Market Themes

August—2011

- During the month of July initial relief and optimism based on the apparent resolution to the Greek debt crisis was replaced with new concerns regarding (i) the US debt ceiling and (ii) the spreading of euro debt concerns to Spain and Italy.

- US macro data was particularly weak with US GDP data negatively revised for the first quarter from +1.9% p.a. to a more modest +0.4%. Q2 GDP growth was a disappointing 1.3% p.a. well below the expected +1.9% p.a.

- The earnings season whilst incomplete, was generally disappointing relative to expectations and perhaps more worryingly, is suggesting future retrenchment of forecasts and outlook.

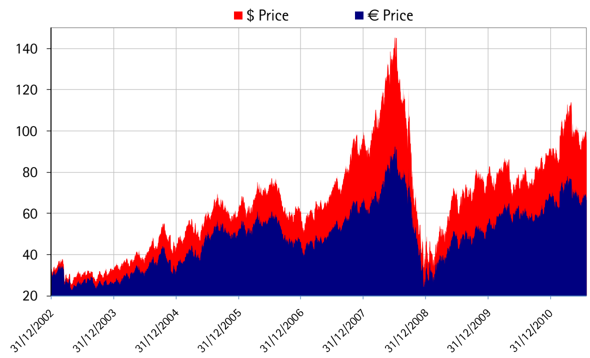
- As mentioned above the significant increase in yields of Spanish and Italian sovereign debt has acted as a reminder that a full resolution of the peripheral Eurozone debt issues includes the more significant markets. Bond markets remain sceptical of the political resolve or ability to comprehensively deal with the issue.

- Domestically the story was somewhat different in that the emergence of an external consortium of investors willing to take a significant stake in the Irish banking sector coupled with the Euro commitments on financing saw a significant reduction in yields of Irish bonds. There tentatively appears to be the beginnings of a market separation of Ireland from the rest of peripheral concerns.

- The global equity market was 0.9% lower in euro terms over the month (-3.5% year to date).

- At a sector level, energy (+1.2% on the month, -0.7% year to date), technology (+0.8% on the month, -7.5% year to date) and consumer staples (+0.6% on the month, -1.8% year to date) were the outperformers. At the other end of the spectrum financials continued to perform poorly (-2.3% on the month, -9.8% year to date) whilst industrials (-3.3% on the month, -6.6% year to date), and utilities (-1.8% on the month, -8.6% year to date) also lagged.

OIL PRICES



- Asian markets were the stand-out regional performers for the month with Singapore (+5.3% for the month, -0.9% year to date) and the Japanese Topix (+4.3% month to date, -8.6% year to date) being especially strong. Ongoing uncertainty in the Eurozone saw the DJ Euro Stoxx being the worst regional performer falling by 6.0% on the month (-4.3% year to date) , the ISEQ was the other major underperformer (-4.5% on the month, -2.2% year to date).

Strategy Changes

- Previously we had seen comfort from our macro, technical and valuation analysis to favour equities over bonds as an asset class. This remains the case, however, we are cognisant of the deterioration within the macro environment and have made portfolio adjustments to reflect this.

- We have reduced our equity exposure to below 70% and reduced at a sector level both our underweight in staples and our overweight within industrials. Regionally we have reduced our European exposure and maintain an overweight within Japan.

- Within bonds we have reduced our peripheral exposure somewhat but remain underweight.

Market Outlook

- The macro economic data has been deteriorating at a rate faster than we would have anticipated. Whilst we don't believe in a renewal of the recent recession, growth has been more anaemic than either we or markets would have liked. The risks are on balance that this places restraints on growth for the time being.

- The realisation of the risk of US debt default in the absence of agreement of a higher debt ceiling and the spread of European concerns to Spain and Italy highlights the lingering problem of sovereign debt and government bonds in general. It is a further highlighting of the degree to which political decision or absence of political clarity will continue to have over markets in general.

- Given the above and acknowledging visibility is never very clear, we are in a period of worrying uncertainty in markets.