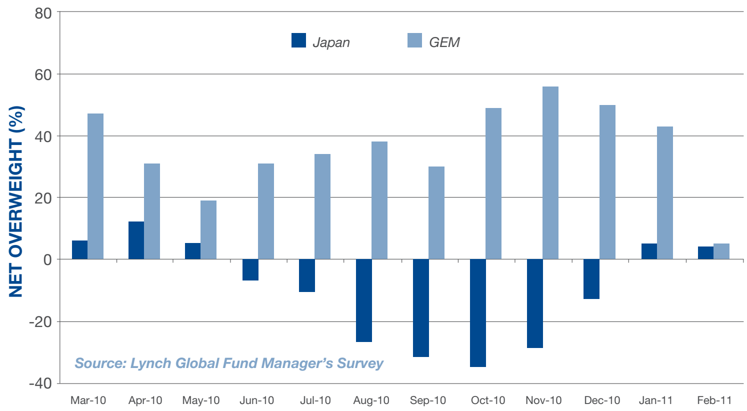
Weekly Review

Week ending 18th February 2011

One of the key themes developing so far this year has been the outperformance of developed markets relative to emerging markets. January was the fourth successive month of this trend but the first time that there was a meaningful differential between the two asset classes; indeed, the underperformance of emerging markets in January was the largest since the height of the global financial crisis in October 2008 and it eroded almost all of the outperformance versus developed markets during 2010. Within developed markets though the stand-out performer so far this year has been the much derided and often overlooked Japanese market. In local currency terms the Topix Index has gained 8.3% this year relative to 6.6% for the MSCI World Index and -2.4% for the MSCI Emerging Markets Index, with the Topix Index having risen on twelve of the fourteen trading days in February thus far. The chart below shows this performance trend from an investor attitude point of view using data from the Merrill Lynch Global Fund Managers' Survey. The percentage of managers claiming to be overweight emerging markets collapsed in February while Japan is clearly being seen in a more favourable light. Interestingly the market most managers are overweight of now is the US. One would suspect that this survey data reflects how managers would like to be positioned, however, rather than the actual rebalancing that has taken place.

Although it is always dangerous to try and assign causality to such market movements, with regard to Japan a few relevant observations can certainly be made. First, prior to its outperformance that began late in 2010 and still today, the market remains undervalued on most metrics and this is likely to correct one day; the market is currently on 1.2x book and over half of the market trades below book value, with particularly attractive valuations available amongst small cap stocks. Secondly, the Yen has been very strong in recent years placing significant downward pressure on profits in the dominant exports market. However, despite a much stronger yen and lower aggregate revenue Japan's listed companies are now enjoying the same level of operating profitability as they were in mid 2008, indicating the sheer level of cost cutting that has been imposed and potentially reflecting a shift to a more shareholder-value orientated approach by management. On this point, another noteworthy observation is the growing number of share buybacks being announced recently, although the total value is barely a quarter of the level seen four years ago. Finally, with the yen having hit multi-year highs the equity market could show significant leverage into a developed world recovery if combined with the catalyst of a weaker yen. Japan faces a number of severe headwinds in the coming years (not unlike many other developed economies) but that is not to say that there are no opportunities for long term investors.

More generally equities posted gains across all regions last week, with Japan and emerging markets leading the way while the MSCI World rose 1.7% in US Dollar terms. Most areas of the fixed income spectrum also produced positive returns, led by US Treasury Inflated-Protection Securities which added 1.0% in US Dollar terms as near term inflation expectations rose sharply. Oil also rallied over the week, on the back of a weaker US Dollar and growing tensions in the Middle East, with Brent now 10.9% higher in 2011 at $102.5 per barrel, its highest level since October 2008.



Source: RMB Asset Management / Bloomberg / Lipper Hindsight. February 2011.

Returns to 18 February 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	1.1	4.5	7.0
United Kingdom	FTSE All Share TR	**GBP**	0.3	3.9	3.4
Continental Europe	MSCI Europe ex UK NR	**EUR**	1.2	3.2	5.9
Japan	Topix TR	**JPY**	2.9	7.0	8.3
Australia	S&P/ASX 300 TR	**AUD**	1.3	4.2	4.3
Global	MSCI World NR	**USD**	1.7	4.3	6.6
Global emerging markets	MSCI World Emerging markets TR	**USD**	2.8	0.3	-2.4
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.4	-1.0	-1.0
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	1.0	-0.8	-0.7
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.5	-0.3	-0.1
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.5	1.3	3.5
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.3	-0.6	-2.5
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.4	-0.2	-0.7
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.1	-0.2	-0.7
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.3	0.6	0.2
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	0.6	1.7	4.1
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.0	-0.5	-1.1
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.3	-0.3	0.5
Global Government bonds	JP Morgan Global GBI	**USD**	0.5	-1.2	-1.3
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.5	-0.8	-0.5
Global Convertible bonds	UBS Global Convertible Bond	**USD**	0.7	2.3	4.1
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.4	-0.4	-1.0

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Returns to 18 February 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	0.4	2.7	6.0
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	3.4	6.1	5.0
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	1.3	2.7	1.0
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	1.5	3.9	6.4
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	2.4	-0.1	-0.5
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	1.6	1.8	3.0
Currencies					
Euro		**USD**	0.6	-0.5	1.7
Sterling		**USD**	1.3	1.2	3.5
Yen		**USD**	0.1	-1.7	-2.7
Australian Dollar		**USD**	1.0	1.5	-1.3
Rand		**USD**	2.3	0.6	-7.3
Commodities					
Commodities	RICI TR	**USD**	0.9	0.8	4.0
Agricultural Commodities	RICI Agriculture TR	**USD**	-0.3	3.0	8.8
Oil	Brent Crude Index (ICE) CR	**USD**	1.9	5.5	10.9
Gold	Gold index	**USD**	1.4	4.3	-2.0

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