



Investment Update

April 2011

Investment Headlines & Comment

- Can you really say no to 25% pa for the next two years, or 15% pa for the next ten from a Eurozone government? **Greek bonds** now equate to a gamble on a horse.
- **Precious Metal** is the new stand-out commodity. With **Gold** now at *real-terms* prices last seen in the early 80s, **Silver** is coming up fast behind, up 37% this year!
- **Stamp duty** is now charged at 5% on residential properties over £1m. However, this does not apply to non-residential or mixed-use property (still at 4%).

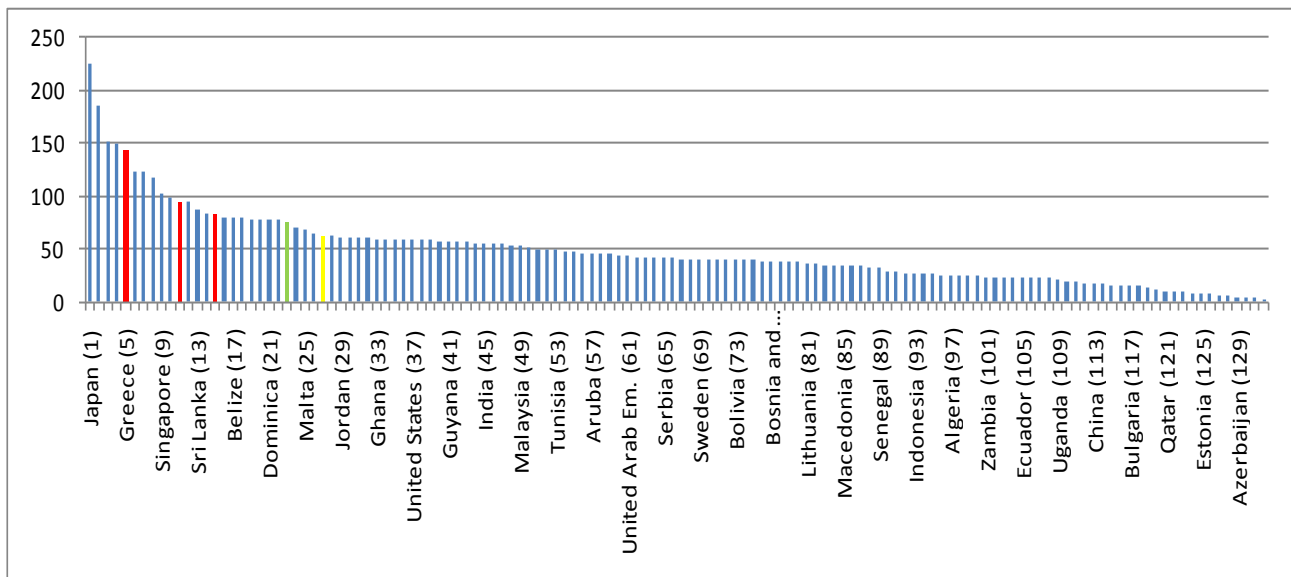
Feature Section

In this month's *Update* we finally have to learn diplomacy as we delve into the World Factbook of the Central Intelligence Agency (yes, *that* CIA, so we've got to be tactful) as it happens to be a useful source of "debt to GDP" ratios. Yes, it really is, honestly.

One of the Euro convergence criteria back in the early and mid 1990s was that government debt-to-GDP had to be below 60%, although you do now have to ask if, in some calculation cases, political will was allowed to override accounting won't. Greece, Ireland and Portugal have taken the Eurozone headlines in recent months as rescue packages have staved off immediate disaster, but how bad are their ratios compared to other "major" economies? Figure 1 below shows a selection of ratios from the CIA World Factbook, in descending order (the bracketed number is the country's ranking), but the data reliability has to be questioned in some cases¹, and it is only for public debt, not corporate debt as well.

Figure 1: Public debt to GDP ratios (%)

Source: CIA World Factbook



The largest ratio is for Japan, but this is arguably distorted by its government choosing to issue debt to its citizens rather than increasing their tax rates (even as a major economy, Japan yields one of the lowest tax revenues in the developed world). The three red bars are Greece (#5, 144%), Ireland (#11, 94%) and Portugal (#15, 83% - very similar to France, albeit the French economy is much bigger). All three are well above the Euro's original 60% qualification level. The level is an ongoing criterion as well (in theory, at least).

The green bar is the UK (#23, 77% - this is a "pre bank interventions" figure, and is very similar to Germany, but our debt profile is much longer dated, which arguably helps smooth the impact of refinancing the debt) and the yellow bar is for Spain (#27, 63%). We have highlighted Spain to show how significant the UK's non-Euro situation may be – our debt ratio is higher than Spain's, but our bond yields are typically 2% pa lower. Many commentators fear that Spain will be the next to test the Eurozone structure, with their banking structure being the most likely trigger.

¹ To put this comment in context for a non-Eurozone example, the US data excludes debt issued by individual US states, as well as intra-governmental debt – this aspect of US debt consists of Treasury borrowings from surpluses in the trusts for Federal Social Security, Federal Employees, Hospital Insurance (Medicare and Medicaid), Disability and Unemployment, and several other smaller trusts; if data for intra-government debt were added, the CIA states that "Gross Debt" would increase by about 30% of GDP. So, that would not be a negligible adjustment, but probably not enough to change the overall picture.



Asset Returns and Financial Measures [in Sterling unless marked otherwise]

The cells in bold with light shading show the best and worst performing asset classes from each column. The commodities and \$-based and unhedged-£-conversion hedge fund returns are excluded from that.

[NB Future returns cannot be inferred from this table alone, but coupled with other items within *Update*, readers can make inferences as to whether they should be higher or lower than the past returns shown below.]

Table 1: Investment Data to “30 April” 2011 [albeit with Royal Wedding distortions]

Asset Class	1 month (%)	3 months (%)	12 months (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	20 years (% p.a.)
UK Equities	3.1	4.7	13.7	4.3	4.1	4.4	8.7
Overseas Equities	-0.1	2.8	9.0	6.8	5.9	3.9	7.8
US Equities	-1.0	2.3	7.4	8.0	5.0	1.4	10.1
Europe ex UK Equities	4.0	7.4	16.9	3.3	5.8	5.7	9.0
Japan Equities	-3.5	-8.1	-6.4	-0.1	-3.6	-0.7	0.1
Pacific ex Japan Equities	0.1	3.4	12.5	11.0	13.4	13.5	10.2
Emerging Markets	-0.9	3.9	11.1	9.1	12.1	15.1	10.2
UK Long-dated Gilts	3.0	5.3	9.3	6.7	4.9	5.6	8.8
UK Long-dated Corp. Bonds	3.0	4.8	8.3	8.1	4.2	6.2	-
UK Over 5 Yrs Index-Linked Gilts	2.1	4.6	8.8	5.8	6.7	7.0	7.7
High Yield (Global)	-1.6	0.5	5.3	18.7	11.7	7.7	-
Overseas Bonds	-1.1	-0.6	1.9	12.5	9.9	6.3	7.3
Property *	0.9	2.3	10.7	-1.4	-0.2	6.5	8.1
Cash	0.1	0.2	0.8	2.0	3.4	3.9	5.5
Commodities £-converted	0.3	8.6	15.6	-8.3	-2.0	2.3	4.7
Hedge Funds original \$ basis *	0.1	1.7	9.5	4.1	5.0	7.2	11.9
Illustrative £-converted version *	1.6	-0.7	3.6	11.8	6.7	5.9	12.3
Euro relative to Sterling	0.5	3.9	2.4	4.2	5.1	3.7	-
US \$ relative to Sterling	-3.9	-4.0	-8.2	5.9	1.7	-1.5	0.2
Japanese Yen relative to Sterling	-1.8	-3.0	6.4	15.2	8.9	2.7	2.8
Price Inflation (RPI) *	0.5	1.8	5.3	3.1	3.6	3.0	2.9
Price Inflation (CPI) *	0.3	1.1	4.1	3.4	3.2	2.4	2.4
Price Inflation (RPIX) *	0.5	1.8	5.4	4.1	4.0	3.2	3.0
Earnings Inflation **	4.7	9.5	0.9	0.0	2.4	3.3	4.2
All Share Capital Growth	2.8	3.6	10.2	0.6	0.5	1.0	4.9
Net Dividend Growth	1.1	3.6	-1.0	-6.3	0.5	3.0	-
Earnings Growth	18.5	7.8	40.9	-0.4	3.7	6.6	-

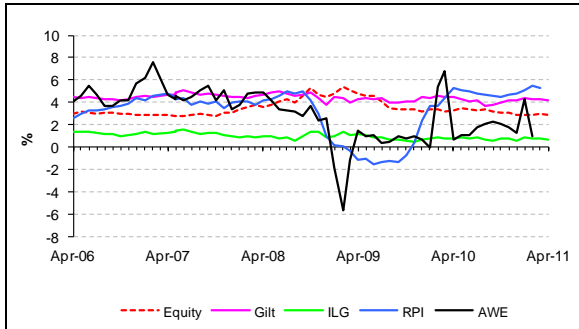
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- UK Equities (incl. dividends and earnings) – FT-A All Share.
- Overseas Equities (incl. regions) – blend of FT All-World / World subindices
- Emerging Markets from MSCI US \$ based total return index (overall Index to 31 Oct 2001, Free Index from 1 Nov 2001 to take account of foreign investment restrictions), conversion to UK £ by J&A.
- UK Bonds – FT-A indices (Gilts Over 15 Years, ILG Over 5 Years)
- UK Corporate Bonds – iBoxx Non-Gilt Over 15 Year index (all credit ratings combined)
- High Yield – Merrill Lynch Global, £ Unhedged
- Overseas Bonds – JP Morgan Traded Unhedged World ex UK
- Property – IPD Monthly Index
- Commodities – GSCI Total Return, converted to UK £ by J&A
- Hedge Funds Composite – HFRI US \$ based total return index plus converted to UK £ by J&A. NB A smooth “cash+x%” return will only be shown in the base ‘hedged’ currency, here the US \$.
- Cash – an indicative index based on the three-month London Interbank Sterling mid-rate, calculated internally by J&A
- Price and earnings inflation – RPI, CPI, RPIX, and Average Weekly Earnings (whole economy, not seasonally adjusted, latest provisional data)
- Currency data – London close, from the Financial Times
- * denotes data lagged by 1 month, ** by 2 months – these reflect the later publication dates of these data items.

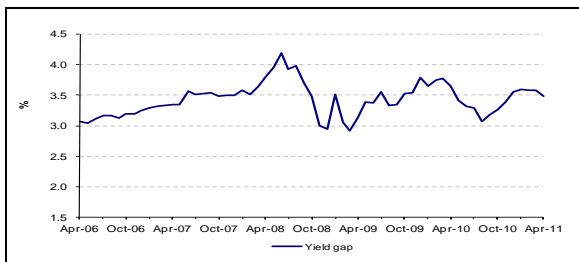


Yields and Yield Gaps

Figure 2: Yields, Inflation and Yield Gaps



The yield gap is a measure of expected average future inflation, derived as long bond yield minus ILG yield.

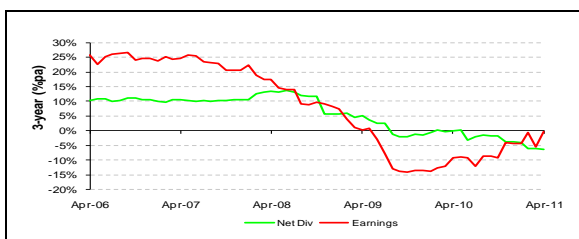
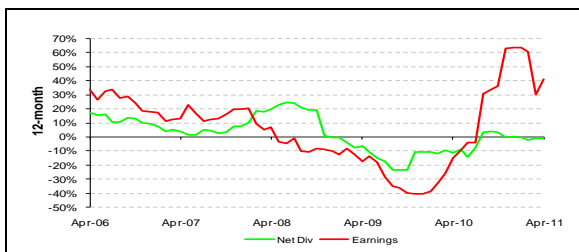


The gap gives expectations of just under 3.5% for longer-term inflation + risk premium for gilts, relative to index-linked gilts.

Growth in Earnings and Dividends

These charts show movements in rolling 12-month and 3-year dividend and earnings growth for UK Equities over the last 5 years. [NB the charts have different scales]

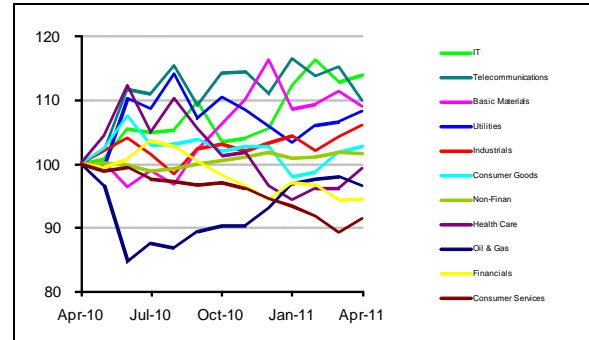
Figure 3: Dividend & Earnings Growth



Sources for charts on this page:
Financial Times, Office for National Statistics, J&A

UK Equity Sector Returns

Figure 4a: Sectors relative to All Share



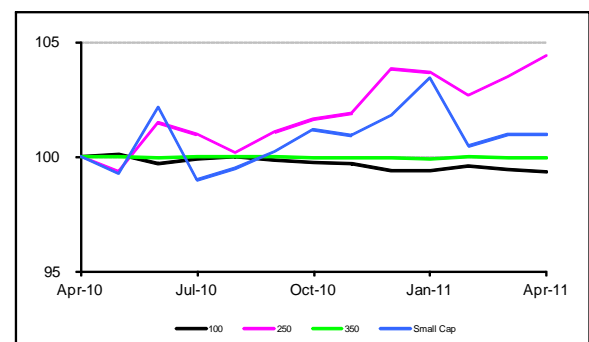
Note: Sector labels for relative lines are in end-value order

No change this month in the rolling 12-month sector dispersion (remains at 23%).

(% absolute return)	1 mth	3 mth	12 mth
Oil & Gas	1.7	4.3	9.8
Basic Materials	1.0	5.1	24.0
Industrials	5.0	6.4	20.6
Consumer Goods	4.0	9.7	16.7
Health Care	6.4	10.2	12.7
Consumer Services	5.6	2.4	3.8
Telecommunications	-1.6	-1.2	25.0
Utilities	4.6	9.7	23.0
Non-Finan	3.0	5.5	15.6
Financials	3.4	2.1	7.5
IT	4.2	6.4	29.6
All Share	3.1	4.7	13.7

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



Mid Cap rose in relative terms this month.

FRS17 volatility indicator

Now discontinued, but available on request.



Bond market information

Figure 5: £ Non-Gilt Credit Margins

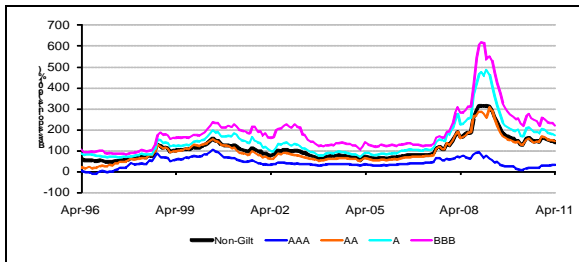


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Nov 10	5.42	4.13	1.29
Dec 10	5.35	4.14	1.21
Jan 11	5.50	4.39	1.11
Feb 11	5.45	4.31	1.14
Mar 11	5.46	4.31	1.15
Apr 11	5.26	4.14	1.12

Tables 2b, 2c: £ Market Size and Maturity

Category	Mkt Val (£bn @ Apr 11 & 09, 07)			Weight (%)
Gilts (34)	811	596	301	63.4
Non Gilts (1,017)	468	404	413	36.6
AAA (179)	127	144	148	9.9
AA (174)	74	54	66	5.8
A (379)	165	136	128	12.9
BBB (285)	102	68	68	8.0

Category	Mkt Val (£bn @ Apr 11, 09)		W't (%)	Dur'n (yrs)
Gilts (34)	811	596	63.4	9.1
< 5 Yrs (9)	239	172	18.7	2.9
5-15 Yrs (11)	276	203	21.6	7.2
> 15 Yrs (14)	297	220	23.2	15.9
Non Gilts (1,017)	468	404	36.6	7.6
< 5 Yrs (255)	120	148	9.4	2.7
5-15 Yrs (479)	208	144	16.3	6.8
> 15 Yrs (283)	139	112	10.9	12.9

Sources: Barclays Capital, DMO, iBoxx, J&A, MLX

£ Gilt Market “main” Issuance

- £5.00bn 2% 2016 (1.82x, 2.60%, prev Mar 11)
 - £3.81bn 3¾% 2021 (1.72x, 3.88%, Mar 11)
 - £2.00bn 4¼% 2040 (1.68x, 4.33%, Feb 11)
 - £1.00bn ILG 1⅛% 2037 (2.03x, r.y 0.71%, Nov 09)
 - £0.97bn ILG ½% 2050 (1.97x, r.y 0.65%, May 10)
- Note: ILG issuance amounts are nominals

Tables 2d, 2e: € Market Size and Maturity (Apr 11)

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (261)	3,952	57.9
Non Sovereigns	2,873	42.1
AAA (631)	1,189	17.4
AA (456)	636	9.3
A (634)	662	9.7
BBB (465)	3,862	5.7

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (745)	1,905	27.9
3 – 5 Yrs (672)	1,575	23.1
5 – 7 Yrs (436)	989	14.5
7 – 10 Yrs (368)	1,136	16.6
10+ Yrs (226)	1,220	17.9

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Apr 11 & 09)		W't (%)	Dur'n (yrs)
Gilts (16)	260	177	91.3	16.0
< 5 Yrs (1)	22	33	7.6	2.2
5 – 15 Yrs (5)	101	61	35.4	8.1
> 15 Yrs (10)	138	83	48.3	24.0
Non Gilts (48)	25	18	8.7	17.5

Table 2g: High Yield bond yields (BB-B indices)

Month End	US (%)	Euro (%)	Sterling (%)
Dec 10	7.24	7.53	8.60
Jan 11	6.95	7.39	8.55
Feb 11	6.83	7.18	8.09
Mar 11	6.86	7.57	8.28
Apr 11	6.72	7.20	8.14

