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VIEWPOINT

Newsflash

A new month and the 63rd issue of Viewpoint from PPi.

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Markets followed a v-shaped path in December, moving lower at the start of the month as fears mounted over the outlook for growth in Europe, before rallying in the lead up to the year end. The MSCI World Index was 4.1% lower for the month by the 19th of December, but rebounded to close broadly in line, spurred by the enhanced credit operations of the European Central Bank (ECB) and signs of economic strength emanating from the US.

In this month's Focus we reflect on the wide variations in asset class returns during 2011, with emerging market equities having significantly underperformed their developed peers, whilst equities in aggregate lagged the returns on core developed market government bonds.

Anticipation built in advance of yet another EU summit at the start of the month, with various plans proposed for arresting the potentially vicious cycle between government debt, the banking sector and the real economy. On the eve of the summit, Standard & Poor's placed 15 EU countries on review for downgrade, singling out France for a possible double-notch downgrade. Attendees agreed plans for greater fiscal integration to complement the zone's existing monetary union. Whilst limits on government borrowing were drawn up at the outset of the euro project they were never officially ratified, leaving member governments with unsynchronised levers at their disposal in terms of monetary and fiscal policy.

In November 2003, having exceeded the limits on annual borrowing, Germany and France voted in the Ecofin Council against sanctions proposed by the European Commission (EC), with the result that no action was taken. Under new proposals a majority will be required in order to reject any decision by the EC in future.

Britain was a lone voice against revision of the Lisbon Treaty, after prime minister David Cameron failed to gain the concessions for London that he sought. The UK economy is more heavily reliant on its financial services industry than its neighbours, meaning that any tax on financial transactions – as proposed by summit attendees – would be felt more acutely in Britain than other parts of the EU. Political rivalries smouldered post the vote, with Bank of France governor Christian Noyer launching an extraordinary attack on the creditworthiness of the UK government, suggesting that Gilts were more deserving of a downgrade than French OATs. At its outset the euro project was foremost a political venture, underlining the strong desire for enhanced cooperation amongst war-weary European neighbours, but in difficult times old tensions and alliances seem likely to re-emerge.

EU leaders' hopes of using the IMF as a vehicle for new lending from abroad, including large emerging market countries, appear to have been frustrated in the near term. Whilst countries including Germany and Japan have indicated their willingness to make new contributions to the international lender, they were quick to emphasise that any action would be conditional on commitment from others. The last round of funding for the IMF, agreed in 2010, has yet to materialise in full, with the US one of many countries still to pay their additional contributions.

Meanwhile Europe's fiscal position remains precarious. Calls for increased purchases of sovereign bonds by the ECB have been consistently rebuffed by German politicians. Any expansion of the money supply is potentially inflationary, awakening painful memories of hyperinflation during the 1920s for German politicians and voters alike. The ECB's stance remains unclear: having hinted in the build up to the summit that greater fiscal integration would help it to do more, the Bank subsequently ruled out enlarged purchases. Data on settled purchases of government debt by the ECB suggests the institution has so far resisted calls to increase its buying programme. Whilst ruling out financing sovereigns, the ECB offered considerable support to the banking sector, announcing the issue of three year repurchase agreements, alongside relaxed rules over assets eligible as collateral for such deals. The Bank lent EUR 489 billion to some 523 EU banks during December, which significantly surpassed economists' expectations for demand of EUR 293 billion.

The ECB's actions appeared to prompt a change in sentiment that drove markets higher over the second half of the month. Economic data, published immediately following the end of the month, confirmed a general uptick in economic activity post November's lows. In the US, the ISM manufacturing survey came in ahead of expectations at 53.9, implying the fastest rate of US expansion in six months. Data from purchasing managers in Europe rebounded, rising towards par at 50 whilst still indicating a moderate contraction in activity last month. Seasonally adjusted unemployment in Germany fell by 22,000 to 2.89 million in December, according to the Federal Labor Agency, its lowest level since reunification more than 21 years ago. Warmer than usual weather last month was credited with the fall in unemployment, as construction companies elected to take on more workers.

Chinese inflation has moderated since peaking in July, with headline consumer price growth falling to 4.2% year-on-year in November from 5.5% the previous month. Chinese house prices declined for the fourth consecutive month in December, alongside falling transactions volumes. Residential prices fell by 0.3% from November's level, according to data from SouFun Holdings Ltd, China's biggest real estate website owner.

The MSCI World Index fell 0.1% during December in US dollar terms. Emerging markets declined by 1.2% over the same period. This monthly variation in returns between traditional and emerging equities was indicative of a broader trend during

Source: Momentum Global Investment Management December 2011

2011, as emerging markets (EM) lagged their developed peers by 12.9% over the year. Emerging Europe underperformed other regions within EM during December, whilst the BRIC quartet fell by 2.2% in aggregate. The EM premium, generally attributed to countries' faster rates of trend growth, has fallen in 2011 on a price to book basis.

Global government bonds gained 1.0% In US dollar terms during December, according to the JP Morgan Global Government Bond Index. Government bonds have added 7.2% over the past 12 months, significantly ahead of the returns from equity markets. Yields on 10 year US Treasuries began the year 3.3%, before grinding lower driven by concerns over the macroeconomic outlook and technical factors including accelerated central bank purchases. Risks are apparent in these extended valuations: in the event that yields fall to Japanese levels, holders of 10 year US Treasuries stand to earn only modest returns; under the alternative scenario that a degree of normalisation takes place in bond markets, holders may loose significantly more. UK Gilts gained 2.0% during December, ahead of US Treasuries (+1.0%) and Japanese government bonds (+0.7%).

US property securities gained 4.5% in December, outpacing other regions and bringing year to date returns to 7.5%. UK property securities, the best performing region up to the end of July, finished the year down 7.9% in sterling terms, dropping 5.1% in December alone. The global aggregate gained 0.9% in December, ahead of the broader equity markets.

Commodity markets responded to the rising tensions between Iran and the West in the lead up to the year end. On the final day of 2011, President Obama signed sanctions against Iran into law, barring access to the US financial market to any institution found to be doing business with the Iranian central bank. Iraq was rocked by multiple explosions following the withdrawal of American troops on 18 December. Similarly, unrest has sprung up in parts of Nigeria in recent weeks. The threat of supply disruptions in the oil-rich MENA region, along with lower US inventories and tentative signs of an uptick in activity contributed to a 5.7% rise in oil prices during the final two weeks of 2011. Gold fell by 12.3% during December, to USD 1,563.7 per troy ounce. Gold bulls saw their gains eroded from a peak of 33.8% during September, to 8.5% by year end.

Source: Momentum Global Investment Management December 2011

Asset Class Performances

Asset Class/Region	Index	Currency	To 30 December 2011 Month	Year to date
Developed Markets Equities				
United States	S&P 500 NR	**USD**	1.0	1.5
United Kingdom	FTSE All Share TR	**GBP**	0.8	-3.5
Continental Europe	MSCI Europe ex UK NR	**EUR**	1.2	-12.4
Japan	Topix TR	**JPY**	0.1	-17.0
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	**USD**	0.0	-15.4
Global	MSCI World NR	**USD**	-0.1	-5.5
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	**USD**	-9.7	-23.7
Emerging Asia	MSCI EM Asia NR	**USD**	0.7	-17.4
Emerging Latin America	MSCI EM Latin America NR	**USD**	-1.6	-19.4
BRICs	MSCI BRIC NR	**USD**	-2.2	-22.8
Global Emerging Market	MSCI EM (Emerging Markets) NR	**USD**	-1.2	-18.4
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	1.0	9.9
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.1	14.0
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	2.1	8.1
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	2.7	5.0
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	2.0	16.8
UK Corporate (Investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	2.1	7.1
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	4.0	3.4
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	2.6	1.5
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	2.9	-2.5
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.7	2.3
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.9	14.4
Global Government Bonds	JP Morgan Global GBI	**USD**	1.0	7.2
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.6	5.6
Global Convertible Bonds	UBS Global Convertible Bond	**USD**	-0.7	-7.0
Emerging Market Bonds	JP Morgan EMBI +	**USD**	1.3	9.2

Source: Momentum Global Investment Management / Bloomberg / Lipper Hindsight. December 2011.

		To 30 December 2011		
Asset Class/Region	**Index**	**Currency**	**Month**	**Year to date**
Property				
US Property Securities	MSCI US REIT TR	**USD**	4.5	7.5
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-5.1	-7.9
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	0.5	-11.5
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-2.6	-2.0
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-1.9	-19.6
Global Property Securities	FTSE EPRA/NAREIT Developed CR	**USD**	0.9	-5.8
Currencies				
Euro		**USD**	-3.6	-3.2
Sterling		**USD**	-1.2	-0.7
Yen		**USD**	0.9	5.4
Australian Dollar		**USD**	-0.2	0.0
Rand		**USD**	0.3	-18.1
Commodities				
Commodities	RICI TR	**USD**	-1.8	-6.9
Agricultural Commodities	RICI Agriculture TR	**USD**	2.5	-15.5
Oil	ICE Crude Oil CR	**USD**	-2.5	15.1
Gold	Gold index	**USD**	-12.3	8.5
Interest Rates			**Current rate**	**Change at meeting**
United States	13 December 2011	**USD**	0.25%	-
United Kingdom	8 December 2011	**GBP**	0.50%	-
Eurozone	8 December 2011	**EUR**	1.00%	-0.25%
Japan	21 December 2011	**JPY**	0.10%	-
Australia	6 December 2011	**AUD**	4.25%	-0.25%
South Africa	11 November 2011	**ZAR**	5.50%	-

Source: Momentum Global Investment Management / Bloomberg / Lipper Hindsight. December 2011.

Focus: 2011 – A turbulent year

2011 brought with it a remarkable combination of events presenting repeated challenges for market participants. The year has seen a rapid succession of both independent and interlinked events which, when considered in isolation are notable, but presented together form a rather daunting list. This Focus section draws together the major events of the past year, whether they be political, economic or humanitarian in nature. All in all, 2011 was a challenging year for all and is sure to be a year that few forget in a hurry.

The Arab Spring

The year began with only murmurings of discontent in the Middle East and North Africa (MENA) bubbling to the surface, but the levels of protest found new impetus as the movement spread rapidly through social media. By February the momentum was irresistible in both Tunisia and Egypt, with both governments falling to popular revolt. Other states located nearby also saw similar discontent from the general public, including Bahrain, Yemen and, more worryingly, Iran. Whereas the Tunisian and Egyptian uprisings were home grown, the movement in Libya required a degree of international intervention as it became apparent that the earlier revolutions would not be so easily repeated elsewhere. In March, Libya's crisis came to the fore as the UN declared the imposition of a 'no fly zone' to be enforced by NATO. The Libyan leader, Muammar Gaddafi, maintained the loyalty of his military and as a result managed to hold on to power for many months before his capture and eventual death. Gaddafi's very public demise was greeted with scenes of jubilation throughout Libya and no doubt a touch of relief by Western governments, for whom military operations were in danger of becoming drawn out.

Despite a gradual shift from the front pages of the newspapers, tensions remain elevated in North Africa and parts of the Middle East, with particular concerns re Iran and Nigeria presently. In Nigeria, Islamic extremists have mounted attacks against a variety of targets in recent weeks. Iran is accused by the UN of trying to build a nuclear bomb. President Obama signed sanctions against Iran into law on the last day of 2011, barring access to the US financial system to any bank found to have dealings with the Iranian Central Bank. European leaders are expected to introduce similar sanctions at their next meeting at the end of January, as well as imposing a full oil embargo on Iran, which will impede the global supply of oil.

Japan's nuclear disaster

Concurrent with geopolitical tensions, the year also witnessed catastrophes of nature's making. Within the first quarter alone there was flooding in Queensland and an earthquake in Christchurch, leading to casualties and disruption. A more severe catastrophe came in the second week of March as the largest earthquake ever recorded in Japan caused significant damage and the loss of thousands of lives. The situation was exacerbated by the ensuing tsunami which destroyed huge swaths of land and infrastructure in the region. The most menacing impact was that the flood stopped the functioning of the cooling systems in several reactors of the Dai-Ichi nuclear plant. For a while, news bulletins were dominated by live images of the stricken plant whilst, from within, the selfless actions of workers averted a significant nuclear event. Although the ad-hoc maintenance was adequate to avoid any major explosive emission of radioactive material, huge levels of radiation were emitted in a more passive manner, and the longer term environmental impact may take many years to become clear. Despite the significant humanitarian impact and the broad area of destruction, the medium to long term economic impact of the disaster need not necessarily be negative. Prior to the earthquake, Japan's economy was in a stable position, but nonetheless burdened by well documented structural issues; most notably the challenging demographics, poor GDP growth, little or negative inflation and outstanding public debt at more than double GDP. It is hoped that the need to rebuild can provide a fillip to GDP and Japan's embattled corporate sector.

The crisis in Japan has led many other states that use nuclear energy to enter into a period of soul searching with respect to their long term energy plans. Indeed Germany has decided to phase out all of its existing reactors and has purportedly

Source: Momentum Global Investment Management December 2011

scrapped plans to build new ones. The value of such a move and the potential unintended consequences will only become clear with time. The moves are somewhat surprising given the elevated price of fossil fuels, attendant risks over the security of supply, especially with regards to oil, and a lack of credible green energy alternatives. In the immediate term the likely impact of such a move will be to provide demand support for oil and other fossil fuels.

European sovereign debt concerns

Whereas the first quarter of the year was dominated by geopolitical tensions in the Middle East and North Africa, as these concerns abated, ongoing peripheral European debt issues returned to dominate the headlines. Spreads for the peripheral states continued to widen, making their debt financing evermore burdensome. The region's sovereign debt woes proved to be the most influential theme with regards to investor sentiment in 2011. Whilst the peripheral European sovereign debt saga remains relatively contained at present, it serves as a constant reminder of the dangers of profligacy and leverage for any institution unable to print money in order to avert a debt crisis. Throughout the year the issues in Europe regularly threatened to spill over into global economic problems. The markets watched anxiously as a number of peripheral yields moved relentlessly upwards. At times through the year, European politicians and other policymakers appeared almost nonchalant towards the growing consternation of observers from outside of the region. Perhaps this was an exercise of controlled inefficacy, however, as each time genuine crises seemed imminent, the region did just enough to prevent truly catastrophic problems.

The fourth quarter brought with it new initiatives to tackle Europe's debt crisis, but not before conditions had appeared to worsen. The failure of a Bundesbank auction during October was interpreted by commentators as a sign that the crisis was spreading to the region's core. As a result, the hitherto relatively constrained spread of French yields over German bunds rose over the course of the quarter, whilst Italian and Spanish government debt reached highs of 7.26% and 6.70% respectively during October. At the start of the quarter, EU officials drew up a three-pronged plan for dealing with the region's debt crisis, involving some debt forgiveness for Greece, increased resources for the European Financial Stability Fund, and regulations to force EU banks to raise new capital. Despite the apparently sympathetic treatment of Greece by other European heads of state, the plans quickly unravelled as Greek premier George Papandreou announced a national referendum on adopting the new austerity plan, which quickly morphed into a vote on Greece's continuing participation in the euro project. The euro's ultimate taboo was broken when German Chancellor Angela Merkel affirmed that Greece would have to determine its continuation in the monetary union, the first time the prospect of a country leaving the euro had been publicly mooted by an individual of such standing. Germany's Christian Democratic Union subsequently passed a motion to allow the voluntary exit of countries from the euro area. Greek politicians moved swiftly to avoid this outcome, with President Papandreou eventually making way for a government of national unity. Creditors are currently in Greece to finalise the terms of the country's second bailout, expected to involve the exchange of existing bonds for one part in cash and the remainder in new issues, subject to some form of credit enhancement.

Printing presses continue to run

In June the US's second bout of Quantitative Easing, or QE2, came to an end. Although this event was not a surprise for the markets, it is interesting to note the lack of fanfare that accompanied the end of this latest round of liquidity creation. The withdrawal of the initial bout of QE preceded a market slump which was seemingly reversed only by the advent of QE2. Investors will be hoping that the markets prove more resilient this time as the Fed has not signalled any particular willingness for a wholesale resumption of QE although through activities such as 'Operation Twist' the Fed has indicated that it is prepared to act should conditions deteriorate materially.

Despite the end of US QE, policymakers remain committed to promoting growth and ensuring the orderly functioning of markets. In September, US President Obama announced plans to create new jobs by injecting USD 447 billion into the US economy through a combination of tax cuts and increases to spending. The American Jobs Act proposed the halving of payroll taxes on the first USD 5 million of companies' payrolls, alongside a full payroll holiday for added workers or increased wages.

Source: Momentum Global Investment Management November 2011

The Federal Reserve Open Market Committee added its own shot of stimulus, unveiling plans to purchase USD 400 billion of longer-dated US Treasuries by 2012. The Federal Reserve will sell shorter dated securities in order to purchase bonds with maturities of between six and 30 years, in a move aimed at reducing longer term borrowing costs in the US. In the UK, the Bank of England returned to quantitative easing towards the end of 2011, unveiling GBP 75 billion of new Gilt purchases.

In June / July the US's triple-A rating was downgraded and although this had little (if any) impact on the market's demand for US sovereign paper, it reflects the increasingly parlous state of the US's finances, confidence in which has not been aided by America's political intransigence on the matter. Despite the downgrade, the yield on the US 10 year Treasury bond fell from 3.29% at the start of 2011 to 1.88% by year end.

In December, EU officials agreed a new Stability and Growth pact, despite the failure of existing fiscal rules. The move was interpreted by many commentators as an attempt to encourage the ECB to step up its purchases of distressed sovereign debt. German politicians remain extremely sceptical of aggressive priming of the monetary system, awakening memories of hyperinflation under the Weimar Republic in the 1920s. Whilst ignoring calls for more aggressive purchases, the ECB offered financing aid to the Eurozone's banking sector, in the form of long term repurchase agreements. Loans worth EUR 489 billion were extended to some 523 banks during the third week of December. Italian and Spanish bonds stand to gain by virtue of relaxed rules over assets eligible as collateral for these deals.

Central bankers walk a policy tightrope...

Many economies and their respective policymakers remain in uncharted territory, as global markets continue to be distorted by negative real interest rates and a surge of liquidity from quantitative easing programmes. Central bank reactions have already varied widely, due to both the underlying strength of their economies and the nature of their inflation target. As a result of perceived economic strength, coupled with rising inflation, the ECB complied with market expectations and became the first of the main central banks to hike interest rates, increasing their main refinancing rate by 25 basis points in both April and July to hit 1.50%. The ECB demonstrated its stridently anti-inflationary stance in increasing rates in July 2008, and this latest tightening cycle was equally bold, and arguably as ill conceived. Jean-Claude Trichet was succeeded by Italian Mario Draghi in November and it is suggested that this appointment could see a reduction, albeit tacitly, in the myopic use of inflation targeting by the ECB. The Bank climbed down from its tightening cycle, announcing rate cuts in October and again in November.

...as European leaders walk a political tightrope

Political change in Europe during the final quarter began with the resignation of Greek Prime Minister George Papandreou. He was followed by Silvio Berlusconi. Italy's prime minister resigned on 12 November, after Italy's parliament successfully passed large parts of the reforms demanded. Mr. Berlusconi had earlier bowed to pressure from both inside and outside of the country by announcing his departure, after losing his majority in parliament in a vote to close the 2010 budget. Mario Monti, former European Commissioner, succeeded Mr. Berlusconi as Italy's prime minister, heading a technocratic government tasked with leading the country out of its debt crisis. Spain's ruling socialist Party was defeated by the centre-right Popular Party during November, with Mariano Rajoy installed as prime minister. Slovakian premier Eva Radicova similarly lost a vote of confidence in the incumbent administration.

Whilst not a head of state, Dominique Strauss-Kahn's arrest and subsequent resignation from his role as head of the International Monetary Fund (IMF) created another unusual story for markets to grapple with in 2011. Despite seeing the charges against him dropped, after his counsel successfully cast doubt on the character of the individual making allegations against him, Mr. Strauss-Kahn's political ambitions within France (he was a forerunner to lead the French Socialist Party) are at an end along with his career at the IMF. Christine Lagarde succeeded Mr. Strauss-Kahn as head of the IMF in July, providing a degree of stability to an institution of significant importance in the ongoing European sovereign crisis.

Source: Momentum Global Investment Management November 2011

Concerns over China's economy

The growth of the Chinese economy is important for both countries in the region and the global community. As such, data on the country's non-performing loans, housing market and inflation continues to attract close attention. China's official Purchasing Managers' indices for both manufacturing and non-manufacturing firms remained comfortably above 50 in September, indicating expansion, although cyclically adjusted measures were less positive. China's sovereign wealth fund intervened in the country's stock market post the quarter end, providing a timely boost to the banking sector in particular. The decision suggests that officials in Beijing may be moving away from their tightening stance, with moderating food price inflation allowing for greater policy flexibility. China's PMI rebounded to above 50 in December, having fallen to 49.0 the previous month, its lowest level in over two and half years. House prices in the People's Republic declined for the fourth consecutive month in December, alongside falling transaction volumes. China may be forced to move away from its tightening stance in the property market, which has included higher deposits and stricter lending standards, if the data continues to soften.

A quiet year for M&A, but one big IPO

A bad bout of macroeconomics need not necessarily translate into a bad time for the corporate sector. This was demonstrated in part by the largest corporate action undertaken in the second quarter, the now famous IPO of the world's largest commodity trading company, Glencore, whose business is built on trading commodities globally, as well as other commodity related assets such as ships and mines. The Swiss company listed on the London and Hong Kong stock exchanges in May and from this point the shares have lagged the FTSE All Share and MSCI World in GBP, suggesting that the IPO may have been fully valued. Historically the public listing of a key player has often signalled a market top for an industry. These companies have often gone public at a prescient time; after a long period of good business conditions that create both investor appetite and valuations sufficient to encourage insiders to sell (which, in perfect hindsight, may mean that prices were not attractive to buyers). Elsewhere mergers and acquisitions (M&A) levels were muted, with the total number of deals in 2011, and their aggregate USD value, ahead of transactions seen in the past two years, but still only a little over 50% of the recent peak in M&A activity in 2007. Interestingly, the number of deals done in 2011 is 82% of the level in 2007, suggesting the average deal size in USD was significantly larger pre crisis.

Osama bin Laden and Kim Jong Il

In April a small unit of US Navy SEALs shot dead Osama bin Laden in his hideout in Pakistan. The event raised difficult political questions, especially with respect to Pakistan's links to terrorism, along with the US's apparent disregard for territorial sovereignty. Senior Pakistani officials have denied that bin Laden was being protected. Last month North Korea's "Dear Leader", Kim Jong-il, died of a suspected heart attack at the age of 70. He was succeeded by his youngest son Kim Jong-un, who was hailed by the government controlled media as the "Great Successor". There is no indication at this stage of a change in political direction from North Korea's ruling elite, which is blamed for impoverishing the country and prompting its isolation on the international stage. Kim Jong-un is an unknown quantity taking control of an historically difficult and nuclear armed state.

Markets in 2011

All in all 2011 was a difficult year for investors with exposure to the global equity markets. The MSCI World returned -5.5% over the period in US dollars, whilst marked performance differentials arose between the major markets. The US gained 1.5% over the 12 months, whereas Continental Europe fell by 12.4% and Japan slid by 17% in local currency terms. Global emerging markets underperformed their developed counterparts, with a return of -18.4%. Emerging European nations performed poorly, experiencing something of a contagion effect from their embattled, larger, neighbours. The almost revered BRICs returned -22.8% for the year in aggregate. Naïve assessment of the admittedly arbitrary 12 month numbers fails to capture any of the subtleties to the market moves last year. The year began in optimistic fashion and, correspondingly, the markets rallied in the first few months of the year. At its peak, the MSCI World had gained 9.5% year to date in May. As the year progressed,

Source: Momentum Global Investment Management November 2011

however, the optimists retreated as geopolitical tensions rose and the extent of analysts' over exuberance in 2011's forecast earnings became apparent. As the year progressed, the market reacted poorly to both macro, and company specific, data disappointments versus analysts' over exuberant forecasts at the start of 2011. This led to a difficult period in the middle of the year, as expectations were reset to more reasonable levels. Towards the end of 2011 this reset in expectations led once again to positive data surprises. This, combined with a mild defrosting of Europe's political intransigence, prompted a degree of strength in equity markets, following November's trough.

If the performance of global equities is symptomatic of a less risk seeking environment, this was corroborated by the performance of the fixed income markets. For the calendar year 2011, global government bonds returned 7.2% in US dollar terms, which is a strong return given that it follows gains of 12.0% for 2008, 1.9% for 2009 and 6.4% for 2010. In local currency terms all major regions posted positive returns, with US Treasuries returning 9.9%, UK gilts 16.8%, Japanese government debt 2.3% and even the much maligned European government debt market adding 3.4%. In such a rewarding environment for duration, positive returns were not limited to government bonds, however. High quality investment grade corporate debt performed similarly to government issues and even US high yield provided gains of 5.0%. Alternatively, European high yield and global convertible bonds proved to be more susceptible to equity market moves.

Global property securities performed broadly in line with developed equity bourses, with a return of -5.8% for 2011. In a manner synonymous with the global equity markets, US property securities posted positive returns whilst all other major regions ended the year in negative territory, with Asian property securities proving least resistant to falls, returning -19.6% to investors.

Most commodities fell in value slightly over the course of the year, providing some respite for inflation weary consumers. The two major exceptions to this, however, came in the form of gold, which rallied by 8.5% over the year, and oil, which added 15.1% on the back of growing political tensions. Gold bulls, however, saw their gains eroded from a peak of 33.8% during September, to 8.5% by year end.

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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.

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