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VIEWPOINT

Newsflash

A new month and the 51st issue of Viewpoint from FP.

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In spite of receiving a number of early Christmas presents including: Ben Bernanke's quantitative easing efforts (round 2); slowly but surely improving economic data; and core Europe's rescue package to support their overstretched neighbours – investors had to wait right until a few days before Christmas for the global equity market to reach double digit returns for the year. In the end the MSCI World (total return) added 11.8% in 2010, still leaving it some 18.5% below its October 2007 highs. With so many tail risks in the global economy (deflation in developed markets and inflation in emerging markets amongst others) it was not surprising to see equity markets move more than ten percent either up or down a few times throughout the year. The outlook for 2011 is in many ways similar to the view one year ago, with a muted economic recovery probably the most likely outcome, but not a given by any stretch of the imagination. With much uncertainty still abound in markets we do not expect investors to have a comfortable ride in the year ahead.

During 2010 the economic recovery (that began a year earlier) has been sustained at a moderate pace, with some regions in the developed world surprising on the upside – Germany specifically comes to mind. Inflation in the major economies (apart from China) stayed muted and commodity prices rose throughout the year. Commodity based currencies also benefited from stronger prices with the Australian Dollar, South African Rand and Canadian Dollar all printing double-digit returns against the US Dollar. The Chinese Renminbi also strengthened against the greenback. Government bonds certainly surprised on the upside as yields receded sharply from March to October, before finally giving up significant ground in December. Monetary policy remained very accommodating across the developed world, with the United Kingdom appearing somewhat more likely to raise official rates before their neighbours on either side due to growing inflationary pressures.

Looking ahead to 2011 a number of issues still remain:

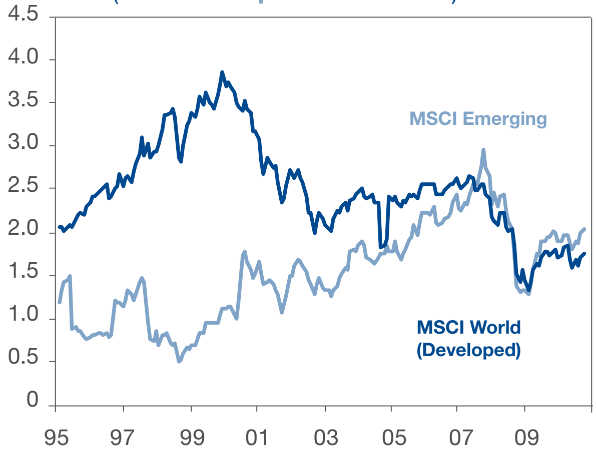
- Massive government interventions (across the globe) have introduced large imbalances in the system, and investors are no more certain now than a year ago as to what will happen when monetary and fiscal policy returns to "normal" (or even what "normal" is).
- In spite of various attempts at providing rescue packages (in ever improving form it must be said) there is still no certainty that peripheral European governments will avoid default. This will continue to have an impact on investment markets in this region (and others). Both Japan and China have committed to taking up some of the European sovereign debt in the year ahead, but by continuing to address fiscal shortcomings by borrowing more, at an increasing rate is likely to provide relief only in the short run.
- The United States economy is by no means out of the woods. Much still depends on the US consumer to start spending again, but unemployment has not reduced by a significant extent. During December US initial jobless claims fell for three weeks in a row (latest number around 420,000), which is an encouraging sign. It has to, however, drop to well below 400,000 to have a marked impact on the economy.
- Inflation, especially within the food and energy components, may become more of an issue to developing countries as these two components make up a relatively larger portion of the inflation basket in these economies. Social turmoil may become more prevalent in the year ahead, which could once again impact market sentiment in these and other regions.

Inflation is on the increase in China – now the world's second largest economy. Economic growth has also surprised in the upside in January, and this has increased the probability of further monetary tightening in the region. This could of course have a knock-on effect as a great deal of the world's economic growth is driven from the Chinese and their neighbours.

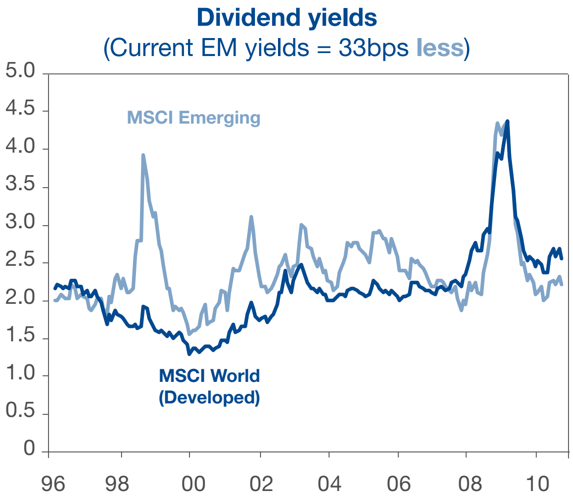
As mentioned earlier equity markets ended the year on a high note, with emerging markets (+18.5%) ending ahead of developed markets (+11.8%) once again. The former is starting to look expensive, as the graphs below illustrate:

Price / Sales ratio
(Current EM premium = 24%)

Price / Book ratio
(Current EM premium = 16%)



Source: RMB Asset Management / Bloomberg / Lipper Hindsight. November 2010. Past performance is not indicative of future returns.



In the US the S&P 500 gained 6.6% in US Dollars, whilst across the Atlantic, the British saw a similar gain of 7.1% (in Pound Sterling) in the FTSE All Share index. In Europe (+5.7% in euros) the theme was much the same, but Japan was lagging somewhat in local currency terms as the Topix added only 4.5% in December.

Global bond markets were much weaker during December as, lead by US Treasury yields, global bond yields spiked significantly. US Treasuries gave up the ground that it gained in the northern hemisphere's summer (JP Morgan GBI -1.8%) and in Europe (-0.3%) and the UK (-0.2%) government paper performance was also negative in local currency terms. High yield bonds fared a lot better and added 1.8% in the US. The US Dollar weakened against the two major European currencies (-3.1% against the euro and -0.5% against the Pound Sterling) as well as losing a lot of ground against a number of emerging market currencies.

Property securities continued to exhibit volatile performance and gained across all major geographical regions during December. Commodities had a very strong month as both broad commodities (+11.0%) and agricultural commodities (+14.5%) posted strong gains. Finally, gold added 2% during December, which took it to a level of 25% higher than the start of the year.

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. December 2010. Past performance is not indicative of future returns.

Asset Class Performances

Asset Class/Region	Index	Currency	Dec 2010	YTD 2010
Equities				
United States	S&P 500 NR	USD	6.6	14.4
United Kingdom	FTSE All Share TR	GBP	7.1	14.5
Continental Europe	MSCI Europe ex UK NR	EUR	5.7	8.6
Japan	Topix TR	JPY	4.5	1.0
Australia	S&P/ASX 300 TR	AUD	3.8	1.9
Global	MSCI World NR	USD	7.4	11.8
Global Emerging Markets	MSCI World Emerging Markets TR	USD	7.1	18.9
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-1.8	6.1
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-1.6	6.3
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.9	9.0
Us High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	1.8	14.9
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.2	7.5
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	-0.1	8.4
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.3	1.0
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.2	4.8
Euro High Yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	2.1	14.7
Australian Government	JP Morgan Japan Government Bond Index TR	AUD	0.7	2.5
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.1	5.3
Global Government Bonds	JP Morgan Global GBI	USD	1.5	6.4
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	1.2	4.4
Global Convertible Bonds	UBS Global Convertible Bond	USD	4.4	11.8
Global Emerging Market Bonds		USD	-0.7	11.8

Asset Class/Region	Index	Currency	Dec 2010	YTD 2010
Property				
US Property securities	MSCI US REIT TR	USD	4.5	27.0
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	7.7	4.9
Europe ex UK Property securities	FTSE EPRA/NAREIT Europe ex UK TR	EUR	9.7	21.5
Asia Property securities	FTSE EPRA/NAREIT Asia TR	USD	5.7	13.2
Australian Property securities	FTSE EPRA/NAREIT Australia TR	AUD	8.4	14.4
Global Property securities	FTSE EPRA/NAREIT Global TR	USD	5.9	15.9
Currencies				
Euro		USD	3.1	-6.5
Sterling		USD	0.5	-3.1
Yen		USD	3.3	14.8
Australian Dollar		USD	6.9	14.0
Rand		USD	7.2	11.3
Commodities				
Commodities	RICI TR	USD	11.0	19.0
Agricultural Commodities	RICI Agriculture TR	USD	14.5	36.3
Oil	ICE Crude Oil CR	USD	8.1	20.1
Gold	Gold index	USD	2.0	25.4
Interest rates	**Last meeting**		**Current rate**	**Change at meeting**
United States	14 December 2010	USD	0.25%	No change
United Kingdom	13 January 2011	GBP	0.50%	No change
Eurozone	13 January 2011	EUR	1.00%	No change
Japan	20 December 2010	JPY	0.10%	No change
Australia	18 January 2011	AUD	4.75%	No change
South Africa	20 January 2011	ZAR	5.50%	No change

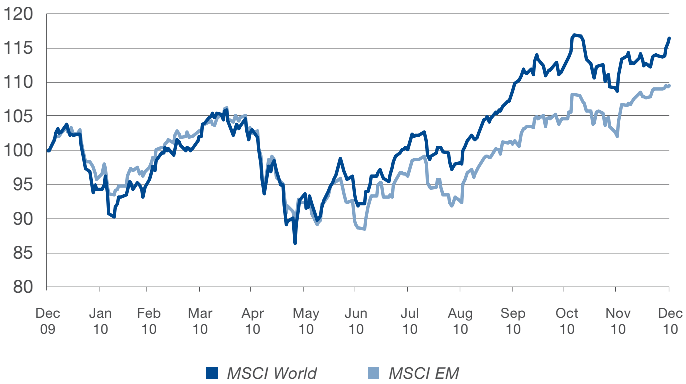
Source: Lipper Hindsight, December 2010

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. December 2010. Past performance is not indicative of future returns.

Focus – Review: 2010 and Outlook: 2011

As we move into 2011, it is worth pausing for a moment to reflect on the year 2010. It was a year that provided a great deal of interest for all: a year of firsts, such as the first FIFA world cup to be held in Africa; but also there were many familiar events repeated, from the devastating, including oil spills and natural disasters, to the more welcome, such as the resumption of Quantitative Easing in the United States. 2010 also had its fair share of fairy tales including the rescue of 33 Chilean miners from a collapsed mine shaft and the continued rallies of both equity and fixed income assets producing positive returns even for the most indiscriminate of asset allocators.

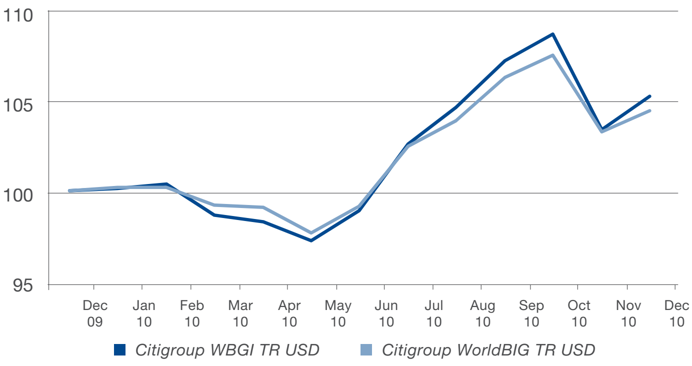
Price Index (rebased to 100)



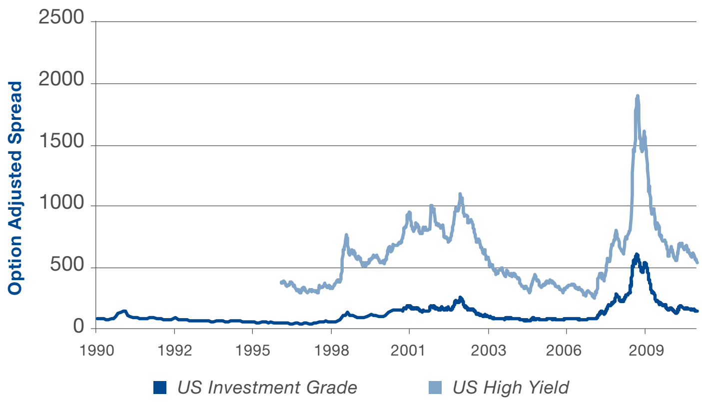
And volatile mid patch, which, by mid-year left equities languishing well below their January starting point. Risk assets have rallied consistently from the Fed's announcement of a resumption of QE in August. This resulted in break even for global equity investors going into the final third of the year and profits by year end. The emerging markets followed a similar pattern to their developed counterparts, but with a growing performance differential becoming evident from the middle of the year as markets rallied. Our portfolios have retained a continued explicit overweight to emerging markets equity in 2010, although this was reduced in the second half of the year as valuations in the region became less attractive. During the year, the opportunity was taken to reduce and eventually remove our underweight to global equity in the majority of our portfolios.

The fixed income markets also provided positive returns for investors in the past year. It is fairly unusual to see simultaneous equity and bonds rallies, especially for two years in a row. The

TR Index (rebased to 100)



bond gains, however, may be due to factors other than purely macroeconomic outlook: government measures to generate demand in the bond markets, such as Quantitative Easing are evident here. In the majority of our portfolios we have held underweight positions to the sovereign bond markets and instead invested in the investment grade credit universe. The investment grade holdings benefit from a yield pick-up compared to their government counterparts but despite this, the pure government index has outperformed mildly through 2010. This is largely due to the larger weight to yen denominated assets in the pure government index, the yen having performed well against the US dollar. Aside from this currency strength, our decision to overweight corporate paper versus government paper worked. In the majority of our portfolios we have held high



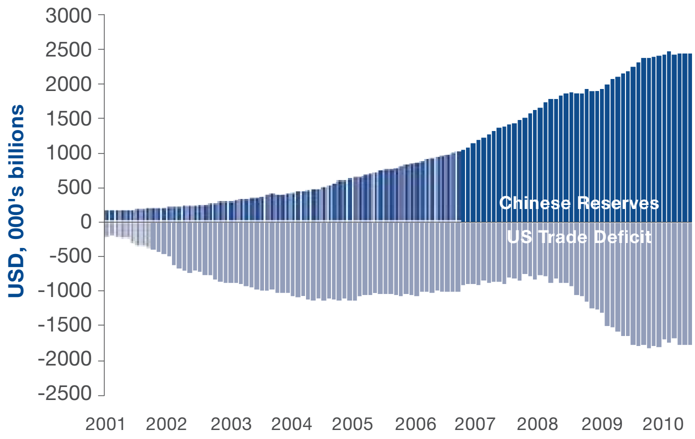
yield bonds for over a year. The initial investments were made on the basis of excellent valuation opportunities in this asset class. As the spreads over government paper have narrowed, this has provided strong relative outperformance. The Option

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. December 2010. Past performance is not indicative of future returns.

Adjusted Spread (OAS) graph demonstrates that despite spread compression in the high yield universe, yield pick up over sovereign paper remains relatively attractive, although far below the peak during the financial crisis. Investment grade spreads have fallen as well and now seem to have stabilised at levels not dissimilar to those peaked at during the unwind of the dot com bubble. We do not anticipate material spread compression from here for investment grade, but present levels still provides an attractive running yield pick up over government issues.

And so to 2011. As things stand presently we remain broadly constructive on risk assets. We believe that, overall, the global economy will continue to grow in a fairly muted manner and this should be sufficient to provide reasonable positive returns from equity markets. Global growth is very much a two speed phenomenon at present, with the emerging markets growing at a reasonable pace, but developed markets still limping somewhat. Growth differentials are important, but do not necessarily translate into equity market performance differentials over the short term as many other factors influence market behaviour. In developed markets this gentle growth is likely to combine with relatively low inflation for the foreseeable future as slack remains in these economies. There are inflationary pressures, however, particularly from commodities and food and these are most likely to have an acute impact in the emerging markets. Risks to this relatively benign growth environment remain, however. The slate has not been wiped clean following the financial crisis, rather the main causes for concern have been reallocated from the private sector to the public sector. It is this transferral which prevented a liquidity crisis in the financial sector from morphing into a solvency crisis but also burdened much of the developed world with significant fiscal imbalances. The themes teased out below provide a background to our thinking as the new year begins. This macro viewpoint is an early part of our ongoing asset allocation process which seeks out valuation-based investment opportunities to exploit for the benefit of our clients. Rather than simply provide point estimates for the returns of specific asset classes for the next twelve months, below are listed some of the key issues that we believe will dominate the market's collective conscience over the coming year.

Global imbalances remain

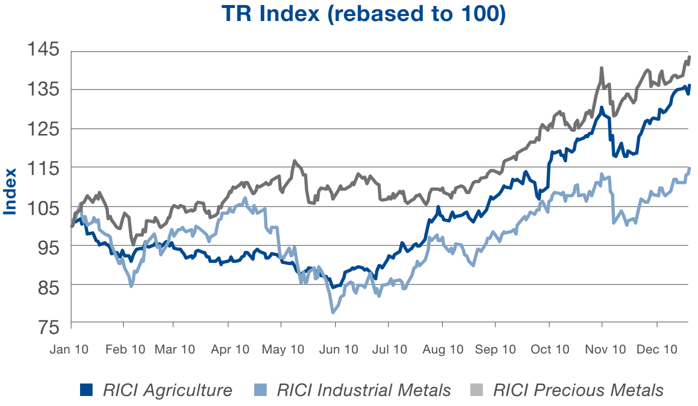


The provision of capital from the emerging markets to fund the developed world's swelling balance sheet remains ongoing. The current account balance of the US for example, has improved but remains negative; the US continues to import much more than it exports and this is financed through the provision of foreign capital to the US capital markets. The most obvious example of this remains foreign purchases of investment assets such as the Chinese foreign exchange reserves purchasing US Treasuries. In recent years China has taken steps to diversify their exposure somewhat away from the US, but with the eurozone's ongoing woes, the attractiveness of holding the euro may have diminished. It is likely that over time the Chinese would like to continue to diversify their exposure away from the USD and this will likely reduce overall demand from a key buyer of US Treasuries. Having said that the US government remains the globe's preeminent borrower and is likely to remain so for the foreseeable future and this will provide continued demand for US sovereign assets. Over time these imbalances must unwind and all interested parties will hope that this happens in an orderly fashion that does not create fresh imbalances elsewhere or further systemic crises.

Inflation risks

The moves of commodity prices over the past year, combined with accommodative monetary and restrictive fiscal policies, on paper, tend to increase the risk of inflation. Indeed inflation has begun to creep up both in the emerging markets and in parts of the developed world. The two key driving forces underlying recent inflation have been increases in energy and food prices.

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. December 2010. Past performance is not indicative of future returns.



The increases in agriculture prices are arguably more worrying than the increases in the oil price. This is because the weight of agricultural commodities in the CPI basket is generally higher than energy. This is especially the case in emerging markets, but also present in most developed markets. Interestingly the drivers of the two price rises are different. The reason behind the increased oil price is increased demand due to economic growth. The driving forces behind higher agricultural prices are supply shocks rather than increase demand. This demonstrates the ability for short term changes to impact commodity prices, especially when coupled with a heavy dose of speculation in the futures market. On a secular basis we believe that changing consumption patterns in the emerging markets will increase demand for certain agricultural commodities and inputs. However, these changes did not drive gains in agricultural commodities this year and the likely upward pressure from secular demographic changes on commodity prices are more likely to be longer term phenomena. Other outlying risks for inflation in the developed world include the potential of cost increases of imports sourced from the developing world.

Eurozone

The sovereign risks throughout the eurozone are manifest and well documented. Whilst Germany prospers a number of peripheral states have difficult fundamentals and these countries will need to continue to make strident improvements of their economic situation against a backdrop of constrained monetary policy. These issues are likely to continue to drag on throughout 2011, with occasional bouts of bad news reminding markets why they were anxious about the PIGS in the first instance. The ultimate aim for these economies is to improve their fiscal position and as a result, it is likely that tightened taxation and reduced public spending coupled with low confidence will likely weigh heavily on growth in this region. The euro has crystallised Germany's competitiveness versus its closest neighbours and whilst this benefits the region's largest economy, the area's weaker components have to become increasingly reliant on internally driven demand at a time when their economy is experiencing difficulties.

The issues relating to Europe go further than merely imbalanced books; as long as the EU retains its present structure and policies there remains a risk of a repeat of the mismatches between different nations operating within the same system. These issues have been highlighted recently in Viewpoint and will not abate quickly. As a result, we are likely to see a regular revision of the arguments in favour and against membership of the eurozone. The project is still very much in its infancy and although flawed if there remains adequate political will to make the union succeed then the immediate chance of a break up or expulsion subsides.

Indeed, whilst the risks to Europe are stark, the market remains very pessimistic about the region. It is conceivable that the majority of problems are now priced in or even that the risks are overblown. Furthermore, even an ailing Europe would benefit from growth elsewhere in the world providing demand for output and 'blown out' bond yields could soon retract through a search for yield driven by better news which would provide capital gains.

Sustainability of growth

The culmination of a number of the above issues is the question of whether reasonable levels of growth for the developed markets is sustainable. The rebound in the markets from the nadir in March 2009 has largely been attributed to the inventory cycle resulting in restocking from very low levels and therefore production coupled with a gentle unwind of the fear surrounding the near collapse of the financial system, which has gradually loosened the gears of finance and improved sentiment. The restocking boom is likely only to have a one-off impact on the economy and as the consumer and governments in developed markets remain with stretched balance sheets, questions arise as to the likely source of sustainable growth impetus. The good news

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. December 2010. Past performance is not indicative of future returns.

for developed markets is that the consumer appears to be willing to de-lever and although this will remain a multi-year process, the financial prudence that this requires should put the consumer in a better position for the long term. Whether this will benefit the developed world in the shorter term is another matter. The pre crisis growth 'norms' were reliant on an over indebted consumer becoming further indebted and therefore if consumer de leveraging is indeed taking place, the impact of the consumer on economic growth might be muted, especially regarding discretionary spending. Some governments too are putting through austerity packages (although notably not the US) which should improve their fiscal position, but these will come at a cost. The twin approach of increasing taxation and cutting public spending is not on the face of it a combination that will boost growth drivers in the short run. States which have initiated swingeing cuts to public services combined with increases in taxation are not necessarily focused on the short-term, however, with the key aim being the creation of sustainable economic conditions for the medium and long term. The private sector must take up some of the slack as the public sector tightens its belt.

The issue of growth is perhaps less pressing in the emerging markets where the economic situation is far less imbalanced and much of the growth expected for these economies is internally driven. The government, corporate and individual balance sheets in the emerging markets are more conservative and this, combined with favourable demographics and growing prosperity, should enhance marginal consumption throughout these economies. China is an obvious global growth driver, but signs have emerged of late that the Chinese government may be willing to let the rate of growth slip somewhat to enable a better quality of growth for the nation as a whole. Despite this, many economists remain confident that Chinese GDP growth will remain high: in the order of 8% per year as opposed to 10% of late. A recent example of this softening on the part of the Chinese government is that a senior government official in Shenzhen has suggested that new guidelines that could allow factory employees to appoint their own union representative were "almost approved" and would be launched "as soon as possible". China's government may be realising that the anger that has been directed against factory owners recently could be instead aimed at the state. Despite the rapid pace of urbanisation in China, there remain pockets of labour shortages and this coupled with inflation, makes the workers more strident for better pay. The risks of inflation to the Government are significant as this is often the root cause of social unrest. Couple this to a growing sense of unfairness as the chasm between the rich and poor grows in a communist economy and the government's sacrifice of some nominal growth in favour of quality growth could prove prudent. Overall, however, despite a stronger outlook for the developing nations, it should be remembered that globalisation works both ways. A more integrated international economy will both share in the spoils during boom times, but also will see contagions or weaknesses spread in other times. Domestic demand may remain strong in the emerging markets for now, but the world's economists are frantically trying to calculate what percentage of this domestic growth is actually a second derivative of developed market demand for goods and services. As far as the US is concerned, we do not foresee problems that threaten GDP growth for now but at what cost does this present calmness come? QE is in essence an experiment and the longer term repercussions of this are unknown and any anxiety about the likely impact are being placed to the back of people's minds in order to allow enjoyment of the recovery.

Impact of fiscal tightening

Fiscal tightening provides a braking effect to economic growth. As a result it is one tool which a government may utilise to slow an economy that is becoming overheated. For the majority of nations across the globe, overheating is not an immediate concern, rather the moves to tighten fiscal policy undertaken at present are a response to the imbalances between government spending and government revenues. This fiscal imbalance is noteworthy in many developed countries as the government's financial commitments grow and tax receipts have fallen in the wake of the global financial crisis. The impact of fiscal tightening has two major tenets. The first is that if taxation is increased, this increases costs for consumers and businesses and this reduces the amount of capital available to spend on consumption. This reduced ability to consume has an inevitable impact on the economy as both in addition to having less cash available for discretionary spending, this also may increase tendencies to save or de-lever. This is clearly in the long term interests of the over indebted Western consumer, but in the short run, this reduced disposable income stands to reduce consumer spending which

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. December 2010. Past performance is not indicative of future returns.

is a key component of GDP. A second source of fiscal prudence is generated through curtailment of government spending. Government budgets are regularly directed into the economy, whether on a large scale through infrastructure projects or on a more mundane basis, such as for office stationary. When the spending side of the fiscal equation is cut, in effect the government's consumption also falls, which can reduce GDP growth. The need for an improved fiscal balance in much of the developed world is unquestionable. Governments throughout the major economies are running unsustainable budget deficits, which have ballooned as national balance sheets have swollen to mop up distressed assets from the private sector. There are two main ways to attempt to redress this imbalance. The first is through fiscal austerity and the second is through pure GDP growth, which if significant provides the means to reduce the imbalances. Western governments are seeking a budget which allows the revenue and spending ratios for governments to move to a more sustainable level, but not so urgently as to cost the country in terms of lost potential growth. Worse still would be a fiscal regime that proved so glutinous that the economy slumps into recession. Some national governments, either by choice, such as the UK, or by force of circumstance, such as Greece or Ireland, have made significant attempts to address their fiscal imbalances as of yet, but we expect to see a continual drip of measures throughout Europe and the US aimed at reducing fiscal imbalances. Doing nothing now may prove a vote winner in the short term, but the longer term repercussions are significant.

Interest rates

The present levels of nominal policy rates in the developed markets are essentially as low as they can be. As a result it is difficult to envisage that the next move of interest rates will be anything but in an upward direction. Over the past three years interest rate policy has been consistent between developed markets. In 2008 as the financial crisis spread, the probability of interest rate cuts grew significantly. In 2009 and 2010, the desperation for governments to keep interest rates low in order to relieve any pressure on the nascent recovery was clear. Moving into 2011 and with a broadly constructive view on the global economy raises questions over when interest rate policy committees may move back towards a tightening bias. Interest rates are the prime policy weapon in the armoury of governments to attempt to reign in over aggressive growth and inflationary pressures. The role of central banks is particularly difficult in a relatively weak recovery. The process of interest rate policy in the present state of global economies has been described as walking a tightrope between over tightening and being excessively dovish. The main fear of central banks is to tighten interest rate policy too aggressively as this could nip the recovery in the bud and push the economy into a Japanese style deflationary environment. Under this scenario, the real value of debt rises, making the repayments more difficult. This is clearly a scenario that the over indebted governments and consumers of the developed world wish to avoid. The simple solution would therefore appear to be keeping interest rates and monetary policy so accommodative that deflation becomes a near impossibility. This is not without problems, however as the blame for the dot com bubble has been to an extent apportioned to Alan Greenspan for keeping his 'foot on the gas' with an inappropriately low interest rate following the 1990s housing collapse. As a result, interest rate policy may be biased to the upside and it is not unforeseeable that the first tentative moves may begin in 2011, but it seems extremely unlikely that policy rates will approach anywhere near 'normal' levels in 2011.

Protectionism

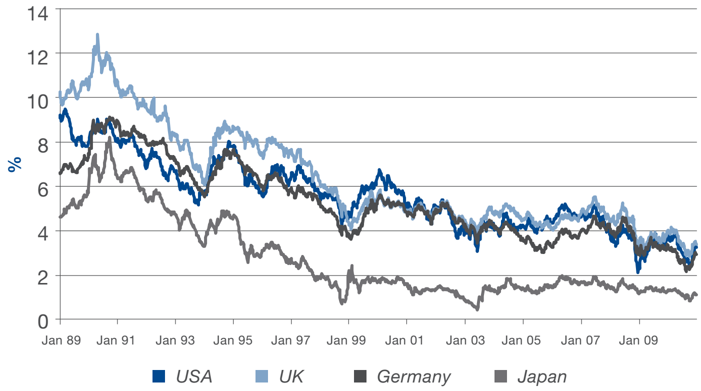
One risk that should not be ruled out is an increase in protectionist behaviour. Protectionism is the restriction of trade between states via the imposition of tariffs, quotas and other government regulations designed to restrict imports, or curb exports of certain core goods. Looking into 2011 a rise in protectionism would be more likely in the event of significant supply shocks or in instances where commodity prices continue to increase apace. Although it is traditional to think of emerging markets as the arch protectionists, this is not necessarily the case. The developed world is rife with quotas and tariffs, such as Europe's limits on imports of Chinese produced clothing. Protectionist behaviour also is often a vicious cycle as one economy tries to copy the 'success' of their neighbours at restricting trade. As things stand there have not been a material manifestation of protectionist tendencies following the financial crisis even though the conditions during and after the crisis were an easy opportunity for governments to embark on such measures. The damage caused by protectionism as a fetter to globalisation is a longer term phenomenon and

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. December 2010. Past performance is not indicative of future returns.

Forecast	Price to Earnings		Price to Sales		Price to Book Value		Price to Cash Flow		Dividend Yield	
	P/E 2011	P/E 2012	P/S 2011	P/S 2012	P/B 2011	P/B 2012	P/CF 2011	P/CF 2012	D/P 2011	D/P 2012
S&P 500	14.89	13.07	1.27	1.19	2.02	1.83	8.33	8.12	1.96	2.19
FTSE 100	10.69	9.61	1.13	1.08	1.73	1.56	7.23	6.65	3.59	3.96
DAX 30	10.85	9.65	0.66	0.63	1.42	1.30	5.96	5.55	3.63	3.97
Nikkei 225	18.05	15.71	0.60	0.57	1.29	1.22	7.42	6.85	1.74	1.78
Shanghai Comp	13.37	11.46	1.30	1.19	2.09	1.80	7.22	6.33	2.20	2.41
MSCI World	12.96	11.50	1.06	1.00	1.70	1.56	7.69	7.26	2.61	2.87
MSCI EM	10.60	9.34	0.77	0.73	1.29	1.20	5.69	5.25	4.18	4.62

therefore even if protectionism grows in the coming year, its impact on global GDP growth could be minor. The greater cause for concern for investors is that the market becomes anxious about the likely result of this protectionism and takes risk off the table. One topical potentially protectionist behaviour relates to the currency markets. Already a number of states are intervening in the currency markets in order to curb strength of their currency. There are a number of different ways in which a government may attempt to manipulate their currency from direct intervention, to controls over the flows of capital into a country, to banking regulations. The interventions to date have demonstrated how the actions of one economy can spill over to others as states with similar fundamentals follow each other's actions to prevent them becoming the latest target for speculative flows. Whilst it is in a sovereign state's interests to restrict potentially destabilising capital flows, steps to initially curb investment capital could quickly transform into greater trade restrictions.

Overall we remain constructive on the global economy and believe that a slow growth environment, coupled with only moderate inflation should provide an opportunity for the corporate sector to do reasonably well. Whether this translates into a good investment opportunity depends on market valuations. The second half of 2010 saw significant price gains for equity markets, but despite that forward looking valuation measures are not especially taxing.



Fixed income securities saw their yields rise in the latter stages of 2010 but they remain significantly below their longer term levels. In the scenarios outlined above, with the balance of probabilities suggesting that base rates should move up, the valuation of government securities in particular are not especially attractive. Investors must not ignore tail risks, however, and as markets demonstrated in 2008, government securities remain the ultimate deflation protection and therefore totally shunning government paper may be imprudent. In our portfolios we hold an overweight to credit and an underweight to government paper. This is due to the attractive yield pickup in the credit markets over the sovereign issues. Spreads of both investment grade and high yield names remain relatively attractive, with the former providing a reasonable government proxy with enhanced yield and the latter providing attractive running yield and greater sensitivity to risk rallies.

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. December 2010. Past performance is not indicative of future returns.

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