

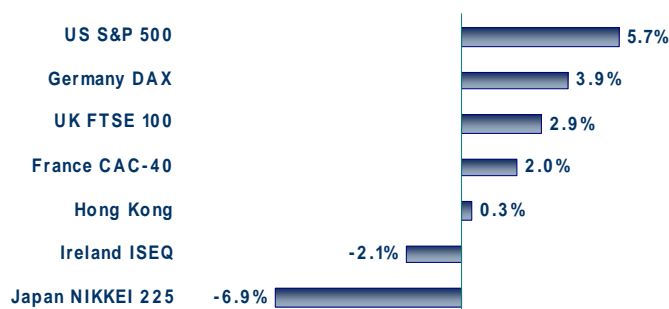
International equity markets demonstrated resilience in November to post gains in most countries. Equity advances reversed October's losses as investors took heart from the generally positive tone of economic data releases, with commodity-related stocks benefiting most as copper, gold and oil prices moved higher. This was achieved despite the negative impact delivered late in the month by news that Dubai World - a state-owned company - was seeking to restructure its debt repayments. Ireland's stock market underperformed for a second consecutive month, as the ISEQ's leading financial stocks dropped further. At the other end of the performance scale, Brazil's Bovespa Index surged 8.9%, aided by its exposure to commodity-related stocks.

Many government bonds gained in this environment; exceptions included Greek debt when it emerged that the previous government had significantly understated the country's financial difficulties. Bond yields of other 'peripheral' Eurozone economies, including Ireland, ticked higher as investors favoured bonds of 'core' economies.

BIAM Strategy and Outlook

- The macro-economic backdrop continues to improve and the Organisation for Economic Co-operation and Development became the latest to upgrade its outlook. It now forecasts growth among the 30 leading developed countries of 1.9% in 2010, with expansion accelerating to 2.5% in 2011. In the US, leading indicators still point towards a V-shaped recovery. Housing market data imply the worst may have passed, notwithstanding the fact that consumer confidence has wavered in recent months.
- Eurozone economic improvement has been evident with Germany and France growing in each of the last two quarters, despite headwinds from the strength of the euro currency. Meanwhile, inflation forecasts suggest a significant pick-up in headline inflation in some regions. However, much of this acceleration is due to base effects, which are likely to wane in the coming months. While higher inflation may be the ultimate result of the various monetary and fiscal stimulus measures, it is difficult to see prices rising significantly in the next year.
- We remain upbeat on the long-term outlook for equities. There has been a remarkable resilience in corporate profit margins through the downturn, supporting the cost cutting arguments presented in favour of equity valuations. While we have been aware of momentum behind the rise in 2010 earnings estimates, the acceleration in 2011 earnings is considerable.
- This improvement in earnings growth is greatest in emerging markets, while US and European markets look cheap or close to fair value depending on the valuation measure used.
- Government bond yields remain anchored by (among other things) central bank commitments to maintain low interest rates for an extended period. We continue to believe that sovereign debt is fundamentally overvalued but are keenly aware of the opposing market view at present and accordingly remain patient in our desire to establish a short duration position in our bond portfolios.

Equity market returns - November 2009



Source: Bloomberg. Capital returns in local currency.

Movement in 10-year bond yields

	31-Dec-08	31-Oct-09	30-Nov-09
US	2.22%	3.39%	3.20%
UK	3.02%	3.62%	3.52%
Germany	2.95%	3.22%	3.16%
Japan	1.17%	1.42%	1.27%
Ireland	4.27%	4.70%	4.84%

Source: Bloomberg.