



Research Summary – February 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
Philip Gibbs, Fund Manager, Jupiter Financial Opportunities.	<p>Speaking about Obama's proposed reforms of banks he said: "There is little doubt that reform is required after the credit crisis of 2007-08. However, bank earnings are just starting to recover...These proposals therefore threaten the rate at which banks recover and their lending growth. History tells us that tightening bank regulation aggressively while economies are recovering from recession presents a real risk that growth will be stifled. This is particularly true now with western economies still going through the process of deleveraging.</p> <p>There will be areas of the global banking system that will unaffected by Obama's proposals - in emerging markets, for example. The US investment banking system, therefore, could become less competitive globally. Adaptation will be important for these institutions."</p>	Email update 1/2/10



General (continued)

Who	What	Source
<p>John Chatfield-Roberts, Chief Investment Officer, Jupiter</p>	<p>“For some time we have been concerned that the ‘carry trade’ trend of borrowing in currencies such as the US dollar with low interest rates to invest in assets with higher yields could not last forever. Any shock or series of shocks could send investors back to the haven of the world’s reserve currency and force speculators to unwind positions in commodities and emerging markets.</p> <p>“Recently we have seen a number of shocks. The US may be the engine of world growth but China is its starter motor. The world’s third biggest economy is now tightening monetary policy to contain inflation. Fearing slower growth, money is leaving emerging markets and returning to the US, boosting the dollar.”</p> <p>In the US, President Obama’s proposals to curtail the size and trading activities of banks have also sent a shudder through markets. And in Europe, the possibility of a sovereign default by Greece has unnerved markets because of the prospects of contagion. Any default would push up the borrowing costs for other troubled countries.”</p>	<p>Email update 8/2/10</p>
<p>William Littlewood, Strategic Assets Fund Manager, Artemis</p>	<p>The only way all governments, and particularly PIIGS, UK, US and Japan, can resolve their massive debt crisis is by inflating their way out. Long term therefore there is no chance of deflation.</p> <p>The problem is magnified by aging populations in developed countries, which will mean further deficits. In contrast to this there are opportunities for emerging markets where, in India (for example) the retired population by 2030 will only be 8%.</p>	<p>Face to face meeting 24/02/2010</p>



General (continued)

Who	What	Source
James Foster, Strategic Bond Fund Manager, Artemis	Contrary to William Littlewood's thoughts, lack of inflation drivers (eg. wage inflation) will mean there is very little chance of inflation in the immediate future.	Face to face meeting 24/02/2010
Paul Brain, Fund Manager, Newton International Bond	The problems in Greece are unlikely to spread to other countries such as Portugal and Spain. The UK may have problems due to uncertainty caused by the general election, but our sovereign debt issues pale in significance when compared to Japan.	Email update 25/2/10
Investec house view	Remain positive on Sterling as "whilst significant political uncertainties remain ahead of the general election, the economy has clearly been outperforming expectations recently and valuation support remains compelling. With underlying inflation pressures mounting, we expect the Bank of England to begin tightening policy before year-end."	Currency insight 24/2/10
Jim Rogers, co-founder of the Quantum fund (with George Soros)	<p>"the pound is on the brink of a collapse which will spark a 'global economic winter' so severe it will make the financial crisis seem like a 'mild spring day'."</p> <p>Note: there is now some confusion as to whether he said this and where the quotes have come from. Nevertheless, he is known to be bearish on sovereign debt issues and believes the UK will lose its AAA credit rating.</p>	Citywire.co.uk 26/2/10
Consensus/Summary	The issues with Greek government bonds are dominating the news. If they were to default the knock on effect would be severe, with implications for other weak economies, including the UK. There are conflicting views regarding inflation and regarding the relative strength of Sterling.	



Equities

Who	What	Source
Richard Buxton, Head of UK Equities, Schroders	<p>is relaxed about the latest market falls, describing the sell off of the last three days as an 'overreaction' by investors. He has been using the falls to buy into stocks across a range of sectors on a strong two year investment view.</p> <p>He felt that corporate results continued to be 'encouraging' and further investment opportunities were presenting themselves.</p> <p>"We started the year at 5500, and I said then I expected the market to grind up towards 6,000 but also that we would see a dip down to below 5,000 points. 'The sell off has been led by miners and financials because they are the high beta areas but it has got to the stage now where I think it is an overreaction focused around sentiment rather than fundamentals."</p>	Citywire.co.uk 5/2/10
Adrian Pankiw, Portfolio Adviser Magazine	With 120 companies in the S&P 500 having reported, 80% of them beat earnings estimates and 76% beat revenue estimates. Top line revenue grew for the first time since the third quarter of 2008 and the improvement in both top and bottom line earnings growth is expected to continue. Given positive earnings dynamics and the boost that significant operating leverage within the corporate sector should continue to add to earnings, equities should recover and move higher from current levels.	Portfolio Adviser, 2/2/10

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Equities (continued)

<p>Rob Pemberton, Investment director, HFM Columbus</p>	<p>Is concerned about emerging market equities: “Look beyond the level of economic and corporate profit growth – examine the price you are paying for it. Historically emerging markets used to trade at a discount to developed markets due to their record of instability but this is no longer the case and emerging markets are starting to look dangerously pricey. China and Brazil trade on around 14x earnings, in line with developed markets, and India a pretty rich 18x. The only significant emerging market with a P/E of less than 10 is Russia.</p> <p>“Advocates of emerging markets argue that a P/E premium is warranted because of the growth potential – but our view is that political and corporate risk is still much higher than in the developed world. Were book values to rise above current level of 2x and P/E ratios hike up to around 18x then investors should assume they are in dreaded bubble territory and be fearful of an imminent and painful correction.”</p>	<p>Portfolio Adviser, 2/2/10</p>
<p>Mark Atherton, The Times</p>	<p>The UK stock market is the least popular of all the major world markets. That’s the view of the professionals polled in the January edition of Merrill Lynch’s influential fund manager survey. No fewer than 33 per cent are moderately or heavily underweight in the UK — a bigger percentage than for any other major market.</p> <p>The UK is also the most lowly valued of the principal stock markets. Taking prospective earnings as the yardstick, the UK is valued at 12.5 times earnings for 2010. This compares with a figure of 12.6 for Europe, 13.8 for Asia, 14.3 for the US and 17.7 for Japan.</p>	<p>The Times 30/01/10</p>
<p>John Hatherly, of Seven Investment Management</p>	<p>“The UK stock market sits right at the bottom of the pile in terms of popularity and stock market valuation. But this pessimism seems overdone. There is nothing especially wrong with UK shares. Companies are expecting earnings per share growth of 30 per cent this year, compared with a figure of about 25 per cent for world stock markets as a whole. “</p>	<p>The Times 30/01/10</p>



Equities (continued)

Chris Taylor, Neptune Japan	Despite real problems with the Japanese economy as a whole, those successful Japanese companies tend to dominate their sector. A further weakened yen will provide good opportunities and Chris has hedged the currency back to GBP to take advantage of this.	Alpha Generators Roadshow 03/02/2010
Tom Walker, Martin Currie, US Equities	<p>US companies have a global reach and the ability to benefit from overseas growth, particularly in emerging markets. Tom has no expectation of a double dip though does expect some volatility over 2010.</p> <p>Recent underperformance by the fund was a result of sticking to investment principles. This will hopefully be vindicated long term. There have been some recent changes made to the process, in particular a movement away from commodities exposure.</p>	Alpha Generators Roadshow 03/02/2010
William Littlewood, Strategic Assets Fund Manager, Artemis	<p>Given expected high inflation, hold global dominant brands such as Coca-Cola which will be inflation proof and offer emerging markets exposure.</p> <p>Pharmaceuticals and healthcare companies also offer good value, partly due to aging populations in Western markets and partly to a growing middle class in emerging markets who will have a demand for drugs.</p>	Face to face meeting 24/02/2010
Adrian Gosden, Income Fund Manager, Artemis	<p>Companies spent 2009 cutting costs and reducing debts often via rights issues. They are now starting to realize that balance sheets are not as dire as previously thought and we are seeing the slow return of mergers and acquisitions.</p> <p>There are a number of large companies that offer excellent value as investors are often keen to look for exposure to commodities / emerging markets rather than fundamental investment values.</p> <p>UK equity markets will move sideways remaining flat for much of the year with high volatility.</p>	Face to face meeting 24/02/2010

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Equities (continued)

Who	What	Source
Andy McCarthy, Fund Manager, Castleton Growth fund	<p>“The Barmac Indicator remains in “sell” as all the major markets carve out lateral consolidation patterns. Indeed virtually all UK, US and European indices have traded sideways since September - a period of ranging that typically precedes an eventual “fast move” the direction of which we cannot anticipate but will follow aggressively if it is UP!</p> <p>“... we suspect (though don’t predict conclusively) that any fast move will be down. We will watch for a break of the key 5000 level on FTSE or above 5450.</p> <p>“Overall volume (in equity markets) has been falling since last April, even as indices have risen...This is extremely worrying. Indeed there is normally only one resolution to a market that rises on diminishing volume and that is very unfavorably.</p>	Email update 24/2/10
Artemis House View	“The economy is getting better, but at a decelerating rate. The logic of equity markets is rarely less than convoluted; and that share prices in some sectors, most notably basic resources and early cyclicals, tend to follow not economic growth but changes in economic growth: the poetically named “second derivative of economic output.”	Email update 26/2/10
Consensus/Summary	<p>Whilst there are differing views on the direction of the market as a whole, the consensus seems to be that large defensive stocks offer relatively good value. Earnings continue to outperform expectation which may indicate growth. However, the economic concerns surrounding government debt means that markets could just as easily fall from here as rise.</p>	

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Property

Who	What	Source
Adrian Pankiw, Portfolio Adviser Magazine	Despite continuing increase in house prices, the Royal Institute of Chartered Surveyors' survey of UK housing shows that new buyer enquiries have been falling for six months, though this is due more to the nature of the index rather than a new underlying trend in demand. Stocks of houses for sale remain stable but low, as do mortgage rates, which should ensure a continued gradual recovery in UK house prices.	Portfolio Adviser, 2/2/10
Don Jordison, Fund Manager, Threadneedle UK Property trust	UK commercial property is no longer the 'no brainer' opportunity it represented six to nine months ago and another setback could be on the cards as the UK battles political and economic uncertainty. There are still great opportunities out there, but they are not across the board. Huge amounts of liquidity have gone into property. It is a very binary market, as it is either all forced sellers or forced buyers, which is always the case with property. A headwind that has been shrugged off is: where is the liquidity coming from? The answer is QE."	Citywire.co.uk 22/2/10
Ignis Property Team	<p>Given the short-term disconnect between capital value growth and rental value growth, Ignis also believes yields for prime stock run the risk of over correcting in the short term leading to a moderate retrenchment in capital values. Second dips in value of this nature are not uncommon having previously been seen at this stage in the cycle in the mid 1970's and 1990's.</p> <p>Despite short term concerns, the Ignis property team remains positive on the medium-term outlook for UK commercial property with total returns forecast in the region of 8% - 9% per annum.</p>	Email update 25/2/10



Property

Michael Barrie, Director, Balanced Funds, Legal & General Property Division	Following Decembers high, property yields have fallen away in January and are now neutral. Opportunities are limited for retail investment as a result high vacancy in poorly performing high streets. Construction of business premises has “fallen off a cliff” since 2007 and as a result those properties for which there is demand (particularly offices in central London) will be able to charge higher rents.	Fund 5 Live Conference 25/02/2010
Consensus/Summary	The short term outlook for UK Commercial Property funds remains good, with attractive yields relative to gilts. However, returns should slow from here. Too strong a growth in the short term could lead to a potential correction. However, medium term forecasts remain positive.	



Fixed Interest

Who	What	Source
Legal & General Fixed Interest team	<p>Buying safe companies will not be a good way to make money in fixed interest over the next 12 months. The risk of sovereign yields increasing means there is not enough premium in the yields of safer companies – they could end up being below government bond yields very quickly.</p> <p>Buying higher yield provides more of a cushion against this. However, fund managers need to avoid highly leveraged companies.</p>	Fundamentals, February 2010
Richard Woolnough, Fund Manager, M&G Corporate Bond & Optimal Income funds	<p>“Despite the huge volume of gilt issuance we saw in 2009, for much of the year the Bank was actually buying back more than was being issued by the UK’s Debt Management Office. This massive source of demand clearly kept yields lower than they would otherwise have been. But, while the buybacks are slowing, gilt issuance is set to continue apace.</p> <p>“As the supply/demand imbalance tips back the other way, we believe yields may rise further. Consequently, we have retained a short position in UK gilt futures to mitigate this possibility, although we have closed our position in German government bond futures.”</p>	Email update 22/2/10



Fixed Interest (continued)

Who	What	Source
Peter Eerdmans, Fund Manager, Investec Emerging Markets Debt	<p>“The average CDS (Credit Default Swap – insurance that a government won’t default on debt) of emerging markets (1.60%) is now in line with the likes of Spain (1.60%) and Ireland(1.63%) and lower than Portugal (2.24%) and Greece (4.00%). Whereas Spain has a AAA rating, Ireland a AA, Portugal a AA and even Greece a BBB+ (downgraded from A in January 2010), the average rating of our emerging market benchmark is BBB+. The lowest yielding CDS in our benchmark are well below those of Spain and Ireland: Malaysia (A-) 1.22%, Thailand (BBB+) 1.23%, Brazil (BBB-) 1.50% and Poland (A-) 1.51%.</p> <p>Such discrepancies between what ratings agencies gauge as the sovereign credit risk and what the market is pricing in begs the question of ratings consistency... it could be argued that rating agencies are behind the curve and have not fully appreciated the relative strength of emerging markets just yet.”</p>	Email update 23/2/10
Consensus/Summary	<p>Corporate Bond yields are now around 6% and they are generally trading around par. Therefore, on balance returns should not be much more or less than this 6% figure.</p> <p>However, the concerns over government debt could have a knock on effect on corporate bonds as well as gilts, reducing potential returns.</p>	



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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
Alpha Generators Roadshow	Chris Taylor, Neptune Japan	Face to face
Alpha Generators Roadshow	Tom Walker, Martin Currie, US Equities	Face to face
Artemis conference	William Littlewood, Strategic Assets Fund Manager, Artemis	Face to face
Artemis conference	Adrian Gosden, Income Fund Manager, Artemis	Face to face
Artemis conference	James Foster, Strategic Bond Fund Manager, Artemis	Face to face
Meeting	Anthony Bolton, Fund Manager, Fidelity	Face to face
Meeting	Alastair Mundy, Special Situations Fund Manager, Investec	Face to face
Meeting	Michael Barrie, Fund Manager, L&G Property	Face to face
Meeting	Chris Burvill, Fund Manager, Gartmore UK Equity Income	Face to face
Meeting	Graham Ashby, Head of UK equities, LV= Asset Management	Face to face

This month we met ten fund managers from eight different management groups.

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Monthly Figures

Index	Value
FTSE 100 – last day of last month	5,188
FTSE 100 – last day of this month	5,354
% change (ignores dividends)	+3.1%
FTSE Allshare – last day of last month	2,660
FTSE Allshare – last day of this month	2,736
% change (ignores dividends)	+2.9%
Oil price (Brent Crude) \$	77.7
US\$ to £ - last day of last month	1.60
US\$ to £ - last day of this month	1.52
% change	-5%
Euro to £- last day of last month	1.15
Euro to £- last day of this month	1.11
% change	-3.5%
RPI	3.7%
Change from last month	+1.3%
CPI	3.5%
Change from last month	+0.6%
BoE Base Rate	0.5%

Index	Value
UK 10 Year Gilt Yield	4.2
FTSE Allshare P/E Ratio	11.7x
FTSE Allshare Yield	3.2
Spread v Gilt	-1%
IBOXX Sterling Corp Bond Yield	6.2
Spread v Gilt	+2
IPD UK All Property Yield	7%
Spread v Gilt	+2.8

Monthly Portfolio Figures	% Change
Fixed Interest	-0.69
UK All Companies	3.02
UK Large Companies	1.63
UK Dynamic	2.16
Global Established	5.91
Global Dynamic	4.5
Global Speculative	5.85
Alternative Equity	-0.61
Property	0.98

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