

Market Themes

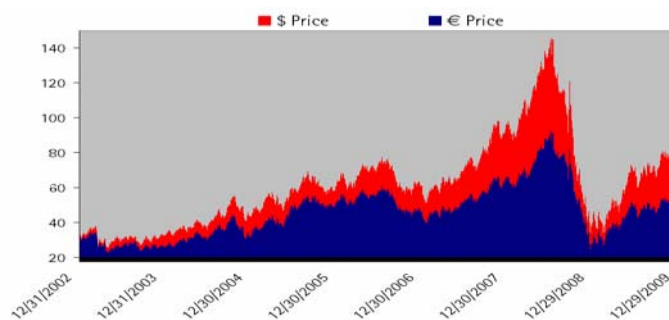
January – 2010

- 2009 began with renewed concerns about the western banking system and a sustained run of very poor economic data. Equity markets were very weak in January and February and broke through the lows seen in November 2008. Authorities in the US, UK and Japan announced significant measures such as “quantitative easing” i.e. printing money to attempt to stabilise economies. Forward looking economic indicators began to turn up and equity markets staged an impressive rebound, which has so far been sustained with a continued improvement of economic indicators.
- The global equity market rose by 30.2% in euro terms over the year, with a 6.5% gain in the final quarter.
- At a sector level, the Basic Materials sector was the strongest performer over the year, rising by 65.8%, with a 15.2% gain in Q4. Technology (+55.9% over the year, +10.3% in the final quarter) and industrials (+29.7% for the year, +6.4% in Q4) were the other leaders. Defensive sectors such as Utilities (+2.7% over the year, +4.6% in Q4), Telecoms (+7.0% over the year, +4.4% in Q4) and Healthcare (+14.6% over the year, +9.1% in Q4) underperformed.
- At a regional level, Emerging markets (+64.5% over the year, +9.9% in Q4), and resource rich Australia (+62.3% over the year, +6.6% in Q4) and Canada (+48.1% over

the year, +7.6% in Q4) led the way, with Japan lagging significantly (+1.7% over the year, -1.1% in Q4).

The US dollar, which had benefited from a flight-to-safety bid at the peak of the crisis, fell over the year as the global equity market recovered. The final quarter saw a rebound in sentiment towards the dollar.

OIL PRICES TICK UPWARDS



- Bond yields in the US, UK and Europe moved higher over the year as the market began to price in economic recovery and higher inflation risks. Although the major Central Banks are some time away yet from hiking interest rates, economies which escaped the worst of the economic crisis (such as Australia and Norway) have already begun to raise interest rates.

Fund Performance

- The Merrion Balanced, Growth and Irish Opportunities Funds returned +4.1%, +6.5% and +3.4% respectively in December resulting in a 12-month return of +23.5%, +36.1% and +49.8%.
- The Funds all out-performed their respective benchmarks in 2009; the Balanced Fund by 1.3% , the Growth Fund by 5.9% the Irish Opportunities Fund by 19.4%.
- Stocks that contributed to the performance of the funds in 2009 included CRH and Kerry who returned +94.1% and +59.3% respectively. Microsoft (+56.3%), iShares Emerging Markets (+64.5%) and Lyxor ETF DJ Stoxx 600 Banks (+52.0%) were also very strong performers over the 12-month period.

Strategy Changes

- During quarter four we moved to a slightly overweight position in terms of our equity allocation in our balanced funds.
- At a sector level we reduced our underweight in Financials. We reduced exposure to the Consumer Cyclical sector and increased exposure to Consumer Staples and Healthcare. We also further increased exposure to large integrated oil companies.

Market Outlook

- Valuation analysis, both on an absolute basis and relative to other classes suggests that valuation will not be an obstacle to equities in achieving further gains.
- The economic environment particularly in the US continues to suggest that the recovery may be of a greater magnitude than either market participants or commentators are anticipating.
- There is a potential negative impact that an economic recovery of this kind may have on interest rate policy and bond markets, particularly the sovereign bond market. Any disruption to these markets would have a knock-on effect in all other asset classes.

