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Research Summary – September 2009

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
Tom Elliott, Chief Economist, JP Morgan Asset Management	The UK economic recovery is underway. However, money supply (M4) is still shrinking as funds from QE are being retained by banks. This means there is little prospect of inflation in the short term, but eventually this money will find its way into the economy as banks become less risk averse, and there is more demand for borrowing. He predicts interest rates to rise to 1.25% by this time next year. It will be raised on the first sign of inflation as the government will want to assure bond markets they will not allow inflation, even if this is not a problem. They need bond markets to believe they have things under control to keep their borrowing costs down.	Guide to the Markets conference, 8/9/09
Neil Woodford, Head of UK Equities, Invesco Perpetual	The UK will enter another recession in the middle of 2010. A mixture of no income growth, higher taxes, and unemployment will pile big pressure on disposable income as GDP will gradually shrink. As the government will be making cuts, the public sector will enter their recession at the start of next year.	Face to Face Meeting, 24/09/2009
Trevor Greetham, Fund Manager, Fidelity MultiManagers	He believes that a strong recovery is beginning to start. He feels this has been more of a financial panic then an actual debt problem with the economy. He is very bullish on the outlook of the recovery from here on out.	Face to Face Meeting 29/09/2009

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General (continued)

Who	What	Source
Simon Edwards, Fund Manager, Midas Capital Partners	There have been several recent studies analysing past recessions. The recovery has tended to happen quicker and stronger than people have expected, which in turn leads to very strong equity market rebounds.	Investment Insight Sep 09
Consensus/Summary	**Opinion remains very much divided about whether we will now see an economic recovery, or whether we will slip back into recession.** **There is consensus that interest rates will remain low for some time but disagreement about whether inflation will become an issue in the next few years.**	

Equities

Who	What	Source
Andrew Garthwaite, Equity Strategist, Credit Suisse	Investors should reduce UK stock holdings due to the defensive make up of the UK stockmarket. He believes it will underperform in a growth environment. However, it remains his top pick in Europe saying "the UK has the lowest P/E and the highest dividend yield of any region."	Citywire.co.uk 1/9/09
Tom Walker, Fund Manager, Martin Currie North American	Feels valuations are about right – stocks are neither cheap nor expensive. He feels there could be set back of up to around 10% but in the medium term he is cautiously optimistic. He feels there still could be some problems with certain banks due to deleveraging so they remain very underweight financials.	Teleconference 3/9/09

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Equities

Tom Elliott, Chief Economist, JP Morgan Asset Management	Thinks the market has got ahead of itself but is bullish for the long term. His view is to “buy on the dips” – top up equities on any setback. There have been many positive surprise earnings results from companies. These are mainly from cost cutting and the costs cannot be cut any further. However, the economic recovery is underway. He feels there is a 25% to 30% chance this is a bear market rally rather than a bull market.	Guide to the Markets conference, 8/9/09
Tom Becket, Head of Global Investment Strategy, Psigma Investment Management	Cash levels have fallen indicating that many individuals are now highly invested in the market. They use this as a contrarian risk indicator so this suggests to them that it is time to de-risk a portfolio. Insider selling ratio of company management selling shares in their own businesses has reached 30 sellers for each 1 buyer. However, they remain neutral on equities. They believe certain stocks are overvalued now but many blue chip defensives remain great value.	Newsletter September 2009
Adrian Pankiw, Strategist, Henderson Global Investors	Markets appear slightly precarious in the short term, but continued positive economic data and a cushion of uninvested cash should ensure solid long-term technicals. Any short-term correction should be short-lived.	Portfolio Adviser, 18/9/09
Ian Lance Fund Manager, Schroder UK Equity Specialist Value	Valuations remain historically cheap apart from the most defensive of sectors. The longer-term opportunities available to value investors are very significant and he believes we are long way from the end of this bull run.	Email update 9/9/09

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Equities (continued)

Neil Woodford, Head of UK Equities, Invesco Perpetual	Markets have a habit of behaving irrationally. This current recovery is fuelled off enthusiasm and positive sentiment, no bare evidence of recovery. There will be a pull back from this level of enthusiasm. There is no wall of cash (wouldn't rely on it) and believes that investors are still moving out of the equity asset into the other assets. There is a wall of issuance for the banks as they try to straighten their balance sheets.	Face to Face Meeting, 24/09/2009
Jack Albin, Chief Investment Officer, Harris Private Bank	The cash held in money market accounts in the US is enough to buy ALL of the stocks on Wall Street. This wall of money will help fuel the market as investors look to obtain higher returns.	Bloomberg, 28/9/09
Consensus/Summary	**A real division of opinion about whether the recent rally will continue, whether defensive stocks are undervalued or look good value.** **The majority opinion is that we could see a setback, but investors are likely to buy on the dips, meaning a setback may be short lived. However, some significant names such as Neil Woodford remain very defensive.**	

Property

Who	What	Source
Gerry Ferguson, Fund Manager, SWIP Property Trust	Believes the UK commercial property market has bottomed out and we could see returns of 7% to 10% over the next 12 months.	Meeting 2/9/09
Don Jordinson, Managing Director, Threadneedle Property Investments	Property will not fall any further and should start to see a steady recovery from here on out in the sector. If property does drop off, it is very unlikely that it will shed up to 44% as it did at the start of the property bust. Rental yields are about 8%, so even if there is a drop off from here; it would only be a couple of points down meaning 5-6% yields would still be a good source of income.	Web Conference, 08/09/2009

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Property (continued)

Who	What	Source
Marcus Langlands Pearse, Fund Manager, New Star UK Property Unit Trust, Henderson New Star	Not sure is this is the bottom of the property market, but the upside definitely outweighs the downside. Market is looking positive with a lot of overseas investors starting to pour money into the UK property. He believes now is the opportune time to invest back into the asset.	Web Conference, 08/09/2009
Andrew Yeadon, Fund Manager, Multi-Manager Funds, Schroders	Commercial Property bottomed out in June and only now starting to see some positive returns from the asset. The asset is now back to its lows in the early 90's which it saw 18 years of positive returns. He feels commercial property will be next year's corporate bond story.	Meet the Managers, 15/09/2009
Hasley Investment Management	They are predicting a 20% decline in residential property due to high price earnings ratio (currently 4.24, average 3.27). Either wages will need to rise substantially (highly unlikely) or house prices will need to fall.	Newsletter, 'Thought of the Week' 15/09/2009
Credit Suisse, Research Monthly	Total returns tend to recover earlier than rents since rental yields are always positive and capital values normally stabilize before rents. They think that selected attractive commercial real estate investment opportunities could already materialize now. They currently favor prime properties in Western European markets, e.g. in the UK.	Newsletter, 25/09/2009
Consensus/Summary	**The consensus is that commercial property seems to have bottomed out and returns over the next year are projected to be positive. Most forecasts are still relatively cautious but some are predicting some very positive returns.** **Residential property prices are expected to fall further.**	

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Fixed Interest

Who	What	Source
Adam Cordery, Fund Manager, Schroder Corporate Bond	He feels that corporate bonds are not going through a bubble and expects this great run of returns to continue. Investment grade corporate bonds will yield between 5-8% for next year. The run isn't over with opportunities still out there.	Meet the Fund Managers, Schroder Event 16/9/09
Andrew Yeadon, Fund Manager, Multi-Manager Funds, Schroders	Too early to be selling corporate bonds as they are attracting good value at the moment. If they return 10-15% outperformance to gilts, he might consider selling.	Schroder Event 16/9/09
Ben Bennett, Credit Strategist, L&G Investments	Corporate Bond returns will slow as much of the capital appreciation has been done, however yields remain good when compared to gilts and so he remains positive on the asset class.	Portfolio Adviser 18/9/09
M&G Fixed Interest team	They feel much of the price appreciation in subordinated bank debt has been indiscriminate and some is now over-valued for the level of risk. Bond investors have been largely unpunished by bank failures – unlike shareholders. This may change as the EC would prefer banks who receive state aid not to pay coupons on their subordinated debt. However, there are some good – but selected – opportunities in financials and they think the corporate bond run still has some way to go.	Email update 22/9/09
Standard Life Fixed Interest team	The headwinds are increasing but even so there is much evidence to suggest that the upward trend will continue. Yields are still above historical averages, and there is little to suggest that they will not remain attractive even if the recovery continues apace. Equally, despite the aggressive rally there is reason to believe that bond prices also remain undervalued.	Email update 23/9/09

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Fixed Interest (continued)

Who	What	Source
Aegon Fixed Interest team	Corporate bonds remain undervalued and still see further steady returns. Financial sector is still way undervalued and likes investment grade corporate bonds with a bigger weighting in financials over high yield corporate bonds.	30/09/2009
Consensus/Summary	**Most managers believe corporate bonds are still reasonably valued and the positive returns could continue. However, returns are likely to slow and some managers believe that certain sections of the market are overdone. There is a particular lack of agreement about whether financial bonds remain good value or are overpriced.** **Most analysts are still relatively negative on government bonds and yields on these could rise.**	

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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
Meeting	Gerry Ferguson, Fund Manager, Scottish Widows Investment Partnership Property Trust	Face to face
Teleconference	Tom Walker, Fund Manager, Martin Currie North American	Telephone
Property Master Class, Asset TV	Marcus Langlands Pearse, Fund Manager, New Star UK Property Unit Trust, Henderson New Star	Web conference
Property Master Class, Asset TV	Guy Morrell, Head of Multimanager, HSBC Global Asset Management	Web conference
Property Master Class, Asset TV	Andrew Jackson, Fund Manager, Select Property Fund, Standard Life Investments	Web conference
Property Master Class, Asset TV	Don Jordison, Managing Director, Threadneedle Property Investments	Web conference
Schroders Conference	Adam Cordery, Schroder All Maturities Corporate Bond, Fund Manager	Face to face
Schroders Conference	Andy Brough, Schroder UK Mid 250, Fund Manager	Face to face
Schroders Conference	Nick Kirrage, Schroder Recovery Fund, Fund Manager	Face to face

Event	Speaker(s)	Type of Contact
Schroders Conference	Andrew Yeadon, Schroder Multi Manager Funds, Fund Manager	Face to face
M&G Conference	Jim Leaviss, Head of Fixed Interest, M&G	Face to face
M&G Conference	Fiona Rowley, Fund Manager, Property Portfolio, M&G	Face to face
M&G Conference	David Jane, Fund Manager, Multi-Asset Fund, M&G	Face to face
M&G Conference	Stuart Rhodes, Fund Manager, Global Dividend Fund, M&G	Face to face
Invesco Perpetual Conference	Neil Woodford, Head of UK Equity, Invesco Perpetual	Face to face
Invesco Perpetual Conference	Jeff Taylor, Head of European Equities, Invesco Perpetual	Face to face
Invesco Perpetual Conference	Paul Causer, Co-Head Fixed Interest, Invesco Perpetual	Face to face
Invesco Perpetual Conference	Dean Newman, Head of Emerging Markets, Invesco Perpetual	Face to face
Investment Dinner	Mitchell Fraser-Jones, Product Director UK Equities, Invesco Perpetual	Face to face
Fidelity Meeting	Aruna Karunathilake, Fund Manager, Fidelity UK Aggressive Fund	Face to face
Fidelity Meeting	Ian Spreadbury, Fund Manager, Fidelity Moneybuilder Income	Face to face

Event	Speaker(s)	Type of Contact
Fidelity Meeting	Michael Clark, Fund Manager, Fidelity Income Plus/Enhanced Income	Face to face
Fidelity Meeting	Trevor Greetham, Fund Manager, Multi Asset Strategic Fund	Face to face
Aegon Fixed Interest Conference Call	Phil Milburn, Investment Manager, Aegon Asset Management.	Telephone

This month we met 18 fund managers and other key individuals, and had remote contact (telephone or web conference) with 6 others.

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Monthly Figures

Index	Value
FTSE 100 – last day of last month	4,908
FTSE 100 – last day of this month	5,133
% change (ignores dividends)	+4.5%
FTSE Allshare – last day of last month	2,520
FTSE Allshare – last day of this month	2,634
% change (ignores dividends)	+4.5%
US$ to £ - last day of last month	1.62
US$ to £ - last day of this month	1.60
% change	-1.23%
Euro to £- last day of last month	1.13
Euro to £- last day of this month	1.09
% change	-3.5%
RPI	-1.3%
Change from last month	+0.1%
CPI	1.6%
Change from last month	-0.2%
BoE Base Rate	0.5%
Change from last month	0%

Index	Value
UK 10 Year Gilt Yield	3.59%
FTSE Allshare P/E Ratio	12.1 x
FTSE Allshare Yield	3.4%
Spread v Gilt	-0.19%
IBOXX Sterling Corporate Bond Index Yield	6.18%
Spread v Gilt	2.59%

Monthly Portfolio Figures	% Change
Fixed Interest	+2.03
Dynamic Fixed Interest	+5.86
UK All Companies	+5.23
UK Large Companies	+3.34
UK Dynamic	+5.43
Global Established	+4.35
Global Dynamic	+3.32
Global Speculative	+10.01
Alternative Equity	+1.63
Property	+1.28

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