

Premier Discretionary Team

Asset Allocation - For Professional Adviser Use

12th April 2010

Minutes

Present: F. Fulcher, M. Jennings, I. Rees, N. Kelsall, K. Cushway, D. Pendlebury, N. Sidebottom, R. Hallen.

Overview

Over the last month the macro economic data from the major economies of the US and China has tended to be suggestive of a modest acceleration of growth. Within Europe, there is the start of a trend which will, in our view, become increasingly obvious between the "haves" and the "have not" economies.

In the US, benign data showed a continuation of moderate growth. Highlights included US non-farm payroll data for March which rose by 162,000 showing further strength in employment, with the unemployment rate unchanged at 9.7%. The ISM manufacturing index of activity also gained strongly, expanding at the fastest pace since July 2004. This is a strong indication of confidence across the manufacturing sectors whilst core CPI came in below expectations at 1.3% annualised for February.

China's data highlighted a 66% rise in imports in the year to March showing little sign of the feared economic slowdown. Real Q1 GDP is released this Thursday and is expected to show acceleration to 11.7% per annum.

Europe (and the UK) is where the data is more mixed. Eurozone final Q4 GDP came in moderately lower than the previous estimate at 0%. After recovering from a deep recession, this is worrying; within this, the divergence is becoming stark.

The much watched German IFO survey of business conditions was stronger than expected and at the highest level since June 2008. Unemployment also unexpectedly declined in Germany to 8.0%. French data also remains reasonably robust with Q4 GDP being confirmed at 0.6%.

Southern Europe is a different story, however. Greece is the high profile casualty with €30 billion of loans agreed recently by the Eurozone, and a further €15 billion from the IMF. Greek Q4 GDP fell 0.8% and is clearly set to plunge ahead. The Q4 unemployment rate is expected to have risen from 9.3% to 10.3%, and industrial production in February is expected to have fallen 9.2% with all this data set to deteriorate. Amongst other Southern European economies, Spain is expected to see a contraction of 0.5% in its GDP again in calendar year 2010. Another peripheral European laggard, Ireland, had a -2.3% contraction in Q4 GDP which will take a long while to turn around.

In the UK, now that we have had confirmation that the election will be on May 6th any economic analysis is irrelevant until the final policy details (and likely winner) becomes clearer.

Whilst the outcome of the election is impossible to predict, what we can do is consider results and their implications:

	Gilts	UK Equities	Sterling
Outright Conservative victory	Strong on tough fiscal stance	Early relief rally followed by domestic related weakness	Stronger on diminished chance of rating downgrade
Outright Labour victory	Modest rise on fiscal plans	Modest gain	Modest gain
Hung Parliament: Lab-Lib G'ment	Weak on worry that policy may not avert rating downgrades	Weak with bond markets but a few exporters recover strongly on weak £	Weak – testing €1.05 and \$1.45?
Hung Parliament: Con-Lib G'ment	Slightly weaker whilst fiscal policy is reworked. Depends on concessions	Slightly weaker	Initial weakness until policy is clear
Hung Parliament: No majority coalition	Collapse – Rating downgrades force yields sharply higher etc	Collapse with Gilts. Exporters outperform (but still fall)	Freefall and a Sterling crisis ensues

The global economy looks fairly set for a reasonable recovery. China is leader and markets will be ultra sensitive for any signs of slowing there (rate rises, lending curbs etc). A double dip recession is highly unlikely globally, but highly likely in peripheral European economies (Greece, Ireland, Spain, Portugal, Italy) which will

Assets:

Equities ► HOLD

Bonds ► HOLD

Property ► HOLD

Alternative Assets ► HOLD

Cash ► HOLD

Structured Products ► HOLD

Commodity ► HOLD

Equities (Geographic):

UK ► HOLD

US ► HOLD

Europe ► HOLD

Japan ► HOLD

Pacific Basin ► HOLD

Emerging Markets ► HOLD

Premier Discretionary Team

Asset Allocation - For Professional Adviser Use

12th April 2010

Contact Us:

Investment Relations Team

Chris Warren

Telephone:
01483 400 466

Email:
chriswarren
@premierfunds.co.uk

Jonathan Lewis

Telephone:
01483 400 437

Email:
jonathanlewis
@premierfunds.co.uk

put the pressure on France and Germany to keep Europe as a whole afloat. The UK should plod through with unimpressive growth hampered by tough fiscal tightening, unless policy paralysis lays ahead post election.

Gilts have been remarkably well behaved, given the massive deterioration in public finances it is interesting that they have barely moved over the year. The risk must be to the upside especially if policy is weakened in a coalition situation or with policy paralysis.

Bond yields in the US have rallied, presumably due to better growth, with 10 year yields now not far from those in the UK, at 3.91% versus 4.06%. There is every probability that banking requirements to buy Gilts will prevent a collapse but fundamentals do not look appealing.

Global equities in US\$ terms are up approximately 5% YTD, versus a 10% -15% estimate for the year, we remain positive in the overall trend but do expect further periods of setbacks.

Earnings growth remains highly supportive. In the US, where detailed data is more available, the market consensus expects a 30.2% rebound in annualised Q1 earnings, followed by 28.6%, 21.9% and 30.4% in subsequent quarters, leaving 2010 +26.9% in 2009. Europe (Stoxx 600) expects +44.7% in 2010 followed by +25.0% in 2011. We feel these numbers are feasible, following the aggressive cost cutting in 2008 and 2009.

Valuations continue to look stretched on a historic basis with global equities on 21x historic earnings. However, at this stage of the cycle it would be expected that this number will fall sharply as more strong earnings data is reported. Citigroup estimates this will fall to approximately 15.75x 2010 earnings, and 12.6x 2011. Versus a long term average of 17x, this is still historically attractive. Price/book also seems to corroborate the view that valuation is reasonable.

Earnings momentum remains an important attribute both on a stock specific and a country basis. By country, Japan, EM, and the UK appear most attractive on this basis. With approximately 70% of UK market earnings coming from abroad, domestic related weakness might be an attractive buying opportunity.

Portfolio Specific Issues

A discussion took place about structured products and secondary market pricing. Prior to the end of the tax year, profits were taken on numerous products which were trading at attractive levels relative to fair value. It has been difficult this year to find attractively priced auto calls in the primary market and, in addition, structured products in general have been less attractive in the secondary market. It has also been difficult to identify new issues that are ISA qualifying. As a result there has been a gradual tilt towards more conventional structures and also market neutral absolute return funds and other holdings which should carry less equity market correlation. We expect these funds to deliver attractive returns with less market volatility e.g.: Blackrock UK Absolute Alpha and Marshall Wace Tops Global Alpha ETF.

It is important to stress that whilst we may not have been buying structured products of late for ISA portfolios, this will not necessarily always be the case. As discussed on other occasions, we are always looking for opportunities to manage volatility and deliver acceptable investment returns and as such we will shift the asset and product mix accordingly to suit market conditions.

No changes to the current asset allocation were made.

For intermediary use only and not for public distribution.

This note is for information purposes and is only to be issued to financial intermediaries. It expresses the opinion of the portfolio managers and does not constitute advice. Reference to any particular stock or sector is not a recommendation to buy or sell the stock or sector and does not constitute advice. Persons who do not have professional experience in matters relating to investments should speak with a financial adviser before making an investment decision.

This document is issued by Premier Fund Managers Limited, Eastgate Court, High Street, Guildford, Surrey GU1 3DE, which is authorised and regulated by the Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS. Premier Portfolio Managers Limited and Premier Fund Managers Limited are members of the Premier Asset Management Marketing Group. Premier Portfolio Managers Limited is also a member of the Investment Management Association. 1004367RH

Premier Asset Management Limited, Eastgate Court, High Street, Guildford, Surrey, GU1 3DE
Tel: 0845 230 9033 Email: marketing@premierfunds.co.uk Web: www.premierassetmanagement.co.uk