merrion INVESTMENT MANAGERS

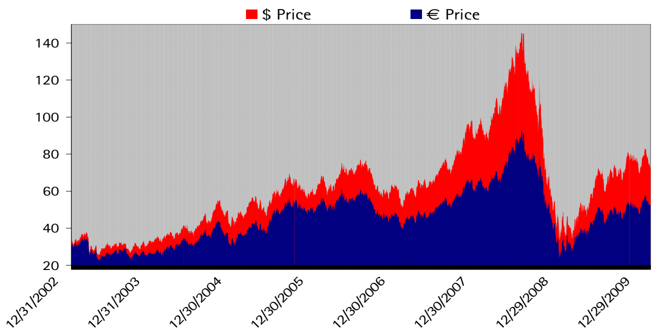
Market Update

Market Themes

February – 2010

- While markets got off to a positive start in early January, this positive momentum quickly reversed as global equity markets closed the month 1.2% lower.
- The sell off can be attributed to a combination of fears regarding sovereign default (particularly in the case of Greece), President Obama's proposals to restrict the capital market activities of US banks and also the risk to slower economic growth in China as a result of plans to restrict bank lending.
- At a sector level the shift to defensives was evident with Healthcare the strongest performer rising by 2.7%, followed by Staples +1% and Industrials +0.3%. Basic Materials -5%, Technology -3.7% and Telecoms -3.1% were the laggards for January.
- At a regional level, Japan +4.7% was the only region to post a positive return, Ireland was flat for the month and the laggards were Hong Kong -5.2%, Europe -4.7% and Canada -4.4%.
- Commodity prices also suffered in January as risks to end-demand surfaced as investors questioned the sustainability of the economic recovery. Copper, often the barometer for economic activity fell by -8.5% on the month, with Crude Oil falling by -8%.
- The Euro/Dollar fell on the month. European bonds gained +0.8% for the month driven mainly by a flight to quality in German, French and Dutch bonds. Greek, Portuguese and Spanish bonds declined in value.

OIL PRICES



- The underperformance of Asian stock markets, particularly China and Kong-Kong added to investor concerns. These markets are often viewed as leading indicators for broader equity markets given that they led the recovery, bottoming in late 2008 ahead of the March 2009 recovery in most markets. Concern is now focused on whether the recent underperformance of these markets is a precursor to broader weakness across other geographies.

Fund Performance

- The Merrion Balanced and Growth funds fell 1.1% and 1.9% respectively in January slightly behind their benchmarks which fell 0.6% and 1.2% respectively. The Irish Opportunities fund gained +1.6% over the month compared to its benchmark fall of 0.3%.
- Stocks that out-performed over the first month of 2010 included iShares Japan (+4.3%), General Electric (+9.7%) and Smurfit Kappa (+6.5%).

Strategy Changes

- Our Balanced funds are currently neutral in equity weighting and underweight bonds.
- Changes over the past month included reducing our emerging market exposure and increasing our exposure to the Technology sector for its high cash generation and attractive valuation qualities. We have also increased our Industrials exposure across the funds.
- We remain overweight Energy and underweight the Financial sector.
- We are underweight bonds within our balanced portfolio. Within our bond funds, we are underweight the peripheral European markets and overweight countries with stronger credit profiles. We remain overweight inflation linked bonds.

Market Outlook

- We continue to believe that the valuation of equities remains attractive relative to its history and particularly versus other asset classes. We are cognisant of the challenges faced by global economies given the high levels of both personal and public debt and high unemployment levels.
- We believe it is important not to under estimate the effect of the de-stocking action undertaken by corporates throughout the downturn. This has resulted in dramatically reduced inventory levels across many industries, to such an extent that any pick up in end demand will cause a flurry of activity as manufacturers accelerate activity to re-stock the supply chain.
- We have mentioned previously the upside risks to the economic recovery and this view has been further strengthened by the generally stronger than expected economic data and particularly evidenced by the Quarter 4 GDP report in the US of 5.7% versus 4.8% expected.