

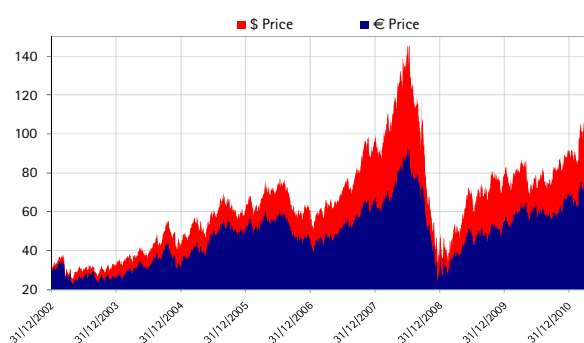
Market Themes

June– 2011

- Peripheral debt concerns in the peripheral Eurozone region and Greece in particular once again came to the fore in May. With the next tranche of the May 2010 bail-out due at the end of June and significant slippage versus deficit reduction targets in Greece, markets speculated that the latest tranche of loans would not be forthcoming.
- Economic growth concerns were also an issue for markets during May as the economic data, particularly from the US, showed a significant deterioration both in absolute terms and relative to expectations.
- Commodity prices weakened during the month as global growth expectations were scaled back.
- The Euro weakened during the month as a scaling back of interest rate hike expectations from the ECB, combined with escalated concerns about a Greek debt restructuring pushed the euro lower.
- The global equity market was 0.6% higher in euro terms over the month (-2.1% year-to-date) as the 2.8% drop in the euro more than compensated for local currency equity market weakness.
- At a sector level, defensive sectors such as Healthcare (+5.5% on the month, +5.1% year-to-date) and

Consumer Staples (+3.7% on the month, -0.9% year-to-date) outperformed, whilst Energy (-2.2% on the month, +1.7% year-to-date) and Basic Materials (-1.7% on the month, -5.6% year-to-date) performed poorly as oil and other commodity prices retreated. Financials also continued to perform poorly, falling by 0.7% on the month (-4.6% year-to-date).

OIL PRICES



At a regional level, the Hang Seng (+2.9% on the month, -4.4% year-to-date) was the best performer, followed by the US S&P (+1.8% on the month, -0.5% year-to-date) and the Japanese Topix (+1.6% on the month, -13.5% year-to-date). Europe was the worst performer, the DJ euro Stoxx falling by 3.6% on the month (+3.0% year-to-date).

Strategy Changes

- We remain overweight equities versus bonds in our balanced portfolios.
- At a sector level, portfolios are overweight in Basic Materials, Technology, Industrial and Energy related sectors and underweight in Consumer Staples, Financials, Utilities and Telecoms.
- At a regional level we remain overweight Japanese equities.
- Within our bond portfolios, we maintain a bias towards debt of core countries and underweight peripheral bond markets.

Market Outlook

- Global earnings revisions were broadly unchanged during May. However the Q1 earnings season in the US was very encouraging, with further scope for upgrades. The number of companies beating consensus earnings and sales estimates has been significantly higher than the number of companies missing estimates.
- Economic data over the last month has been weak relative to expectations, particularly in the US. Whilst a slowing of global economic expansion was not unexpected given policy tightening in China, the Japanese earthquake, high oil prices, sovereign debt concerns and the looming end of the Fed's quantitative easing program, the extent of the weakness in the data has nonetheless taken the market by surprise. The data however remains consistent with continued expansion, albeit at a more modest pace than before. The second half of the year should see a rebound in growth numbers as the Japanese economy in particular recovers from the effects of the earthquake.
- Our valuation analysis continues to tell us that equities remain cheap relative to alternative assets such as bonds