

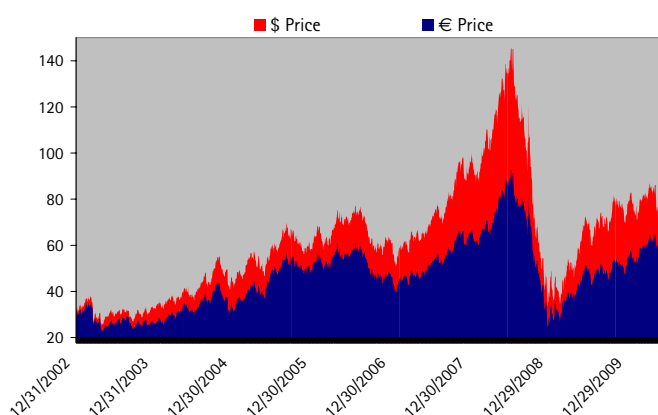
Market Themes

July – 2010

- The escalation of the sovereign debt crisis in the periphery of Europe coupled with renewed fears of a growth slow-down, particularly in the US, pushed equity markets lower over the second quarter. The global equity market ended the quarter 3.3% lower in euro terms (+5.8% year-to-date).
- The Euro fell by 9.4% versus the US dollar over the quarter, driven by sovereign debt fears in the periphery of Europe. The announcement of a EUR 750 billion stability fund was unable to stem the losses in the currency.
- At a regional level, European markets fared worst, the DJ Euro-Stoxx index falling by 11.1% over the quarter (-10.3% year-to-date), followed by Australia (-10.1% on the quarter, -2.6% year-to-date) which suffered from a proposed mining tax announced by the Australian government. Hong Kong (+4.3% on the quarter, +7.1% year-to-date in euro terms) and Japan (+0.1% on the quarter, +13.1% year-to-date in euro terms) were the best performers.
- At a sector level, only Consumer Staples (+1.3% on the quarter, +11.4% year-to-date) and Telecoms (+0.7% on the quarter, +3.4% year-to-date) posted positive returns over the quarter. Energy (-6.9% on the quarter, -2.6% year-to-date), Basic materials (-6.3% on the quarter, +2.9% year-to-date) and Financials (-5.8% on the quarter, +3.1% year-to-date) were the worst performers.

Bond yields in peripheral European bond markets moved sharply higher over the quarter, forcing the hand of European policy makers who announced a EUR 750bln stability fund, coupled with support for peripheral bond markets in the form of ECB purchases of these bonds. However, although yield spreads fell in the immediate aftermath of the announcement, subsequent statements from the ECB governing council members indicated that the decision to buy peripheral bonds was not unanimous and peripheral bond spreads widened again. Bond yields in the US and Germany fell over the quarter as the economic outlook deteriorated.

OIL PRICES



Strategy Changes

- Within our equity portfolios, at a sectoral level we have moved to an underweight position in Industrials and increased our position in Consumer Staples. We have also reduced our overweight in the Energy sector.
- We remain overweight Healthcare, Technology and Consumer Staples and underweight Financials, Telecoms and Utilities.
- We remain underweight bonds in our balanced portfolios. Within our bond portfolios, we remain overweight core bond markets and underweight peripheral bond markets.
- Portfolios remain overweight cash.

Market Outlook

- Economic data over the quarter, while consistent with continued recovery indicated a slowdown in the pace of that recovery, particularly in the US.
- Although fiscal retrenchment in the peripheral Eurozone economies will have a detrimental impact on domestic demand in these countries, the weakness of the euro and extremely easy monetary conditions in the stronger "core" economies means that the export-led recovery in Germany should gather further momentum.
- Equity valuations are attractive for the long-term investor. However, the re-pricing of sovereign risk, which has so far made itself felt in the bond markets on the periphery of Europe and through foreign exchange movements will be disruptive for all asset markets, and suggests a tactically cautious for the time being is warranted.