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Research Summary – June 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
William Littlewood, Artemis Strategic Asset, Fund Manager	Holds the deflation now, inflation later stance. He believes inflation will creep up in the medium turn. There could be QE going forward. Real interest rates will be negative for some time to come.	Teleconference 8/6/10
John Hamilton, Fund Manager, Jupiter Corporate Bond Fund	"Tackling the deficit within the life of one Parliament is regarded as the price that must be paid to keep the bond market on side - i.e. prepared to lend at non-penal rates. The yield on ten-year gilts remained unchanged, as the anticipated outcome had been priced in several weeks ago. "Where do gilt markets go from here? In the short run, having priced in the Budget measures, the path of inflation now becomes more important. The risk is that, with ten-year gilts yielding 3.5%, a favourable inflation outlook is already in the price. Nevertheless, in the long run, the disinflationary background is still there."	Email update 22/6/10
BOE	The Bank of England has warned that if interest rates were to rise to 5% - their long-term average level - British consumers would find themselves just as indebted as they were when the credit crunch hit and vulnerable to home repossessions.	25/06/2010 – Citywire

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General (continued)

Who	What	Source
Azad Zangana, Schroder European Economist	Two key questions that remain: Will this budget save the UK's AAA credit rating, and will the tougher than expected fiscal tightening cause a double-dip recession? We assume that sovereign debt agencies will react to the budget in the same way we have – encouraged by the signals seen so far, but as the bulk of the cuts are expected to come through spending cuts, will reserve judgment until everyone can see where the axe will fall. As a result, the AAA rating should remain intact, but the UK negative outlook rating is likely to remain in place. As for risks of a double-dip recession, we think this remains unlikely especially as most of the fiscal tightening is coming though spending cuts, which realistically are not going to hit the real economy until late 2011 at the earliest. By then, the economy will be in much better shape, and momentum built up by the private sector recovery should help absorb much of the new slack created by public sector job losses.	Email update June 10
William Littlewood, Artemis Strategic Asset, Fund Manager	"Until the election, we had a short position in sterling of between 20% and 40%. Since then I've closed that quite sharply, so we now have a long sterling position in the currency overlay of about 12%. "I've become much more bullish on the pound, or much less bearish, for two reasons. One is that the pound has fallen a long way. Secondly, and especially after the budget this week, I have confidence that the new government will sort out the dreadful mess that is the UK's public finances. The pound should be quite a good place to be."	Email update 25 June 2010

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General (continued)

Who	What	Source
Artemis/Bank of England Financial Stability Report.	Reviewing the UK's financial system, the bank says our banking system is particularly vulnerable. It has more re-financing to do over the next few years than banks in Italy, France, Germany or the US: £204 billion in 2011, which is twice the UK banks' long-term borrowing average. The BoE says that if banks address "funding pressures" by restricting credit conditions for consumers, this could "dent economic recovery" and "raise credit risk for all banks." This represents a major risk to economic growth over the next few years.	Email update 25/6/10
Simon Callow, Fund Manager, Midas Balanced Growth	Are positive Sterling following the election and are hedging out currency risk in a number of their overseas investments, particularly Japan.	Meeting 28/6/10
Consensus/Summary	**Some analysts have stated inflation will be an issue in the med-long term, but doesn't pose a problem currently. Interest rates are likely to stay on hold for still some time to come; there is a real threat to consumer being indebted severely if the BOE raises them too early. The UK's AAA status will remain intact, but the outlook remains negative. Analysts are positive on sterling and believe the currency will rebound after the announcement of the budget with spending cuts.**	

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Equities

Who	What	Source
William Littlewood, Artemis Strategic Asset, Fund Manager	Equities hold the best value of all the asset classes currently. Has increased my exposure in equities between 50-70% within the portfolio. More exposed to large and defensive companies.	Teleconference 8/6/10
Guy Monson, Chief Investment Officer, Sarasin & Partners	"European equity markets now look peculiarly cheap, thanks to a weaker euro, stronger overseas growth and lower valuations (the EuroStoxx dividend yield is almost 1% higher than German ten-year bond yields!). "One has to be cautious, however, as the risks of a self-fulfilling prophecy remain elevated: the collapse of equity markets on the back of fears of global slowdown could actually trigger a fall in business confidence and ultimately in global activity."	Portfolio Adviser 15/6/10
Chris Taylor, Fund Manager, Neptune Japan Opportunities	"We view Japan as the global 'special situation' in that there are many fundamental changes that have occurred during the last 15 years that are not fully appreciated by most investors and market participants. We believe the key Japanese companies to have exposure to are global multinationals that over the last 15 years have heavily invested in the non-OECD economies. These investments, in terms of their revenue and profits contribution, have now hit critical mass and such companies are now in an excellent position to exploit the two-thirds of global growth the non-OECD is set to generate between 2007 and 2014."	Email update 17/6/10

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Equities (continued)

Who	What	Source
Invesco Perpetual, House View	Amidst the general gloom with regard to economic developments in the Eurozone, we believe that the equity market offers very good value. There are three main reasons for this. First, across European markets the equity market sell-off has been somewhat indiscriminate and weakness in some markets is largely unjustified by its relatively stronger economic position and government finances. Second, the euro's weakness enhances earnings from non-eurozone activity. US dollar revenue streams are, we think, generally undervalued by the market. Third, valuations of relatively defensive, good quality companies with stable and predictable earnings continue to be undervalued by the market.	Email update 23/06/2010
Charlie Parker, Editor, Citywire	"A number of different indicators are forming what the chartists call 'death crosses'; sell signs when two indicators cross in a pattern that spells doom. "The first of these indicators currently in this pattern is the average price of the FTSE 100. When the 50-day moving average falls below the 200-day average bad things tend to happen. Well at least they did in December 2007 just before 'the troubles' started. Of course the sceptics among us may point out that in December 2007 there were, well...some other things happening. "The other indicator now in a 'death cross' is the price of copper and the FTSE 100. Copper has long been used even by chart-sceptics as a good measure of economic progress. Perhaps its new-found correlation to Chinese demand would lead some to question its relationship to the FTSE 100."	Citywire.co.uk 25/6/10
Simon Callow, Fund Manager, Midas Balanced Growth	They are still positive equities, in particular large company UK stocks which are on excellent p/e ratios etc. They are also overweighting emerging markets within their funds and remain very positive compared to western markets due to much lower budget deficits.	Meeting 28/6/10

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Equities (continued)

Who	What	Source
Crispin Odey, Fund Manager, Odey Absolute Return fund	It is highly unusual for a new bear market in equities to begin even as profit estimates are being upgraded as they are now. Equities are cheap against all other assets, pricing in a 30%-40% fall in profits. Even in 2009, with the banks going bankrupt in the UK, profits only fell by 8%. They are also under-owned. That makes them vulnerable to changes in sentiment. That makes them volatile, but it also makes them attractive as investments.	Email update 30/6/10
Consensus/Summary	**Still the majority of opinion feels that equities offer the best value of all the asset classes, making them an attractive investment as they have unjustifiably been oversold. Some analysts feel that European equity markets look particularly the cheapest after the Eurozone crisis. However, there is also an opinion from chartists that indicates another big downturn in equities.**	

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<u>Property</u>

Who	What	Source
Fiona Rowley, Fund Manager, M&G Property Portfolio	“While we believe that value can be found in UK commercial property, we anticipate that the strong rally which gained momentum in the fourth quarter of 2009 will continue to cool off. It is likely that investors will be looking for early signs of a recovery in the key occupier markets over the next 12 months. Any pick-up in economic activity should be reflected in higher tenant demand in 2011. Anecdotally, landlords in the UK are already beginning to reduce their tenant incentives, such as rent-free periods. If tenant demand improves, we would expect the rental market for prime properties to begin bottoming out before the end of 2010.”	Email update June 2010
Peter Lucas, Strategist, RBC Wealth Management	Commercial property is one of the UK’s most attractive investments. “Unlike corporate bonds or equity, there is still value to be had. It also pays a handsome yield, which might come in handy if authorities are forced to inflate their way out of their debt problems.”	New Model Adviser, 21/6/10
De Montford University study	A fifth of loans secured secured on UK commercial property assets are in default of have breached lending covenants. £22 bn of loans defaulted last year – a 600% rise on 2008, and a further £28.3 bn has breached covenants. This indicates that more foreclosures and therefore distressed sales are likely.	New Model Adviser, 21/6/10
Oliver Gilmartin, Senior Economist, Royal Institute of Chartered Surveyors	Expect a rise in the number of distressed properties coming to market in Q2. This is a “thunderous cloud” hanging over the sector, despite the recent rally in prices.	New Model Adviser, 21/6/10
Patrick Sumner, Head of Property Equities, Henderson	The greatest challenge to property is the view taken by many investors that the upside has already been taken. In the long game, he feels we are not even half way through the positive returns.	New Model Adviser, 21/6/10
Consensus/Summary	**Most analysts feel there is still some value in the asset but returns will cool off as most of the upside has already been taken. Some commentators also feel there are signs of future gloom as lending covenants have been breached which could indicate distressed sales and more foreclosures.**	

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Fixed Interest

Who	What	Source
William Littlewood, Artemis Strategic Asset, Fund Manager	Adamant government bonds are not a good place to be. There is a high debt to GDP ratio with most of the Eurozone and Japan being the worse of all. Governments will want to inflate their way out of this mess which will be bad for bonds and cash. The sovereign debt issue will remain for years to come - it won't go away.	Teleconference 8/6/10
David Scammell, Head of UK and European Interest Rate Strategies, Schroders	"The coalition will take the necessary action to tackle the deficit and reassure investors. We are also expecting that, when the BoE eventually begins to tighten monetary policy, it will do so in an orderly and gradual manner. On that basis, we expect gilt yields to rise from present levels (and are positioned accordingly), but do not expect a significant spike out of the range in which they have traded over the past 10 years."	Email update 9/6/10
Richard Woolnough, Fund Manager, M&G Fixed Interest team	Is very positive on high yield and believes spreads must narrow once the current instability in the credit markets susbsides.	Email update June 2010
John Stopford, Fund Manager, Fixed Interest, Investec	"The yield premium offered by high yield corporate bonds has risen by 1.5 percentage points to around 7% on average above government bonds. This looks a very attractive margin given that fewer than 3% of all speculative grade bonds are expected to default in the coming year. High yield credit spreads tend to be highly cyclical, moving to reflect the changing default risks; rising in a recession and falling in a recovery. On this basis, our fair value model suggests that the yield pick-up over government bonds should now be closer to 5.5%, declining towards 4% over the next six months. In other words, there is plenty of scope for high yield corporate bonds to rally from current levels."	Email update, 18 June 2010
Consensus/Summary	**Most analysts feel that high yield is the place to be, believing these bonds will rally from their current levels and will enjoy further returns. The majority of commentators believe government bonds are still not a good place to be and expect gilt yields to rise from present levels.**	

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Research Summary – June 2010

Fund Manager Contact Summary

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

Event	Speaker(s)	Type of Contact
Artemis Strategic Asset Fund, Teleconference	William Littlewood, Artemis Strategic Asset, Fund Manager	Telephone
Meeting	Simon Callow, Fund Manager, Midas Balanced Growth	Face to Face
Meeting	Kevin Murphy, Fund Manager, Schroder Income Fund	Face to Face
Meeting	Nick Kirrage, Fund Manager, Schroder Income	Face to Face
PIMS	Tom Sheridan, 7IM Investments, CEO	Face to Face
PIMS	Justin Urquhart Stewart, Director, 7IM Investments	Face to Face
PIMS	Neil Carter, Director, Jupiter Unit Trust Managers	Face to Face
Cazenove Conference	Peter Harvey, Cazenove Strategic Bond Fund	Face to Face
Cazenove Conference	Chris Rice, Fund Manager, Cazenove European Fund	Face to Face
Cazenove Conference	Julie Dean, Cazenove UK Opportunities Fund	Face to Face
Cazenove Conference	Marcus Brookes, Fund Manager, Cazenove Multi-Manager Diversity Fund	Face to Face
Cazenove Conference	Matt Hudson, Fund Manager, Cazenove UK Equity Income	Face to Face
Investment Dinner	Charles Payne, Executive Director Global Equities, Fidelity	Face to Face

This month we met 13 fund managers and other key individuals and had telephone contact 1 with more.

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Monthly Figures – June 2010

Index	Value
FTSE 100 – last day of last month	5188
FTSE 100 – last day of this month	4921
% change (ignores dividends)	-5.1%
FTSE Allshare – last day of last month	2617
FTSE Allshare – last day of this month	2543
% change (ignores dividends)	-2.8%
Oil price (Brent Crude) $	73.94
% change	-0.15%
US$ to £ - last day of last month	1.44
US$ to £ - last day of this month	1.49
% change	3.47
Euro to £- last day of last month	1.19
Euro to £- last day of this month	1.21
% change	1.7
RPI	5.1%
Change from last month	-0.6%
CPI	3.4%
Change from last month	-0.3%
BoE Base Rate	0.5%

Index	Value
UK 10 Year Gilt Yield	3.35%
FTSE Allshare P/E Ratio	10.7x
FTSE Allshare Yield	3.3%
Spread v Gilt	0.05%
IBOXX Sterling Corp Bond Yield	5.81%
Spread v Gilt	2.46%
IPD UK All Property Yield	6.6%
Spread v Gilt	3.25%

Monthly Portfolio Figures	% Change
Fixed Interest	0.64
Strategic Fixed Interest	-0.30
UK All Companies	-5.66
UK Large Companies	-3.23
UK Dynamic	-4.99
Global Established	-5.80
Global Dynamic	-4.90
Global Speculative	-2.62
Alternative Equity	-1.57
Property	-0.94

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