



Research Summary – November 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
David McGillveray, Portfolio Analyst, M&G Equities team	Feels the economic recovery will be very slow – they are expecting an “L shaped” recovery.	Meeting 17/11/09
Gordon Harding, Portfolio Analyst, M&G Fixed Interest team	Expects a normal recovery. Inflation will remain low for a long period and is expecting only a small rise in interest rates next year.	Meeting 18/11/09
Investec Fixed Interest team	We are on course for a v shaped recovery. Volatility in markets has increased as people become concerned that policy stimulus is peaking, and some consumer numbers have been disappointed. However, they believe these are temporary setbacks.	Fixed Income update Nov 09
Ben Russon, Fund Manager, Newton UK Opportunities fund	Sterling and UK Gilts could suffer in the new year as the UK monetary authorities grapple with their exit strategies from monetary stimulus. This will see the end of the ultra low interest rates. Whichever government is in power, we will see tax increases along with big cuts in public spending. This would be a considerable drag on investments, particularly equities.	Email update Nov 09
Anthony Nutt, Manager Jupiter High Income Fund & Income Trust	The end of the stimulus packages will weaken consumers with China unable to compensate for reductions in the US private spending. This is one contributory factor that will mean no rise in inflation in the short term and long term US inflation of 2%.	Meeting 18/11/09



General (continued)

Who	What	Source
Joshua Shapiro, Chief Economist (US), Schroders	Disinflation to continue with core CPI at 0.5% in 2010. Recovery will be slow. Consumers are under huge pressure to boost savings rates which will slow demand in the economy. Treasury yields will increase. Financing in 2007 was \$750bn, in 2008 it was \$925bn, and in 2009 it was \$2 trillion.	Meeting 19/11/09
Consensus/Summary	There is much discussion over what shape the recovery will be, with virtually every letter of the alphabet being used as an example. The general view seems to be that economic growth will be slow, interest rates will remain low well into next year and inflation will not be an issue for some time.	



Equities

Who	What	Source
Association of Investment Companies research	<p>Investor confidence is increasing, with 52% of investors planning to increase investment, compared to just 33% a year ago.</p> <p>The last time confidence reached this level was February 2006, just before the market had peaked.</p>	Gartmore investment perspective, 3/11/09
Edward Pulling, Fund Manager, JP Morgan Asia fund	<p>Valuations in the Asian market are now average after being cheap. However, he feels that Asia is one of the few regions that can support GDP growth. China is in the best position to grow its way out of the crisis. Growth in Asia will be higher than expectations.</p> <p>China produces more than half the world's steel and now buys more cars than the Americans. The spending on infrastructure is vast but also consumption spend is rising.</p>	Conference 18/11/09
Richard Titherington, Head of Emerging Market Equities, JP Morgan	Fact: If you had invested in Russia in 1994 you would have received 16% pa on average, compared to 7.5% for the FTSE 100. However, in that time the Russian stock market has fallen by 80% TWICE.	Conference 18/11/09
Various	<p>FTSE 100 Predictions for the end of 2010:</p> <ul style="list-style-type: none"> • 4,700 Jeremy Batstone Carr, Charles Stanley • 5,000 Justin Urquhart-Stewart, 7IM • 5,000 – 5,500 Mike Lenhoff, Brewin Dolphin • 5,500 Julian Chillingworth, Rathbones • 5,500 Alec Letchfield, HSBC Global Global Asset Management • 5,850 Paul Kavanagh, Killik & Co 	The Times article 7/11/09

equilibrium

Equities (continued)

Who	What	Source
Anthony Bolton, former manager Fidelity Special Situations	Thinks we are in the first stage of a bull market that should last a couple of years. A low growth, low interest rate environment should be good for equities as investors seek a higher return than cash.	Sunday Times, 8/11/09
Joshua Shapiro, Chief Economist (US), Schroders	Stocks are now overvalued and cash and gold are his favourite asset classes.	Meeting 19/11/09
Joanna Shatney, Fund Manager, US Large Cap, Schroders	Upward earnings revisions will drive markets higher. Equity yields and valuations are still attractive vs bonds.	Meeting 19/11/09
Jenny Jones, Fund manager – US Mid Cap, Schroders	Believes US is “over-stored” and “over-restauranted”. It is hard to see good value in small or large companies but there is fair value in mid cap.	Meeting 19/11/09
Chris Costeinza, Financials Analyst, Schroders	2012 will see a return to normal credit conditions and values. As a result banks will see massive share price growth.	Meeting 19/11/09
Tom Elliott, Chief Economist JP Morgan	Equities are averagely priced on a P/E basis but look attractive compared to government bonds. Corporate earnings and dividend growth may be higher abroad than the UK so investors will need to diversify. However, holding the right stocks in a UK equity portfolio can provide that diversification due to the international nature of the UK market.	Conference 18/11/09
Christopher Sugg, Product Director UK Equities, Fidelity	Believes defensive stocks are excellent value as they have not participated in the recent rally. Price to book ratios still look cheap and dividends are attractive in this sort of stock	Meeting 18/11/09
Anthony Nutt, Manager Jupiter High Income Fund & Income Trust	Rational economic analysis is not defunct. Despite the recent ‘dash for trash’ there are opportunities for sustained growth (particularly among pharmaceuticals and telecoms) even if fears regarding sustainability of the recovery grow.	Meeting 18/11/09
Consensus/Summary	There is still conjecture about how long the recovery in equity markets can last. There does seem to be general consensus that there is still some value in the market, but it is concentrated in certain areas of the market according to many fund managers.	



Property

Who	What	Source
Ed Protheroe, Portfolio Analyst, M&G Property Portfolio	<p>The yields on prime properties are falling rapidly as capital values rise. Property was oversold in general, particularly prime retail which is seeing a rapid recovery. The recovery is now starting to spread to secondary markets.</p> <p>It is a sentiment driven rally, not fundamental. If there is a double dip recession there will be more problems.</p> <p>Is slightly nervous about the strength of the rally. If it continues like this then by the end of 2010 property will be overbought. He is looking for stability.</p>	Meeting 17/11/09
Matt Jarvis, Senior Asset Manager, L&G Property Trust	<p>The IPD saw 2% capital growth in October. This is unsustainable and if this continues we are moving in to bubble territory. He is starting to get very nervous about this and feels we could see some set backs in early 2010 if we see a few more months of similar growth.</p> <p>Property derivatives are forecasting 10% growth in 2010.</p>	Meeting 24/11/09
Gerry Ferguson, Fund Manager, SWIP Property	Investors should be cautious as property fundamentals (growth and occupational demand) are under stress. Interest rates are being suppressed by QE making property look attractive. It may not look so attractive once rates and gilt yields return to more normal levels.	Email update 26/11/09



Property (continued)

Who	What	Source
Jim Rehlaender, Fund Manager, Global Property, Schroders	There is little downside in UK commercial property with London rents attractive. China is booming where they cannot build quickly enough to meet demand.	Meeting 19/11/09
Aviva Property Team	<p>Although house prices have continued to rise this is in an environment of very limited supply of properties for sale. The RICS survey of September of an average number of properties per surveyor of 62, down from 81 a year ago and set against an average of 108 since the survey's inception in 1978.</p> <p>However, derivatives on the Halifax price index are pricing in a rise of 6% from end 2008 to end 2010.</p>	UK Real Estate Market Report November 2009
Consensus/Summary	<p>Whilst there is plenty of optimism about the UK commercial property market there is also concern that the rally is happening too quickly. If prices rise too quickly it increases the chances of further setbacks.</p> <p>Residential prices continue to rise but in an environment of little supply rather than high demand. The general view is that these rises are unsustainable.</p>	



Fixed Interest

Who	What	Source
Gordon Harding, Portfolio Analyst, M&G Corporate Bond fund	<p>Corporate bond yields are still at recession levels. There is still plenty of value in the right bonds.</p> <p>It is no longer the once in a lifetime opportunity that we saw early this year but now is a once in 5 years opportunity.</p> <p>The market is still pricing in 15% defaults assuming there is no economic recovery, or 30% defaults assuming a normal recovery. They think a normal recovery is likely and that this level of defaults is far overstated.</p>	Meeting 17/11/09
Bob Michele, Managing Director Global Fixed Income and fund manager Strategic Bond fund, JP Morgan	<p>Is starting to get more cautious on corporate bonds. However, he thinks spreads to gilts should half from here although some may come from gilt yields increasing.</p> <p>He could see a potential 30% return over the next 12 months from high yield bonds.</p>	Conference, 18/11/09
Ian Spreadbury, Fund Manager, Fidelity Moneybuilder Income	<p>There is still some way to go in the corporate bond rally. There is inflation risk but he feels this is some way out. There is also a risk of a double dip recession which will have a big negative impact on bonds. However, he feels this risk is low.</p> <p>In the long term corporate bond yields basically track GDP – however yields are still way above GDP and even though this will recover, he feels that yields must come down further.</p> <p>Companies have become much more efficient very quickly by cost cutting.</p>	Meeting 18/11/09
Investec Fixed Interest team	They are still very positive about investment grade bonds. The economic environment is supportive with low interest rates and a return to growth. Valuations in many areas are still reasonably attractive despite the huge gains since March,	Fixed Income update Nov 09



Fixed Interest

Who	What	Source
Ariel Bezalel, Manager Jupiter Strategic Bond Fund	<p>Economic outlook appears supportive of credit with Federal Funds rate expected to remain low in the medium term.</p> <p>Following the recent rally spreads have narrowed. There are however still good opportunities among select financials (generally those who have not received state aid), where European banks have made good progress in reducing leverage, and non financial, defensive BB / BBB quality junk.</p>	Road show 18/11/09
Wes Sparks, Fund Manager, US Fixed Income, Schroders	High yield is the best opportunity across any asset class. Highly leveraged companies are buying back their own debt at approx 25p in the £1. Banks are hoarding cash not just because of balance sheet repair but also due to lack of loan demand.	Meeting 19/11/09
Consensus/Summary	The general view is that there is still value in corporate bonds but returns will not be at the levels we have seen since March. Fund managers will have to be more selective in order to obtain the best returns.	



Research Summary – November 2009

Fund Manager Contact Summary

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

Event	Speaker(s)	Type of Contact
Meeting	David McGillveray, Portfolio Analyst, M&G Recovery fund	Face to face
Meeting	Ed Protheroe, Portfolio Analyst, M&G Property Portfolio	Face to face
Meeting	Gordon Harding, Portfolio Analyst, M&G Corporate Bond fund	Face to face
Conference	Tom Elliot, Chief Economist, JP Morgan	Face to face
Conference	Bob Michele, Managing Director Global Fixed Income and fund manager Strategic Bond fund, JP Morgan	Face to face
Conference	Edward Pulling, Fund Manager, JP Morgan Asia fund	Face to face
Conference	Richard Titherington, Head of Emerging Market Equities, JP Morgan	Face to face
Meeting	Ian Spreadbury, Fund Manager, Fidelity Moneybuilder Income	Face to face
Meeting	Christopher Sugg, Product Director UK Equities, Fidelity	Face to face



Fund Manager Contact Summary (continued)

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

Event	Speaker(s)	Type of Contact
Meeting	Stuart Richards, Fund Manager Hexam Emerging European Fund	Face to face
Meeting	Anthony Nutt, Manager Jupiter High Income Fund & Income Trust	Face to face
Meeting	Ariel Bezalel, Manager Jupiter Strategic Bond Fund	Face to face
Meeting	Matt Jarvis, Senior Asset Manager, L&G Property Trust	Face to face
Meeting	Richard Penny, Senior Fund Manager, L&G UK Alpha	Face to face
Meeting	Wes Sparks, Fund Manager, US Fixed Income, Schroders	Face to face
Meeting	Jim Rehlaender, Fund Manager, Global Property, Schroders	Face to face
Meeting	Joshua Shapiro, Chief Economist (US), Schroders	Face to face
Meeting	Joanna Shatney, Fund Manager, US Large Cap, Schroders	Face to face



Fund Manager Contact Summary (continued)

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

Event	Speaker(s)	Type of Contact
Meeting	Jenny Jones, Fund manager – US Mid Cap, Schroders	Face to face
Meeting	Chris Costeinza, Financials Analyst, Schroders	Face to face

This month we met 21 fund managers and other key individuals.



Monthly Figures

Index	Value
FTSE 100 – last day of last month	5,133
FTSE 100 – last day of this month	5,190
% change (ignores dividends)	+1.1%
FTSE Allshare – last day of last month	2,584
FTSE Allshare – last day of this month	2,648
% change (ignores dividends)	+2.5%
US\$ to £ - last day of last month	1.63
US\$ to £ - last day of this month	1.64
% change	+0.6%
Euro to £- last day of last month	1.10
Euro to £- last day of this month	1.10
% change	0%
RPI	-0.8%
Change from last month	+0.6%
CPI	1.5%
Change from last month	+0.4%
BoE Base Rate	0.5%
Change from last month	0%

Index	Value
UK 10 Year Gilt Yield	3.52
FTSE Allshare P/E Ratio	12.1x
FTSE Allshare Yield	3.4%
Spread v Gilt	-0.12%
IBOXX Sterling Corporate Bond Index Yield	6.03
Spread v Gilt	2.51%

Monthly Portfolio Figures	% Change
Fixed Interest	1.47
Dynamic Fixed Interest	1.58
UK All Companies	1.99
UK Large Companies	0
UK Dynamic	-0.26
Global Established	2.51
Global Dynamic	-0.31
Global Speculative	3.3
Alternative Equity	-0.11
Property	1.64

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