

## Research Summary – October 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                                    |
|---|---|---|
| Standard Life House View                | At present, inflation expectations are muted, as priced in by government bond or inflation swaps markets. If the world economy remains trapped in a slow growth phase then political pressures could grow for further unconventional stimuli. The impact on economic activity and financial markets would be significant, with an improved risk premium for those assets with guaranteed inflation protection.  | Standard Life Update Email<br>07/10/11    |
| Bill Gross, Managing Director,<br>PIMCO | <p>William believes several of the structural roadblocks have been present over the past several years: 1) Globalization has hollowed developed economy labour markets, 2) technology has outdated entire industries that produce physical as opposed to “cloud”- oriented goods and services – books, records, postal letters and DVDs among the most recent dinosaurs, and 3) an aging demographic is now favouring savings as opposed to consumption in almost all developed nations.</p> <p>He feels without tackling these issues with structural reform and policy changes instead of the cyclical financial solutions being put forward there will be no long term solution. Although structural solutions may only lead to a “New Normal Growth” as opposed to recession.</p> <p>“There are no double-digit investment returns anywhere in sight for owners of financial assets. Bonds, stocks and real estate are in fact overvalued because of near zero percent interest rates and a developed world growth rate closer to 0 than the 3 – 4% historical norms. There is only a New Normal economy at best and a global recession at worst to look forward to in future years.”</p> | PIMCO Investment Outlook,<br>October 2011 |

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| Who  | What  | Source   |
|--|---|--|
| <p>Keith Skeoch, Chief Exec.,<br/>Standard Life</p>            | <p>Keith reaffirms the current close links between politics and global markets and that political decisions made today will have “profound effect” on the market in years to come.</p> <p>Going on to list Standard Life’s current themes:</p> <p>“We know that central banks will not raise interest rates for months, if not years, to come. We know that the drivers of global economic growth are inexorably moving away from the Atlantic to the Pacific economies. We know that the corporate sector remains much healthier than the household or government or financial sectors in many countries. We know through many lessons in history that economic and financial market contagion of the sort we have been experiencing comes to an end when politicians and policymakers come to understand the full extent of the problems.</p> <p>Once these are realised they can put in place monetary, fiscal and economic policies to extricate economies from their woes, opening up opportunities for investors.</p> | <p>Standard Life, Quarter 4 Global Outlook</p> |
| <p>Andrew Milligan, Head of Global Strategy, Standard Life</p> | <p>The underlying problem of excess levels of debt and how this will be brought back to more comfortable levels without slowing growth prospects too sharply? Investors face uncertainty about the speed, extent and price of reining in the excess debt in the system, as the process impinges on market values, plus uncertainty about timing of the effects of pro-growth policies. The debt/growth/ cost of debt trade-off for selected economies suggests that of the major indebted economies only the UK and Germany have a sustainable stock of public debt.</p> <p>However, not all is doom and gloom; the corporate sector retains healthy balance sheets, and looks set to do so into 2012. Hence, on balance, the House View continues to favour exposure to corporate cash flows as the primary theme for asset allocation.</p> <p>Lastly, on equities, there is medium-term value as long as a deep recession is avoided – otherwise the potential downside to equity markets is a further 10-20%.</p>        | <p>Standard Life, Quarter 4 Global Outlook</p> |

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| Who   | What  | Source                                 |
|---|---|--|
| <p>Justin Bisseker, European Banks Analyst, Schroders</p> | <p>Justin feels that recapitalising European banks is no solution to the Eurozone crisis, the European authorities could actually make things worse depending on how recap levels are calculated.</p> <p>“If next weekend’s Euro Summit sees a massive recapitalisation of Europe’s banks based on the flawed methodology of “hypothetical” sovereign haircuts beyond Greece, Europe’s leaders will indeed have managed to snatch defeat from the jaws of victory. If this happens, expect Europe’s financial crisis to continue to escalate as the ECB (and subsequently the EFSF) end up as the only buyers in town in the face of an enormous wave of sovereign debt sales from Europe’s banks.</p> <p>Rather than wrangling over how much capital banks should raise, Europe’s leaders need to focus on the euro problem itself. The solution we need to see is a combination of credible “air cover” which buys the Eurozone time, coupled with firm agreement on a credible strategy for growth and progress towards some form of fiscal union. If this is combined with a recap of the sector’s weaker names then expect Europe’s markets to continue to rally.”</p> | <p>Schroders Market View, 17/10/11</p> |
| <p>Mervyn King, BoE Governor</p>                          | <p>He has warned the UK recovery is off track and that governments are not doing enough to tackle the fundamental problems facing their economies.</p> <p>The Bank of England governor said that four years into the economic crisis it should be apparent that the major problem was solvency within banks and governments, not liquidity. He said the problems of excessive debt had not gone away and that quantitative easing had only 'bought time' for the global economy and that inadequate policy had led markets to question the fundamental sustainability of banks and governments.</p> <p>He highlighted what he sees as ongoing global imbalances, with unsustainably high levels of consumption in the US and UK, counterbalanced by unsustainably low levels of consumption in China, Germany and Japan. He said all countries had a responsibility to adjust, otherwise 'the burden of debt will go on rising in the former group of countries and the latter group will find their loans eventually repaid in depreciated currencies, if at all.'</p>   | <p>Liverpool Speech, 17/10/2011</p>    |

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| Who  | What  | Source                             |
|--|---|------------------------------------|
| John Greenwood, Chief Economist, Invesco Perpetual | <p>Since the economic downturn of 2008-09 was primarily a “balance sheet recession” caused by overleveraging in both the household and financial sectors, the economy now requires an extended period of balance sheet repair, For the year as a whole he expects UK real GDP to be 1.2% and CPI inflation to average 4.3%. The growth rate will be disappointing to those who wish to see the government manipulating the economic levers to achieve faster growth.</p> <p>However, for those who understand the need to repair the damage done to balance sheets in the Blair-Brown era this is a necessary period of recuperation before normal growth can be resumed.</p>                             | Economic Outlook Email, 03/10/2011 |
| Stuart Thompson, Chief Economist, Ignis            | <p>This recent Greek deal was effectively DOA (dead on arrival) and is not a solution. The leverage is too low, the insurance scheme is a con and the bank recapitalisation levels are based on what countries can afford, rather than what they should be.</p>   | Investment Week, 27/10/2011        |
| Jim Rogers, Financial Commentator                  | <p>Politicians have delayed addressing the problem yet again. It will come back in a few weeks or a few months and the world will still have the same problem, but this time only worse because the European Central Bank and other countries will be in deeper in debt.</p> <p>“Never in a million years did I expect them to impose a haircut of 50%, this shows at least somebody is starting to accept reality. Greece is bankrupt, but others are too, and these haircuts will have to come back and be wider.”</p> <p>Most European countries are increasing their debt rather than decreasing their debt. Until that changes, the problems are going to continue, just as they will in the US.</p> | CNBC Interview, 27/10/2011         |

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| Who                                       | What  | Source   |
|---|---|--|
| <p>Jamie Lewin, Economist, BNY Mellon</p> | <p>Jamie covered a wide range of topics including Europe and US macro issues.</p> <p>With regard to Europe, he feels global acceptance has been achieved as we see privatisation of debt whilst yields will continue to increase on peripheral debt. Retrospectively, the strong market environment helped mask cracks in policy and in particular, now that we are seeing poor market environments, negligence of Maastricht treaty throughout Europe.</p> <p>Forward looking, Jamie believes shared and joint fiscal union over the next 10 years would not be surprising. On a shorter timeframe, the exit of Greece and possible Portugal by end of 2013 is rated as 50-60%.</p> <p>With regards the US, as it enters political season, Jamie is very bearish, however admits the US has an unnerving way of rising from adversity. He sees a low growth environment of 1-2% but does see some opportunity in dividend paying, growth markets in equities and non financial corporate bonds, selective government issues could be attractive.</p> <p>As inflation becomes more an issue, assets holding real value are vital to any asset allocation pointing to; property, inflation linked, commodity classes for real returns.</p> | <p>BNYM Northern Directors Event, 26/10/2011</p> |
| <p><b>Consensus/Summary</b></p>           | <p><b>The majority of this month's opinions continue to be bearish, with economic growth likely to be much lower than previous estimates over the next few years. No one is now advocating a rise in interest rates. Many believe it is imminent that Greece will default by the end of 2011.</b></p>   |  |

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### Equities

| Who   | What  | Source                                  |
|---|---|---|
| Chuo Mitsui, Fund Manager, Standard Life Japanese Equities Fund | <p>Six months after the earthquake, the reconstruction of Japan continues. The passing of the third supplementary budget by new Prime Minister Noda is expected to outline approximately ¥13 trillion worth of spending, mainly aimed at the restoration of earthquake-stricken areas.</p> <p>We continue to look for the most compelling bottom-up stock ideas across developed Asia. We expect Asian consumer demand to remain underpinned and prefer consumption related stocks to deeply-cyclical companies. Additional increases in deficits and debt run the risk of</p>  | Standard Life, Quarter 4 Global Outlook |
| Jun Azumi, Japanese Finance Minister                            | <p>With Japanese Yen, continuing to strengthen; last week, the yen touched 75.78 against the US dollar, alarming Japan's companies and government officials. Japan's finance minister, Jun Azumi, delivered a direct warning that action could and would be taken if the issue persists:</p> <p>"This is an utterly speculative move and not reflecting the economic fundamentals at all. This is regrettable. If this move becomes excessive, we have to take decisive action. I already instructed my staff on Saturday to be prepared to take action."</p>   | Jun Azumi comments, 24/10/11            |
| Richard Watts, Fund Manager, Old Mutual Select Mid Cap          | <p>The market panic of August continued through September. Over the last week or so, it feels like things maybe improving,'</p> <p>'US economic data, such as payrolls and construction, came in better than expected and it also seems as if European policy-makers are coming to understand the seriousness of the situation and the potential consequences of not taking any action.</p> <p>The market is now pricing in a lot of bad news and any good news, such as a positive policy response from Europe, will be well received and the market could rally aggressively. Many stocks are now trading on 25% to 40% discounts to their valuations two months ago despite the outlook not having changed materially.</p> | Citywire Article, 24/10/2011            |

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| Who  | What  | Source   |
|--|---|--|
| <p>John Bennett, Fund Manager,<br/>Henderson European Selected Opportunities</p> | <p>European equities could fall by a further 25% and banks' share prices hit fresh lows before the year end. While the Eurozone sovereign debt crisis continues to dominate the headlines, his biggest fear is a US crash.</p> <p>I do see value in European equities, but we could see a fall of 25% in the short term. My biggest worry is the US, because Europe will be dealt with. If you look at the pan-European fiscal situation and you look at the US, at least Europe has a trade surplus. The US is indebted to everyone. The market rose by 18.6% in two weeks led by the rubbish and the banks were up 30% to 50%. They are effectively trading like warrants on the market and given that they are 20% of the benchmark, they can blow managers out of the water if they have no exposure.</p> | <p>Citywire 28/10/11</p>                         |
| <p>James Harries, Fund Manager,<br/>Newton Global Higher Income Fund</p>         | <p>James projects that going forward we will see tighter and more frequent economic cycles with smaller swings and feels that in these conditions there are two options to increase returns; absolute return strategy or an income strategy based on large, stable firms committed to increasing dividends.</p> <p>James also touched on the passive vs active argument stating that, 'just because a company is listed, it may not be investible'</p>  | <p>BNYM Northern Directors Event, 26/10/2011</p> |
| <p><b>Consensus/Summary</b></p>  | <p><b>There are a variety of opinions on where equity will go from here, but the majority believe that the asset class continues to be significantly undervalued and at these current levels and equities are looking very attractive.</b></p>  |  |

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### Property

| Who  | What   | Source                           |
|--|--|----------------------------------|
| Ainslie McLennan, Fund Manager, Henderson UK Property Fund | The fund is very defensively positioned, with income the primary source of return and the security of the income very important. The primary/secondary gulf is widening and Ainslie expects secondary prices to continue falling, with yields reflective of the risk associated.   | Fund Manager visit, 6/10/11      |
| SWIP, Property Fund Outlook                                | With economic growth slowing across many economies, not just the UK, business confidence has been falling with investors becoming increasingly cautious. There has been a continuing reduction in the volume of prime space coming onto the market and it is expected that, in the short term, the erosion of the supply of good quality space will continue. Although this lack of good quality space is expected to underpin future rental growth, the rental outlook is weak. However, Central London is still expected to outperform over three years.   | Email from SWIP, 12/10/11        |
| Fiona Rowley, Fund Manager, M&G Property                   | <p>Prime yields have stabilised at what we consider to be sustainable levels. However, there continues to be a clear polarisation between prime and good secondary property on the one hand, and lower quality secondary and tertiary assets on the other, reflecting the underlying risk to rental income. As expected, the property market is now seeing further capital erosion among weaker assets.</p> <p>Following a marked fall in rents over the past two years, the occupier market is moving through the bottom of the property market cycle, with prime rents now broadly flat.</p> <p>Due to the current level of economic uncertainty, the outlook for short-term rental growth is muted. However, rents have been picking up in specific prime locations, such as Central London and prime retail warehousing, where vacancy rates are getting squeezed.</p> | M&G Monthly Update<br>21/10/2011 |

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| Who   | What  | Source                              |
|---|---|-------------------------------------|
| George Shaw, Fund Manager, Ignis Property Fund            | <p>He expects income, rather than capital growth, to continue to drive returns in the property sector for the foreseeable future.</p> <p>He believes total returns in the property market are going to continue to be dominated by income returns; as he envisage property total returns of 7.5%-8% per annum for the next few years, predominantly driven by income.</p> <p>He feels income will be the driver to performance over the short to medium term, with only limited gains from capital appreciation. Taking on more risk might be necessary to up the yield over the longer term given prime property was under pressure.</p> <p>He said there was potentially a need to "inch up the risk curve". With continued pressure on prime stocks investors may have little choice but to look towards upper secondary assets to secure the desired return. However, in the near term he continued to focus on prime property in central London and the South East, where around 60% of the portfolio is invested.</p> | Investment Week Article, 24/10/2011 |
| Stephen Elliott, Fund Manager, Royal London Property Fund | <p>Although Stephen sees some opportunities arising through potential asset management projects, in general he expects a capital decline throughout 2012 with total returns of between 4 and 4.5%.</p> <p>He also sees the divergence between the secondary and primary markets to grow.</p>  | Fund Manager Visit, 27/10/2011      |
| <b>Consensus/Summary</b>                                  | <p><b>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, with the potential for declines in the coming year or so. However, fund managers see some pockets of value.</b></p>  |                                     |

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### Fixed Interest

| Who  | What  | Source                                  |
|--|---|---|
| Philip Laing, Investment Director Gov. Bonds, Standard Life    | The prospect of subdued growth in two countries that either cannot or will not launch a significant fiscal initiative, a continued emphasis on monetary policy to support growth and the perception that they offer a relative 'safe haven' in troubled times have driven a rally of 100-150bp in US and UK government bonds over the last six months. With implied 10-year real yields in the US and the UK now around zero, there is little value in government bonds. However, the non-negligible risks of a break-up of the euro and/or the collapse of a major European financial institution could drive yields still lower.  | Standard Life, Quarter 4 Global Outlook |
| Roger Sadewsky, Investment Director Corp. Bonds, Standard Life | <p>Credit markets are under pressure again. A lack of decisive political will, and ability, to find a solution to the sovereign debt crisis, or to ensure a sustainable economic growth path have undermined confidence. Value, though, is now appearing.</p> <p>We believe the US economy will not slip back into recession. Lower mortgage rates and gasoline prices should boost consumption, whilst recovery and reconstruction in Japan should help global levels of activity. This economic backdrop should support the high-yield sector and cyclical companies. For Europe, our view is that the sovereign debt problems in Italy and Spain, while a not inconsiderable concern, will not lead to the systemic banking crisis that is being priced into the market. However, a ring-fenced solution for Greece will be crucial.</p> | Standard Life, Quarter 4 Global Outlook |
| Justin Lahart, Wall Street Journal                             | <p>On the back of warnings from Moody's that France may be downgraded from AAA stable to AAA negative, a sell off of French Government bonds saw the spread between German and French equivalents hit a 20 year high.</p> <p>Although France shares a central bank with Germany, but traders rate its credit as riskier. Yields on 10-year French government bonds are 1.1 percentage points above their German counterparts, up from a difference of just 0.4 percentage points at the start of the year. France's banks are seen as far more exposed to Greece and other southern European countries than Germany's.</p>  | Wall Street Journal article, 19/10/11   |

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| Who  | What   | Source                                    |
|--|--|---|
| Andrew Milligan, Head of Global Strategy, Standard Life          | <p>We do not see much value in government bond markets, although they are not as expensive as some commentators suggest. Although we expect bonds to under-perform as the risk of recession recedes, they remain underpinned, partly as interest rate increases are yet again pushed back in time, and partly as the regulatory pendulum encourages more investors such as pension funds to purchase safe haven assets.</p> <p>Credit markets have under-performed significantly in recent months but within non-financial credit we are buyers of both selective high-yield and investment grade debt; the market has priced in an overly pessimistic assessment of the number and size of corporate bond defaults into 2012.</p> | Standard Life, Quarter 4 Global Outlook   |
| Parmeshwar Chadwa, Fund Manager, Newton Global Dynamic Bond Fund | Parmeshwar discussed the changing nature of Fixed Interest markets and how Newton's current outlook directs investment in high yield. He expects a low growth environment with static interest rates for the foreseeable future. This in combination with low default rates and high demand widening spreads are all positive factors.   | BNYM Northern Directors Event, 26/10/2011 |
| <b>Consensus/Summary</b>   | <b>The continuing opinion on sovereign debt is saying that it is currently overvalued during this period of global economic uncertainty due to investors moving into 'safer' investments. Volatility in the bond market will continue to persist. A few opinions are saying that high yield offer good value at the moment along with investment grade corporate bonds, non-banks.</b>   |   |

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### Fund Manager Contact Summary

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

| Event                  | Speaker(s)  | Type of Contact |
|------------------------|---|-----------------|
| Fund Manager Visit     | Ainslie McLennan, Henderson UK Property Fund Manager                    | Face to Face    |
| Newton Directors Event | Jamie Lewin, Economist, BNY Mellon                                      | Face to Face    |
| Newton Directors Event | James Harries, Newton Global Higher Income Fund Manager                 | Face to Face    |
| Newton Directors Event | Parmeshwar Chadha, Newton High Yield and Global Dynamic. Bond Fund Mgr. | Face to Face    |
| Newton Directors Event | Caroline Keen, Newton Asian Income Fund Manager                         | Face to Face    |
| Newton Directors Event | Reza Vishkai, Insight Absolute Insight Fund Manager                     | Face to Face    |
| Newton Directors Event | Suzanne Hutchins, Newton Real return Fund Manager                       | Face to Face    |
| Newton Directors Event | Sarah Jarrett, BNY Mellon Cash Strategies and Liquidity Options Team    | Face to Face    |
| Fund Manager Visit     | Stephen Elliott, Royal London Property Fund Manager                     | Face to Face    |
| Fund Manager Visit     | Mark Holman, Managing Partner, 24 Asset Management                      | Face to Face    |

**This month we met 10 fund managers and other key individuals.**

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### Monthly Figures – October 2011

| Index                                  | Value    |
|--|----------|
| FTSE 100 – last day of last month      | 5128     |
| FTSE 100 – last day of this month      | 5544     |
| % change (ignores dividends)           | 8.11%    |
| FTSE Allshare – last day of last month | 2555     |
| FTSE Allshare – last day of this month | 2860     |
| % change (ignores dividends)           | 12%      |
| Oil price (Brent Crude) \$             | \$100.58 |
| % change                               | 6%       |
| US\$ to £ - last day of last month     | 1.53     |
| US\$ to £ - last day of this month     | 1.59     |
| % change                               | 3.9%     |
| Euro to £- last day of last month      | 1.16     |
| Euro to £- last day of this month      | 1.16     |
| % change                               | -        |
| RPI                                    | 5.6%     |
| Change from last month                 | 0.6%     |
| CPI                                    | 5.2%     |
| Change from last month                 | 0.7%     |
| BoE Base Rate                          | 0.5%     |

| Index                          | Value |
|--------------------------------|-------|
| UK 10 Year Gilt Yield          | 2.63% |
| FTSE Allshare P/E Ratio        | 11.1x |
| FTSE Allshare Yield            | 3.3%  |
| Spread v Gilt                  | 0.67% |
| IBOXX Sterling Corp Bond Yield | 5.58% |
| Spread v Gilt                  | 2.95% |
| IPD UK All Property Yield      | 6.0%  |
| Spread v Gilt                  | 3.37% |

| Monthly Portfolio Figures | % Change |
|---------------------------|----------|
| Fixed Interest            | 2.52%    |
| Strategic Fixed Interest  | 2.57%    |
| UK All Companies          | 8.9%     |
| UK Large Companies        | 6.6%     |
| UK Dynamic                | 7.7%     |
| Global Established        | 6.0%     |
| Global Dynamic            | 7%       |
| Global Speculative        | 11.2%    |
| Alternative Equity        | 2.3%     |
| Property                  | 0.3%     |

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