Premier Discretionary Team – Asset Allocation
14th September 2009

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Assets:		Equities (Geographic):	
Equities:	Hold	UK:	Hold
Bonds:	Hold	US:	Hold
Cash:	Hold	Europe:	Hold
Property:	Hold	Japan:	Hold
Hedge Funds:	Hold	Pacific Basin:	Hold
Alternative Assets:	Hold	Emerging Markets:	Hold
Structured Products:	Hold		
Commodity	Hold		

Minutes

Present: M Jennings, P Smith, F Fulcher, N Kelsall, K Cushway, D Pendlebury, R Hallen, N Sidebottom

General Overview

Since our last meeting one month ago, not much has changed. Most economic data continues to show the improving trend which we highlighted then. Recent key numbers include the University of Michigan Confidence Survey for September coming out at 70.2 versus 67.5 expected, The improving trend appears to be intact.

Global manufacturing PMI's all look healthy and conducive to a strong economic recovery. This week sees a lot of macro data including US retail sales, CPI, Industrial production and initial Jobless claims, all of which will be closely watched. Consensus estimates show a stronger rebound than had been expected only a few months ago.

Gilt yields have continued to drift lower, buoyed by the £175 billion Quantitative Easing (QE) number. The Government now owns 15% of the gilt market and has the facility to own 22% of it. So we have one huge willing buyer but what happens when it leaves, or more worryingly, what happens when it sells?

Also interesting for the bond markets is that inflation is not perceived to be a concern. Whilst we agree with this assumption, we feel a risk of a mini bubble is entirely feasible. Real yields are close to historic lows. If inflation were to increase, then bonds would be vulnerable. With spiralling budget deficits in the UK and US, the supply of Government bonds will be extremely high for many years to come.

We have recently seen a big test for equity markets after markets soared from March lows. Last week saw the return of big volumes, as major asset allocators returned after the summer lull. The US saw the biggest weekly gain since July which is very positive.

The last year has set new records in terms of market falls and market rallies. It is now over 6 months since the market trough on March 9th so we have updated our "bear market rally" chart, see below:-

…and how has the fall compared with other earnings recessions?

PREMIER ASSET MANAGEMENT

Peak	Trough	Peak to trough	+1mths	+3mths	Trough +6mths	+12mths	+24mths
29/10/73	Oct 74	-45%	+4%	+5%	+48%	+60%	+91%
01/05/81	Sept 81	-19%	+5%	+12%	+17%	+24%	+59%
05/10/87	Nov 87	-34%	+3%	+7%	+17%	+29%	+51%
17/7/90	Jan 91	-25%	+13%	+24%	+24%	+23%	+20%
20/7/98	Oct 98	-33%	+21%	+40%	+43%	+47%	+79%
6/3/00	Mar 03	-60%	+17%	+27%	+33%	+46%	+62%
	Average	**-36%**	**+11%**	**+19%**	**+30%**	**+38%**	**+60%**
16/7/07	**9th Mar 09**	**-60.3%***	**+20.8%**	**+37.0%**	**+53.3% ***		

* To 31/8/09

Source: DataStream/Citigroup, DJ Eurostoxx 50 Bear Markets 8/4/09. Data is for Pan-European equities.
Source: Bloomberg. Past performance is not a guide to future returns.

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The rally has been far greater than normal, but don't forget, so was the fall. According to Citigroup, at this stage in the cycle, pullbacks average less than 8%.

In terms of market perception and confidence, we like to monitor the Merrill Lynch Fund Managers survey. The September survey has just been published and snippets of note are:-

1. Participants appear to have a marginally lower risk appetite than normal, great news for the equity bulls as the market seems not to be over bullish.

2. Consensus is slightly overweight equities and slightly underweight bonds as you would expect.

3. Strong consensus that large cap will outperform small cap.

4. 47% of hedge funds net exposure to the equity market is between 0% and 25% which is very interesting as they are not very long.

5. 50% of respondents expect the yield curve to flatten in 12 months time, short rates will rise but the market does not expect a sharp rise in long rates.

6. Answers show no expectation of inflation - we follow the general consensus that inflation is an outside risk.

7. Managers are most bullish on earnings growth in Emerging Markets (EM), and think that EM are the most overvalued equity market sector, but the survey also suggests that managers

are most likely to increase exposure to EM in next 12 months! This might suggest further volatility in China as players want to be long but are worried about valuation.

We do not have an up-to-date global PE chart, but Europe seems to be fair value, if we factor in a strong rebound in earnings then it still looks cheap on a price/book measure. Earnings estimates

for 2010 and 2011 have accelerated and now exceed 20% per annum in Europe. Profits tend to be a geared version of GDP; the two should be closely linked.

Consensus expectations are for a 25% rise in S&P earnings next year which is 10.9 times the gain in expected GDP whilst the 60 year average relationship is 6.1 times.

In conclusion therefore, valuation appears fine despite the massive rally. The valuation risk is that the market expectations have got ahead of themselves. It would be rare for analysts to have got there so quickly. Net earnings revisions are positive (and are likely to remain so).

There are various reasons to be bullish, not least current valuation and the huge monetary and fiscal stimulus. Only 53% of global QE has been implemented, large investor liquidity, economic revisions are mainly positive, corporate earnings revisions are positive.

However, we are still aware of global macro economic risks which include, premature monetary/fiscal tightening, particularly interesting in the UK given a likely election in May, unresolved weakness in the global financial system, US housing oversupply, budget deficits, trade wars ie US v China (this would be bad for growth and inflation), and rights issues - Citigroup estimate that €100bn has been raised in new equity in Europe this year with a further €200 billion to come.

As we commented a month ago, although profit taking is possible, we are in the sweet spot. Fundamentals are being positively revised, and liquidity is in abundance. We cannot see this changing for the time being.

We are watching the economic data closely; weak data might suggest that markets have got ahead of themselves. Too strong data might suggest that the end to easy money is close. In practice, the likelihood is that we do not need to worry about that for the balance of this year. Next year could be a different kettle of fish though.

"Bull markets are born on pessimism, grow on scepticism, mature on optimism, and die on euphoria" - Sir John Templeton.

Portfolio Specific Issues

The Capital Builder Strategy continues to show good performance over the last six months, mainly due to the effect of interest rate cuts and also cheap new issues being launched over the period. Paul Smith discussed his concerns about duration risk and felt that the sharpest interest rate rises could eventually come from the UK and could dampen the performance of longer dated zeros. The recent stock market rally has improved the cover on zeros and he believes that there will be new issues of zeros shortly which will be potentially welcome given that three zeros redeem at the end of October. He will be assessing the merits of any rollover offerings which arise from these redemptions.

The Premier Enterprise Fund and Growth Strategies have all benefited from the market rally since March and Nigel Sidebottom reported that numerous holdings have significantly outperformed, not least his exposure to China Small Caps.

The Conservative and Balanced Strategies have performed well although the accelerated participation levels on various recently issued structured products are not being reflected in their intraday pricing. The published performance figures are based on long standing existing portfolios which hold various long standing core holdings which have not been available for new clients over the last year or so. As a result, whilst the performance of these portfolios has been satisfactory, new clients invested over the last twelve months or so have done significantly better.

Hedge fund exposure remains under review - the Thames River staggered redemption should be complete by second quarter 2010, so far approx 55% has already been paid out. Closed ended hedge fund discounts have narrowed but will be monitored with a view to reducing exposure when better value is being reflected.

It was agreed to make no further changes to asset allocation. Implementation of previous changes has nearly been fully completed and various new issues have been bought as outlined in previous notes.