INVESTMENT UPDATE

QUARTER 4, 2011

IN OUR VIEW

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Downside risks have come sharply into focus over the Summer. The “soft patch” in growth in the Spring is more persistent than hoped and investors fear a loss of momentum in developed economies that could result in a new recession.

Even more optimistic observers, who argue that corporate sector confidence can stabilise (driving a recovery in capital investment and hiring) hardly dare hope for more than anaemic growth and this might require further monetary stimulus or Quantitative Easing (in fact this happened on 6 October).

It has been widely accepted that excess debt, both public and private, in developed economies presents an obstacle to demand for many years to come. Furthermore, markets have been panicked by fears that over-indebted governments in the Eurozone periphery will spiral into disorderly default as the cost of more bailouts is rejected by the richer European nations. Orderly debt “restructuring” is probably the most optimistic scenario here.

The consequences of disorderly default, and a possible exit from the Eurozone by one or more members, could be catastrophic, leading to a slump with widespread bank failures and wealth destruction. Nor will the effects be confined to the Eurozone.

It seems policymakers are coming to realise the severity of the risks, and while progress may be slow and leadership less clear than markets would like, it is still probable that such disaster can be avoided. If that is so, especially if policy stimulus is effective, then stocks can stabilise and perhaps recover substantially; but downside is considerable if politicians cannot prevent a chaotic Greek default and we slip towards a Euro break-up.

In any event, we know that markets are likely to be uncomfortable and volatile for a while to come but we believe that for the medium to long term our portfolios will be correctly positioned. We are increasing cash holdings to be able to move quickly when we see opportunities to invest.

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MAJOR SOURCES

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KEY POINTS

- Once again, as we write, markets are in turmoil, led by rumour upon rumour of default and economic annihilation - and not just in Europe either. The rudderless USA is also seen as ungovernable pro tem. Even China, the favoured cradle of growth, now seems to be giving investors cause for concern as forecasts abound of a serious slowing (in Chinese terms anyway) of estimated growth. Despite problems here in the UK, it would seem to be regarded as a relatively safe haven, provided that the Chancellor sticks to his austerity guns.

- It is the Eurozone crisis that is dominating the headlines; at present there are many rumours flying round about the decisions politicians will take in order to solve the poisonous problem. Yet these are not the only problems dogging the world economy. The stand-off in the US between the President and the Republicans has led to a political impasse regarding any stimulus for job creation. This paralysis of policy has played a large part in undermining investor confidence.

- Admittedly the US does have the luxury of more policy flexibility than the Eurozone. However, the debacle over the debt ceiling hike has increased the burden on the Fed to use more monetary policy moves in order to stimulate growth and create new jobs. In fact there are fledgling signs of renewed acceleration in US monetary data, providing some hope of an increase in activity, but the S&P debt downgrade highlights problems to come in containing US budgets in the not too distant future.

- One of the key problems for politicians in formulating policy is the current phase of the electoral cycle. In the US, the Republican play to retake the White House next year is seriously impacting the current administration's efforts to prime the pumps. Similarly the German electoral timetable is perhaps causing Chancellor Merkel to be less decisive than the situation probably demands and in France, President Sarkozy faces re-election next year, colouring all his actions.

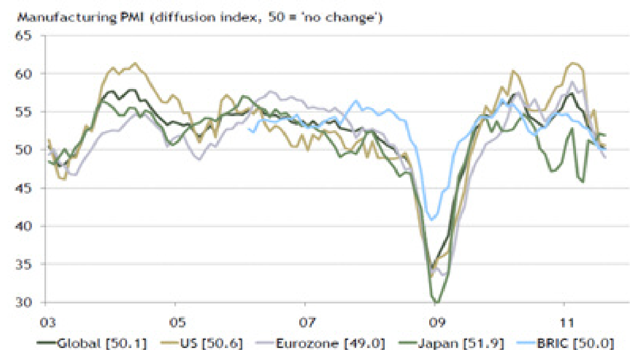
- Here in the UK life is also a little strained as the economy slows once more. The government faces serious challenges from the public sector unions over the plans to cut the budget deficit through streamlining - affecting public sector pensions and retirement age. Growth is also stalling despite good progress so far on deficit cuts and economic gauges such as unemployment and retail sales have shown slowing trends.

- Meanwhile companies still have growth in profits, although analysts have been revising down their forecasts. As yet there is little sign that profits will actually contract although profits growth may slow from the recent records. However, at current market levels, equities are pricing as if there will be a profits shortfall in 2012, with a predicted contraction in global earnings per share of around 10-15%. Investors need to consider if this is actually realistic.

- Currency markets have actually taken much of the strain caused by the panic: witness the Swiss National Bank's recent action to peg the Swiss Franc and the resurgence of the US Dollar despite the prevailing view that it is in long term decline.

- Halting the slide now in both equity markets and economies relies both on determined political leadership **and** investors' perceptions of its effectiveness.

A SYNCHRONISED SLOWDOWN?



Source: ASR

SCENARIOS DISCUSSED

THE 7IM ASSET ALLOCATION COMMITTEE LOOKED AT SEVERAL ECONOMIC VIEWS FOR Q4, 2011.

LIKELIHOOD	SCENARIO
MUDDLE-THROUGH 35%	We may go to the brink - but Greek debt is restructured in orderly fashion and the banking system is able to absorb losses. Europe continues to inch towards greater fiscal integration. Western economies remain close to stalling but retain enough momentum to achieve modest expansion, helped by extended monetary stimulus. This might be achieved by the reverse or delay of fiscal tightening in some economies, by trade with emerging economies and by gradual recovery in corporate and household confidence. Equity markets may be volatile, lurching from paranoia to euphoria, but recover as confidence grows that corporate earnings and dividends can be maintained. Concerns over inflation may persist thanks to Quantitative Easing.
"JAPAN-ISATION" 30%	Catastrophe in Eurozone is avoided, for now, with an orderly restructuring of Greek debt and easing of concerns over solvency elsewhere in the periphery. Weighed down by excessive debt, developed economies continue to lose momentum. Further attempts at monetary and fiscal support prove ineffective. Companies remain cautious on capital expenditure and hiring, preferring to hoard cash and to invest in Emerging Markets (EM). Credit creation is weak; unemployment rises as private sector is unable to offset layoffs in private sector; housing markets take another step lower. There is a high probability of recession. Equities fall as long-term earnings expectations are revised lower, although defensive stocks and firms with high exposure to growth in EM may suffer less. Bond yields grind lower as investors adjust yield expectations and inflation fears subside - deflation becomes an issue again.
"ARMA-GEDDON" 20%	The authorities lose their grip and cannot avoid a disorderly Greek default and/or exit from Eurozone. This sparks a full-blown banking crisis, with a large global impact, and risk of other Eurozone defaults as well as a serious impact on other developed world institutions and activity. Bank insolvencies lead to nationalisations / bailouts for important key institutions and the failure of others. Companies cut costs and hoard cash, consumers retrench and trade seizes up. A significant recession and market dislocation ensues as Euro break-up appears more probable, perhaps ultimately leading to disintegration of the European Union. Political recriminations lead to a serious breakdown in some international relations. Panic grips investors: gold and highest quality bonds perform well although there is a risk of higher yields for most indebted governments), Dollar (and Yen?) benefits from flight to quality; equities and credit fall sharply.
GREAT ESCAPE 15%	Policymakers in Europe and the US (and BRICs?) surprise markets with decisive and co-ordinated action, addressing risks of banking crisis and safeguarding the future of the Euro. Confidence among firms and households recovers: capital expenditure and employment growth pick up, housing markets stabilise and developed economies achieve sustainable growth - not at pre-crisis levels, as the ongoing debt reduction still reduces potential growth, yet strong enough to ease concerns over double-dip or stagnation. Equities rally significantly – bond yields rise.

Footnote Glossary: BRIC - an acronym that refers to Brazil, Russia, India & China: countries which are all deemed to be at a similar stage of newly advanced economic development. Also known alternatively as the "Big Four"

SUMMARY OF DISCUSSIONS

BIG PICTURE: When the facts change, we change our minds. It has long been clear to us that we face a long period of low growth in the Western economies as the process of debt reduction grinds on in the banking sector, households and now the public sector.

Markets are crying out for strong, swift and co-ordinated policy responses to tackle an unfolding crisis in Eurozone debt markets, which may be spreading to the global banking system. As we write, this is yet to materialise fully: European leaders and the G20 may yet be able to head this off, but markets are impatient and firms and consumers are losing confidence.

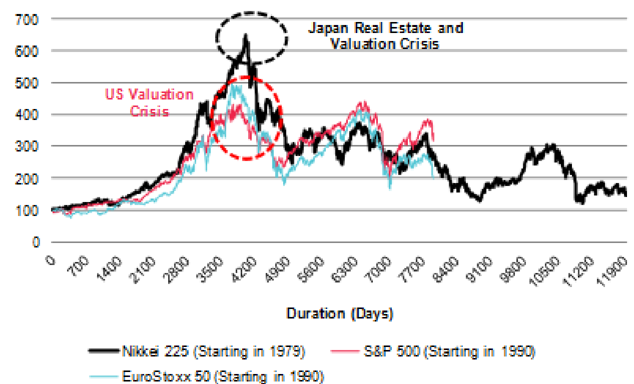
The deep polarisation in the US political system means that leadership and direction are lacking there too. The prospects for a “great escape” - with strong policy measures generating reasonable growth - start to appear very limited. The problem remains of how to generate growth in an economy where debt reduction is the over-riding theme and, with fiscal austerity the order of the day, governments are constrained. As confidence erodes, hope fades that the relatively healthy corporate sector would drive growth through capital expenditure and hiring. Extraordinary monetary policy measures may provide relief but this is perhaps just temporary and does not support sustainable growth.

There is a danger in cutting risk in portfolios at what could prove to be a period of extreme pessimism, when valuations appear cheap; however, we must plan for the possibility that the environment could get worse before it gets better and that policy mistakes and a collapse in confidence could lead us into a renewed crisis. In this situation, we must prioritise capital preservation, defensiveness and diversification and be prepared to wait before looking to exploit value in markets.

- After a strong year for global growth last year, 2011 has seen the removal of two key supports: growth in Emerging Markets has slowed and Western policy stimulus has weakened or reversed. Now, Western economies face downgraded growth expectations: the risk of policy mistakes such as excessive fiscal tightening and slowness of European policymakers to get a strong enough response to the debt crisis is considerable. Additionally, households and corporate surveys are reporting a loss of confidence in both areas. This could be reversed if the policy response is strong enough - recession is not inevitable; but, if unchecked, the loss of confidence could lead into a renewed downturn.

- The West today does not face all of the problems Japan faced before its long period of stagnation and disinflation began, but it faces some. We expect an extended period of low growth and low inflation. The system built up over the past two decades, in the US, UK and parts of Europe, dependent on credit, construction, housing, retail and financial services has proved unsustainable.

TURNING JAPANESE?



Source: Thomson Reuters

- Although it may still be correct to think of “two worlds”, with fragile Western economies and stronger growing emerging economies, it remains the case the Emerging Markets economies are dependent to a significant extent on their export markets in the West.

SUMMARY OF DISCUSSIONS

Emerging Markets economies also face the impact of food price inflation and policy tightening that was intended to combat inflation pressures seen earlier in 2011, and are experiencing a period of slowing growth. China's slowdown, as a result of tightening measures intended to control inflation, is a significant negative for the global growth outlook. Recent trade data is not encouraging for the Emerging Markets growth outlook. If the West goes into recession, Emerging Markets economies will clearly be hit.

- The prospect of a muddle-through scenario in Europe is probably still the most likely. Greece will default, but the question is whether this can be handled in an orderly manner, with Greece staying in the Eurozone, or whether we face a unilateral default and Greece's exit from the Eurozone. In an orderly default, the banking system can handle the write-downs and continue to function, supported by the European Financial Stability Facility and by further recapitalisations, perhaps nationalisations. This may yet mean pain for bank shareholders and bank nationalisations could lead to further sovereign downgrades, e.g. for France. (This raises the possibility of looking to reduce bank exposure within our equity holdings.)

  The key is whether the authorities can confine the spread to other vulnerable European economies and through the banking system. Although some members of the Committee felt there was a reasonable chance of Greece exiting the Euro, others felt that this would be extremely damaging and the breaking of a taboo. This could lead to the unwinding of the EU project and thus the authorities would therefore act to deal with Greek default within the Eurozone system. It was felt that Germany would recognise the benefits of continued Eurozone membership and would be prepared to pay if a solution is seen as "fair". Longer-term, a gradual move towards greater fiscal integration in a surviving Euro system was seen as likely.

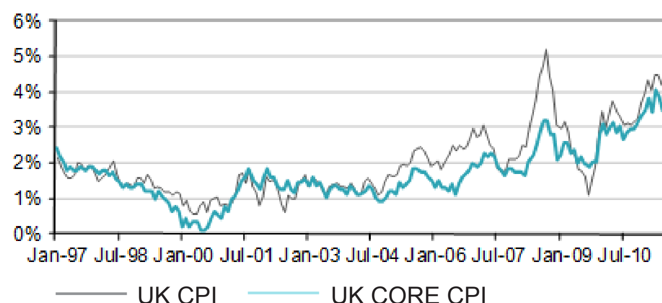
- The banking system is again at the centre of concerns over markets and the economy. Tighter banking regulations like Basle III and the Vickers Report are forcing the sector to raise capital and shrink its balance sheet. This process then curtails their lending and investment to the wider economy. Whilst a lower risk banking system is desirable in the long term, the impact of this in the short to medium termwill be limited credit availability.

  Additionally, bank equities will appear to be unattractive as returns fall, making capital-raising difficult and exacerbating uncertainty. Substantial further bank recapitalisations seem likely, in order to head off concerns over banks' solvency and liquidity in the event of default by Greece (and other losses), and may suggest further nationalisations or rescues would be necessary. The possibility remains of a greater regulatory backlash against funds and traders seen as contributing to the crisis.

- We need the behaviour of companies to change – large corporations still appear reluctant to invest, despite their low cost of capital, and private sector hiring is subdued. Large multi-national companies appear more prepared to invest for growth in faster growing economies than in the West. However, while confidence in Western economies, policymakers and the banking system remains fragile, the risk remains that firms will hoard cash and seek to protect margins rather than invest for growth.

- The Committee see little near-term inflation threat, despite past Quantitative Easing, as subdued growth looks set to constrain price pressures. There was a suggestion that stagflation remained a possibility, but inflation concerns overall appear to have diminished. Others suggested that inflation pressures in Emerging Markets remained more problematic.

UK CORE INFLATION MIRRORS HEADLINE

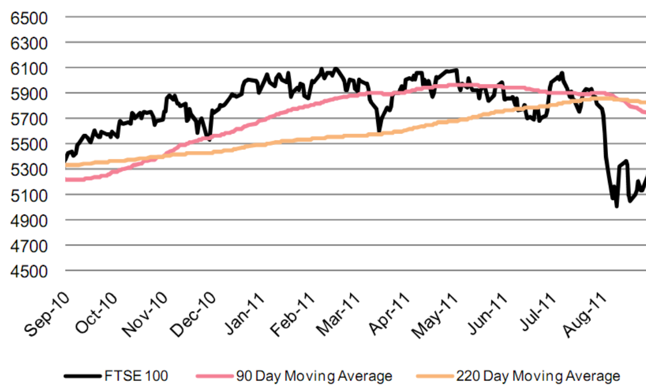


Source: EcoWin

MARKET VIEWS FOR Q4

EQUITIES

FTSE100 INDEX



Source: Reuters

We expressed a more cautious view on equities last quarter and hoped to be able to reduce weightings on strength. Although we were able to make modest reductions and held a minimal “put” position, our adjustments before the sharp August correction were fairly minor and portfolios were still overweight. Now, with a more cautious macro view, we may need to move more defensively. There was a feeling that equities had corrected enough to discount the likely outcomes (while still perhaps justifying defensive moves within a static overall equity allocation), but equally some felt the downside risks if a crisis unfolded were serious enough to justify reducing equity weights, perhaps sharply, even after the falls seen so far. Although equities potentially offer good long-term value and positive potential could be significant over time if the markets’ worst fears are not realised (i.e. if the outcome is merely “bad” rather than dire...), there is little meaningful prospect of this more rosy scenario playing out, certainly not in the more immediate future.

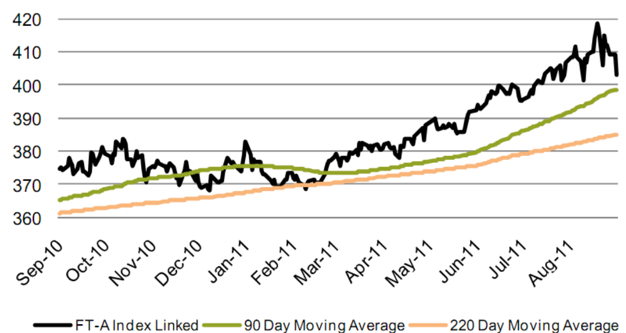
- Valuations for equities appear attractive. Dividend yields are as high, versus government bond yields, as they have been in over 50 years. Price/Earnings ratios are undemanding, with single-digit valuations for many markets. If earnings and dividends are maintained, equities look cheap. There was a view that the prospects of a re-rating were remote, while a subdued long-term growth outlook could stifle earnings expectations. Others felt that valuations reflected extreme pessimism and that equities could recover well if the worst outcomes of crisis and recession were avoided.

- A preference was widely expressed for large cap stocks with high and sustainable yields, high international or emerging market exposure and strong balance sheets. Even in an environment of recession and banking crisis, these would be subject to mark-to-market losses but could outperform broader markets.

- The suggestion of avoiding banks and investing across other sectors was considered, although it was noted that in some markets, index weightings in banks were already very low. It was also suggested that we differentiate more within European equity, minimising exposure to equities in the periphery.

BONDS/CASH

FTA ALL STOCKS INDEX-LINKED TOTAL RETURNS



Source: Reuters

We were wrong to remain underweight government bonds last quarter. We believed that yields were too low to be appealing, but the combination of risk aversion, downgraded growth expectations and anticipation of central bank buying at longer debt maturities has pushed yields to further new lows for core government bonds – record lows in some cases. Real yields may be negative, but this has proved no deterrent. It was widely agreed that bonds offered no value, but some suggested that they could yet get more expensive if risk aversion persisted.

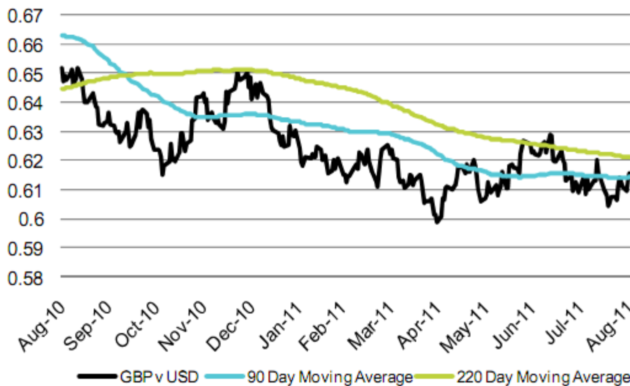
- Record low yields offer little value in government bonds, although perhaps longer maturities are fairer value and could perform in an environment of very low growth with the yield curve flattening further.

MARKET VIEWS FOR Q4

- Credit spreads have widened and may offer better value, but bank exposure in particular (a large element of investment grade bond indices) could be problematic in a recession scenario and particularly in an intensifying banking crisis.
- High yield bonds pricing may again overstate the likely default experience, as was the case in 2008-09, and may offer value.
- Cash offers the certainty of negative real returns, while interest rates remain well below inflation, but some members felt that holding higher cash levels was wise in view of the risk of equity markets declining significantly from current levels.

CURRENCY MARKETS

UK STERLING V US DOLLAR



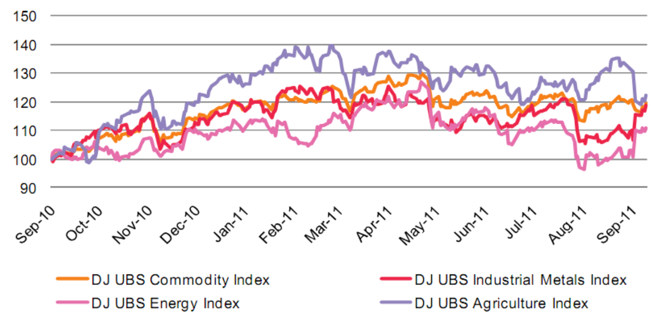
Source: Reuters

In **Foreign Exchange**, our earlier move to increase Dollar hedges, believing that further easing measures could weaken the Dollar, proved detrimental. There may be a case for reducing our US Dollar hedges, as risk aversion could yet propel a further Dollar rally towards $1.50 against Sterling. A possible new Homeland Investment Act could also support US Dollar flows. Quantitative Easing in the UK could serve to weaken Sterling. We are substantially hedged versus the Euro and this may still be appropriate, as concerns over Eurozone debt persist. Views on Japanese Yen were more mixed, with some believing the Bank of Japan's intervention to weaken the currency was likely, but others seeing Japan's strong current account as a key support.

Views on **Gold** were somewhat cautious, with some feeling that there was serious risk of a correction after the recent spike.

ALTERNATIVE INVESTMENTS

DJ-AIG COMMODITIES



Source: EcoWin

In alternatives, it was suggested that valuations in listed **hedge funds** were becoming less attractive, as discounts narrowed, and that we may continue to reduce allocations. Some felt that continuing to build **Managed Funds/CTA** allocations would be helpful, as they offered a potentially useful diversifier in portfolios. Views on **property** were mixed, with some feeling that demand for prime real assets in London from buyers from Emerging Markets remained strong, but others less comfortable with valuations of property. There was a view that **infrastructure** assets could still be useful, with their low cyclicality and predictable revenue streams. Views on **commodities** ranged from the feeling that slower global demand would cap prices to suggestions that demand from Emerging Markets remained supportive; some felt that softs, with less exposure to the economic cycle, may be better supported.

Footnote Glossary:
Softs - A label for a set of commodities, usually including cocoa, sugar, and coffee. Cotton, orange juice, and grains are sometimes also considered soft commodities. Most other commodities are not included, such as metals, chemicals, livestock and financial futures, also called soft commodities.

CONCLUSIONS AND ACTIONS

After the correction, there may be good value on offer in many risky assets, with credit spreads at wide levels, equity dividend yields at 50-year highs versus government bonds and single-digit Price/Earnings ratios on many equity markets.

Investors who can truly take a long-term view, looking through the probable near-term volatility that markets face as the Eurozone crisis is resolved, should be committed to equities. However, we feel compelled to reduce target equity allocations to a neutral setting for the time being, rather than the overweight that valuations might appear to justify. Although we believe that the Euro will survive its current crisis, and policymakers will take appropriate steps to save the European Union, there is a chance that a disorderly Greek default will lead to a major banking crisis; although Greek default seems a given, our view is that a banking crisis and subsequent damage to the real economy is much less likely. However, it's not a risk we can ignore, given its potentially large impact. Moreover, policymakers are moving more slowly than impatient markets and media would like: there is a risk that even if appropriate policy steps are taken, the pace of action is such that risky assets could have lost further ground, or firms and households in the real economy could have lost confidence to such a degree that a recession results.

EQUITIES

It is painful to cut weights after a correction and we are all too aware of the risks of selling at the bottom, but we must look forward not back. The short-term outlook has deteriorated and, although we see genuine value in equities, we must be mindful of the levels of volatility that our investors can tolerate and we must guard against the impact of a low-probability, but highly damaging Eurozone crisis scenario coming to pass.

- We make a significant cut to equity target weights, to neutral overall, reducing Emerging Markets and Developed Markets allocations.

- There may be scope for adjustments within a reduced equity allocation, towards favoured sub-sectors and themes: preferring Germany to broader Eurozone; favouring defensive multinationals with sustainable yield and strong balance sheets over banks. Dividend futures may also offer value – there is a risk of dividend cuts but these are factored in to dividend futures pricing to a substantial degree already.

- If equity volatilities fall, we may buy puts again to provide protection against a crisis scenario but we are wary of the costs of buying insurance after the fire has started.

BONDS/CASH

We cannot justify reducing our underweight stance on government bonds with yields at their lowest recorded levels. Government bond markets go a long way to pricing in a prolonged period of low growth and low inflation already: significant upside exists only in deep crisis scenarios. We would prefer credit, where spreads have widened and perhaps go further than equity markets in pricing in a negative scenario.

- High yield spreads now discount an implausibly high level of defaults. We are wary of increasing allocations while markets remain so volatile, but the next quarter may provide opportunities.

- We are comfortable adding to investment grade credit, favouring non-financials.

- Although cash returns are close to zero, we would hold much higher levels of cash than usual to provide portfolio flexibility and reduce exposure to volatile markets.

CONCLUSIONS AND ACTIONS

CURRENCY MARKETS

After "Operation Twist", further monetary stimulus in the US is not expected in the near-term; while the chances of Quantitative Easing in the UK are rising. We therefore look to reduce our US Dollar hedges. While the risk of a proliferating Eurozone crisis remains, we retain substantial hedges on our Euro exposure. The Yen has remained strong – we retain hedges for now, with the risk of the Bank of Japan's intervention a real one, but would consider reducing hedge ratios on any period of strength.

ALTERNATIVE INVESTMENTS

Commodities have held up well relative to equities and may be more vulnerable if recession scenarios are played out; we move more firmly underweight. UK **property** shares have outperformed the FTSE this year but may be vulnerable in a renewed slowdown. Yields on property are high relative to bonds but we would have concerns over sustainability of rents in a slower growth environment and therefore look to reduce. We will continue to build **CTAs** in preference to **hedge funds**. Listed **infrastructure** assets have some appealing qualities, with low cyclicality and sustainable income, although we must be mindful of valuations. Listed **private equity** has been hit very hard in the recent sell-off and may offer very good value, but more difficult equity market conditions suggest that realisations by Private Equity managers may decline.

PROPOSED CHANGES TO THE PORTFOLIOS

Proposed changes to target allocations reflect the views of the Asset Allocation Committee as at 21 September 2011. The role of the Asset Allocation Committee is to advise the 7IM Investment Team. Actual implementation and timing of proposed changes in portfolios will be based on the judgment of the 7IM Investment Team, taking account of market and economic conditions. Proposed allocations are subject to change at any time as the 7IM Investment Team seeks to reflect developments in the market environment and outlook.

KEY: ↑ - Increase allocation ↓ - Decrease allocation → - No change planned

MODERATELY CAUTIOUS / CAUTIOUS*

		Change since last qtr.	New Allocation
→	UK Equity	0	10.0
↓	US Equity	-0.5	3.5
↓	European Equity	-1.0	3.0
→	Japan Equity	0	2.0
→	Far East ex-Japan Equity	0	0.0
↓	Emerging Markets Equity	-1.5	0.0
→	Frontier Markets Equity	0	0.0
→	Global Equity Themes	0	2.5
↓	Global Government Bonds	-2.0	6.0
→	Gilts	0	11.0
→	Index-linked Gilts	0	7.5
→	Sterling Corporate Bonds	0	9.0
→	Global Corporate Bonds	0	6.0
↑	Global High Yield Bonds	+3.5	7.0
→	Emerging Markets Bonds	0	4.0
→	Commodities	0	2.0
→	Timber	0	1.0
→	Private Equity	0	0.0
→	Property	0	3.0
→	Infrastructure	0	4.0
→	Hedge Funds	0	3.0
→	Managed Funds/CTAs	0	2.0
→	Currency Funds	0	3.5
↑	Cash	+1.5	10.0

BALANCED

		Change since last qtr.	New Allocation
↓	UK Equity	-1.0	16.0
↓	US Equity	-1.0	7.0
↓	European Equity	-1.0	5.0
↓	Japan Equity	-0.5	3.0
↓	Far East ex-Japan Equity	-0.5	3.0
↓	Emerging Markets Equity	-1.0	3.0
→	Frontier Markets Equity	0	0.0
→	Global Equity Themes	0	3.0
→	Global Government Bonds	0	4.0
→	Gilts	0	6.0
→	Index-linked Gilts	0	4.0
↑	Sterling Corporate Bonds	+1.5	8.0
→	Global Corporate Bonds	0	4.0
↑	Global High Yield Bonds	+3.0	6.0
→	Emerging Markets Bonds	0	3.0
↓	Commodities	-0.5	2.0
→	Timber	0	1.0
↓	Private Equity	-0.5	1.0
↓	Property	-0.5	3.0
→	Infrastructure	0	2.0
→	Hedge Funds	0	4.0
→	Managed Funds/CTAs	0	2.0
→	Currency Funds	0	3.0
↑	Cash	+2.0	7.0

MODERATELY ADVENTUROUS / GROWTH*

		Change since last qtr.	New Allocation
↓	UK Equity	-0.5	23.5
↓	US Equity	-1.0	11.0
↓	European Equity	-1.5	7.5
↓	Japan Equity	-1.0	3.5
↓	Far East ex-Japan Equity	-1.0	3.0
↓	Emerging Markets Equity	-0.5	7.0
→	Frontier Markets Equity	0	0.0
→	Global Equity Themes	0	3.0
→	Global Government Bonds	0	2.0
→	Gilts	0	2.5
→	Index-linked Gilts	0	2.0
↑	Sterling Corporate Bonds	+2.0	5.0
↑	Global Corporate Bonds	+1.0	4.0
↑	Global High Yield Bonds	+1.0	3.0
→	Emerging Markets Bonds	0	0.0
→	Commodities	0	2.5
→	Timber	0	0.0
↓	Private Equity	-0.5	3.0
→	Property	0	3.5
→	Infrastructure	0	0.0
→	Hedge Funds	0	4.0
→	Managed Funds/CTAs	0	2.0
→	Currency Funds	0	2.0
↑	Cash	+2.0	6.0

ADVENTUROUS

		Change since last qtr.	New Allocation
↑	UK Equity	+0.5	30.0
→	US Equity	0	14.0
↓	European Equity	-1.0	10.0
↓	Japan Equity	-1.0	5.0
↓	Far East ex-Japan Equity	-1.0	3.0
↓	Emerging Markets Equity	-1.5	8.0
→	Frontier Markets Equity	0	3.0
→	Global Equity Themes	0	3.5
→	Global Government Bonds	0	0.0
→	Gilts	0	0.0
→	Index-linked Gilts	0	0.0
→	Sterling Corporate Bonds	0	0.0
→	Global Corporate Bonds	0	0.0
↑	Global High Yield Bonds	+2.0	2.0
→	Emerging Markets Bonds	0	0.0
→	Commodities	0	2.5
→	Timber	0	0.0
↓	Private Equity	-1.5	4.0
→	Property	0	3.0
→	Infrastructure	0	0.0
→	Hedge Funds	0	3.5
↑	Managed Funds/CTAs	+1.0	3.0
→	Currency Funds	0	0.0
↑	Cash	+2.5	5.5

* Discretionary Fund Strategy

GLOBAL MARKET PERFORMANCE AS AT 30 SEPTEMBER 2011

INDEX	Value as at	Change Sep 2011		Q3 2011		YTD 2011		Change 2010		Rolling 3-year	
	30-Sep-11	Local	GBP	Local	GBP	Local	GBP	Local	GBP	Local	GBP
FTSE World (TR)	184.6	-9.7%	-6.1%	-18.0%	-15.9%	-15.3%	-15.6%	10.4%	14.4%	-4.3%	8.8%
United Kingdom											
FTSE All Share	2654.4	-5.2%	-5.2%	-14.3%	-14.3%	-13.3%	-13.3%	10.9%	10.9%	6.9%	6.9%
FTSE All Share (TR)	3662.3	-5.0%	-5.0%	-13.5%	-13.5%	-10.9%	-10.9%	14.5%	14.5%	19.2%	19.2%
FTSE 100	5128.5	-4.9%	-4.9%	-13.7%	-13.7%	-13.1%	-13.1%	9.0%	9.0%	4.6%	4.6%
FTSE Mid 250	9819.4	-6.7%	-6.7%	-17.7%	-17.7%	-15.0%	-15.0%	24.2%	24.2%	24.5%	24.5%
FTSE Small Cap	2805.3	-7.2%	-7.2%	-14.3%	-14.3%	-13.1%	-13.1%	16.3%	16.3%	15.6%	15.6%
North America											
S&P 500	1131.4	-7.2%	-3.5%	-14.3%	-12.0%	-10.0%	-10.4%	12.8%	16.8%	-3.0%	10.4%
Dow Jones Industrials	10913.4	-6.0%	-2.3%	-12.1%	-9.7%	-5.7%	-6.1%	11.0%	15.0%	0.6%	14.4%
NASDAQ	2415.4	-6.4%	-2.6%	-12.9%	-10.6%	-9.0%	-9.3%	16.9%	21.1%	15.5%	31.4%
Europe											
DJ Stoxx Europe	214.8	-6.1%	-8.9%	-23.1%	-26.9%	-21.7%	-21.5%	-0.1%	-3.5%	-24.0%	-17.3%
France CAC 40	2982.0	-8.4%	-11.1%	-25.1%	-28.7%	-21.6%	-21.4%	-3.3%	-6.6%	-26.0%	-19.6%
Germany DAX	5502.0	-4.9%	-7.7%	-25.4%	-29.0%	-20.4%	-20.6%	16.1%	12.0%	-5.6%	2.6%
Switzerland SMI	5531.7	0.1%	-7.4%	-10.6%	-14.5%	-14.1%	-12.4%	-1.7%	13.5%	-16.9%	17.3%
Asia Pacific & Emerging Markets											
Topix	761.2	-1.2%	1.9%	-10.4%	-3.9%	-15.3%	-11.7%	-1.0%	16.8%	-30.0%	9.6%
Australia All Ords	4070.1	-6.9%	-12.1%	-12.7%	-18.6%	-16.0%	-20.5%	-0.7%	17.2%	-12.1%	23.0%
MSCI Emerging Markets (Free)	880.4	-14.8%	-11.4%	-23.2%	-21.1%	-23.5%	-23.8%	16.4%	20.5%	11.9%	27.3%
Brazil Bovespa	52324.4	-7.4%	-17.9%	-16.2%	-27.7%	-24.5%	-33.6%	1.0%	10.6%	5.6%	24.4%
Russia IRTS	1341.1	-21.2%	-18.1%	-29.7%	-27.8%	-24.2%	-25.5%	22.5%	28.5%	10.7%	25.9%
India Sensex	16453.8	-1.3%	-3.3%	-12.7%	-18.4%	-19.8%	-27.0%	17.4%	26.6%	27.9%	40.2%
China Shanghai	1684.5	-8.5%	-4.9%	-15.3%	-12.0%	-14.8%	-12.4%	-22.6%	-16.9%	-7.0%	17.2%
Fixed Interest & Cash											
FT-A All Stocks Gilt	166.5	3.3%	3.3%	6.9%	6.9%	6.4%	6.4%	2.8%	2.8%	12.7%	12.7%
FT-A All Stocks Gilt (TR)	2698.9	3.3%	3.3%	8.3%	8.3%	10.1%	10.1%	7.2%	7.2%	28.5%	28.5%
FT-A Index-linked (TR)	2986.6	3.8%	3.8%	6.4%	6.4%	10.7%	10.7%	8.9%	8.9%	27.3%	27.3%
ML Global Broad Corporate Index (TR)	241.8	-3.1%	-3.1%	-1.6%	-1.6%	3.6%	3.6%	6.0%	6.0%	30.2%	30.2%
Iboxx £ Corp Bond Index (TR)	215.2	-0.9%	-0.9%	-1.0%	-1.0%	2.2%	2.2%	8.7%	8.7%	26.7%	26.7%
JPMorgan Emerging Market Bonds+	572.1	-3.4%	0.7%	-0.5%	2.5%	3.7%	3.9%	12.0%	16.0%	39.1%	59.0%
Citigroup World Govt Bond (TR)	598.4	1.9%	2.9%	2.8%	2.9%	3.9%	4.4%	3.4%	8.5%	14.8%	39.5%
3 month LIBOR (TR)	208.8	0.1%	0.1%	0.2%	0.2%	0.6%	0.6%	0.7%	0.7%	4.4%	4.4%
Other Assets											
IPD UK Property (TR)*	816.7	0.6%	0.6%	1.9%	1.9%	6.6%	6.6%	17.6%	17.6%	4.4%	4.4%
GSCI Commodities (TR)	4483.7	-12.2%	-8.6%	-11.7%	-9.3%	-9.3%	-9.6%	9.0%	12.9%	-40.5%	-32.3%
Gold (New York, $/oz)	1624.0	-11.1%	-7.5%	8.2%	11.1%	14.3%	13.9%	29.5%	34.1%	86.5%	112.1%
LPX MM Listed Private Equity (€, TR)	187.2	-9.3%	-11.9%	-23.7%	-27.4%	-23.8%	-23.6%	41.1%	36.3%	-20.8%	-13.9%
HFRX Hedge Funds Index*	2116.7	-3.5%	0.0%	-5.1%	-3.5%	-3.2%	-5.5%	3.3%	5.2%	-9.7%	-3.1%
7IM Funds											
Income OEIC - C Acc	127.7	-1.5%	-1.5%	-4.2%	-4.2%	-1.7%	-1.7%	8.9%	8.9%	19.0%	19.0%
Mod Cautious OEIC - C Acc	140.7	-1.5%	-1.5%	-5.1%	-5.1%	-3.8%	-3.8%	8.7%	8.7%	18.6%	18.6%
Balanced OEIC - C Acc	143.4	-2.6%	-2.6%	-8.7%	-8.7%	-8.1%	-8.1%	11.1%	11.1%	15.7%	15.7%
Mod Adventurous OEIC - C Acc	146.8	-3.0%	-3.0%	-11.5%	-11.5%	-11.6%	-11.6%	12.5%	12.5%	12.5%	12.5%
Adventurous OEIC - C Acc	135.8	-3.2%	-3.2%	-13.3%	-13.3%	-13.4%	-13.4%	13.5%	13.5%	10.0%	10.0%
Sustainable Balance OEIC - C Acc	97.5	-2.8%	-2.8%	-8.2%	-8.2%	-7.3%	-7.3%	7.9%	7.9%	4.6%	4.6%
Mod Cautious AAP - C Acc	108.8	-1.8%	-1.8%	-4.8%	-4.8%	-3.3%	-3.3%	7.2%	7.2%	15.3%	15.3%
Balanced AAP - C Acc	104.8	-3.2%	-3.2%	-8.7%	-8.7%	-7.5%	-7.5%	9.7%	9.7%	14.7%	14.7%
Mod Adventurous AAP - C Acc	99.9	-4.1%	-4.1%	-11.8%	-11.8%	-10.8%	-10.8%	11.1%	11.1%	12.1%	12.1%
Adventurous AAP - C Acc	93.9	-5.1%	-5.1%	-14.4%	-14.4%	-13.8%	-13.8%	12.8%	12.8%	7.0%	7.0%

* - Data is most recent available and subject to revision.
Performance is Capital Only unless marked TR (Total Return)

Sources: Reuters, Bloomberg, EcoWin.

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