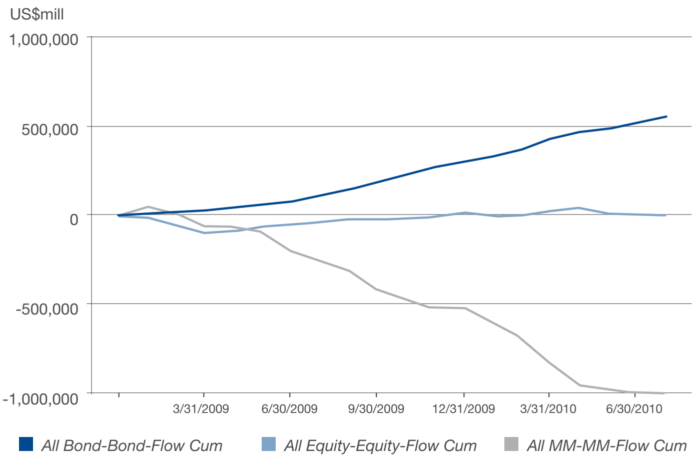
Weekly Review

Week ending 22nd October 2010

After a fairly quiet week in markets it is perhaps a good time to take a step back from short-term market commentary to focus on longer term valuations in a number of asset classes. It is after all this intense focus on the minute by minute market movements that was part of the cause of the most recent global financial crisis. In our more recent meetings with investment managers across a variety of asset classes we have tended to find that the equity teams have significantly more confidence in the valuations of their asset class relative to the fixed income teams. As a multi-asset manager (and therefore arguably having an unbiased outlook) we certainly share these views, but the interesting phenomenon is that

Bond, Equity, Money Market Fund Flows, Jan-09 to present



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investment behaviour tells another tale. Net flows into equity mutual funds are minimal (if not flat), with support to bond and credit funds exceeding equity flows by USD 560 billion over the last twenty months. This investment into the fixed income space comes on the back of ever decreasing spreads and yields, with many major stock markets now offering a similar (or better) dividend yield compared to the same countries' ten year government bonds. Asset-liability matching (in particular by pension funds), solvency requirements of insurance companies and regulatory changes in the case of banks are but some of the reasons why we are still seeing net inflows into what seems to be a historically low yielding asset class. And with the potential commencement of QE2 the US Federal Reserve will create a gargantuan demand for Treasury bonds. It then follows that from a technical point of view bonds and credit seem to enjoy more support than equities, even if the fundamental valuations for the former are getting all but very dear.

As mentioned above markets did not have an exciting week measured against what we have seen in the last couple of years, as only a handful of major asset classes produced a move of greater than two percent over the five days. Global equities ended the week where they started it, with broad emerging market equities shedding -1.4% when measured in US Dollar terms. The greenback produced a minor recovery in what has up to now been a gradual weakening against most currencies; it gained against the euro (0.6%), British Pound (2.1%) and Japanese Yen (0.1%). Its strength against emerging market currencies accounted for most of the negative return of the MSCI World Emerging Markets Index.

Gold's strong rally also took a breather as the yellow metal shed -3.3%, and broad commodities ended the week flat. Agricultural commodities, one of the major laggards in the risk rally of 2009, continued its recent form and returned 1.1% for the week. Year to date it has now produced nearly twenty percent, giving support to the notion that "past performance is not (necessarily) a guide to future gains."

This week will be fairly busy again from a Q3 earnings reporting point of view. After the first round of results indications are that positive surprises will be as abundant as in Q1 and Q2, which will leave it up to macro economic surprises to put a damper on stock markets.

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

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Returns to 22 October 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	0.6	3.7	7.3
United Kingdom	FTSE All Share TR	**GBP**	0.7	3.6	10.4
Continental Europe	MSCI Europe ex UK NR	**EUR**	0.9	3.6	6.6
Japan	Topix TR	**JPY**	-0.2	-0.6	-7.4
Australia	S&P/ASX 300 TR	**AUD**	-0.9	1.5	-1.2
Global	MSCI World NR	**USD**	0.0	3.8	6.5
Global emerging markets	MSCI World Emerging markets TR	**USD**	-1.4	2.9	13.9
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.2	0.0	9.0
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.4	2.8	10.1
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.5	0.0	10.8
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.3	1.9	13.5
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.1	-0.6	9.2
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.0	0.1	11.2
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.6	-0.2	4.4
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.5	-0.1	6.4
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	0.0	1.8	17.0
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.1	-0.2	3.2
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.2	-0.4	5.8
Global Government bonds	JP Morgan Global GBI	**USD**	-0.5	1.2	9.6
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.4	1.1	7.3
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-0.1	3.0	8.9
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-0.3	1.2	15.8

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Returns to 22 October 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	2.1	6.6	26.4
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-0.7	5.6	3.0
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-0.2	3.7	22.3
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-1.3	0.1	1.6
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-1.7	4.2	15.0
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	-0.1	5.1	15.7
Currencies					
Euro		**USD**	-0.6	2.0	-3.0
Sterling		**USD**	-2.1	-0.6	-3.0
Yen		**USD**	-0.1	2.6	14.3
Australian Dollar		**USD**	-0.9	1.2	9.0
Rand		**USD**	-2.0	0.4	6.0
Commodities					
Commodities	RICI TR	**USD**	0.1	3.4	6.2
Agricultural Commodities	RICI Agriculture TR	**USD**	1.1	7.6	19.7
Oil	Brent Crude Index (ICE) CR	**USD**	-1.7	6.1	6.7
Gold	Gold index	**USD**	-3.3	1.2	17.6

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