



Research Summary – April 2010

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
Mark Holman, Managing Partner, Twenty Four Asset Management	Believes interest rates will stay low until the end of 2010 but could rise quite sharply afterwards.	Meeting 15/4/10
Justin Urquhart Stewart, Director, Seven Investment Management	Believes Sterling is likely to fall if we do not see a credible plan for reducing UK debt after the election.	Investment dinner 15/4/10
Andy McCarthy, Fund Manager, Castleton Growth fund	“QE has ended and after £225 billion of credit creation and the catastrophe that is Greece has warned off even the Labour party from risking trashing the pound by switching the printing presses back on again. If they do a cratering pound will drive UK rates well above 5% and kill any hope of recovery. Thus no more QE.”	Email update 16/4/10
Keith Wade, Chief Economist, Schroders	'Our view is that a lot of the news on the political front and the risk of a hung parliament is already discounted in sterling, but the gilt markets have not reacted. So on that basis the gilt market would be more vulnerable to continuing expectations of a hung parliament.'	Citywire.co.uk, 19/4/10



General (continued)

Who	What	Source
Monetary Policy Committee	Is now slightly more worried about inflation and admit that the possibility of at least a token rate rise in 2010 has increased.	MPC minutes of March meeting
Barclays Capital house view	Believe inflation will remain above 3% until at least November this year. This increases the likelihood of interest rate rises, but they believe the MPC will be worried about increasing too soon.	Weekly global economic report, 23/4/10
George Friedman, CEO, Stratford Global Intelligence	<p>Believe that the Greek government will have no option but to default. Many European banks hold Greek debt and this will cause major problems:</p> <p>“The Greek default is no longer an isolated problem, but a problem that threatens to aggravate an already weakened European banking sector. One of the most misunderstood facts of the international financial world is that even at the peak of the U.S. subprime crisis, in the dark hours when American hedge funds seemed to be snapping like matchsticks, Europe's banks were in even worse shape.</p> <p>“As the Americans stabilized, so did their banks. But Europe never cleaned house, and now a Greek tsunami is poised to wash over the whole mess.”</p>	John Mauldin's Outside the Box, 27/4/10
Eric Sprott & David Franklin, Sprott Asset Management	They believe Greek savers are moving their money out of Greek banks, despite there be a Greek government guarantee. They believe this shows that Greeks themselves believe their government will default on debts. This is leading to another financial crisis as the banks require further capital.	John Mauldin's Outside the Box, 27/4/10



General (continued)

John Mauldin, President, Millennium Wave advisers	"There is a bubble building and it is in sovereign debt. It threatens to be a worse bubble than subprime or the credit crisis."	John Mauldin's Outside the Box, 27/4/10
Axel Bote, Fixed Income Strategist, AXA Investment Managers	"The biggest risk now is that the market speculates against every single indebted peripheral country, and that could lead to a sovereign debt crisis. The contagion risk is real."	Bloomberg 28/4/10
Ian Buckle, fund manager, Aegon Sterling Corporate Bond	Thinks inflation will not surprise anyone and will fall back. Sterling weakness has added to this and he feels Sterling is now fair value vs the US dollar and should improve vs the Euro.	Conference call 23/4/10
Consensus/Summary	Analysts are slightly more concerned about high inflation than last month with RPI levels increasing, but they believe inflation levels are likely to decrease in the future. There are concerns regarding the eurozone's sovereign debt crisis which could lead to another financial dip in Europe. The upcoming election is continuing to cause uncertainty.	



Equities

Who	What	Source
<p>Tim Bond, Head of Asset Allocation, Barclays Capital</p>	<p>Believes equities could go up 12% from here.</p> <p>Believes that economic numbers will continue to surprise on the upside short-term, which will boost investor confidence and in turn drive the rally in cyclicals for another quarter.</p> <p>He says that although equities appear fairly valued on this year's estimates with the MSCI World index trading at 14.2x 2010 earnings, an 11.8 and 10.4 multiple of 2011 and 2012 earnings is 'definitively cheap.'</p>	<p>Citywire.co.uk 16/4/10</p>
<p>Andy McCarthy, Fund Manager, Castleton Growth fund</p>	<p>Believes the market is overbought but people are now starting to believe the hype so it could go up much further before seeing a setback:</p> <p>"The stimulus induced sugar rush rally has carried into Q2 as we thought it might and people are now beginning to "believe" – this was always going to be important and they will forget the obvious macro problems sitting in wait in 2011.</p> <p>"The rally has been fuelled by cheap money, re-stocking and above all relief. This kind of euphoric rally is hard to call as is predominantly being driven by high emotion (more so than usual) and hence the 10 year high in various overbought momentum readings."</p> <p>They expect a potentially strong bull market AFTER the next 2 or 3 years.</p>	<p>Email update 16/4/10</p>

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Equities (continued)

Who	What	Source
Leigh Himsworth, Head of UK Equities, Gartmore	Believes increased merger activity will continue and drive markets higher. “Having spent the last few years battering down the hatches to cut costs, save cash and perhaps even raise equity, many listed companies are actually in a relatively strong position balance sheet wise but may well have not invested significantly. Management thus find themselves faced with the dilemma – build or buy. Given that a decision to build will take time, many are deciding to buy the finished article and gain a foot up on the recovery ladder.”	Email update 13/4/10
Barclays Capital House View.	China (and, to a lesser extent, India and Brazil) are showing some overheating risk but, even there, inflation appears to be under control. Remain bullish on emerging markets.	Email update 16/4/10
William Littlewood, Fund Manager, Artemis Strategic Assets	Has reduced equity holdings in his fund and upped cash. ‘In the short term there are a lot of arguments that markets will fall,’ Littlewood said. ‘There are potential inflation issues if the market decides inflation is coming back, as well as the threat of taxes on the world’s banks, and sovereign debt issues, so there is a lot of uncertainty out there.’	Citywire.co.uk 29/4/10
Consensus/Summary	Most fund managers are still bullish on equities with continuing positive sentiment from investors on the rise. There are some fears about the election and sovereign debt issues, but these are mainly a short term view as they feel the bull market recovery will continue over the long term.	



Property

Who	What	Source
Council of Mortgage Lenders	A huge problem is looming over the property market. From 2011, lenders will have to find about £300bn to repay the government for the money it lent them via its emergency support schemes - the special liquidity scheme and credit guarantee scheme - at the height of the banking crisis. As such, mortgage lending will continue to be rationed.	Bbc.co.uk 19/4/10
Fiona Rowley, Fund Manager, M&G Property Portfolio	They anticipate that the rally will cool off as the second quarter of this year progresses. If it does not, the market may become vulnerable to a short-term correction. The rebound has been driven primarily by sentiment and relative value, rather than a material improvement in the underlying fundamentals for property.	Email update 20/4/10
Barry MacLennan, Investment Director, Standard Life	Property is now at fair value. Their house view is heavy on UK property, relative to other asset classes. Opportunities remain. There are risks, but he believes these are out weighted by opportunities. Second half of 2010 there could be a slowdown.	Conference Call, 28/04/2010
Consensus/Summary	The general consensus is the property recovery will begin to slow down for some of 2010, but the indicators are still mainly positive as the asset class continues to rally.	



Fixed Interest

Who	What	Source
David Coombes, Investment Director, Rathbones	Is bearish on UK Corporate Bonds believing that gilt yields will rise and that corporate yields will therefore rise too (as prices fall). He also believes there is interest rate risk because the UK has more inflationary risk than the rest of the world.	Portfolio Adviser, April 2010
Richard Woolnough, Fund Manager, M&G Corporate Bond fund	As corporate bond issuance gradually declines and government bond issuance remains strong, investors will require less spread to entice them into corporate debt. On top of that, it could be argued that the quality of investment grade corporate debt is improving (as the poorer-quality names get downgraded into high yield and the rating agencies become stricter about their ratings). At the same time, sovereign risks have been increasing, again leading to a smaller premium required to invest in corporate bonds over government debt.	Email update 20/4/10
Ian Buckle, fund manager, Aegon Sterling Corporate Bond	<p>Feels that gilt yields will rise but not as far as he had previously feared. Feels 10 year yields could go to 4.5% but not much higher.</p> <p>Some non-financial corporate bond spreads have returned to pre-Lehmans levels and some spreads are as tight as they have ever been. In general, corporate bonds are still slightly cheap but some sectors or individual issues are now expensive.</p>	Conference call 23/4/10
Kevin Telfer, Fixed Interest analyst, Aegon	High yield bonds can still produce low double digit returns over the next 12 months, but most of this will come in the next few months.	Conference call 23/4/10
Consensus/Summary	The consensus is that UK Gilt yields will rise with the ongoing crisis regarding European sovereign debt, with corporate bonds potentially feeling a knock on effect as well. Some feel corporate bonds have reached fair value with there still being potential high yield.	



Research Summary – April 2010

Fund Manager Contact Summary

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

Event	Speaker(s)	Type of Contact
Meeting	Mark Holman, Managing Partner, Twenty Four Asset Management	Face to Face
Meeting	Gary Kirk, Partner, Portfolio Management, Twenty Four Asset Manager	Face to Face
Investment Dinner	Justin Urquhart Stewart, Director, Seven Investment Management	Face to Face
Conference call	Ian Buckle, fund manager, Aegon Sterling Corporate Bond	Telephone
Conference call	Kevin Telfer, Fixed Interest analyst, Aegon	Telephone
Conference call	Guido Stiel, Emerging Market Analyst, Allianz BRIC Fund	Telephone
Conference call	Barry MacLennan, Investment Director, Standard Life	Telephone

This month we met three key individuals, having telephone contact with four others.



Monthly Figures

Index	Value
FTSE 100 – last day of last month	5,662
FTSE 100 – last day of this month	5,553
% change (ignores dividends)	
FTSE Allshare – last day of last month	2,910
FTSE Allshare – last day of this month	2,863
% change (ignores dividends)	
Oil price (Brent Crude) \$	88.8
% change	6.3%
US\$ to £ - last day of last month	1.51
US\$ to £ - last day of this month	1.52
% change	0.66%
Euro to £- last day of last month	1.14
Euro to £- last day of this month	1.15
% change	0.88%
RPI	4.4%
Change from last month	+0.7%
CPI	3.4%
Change from last month	+0.4%
BoE Base Rate	0.5%

Index	Value
UK 10 Year Gilt Yield	3.9
FTSE Allshare P/E Ratio	12.4 x
FTSE Allshare Yield	3.1
Spread v Gilt	-0.8
IBOXX Sterling Corp Bond Yield	5.71
Spread v Gilt	+1.81
IPD UK All Property Yield	6.7%
Spread v Gilt	2.8

Monthly Portfolio Figures	% Change
Fixed Interest	0.52
Strategic Fixed Interest	1.23
UK All Companies	-0.88
UK Large Companies	-0.05
UK Dynamic	0.28
Global Established	-0.67
Global Dynamic	-0.14
Global Speculative	0.03
Alternative Equity	0.22
Property	0.60

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