Market Themes

June – 2010

- May proved to be a difficult month for global equities. Markets were faced with a number of negative issues, most prominent being renewed concerns around Euro zone debt issues. A proposed mining tax for Australian mining companies hit the basic materials sector and the Bank of Spain's announcement that is was taking over the savings bank CajaSur due to property related lending losses raised concerns about the state of other savings banks in Spain. The global equity market recovered some losses late in the month but closed 2.1% lower for the month (+9.2% year-to-date in euro terms).

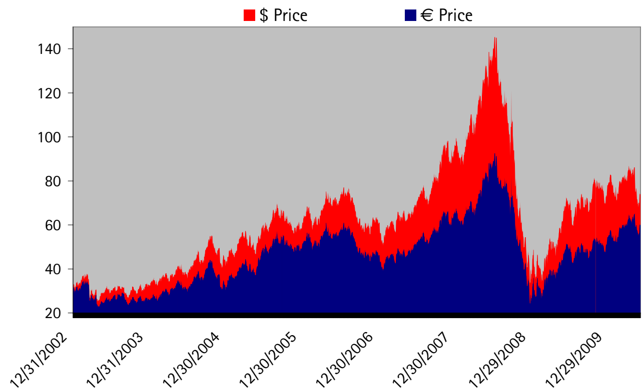
- At a regional level, the Iseq fell 13.2% for the month, European equities underperformed with Greece (-17%), Spain (-10.8%) and Italy (-9.4%) driven by fears surrounding sovereign debt issues for peripheral euro zone countries.

- The Euro fell 7.4% versus the US dollar, with the Euro 750 billion bail out package announced by the eurozone countries unable to stem the losses in the currency.

- All sectors were lower for the month. Energy fell 5.3% (+3.1% year-to-date), Financials fell 4.4% (+6.3% year to-date) and Basic Materials fell 3.8% (+6.4% year-to date). The more defensive sectors including Staples (-0.3% on the month, +11.3% year-to-date) Telecoms (-0.4% on the month, +2.4% year-to-date) and Healthcare (-0.8% on the month, +5.9% year-to-date) outperformed but still posted negative returns.

- Bond yields in peripheral European bond markets spiked sharply higher at the beginning of the month, 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 bond spreads for Greece, Italy, Spain and Portugal widened again. Irish bond spreads widened also but outperformed other peripheral markets.

OIL PRICES



Strategy Changes

- Within our equity portfolios, at a sector level we have reduced our position in Industrials to underweight and increased our position in Consumer Staples.

- We remain overweight Energy, Healthcare and Technology, and underweight Financials, Telecoms and Utilities.

- We remain underweight bonds in our balanced portfolios.

Market Outlook

- Economic data during the month continued to suggest that the economic recovery remains intact. 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.

- Equities continue to offer value, with European equities looking particularly attractive having significantly underperformed on a relative basis. This underperformance comes against the backdrop of a depreciated Euro currency which will result in significant earnings upgrades for European exporters. This de-rating of European equities presents a significant valuation opportunity for select European companies.

- The current negative sentiment in markets comes at a time when the message from corporates is becoming more positive. What they are seeing in their end markets is indicative that the economic recovery is real. The economic data continues to signal broad strength in the recovery, however the technical signals across asset classes continues to suggest that caution is warranted.