



Research Summary – January 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
Jim O'Neill, Head of Global Economic Research, Goldman Sachs	The UK will deliver above consensus economic growth in 2010, benefiting from a weak pound. Interest rates will therefore also be above the sub 2% currently expected by the markets.	Citywire.co.uk 5/1/10
Jonathan Blain, IPS Capital CIO	Historical relationships between the scale of the decline in GDP during a recession and its subsequent rebound show the recovery can be two to three times the size of the decline. Peak to trough GDP decline in the UK was -6.1%. Interest rates will be much higher than expected and could need to be at 4.5% by the end of 2011. This would likely drive down consumption, property prices, and make fixed interest funds less attractive.	Citywire.co.uk 5/1/10
Richard Buxton, Head of UK Equities, Schroders	The Bank of England must plough on with quantitative easing (QE) beyond its £200bn asset purchase programme scheduled to end this month. "The Bank of England has said that part of the purpose of QE is to keep gilt yields down and it's not working. If they do stop and yet still there's a massive issuance because of the scale of the fiscal deficit, with gilt yields at 4.5% and rising, I think they'll say that the economy isn't strong enough to take this we must press on with some more."	Portfolio adviser, 14/1/10



General (continued)

Who	What	Source
Phil Milburn, Investment Manager Fixed Income, AEGON Asset Management	Despite rising fears, "inflation will take years to come back"	Fixed Interest Conference Call – 14/1/10
David Blanchflower, Economist and former member of the Monetary Policy Committee	<p>'The MPC is currently forecasting that the recovery will be the fastest we've ever seen from such a recession, and it's not believable that we will see that. 'The danger is the MPC is too bullish and tightens too quickly and there is likely to be a double-dip recession,' he added.</p> <p>He said cutting rates to 0.5% had been the only thing that stopped the UK economy 'going over a cliff' and with no credible exit strategy in place for wrapping up quantitative easing (QE), Blanchflower said it was better to continue pumping money into the economy rather than cut spending and risk a severe economic shock. Cutting public spending now could cause unemployment to rise inexorably.</p> <p>He is now worried about an inflation spike. Maintaining the stimulus is a better alternative than trying to tackle the national debt when the economy was still so fragile: 'The Bank will have to do more QE and not worry about inflation. Deflation has been the problem so we need to create inflation, and four to five years of inflation at 5% looks attractive.'</p> <p>The UK needs to be set a new inflation target in order to avoid the mistakes of the past being repeated. The current Consumer Prices Index (CPI) reading has failed to provide an accurate measure of the true inflation situation in the UK. 'The economic basis for inflation targeting is gone, and the 2% CPI target has failed. 'We should have been targeting house prices and unemployment, and we will have to modify the target to take account of that.'</p>	New Model Adviser conference, 14/1/10



General (continued)

JP Morgan house view	The long-term inflation debate finely poised – there is plenty of investor chatter about the dangers, but little to be concerned about in prices. Inflation expectations implied by US five year/five year forward break-even rates are discounting 2.6% inflation pa from 2015/19, while the University of Michigan survey shows average expected inflation of 2.7% over the next 5-10 years.	Email update 11/1/10
Dickie Hodges, L&G Dynamic Fixed Interest	He doesn't believe the recent hike in inflation will increase from here onwards with it eventually decreasing with factors such as the VAT hike. For the real rate of inflation to rise, it would take other substantial factors such as final demand, consumption, and wage inflation, that would all equate for the real rate of inflation to rise. It is still too early for high inflation. No inflation link investments yet.	Telephone 26/01/2010
Richard Buxton, Fund Manager, Schroder UK Alpha Plus Fund	<p>There will be no hung parliament, and the Conservative government will reassure bond markets through raised taxes.</p> <p>BOE will not take action on monetary policy until after the Tory government's first budget. Interest rates will rise but not until the end of the year and even then very slowly.</p> <p>Current inflation is a blip. Despite increasing prices of raw materials demand is not generally strong enough to support inflation.</p>	Meeting 19/1/2010
Consensus/Summary	<p>Despite there still being some disagreement, the consensus on inflation is now leaning towards it not being a problem for some time.</p> <p>Speculation about what will happen with quantitative easing continues, with a rising suspicion that it is likely to be continued beyond the current agreed amounts.</p>	



Equities

Who	What	Source
Ashton Bradbury, Head of Equities, Old Mutual Asset Managers	UK equities will continue to deliver strong returns for equities this year. "A combination of modest economic growth and easy monetary policy should make for a positive environment." The market is still reasonably valued at around 12 x forward earnings. He feels corporate profits may surprise on the upside.	Citywire.co.uk 6/1/10
Robert Parkes, Strategist, HSBC	"Much of the better news is already priced in, particularly in emerging markets. We see more room for positive surprises in the US...the UK, and less loved emerging markets such as Mexico and Taiwan."	Sunday Times 17/1/10
Ben Yearsley, Hargreaves Lansdown	Is "stripping" the profit from some of his emerging market funds and considering buying Invesco Income instead.	Sunday Times 17/1/10
Andrew Cole, Fund Manager Baring Multi Asset fund	Equities are still cheap based on their "equity risk premium" calculations. At current levels of estimated earnings you are being paid well for holding equities.	New Model Adviser conference, 14/1/10
Richard Buxton, Fund Manager, Schroder UK Alpha Plus Fund	FTSE will be volatile over the next 12 months, touching both 5,000 and 6,000 at some point. There is a big opportunity for growth within banks in the next 3-4 years and commodities will see a 15 year bull market.	Fund manager meeting, 19/1/10
David Blanchflower, Economist and former member of the Monetary Policy Committee	The equity rally is being driven by quantitative easing. When this stops, the bull market will stop and equities are likely to fall.	New Model Adviser conference, 14/1/10
Investment Management Association survey	Whilst retail investors are piling into equities, institutions are backing bond funds.	Citywire.co.uk 5/1/10
Andy McCarthy, Fund Manager, Barmac UK/ Castleton Growth fund	Their Barmac indicator has issued a "buy" signal. The broader indices of small and mid cap have traded sideways to lower over the past three months (although the FTSE 100 has advanced approx 4%) but have now broken the downtrend with what looks to be a powerful upward dynamic.	Email update 7/1/10

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Equities (continued)

Who	What	Source
James Harries, Fund Manager, Newton Global Higher Income fund	While a deep recession may have been averted by the huge tide of government stimulus, we are still some way from being in a sustainable recovery. "Normally, at the end of a recession, there is tremendous pent up demand and it's this demand which fuels the recovery. There is still no sign of this demand and the stimulus policies that have so far helped to drive the recovery are, by definition, short-term measures. Consequently, we expect to see a good deal of volatility in global markets in 2010."	Email update 7/1/10
Tom Walker, Fund Manager, Martin Currie North American fund	<p>Predicts the country's stock market should move higher over the course of 2010, although growth will not match last year's levels. 'We've seen cyclical bounce, but I don't believe in the double dip and I think we will trend higher,'.</p> <p>The Federal Reserve is unlikely to raise rates in the near term and added that near-zero interest rates in the US would support markets in 2010. He is sticking with high quality companies which also have exposure to revenues overseas, in anticipation of a tough economic environment in the US.</p> <p>'We are not expecting growth to match 2009's levels, and we think it will be quite modest, so we think quality companies will do better this year.'</p>	Citywire.co.uk 14/1/10

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Equities (continued)

<p>Sanjeev Shah, Fund Manager, Fidelity Special Situations</p>	<p>Sanjeev believes there is still opportunities in UK equities, partly due to the general sentiment among investors being once of hope (which comes after depression but before optimism in the investor sentiment cycle), and partly due to stabilising PE ratios across UK and Europe.</p> <p>Despite the exceptional performance of cyclicals last year, they still look attractive relative to staples.</p> <p>Media sector promises particular growth, price earnings are at 30 year lows and there is excellent opportunities for companies like Yell and BSkyB.</p> <p>The technology and financial sector will also present good opportunities, with financials looking particularly cheap on price to book ratio.</p>	<p>Meeting 28/1/10</p>
<p>Consensus/Summary</p>	<p>Despite the high returns seen through 2009 the general view from equity managers remains optimistic. There is some concern as to how much of the rally has been driven by quantitative easing and what happens when this ends.</p>	



Property

Who	What	Source
William Hill, head of property at Schroders	The sharp turnaround in the performance of UK commercial property will continue through the first six months of 2010. After that, however, the picture is less clear, with economic uncertainty meaning that the market is likely to experience further volatility over the next two to three years and potentially a fall in values in 2011.	Ft.com 4/1/10
Harm Meijer, property analyst at JPMorgan	Expects property prices to bounce by 15 per cent between June 2009 to June 2010, before settling into sluggish growth or a modest decline for two years.	Ft.com 4/1/10
David Blanchflower, Economist and former member of the Monetary Policy Committee	We should be wary of those who claim house prices are recovering. If we base our expectations on the house price to earnings ratio, we are likely to see a peak to trough drop of 30%, he warns - though in fact the correction typically overshoots.	New Model Adviser conference, 14/1/10
Michael Barrie, Fund Manager, L&G UK Property Trust	The IPF consensus is forecasting around 10% pa growth going forward. L&G's own forecasts are for higher growth in 2010 but then returns falling back, possibly to zero in 2011.	Teleconference 19/1/10
Consensus/Summary	The positive performance of UK commercial property is expected to continue through at least the first part of this year. After that, opinions are more divided and there is some concern that the rally could become overblown.	



Fixed Interest

Who	What	Source
Phil Milburn, Investment Manager Fixed Income, AEGON Asset Management	<p>There are still opportunities for good returns in fixed interest, but no longer on a 'by sector basis'. The credit rally does however have "much further" to run.</p> <p>There will be massive deleveraging over the next 12 months, and AEGON fixed interest will take a generally short position until the market gets used to this, possibly towards the end of the year.</p>	Fixed Interest Conference Call – 14/1/10
Investment Management Association	Whilst retail investors are piling into equities, institutions are backing bond funds.	Citywire.co.uk 5/1/10
M&G Fixed Interest team	<p>They remain bearish on gilts due to supply and demand dynamics. Yields are likely to rise once QE is withdrawn.</p> <p>By contrast they believe that corporate bonds can continue to provide a good source of returns in 2010. A further tightening of spreads is likely (but this would happen partly due to gilt yields rising). The main risk is an increase in risk aversion which could see bond spread widen but it do not believe it will be to the same extent we saw earlier this year.</p>	2010 outlook Jan 10
Ariel Bezalel, Fund Manager, Jupiter Strategic Bond fund	With government finances set to deteriorate even further next year and issuance of government bonds showing no signs of abating, bond markets may accordingly start to demand higher yields. I think this is more of a threat to bond yields than inflation. To address this, he has gone short dated with duration and maturity dates.	Email 13/1/10
Consensus/Summary	<p>Most managers remain bearish on gilts but optimistic on corporate bonds. However, if there is a spike in gilt yields following a potential loss of confidence in government finances, this would have a knock on effect on corporate bonds.</p> <p>A number of bond managers are going more defensive by going shorter duration.</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
New Model Adviser conference	Andrew Cole, Fund Manager Baring Multi Asset fund	Face to face
New Model Adviser conference	Sisouphan Tran, Head of Privalto UK	Face to face
New Model Adviser conference	Michael Azlen, Founder and CEO, Frontier Capital Management	Face to face
New Model Adviser conference	Nick Hamilton, Head of International Products, Invesco Perpetual	Face to face
New Model Adviser conference	James Inglis-Jones, Fund Manager, Liontrust First Income & European Long-Short Fund	Face to face
New Model Adviser conference	Tam McVie, Investment Director, Standard Life Investments	Face to face
New Model Adviser conference	Steven Mendel, Head of Wealth Management, Close Asset Management	Face to face
Teleconference	Keith Wade, Chief Economist, Schroders	Telephone
Meeting	Richard Buxton, Fund Manager, Schroder UK Alpha	Face to face
Teleconference	Dickie Hodges, Fund Manager, L&G Dynamic Fixed Interest	Telephone
Teleconference	Michael Barrie, Fund Manager, L&G UK Property Trust	Telephone



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Meeting	Robin Parbrook, Fund Manager, Schroder ISF Asia Total Return	Face to face
Meeting	Leigh Himsworth, Head of UK Equities, Gartmore	Face to face
Teleconference	David Roberts, Phil Milburn, Fund Managers, Aegon Sterling Corporate Bond	Telephone
Meeting	Sanjeev Shah, Fund Manager, Fidelity Special Situations	Face to face

This month we met two key individuals and had telephone contact with three others.

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Monthly Figures

Index	Value
FTSE 100 – last day of last month	5,412
FTSE 100 – last day of this month	5,188
% change (ignores dividends)	-4.1%
FTSE Allshare – last day of last month	2,760
FTSE Allshare – last day of this month	2,660
% change (ignores dividends)	-3.6%
Oil price (Brent Crude) \$	\$74.20
US\$ to £ - last day of last month	1.61
US\$ to £ - last day of this month	1.60
% change	-0.6%
Euro to £- last day of last month	1.13
Euro to £- last day of this month	1.15
% change	+1.8%
RPI	2.4%
Change from last month	+2.1%
CPI	2.9%
Change from last month	+1%
BoE Base Rate	0.5%

Index	Value
UK 10 Year Gilt Yield	3.9%
FTSE Allshare P/E Ratio	11.9x
FTSE Allshare Yield	3.4%
Spread v Gilt	-0.5%
IBOXX Sterling Corp Bond Yield	5.92%
Spread v Gilt	2.02%
IPD UK All Property Yield	7.3%
Spread v Gilt	+3.4%

Monthly Portfolio Figures	% Change
Fixed Interest	2.07
UK All Companies	-3.61
UK Large Companies	-2.13
UK Dynamic	-2.75
Global Established	-3.56
Global Dynamic	-3.6
Global Speculative	-5.49
Alternative Equity	-0.02
Property	0.83

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