

momentum

Viewpoint

Monthly market update

February 2013



*Global choice, wise decisions,
setting new benchmarks*



global investment management

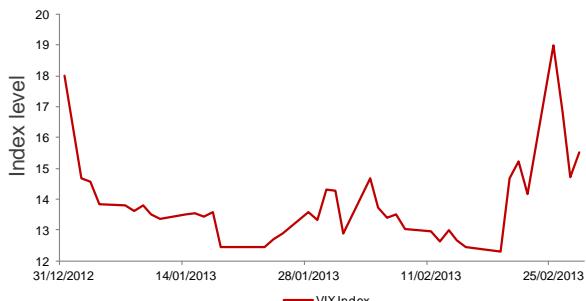
Contents

| | |
|-------------------------------|----|
| 1. Market commentary | 3 |
| 2. Market performance | 6 |
| 3. Asset allocation dashboard | 8 |
| Important notes | 10 |

1. Market commentary

After a strong January, equities consolidated their gains in February, as anxiety grew over the outlook for further central bank asset purchases in the US, the growth of the global economy, and politics in Europe. Equity markets were more volatile as a result, with the balance of up days to down days moving closer to 50:50 from 61:39 in January.

Figure 1: Implied volatility spikes during February



Despite fresh nervousness amongst investors, global developed markets nonetheless rose during February, with the US adding 1.3%, the UK 2.3%, Continental Europe 0.8%, Japan 3.8% and Asia ex Japan 2.4% (returns in local currency terms). Nearly all of the gains were negated, however, by the appreciation of the US dollar over the month. As a result, the MSCI World index added a modest 0.2% in US dollar terms. Emerging markets (EM) were notably weaker for the second month in a row, especially Eastern Europe and Latin America, with the broad EM index declining by 1.3% over the course of the month, to leave returns flat for the year compared to gains of 5.3% for developed markets.

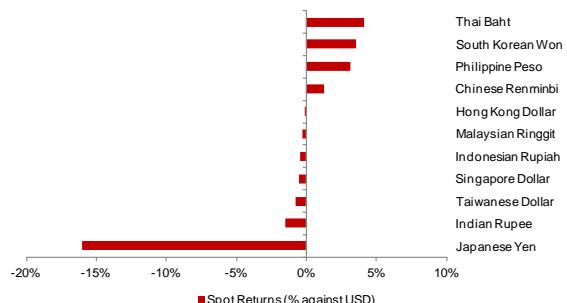
In a slightly more risk averse environment, fixed income performed reasonably, with government bonds rising by 0.6% in the US and 0.9% in the UK. Despite concerns surrounding Italy, Eurozone government bonds posted positive returns of 0.2% whilst credit also performed relatively well throughout the month, benefiting in part from the strength of government bonds. US high yield added 0.5% over the period and investment grade rose by 0.8%. As was the case during 2012, credit has outperformed government bonds year to date.

Figure 2: Performance of global investment grade bonds versus government bonds



Perhaps the most notable moves last month were between currencies, with the US dollar posting gains against its major counterparts. The euro depreciated by 3.8% against the US dollar to EURUSD 1.3056, whilst sterling declined against the greenback by 4.4% (now -6.7% year to date). The yen fell by a further 0.9% against the US dollar, as Japan's monetary authorities continued their aggressive action designed in part to curb the value of the currency.

Figure 3: Performance of Asian currencies since Shinzo Abe elected



The main talking points last month came from Europe (Italian elections), Japan (continuing aggressive action aimed at ending deflation), the UK (rating downgrade and weak growth) and the US (concerns over the pace of QE and the 1 March sequester).

Italian elections yielded a difficult outcome, with reformist former Prime Minister Mario Monti receiving only 10% of the vote, the centre left controlling the lower house, a split vote in the Senate with no party

Source: Bloomberg. Returns in US dollars unless otherwise stated. February 2013.

able to take control and a comedian the unlikely beneficiary of the polls. On the face of it, last month's vote represented a loud rejection of the EU's severe austerity programme, with investors now facing a period of uncertainty until a new government can be formed (or new elections held). Italian bond yields spiked upwards in the wake of the news, and global equity markets appeared to wobble, but importantly there was no material impact on the bonds of other European peripherals. With the European Central Bank as a backstop, fears of a euro break up have largely dissipated over the past seven months.

Elsewhere in Europe, the EU Commission downgraded its growth forecast for the region to -0.3% (0.1% previously) for 2013. Given that GDP contracted by 0.6% in the final quarter of 2012, the Commission's decision was largely to be expected. Forward looking indicators and the widely-followed PMI data (Purchasing Managers' Indices) were mixed in the Eurozone, with weakness in France balanced against unexpected strength in German confidence indicators. There remains evidence of a two-speed Europe, with Germany and its neighbours in reasonable economic health, whilst the so-called 'periphery' languishes in recession.

Japan continues to move to looser monetary policy, supporting the market as it goes. Keeping the yen weak has positive implications for corporate profitability, given the large numbers of Japanese exporters. New Prime Minister Shinzo Abe nominated Haruhiko Kuroda, president of the Asian Development Bank, as the next Bank of Japan governor, seen by the market as tending to be dovish and likely to engage in an asset purchasing programme larger than that seen historically in Japan.

Moody's Investor Services downgraded the UK's credit rating from AAA to AA1, amidst concerns over the country's weak growth. The news seems to have been largely discounted by investors however, with the markets relatively unmoved by the news. Sterling has been weak this year, following hints from the Bank of England that suggest a weakening resolve to meet its 2% inflation target (the latest forecasts suggest inflation will be consistently above this level for the next two to three years), with further significant asset purchases a real possibility alongside other unorthodox measures. New Bank head Mark Carney, who takes office from the middle of this year, is

considered dovish by most commentators and is open to adopt a looser monetary policy than predecessor Sir Mervyn King.

In the US, growth remains reasonable if unspectacular. Although data has been somewhat mixed in recent months, the economy continues to perform reasonably well, especially taking into account the impact of tax increases and spending cuts implemented on 1 January. Fourth quarter GDP growth was revised up to 0.1% (from -0.1% previously), whilst elsewhere house prices are reported to have risen by 6.8% in 2012, new home sales reached a four year high in January and consumer confidence was stronger than expected. The strength of the economy has led some members of the Federal Reserve to raise the issue of a gradual reduction in quantitative easing (QE) in coming months. Chairman Ben Bernanke effectively scotched the notion at the end of the month, however, robustly defending the effectiveness of QE in his testimony before the Senate Banking Committee. Accordingly, it looks as though large-scale asset purchase will continue for the foreseeable future.

In news from China, data was mixed last month, with PMIs falling to their lowest level in five months, amidst reports that Beijing is set to tighten home lending in order to control the boom in house prices in major cities. Overall, however, the economy appears to be on track for growth of circa 7 to 8% this year.

Turning to the US earnings season, most reports are now filed and earnings have held up well by virtue of careful cost management. In many instances, CEOs have gone on record to express cautious optimism about the outlook for the coming year. This has provided a fillip to markets and there is also a return of some high profile merger and acquisition (M&A) deals e.g. the buyout of US technology giant Dell.

Commodities have been poor performers this year, and gold continued its decline last month, down by 5.1%. The precious metal has underwhelmed for the past 18 months after spiking to USD 1,900 in mid 2011. The effect of US dollar strength on demand is the reason offered by most analysts for gold's weakness in February.

Source: Bloomberg. Returns in US dollars unless otherwise stated. February 2013.

Figure 4: Gold's performance since September 2011



Markets have enjoyed a strong run over the past six months and the fundamental backdrop has seemingly improved. But events in February have served to remind investors that serious problems remain, not

least in Europe, where the Italian election result has the potential to materially set back the reform process, whilst raising questions about the viability of the broader austerity programme across Europe. The process of deleveraging and rebalancing, which has been underway since the global financial crisis, has some time still to run. This will keep growth relatively subdued and competitive conditions for companies will remain tough.

Source: Bloomberg. Returns in US dollars unless otherwise stated. February 2013.

2. Market performance

| To 28 February 2013 | | | | |
|-------------------------------------|--|----------|-------|--------------------|
| Asset class/region | Index | Currency | Month | Year to date |
| Developed markets equities | | | | |
| United States | S&P 500 NR | USD | 1.3% | 6.5% |
| United Kingdom | FTSE All Share TR | GBP | 2.3% | 8.8% |
| Continental Europe | MSCI Europe ex UK NR | EUR | 0.8% | 4.7% |
| Japan | Topix TR | JPY | 3.8% | 13.5% ^e |
| Asia Pacific (ex Japan) | MSCI Pacific ex Japan TR | USD | 2.4% | 7.6% |
| Global | MSCI World NR | USD | 0.2% | 5.3% |
| Emerging markets equities | | | | |
| Emerging Europe | MSCI EM Europe NR | USD | -4.5% | -1.0% |
| Emerging Asia | MSCI EM Asia NR | USD | -0.1% | 1.0% |
| Emerging Latin America | MSCI EM Latin America NR | USD | -2.8% | 0.9% |
| BRICs | MSCI BRIC NR | USD | -4.3% | -0.3% |
| Global emerging markets | MSCI EM (Emerging Markets) NR | USD | -1.3% | 0.1% |
| Bonds | | | | |
| US Treasuries | JP Morgan United States Government Bond Index TR | USD | 0.6% | -0.3% |
| US Treasuries (inflation protected) | Barclays Capital U.S. Government Inflation Linked TR | USD | 0.0% | -0.7% |
| US Corporate (investment grade) | Barclays Capital U.S. Corporate Investment Grade TR | USD | 0.8% | -0.1% |
| US High Yield | Barclays Capital U.S. High Yield 2% Issuer Cap TR | USD | 0.5% | 1.9% |
| UK Gilts | JP Morgan United Kingdom Government Bond Index TR | GBP | 0.9% | -1.1% |
| UK Corporate (investment grade) | BofA Merrill Lynch Sterling Non Gilts TR | GBP | 1.0% | 0.0% |
| Euro Government Bonds | Citigroup EMU GBI TR | EUR | 0.2% | -0.3% |
| Euro Corporate (investment grade) | Barclays Capital Euro Aggregate Corporate TR | EUR | 1.3% | 0.0% |
| Euro High Yield | BofA Merrill Lynch Euro High Yield Constrained TR | EUR | -3.2% | 0.0% |
| Japanese Government | JP Morgan Japan Government Bond Index TR | JPY | 0.9% | 1.2% |
| Australian Government | JP Morgan Australia GBI TR | AUD | 0.7% | 0.1% |
| Global Government Bonds | JP Morgan Global GBI | USD | -1.1% | -2.6% |
| Global Bonds | Citigroup World Broad Investment Grade (WBIG) TR | USD | -1.0% | -1.7% |
| Global Convertible Bonds | UBS Global Convertible Bond | USD | -0.5% | 2.2% |
| Emerging Market Bonds | JP Morgan EMBI+ | USD | -0.2% | -2.3% |

e – Estimate

Source: Bloomberg. February 2013.

| To 28 February 2013 | | | | |
|---------------------------------------|--|----------|-------|---------------------|
| Asset class/region | Index | Currency | Month | Year to date |
| Property | | | | |
| US Property Securities | MSCI US REIT NR | USD | 1.2% | 4.9% |
| UK Property Securities | FTSE EPRA/NAREIT United Kingdom TR | GBP | 2.2% | 3.3% |
| Europe ex UK Property Securities | FTSE EPRA/NAREIT Developed Europe ex UK TR | EUR | 2.0% | 1.0% |
| Australian Property Securities | FTSE EPRA/NAREIT Australia TR | AUD | 3.5% | 8.1% |
| Asia Property Securities | FTSE EPRA/NAREIT Developed Asia TR | USD | 1.5% | 5.4% |
| Global Property Securities | FTSE EPRA/NAREIT Developed TR | USD | 0.7% | 3.9% |
| Currencies | | | | |
| Euro | | USD | -3.8% | -1.0% |
| UK Pound Sterling | | USD | -4.4% | -6.7% |
| Japanese Yen | | USD | -0.9% | -6.3% |
| Australian Dollar | | USD | -2.0% | -1.7% |
| South African Rand | | USD | -0.8% | -6.1% |
| Commodities & Alternatives | | | | |
| Commodities | RICI TR | USD | -4.0% | -0.2% |
| Agricultural Commodities | RICI Agriculture TR | USD | -3.1% | -0.4% |
| Oil | ICE Crude Oil CR | USD | -1.9% | 1.9% |
| Gold | Gold Spot | USD | -5.1% | -5.7% |
| Hedge funds | HFRX Global Hedge Fund | USD | 0.4% | 2.4% |
| Interest rates | | | | Current rate |
| United States | 30 January 2013 | USD | 0.25% | - |
| United Kingdom | 7 March 2013 | GBP | 0.50% | - |
| Eurozone | 7 March 2013 | EUR | 0.75% | - |
| Japan | 7 March 2013 | JPY | 0.10% | - |
| Australia | 5 March 2013 | AUD | 3.00% | - |
| South Africa | 24 January 2013 | ZAR | 5.00% | - |

Source: Bloomberg. February 2013.

3. Asset allocation dashboard

| |  Positive |  Neutral |  Negative |
|---|--|---|--|
| Asset class | View | | |
| Equities | | | |
| Developed equities | |  | |
| UK equities (relative to developed) | |  | |
| European equities (relative to developed) | |  | |
| US equities (relative to developed) | |  | |
| Japan equities (relative to developed) | |  | |
| Emerging market equities | |  | |
| Fixed Income | | | |
| Government | |  | |
| Index-linked (relative to government) | |  | |
| Investment grade (relative to government) | |  | |
| High yield | |  | |
| Loans | |  | |
| Emerging market debt | |  | |
| Convertible bonds | |  | |
| Alternatives | | | |
| Commodities | |  | |
| Hedge funds | |  | |
| Property (UK) | |  | |
| Currencies | | | |
| Dollar | |  | |
| Euro | |  | |
| Yen | |  | |
| Emerging market currencies | |  | |

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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).

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