Weekly Review

Week ending 7th December 2012

With 21 days to go before the end of the year, time is running out for a last minute deal to avert the US 'fiscal cliff'. The term, coined by Federal Reserve Chairman Ben Bernanke back in February, refers to automatic measures to reduce the government's budget deficit, that were made legally-binding under the Budget Control Act of 2011. US lawmakers are now seeking to agree new legislation to reduce the impact of these automatic measures, which include increases to taxes alongside government spending cuts. The House of Representatives will remain in session until a solution is found, having previously been scheduled to adjourn on Friday 14 December.

Treasury Secretary Tim Geithner put forward a proposal from the Democratic Party two weeks ago, that would see cuts to healthcare spending balanced against tax hikes on top income earners. The Republicans duly responded with their own offer at the start of last week. The proposal includes plans to raise an additional USD 800 billion in tax revenues (but without raising marginal tax rates), an equal reduction in entitlement spending and a USD 300 billion cut to both discretionary and non-healthcare automatic spending. The differences between the two sides' positions remain of concern to observers, despite the announcement of this latest offer.

The lower than anticipated headline ISM figure (49.5 versus 51.4 expected), alongside a disappointing ADP employment report, saw US equities finish the week broadly unchanged. Elsewhere, major stock markets in Europe and Asia added circa 1% in local currency terms, whilst global emerging markets rallied by close to 2%. The Shanghai Composite index ended the week up by 4.1% in renminbi terms, after reports that China's new leadership plan to boost the rate of urbanisation in the country, paving the way for a new round of capital spending.

In the UK, George Osborne delivered the government's Autumn Statement on Wednesday. The Chancellor took money away from working age benefit claimants as well as top income earners, in order to reduce the tax burden on motorists and middle income workers. Despite the Chancellor saying that Britain was "on the right track", the Office for Budget Responsibility cut its forecast for UK growth to 0.1% this year and 1.2% in 2013, down from 0.8% and 2.0% previously. The government's economic forecasting arm is predicting that output will take until the end of 2014 to recover to its pre crisis level. The weaker growth outlook is expected to add GBP 105 billion to government borrowing by 2017, casting further doubt on the government's ability to meet its fiscal targets, without raising taxes or cutting public spending. Britain's credit rating is under scrutiny from Fitch, who stated that "missing the target weakens the credibility of the UK's fiscal framework, which is one of the factors supporting the rating".

The European Central Bank (ECB) lowered its forecast for Eurozone growth in 2013. At his regular monthly press conference, ECB President Mario Draghi said that a "gradual recovery should start later in 2013", whilst noting that the outlook for inflation was broadly unchanged despite the Central Bank's balance sheet activities. Eurozone GDP is forecast to contract by 0.3% in 2013, versus earlier forecasts for growth of 0.5%.

Greece saw its credit rating cut from CCC to SD (Selective Default) by Standard & Poor's on Wednesday night, after the ratings agency adjudged the government's plans to buy back its debt as being a distressed restructuring. In Italy, Mario Monti won a confidence vote on new budget laws without the support of former Prime Minister Silvio Berlusconi's People of Liberty (PdL) Party. The centre right party abstained from voting on two separate pieces of legislation, which focused on stimulating economic growth and cutting spending by regional authorities. On Friday, Berlusconi confirmed that he is planning to run for Prime Minister again, with the election date yet to be announced.

Source: Lipper Hindsight / Bloomberg. Returns in US dollars unless otherwise stated. December 2012

Returns to 7 December 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 7 December 2012	Month to date	YTD 2012
Developed Market Equities					
United States	S&P 500 NR	**USD**	0.2%	0.5%	14.5%
United Kingdom	FTSE All Share TR	**GBP**	0.9%	1.8%	12.2%
Continental Europe	MSCI Europe ex UK NR	**EUR**	1.1%	2.9%	18.6%
Japan	Topix TR	**JPY**	1.1%	5.3%	11.0%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	**USD**	1.3%	1.7%	23.3%
Global	MSCI World NR	**USD**	0.4%	1.3%	14.2%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	**USD**	2.2%	0.5%	19.4%
Emerging Asia	MSCI EM Asia NR	**USD**	1.2%	2.8%	18.2%
Emerging Latin America	MSCI EM Latin America NR	**USD**	2.3%	-1.6%	4.4%
BRICs	MSCI BRIC NR	**USD**	1.7%	0.6%	10.9%
South Africa	FTSE JSE All Share TR	**USD**	2.8%	0.5%	14.7%
Global emerging markets	MSCI EM (Emerging Markets) NR	**USD**	1.7%	1.3%	14.6%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.1%	0.6%	2.6%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.5%	0.5%	8.6%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.0%	-0.2%	9.9%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.9%	0.8%	15.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-0.3%	0.8%	2.8%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.1%	1.3%	13.1%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.2%	1.5%	10.0%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.5%	0.9%	13.1%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	1.0%	1.9%	25.7%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.2%	0.3%	2.3%
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.2%	0.0%	6.2%
Global Government Bonds	JP Morgan Global GBI	**USD**	0.0%	-0.1%	2.3%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.0%	0.0%	4.4%
Global Convertible Bonds	UBS Global Convertible Bond	**USD**	0.3%	0.9%	11.5%
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.4%	1.7%	17.5%

Source: Lipper Hindsight, December 2012

Returns to 7 December 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 7 December 2012	Month to date	YTD 2012
Property					
US Property Securities	MSCI US REIT NR	**USD**	1.5%	-0.5%	14.2%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	1.7%	1.4%	29.1%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-0.4%	2.1%	24.8%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	1.3%	-1.4%	30.8%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	1.3%	2.6%	41.1%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	**USD**	1.3%	1.0%	25.5%
Currencies					
Euro		**USD**	-0.6%	0.4%	-0.4%
UK Pound Sterling		**USD**	0.0%	-0.5%	3.1%
Japanese Yen		**USD**	0.1%	-3.1%	-6.6%
Australian Dollar		**USD**	0.5%	0.6%	2.3%
South African Rand		**USD**	2.4%	-2.1%	-6.9%
Swiss Franc		**USD**	-0.9%	0.5%	0.1%
Chinese Yuan		**USD**	-0.1%	0.2%	1.0%
Commodities & Alternatives					
Commodities	RICI TR	**USD**	-1.5%	1.8%	1.3%
Agricultural Commodities	RICI Agriculture TR	**USD**	0.2%	-0.9%	5.2%
Oil	ICE Crude Oil CR	**USD**	-2.6%	1.3%	0.3%
Gold	Gold Index	**USD**	-1.4%	0.4%	11.1%
Hedge Funds	HFRX Global Hedge Fund	**USD**	0.2%*	0.4%	2.8%*

* *Estimate*

Source: Lipper Hindsight, December 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).