



Research Summary – July 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
Leigh Harrison, Head of Equities, Threadneedle	The UK economy may scrape 1% growth next year – but no more.	Citywire.co.uk 5/7/10
Federal Reserve Bank of Cleveland.	<p>U.S. government bond yields are signaling almost no chance of their economy slipping into another recession. The yield curve on US Treasuries suggests growth won't slow to less than 1 percent and about a 12 percent chance of a recession in the next year.</p> <p>While an inverted curve is known for predicting recessions, a steep one is generally a signal of growth. An inverted curve reflects expectations for higher interest rates and slowing inflation. A steeper curve shows investors demanding increasing compensation for the risk that faster economic growth will spur inflation that diminishes the value of bonds' fixed payments.</p>	Bloomberg 6/7/10
BlackRock's Weekly Market Update	Over the second half of the year expect continued volatility as investors express their concerns about sovereign solvency, especially in Europe, but some of the other concerns have been discounted so deeply in financial markets, that there is some scope for positive surprises in the second half.	BlackRock 06/07/10



General (continued)

Who	What	Source
David Kern, chief economist, British Chamber of Commerce	<p>“I used to believe before the Budget that we would see a first increase in rates before the end of this year.</p> <p>“I think this is now less likely. I think we will now see the first increase in the early months of 2011. I hope even this will be pushed further back. More and more my mind is moving towards the second half of 2011 at the earliest.”</p>	Press Association, 6/7/10
Merrill Lynch fund manager survey	Of the 202 managers questioned 12% gave a negative forecast for the global economy, the first since February 2009. This signifies a notable shift in opinion, considering the previous month 24% of fund managers forecasted that the economy would strengthen.	Citywire.co.uk 14/7/10
Paul Read, Invesco Perpetual, Corporate Bond, Fund Manager	Interest rates rise, if any, will be very modest. Interest rates will be very low for years to come. Doesn't think there will be a big inflation threat against the backdrop of austerity and public deficit cuts.	Invesco Perpetual Conference Call 14/7/10
James Carrick, Economist, Legal & General	There is a one in three chance the unprecedented government spending cuts will push the economy back into negative growth by 2012. The government's growth forecasts are too optimistic and assume stronger private sector growth than has ever been seen before; something he believes is possible but unlikely.	Citywire.co.uk 14/7/10



General (continued)

Who	What	Source
Jenny Jones, Fund Manager, Schroder US Mid Cap	Bearish on the US Economy. She doesn't think consumer confidence will come back quickly. Unemployment is still an issue. The economy's huge budget deficit will be placed on the backburner for now in order to concentrate on unemployment. Stimulus will stay in place.	Web Conference 20/07/10
Tim Price, Director, PFP Wealth Management	<p>'Over recent weeks, the future has seemed, to us, at least, that much clearer: deflationary, with a double dip more or less a racing certainty. If this view turns out to be justified, then it supports arguments for the highest quality bonds, the most defensive equities, if equities at all, genuine absolute return funds and gold.'</p> <p>He points out that the Baltic Dry Index has fallen by almost 60% from its peak and is in its longest streak of down months for nine years. The Philadelphia Fed's July index of new manufacturing orders slumped from 9.0 to -4.3, the US workforce has contracted by one million over the past two months and US mortgage applications have plummeted by 42% to a 13 year low.</p>	Citywire.co.uk 19/7/10
Reuters poll of 55 leading economists	<p>Britain's drive to slash government spending is unlikely to trigger another recession but neither will it help the economy flourish much over the next 18 months.</p> <p>The UK economy will likely gain between 0.4 and 0.6 percentage points of gross domestic product in each quarter over the next 18 months, median forecasts showed, with a one-in-five chance of relapsing into recession over the next year.</p> <p>Analysts in the June UK economy poll, taken in the immediate aftermath of the June 10 budget, gave a one-in-four chance of a double-dip recession.</p>	Reuters 15/7/10



General (continued)

Who	What	Source
Ben Bernake, US Federal Reserve Chairman	US Federal Reserve chairman Ben Bernanke has warned that the country's economic outlook remains "unusually uncertain". He told the Senate Banking Committee record low interest rates would still be needed to support economic recovery. The Fed was also prepared to step in with "further policy actions" to boost the economy if needed, he added. But Mr Bernanke downplayed fears that the US could re-enter recession. Some economists have questioned whether a withdrawal of economic stimulus measures could harm the US economy's recovery. "Even as the Federal Reserve continues prudent planning for the ultimate withdrawal of monetary policy accommodation, we also recognise that the economic outlook remains unusually uncertain, but rising demand from households and businesses should help sustain growth," he added.	BBC.co.uk 22/07/2010
Spencer Dale, chief economist, Bank of England	<p>"... would not be surprised if unemployment went higher in the next few months. For the next "three, four, five years, demand in the economy will be "incredibly anaemic" relative to previous recoveries"</p> <p>"The near-term outlook for both growth and inflation has deteriorated over the past couple of months. Inflation has come out a little higher than expected, and the news on VAT in the June Budget means that the time it will take inflation to get back to target will be pushed out, and I expect it will be above target until the end of next year.</p> <p>"Likewise, there are some signs that growth may be softening, again partly reflecting the June Budget. We've also seen tensions in the financial markets increase, related to concerns about sovereign debt issues in Europe. That has also affected the ability of banks and companies to raise cash.</p>	www.independent.co.uk 22/07/10



General (continued)

Who	What	Source
Ernst & Young Item Club	<p>Interest rates will have to remain at 0.5% for much longer than anticipated, possibly until 2014.</p> <p>CPI inflation will stay above the 2% target for the next 18 months due to high energy prices and the VAT increase. However, it will then fall well below 2% as these effects wear off due to the spare capacity in the economy.</p>	BBC.co.uk 25/7/10
Consensus/Summary	<p>The general opinion is that economic factors in the US and UK such as unemployment levels and budget deficits, show economic recovery will be slow but sustainable growth. Both economies only have a small percentage chance of re-entering a recession. The majority feel no interest rates hikes are likely until early 2011.</p> <p>Analysts believe inflation will stay above the BOE's target in the medium term with VAT rises and energy prices.</p>	



Equities

Who	What	Source
Crispin Odey, Fund Manager, Odey Absolute Return fund	<p>Is backing “cheap, attractive, under-owned equities.” Believes they will give good returns but will be volatile.</p> <p>Equities are under-owned. “That makes them vulnerable to changes in sentiment but it also makes them attractive as investments.”</p>	Citywire.co.uk 5/7/10
Leigh Harrison, Head of Equities, Threadneedle	<p>The UK economy may scrape 1% growth next year – but no more. Yet despite this cautious outlook, he thinks careful bottom-up stock picking of firms within three key investment themes can see his fund deliver between 7% and 10% growth over each of the next three years.</p> <p>These themes are: UK companies that can benefit from primarily Asian growth; those which are undervalued mega-cap high yielders; and those that he believes are under-rated, unloved consumer-facing domestic stocks.</p>	Citywire.co.uk 5/7/10
Jim Dunsford, Fund Manager, HSBC Global Macro fund	<p>Value is emerging in equities, but the market is not yet pricing in a global economic slowdown. He believes another pullback is likely, although he does not expect a double dip recession.</p> <p>‘Equities are cheap, but they could get cheaper because the market is still reacting to data, which indicates that the slowdown is not fully priced in yet,’ he says.</p> <p>‘We saw that last week with the ISM data, which was down more than expected, and the market reacted very badly. Investors are reacting more to the direction of the change rather than focusing on the actual numbers. ‘If the market does fall back we would be prepared to top up our holdings because we are positive on equities over the medium-term.’</p>	Citywire.co.uk 7/7/10



Equities (continued)

Who	What	Source
Richard Buxton, Head of UK Equities, Schrodgers	<p>Believes the current market turmoil is presenting plenty of stock picking opportunities. He is buying stocks exposed to emerging market growth, plus some UK consumer names where he believes the management teams, balance sheets and business models are sound, but share prices discount an extremely harsh economic outlook on a three-year view.</p> <p>“Interest rates are unlikely to exceed 2% throughout the whole of 2011. This is a rate that, in all probability, is going to be negative in real terms, effectively costing investors to keep their money in cash. Yet, with many sound equity investments offering yields of 2%, 3%, 4% or even more, aren’t investors being well-compensated to stick with shares?”</p>	Email update 7/7/10
Merrill Lynch fund manager survey	<p>Risk appetite has fallen significantly, with 39% of managers taking lower than normal risks, more than double the proportion in May. This heightened risk aversion is also reflected in the allocation towards pharmaceuticals, described in the report as 'a classic bear market sector,' which increased to the highest level since March 2009.</p> <p>The outlook for US equities has also turned around sharply in July, with 14% of fund managers saying it is the region they would most like to underweight. Only last month 14% said the US was the region they most wanted to overweight. Levels of concern for US equities are at their highest point than at any time since November 2006.</p> <p>Emerging markets have been gaining in popularity with 34% of respondents overweight in the region’s equity sector, up from 19% in May.</p>	Citywire.co.uk 14/7/10



Equities (continued)

Who	What	Source
Standard Life Investments – Weekly Focus	<p>“...We believe UK equities remain attractively valued both on a historical basis and compared to other asset classes. Our analysis indicates that recent macroeconomic concerns are overdone and the market remains underpinned by its robust earnings momentum and strong financial position.</p> <p>The UK corporate sector is in excellent condition, with significant flexibility over how to use its strong cash position. Evidence of the global economic recovery becoming self sustaining and credit flowing more freely are the triggers for a market re-rating”</p>	Email update 15/07/2010
Anthony Bolton, Fidelity Special Situations Fund	<p>Bolton does not believe the world is facing a double-dip recession arguing that investors are still caught in a negative mentality acquired during the credit crunch. In fact he argues the second phase of the bull run will start later this year.</p> <p>He said: 'What we have had is the deepest recession we have seen and it was a global recession. Then we had the opposite of that; a sharp economic recovery. My view is this is camouflaging the underlying situation and as you get into this year it will become apparent that the world is getting back to a position of low growth. I don't see a double-dip recession in Western economies.</p> <p>'From the beginning I thought this would be a multi-year bull market. But we needed a significant correction and we are now living through that. “Investors get very influenced by their recent experience and because we had this terrible financial crisis and sharp downturn, investors are worrying that it will happen again. But I think this is a once-in-a-lifetime event.</p> <p>“Yes, it will be a low growth environment. But it's not a terrible environment. Rising interest rates is normally what kills a bull market and it's not normally the first rise but a number of them. We think that is a long way off, paving the way for a very strong 2011 and 2012.”</p>	Citywire.co.uk 15/07/10

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Equities (continued)

Who	What	Source
Bloomberg report	<p>Institutional investors are buying stocks whilst individuals are selling. Mutual funds, pensions and endowments are spending more on stocks than at any time since the start of the bull market.</p> <p>The last time money managers and individuals were this far apart was in March 2009, before the Standard & Poor's 500 Index began its 63 percent rally. It may signal another buying opportunity.</p>	Bloomberg 26/7/10
Oliver Russ, Fund Manager, Argonaut European Income	<p>If you look at measures such as a forward P/E ratio, which is at very modest levels, almost as low as we've seen over the last 10 or even 20 years, if you look at cyclically adjusted P/E measures or even dividend yield, everything seems to indicate the European markets offer much better value than say the US markets at this particular point. Although the banks have been a little bit stressed, it's not spilling over into the wider economy, and if that's true then there's no particular reason there should be a double-dip recession in Europe.</p>	
Consensus/Summary	<p>The majority of analysts believe equities still offer the best value of all asset classes. Analysts point to low equity P/E ratios and a comparable dividend yield on shares as a sign of the best value of all the asset classes.</p> <p>One analyst feels there should be a very strong bull market for most of 2011 and 2012 as this is a 'once in a lifetime opportunity'.</p>	



Property

Who	What	Source
Dr Thomas Beyerle, Head of Global Research, Aberdeen Asset Management	<p>The outlook for global property is continuing to improve. He expects a two stage recovery in the real estate market, starting in 2011 with upward pressure on yields caused by a sluggish economic recovery and investors' risk aversion. The second stage, in 2012, will see a gradual strengthening of total returns from property.</p> <p>Asia is the region the firm expects to produce the strongest returns, although accompanied by high levels of risk. Some Asian markets, such as Hong Kong, look expensive, however.</p> <p>'The key driver of outperformance in Asia is its stronger economic fundamentals, in terms of low debt levels, rapid population growth, urbanisation, rising incomes and household wealth.'</p>	Citywire.co.uk 7/7/10
Fiona Rowley, Fund Manager, M&G Property Portfolio	It is probable that market rental levels will continue to fall across most sectors during the remainder of 2010, albeit at a slowing rate, and investment decisions will therefore be driven primarily by stock-specific factors. As we move through the bottom of the cycle, the fund managers will shift emphasis from securing rental income towards attempts to grow the fund's income through active asset management and property development.	Email update 16/7/10
Royal Institution of Chartered Surveyors	<p>Supply is beginning to outstrip demand in residential property markets. New buyer enquiries fell last month while the net balance for new instructions to sell rose to the highest level for three years.</p> <p>Four per cent more chartered surveyors expect prices to fall which is down from a positive reading of four percent last month.</p>	Citywire 14/7/10



Property (continued)

Who	What	Source
Peter Mackaness, Threadneedle, Investment Specialist	The initial, capital-driven recovery phase in UK commercial property is now drawing to a close. All-property vacancy rates are drifting lower and there are signs of stabilization in rental value. Income is re-establishing itself as the main driver of long-term returns, with active asset management also growing importance. Valuations remain reasonably attractive, with property offering a healthy yield premium compared to most other asset classes. The prevailing conditions should allow experienced managers with proven stock selection and asset management skills to generate attractive long-term returns for investors.	Email 27/07/2010
Consensus/Summary	Overall sentiment towards the property asset class has started to dwindle. Some property analysts feel the recovery phase of the asset class is now over, but valuation still remains 'reasonably' attractive. In residential property, many chartered surveyors now expect prices to fall.	



Fixed Interest

Who	What	Source
Standard Life house view	<p>Muted global GDP growth of 1-3% is considered the 'sweet spot' for corporate bonds, as improving credit metrics coincide with lower inflation and low government bond yields. Income is also at a premium in this so-called 'lower for longer' environment.</p> <p>In addition, yield curves are still unusually steep and default rates are declining, further supporting the case for corporate bond assets. Anecdotal evidence from management teams suggests that while growth expectations are subdued, high-yield should be underpinned by increasing stability and slow growth, coupled with deleveraging balance sheets</p>	Email update 8/7/10
Paul Read, Invesco Perpetual, Corporate Bond, Fund Manager	Spain and Portugal will not default. 'In the last few weeks we have started to think Spain is starting to be an interesting opportunity and there was a lot of interest in the last Spanish auction.' PIGS won't default on their coupons.	Invesco Perpetual Conference Call 14/7/10
Bill Gross, Managing Director, PIMCO	They have done a u turn on gilts after branding them a "must avoid" in January. He said at the time that "the UK is sitting on a bed of nitroglycerin". However, they have now upgraded their view to "neutral".	Citywire.co.uk 14/7/10
Adam Cordery, Schroder's Corporate Bond Fund Manager	<p>UK credit spreads look cheap at 2.5% above Gilts, higher than 90% of all historic values despite very low yields. These spreads are expected to half in the next year.</p> <p>Despite fears of a double dip, forecasts for UK growth over 2010 and 2011 have remained steady between 1% and 2%. Whereas equity markets require some economic growth to generate returns this is not a requirement for fixed interest and should not pose problems.</p>	Schroder's conference call 20/07/10



Fixed Interest (continued)

Who	What	Source
Richard Woolnough, Fund Manager, M&G Corporate Bond	<p>Believes that despite the austerity budget, the UK economy will continue to grow, albeit slowly. Even if Britain enters recession again, corporate bonds should not come under significant pressure, in his opinion. This is due to the fact that corporate bond spreads are already pricing in a downturn, and there is room for spreads to tighten much further.</p> <p>Believes that interest rates will stay low for a long time, which in turn should continue to provide a good backdrop for bonds. He has increased duration accordingly.</p>	Email update 16/7/10
John Stopford, Head of Fixed Income, Investec	<p>'Investors nerves are raw after 2008 and they have been quick to fear the worst,'</p> <p>'Markets have swung from pricing in a steady recovery to building in a significant chance of another recession. We think, however, that risks of a pronounced double-dip are low.</p> <p>'Markets are overreacting to the change in the economic trajectory of the global economy from acceleration to moderation as the cycle matures. As a result, we see good value in corporate bonds and expect to see renewed spread tightening by year-end.'</p>	Citywire 27/7/10
Bill Gross, Fund Manager, PIMCO Global Bond	<p>"Bonds have seen their best days," says the world's biggest bond investor.</p> <p>The three decade bond rally will fizzle out. Over the next couple of decades investors will have to look to first high yield bonds, then equities and real estate to achieve returns.</p>	Bloomberg 7/7/10
Consensus/Summary	<p>Analysts believe there is still some value in Corporate Bonds, but returns are unlikely to be as strong as the rally in 2009. Some feel that in a couple of years only high yield bonds will achieve anything like decent returns.</p> <p>Spreads are still wide compared to gilts. Most analysts are still negative on gilts however PIMCO have upgraded their view to "neutral" this month.</p>	



Research Summary – July 2010

Fund Manager Contact Summary

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

Event	Speaker(s)	Type of Contact
Conference Call	Paul Read, Fund Manager, Invesco Perpetual	Telephone
Web conference	Jenny Jones, Fund Manager, Schroder US Mid Cap	Face to face
Conference Call	Adam Cordery, Fund Manager Schroder's Corporate Bond	Telephone
Meeting	Marc Duschene, Chief Executive, Braemar Group	Face to face
Conference Call	Oliver Russ, Fund Manager, Argonaut European Income Fund	Telephone
Conference Call	Jeremy Smith, Head of UK Equities, Neptune UK Equity Income	Telephone

In a quiet month due to the holiday period, we met 1 other key individual and had telephone or web contact with 5 with more.



Monthly Figures – July 2010

Index	Value
FTSE 100 – last day of last month	4921
FTSE 100 – last day of this month	5258
% change (ignores dividends)	+6.8%
FTSE Allshare – last day of last month	2543
FTSE Allshare – last day of this month	2715
% change (ignores dividends)	+6.8%
Oil price (Brent Crude) \$	77.30
% change	+4.54
US\$ to £ - last day of last month	1.49
US\$ to £ - last day of this month	1.59
% change	+6.71
Euro to £- last day of last month	1.21
Euro to £- last day of this month	1.21
% change	0%
RPI	5.0%
Change from last month	-0.1%
CPI	3.2%
Change from last month	-0.2%
BoE Base Rate	0.5%

Index	Value
UK 10 Year Gilt Yield	3.33%
FTSE Allshare P/E Ratio	12.2x
FTSE Allshare Yield	3.0%
Spread v Gilt	0.3%
IBOXX Sterling Corp Bond Yield	5.69%
Spread v Gilt	2.36%
IPD UK All Property Yield	6.6%
Spread v Gilt	3.27%

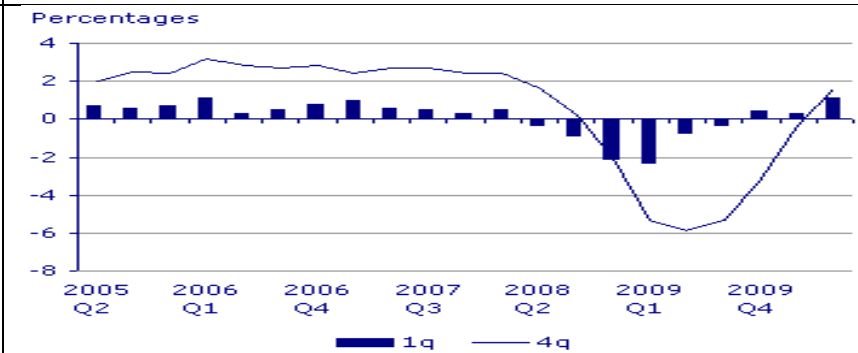
Monthly Portfolio Figures	% Change
Fixed Interest	+1.11%
Strategic Fixed Interest	+3.03%
UK All Companies	+7.30%
UK Large Companies	+5.75%
UK Dynamic	+7.78%
Global Established	+3.25%
Global Dynamic	+2.51%
Global Speculative	+3.33%
Alternative Equity	+1.30%
Property	-0.59%* includes temporary re-price

equilibrium

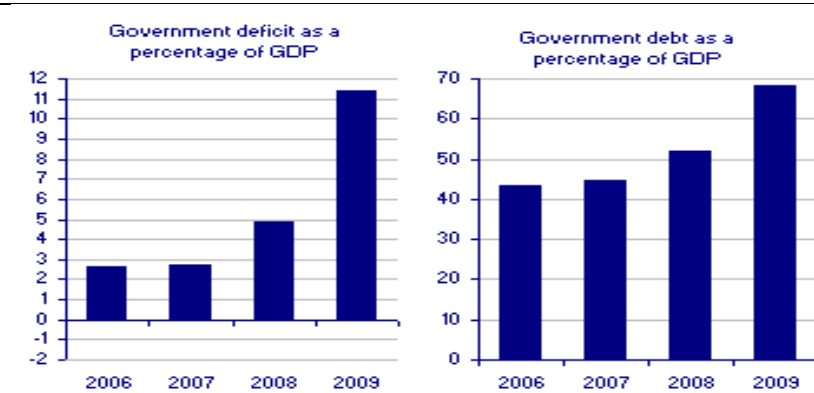
Gilt yield Curve



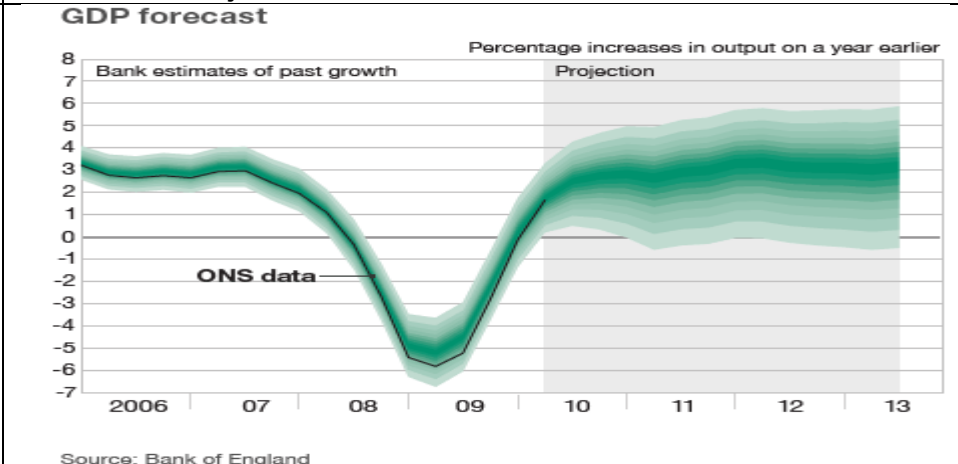
GDP Growth



Government Debt & Deficit



GDP Growth Projection



Data sources: Financial Express Analytics, Indexco.com, National Statistics, Bloomberg, Bank of England, FT.Com, Google Finance, Yahoo Finance