



## Research Summary – June 2009

### 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
Peter Bickley, Chief Economist, Deutsche Wealth Management	If the banking system is fixed and – crucially – people believe it, then as credit flows resume a surge of pent-up economic activity will happen. This will equate to a volatile market but may give momentum to recovery. “The outlook is still very unclear but of one thing we can be sure: it is vastly better than it was.”	Email update June 09
Glenn Uniacke, Senior Foreign Exchange Dealer, MoneyCorp	The pound could be back to around \$1.80 by the end of the year.	Citywire.co.uk 3/6/09
Roger Guy, Fund Manager, Gartmore European Select Opportunities	There are major problems in Eastern European banks. Western European banks are heavily exposed to these banks and this could cause some further problems in the Eurozone.	Ctiywire.co.uk 4/6/09
Keith Wade, Chief Economist, Schroders	There is an inflation risk but an even bigger one is the risk of deflation and Schroder’s believe the interest rates will stay low for some time and the search for a yield will continue. The key to world economies including the UK is to avoid another Japan, and the general message is that companies will have to adjust and seek growth again.	Schroder Conference, Edinburgh

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## General (continued)

<b>Who</b>	<b>What</b>	<b>Source</b>
Office for National Statistics (ONS) Report	The UK economy contracted 2.4% in the first quarter of 2009, its biggest quarterly decline in 51 years, according to the latest official data. The decline was more severe than the earlier estimate of a 1.9% fall, and worse than analyst expectations.	30/06/2009
Azad Zangana, Pan-European Economist, Schroders	In contrast to Schroders UK economist Keith Wade, he believes the deflationary scenario is becoming less likely and that inflation could become a real concern again soon	Email update 17/6/09
M&G Fixed Interest team	Still believe that all the indicators are pointing to deflation and that this is a much bigger risk than inflation.	Email update 26/6/09
<b>Consensus/Summary</b>	<b>There is still no consensus about whether inflation or deflation is the biggest risk to the economy. Recession in terms of numbers could come to an end soon as output increases, but the real economy will remain in recession for some time to come and further redundancies are likely.</b>	

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## Equities

Who	What	Source
Tineke Frikkee, Fund Manager, Newton Higher Income	There is a perception that companies are cutting dividends across all sectors. In reality, of all UK companies that reported in the first quarter, 75% did not cut their dividends and 65% actually grew their dividends. The banking sector dividend has all but disappeared but income investors can still achieve excellent yields elsewhere in the market.	Email update 2/6/09
Richard Buxton, Head of UK Equities and Fund Manager, Schroder UK Alpha	This is not just a bear market rally. There may be short term set backs but investors will use these to add money to the market, thereby fuelling an upward market.  Anything better than zero GDP growth in 2010 would be all that was needed to maintain the momentum.	Email update 2/6/09
JPM Global Multi Asset Group	The Coppock indicator has turned up, signaling that a robust bull market could be underway. According to Bloomberg, this indicator has successfully signaled the start of 16 out of 17 post-war equity bull markets, where subsequent 12-month returns were positive. However, it "missed" when it gave a false buy signal in December 2001. The indicator also proved to be premature in Japan on two occasions during the 1990s bear market. This is a long term technical indicator designed for long term investors.	Email update 8/6/09
Anthony Bolton, Fidelity International	Bolton expects the current market rally to continue with further 'significant' rises, arguing we are in a 'front-end loaded' bull market with some of the largest rises taking place in its early stages.	Citywire Report, 15/06/2009
David Cumming, Head of UK Equities, Standard Life	Sees the FTSE 100 at 5000 by the end of the year. He believes the business cycle is in a 'turning phase' when the recovery begins and bargain hunters can expect to double their profits within a space of two to three years.	Citywire Report.
<b>Consensus/Summary</b>	<b>There is much more optimism that the recent rally can be sustained. The market is generally trading sideways and it could move forward later in the year as we expect economic figures continue to improve. Having said that, if we do get some further bad news, investors are still nervous and this could result in a further setback.</b>	

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## Property

Who	What	Source
Jean-Michel Six, Standard & Poor's chief economist for Europe.	<p>House prices will stabilize in the last quarter of this year as the low number of homes for sale more than compensates for the fact that houses still aren't affordable, forecasts Standard &amp; Poor's.</p> <p>'UK house prices will stabilize in the final quarter of this year about 7% lower than in December 2008, and remain roughly stable in 2010,'</p> <p>He says affordability has improved much faster than in previous downturns, which he thinks points to the possibility that the period of falling prices will be shorter this time around.</p>	Citywire Article 25/06/2009
Anne Breen, Head of Property Research, Standard Life Investments	<p>Yields on commercial property are around 8% which are levels not seen for around 12 years. The IPD derivatives market is still pricing in a further 16% decline in prices.</p> <p>They are now positive on property but cautious of further short term falls.</p>	June update
M&G Property team	<p>"Property prices generally already well below what we would consider fair value, capital values are increasingly at levels that discount both lower tenant demand and deteriorating rental prospects. We believe that the next few months may be a good time to invest selectively in core, defensive assets with strong tenants on long leases"</p>	Email update 17/6/09
<b>Consensus/Summary</b>	<p><b>Commercial property is now beginning to look fair value in many areas and we may invest in this asset class again shortly. Residential property is beginning to stabilise but further increases in unemployment could lead to further falls in house prices.</b></p>	



**Fixed Interest**

Who	What	Source
Andrew Yeadon, Fund Manager, Schroders	They are short on gilts as they believe they are overvalued but long on corporate bonds due to the attractive spread over gilts. The main risk to corporate bonds is spreads tightening against gilts due to gilt yields rising.	Email update 5/6/09
Guy Monson, Fund Manager, Sarasin & Partners	He has urged investors not to buy gilts until yields rise above 5% and warns investors off corporate bonds. Investors have switched aggressively to corporate bonds and he is worried about the sheer volume of flow into the sector. The spreads can protect from gilt risk for a while but not forever. In the last three months there has been 140 investment grade issues in Europe, with all but one of them trading above par. He does not buy bonds above par for private clients because you lock in a capital loss. He is careful about the capital risk building up in corporate bonds.	Citywire Article.
John Stopford, Co-Head of Fixed Income, Investec Asset Management	Expects investment grade bonds to outperform government bonds by about 6.5% per annum on average over the next three years, with limited risk of significant under-performance.	Email update 23/6/09
<b>Consensus/Summary</b>	<b>The consensus is still that investment grade bonds represent excellent value, despite the recent recovery. Gilts yields are continuing to increase and they are likely to continue to do so as risk appetite is returning, and as the level of issuance increases.</b>	



## Research Summary – June 2009

### Fund Manager Contact Summary

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

Event	Speaker(s)	Type of Contact
Citywire conference	David Carr, Investment Specialist, Threadneedle Absolute Return Bond	Face to face
Citywire conference	Enzo Puntillo, CIO Fixed Income, Julius Baer Asset Management	Face to face
Citywire conference	Anthony Cross, Fund Manager, Liontrust First Growth & Smaller Companies funds	Face to face
Cazenove Road show	Tim Russell, Fund Manager, Cazenove UK Absolute Target Fund	Face to face
Cazenove Road show	Chris Rice, Fund Manager, Cazenove European Fund	Face to face
Cazenove Road show	Peter Harvey, Fund Manager, Cazenove Strategic Bond Fund	Face to face
Cazenove Road show	Marcus Brookes, Fund Manager, Multi-Manager Diversity Range	Face to face
Investment dinner	Simon Edwards, Chief Executive of Midas Capital and fund manager of Midas Balanced Growth	Face to face
Investment dinner	Keith Wade, Chief Economist, Schroders	Face to face
PIMS	Justin Urquhart-Stewart, Director, Seven Investment Management	Face to face
PIMS	Tom Sheridan, Chief Executive, Seven Investment Management	Face to face



**Fund Manager Contact Summary (continued)**

<b>Event</b>	<b>Speaker(s)</b>	<b>Type of Contact</b>
PIMS	Dennis Turner, Chief Economist, HSBC	Face to face
PIMS	Gary Potter, Fund Manager, Thames River Capital	Face to face
PIMS	Simon Rogerson, CEO, Octopus Investment	Face to face
PIMS	Alastair Hibbert, Fund Manager, Blackrock European Dynamic	Face to face
Schroders Edinburgh Conference	Richard Buxton, Fund Manager, Schroder UK Alpha	Face to face
Schroders Edinburgh Conference	Leon Howard Spink, Fund Manager, Schroder European Alpha Plus	Face to face
Schroders Edinburgh Conference	Andrew Rose, Fund Manager, Schroder Tokyo	Face to face
Schroders Edinburgh Conference	Richard Senet, Fund Manager, Schroder Far East Income	Face to face
Schroders Edinburgh Conference	Nick Gartside, Fund Manager, Schroder Strategic Bond	Face to face
Schroders Edinburgh Conference	Sonja Schemman, Fund Manager, Schroder Global Equity Income	Face to face
Schroders Edinburgh Conference	Andy Brough, Fund Manager, Schroder Mid 250	Face to face
Schroders Edinburgh Conference	Adam Cordery, Head of UK & European Credit Strategies, Schroders	Face to face
Schroders Edinburgh Conference	Nick Purves, Fund Manager, Schroder Income	Face to face

**This month we met 18 fund managers and six other key individuals.**



## Monthly Data – June 2009

Index	Value
FTSE 100 – last day of last month	4,417
FTSE 100 – last day of this month	4,249
% change (ignores dividends)	-3.8%
FTSE Allshare – last day of last month	2,252
FTSE Allshare – last day of this month	2,178
% change (ignores dividends)	-3.55%
US\$ to £ - last day of last month	1.61
US\$ to £ - last day of this month	1.64
% change	+1.86%
Euro to £- last day of last month	1.14
Euro to £- last day of this month	1.17
% change	2.63%
RPI	-1.1%
Change from last month	+0.1%
CPI	2.2%
Change from last month	-0.1%
BoE Base Rate	0.5%
Change from last month	0%

Index	Value
UK 10 Year Gilt Yield	3.76%
FTSE Allshare P/E Ratio	9 x earnings
FTSE Allshare Yield	4.5%
Spread v Gilt	0.74%
IBOXX Sterling Corporate Bond Index Yield	7.52%
Spread v Gilt	3.76%

Monthly Portfolio Figures	% Change
Fixed Interest	3.03
Dynamic Fixed Interest	1.38
UK All Companies	-3.06
UK Large Companies	-0.53
UK Dynamic	-2.11
Global Established	-1.59
Global Dynamic	-2.1
Global Speculative	-2.93
Alternative Equity	0.48

Data from various sources including Financial Express Analytics, FT.com, Indexco.com, National Statistics, Google Finance.