Asset Allocation Dashboard

Positive Neutral Negative

Asset class	View	Comments		
Equities		Positive	Negative	Our view
Developed equities	Negative (red)	The recent euro summit was very well received by the markets. Additionally corporates are generating very healthy levels of profits, and by standards of the last few decades, equities are relatively cheap	Many risks remain. The situation on Europe continues to worsen; good news over the past few years from China and the US appears to belong to a different era. Little reason for either of these to change in the short term.	The bounce back for equities since the last euro summit was welcome but the idea that the issues facing the global economy are now resolved is too simplistic. At these levels we are taking profits and moving our recent neutral recommendation back to mildly underweight. A marginal red.
UK equities Relative to developed	Positive (green)	A marginal green on our colour code. This is our favourite developed market. Valuations are better than elsewhere and there is less systemic risk than Europe.	UK economic outlook looks weak (but not yet recessionary).	UK is reasonably attractive, but remains vulnerable to resource price normalisation given its over-sized allocation to resource companies.
European equities Relative to developed	Neutral (amber)	The cheapest market with the lowest investor expectations and the highest dividends. Sentiment remains very low, despite the market containing many global companies.	Economic data remains weak. Sovereign risks continue to dominate, and the banking sector in many countries remains fragile. There is no reason to expect this to change any time soon. The situation will remain tense.	Europe remains cheap, but does not qualify for the “fat pitch” that we look for. It is also the most over indebted region. Small, selective positions at most are recommended. Ultimately the macro story and the lack of a valuation extreme means being cautious in this region.
US equities Relative to developed	Negative (red)	The US economic outlook, whilst weakening, still remains the best among major economies. The country is likely to be the beneficiary of reasonable news flow across 2012. Some bombed out sectors like housing, are showing signs of recovery.	The most expensive equity region, with low dividend yields and high expectations by investors. The US is the one country not yet to have announced a proper austerity plan – and there is certainly little room for one in current market pricing.	Consistently the most expensive market. Despite the better US news flow, it warrants a small underweight. Investors can buy very similar companies elsewhere, for less. But again this is not a “fat pitch”. Be cautious on sizing.
Japan equities Relative to developed	Neutral (amber)	Selected valuation measures do suggest Japanese equities are cheap. Meanwhile the corporate sector is starting to adopt Western ideas on shareholder rights.	When adjusted for differing accounting standards Japan in fact looks no cheaper than Europe and comes with considerable uncertainty. Additionally the strong yen, the dull economic backdrop and demographics are a long term concern.	Inconsistent data readings make this a difficult market to call. Neutral.
Emerging market equities	Neutral (amber)	While historically we have been cautious on emerging markets, towards the end of 2011 things started to look a bit better as underperformance and investor sentiment combined with monetary easing, made it a reasonable emerging market opportunity. While the region is not especially cheap, it remains, just, on the cheapish side of fair value.	Recent data continues to highlight the fact that emerging markets are unlikely to decouple from developed equities. Exports in particular remain highly linked to global growth, and have flat lined now for 18 months. China remains as murky as ever. Across emerging markets, political risk is growing due to higher inflation and commodity “windfalls”.	Emerging markets are not especially cheap on a valuation basis. This, combined with a long term suspicion that the best days of some emerging markets’ economic outperformance are over, makes us cautious and we remain in a neutral position.

Note: Each asset class is reported on in isolation and should not be used as a relative comparison, unless otherwise stated. These views should not be interpreted as investment advice. Views as of 9 July 2012.

FP FINANCIAL PARTNERS

momentum

July 2012

Positive Neutral Negative

Asset class	View	Comments		
Fixed income		Positive	Negative	Our view
Government		Little obvious catalyst for a selloff in the short term. Central banks continue to buy government bonds. Despite some reasonable economic data treasury yields continue to fall and could stay low for years.	Long term, government bonds can only be described as expensive. Real yields across the world are negative.	There is no point in trying to gauge the exact top of the bond rally. So be cautious - move slowly on duration. But investors should incrementally increase their government bond underweights.
Index-linked Relative to government		Given the stickiness of inflation at levels above breakeven inflation rates, linkers look like a more reasonable way of investing in government bonds than the fixed rate government bond market. Recent history suggests projected inflation decreases are over optimistic.	Linkers will be vulnerable to weak economic news flow. Real yields are still very low, so while these should protect capital value, linkers will not do any more.	Probably not a bad insurance play but like all government paper, linkers are ultimately expensive. Nonetheless, compared to a conventional government bond they could provide some protection against the risk no one is thinking about – inflation.
Investment grade Relative to government		Relative value compared to government bonds, spreads remain attractive at present levels. Current spread levels of ~200bps marked the highs in recessions seen previously (excluding 2008). Corporate balance sheets are in good health. Leverage in the system is low suggesting that a round of aggressive deleveraging as in 2008 is unlikely.	Versus the wides of 2008 spreads are very low. In absolute terms, rather than relative, the duration component of investment grade bonds will be a headwind, if bond yields move higher. While spreads are reasonably attractive, nominal yield levels are not particularly compelling.	Investment grade makes a decent play against government bonds. Our positive views on credit mean investment grade is a reasonable replacement for government debt. Should also benefit from strong technicals of any further LTROs.
High yield		Remains our favoured fixed income asset class. Currently pricing in a typical recession, unlike equities which continue to price in a recovery of sorts. Hence offer a more defensive position. Default rates remain very low	Significant systemic risks remain, notably concerning the European situation. Headline yields, rather than spreads, remain low by historical standards.	An alternative play for the post credit crunch world. Investors can make the credit crunch work in their favour by lending to companies rather than, for instance, taking equity stakes. Given the strong rally we are more cautious, but remain overweight.
Loans		Long term value looks good. Shares much of the spread story as high yield, though yet to become quite as cheap. Tactically wait a little before adding exposure.	Significant systemic risks remain, notably concerning the European situation. Illiquidity in the market with wide bid/offer spreads. Significant risk of capital rising and asset sales from the financial sector.	Very similar to high yield, with the exception that investors need to consider the less liquid nature of this market. The main advantage is the floating rate nature of the loan universe, which will help if and when interest rates rise. Should also benefit from strong technicals of any further LTROs.
Emerging market debt		Despite relatively attractive yields, recent inflation data remains something of a worry, although it does appear to be waning. Currency appreciation by emerging markets could also help the performance of this asset class.	Unlikely to decouple from developed equities. China remains as murky as ever, and debt levels are growing. The data from that region shows no sign of improving. Political risk growing due to higher inflation and commodity "windfalls".	A wide range of possibilities with emerging market debt. However in the final analysis there are probably cheaper parts of the credit world that are less over owned, such as high yield.

Note: Each asset class is reported on in isolation and should not be used as a relative comparison, unless otherwise stated. These views should not be interpreted as investment advice. Views as of 9 July 2012.

Positive   Neutral   Negative

Asset class	View	Comments		
Fixed income		**Positive**	**Negative**	**Our view**
Convertible bonds		Now trading at far more reasonable levels after approaching expensive levels during 2011. Probably remain a little better placed than equities given the murky economic outlook.	Significant systemic risks remain, notably concerning the European situation. The call option in converts is only worth something if markets increase.	Convertible bonds have moved back to fair value relative to their constituent parts, having previously been a little cheap.

Asset class	View	Comments		
Alternatives		**Positive**	**Negative**	**Our view**
Commodities		In a world of fiat currencies the storing of wealth in commodities has attractions. Outlook remains supportive for gold.	Economic data remains weak. Harsh austerity plans combined with sluggish growth suggest the European region looks set for at least a mild recession over the next 12 months. Strength of final demand is still questionable; China remains as murky as ever. China holds significant inventories already.	Commodities have been pushed lower in recent months by negative news flow on growth They could rally from here but volatility and ongoing economic uncertainties suggest caution.
Fund of hedge funds		The uncorrelated nature of these funds offers diversification and potential return enhancement. A few hedge fund areas are showing reasonable value at today's levels.	Significant systemic risks remain, notably concerning the European situation. Lack of momentum in markets continues to hamper performance of many managers. The liquidity of these strategies must also be borne in mind.	A decent bond replacement given the uninspiring government bond outlook. However investors need to be cautious on sizing given the higher risk of hedge funds and currently they are more correlated to equities.
Property (UK)		Yields remain attractive. In certain areas vacancy rates still remain. Active management remains key in this sector.	Economic data remains weak. In London significant systemic risks remain, notably concerning the European situation and retrenchments in the financial sector. Outside London strength of final demand remains weak. The liquidity of direct strategies must also be borne in mind.	Income attractive versus gilts but limited room for capital growth. Neutral.

Asset class	View	Comments	Our view
Currencies			
Dollar		The dollar is undervalued but with Fed tightening on the back burner for a long time there is little reason for this to change in the short term. The political and rating situation is likely to remain a weight on the currency.	Neutral to slight overweight
Euro		Sovereign issues remain a threat to the value of the euro.	Underweight
Yen		Yen is expensive and vulnerable to central bank intervention.	Underweight
Emerging market currencies		While emerging markets do not have the same structural problems as developed economies and have stronger fiscal, debt and trade positions than developed markets, these advantages are wearing off. But emerging market debt is far more problematic to value and is more volatile making conviction harder to come by.	Long term overweight

Note: Each asset class is reported on in isolation and should not be used as a relative comparison, unless otherwise stated. These views should not be interpreted as investment advice. Views as of 9 July 2012.

Important notes

This document does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient, and is only intended for use by original recipients and addressees. The original recipient is solely responsible for any actions in further distributing this document, and should be satisfied in doing so that there is no breach of local legislation or regulation. The information is intended solely for use by our clients or prospective clients, and should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should inform themselves and if need be take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this material is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated herein. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum Global Investment Management Limited does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

We caution that the value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Our investment mandates in alternative strategies and hedge funds permit us to invest in unregulated funds that may be highly volatile. Although alternative strategies funds will seek to follow a wide diversification policy, these funds may be subject to sudden and/or large falls in value. The illiquid nature of the underlying funds is such that alternative strategies funds deal infrequently and require longer notice periods for redemptions. These Investments are therefore not readily realisable. If an alternative strategies fund fails to perform, it may not be possible to realise the investment without further loss in value. These unregulated funds may engage in the short selling of securities or may use a greater degree of gearing than is permitted for regulated funds (including the ability to borrow for a leverage strategy). A relatively small price movement may result in a disproportionately large movement in the investment value. The purpose of gearing is to achieve higher returns associated with larger investment exposures, but has concomitant exposure to loss if positive performance is not achieved. Reliable information about the value of an investment in an alternative strategies fund may not be available (other than at the fund’s infrequent valuation points).

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management Limited (Company Registration No. 3733094) and has its registered office at 20 Gracechurch Street, London, EC3V 0BG.

Momentum Global Investment Management Limited is authorised and regulated by the Financial Services Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.

© Momentum Global Investment Management Limited 2012