



## Newsflash

A new month and the seventeenth issue of Viewpoint from FP.

This document will be made available on our improved website [www.financial-partners.biz](http://www.financial-partners.biz)

## Table of Content

<b>1. Focus</b>	<b>4</b>
<b>2. Strategic Portfolios / Harmony</b>	<b>6</b>
<b>3. Important Notes</b>	<b>7</b>

Produced in association with RMB Asset Management International Limited (trading as RMB Asset Management), authorised and regulated by the Financial Services Authority (UK).

November saw increasing levels of investor anxiousness, reflected by falling equity prices globally. This, coupled with a lack of positive sentiment, mixed economic data, and increased volatility cast a pall over markets for much of the month. Positively, equity markets managed to mount a strong, if late, recovery to see the month out. The final surge was not enough, however, as equity markets ended the month in negative territory.

Global equity markets returned -4.1% in November. The majority of major indices followed a similar pattern with a drawdown at the beginning of the month (in the region of -9% for the UK and USA), followed by a recovery for the final week of the month approximately halving the loss. Globally, sentiment has not recovered since the market lost momentum in mid-October and, at its mid-November low, the S&P 500 had returned to the same level as 15th August 2007, the turning point during the initial sub prime fall out earlier this year. One positive is that the market did stage a strong final week, perhaps masking some of the markets' volatility. Japanese equities returned -5.4%, and were therefore the worst performing major equity market. The US, Europe and the UK all provided similar results, returning -4.3%, -3.5%, -4.8% respectively.

Global government bonds benefitted from the turbulence in the equity markets. Within Citigroup's World Government Bond Index only Malaysia and Poland posted negative returns in local currency terms. The strongest performer in total return terms

were US Treasuries which increased by 3.0%. This is due to the US government's status as the strongest credit in the world, and therefore the safest haven for investors when uncertainty increases and confidence drops. Other apparent themes amongst returns were strength for commodity related bonds with Canada, Australia, Denmark and Norway performing well. Perhaps this is due to investors cutting their interest rate outlook for these countries as they perceive global growth to slow going forward, denting demand for oil. Another possible cause is that these economies are viewed as strong and dependable meaning that they are unlikely to default. Finally, UK gilts performed well returning 1.8% in local currency terms to investors as the markets priced in rate cuts in the UK.

Global property has suffered of late as investors grow wary of high funding costs (despite some interest rates being cut by central banks) relative to rental yields. LIBOR rates for euros, US Dollars and Sterling are currently high as potential borrowers eye potential lenders cautiously. This, coupled with a possible fall in demand in certain quarters going forward paints a negative picture for global markets, especially the US and UK commercial market. Direct property investment funds, such as many schemes available in the UK, are yet to be fully affected by this, and more detail is provided in Focus, below. The securitised market however, such as REITs and listed property companies have already had a negative scenario priced into their market value. As a result UK listed property fell -9.5% in November, Europe ex UK fell -8.0%. The US was also poor, returning -9.5%. Asia fared better, returning -6.0%, thereby outperforming the other regions. These falls were not reflected in the direct investment space, with the UK's IPD index falling only -1.5%.

Commodities performed poorly in November compared to recent results due to a combination of several factors. The first is the matter of perceived demand going forward. As the growth of the global economy becomes less clear investors are not as willing to price in continued strong demand for commodities in the futures market. A second, relatively positive, reason for a fall in prices is that there are not currently major supply side worries. Tensions in the middle east are not especially high, the late summer's 'natural disaster' season passed without major disruptions to production, and finally, while commodities are still generally expensive from an historical perspective, there are still

plenty of companies willing to produce output. Oil fell -6.2% in November, but remains up 45% year to date. Gold returned -0.8% in the month, but it still up by almost a quarter year to date, and palladium returned -6.0%. The agricultural commodities bucked the trend returning 1.7% in November. Wheat futures posted strong gains, returning 6.8% and other notable performers were soybean futures, up 5.5% and coffee futures, up 3.0%.

Emerging Markets equity proved less resilient to the global volatility than they have recently, returning -7.1% to investors. The fact that the emerging markets underperformed the developed index suggests that in November investors were more comfortable with the perception of more defensive characteristics provided by the developed markets at times of pronounced uncertainty. The performance of the Emerging Markets in November also reduces somewhat the decoupling arguments that have appeared more pertinent recently. It is clear that the Emerging Markets are more independent from the developed world than previously, but this does not mean that EM equities are properly isolated from developed market sentiment. Within the universe, strong performers in local currency included Indonesia (+3.2%), Russia (+1.7%) and Colombia (+5.2%). Unfortunately these three were the only positive performers and only account for approximately one tenth of the index. Large negative performances were posted by China and Taiwan, which both broke with recent form by returning -13.1% and -11.6% respectively.

In November the US Dollar managed to provide some respite from its recent falls. The Canadian Dollar and South African Rand effectively 'gave back' their gains of last month returning -5.6% and -3.8% respectively. The Japanese Yen provided the month's strongest performance against the US Dollar, returning +3.9%, driven by the closure of carry trades as investors sought to reduce their foreign currency exposures as the markets became more volatile.

November's final week to some extent masked what was a difficult month for equity investors. Major and emerging stocks fell and so did so called 'hard' commodities and listed property. November highlights why investors should retain a proper level of diversification within their holdings of both asset classes and currencies as this will, over time enhance the risk adjusted return. There are times where a diversified pool of assets will have a

bias towards negative performance and others where the bias is more positive. In November, investors who held an allocation to government bonds, agriculture and a diverse group of currencies

will have been able to mitigate their losses, whereas investors with less diversification ran the risk of experiencing negative returns from all of their asset classes in exceptional months such as this.

## Asset Class Performances

Asset Class Performance (%)	Nov 2007	2007 YTD
US Equities \$	-4.3	5.7
UK Equities £	-4.8	5.0
Cont. European Equities €	-3.5	6.2
Japanese Equities Yen	-5.4	-7.8
Global Equities \$	-4.1	10.5
Global Emerging Markets Equities \$	-7.1	38.9
US Bonds \$	3.2	9.1
European Bonds €	0.6	2.1
Japanese Bonds Yen	0.7	2.4
Global Bonds \$	2.2	10.2
US REITs (property) \$	-9.5	-12.2
FTSE Real Estate £	-9.5	-35.1
FTSE EPRA Real Estate ex UK €	-8.0	-20.3
Euro vs. US Dollar	1.5	11.3
Sterling vs. US Dollar	-1.0	5.1
Yen vs. US Dollar	3.9	7.4
AUD vs. US Dollar	-4.6	12.2
Rand vs. US Dollar	-3.8	3.7
Commodities \$	-3.7	25.4
Oil \$	-6.2	45.3
Gold \$	-0.8	23.4

\* Source: Bloomberg, Lipper

## Focus: The UK Real Estate Market

The global property markets have been affected by the recent viscosity of the credit markets. Investors in property have reappraised their valuations as credit becomes far less plentiful, lending terms are more conservative, and borrowing is expensive (despite rate cuts). All of these factors have reduced the amount of direct property deals undertaken in recent months, giving valuers a dearth of deals off which to value property portfolios. In the medium term not all of these effects are inherently negative with, for example, conservative lending terms being generally preferable to the overly liberal. From the perspective of sentiment there has also been plenty of indirect harm caused to the property markets. The above direct effects coupled with a marked change in investor expectations for the asset class and much newsprint dedicated to the purportedly worsening scenario have caused net redemptions in property funds in the last couple of months. The UK has experienced a bull market in property with record contributions to funds and strong capital growth. Now UK direct property prices are adjusting to take account of higher funding costs and this is impacting fund performance.

The Financial Times reports that “net outflows are still accelerating”, and that data from Cofunds, a UK retail platform, suggest that £9m of investor money was withdrawn from the five largest property funds in November via the Cofunds platform alone, with £4m removed in October. In the seven months to July, these funds had experienced net inflows averaging £13m per month. Therefore there are two effects that investors should be aware of. The first is the possibility that the direct property holdings underlying these funds may be written down. The second effect, which is to an extent consequent of the first, is that currently more investors are tending to redeem from these funds than to subscribe. In anticipation of net withdrawals, property funds will hold a section of their portfolio in cash or liquid assets. Now, for the funds where this buffer has diminished, the effect of further net redemptions is the need to raise capital by selling property.

To compensate for the liquidity mismatch a number of institutional property funds have extended their redemption periods significantly. Hitherto, many institutional property funds had ‘reasonable’ redemption periods which usually would have

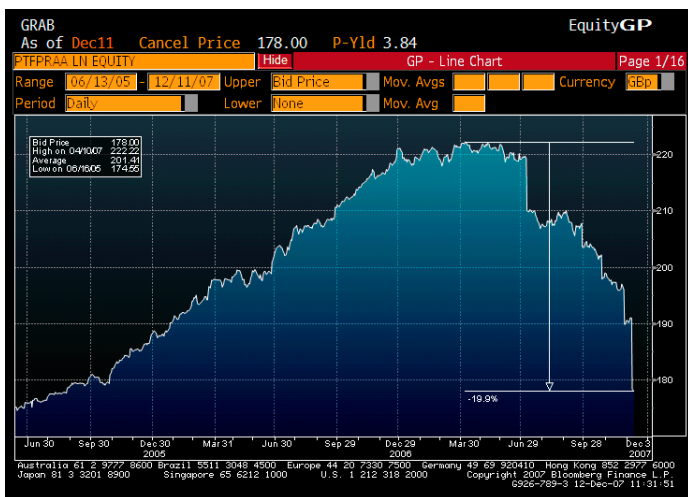
allowed an orderly redemption. Where the fund has experienced large net redemptions and the market for physical property transactions has dried up, the redemptions may not be met. As a result, redeemers from certain institutional funds run by Deutsche Bank, UBS, Morley and Schrodgers will need to wait “up to a year”, according to the FT, to withdraw money. This has become necessary as a result of the liquidity mismatch between physical property and the overlying funds in which they are owned. Under normal market conditions property transactions are somewhat drawn out. Under the current conditions, where the property market is low on conviction, debt is expensive and many traditional purchasers of property are out of the market, deals could be very slow. Furthermore as there are few trades in the market, those who have to trade have no other valuations to benchmark their trade against. As a result buyers are demanding reduced prices whilst many sellers are holding out for a better deal. Retail investors should pay heed to this as if retail funds continue to experience redemptions in this manner a similar scenario could ensue. One reason why property funds will not wish to impose such limits is the fact that they will have to be granted permission by the FSA, which is not an appealing option.

The ultimate concerns for investors are the reasons for this situation and whether their funds could be affected. The problem with property funds presently can be reduced to two issues. The first is the mismatch between the liquidity of the underlying assets and the liquidity of the units in the funds. Many of the retail funds are open ended, and offer daily or weekly dealing. This liquidity contrasts with the liquidity of the underlying property assets which cannot be said to be daily dealing. Other types of funds such as equity funds have no real liquidity mismatch of this sort, a share with reasonable liquidity can be sold every day and therefore if an investor redeems and there is insufficient cash, to fund the redemption, shares are sold back into the market.

This liquidity mismatch is a concern that property funds are aware of. As mentioned above, in order to compensate for the illiquidity of direct property holdings, many funds will have an allocation to shares such as REITs and cash. The reason that funds do not hold more of these securities is that it is a more

impure way of holding property and is as a result subject to the volatility of equity markets. This volatility does, however, largely drop out of the picture over the long term and securitised property returns have an increasing commonality with direct property investments. In creating the RMB MM Global Property fund, the concerns regarding volatility were deemed secondary to the liquidity mismatch. As a result, 90% of the fund is invested in funds of property equities, with only 10% in a fund of direct real estate. This philosophy has resulted in two beneficial results for our investors. The first is that as the RMB Global Property fund does not have allocations to the funds which are most likely to experience a large devaluation, and secondly, investors who wish to add to or redeem from their holdings will not be affected.

*New Star UK Property Unit Trust Acc Price Graph*



Retail funds may have so far been spared the curtailment of their redemption activity, but they have not fared so well from a valuation perspective. The Norwich Property Trust has cut the valuation of its properties by 7%, Resolution Asset Management's property fund has been written down by 7.7%. New Star (left) hit the UK headlines in early December by devaluing their assets by 8.2% in November, giving a return for the fund of -17.8% since July 2007. New Star suggests that "in recent days sentiment has deteriorated sharply, partly as a result of the publicity given to redemptions". Direct UK property funds that have not re-priced have either uniquely immune asset allocation, or they are likely to do suffer write downs as their portfolio is re-valued.

By way of a conclusion, it should be noted that commercial property in the UK and US is not as oversupplied as has been the case in previous property bear markets. Ultimately this modest supply of property will provide support for valuations, where this support level lies, however, is less clear. Currently, therefore, concern is more a function of dropping demand. There are two different sources of demand with separate influences which are of interest here. The first is the demand for ownership of these actual properties. Looking at the investment community alone, the reliability of net inflows into the sector will not be a given for some time to come. As a result, buy-side demand is likely to drop until valuations become compelling for hedge funds and private equity participants. In the meantime, investors must hope that sell-side supply does not increase significantly, supporting valuations. A second pertinent supply and demand dynamic is that for space by occupiers. Currently the level of capacity utilisation in commercial properties in developed cities is reasonably solid. Business in general is not necessarily related to the sub prime fall out which has occupied investors' thoughts for the last few months. Despite that there is one heavy user of office space that may see their requirements dropping: the financial sector will experience a loss of revenues as their banking functions experience a drop in popularity in the short term.

Investors should remember that direct property funds will have a liquidity mismatch between the dealing terms of the fund and the underlying holdings. If investors wish to redeem, they should be aware that there is a chance of the terms moving against them and the redemption period increases, or the price that they receive for their holdings is low. From a consensual perspective, many investors believe that the UK and US property market should turn at some point in 2008, but that will require a catalyst. That catalyst is likely to be large non-forced transactions which reassure the market. There is less agreement, however, on when in 2008 this catalyst will become apparent.

**James Klempster**

Assistant Portfolio Manager  
james.klempster@rmbam.com  
Tel: +44 (0)207 939 1762

## Strategic Portfolios

Portfolio	Month	12 Months
USD Conservative	-0.21%	6.79%
USD Balanced	-1.15%	7.85%
USD Growth	-1.80%	10.45%
USD Alpha	-3.05%	10.59%
EUR Conservative	-1.54%	0.63%
EUR Balanced	-2.38%	1.31%
EUR Growth	-3.08%	4.13%
EUR Alpha	-4.36%	3.38%
GBP Conservative	-0.49%	4.02%
GBP Balanced	-1.46%	4.64%
GBP Growth	-2.30%	6.48%
GBP Alpha	-3.70%	5.58%
AUD Conservative	1.34%	5.41%
AUD Balanced	0.90%	6.14%
AUD Growth	0.64%	10.58%
AUD Alpha	0.81%	12.84%
JPY Conservative	-2.30%	3.65%
JPY Balanced	-4.35%	-0.58%
JPY Growth	-4.01%	1.56%
JPY Alpha	-4.30%	0.08%
ASIAN Balanced	-1.945	(i)
ASIAN Growth	-1.40%	(i)
ASIAN Alpha	-1.54%	(ii)

Figures as of November 2007.

(i) Launched Dec-06

(ii) Launched July-07

## Harmony

Portfolio	Month	12 Months
USD Balanced	-1.56%	7.64%
USD Growth	-2.22%	8.93%
EUR Balanced	-2.33%	4.60%
GBP Balanced	-1.18%	3.78%
GBP Growth	-2.31%	5.26%

Figures as of November 2007.

Prior to the Inception Date of the Fund, the Portfolio was managed as a Strategic Portfolio, maintaining the same investment policy. The historical performance of the Strategic Portfolio is shown up to 30 June 2007, during which the Fund was in transition. Performance net of all investment management fees. Benchmark data source: Lipper Hindsight.

## Important Notes

RMB Asset Management is the trading name for RMB Asset Management International Limited. 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 provided under UK law, RMB Asset Management 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).



**RMB Asset Management International Limited** (Company Registration No. 3733094) is authorised and regulated by the Financial Services Authority and is a member of the FirstRand Group, and has its registered office at Two London Bridge, London SE1 9RA.

© RMB Asset Management International Limited 2007

*The contents of this publication comprise several extracts from the monthly Viewpoint publication of RMB Asset Management International Limited, used with the latter's consent. Please note that RMB Asset Management International Limited does not separately approve the contents or accuracy of this publication, nor does it vouch for the accuracy of information so extracted, and accordingly takes no legal responsibility for the accuracy or completeness of any information contained herein.*