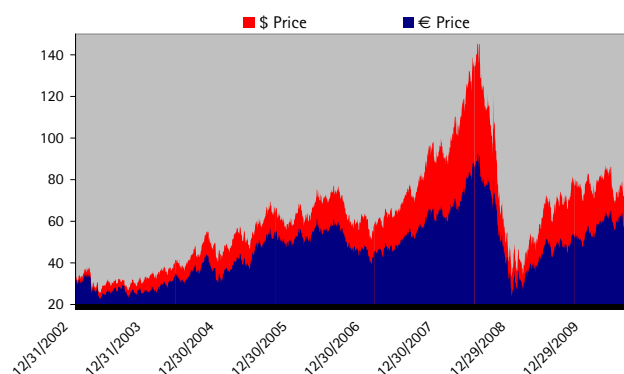


Market Themes

- Equity markets globally were weak during the month, as concerns about the health of both the US and global economies gathered pace.
- The global equity market was just 0.9% lower in euro terms on the month (+6.1% year-to-date) however, the return was flattered by a fall in value of the euro, which fell by 2.9% against the US dollar.
- Economic data over the month was much weaker than expected, particularly in the US. Whilst the indicators remain consistent with an expanding economy, the slow down in growth has heightened fears of a return to recession in the US. This in turn prompted the Federal Reserve to announce that it would maintain the size of its balance sheet rather than permit it to contract, which the market took as a signal that further quantitative easing is imminent. Economic data in Europe remained consistent with strong growth, particularly in the German economy.
- At a regional level, the European market was the worst performer in euro terms with the DJ Euro Stoxx falling by 4.0% on the month (-8.6% year-to-date). The S&P 500 Index fell by 2.0% in euro terms, while Emerging markets (-0.5% on the month, +9.7% year-to-date) and Japan (+0.1% on the month, +10.0% year to date in euro terms) were the best performers. The latter helped by a 5.7% rise in the value of the yen against the euro.
- At a sector level, the defensive sectors of Telecoms (+3.2% on the month, +9.5% year-to-date), Healthcare (+2.8% on the month, +3.7% year-to-date) and Utilities

(+2.6% on the month, +5.4% year-to-date) outperformed, while Technology (-4.6% on the month, +1.1% year-to-date), Financials (-3.1% on the month, +4.1% year-to-date) and Industrials (-2.8% on the month, +9.5% year-to-date) performed poorly.

OIL PRICES



Bond yields globally were significantly lower during the month as concerns mounted about the economic recovery and the possible extension of quantitative easing by the US Federal Reserve. Bond spreads (vs. Germany) in peripheral European bond markets moved wider during the month, reversing the relative gains seen in July. Most of this spread widening however was driven by a large fall in German bond yields. Yields on Italian and Spanish bonds also fell but by less than German yields. Irish yields (and spreads) were significantly higher during the month as market concern grew about the scale of losses in the banking system.

Strategy Changes

- Within our equity portfolio, on a sectoral basis, we have reduced our exposure to Technology and increased our exposure to Industrials. On a regional basis, we have increased our exposure to Emerging markets. Portfolios remain overweight Healthcare and Consumer Staples, and underweight Financials, Telecoms and Utilities.
- We remain underweight bonds in our balanced portfolios. Within our bond portfolios, we have reduced our overweight position in core bond markets (but remain overweight) and increased our exposure to peripheral bond markets (but remain underweight).
- Portfolios remain overweight cash.

Market Outlook

- The softening of economic data from the US has raised concerns about a double-dip. Whether this does indeed herald a rapid return to recession or merely a normal slowdown post the initial stages of recovery remains to be seen. For now the data still indicates economic expansion, albeit slower than previously and double dips are a rare phenomenon. Data in Europe has been particularly strong in the export oriented German economy, where the easing of monetary conditions and continued growth in Asia has given further impetus to the expansion. Market-enforced fiscal contraction in the periphery of Europe will continue to be a drag on growth in these countries.
- Equity valuations are attractive for the long-term investor however we remain tactically cautious in our asset allocation, due to concerns about the durability of the economic recovery and concerns about sovereign risk.