

Asset allocation letter

Very uncertain background

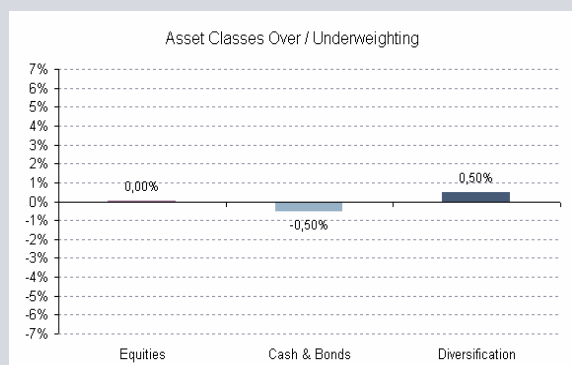
Asset allocation team's convictions

July 2010

Our tactical bets – Balanced portfolio

	Jul-10	Jui-10	Mai-10
EQUITIES	=	=	++
Eurozone	-	-	=
Europe ex Euro	=	=	-
US	=	+	++
Japan	=	=	=
Asia ex Japan	=	=	=
Large caps	=	=	=
Small caps	+	+	+
Energy sector	+	+	+
FIXED INCOME	=	=	-
Eurozone Bonds	-	-	--
World ex Eurozone Bonds	=	=	-
Inflation linked Bonds	=	=	=
Investment Grade Credit	+	+	+
Cash	=	=	-
DIVERSIFICATION	+	+	+
Convertible Bonds	+	+	+
US Short Duration High Yield	+	+	+
Yen	=	=	=
USD	=	=	=
Commodities	+	+	+

Asset Allocation



Our indicators headlights

	06/2010*	05/2010**	Trend
EUR/USD	1.26	1.20	+
S&P 500	1066	1073	-
EuroStoxx 50	2666	2543	+
Crude oil	75	74	+
10 years Bund	2.63	2.55	+

* Figures as of 08/07/2010. ** Figures as of 09/06/2010.

Review and Outlook

Continuing in the same vein as in May equity markets were again extremely volatile and ended the month on a weak note. Concerns focussed on the macro-economic data which continued to suggest a slowing on the pace of activity. Housing market data was particularly poor as was employment data. Elsewhere the lower Chinese PMI and the announcements by several European Governments of austerity programmes heightened fears of a double dip. Monetary policy was in most Developed markets with the exception of Canada which rose rates by 0.25% and the Chinese Central Bank which announced that they would widen the Yuan trading band which lead to hopes of an eventual Yuan appreciation.

Against this background bond market performance was very mixed. In Europe, the Bund market continued to benefit from its safe – the 10 year yield fell to 2.5% (-0.50% on the month) whilst the peripheral markets continued to be sold off (Spain +300 bps, Portugal +100 bps, Greece +270 bps). In the US the softer macro data pushed the 10 year yield to 2.93% its lowest level for 14 months. The credit market also suffered - the spread on the iTraxx Investment Grade widened 11 bps to 128 bps whilst that of the High Yield series widened by 18 bps and iTraxx Cross Over spreads widened from 556 bps to 574 bps.

On the currency markets the Euro touched a low of 1.1850 versus USD before recovering to 1.2250. The Yen appreciated sharply versus Euro (+3.5 %) and versus Dollar US +3% to 88.40. Commodity markets had a good month. Oil gained 2% to 75.50 USD per barrel, the SPGSCI rose 1.5% to 495 whilst Gold had a spectacular month flirting with an all time high of 1265 USD per ounce before closing at 1242 USD on the month.

The VIX index traded around 30 during the month and almost all equity markets had negative performance. The US market underperformed sharply (-5.4% for the S&P 500 in USD). In Europe the EuroStoxx 50 lost -1.40% whilst the FTSE was hit by budget cuts and declined by -5.20% in GBP. The Japanese market continued to be penalised by Yen strength and lost 4% (Nikkei 225 in Yen).

Despite some softness in the macroeconomic data, particularly in the US, activity remains relatively robust. We do not share the recent market pessimism as to a possible double dip but we acknowledge that the European fiscal tightening will be a headwind to growth next year. In terms of asset allocation and against this very uncertain and volatile background we maintain a neutral position on equity markets in our portfolios. We see value in equities but market sentiment will need to stabilise for this value to be realised. We reduced our US overweight in favour of Asian stocks and continue to privilege European Small Caps. Within Fixed income we feel that Investment Grade credit continues to offer attractive spreads over Government bonds.

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