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VIEWPOINT
Newsflash

A new month and the 65th issue of Viewpoint from PPi.

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Last month saw equities, credit and commodities all post gains, whilst in contrast global government bonds declined in US dollar terms. Global equities added 4.9% in February, with emerging markets rallying by 6.0% to bring year to date returns to 18.0%. Japan outperformed other markets, returning 10.7% in local currency terms, although the depreciation of the yen versus the US dollar tempered gains for foreign investors.

Equity markets have enjoyed a strong run since the European Central Bank's (ECB) Long Term Refinancing Operation in mid December. The two month return of 10.1% marks the strongest start to a year since 1991, and has lifted several markets above symbolically significant levels. Stock market volatility has also fallen, whilst realised equity correlations, a measure of the extent to which company shares move in unison with one another, are sharply down at the start of the new year, implying greater rewards for active investors. When correlations are high, investors discriminate less between businesses and the markets' movement dominates individual stock movements.

The JP Morgan Global Government Bond index fell by 1.1% in February, with US treasuries declining by 0.7%, alongside falls for UK gilts (-1.4%) and Australian government bonds (-1.1%). Government debt in the Eurozone bucked the trend, adding 1.6% in euro terms, as the region's woes – and by association those of the global economy – appeared to ease.

Policymakers reiterated their commitment to supporting growth, with Federal Reserve Chairman Ben Bernanke reiterating his forecast for ultra low interest rates beyond 2013 in an appearance before the Senate Budget Committee. Meanwhile in the UK the Bank of England elected to increase its asset purchase program by a further GBP 50 billion during the second week of the month.

ECB purchases of European government debt dropped to their lowest level since July last month. Despite the removal of support from the official sector, bond yields in Italy continued to fall. In contrast, 10 year government bond yields in Portugal rose towards 14%, despite a concerted rally at the start of February. There is a high risk of slippage on Portugal's deficit reduction targets, which are based on what increasingly appear to be optimistic growth assumptions. At the same time Italy cannot escape its vast refinancing needs, with debt worth EUR 357 billion becoming due later this year, more than twice the bill faced by Greece, Portugal, Ireland and Spain combined. From the perspective of growth, the World Bank's latest "ease of doing business" rankings place Italy at a lowly 87th in the world, in between Mongolia and Jamaica.

Fourth quarter growth figures published during the month were generally better than expected, whilst nonetheless confirming a contraction in Eurozone output at the end of 2011. Germany's economy shrank by 0.2% versus -0.3% expected, whilst France managed to grow by 0.2% instead of the 0.2% contraction forecast by economists. Purchasing managers' indices (PMI) in the single currency area are no longer deteriorating, although the persistence of this recent uptick still remains to be seen. Last month's readings generally underperformed economists' forecasts, without discouraging equity investors, as the Euro Stoxx 50 price index continued to climb. The Eurozone composite PMI index registered 49.7 (revised down to 49.3) versus 50.5 expected. At the region's heart, Germany's PMI manufacturing and services indices equally failed to meet expectations, whilst nonetheless indicating an increase in activity.

Unemployment in the US remained at 8.3% in February, its lowest level in three years, with private sector average hours worked continuing to rise towards its long run average. Despite the apparent shift in sentiment, clear headwinds to global growth remain. Of note to investors, the US housing market is expected to continue to weigh on the recovery, with the number of homes in foreclosure at exaggerated levels, whilst growing numbers of mortgage payers face the prospect of falling into arrears.

A crisis that began in 2008, and has at its heart the excessive accumulation of debt, is only now seeing its first default by a major issuer. Greece completed its debt exchange post the end of the month, marking the first restructuring event in an advanced economy in over 60 years. Despite the progress made by Greece to date, the viability of the new loans programme has been called into question by commentators. Under the baseline scenario used in the European Commission's 'Debt Sustainability Analysis' for Greece, the country's output growth is expected to stabilise next year before turning positive in 2014. Should growth underwhelm, or the government fail to deliver on its reform promises, the debt dynamic can be expected to deteriorate and the country will require yet more funds.

The Group of Twenty (G20) indicated their desire to see the size of the European permanent bailout facility, the European Stability Mechanism (ESM) increased from its current level of EUR 500 billion, before committing new resources to the International Monetary Fund. Germany has agreed to review the size of the fund in March. Elsewhere in Europe, Ireland's prime minister announced a referendum on the 'Fiscal Compact', the new EU budget-discipline treaty, at the end of February. Whilst only 12 out of the 17 euro members are required to vote in favour in order for the treaty changes to be approved, policymakers are understandably keen to avoid a drawn out process of national referenda.

Source: Momentum Global Investment Management / Bloomberg/ February 2012

In currency markets, the yen depreciated by circa 6% versus the US dollar during the month, to 81.2 yen to the dollar from 76.3 previously after the Bank of Japan unexpectedly increased its asset purchase programme by JPY 10 trillion. Elsewhere, major global currencies generally made ground against the US dollar, with the euro appreciating by 2.2% to 1.33 US dollar to the euro.

Crude oil added 10.9% in February, as relations between Iran and the West continued to sour. At the start of the month, the Obama administration ordered a freeze on all Iranian government and central bank assets held in the US. Iran later threatened to halt oil exports to the EU, in an attempt to pre-empt the Union's embargo on imports of oil from the country. Commodity markets have enjoyed a buoyant start to the new year, prompting speculation that central bank liquidity may be finding its way into these assets. Hillary Clinton, the US Secretary of State, and Mexican Foreign Minister Patricia Espinosa signed an agreement at the end of the month for the development of oil and gas reserves that straddle the two nations' boundaries in the Gulf of Mexico. The agreement is the first of its kind and provides a legal framework for US energy companies to enter into more joint ventures with Petroleos Mexicanos (Pemex), the Mexican state oil company. Elsewhere, BHP Billiton and Rio Tinto announced plans to invest USD 4.5 billion between them in Chile's Escondida copper mine during February, as the price of copper rose to a seven month high.

Gold prices continued to rise during February, with billionaire hedge fund manager John Paulson urging investors to consider the merits of gold as protection against inflation caused by government spending. With respect to the period of high inflation between 1978 and 1982 in the United States, gold rose by an annualised rate of 22.6%, ahead of other traditional asset classes.

Source: Momentum Global Investment Management / Bloomberg / February 2012

Asset Class Performances

Asset Class/Region	Index	Currency	To 29 February 2012 Month	Year to date
Developed Markets Equities				
United States	S&P 500 NR	USD	4.2	8.9
United Kingdom	FTSE All Share TR	GBP	4.3	7.1
Continental Europe	MSCI Europe ex UK NR	EUR	4.7	9.3
Japan	Topix TR	JPY	10.7	14.8
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	4.5	14.5
Global	MSCI World NR	USD	4.9	10.1
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	USD	8.3	24.8
Emerging Asia	MSCI EM Asia NR	USD	5.7	17.0
Emerging Latin America	MSCI EM Latin America NR	USD	5.2	18.4
BRICs	MSCI BRIC NR	USD	6.4	21.5
Global Emerging Market	MSCI EM (Emerging Markets) NR	USD	6.0	18.0
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.7	-0.3
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.4	2.0
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.8	3.1
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	2.4	5.5
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-1.4	-1.2
UK Corporate (Investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.9	2.8
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.6	3.3
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	1.8	4.8
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	4.4	11.3
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1	0.2
Australian Government	JP Morgan Australia GBI TR	AUD	-1.1	-1.0
Global Government Bonds	JP Morgan Global GBI	USD	-1.1	0.2
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.0	1.5
Global Convertible Bonds	UBS Global Convertible Bond	USD	2.6	8.5
Emerging Market Bonds	JP Morgan EMBI +	USD	2.7	4.2

Source: Momentum Global Investment Management Limited / Bloomberg / Lipper Hindsight. February 2012

Asset Class/Region	Index	Currency	Month	Year to date
		To 29 February 2012		
Property				
US Property Securities	MSCI US REIT TR	**USD**	-1.2	5.2
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	1.3	6.8
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	0.7	4.4
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	2.2	8.0
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	10.0	22.2
Global Property Securities	FTSE EPRA/NAREIT Developed TR	**USD**	3.5	11.6
Currencies				
Euro		**USD**	2.2	3.1
UK Pound Sterling		**USD**	1.2	2.8
Japanese Yen		**USD**	-5.8	-4.9
Australian Dollar		**USD**	1.7	5.4
South African Rand		**USD**	4.7	8.4
Commodities				
Commodities	RICI TR	**USD**	4.4	8.0
Agricultural Commodities	RICI Agriculture TR	**USD**	1.4	2.8
Oil	ICE Crude Oil CR	**USD**	10.9	14.4
Gold	Gold index	**USD**	1.5	15.6
Interest Rates			**Current rate**	**Change at meeting**
United States	25 January 2012	**USD**	0.25%	-
United Kingdom	9 February 2012	**GBP**	0.50%	-
Eurozone	9 February 2012	**EUR**	1.00%	-
Japan	14 February 2012	**JPY**	0.10%	-
Australia	7 February 2012	**AUD**	4.25%	-
South Africa	19 January 2012	**ZAR**	5.50%	-

Momentum Global Investment Management / Bloomberg / Lipper Hindsight. February 2012

Focus: the art and science of manager research

Introduction

Manager research is a core capability of Momentum Global Investment Management (MGIM). It sits at the heart of our investment process and allows us to implement our asset allocation and investment style views as well as active / passive management biases.

We believe that a strong manager selection process can add significant value over time to a client's portfolio and also bring enhanced due diligence and corporate governance. We also believe that it is a much more efficient way to manage portfolios and facilitates the implementation of dynamic investment decisions without the corporate difficulties that arise from relying on an in-house investment capability.

Key to this philosophy are a number of core beliefs:

- No single investment management firm has a monopoly on talent or good ideas
  We see no rationale for restricting stock selection expertise to an in-house team

- No single manager can excel at all times
  As such an active 'buy / sell' discipline is essential

- Picking single managers requires extensive research, good timing and expertise
  Manager selection is time consuming, labour intensive and requires skill and experience

The importance of a well-resourced, experienced manager selection capability

As a core component of our process, MGIM use third party managers to implement specific asset allocation views. These can take the form of geographical, style and currency allocations and enable us to focus on very specific areas of the market where we see valuation opportunities. This philosophy is consistent across portfolios.

Manager selection allows us to implement these views on a best of breed basis. It also allows us to use active and passive management where appropriate, which can have a significant impact on fees.

Good managers come in all shapes and sizes but all share common attributes:

- a strong, supportive ownership structure

- a clearly defined and disciplined investment philosophy and process

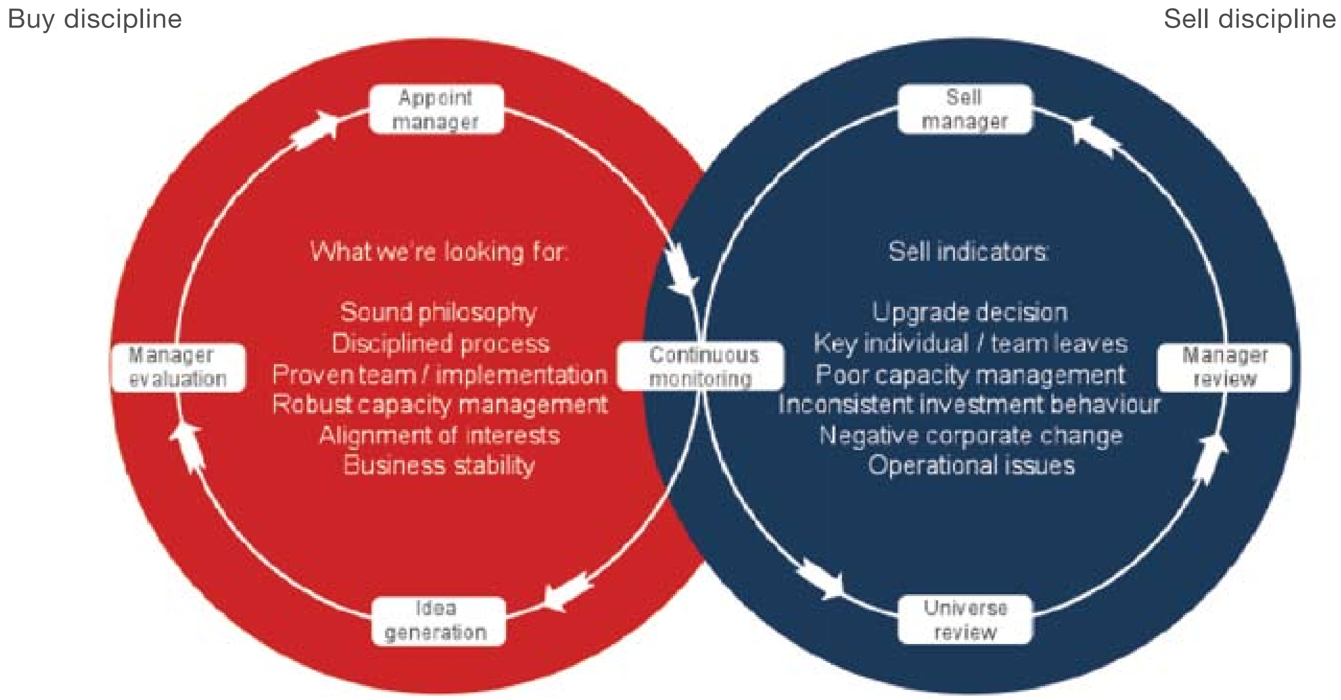
- an experienced team that can demonstrate consistent implementation of their process through both good and bad times

Characteristics of a great investment manager

The starting place for all of our manager research is our framework for what we believe makes an excellent investment manager. With any investment process, it is vital to know what you are looking for. This is true regardless of asset class. We do not attempt to see all managers; that would be impractical and an inefficient use of finite resources. Instead, we focus our research on specific manager traits which, in combination, offer the best risk/reward characteristics over time. For example, in our equity strategies we focus on manager 'styles' such as value, momentum and quality.

At MGIM, we look for the following criteria in all our potential manager ideas: disciplined implementation of a sound investment philosophy; experienced individuals motivated to produce consistent outperformance and a firm that is structured to create an environment conducive to generating superior long-term investment results. An analysis of both the firm and its people is key to our process, and given a very concentrated line up of managers selected from an unconstrained universe, we are able to be selective on these factors.

Source: Momentum Global Investment Management / Bloomberg / February 2012



Filtering process

There are tens, if not hundreds, of thousands of funds available globally. The filtering method is a multi stage process and involves detailed performance and holdings analysis, and assessing the manager's investment philosophy and process. We will analyse holdings to see if they display the specific traits we seek, and we will analyse their performance to verify if this is consistent with their stated philosophy and process. Assessing a manager's description of their own process provides us with a first impression on their investment process and portfolio construction methodology. If our initial review of a manager suggests they will not be suitable for our portfolios we will conduct no further research. Typical reasons that they may not be suitable would be: they are not a manager with a clear alpha source (such as a consistent exposure to a style tailwind); the level of assets under management in the strategy is too high given their style and the asset class; significant recent changes to investment team which mean that the performance track record is invalid; or the portfolio construction methodology is inappropriate, as it is too benchmark orientated.

Qualitative analysis / manager research meetings

Once we have identified a new manager we will undertake detailed quantitative and qualitative analysis to determine whether they are worthy of increased levels of research or ultimately suitable for inclusion within our portfolios. We will meet with as many of the relevant people within the firm as we can.

As well as having detailed face-to-face meetings with the portfolio manager we will try and meet relevant analysts to check for consistency of message. When we hire a manager we expect that the people we meet will be managing our clients' money for a number of years. Therefore, it is essential that we have a detailed understanding of how the key decision makers implement their philosophy and how the team interacts.

We will spend as much time as is necessary to become comfortable with an investment team before including them in our portfolios. We believe that this detailed understanding

Source: Momentum Global Investment Management / Bloomberg / February 2012

allows us to stick with good managers even when they are underperforming. The key is in understanding the reasons for any underperformance and whether this is consistent with their philosophy and process in light of current market conditions. We need our managers to stay consistent to their stated philosophy as this is crucial for the 'blend' within the portfolio: all managers are retained to carry out a specific role and any deviation from this will lead to immediate review and potential de-selection.

In addition to our meetings with investment professionals, we aim to meet with the key business leaders to understand the stability of the firm and establish whether the motivations are to generate performance or just grow assets under management.

Quantitative analysis

We make widespread use of quantitative tools which are combined with our qualitative judgement to determine the suitability of a manager for our fund. Quantitative tools allow us to gain a deeper understanding of a manager and therefore verify or challenge our qualitative insights. In some instances, our quantitative tools highlight inconsistencies such as significant changes to the strategy in the past which an invalidate a manager's historical track record. These will be followed up with further research meetings.

We subscribe to a range of external quantitative tools, but have typically adapted these to suit our specific requirements. Our tools allow us to undertake a broad range of analysis on managers including: evaluating historical portfolio holdings to determine whether a manager has a disciplined investment process; evaluating performance characteristics to determine if they match the manager's stated philosophy; analysing the impact of asset growth on a manager's ability to replicate past performance; and analysing the variation in a manager's geographical, sector or size allocations to determine whether they possess any biases.

The 'sell' discipline

This is a crucial component of the process and is equally as important as the 'buy' decision. It is essential that when 'buying' into a manager we have a full understanding of the investment philosophy and process, the team, and the business and ownership structure. We also need to identify at the outset what changes to these three components could instigate a review and potential 'sell'. By clearly defining what these triggers are prior to an investment, it makes the ongoing monitoring and due diligence more objective and it removes the emotional attachment that can often arise during a relationship with any investment.

We will replace a manager if they no longer fulfil our investment criteria or if we find a better alternative. Some of the reasons that we may replace a manager include:

- key personnel departures
- negative corporate developments
- poor management of capacity

Summary

All good managers share core characteristics - this is what drives our research and decision-making. We do not need to know every manager in the universe or have a view on their process – what we focus our time and effort on is finding the very best managers (wherever they are based) to fulfil a specific role within our portfolios. It is also essential that we have an excellent backup / substitutes list in case an event occurs that reduces our belief in a manager's ability to deliver on their mandate.

The decision-making process to 'buy' or 'sell' a fund / manager should be driven by a clearly defined and disciplined process that results in a true understanding of the product and highlights the risks. It also needs to provide a framework that enables the team to make hard decisions as and when appropriate based on judgement and experience rather than emotions or relationships.

Good managers come in all shapes, sizes and locations – knowing when to buy and sell is a specific skill set that can over time add value to a client's portfolio. By remaining true to MGIM's manager selection process, we believe that we can uncover the best managers in their particular area of expertise. This superiority may not emerge immediately, but we believe that over a long term time horizon there are performance advantages to be attained by the use of above average managers.

Source: Momentum Global Investment Management / Bloomberg / February 2012

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