FP FINANCIAL PARTNERS

RMB ASSET MANAGEMENT

Weekly Review

Week ending 11th January 2010

With no weekly reviews having been distributed over the Christmas and New Year period, we will use this first issue of 2010 to look at asset class performances in December 2009 as well as for the calendar year. Last month's market performance was dominated by weakness in bond markets, partly resulting from some better than expected macro data and US Dollar strength. The downgrade of Greece's government debt also weighed on bond markets, as fears of a sovereign default grew and government bonds lost some of their allure as a safe haven. Meanwhile, most regional equity markets shrugged off any worries and capped a year of astounding performance with more positive returns.

Looking at currencies to begin with, most major currencies weakened versus the US Dollar in December. The euro and Sterling depreciated 4.4% and 1.6% respectively, whilst the biggest mover was the Japanese Yen which lost 7.5% against the greenback. Weakness in the latter has much to do with what was effectively an increase in quantitative easing announced at the beginning of the month, with the Bank of Japan initiating a 10 trillion Yen (approx USD113 billion) programme of short term loans to commercial banks. The New Zealand and Canadian currencies were exceptions to the rule in that they appreciated versus the US Dollar, as were some emerging market currencies. One reason contributing to Dollar strength over the month was a marked increase in expectations for the raising of US interest rates, following some strong economic data releases which increase the probability of an end to the Fed's zero interest rate policy.

Against this backdrop global government bonds returned -5.0% in December, reducing their performance for 2009 to just 1.9%. This marked the biggest monthly decline in the JP Morgan Global Government Bond Index since its inception almost 25 years ago. However, whilst government bonds did produce negative returns in most regions, much of the poor performance can actually be attributed to currency effects due to approximately two thirds of the index representing non US Dollar denominated debt. The USD hedged version of the same index declined by only 1.1% in December. The general weakness in government bond markets came partly as a result of Moody's announcing a single notch downgrade for Greece to A2, which led to fears that they may default on their debt. Combining this with concerns aroused by Dubai World's debt repayment standstill and ever increasing levels of government debt around the world it is little surprise that yields moved higher over the month. The benchmark US 10 year Treasury began December yielding 3.20% and ended the year at 3.84%. The current steepness of the yield curve, characterized by short-term rates which are close to zero and longer term (ten years and further out) rates above 4% points to a recovery in equity markets, and may lead to further softening in bond markets as the probability of an increase in central bank short term rates increases.

Within credit, investment grade bonds also produced poor returns for the month across most regions. Much of this is explained by the increase in the yields of government bonds which corporate bonds are referenced against. Investment grade bonds have rallied hard in 2009 following their dismal performance in 2008, with US and European investment grade bond indices returning 18.7% and 15.7% respectively in local currency terms. These strong returns have come mainly through both a sharp reduction in the attached liquidity premiums as well as significantly reduced credit spreads. The end result is that investment grade spreads over government bonds are considerably lower and the instruments are more sensitive to changes in government bond yields. High yield bonds fared much better over the month with strong local currency gains of 3.3% and 2.4% in the US and Europe respectively as improving economic conditions boosted investor risk appetite. Spreads on high yield debt remain elevated relative to history, compared to investment grade debt which has gone a long way towards pricing in a sustainable recovery. Both of these asset classes have rewarded investors with extraordinary returns in 2009, especially in the context of their relatively low risk and volatility. High yield bonds returned 58.8% in the US, and 76.4% in Europe. Looking at global high yield the

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. January 2010.

default rate calculated by Moody's declined in December for the first time in almost two years, falling from a high of 12.9% in November to 12.5%. This compares to a 4.2% default rate at the beginning of 2009, and to historical default rate peaks of 12.2% and 10.4% in 1991 and 2002 respectively. Global convertible bonds, which combine bond-like protection with an option on the equity price, also produced outstanding returns in 2009. Their return of 1.6% in US Dollar terms in December brought the annual performance to 41.4%, thus outperforming even the MSCI World Developed Equity Index.

Moving on to equities December was another strong month (at least in local currency terms) and rounded off an excellent year of performance. As in other asset classes currency moves played a bit part in returns for the month and the end result was much more modest returns when viewed in US Dollar terms; global equities, as measured in US Dollars by the MSCI World Index, moved 1.8% higher. On a regional basis local currency returns were strongest in Continental Europe and Japan, with gains of 5.7% and 8.0% respectively. Despite the latter strong return Japan proved a laggard in 2009, returning just 7.6% for the year compared to the MSCI World return of 30.0%. One of the contributing factors to this has been currency strength versus the US Dollar, which was a millstone around the neck of Japan's numerous exporting companies. In contrast recent currency weakness has benefited these companies and the overall market, as has an improvement in foreign investor activity. Across other regions, local currency returns fell within a range of approximately 25-30% for the year, although Australia was one of the developed countries that delivered stronger returns with a gain of 37.6% in local currency terms and significantly more in US Dollar terms. Meanwhile, emerging markets continued their stellar performance in 2009 returning 4.0% in December, and bringing the 2009 return for the MSCI Emerging Markets index to 78.5%. Nonetheless the index remains over 22% below its high set in October 2007.

Property securities also produced strong returns of between 1.5% and 7% in local currency terms in December, reflecting the strength in broader equity markets. These securities have enjoyed a strong run of performance through 2009 but most regions remain a long way off their liquidity fuelled highs of 2007. Commodities produced mixed performances in December, with agricultural commodities declining 1.3% whilst broad non-agricultural commodities gained 0.6%. Oil gained 2.5% for the month, bringing its annual return to a few percent shy of 100%. Meanwhile the shine came off the gold market to some extent, with a return of -4.3% for the month, but the precious metal still ended the year over 30% higher than the beginning of the year.

Our market outlook for 2010 is that we suspect this to be a year for wealth preservation as markets face high tail risks and daunting uncertainties globally. A year of high single digit returns would seem at this juncture to be a reasonable outcome and expectation, albeit with some considerable volatility on the way.

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. January 2010.

Returns to 8 January 2010

Asset Class/Region	Index	Currency	MTD	Dec 09	2009
Equities					
United States	S&P 500 NR	**USD**	2.4	1.9	25.6
United Kingdom	FTSE All Share TR	**GBP**	2.3	4.3	30.1
Continental Europe	MSCI Europe ex UK NR	**EUR**	1.8	5.7	28.4
Japan	Topix TR	**JPY**	3.7	8.0	7.6
Australia	S&P/ASX 300 TR	**AUD**	0.9	3.7	37.6
Global	MSCI World NR	**USD**	2.1	1.8	30.0
Global emerging markets	MSCI World Emerging markets TR	**USD**	2.5	4.0	78.5
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.2	-2.7	-3.8
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.8	-2.2	10.5
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.9	-0.8	18.7
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	2.0	3.3	58.8
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-0.6	-2.7	-1.0
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.4	-1.3	11.1
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.2	-0.7	4.4
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.9	0.0	15.7
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	3.2	2.4	76.4
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.3	0.1	0.9
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.1	-1.0	-2.6
Global Government bonds	JP Morgan Global GBI	**USD**	-0.1	-5.0	1.9
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.2	-3.9	5.8
Global Convertible bonds	UBS Global Convertible Bond	**USD**	2.2	1.6	41.4

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. January 2010.

Returns to 8 January 2009

Asset Class/Region	Index	Currency	MTD	Dec 09	2009
Property					
US Property securities	MSCI US REIT TR	**USD**	0.6	6.9	26.3
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-2.0	5.5	15.0
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	1.7	3.8	40.2
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	1.0	3.2	3.3
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	1.6	1.5	43.4
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	0.9	3.2	31.8
Currencies					
Euro		**USD**	-0.2	-4.4	3.2
Sterling		**USD**	-1.2	-1.6	12.3
Yen		**USD**	0.2	-7.5	-2.6
Australian Dollar		**USD**	2.2	-1.8	29.0
Rand		**USD**	-0.2	0.9	25.6
Commodities					
Commodities	RICI TR	**USD**	2.9	0.6	26.2
Agricultural Commodities	RICI Agriculture TR	**USD**	0.7	-1.3	6.4
Oil	Brent Crude Index (ICE) CR	**USD**	3.8	2.5	96.9
Gold	Gold index	**USD**	0.5	-4.3	30.6

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