FINANCIAL PARTNERS

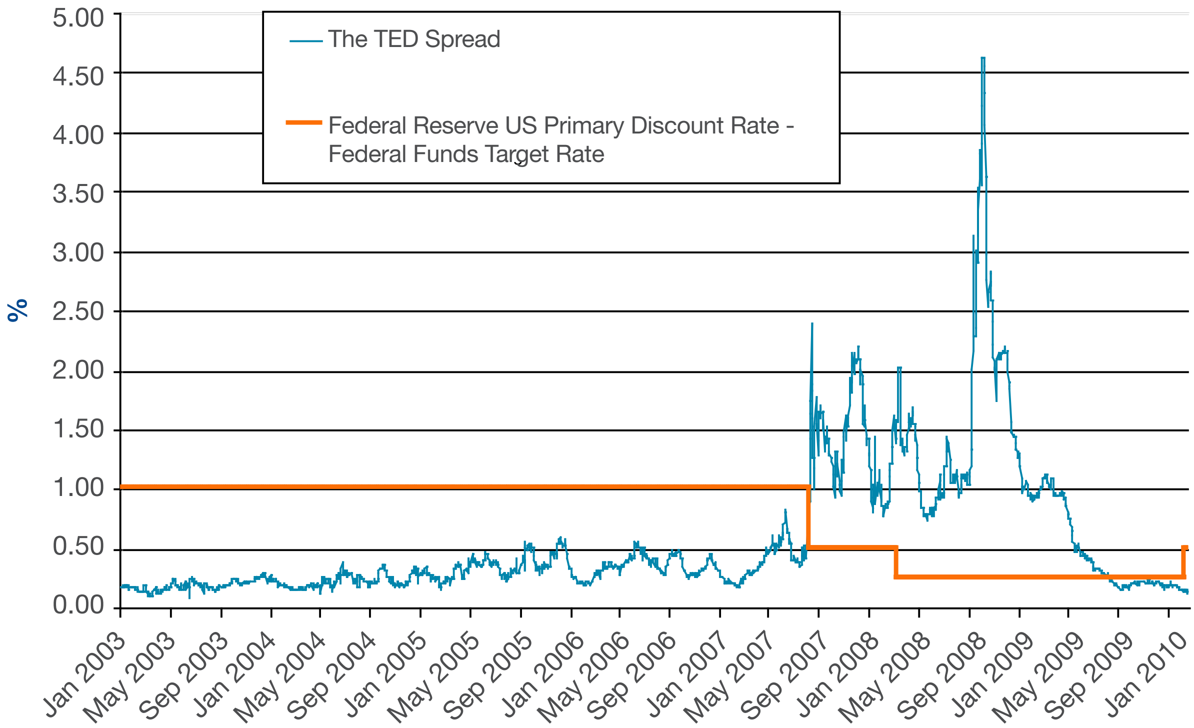
RMB ASSET MANAGEMENT

Weekly Review

Week ending 19th February 2010

Last week U.S. Federal Reserve officials acted to calm speculation that the unexpected rise in its emergency lending rate (Federal Reserve US Primary Discount rate) could bring forward broader policy tightening, saying borrowing costs in the economy would stay low. Fed Chairman Ben Bernanke flagged the move last week, saying the U.S. central bank aimed to widen the spread between its main policy rate (Federal Funds Target Rate) that remains pegged near zero and the discount rate at which banks can borrow from the Fed. Very few market participants expected the Fed to act so soon and the timing of the move – which is well ahead of the March 16 policy meeting – prompted some investors to price in a greater likelihood of a rise in the benchmark fed funds rate late this year.

seen positively as an acknowledgement by Mr. Bernanke and his compatriots that the banking sector is no longer in need of such official support since funding pressures have significantly eased. In this respect the Fed may actually be behind the curve. The chart below compares the Discount Rate/Fed Funds spread with the celebrated TED Spread, the classic measure of dislocation in the Interbank market. Since the latter has already reverted to pre credit crisis levels some time ago, we are of the of the opinion that this is merely a belated move towards “normalisation” and that the target rate will remain low for longer than the market may have priced in following this announcement.



The primary discount rate is the rate at which the Federal Reserve lends to banks and other eligible institutions via the ‘discount window’. It has traditionally been 100 bps higher than the Fed Funds rate. As the credit crisis flared up in 2007 and 2008 banks struggled to raise funds in the wholesale markets and this spread was cut to 50 and ultimately 25 bps. The return to 50 bps announced last week could be

Equity markets posted something of a recovery after a significant pullback in the previous four weeks, with Japan once again the notable contrarian as it shed -0.3% for the week. Interestingly enough the US Dollar was also stronger, which is somewhat of a variation on the theme of an increase in risk appetite leading to a weaker greenback. Bonds were generally weaker across the globe, with commodities posting strong gains.

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

Returns to 19 February 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	3.2	3.4	-0.3
United Kingdom	FTSE All Share TR	**GBP**	4.3	3.5	0.2
Continental Europe	MSCI Europe ex UK NR	**EUR**	4.1	1.1	-2.3
Japan	Topix TR	**JPY**	-0.3	-1.3	2.0
Australia	S&P/ASX 300 TR	**AUD**	1.8	1.7	-4.6
Global	MSCI World NR	**USD**	2.5	1.5	-2.7
Global emerging markets	MSCI World Emerging markets TR	**USD**	1.3	0.0	-5.5
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.5	-0.6	1.0
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.3	-1.4	0.2
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.0	-1.0	0.6
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	1.6	-0.3	1.0
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-0.9	-1.8	-1.2
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.7	-1.5	0.8
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.3	0.3	0.7
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.1	-0.1	1.5
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	0.6	-0.6	2.8
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.0	-0.1	-0.1
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.1	-0.4	1.0
Global Government bonds	JP Morgan Global GBI	**USD**	-1.2	-1.8	-1.3
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.9	-1.5	-1.4
Global Convertible bonds	UBS Global Convertible Bond	**USD**	1.0	0.6	-1.1
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.2	0.3	0.2

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

Returns to 19 February 2009

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	5.6	4.6	-1.1
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	2.5	1.8	-5.3
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	2.3	-1.0	-1.0
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-2.1	-1.3	-4.0
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-2.0	-1.1	-7.8
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	1.5	0.5	-5.4
Currencies					
Euro		**USD**	-0.7	-2.8	-5.8
Sterling		**USD**	-1.4	-3.8	-4.5
Yen		**USD**	-2.2	-1.4	1.2
Australian Dollar		**USD**	1.4	0.6	-0.6
Rand		**USD**	0.5	-1.8	-4.1
Commodities					
Commodities	RICI TR	**USD**	4.5	6.0	-2.4
Agricultural Commodities	RICI Agriculture TR	**USD**	1.0	3.0	-4.8
Oil	Brent Crude Index (ICE) CR	**USD**	4.0	5.1	-2.4
Gold	Gold index	**USD**	2.8	3.2	-1.1

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