

Quarter Report EUR

Q4 / 2012

The fourth quarter of 2012 was heavily influenced by news flow surrounding the fiscal cliff in the US and growing optimism that a viable solution to the debt crisis in Europe could be found. In the US Economic news related to housing and employment continued to be a positive influence on market sentiment but this optimism was countered by worries about the looming fiscal cliff. However, in Europe, ECB President Mario Draghi's pledge to do whatever it takes to preserve the Euro area, resulted in a major reversal in sentiment and the relative performance of the European indices to the US. The US dollar also came under pressure due to additional easing announcements from the FED and the Euro completely reversed its third quarter fall as a result. Gold continued to drift lower despite the US dollar weakness, as safe haven buying was less pronounced and some hedge funds facing large redemptions had to substantially reduce their very large gold exposure.

As a result of the market and currency movements outlined above, Global Equity markets in Euro were at the same levels at the end of the fourth quarter as they were at the end of the third quarter. Commodities other than gold performed better than they had done for most of the year as a result of the more positive economic news from China. Bonds produced a negative return during the fourth quarter of 2012 and caught many investors off guard. Most investors had piled into bonds during the first three quarters of 2012 at the expense of equities. The performance of the two assets classes for 2012 shows that equities were ahead by more than 10% (Fig. 1).



Fig. 1: Global equity performance versus global bond performance for 2012

Source: Bloomberg

The average performance of the EUR Balanced portfolios for 2012 was 8.9%, which is ahead of the benchmark at 8%. This better than benchmark performance was achieved despite a lower equity allocation than the benchmark. Therefore, for the whole year we took less risk for our clients than the benchmark.

However, due to the fact that our stock picking was very successful we were able to produce a better performance for our clients even with less risk exposure. In volatile markets this positioning is of great advantage to clients and we thank you for the positive feedback we have received in this regard. Some examples of our stock picking are Syngenta (+ 36%), Zurich Insurance (+23%) and Holcim (+35%) were some of the strong performers for the year. In the Euro area, the same is true for Allianz (+50%) and BASF (37%) in the Emerging markets Larsen&Toubro (+50%).

With respect to the emerging markets, we expected China and related themes to start performing well in the last quarter of 2012 and emphasised this in several reports and commentaries. We positioned client portfolios accordingly and this has been an important contribution to performance in the last quarter of

2012. We believe that after a short term pullback this trend will continue as the growth story in China gets more established (Fig. 2).

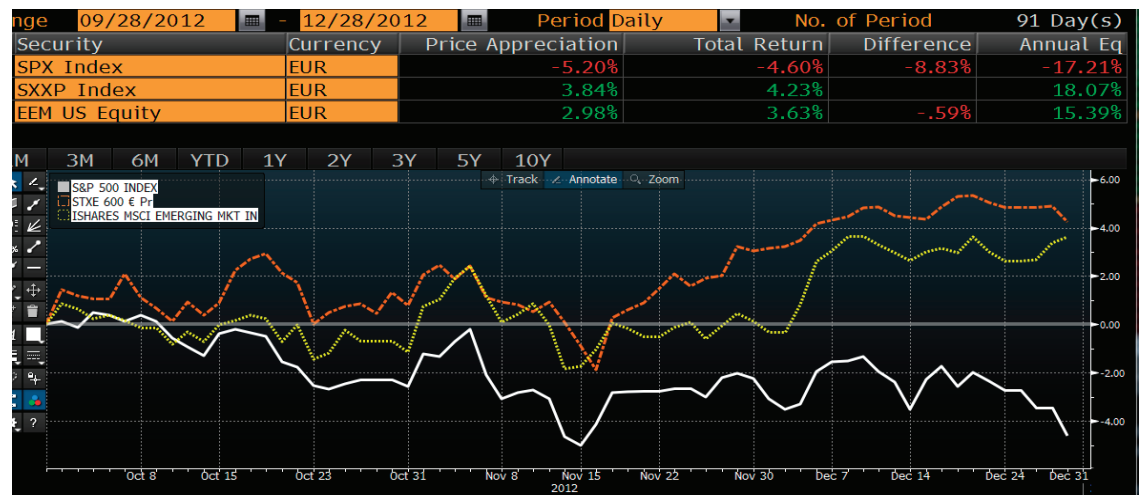


Fig. 2: US, European and Emerging market equity performance Q4 2012

SourceBloomberg

As we begin 2013, we are of the opinion that equities will continue to outperform bonds as they have done in the past year and that China related equities will perform better than most. Therefore, 2013 should be a good year for equities as growth, though substantially lower than historical averages, is better than expected, crises are averted and companies continue to post unspectacular but solid results. Multinationals are currently producing good cash flows coupled with historically low interest rates on their debt which is what makes equities continue to look attractive as an asset class despite worries about growth. China has already shown signs of recovery with controlled inflation and we believe that economic numbers will reveal more of the same in coming months. In our opinion, the most important factor contributing to equity performance is that investors will be forced into equities as bonds continue to underperform and they find themselves overweight bonds, and underweight equities. Furthermore, there is still a substantial amount of cash waiting on the sidelines and having missed a very strong rally the pressure to invest is growing daily.

We remain underweight bonds in the developed markets and overweight in the emerging markets and are slightly underweight equities in developed markets as we are underweight domestically focused companies. We currently hold about 10% of balanced portfolio assets in gold and intend to hold this position.

We thank all our clients for the trust they have placed in us and wish you and your families a happy, healthy, successful 2013.

Gillian Hollenstein

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