow and earnings growth for UK corporates." However, despite his optimism he did caution that, like last year, "the ride will be bumpy".	Investment week 4/1/11
Graham Secker of Morgan Stanley	His bull case has the FTSE hitting 7,000 points if the economic recovery is stronger than expected and interest rates remain low, but his official target is 6,400, in part because of continuing European debt worries and consumers under pressure from a weaker jobs market and higher taxes.	Investment week 4/1/11

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Equities (continued)

Who	What	Source
Leigh Harrison, Head of UK Equities, Threadneedle	“The uniform bullishness of commentators at this stage in the year is a little unnerving, as are the forecasts for 15% plus returns from equities this year. By the middle of 2011 we will already be looking into 2012 and 2013 and this cycle will be well advanced. “The chances of the current momentum being sustained through the whole of 2011 seems remote to me and, looking at how low bond yields are and the amount of debt issuance coming down the road from governments as well as banks and private equity refinancing and so on, unbridled enthusiasm may be trusting too much to chance.”	Investment week 6/1/11
Evolution Securities	'European and UK equity valuations could rise between 25% and 30% without becoming stretched, and versus bonds the scope is greater still. So, buy the cycle, buy cyclical exposure, buy geared beneficiaries of cyclical exposure, and buy into equities not bonds as the big freeze becomes the big squeeze!'	Citywire 10/1/11
Graham Secker, Analyst, Morgan Stanley	Morgan Stanley is forecasting a rise in equities in 2011 (it's year-end FTSE 100 target is 6,400), however it believes there is a growing risk of market pullback in the short term given the high degree of bullishness among equity investors. “Post a 20% rise in the FTSE All Share in the second half of last year - and the strongest December return since 1993 - investor sentiment appears to have risen to the very high end of historical norms.” History suggests a 5% to 10% correction. Equities still show some value but from a dividend perspective the actual dividend payments relative to share price (historic) is now at the bottom of a 25 year range. However, economic growth prospects in the US are rising and history has shown a strong correlation between rising growth and rising markets.	Citywire 10/1/11

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Equities (continued)

Who	What	Source
Tim Moe, Chief Asia-Pacific Strategist, Goldman Sachs	Goldman have slashed their weighting to China and India due to the impact of rising inflation. It suggests investing in developed countries instead. “Asia is not in the sweet part of the cycle. The longer-term picture of Asia outperforming the US is taking a breather.” In a week in which India's central bank warned of 'surging inflation, ' Moe said: ' India's current account deficit is running at a record pace of 4.1% of GDP and it is 100% funded by short-term portfolio flows, which cannot be relied on indefinitely.' Goldmans does expect China to recover in the second half of this year.	Citywire 18/1/11
Mark Burgess, Chief Investment Officer, Threadneedle	“We are increasing our weighting in Japanese equities to neutral. We believe there will be material upward revisions to corporate profits, driven by the exporters, as Japan benefits from improving global growth, and in particular a more positive outlook for the US economy. “This will be funded by a decrease in our overweight position in the emerging markets. Although the favourable outlook for growth remains unchanged, our overweight position has become quite consensual, and there are some downside macro risks, not least of all an overheating Chinese economy.”	Investment week 20/1/11
Artemis	The latest survey of fund managers worldwide shows that 55% are overweight in equities, the highest reading since July 2007. Private investors poured $5.7 billion into global equities last week, but only $2.0 billion into global bonds. The world’s market cap is now up almost $10 trillion since Bernanke’s Jackson Hole speech last August.	Email update 21/1/11

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Equities (continued)

Who	What	Source
Anthony Nutt, Fund Manager, Jupiter Income	Believes that we're now getting away from markets being driven purely from macro concerns. Provided Portugal is sorted then markets will focus more on company specific issues. He is completely avoiding mining stocks as people buy them based on emerging market demand. However, if prices of coal keep rising (for example), China will just open their own mines. He is also very underweight banks and overweight pharmaceuticals. He thinks 2011 will disappoint on M&A activities. Although companies have strong balance sheets, there is a lack of confidence amongst management teams to merge or make takeover bids. Instead, he believes companies will use the cash to increase their dividends to boost their share price. This is very positive for true income funds. The balance sheets outside the banking sector are the best for 20 years. Businesses such as the ones he's buying who are on low multiples, tend to outperform as interest rates rise.	Meeting 26/1/11
Michael Konstantinov, Fund Manager, Allianz BRIC	Having underperformed other emerging markets in 2010, BRIC markets are now cheap in relation to these other emerging markets. With projected earnings growth of around 20% for 2011, BRIC markets are trading at P/Es well below their historic averages and well below other smaller emerging markets. Brazil is trading at a P/E of 20% below its five year average, Russia 42% below, India 34% below and China 42% below. The BRIC markets are currently offer compelling value.	Allianz Email, 28/01/2011
Consensus/Summary	**Many commentators are extremely bullish about the prospect for equity markets. Some more contrarian investors find this strong consensus unnverving. There is a growing feeling China and some other emerging markets may be somewhat overvalued.**	

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Property

Who	What	Source
Ainslie McLennan, Henderson Property Fund	Property should deliver healthy 5 year annualized returns of 8%. Good opportunities still exist in the market with a focus on prime and good secondary properties. A period of reflection and modest capital movement is likely.	Henderson Global Conference Jan 2011
Fiona Rowley, Fund Manager, M&G Property Portfolio	Believes the strong rally in UK property that began in 2009 has run out of steam and the prime end of the market is now fairly priced with yields at sustainable levels. But she also believes investors will remain risk adverse and given a challenging rental market, the price of some secondary properties may even fall in the first or second quarter of this year. While the occupier market is still relatively challenging, there are signs that rents are bottoming out and there are even select areas of rental growth. As a gradually improving economy slowly feeds through to higher tenant demand and stronger rents over the next two years, better quality properties will tend to benefit first before the market broadens, perhaps two to three years down the line.	Email update 18/1/11

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Property (continued)

Who	What	Source
Don Jordison, Fund Manager, Threadneedle UK Property Trust	Property derivatives are implying total returns of between 3% and 5% pa until 2017. He believes we could see small capital falls over the next year, and perhaps more longer term, but he feels derivatives are underplaying returns somewhat. At some point, some of the properties where loans have gone bad will have to come to market which will depress prices. The feedback from tenants is that they are all finding business conditions extremely difficult. He believes we have not seen the last of vacancies/tenant defaults. He believes returns will be from income and it will be down to the skills of fund managers to enhance the income through stock selection. They have a range of smaller properties which are not regarded as prime – prime makes up only 5% of the market and you have to pay a significant premium. He feels funds that spend too much time making improvements to properties through asset management will detract from value through unnecessary costs. He says that tenant agreements with set reviews and inflation linked rents are mainly a thing of the past. He is quite happy not to have many set reviews over the next few years as he feels this protects his rental income – he is worried that reviews could lead to drop in rents.	Meeting 25/1/11
Consensus/summary	**The consensus that we will not see capital growth this year remains, with some commentators forecasting small capital losses. Longer term, the outlook is challenging but with some good opportunities.**	

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Fixed Interest

Who	What	Source
Simon Ward, chief economist, Henderson New Star.	Strong buying of government debt by the UK's banking sector is needed to prevent a rise in gilt yields as overseas demand wanes. He argues the recent sell-off in gilts would have been more severe but for heavy buying by banks and building societies banks and building societies bought £10bn of gilts in November, the largest amount since January 2009. The purchases offset sales of £5.7bn by domestic non-bank investors, while overseas buying slowed to £3.3bn, the smallest since June."Despite the November fall, overseas investors have absorbed £50.6bn of net gilt issuance of £107.8bn in the first eight months of 2010-11, or 47%." "With foreign demand probably now waning, further strong banking sector buying is likely to be needed to avert a rise in gilt yields.	Investment Week 5/1/11
Mark Holman, Fund Manager and Director, Twenty Four Asset Management	" Our base case currently is that the first interest rate hike will be in the second half of the year with perhaps a second before year end. However it is easy to make a case to act sooner. If we don't see this happening, we think that the market could take its own view around long term inflation and punish the Gilt market heavily, which is something that has already begun to creep into prices."	Email 11/1/11
Simon Surtees, BNY Mellon Standish, Fixed Income Portfolio Specialist	Following a 2 decade bull market in fixed interest, yields cannot fall any further. However, inflation will remain low in developed economies due to high unemployment. Yields are also kept low by continued quantitative easing in the US. Going forward attractive yields will not be found among sovereign or investment grade corporate debt. High yield and strategic bonds will offer the greatest value.	Seminar 12/01/2011

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Fixed Interest (continued)

Who	What	Source
Simon Ward, Chief Economist, Henderson	The combination of high valuations for US bonds and large retail inflows suggests a bubble about to burst. To get back to the median level historic real yield, the nominal 10 year yield would have to rise to around 5%.	Investment Week 14/1/11
HSBC Private Bank	“The volatility in government bonds will, we believe, continue to drive most of the volatility in credit,’ the private bank explained. ‘Even though we believe credit will outperform government bonds due to its yield pick up, our negative view on government bonds implies our allocation cannot be higher than neutral for now.” “We may see flows out of fixed income into equities and alternative assets classes, however, this is likely to hurt government bonds more than credit. Many investors compare the relative benefits of safe haven government bonds, emerging markets bond and credit, and look at the relative value of these investments. We believe credit compares well against these alternatives [and the] fundamentals for credit remain generally much more solid than those of government bonds.”	Citywire 14/01/11
John Stopford, Head of Fixed Income, Investec	There are opportunities in inflation-linked debt with commodity prices rising. "Rising commodity prices, and to some extent weak currencies, are tending to push inflation through to developed economies. "That is not really priced into developed government bond markets or how inflation-linked bonds are priced - so we think there may be opportunities here, for instance in inflation-linked debt, which we expect to do well."	Investment Week 11/1/11

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Fixed Interest (continued)

Who	What	Source
Ariel Bezalel, Fund Manager, Jupiter Strategic Bond	Positive on credit all be it moving lower down the ratings spectrum to find value and protect against rising rates. Believes High yield more about credit risk than rate risk. High yield exposure up at 60% of portfolio which is highest for quite sometime Feels banks look good value but continue to be weighed down by sovereign risk. Is short the gilt market and the US treasury market (10%).	Email update 11/1/11
Richard Woolnough, Fund Manager, M&G Corporate Bond	Remains positive on credit due to the compelling yields on offer. For example, the spreads of sterling BBB rated bonds over gilts were 309 basis points at the end of December, which means that these bonds are still pricing in a recession and a much higher level of defaults than experienced historically. He believes that in a low-growth economic environment, where inflation is expected to remain relatively modest and interest rates are very low, the extra yield available from high yield bonds compared with cash and government bonds should remain appealing.	Email update 20/1/11
Alistair Ross, Portfolio Manager,Threadneedle Credit Opportunities	The outlook for credit in 2011 looks positive, as corporate bonds benefit from a slow economic recovery, continued low default rates and good company earnings. However, the financial sector is likely to remain vulnerable to volatility associated with events in the peripheral eurozone markets.	Office Visit 14/01/2011

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Fixed Interest (continued)

Who	What	Source
Adam Cordery, Fund Manager, Schroder Corporate Bond / All Maturities Corporate Bond	“If you own bonds in your portfolio you need to protect yourself from rising government bond yields and have a good spread of corporate, high yield and investment grade in your portfolio. “Short-dated gilts can only be cheap if inflation falls off a cliff which is extremely unlikely. Corporates are priced off government bond yields so if they go up it will hurt bond returns. “To get to [an annual return of 1-5% after fees] you need to protect yourself by having lots of spread in your fund or you short the government gilt futures. If you invest in Europe you short German Bunds. By doing these two things you should make1-5%, otherwise you will see negative returns.”	Citywire 20/1/11
Consensus/summary	**There is a mixture of opinion about the prospects for corporate bonds, with many commentators suggesting you need to invest in higher yielding bonds to get any return. In general, most are negative about government and high quality investment grade bonds. Many people see value in inflation linked securities.**	

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Research Summary – January 2011

Fund Manager Contact Summary

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

Event	Speaker(s)	Type of Contact
Joint Investment Forum 12/01/2011	Simon Surtees, Fixed Income Portfolio Specialist BNY Mellon	Face to Face
Joint Investment Forum 12/01/2011	Richard Buxton, Fund Manager, Schroders UK Alpha and Head of UK Equities	Face to Face
Joint Investment Forum 12/01/2011	Stuart Rhodes, Fund Manager, M&G Global Dividend Fund	Face to Face
Joint Investment Forum 12/01/2011	Tony Lanning, Fund Manager, Gartmore Multi Manager	Face to Face
Henderson Global Conference	Graham Kitchen, Fund Manager, Henderson Higher Income Fund	Face to Face
Henderson Global Conference	Richard Peese, Henderson Director of European Equities	Face to Face
Henderson Global Conference	Bill McQuaker, Henderson Head of Equities	Face to Face
Henderson Global Conference	Simon Ward, Henderson Chief Economist	Face to Face
Henderson Global Conference	Jenna Barnard, Fund Manager Henderson Strategic Bond Fund	Face to Face
Henderson Global Conference	Ainslie McLennan, Fund Manager Henderson Property Fund	Face to Face
Meeting	Alasdair Ross, Portfolio Manager Threadneedle Credit Opportunities	Face to Face
Meeting	Clive Beagles, Fund Manager, JO Hanbro Income fund	Face to Face
Alpha Generators Conference	Adam Avigdori, Fund Manager, Blackrock UK Income Fund	Face to Face

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Fund Manager Contact Summary (continued)

Alpha Generators Conference	Peter Meany, Fund Manager, First State Inv Global Infrastructure	Face to Face
Alpha Generators Conference	David Forsyth, Fund Manager, Martin Currie North American	Face to Face
Alpha Generators Conference	Hugo Rogers, Fund Manager, Thames River GEM Absolute Return	Face to Face
Alpha Generators Conference	Douglas Turnbull, Fund Manager, Neptune China Fund	Face to Face
Meeting	Don Jordison, Managing Director and Fund Manager, Threadneedle UK Property Trust	Face to Face
Meeting	Anthony Nutt, Fund Manager, Jupiter Income	Face to Face

This month we met 19 fund managers and other key individuals.

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Monthly Figures – January 2011

Index	Value
FTSE 100 – last day of last month	5899
FTSE 100 – last day of this month	5870
% change (ignores dividends)	-0.49%
FTSE Allshare – last day of last month	3062
FTSE Allshare – last day of this month	3088
% change (ignores dividends)	+0.8%
Oil price (Brent Crude) $	$101.37
% change	+5.87
US$ to £ - last day of last month	1.56
US$ to £ - last day of this month	1.61
% change	-3.2%
Euro to £- last day of last month	1.19
Euro to £- last day of this month	1.17
% change	-1.68%
RPI	4.8%
Change from last month	+0.1%
CPI	3.7%
Change from last month	+0.4%
BoE Base Rate	0.5%

Index	Value
UK 10 Year Gilt Yield	3.65%
FTSE Allshare P/E Ratio	15.3x
FTSE Allshare Yield	2.8%
Spread v Gilt	-0.55%
IBOXX Sterling Corp Bond Yield	5.94%
Spread v Gilt	2.29%
IPD UK All Property Yield	6.4%
Spread v Gilt	2.75%

Monthly Portfolio Figures	% Change
Fixed Interest	-0.03%
Strategic Fixed Interest	+0.50%
UK All Companies	-2.08%
UK Large Companies	-1.10%
UK Dynamic	-0.93%
Global Established	-0.69%
Global Dynamic	-1.02%
Global Speculative	-6.60%
Alternative Equity	-0.32%
Property	+0.18%

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

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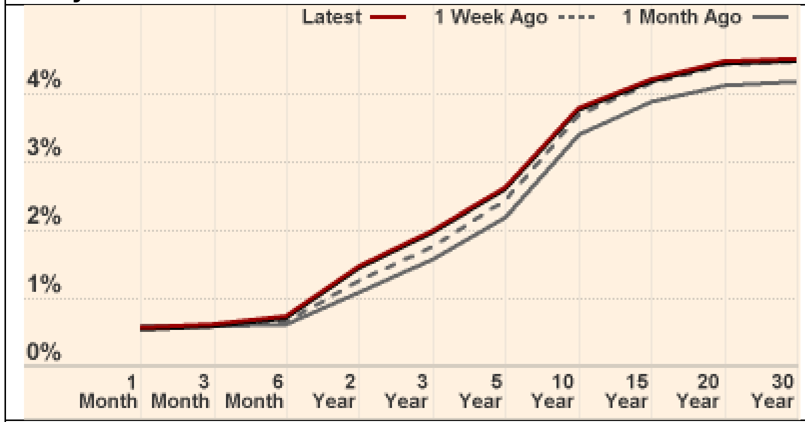
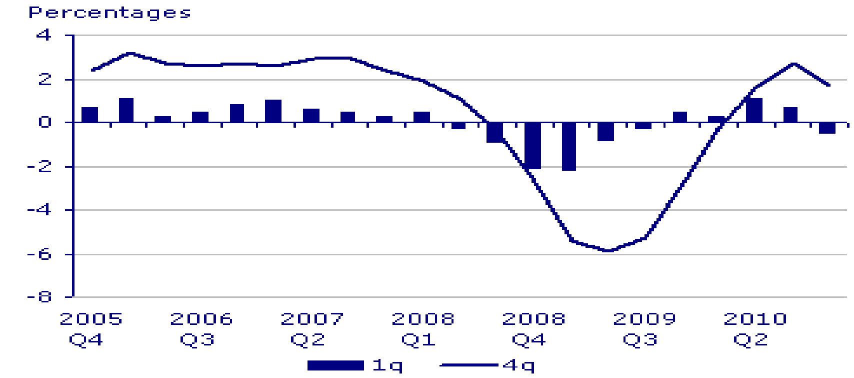
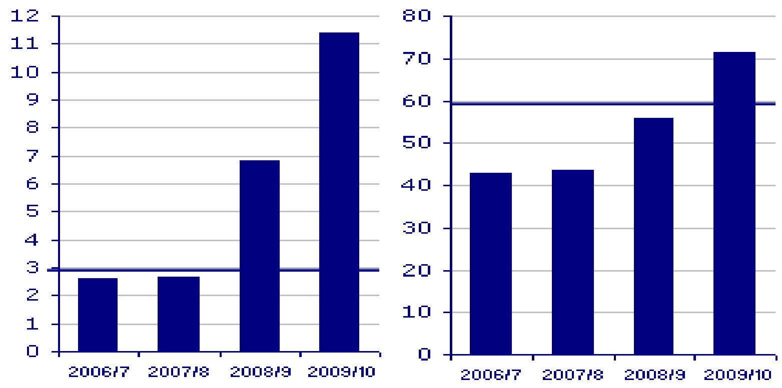
Gilt yield Curve



GDP Growth



Government Debt & Deficit



GDP Growth Projection