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Research Summary – March 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
Bill Gross, Fund Manager, PIMCO	"The UK will try to get out of 16 tonnes of debt by reflation [low rates and high inflation] or devaluation. The pound is going down and they will have to keep policy rates under 1% for a long, long time because of the housing market, and because many mortgages have a floating rate." Gross, however, gives credit to the government for having left the door open to continuing the gilt-purchasing programme – quantitative easing – as a way to re-ignite the financial system. Despite his ferocious criticism of British finances, he admits he holds some short-term UK bonds as they are less vulnerable to inflation.	The Guardian, 12/3/10

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General (continued)

Who	What	Source
Barclays Capital, house view	**US economy:** believe asset prices and income growth are more important for consumer spending than household deleveraging, and these factors point to continued solid growth. **UK economy:** believe January's weak export and manufacturing data are erratic and contain little news about Q1 GDP. **European economy:** The January IP figures are stronger than the headlines appear. **Japan economy:** Capital expenditure is holding firm and inventories have been revised down, both of which bode well for future growth. In general then, Barclays are fairly bullish about the economic outlook for most developed economies.	Email update 15/3/10
Bank of England Monetary Policy committee	The MPC said that weakness in sterling is contributing to higher short term inflation and some members felt it is increasing the risk of inflation in the longer term. "Some members considered that the upside risks to inflation had increased slightly over the month; others felt that the balance of risks had not changed materially."	Minutes of March MPC meeting, from Daily Telegraph 18/3/10

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General (continued)

Who	What	Source
Tom Dobell, Fund Manager, M&G Recovery	Tom is "very concerned" about the current state of the UK economy. The government putting off decisions on debt reduction is a real issue and will result in companies and investors increasingly looking overseas for opportunities. Though there is no immediate threat inflation will return "at some point".	Conference call, 23/03/2010
Lewis Audrey-Johnson, Product Director, Invesco	The UK may lose its AAA rating post election if S&P concludes that the new governments "plans are unlikely to put the UK debt burden on a secure downward trajectory over the medium term"." Even if this is the case however, a revision of the UK rating is ostensibly already priced in to the markets. There will be no substantial increase in gilt yields and and no double dip. The Invesco Perpetual house view is that there will be no inflation, at least for the next 12 months with interest rates also to remain low.	Meeting, 22/03/2010
Neil Woodford, fund manager, Invesco Perpetual	"I believe the greater challenge is in medium term deflation. This [current] inflation will subside and the underlying economy will not create the circumstances where that short-term blip in RPI will be reflected in structurally higher inflation in the economy."	Citywire.co.uk 23/3/2010
Richard Woolnough, fund manager, M&G Corporate Bond	"In the short term there will be an inflation blip but in the long term we are very much in low deflation for a long time." "We are quite relaxed about the inflation outlook, and we do not think it is going to be a threat to bonds or to equities."	Citywire.co.uk 23/3/2010
Consensus/Summary	**There is still a big split between those that are more concerned about inflation or deflation. There is general concern about the level of debt in the UK economy and many analysts are still negative on Sterling. The upcoming election is continuing to cause uncertainty.**	

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Equities

Who	What	Source
JP Morgan house view	A slight concern on equities as "recent market moves have occurred on pathetically low turnover – with S&P 500 volumes YTD down 28% y/y and down 35% on the comparable period in 2008." "But, although indexes look a little frothy in the short term, there is more to go for. We remain overweight equities, and have increased our equity exposure. January/February's sell off felt like a "told you it couldn't last" type of pause after last year's market gains, and the correction helped to take some of the froth out of markets. While all good things must come to an end, the environment remains positive for the time being, and it was notable that the good newsflow on corporate earnings in January was overlooked by other concerns. Large corporates remain in rude health and the recovery, albeit weak, is on track." "Equity valuations against history are neutral, but are attractive relative to bonds. In the near term, we expect equities to benefit from improving economic activity and corporate earnings growth."	Email update, 15/3/10
JP Morgan house view	"Earnings momentum has peaked and is even collapsing in some emerging markets. Momentum has increased in only eight of the 24 markets we track compared to last month, while analysts' downgrades now outnumber upgrades in a third of these markets. The decline in earnings momentum is concerning, but at this stage we are not overly alarmed."	Email update, 15/3/10

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Equities (continued)

Who	What	Source
David Cumming, Head of Equities, Standard Life Investments	Believes many UK-centric cyclical stocks have the potential to double their value. He says many investors have bought into the consensus that it is time to rotate out of stocks with exposure to the UK consumer and instead focus on companies with overseas earnings. 'We see a lot of stocks which are good but get tarred with the "anti-UK cyclical" negative brush. We are finding a lot of cheap stocks in retail, travel and leisure, and property,' he said. 'People are clustered around emerging market stocks and are underestimating the quality of many domestically focused companies.'	Citywire.co.uk 15/3/10
Simon Edwards, CEO, CF Midas Balanced Funds	Though UK equities are now close to fair value (with average PE of around 12), there is still good value in large cap, defensive shares such as pharmaceuticals and telecoms who can offer decent yields. Private equity will also offer opportunities as investors look for better returns and are more willing to take on risk. Equity markets as a whole should show some overall growth during 2010, though they are likely to remain volatile.	Meeting 16/03/10
Mark Whitehead, International Equity Income Funds, Divisional Director, Sarasin	"With concerns over inflation increasing, bond yields are certainly 'under the spotlight', and it seems reasonable to assume that more and more investors will look elsewhere for a source of income. Potentially, therefore, quite a lot of money that flowed into bonds during 2009 could now be moved into equities, creating even stronger net flows than we saw towards the end of last year. Indeed in January cash flows into the top 20 UK and International Income funds reached an eye opening £433m. "	Meeting 16/03/10

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Equities (continued)

Who	What	Source
Jason Britton, Fund Manager, T. Bailey Growth Fund	Two facts that point to sustained emerging markets growth: 1. Working capita in 20 years will fall when compared to those retired in most developed nations. In emerging markets however there is an increasing working capita. These figures can be accurately predicted because they are directly related to today's birth rates. 2. GDP per capita is steadily increasing in emerging markets as they rapidly catch up with developed nations in standard of living (this is equal to GDP/capita). If the above increases are a given, it must be true that GDP will have to increase at a faster rate than working capita (working capita * GDP/working capita = GDP). This will support major emerging markets growth over the next 20 years.	Meeting 16/03/10
Sam Stovall, Chief Investment Strategist, Standard Life.	This US bull market could last two more years as the average post-war bull market on average lasts around three. The rally celebrated its one year anniversary on 9th March and the S&P 500 has risen by 68% over those 12 months with the Russell 2000 up 94%. 'Not much changes in the second year. The direction remains the same, but the magnitude of the rises just slows down. The durability does not mean you won't experience a few corrections along the way though,' Stovall says. Of course, statistics can be interpreted in many ways and the bears can equally use them to back their case. Looking at the prewar data paints a very different picture. 'There were five bull markets between 1932-1947 and three of them lasted under 24 months,' Stovart notes. Even in such a scenario there is at least the crumb of comfort that there a few months of gains to be had.	Citywire Article - 11/03/10

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Equities (continued)

Who	What	Source
Nathan Gibbs, Fund Manager, Schroder Japan Alpha Plus	Japan has underperformed other major equity indices since August. This was partly due to the change of government, strengthening of the Yen, and equity finance raising . This means that the market is now significantly undervalued and offers some excellent investment opportunities.	Email update 16/3/10
Robin Griffiths, technical strategist, Cazenove Capital Management	The 4- and 10-year cycles that govern markets are in a 'negative phase' and markets will peak very soon. The next big buying opportunity, meanwhile, will come around July 2011. He regards another downturn in the US as 'inevitable', saying credit bubbles always result in double dip depressions. He invests his own money in Brazil, India and gold.	Citywire.co.uk 19/3/10
Consensus/Summary	**Most fund managers are relatively positive on equities based on factors such as valuations, yields and p/e ratios. There is some concern that the growth in emerging markets could turn into a bubble.** **Many fund managers have become bullish on Japan after being negative in 2009.**	

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Property

Who	What	Source
M&G Property team	Despite the rally over the past six months, UK property looks, on a relative basis, attractively priced the current yield gap remains towards the high end of its historical range. However, the IPD index tends to lag the transaction market so the yield is slightly lower than the 6.8% on the index at present.	Email update 31/3/10
Andrew Yeadon, Head of Multi Manager funds, Schroders	Believes that valuers marked property values down too far and that property values are likely to be marked up. Even though discounts have narrowed they believe the yields remain attractive.	Financial Adviser, 31/3/10
Capital Economics	Expect a plateau for capital values from around the middle of 2010. They believe that the yield gap to government bonds will prove supportive but if bond yields rise then property values could fall back.	Theedgeproperty.com 9/3/10
Consensus/Summary	**While property values continue to rise and therefore yields continue to fall, the general positive view on property continues. There is some concern that returns could level off later this year or even turn negative, but the short term consensus remains positive.**	

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Fixed Interest

Who	What	Source
Ariel Bezalel, Fund Manager, Jupiter Strategic Bond	Most corporate bonds are generally fair value, in both investment grade and high yield. However, he feels there are some great opportunities in individual bonds and believes double digit returns are possible. Banks have re-built their capital based on the FSA stress tests of March 2009. These assumed that house prices would fall 25% in 2009 and 25% in 2010. This hasn't happened so it is possible that some banks have more capital than they need. He believes gilt yields will remain relatively stable, with little movement up or down. Inflation is not an issue and rates will remain low for the foreseeable future.	Meeting 10/3/10
Aegon Fixed Interest team	They still believe they can achieve >10% in the current year, but this would mainly be in the first half of the year. They feel some of the more cautious funds in the sector will only do 2% to 3% this year. Inflation is not an issue this year, however the market *believes* it is an issue, therefore they need to factor it into investment decisions. They are expecting a 0.25% interest rate rise this year.	Meeting 5/3/10
Lewis Audrey-Johnson, Product Director, Invesco Perpetual	Everyone is currently long on holdings of bank debt. This is due to a number of factors, including nerves about gilt yields, the fact that banks are now implicitly underwritten by the government and better regulated than previously.	Meeting 22/03/2010

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Fixed Interest (continued)

Keith Wade, Chief Economist, Schroders	While policy rates in the developed world should remain low for an extended period, the gradual withdrawal of QE could see government bond yields come under increasing pressure. The state of UK government finances and the impending general election creates an unfavourable landscape for the gilt market. In addition, the end of QE and strong gross issuance could put further pressure on gilt performance. Investment grade bonds are trading close to fair value. However, interest rates are expected to stay low for some time. This suggests that IG should remain attractive relative to cash given the strong search for yield amongst investors.	Email update 25/3/10
Consensus/Summary	**Many analysts believe that corporate bonds are now trading at close to fair value, although there is value in selected individual bonds. The negative view on gilts continues as UK government debt increases.**	

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Research Summary – March 2010

Fund Manager Contact Summary

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

Event	Speaker(s)	Type of Contact
Meeting	Ariel Bezalel, Fund Manager, Jupiter Strategic Bond	Face to face
Meeting	Barry Maclennan, Investment Director Mutual Funds, Standard Life Investments	Face to face
Meeting	Simon Edwards, CEO, CF Midas Balanced Funds	Face to face
Meeting	Mark Whitehead, International Equity Income Funds, Divisional Director	Face to face
Meeting	Jason Britton, Fund Manager, T. Bailey Growth Fund	Face to face
Meeting	Lewis Aubrey-Johnson, Product Director, Invesco Perpetual	Face to face
Teleconference	Tom Dobell, Fund Manager, M&G Recovery	Telephone
Teleconference	Tim Russell, Fund Manager, Cazenove UK Absolute Target	Telephone

This month we met six fund managers and other key individuals, having telephone contact with two others.

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Monthly Figures

Index	Value
FTSE 100 – last day of last month	5,354
FTSE 100 – last day of this month	5,662
% change (ignores dividends)	+5.8%
FTSE Allshare – last day of last month	2,736
FTSE Allshare – last day of this month	2,910
% change (ignores dividends)	+6.4%
Oil price (Brent Crude) $	83.5
% change	-6.9%
US$ to £ - last day of last month	1.52
US$ to £ - last day of this month	1.51
% change	-0.65%
Euro to £- last day of last month	1.11
Euro to £- last day of this month	1.14
% change	-2.7%
RPI	3.7%
Change from last month	0
CPI	3.0%
Change from last month	-0.5%
BoE Base Rate	0.5%

Index	Value
UK 10 Year Gilt Yield	4.0
FTSE Allshare P/E Ratio	12.1x
FTSE Allshare Yield	3.0
Spread v Gilt	-1%
IBOXX Sterling Corp Bond Yield	5.83
Spread v Gilt	+1.83
IPD UK All Property Yield	6.8
Spread v Gilt	+2.8

Monthly Portfolio Figures	% Change
Fixed Interest	2.79
UK All Companies	7.09
UK Large Companies	4.49
UK Dynamic	7.20
Global Established	4.30
Global Dynamic	5.29
Global Speculative	6.06
Alternative Equity	0.95
Property	0.99

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