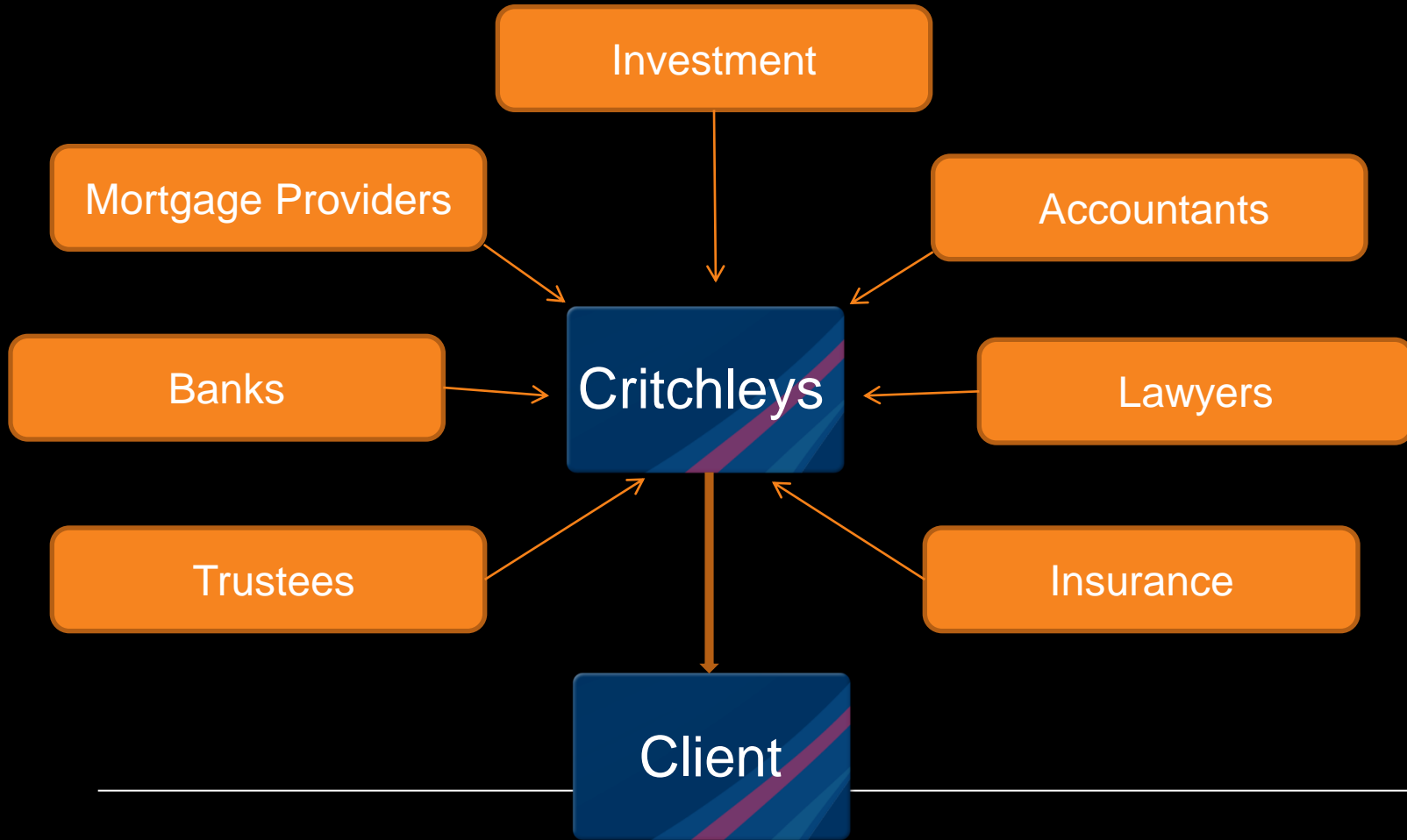

PROPERTY INTELLIGENCE

MARCH 2011

OPPORTUNITY OUT OF AUSTERITY

Co-ordinating for the Client



TALES OF THE UNEXPECTED

JUSTIN A URQUHART STEWART

MANAGING THE UNEXPECTED

TALES OF THE UNEXPECTED

The “Arab Spring”

The Japanese Earthquake

The Antipodean Disasters

The Future of Fuel and Food

& TALES OF THE IGNORED

The Future of the Euro

The US imbalances

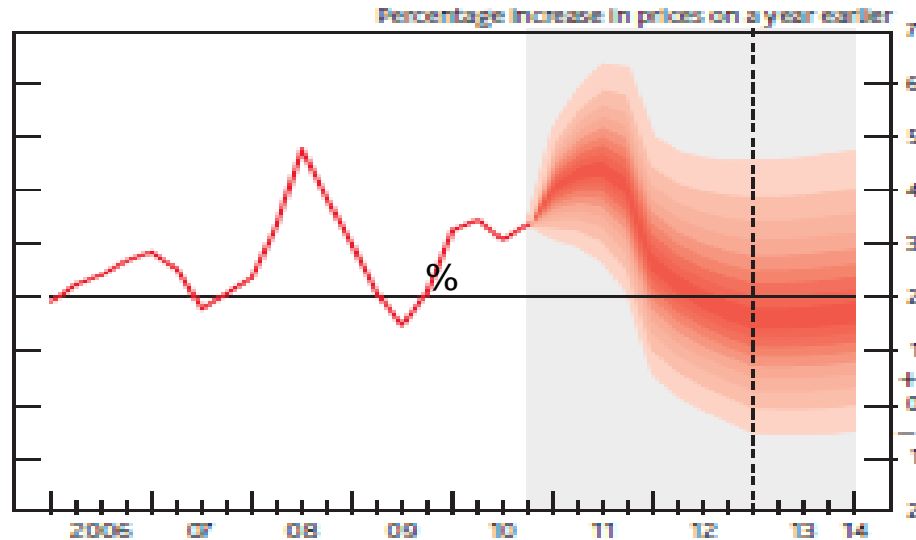
The Complacency about China

The Risks of the Fashion Fads

The Growth of Inflationary pressures

UK INFLATION

Bank of England CPI inflation forecast



Source: Bank of England

“China has for a decade been a positive disinflationary influence on the world economy, but this is about to change...we need to prepare for a high inflation period.”

Sebastian Lyon CIO Troy Asset Management

IS IT A BIG DEAL?

The MPC believes not...

20% VAT

Should be priced out
by 2012?

Temporary
Factors

Oil Price Increases



Weak Sterling

Imported goods are
more expensive –
should change as
the economy
recovers.

1. WORLD IMBALANCES

Quantitative Easing Programmes

Eurozone	USA		UK
Purchase of Corporate Bonds [May 2009]	QE1 [June 2010]	QE2 [June 2011]	Asset Purchase Program [December 2010]
€60 billion	≈\$1 trillion	\$600 billion planned	£200 billion



1. WORLD IMBALANCES

The quantitative easing creates huge amounts of:

**“Hot”
Money**

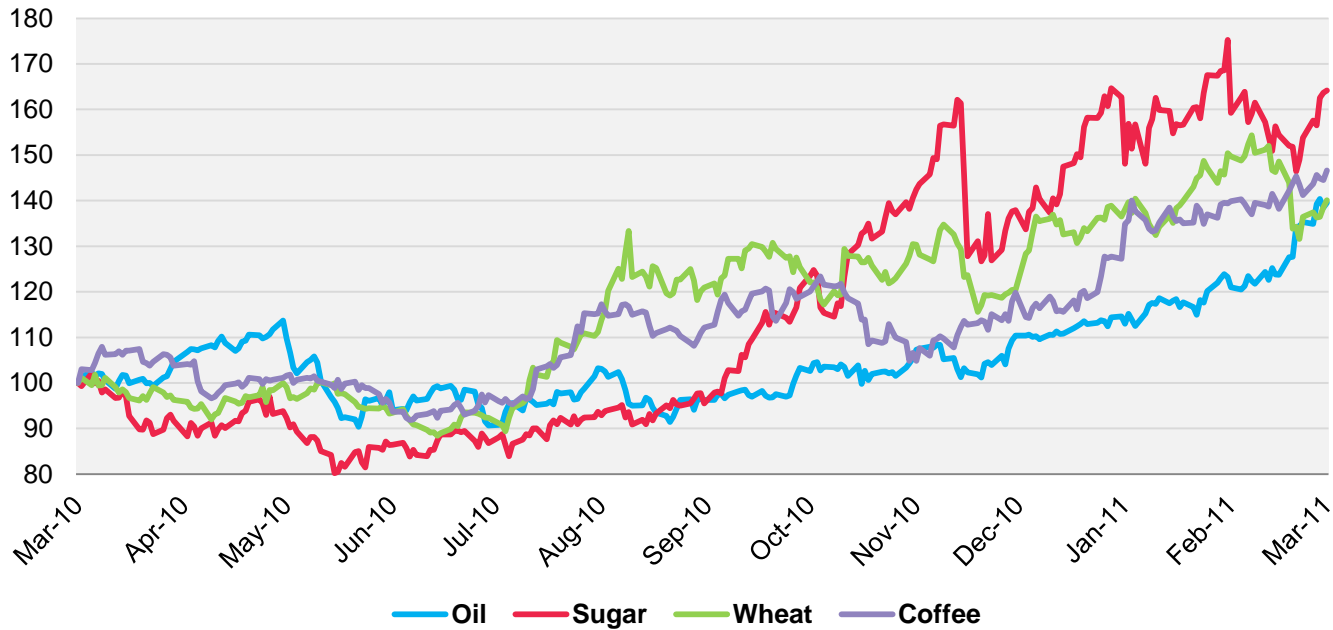
Which is largely being invested...



2. FOOD & FUEL

Food and Fuel Prices

Rebased to 100

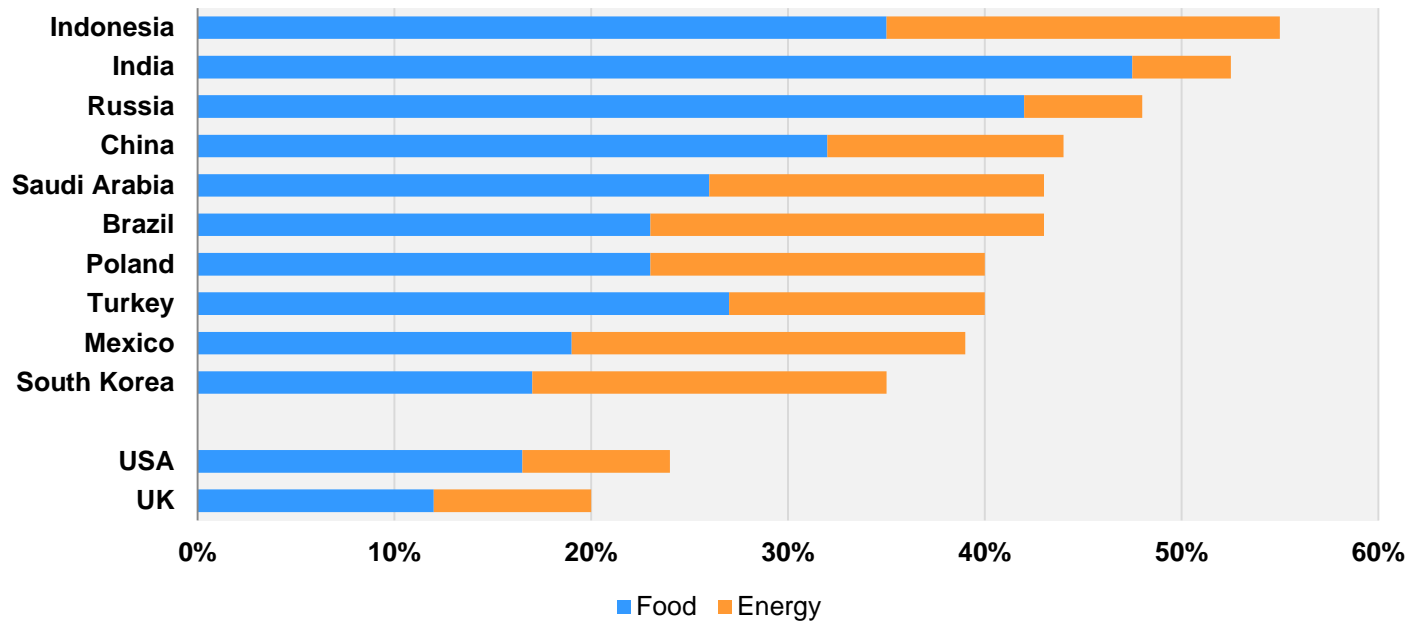


Source: Bloomberg

2. FOOD & FUEL

The relative value of food and fuel in the Emerging Markets

Weighting of Food and Energy Prices in CPI Basket



Source: Reuters

**SO WITH THAT
IN MIND, HOW
DO WE SEE
THE WORLD?**

THREE TRACK WORLD



US

Decisive
movement from
austerity:
4% GDP growth
forecast

Muted Inflation

Housing Issues
still not resolved

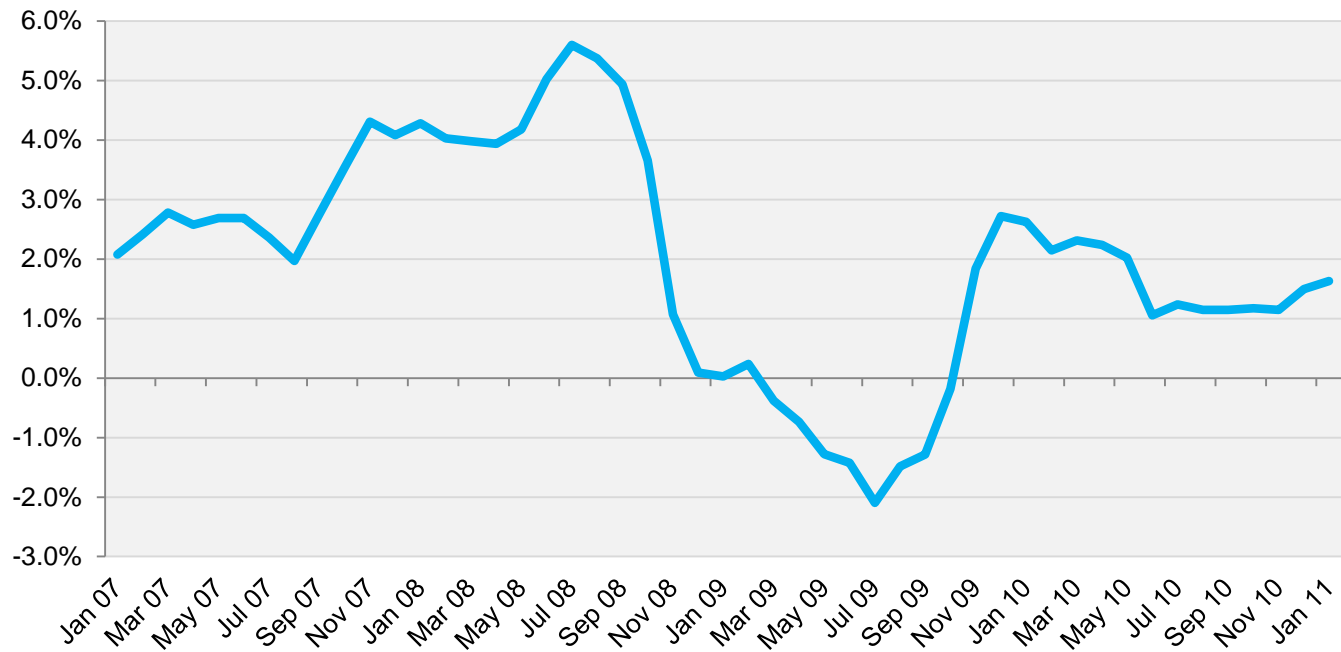
Sustained
manufacturing
recovery = healthy
corporate earnings

Historically 3rd
year of the
presidential cycle
is positive for the
economy

Federal and State
Debt issues

US INFLATION

US CPI Inflation

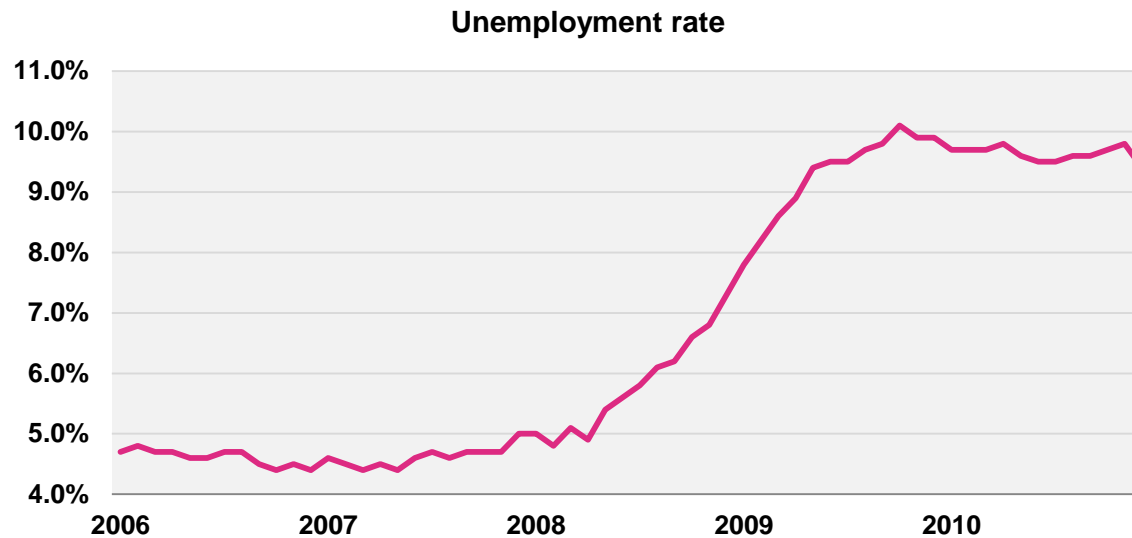


Source: Bloomberg

IS IT A BIG DEAL?

No. Inflation is not particularly high in the US.

And there's a lot of spare capacity:



Source: Bloomberg

JAPAN

Impact of
Disasters

Domestic
Slowdown –
Global Brake

Debt 200%+ of
GDP

Political Reform?

Yen Repatriation

World's largest
Creditor

EUROZONE

The design and
structure of the
Euro

Bank stress
testing -again!

Default - but by
another name

German
manufacturing
healthy thanks to
emerging markets

Strong core
growth is pulling
up the peripheral
countries – PIGS.

Popular unrest

UK

Austerity programmes in place to tackle deficits

Inflation expected to peak in 2011, ..

Effect of “Growth Budget”

Fixing the Banking system

Tax Reform?

From Public to Private
6th largest manufacturing

BRIC + CHANGES

China
Lower Growth

India
Security
Inflation

Russia
The ultimate
commodity
country

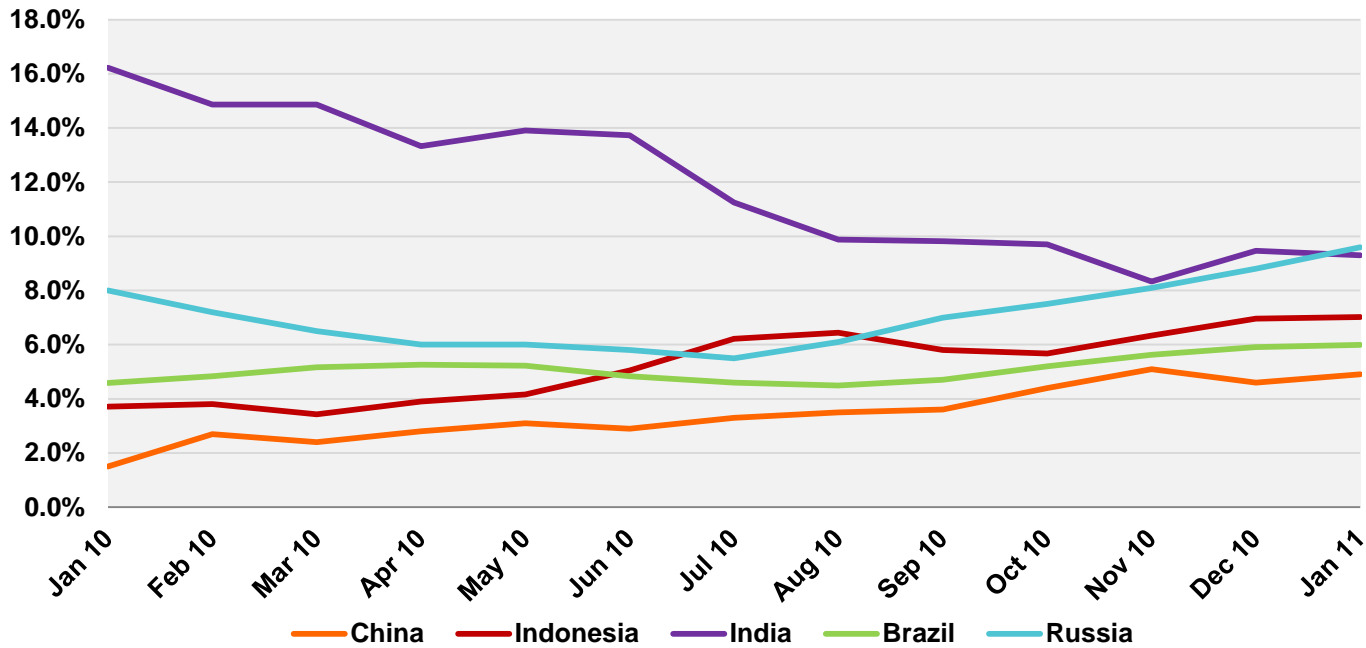
Brazil
Valuations?
Agriculture

South Africa
Gold
Political issues

Turkey
On the Cusp

WHERE IS IT A PROBLEM?

Emerging Markets Inflation



Source: Bloomberg

DEVELOPING MARKETS

ASEAN

Central Asia

MNEA

Sub-Sahara

Eastern Europe

Central America

THEREFORE IN THE SHORT-TERM...



WHAT WE ARE WARY OF

However, there are a number of things to keep an eye on:

- Wage inflation and any accompanying rate rise

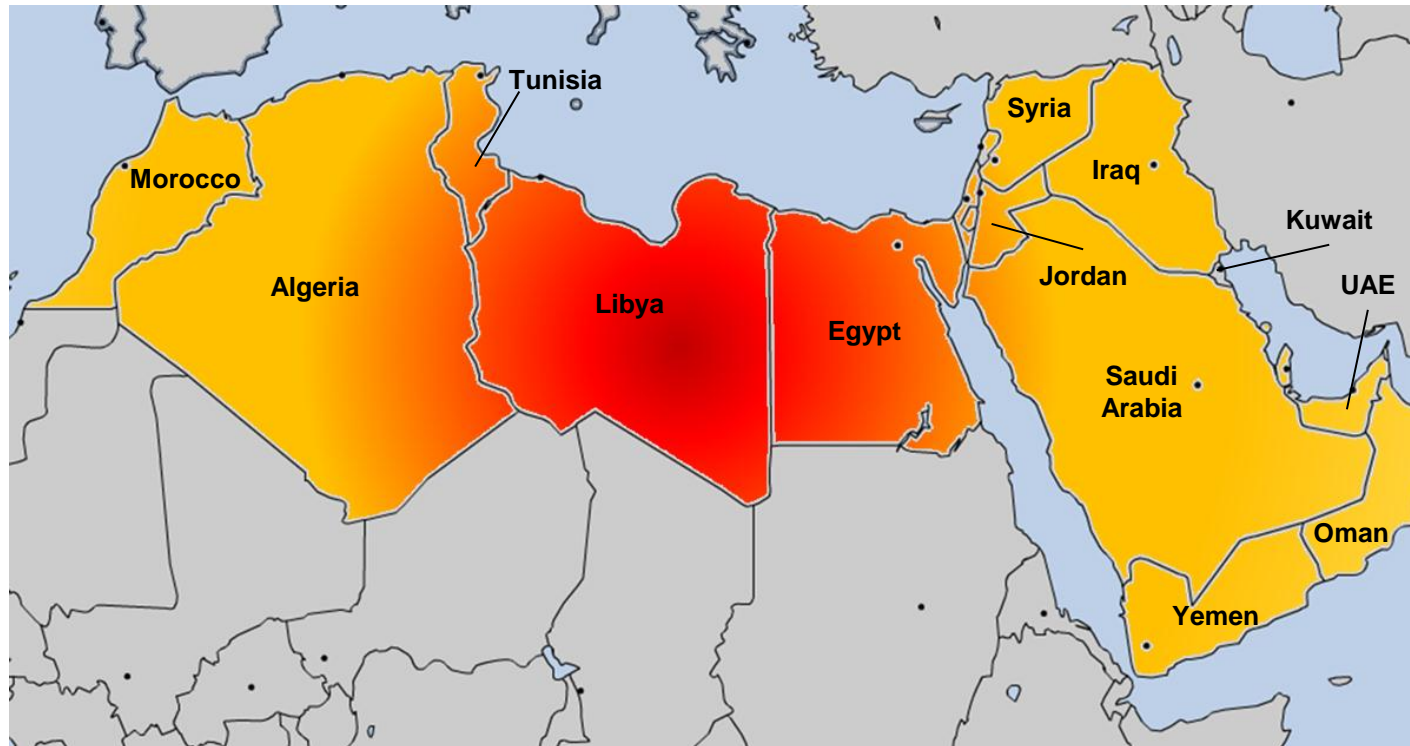
- Serious policy error in the US – ie QE3 implemented due to a refusal to accept a structural change in unemployment levels.

- Serious policy errors in Europe in an attempt to manage sovereign debt with a short term perspective

- Industrial action in the UK derails the recovery

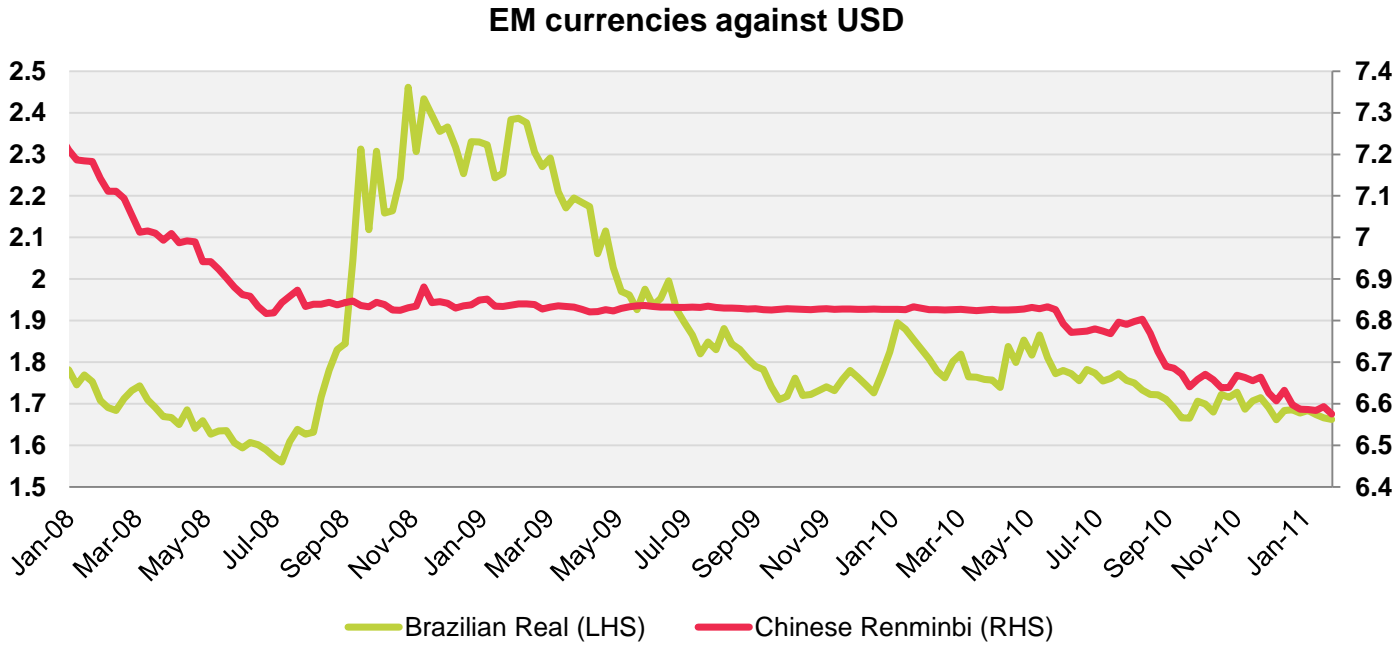
OTHER RISKS...

Geopolitical



OTHER RISKS...

Currency Wars – “Our Currency Your Problem”



Source: Bloomberg

THE 7IM TACTICAL VIEW

EQUITY

Markets offer reasonable value
Employment recovery
Monetary policy stays easy

Stay overweight

BONDS

Fiscal austerity offset by loose policy
Inflation peaks in 2011

Perhaps an opportunity to reduce underweight

Currency:

Emerging market capital control
Currency intervention
Treasuries continue to find foreign buyers

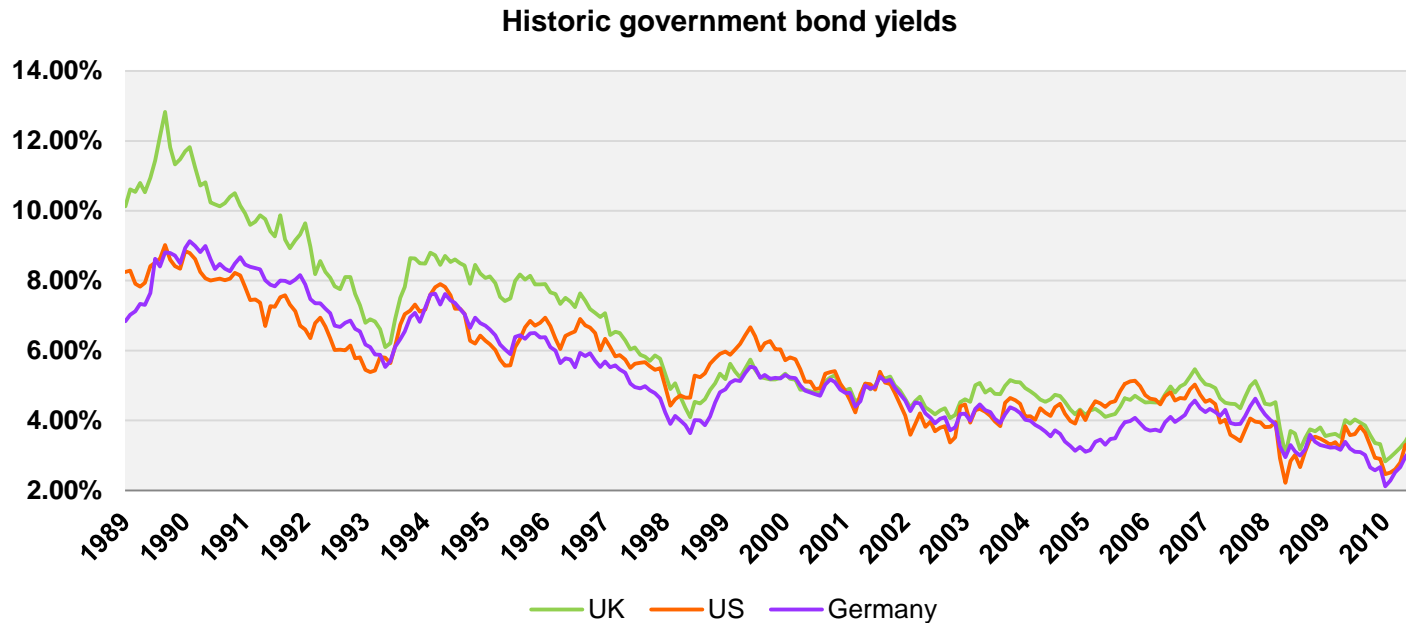
Rangebound majors

Alternatives

Positive on
private equity, infrastructure and Inflation hedges

BOND MARKET THEORY

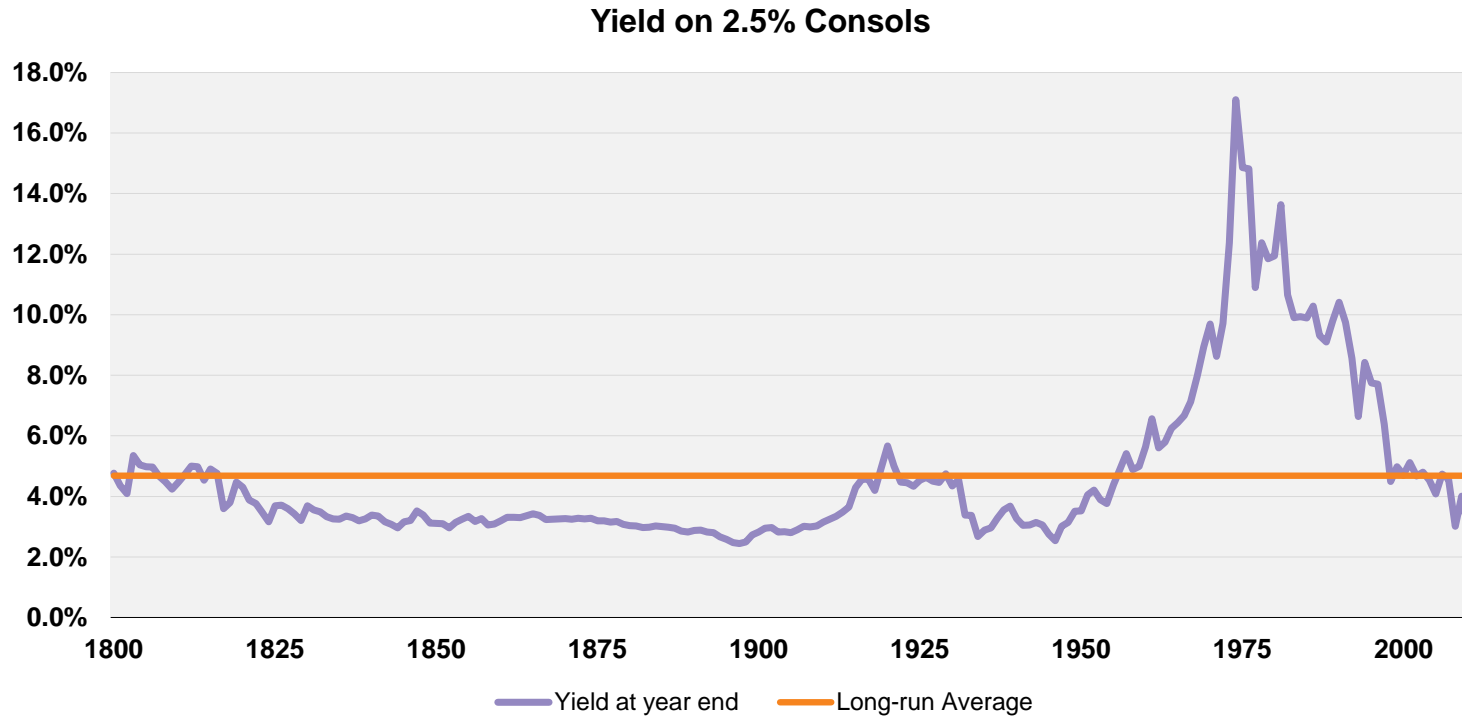
“QE2 will likely signify the end of the great 30-year bull market in bonds, and the necessity for bond and equity managers to adjust to the new environment.” Bill Gross (CEO Pimco) October 2010



Source: Bloomberg

THE 7IM VIEW

A much longer time-scale implies that yields should be...



Source: Bloomberg

HOW TO MANAGE THE UNEXPECTED

BACK TO THE DISCIPLINES

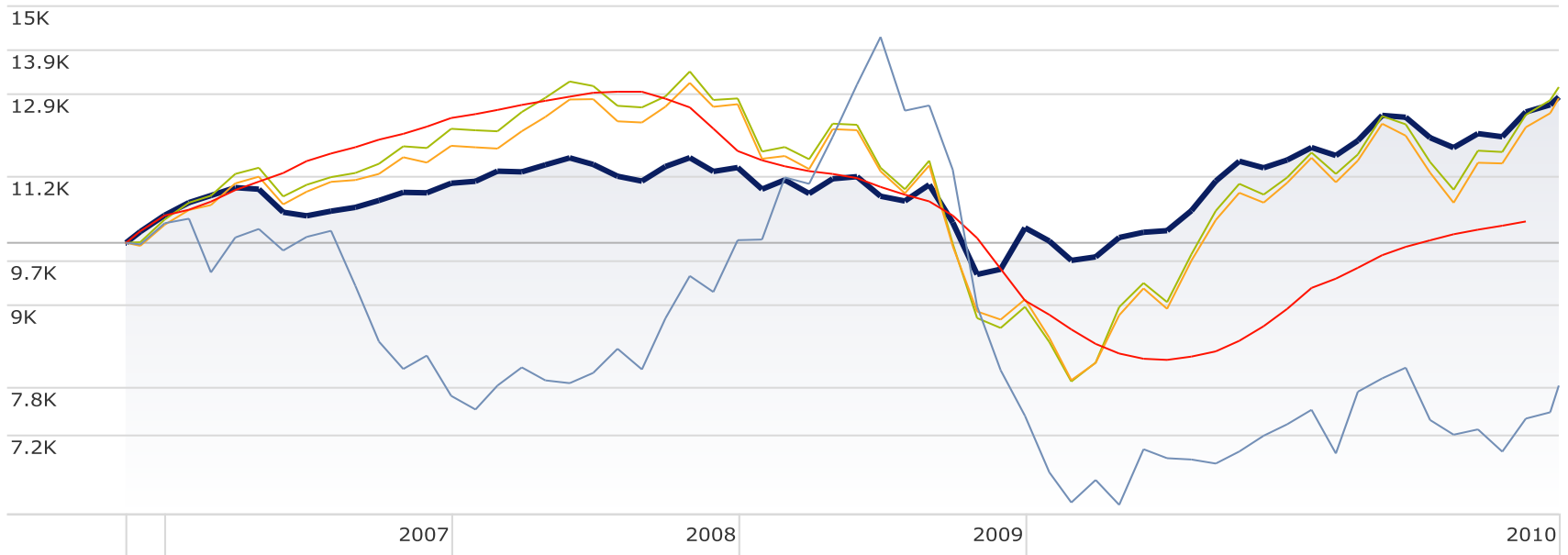
DISCIPLINES

BROAD DIVERSIFICATION

ONGOING ASSET ALLOCATION

MEASURING RISK

A Calmer Journey



Investment Name	Value
CF 7IM Balanced C Acc (Total... 12.82K	12.82K
FTSE AllSh TR GBP (Market R... 13.04K	13.04K
FTSE 100 TR GBP (Market Re... 12.8K	12.8K
IPD UK All Property TR GBP (... 10.37K	10.37K
S&P GSCI TR (Market Return,...7.84K	7.84K

Source: Morningstar Direct

ASSET CLASS PERFORMANCE – THE QUESTION IS ALWAYS “WHAT NEXT?”

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
US Equity 38.6%	European Equity 39.7%	Private Equity 171.8%	Emerging Market Bonds 23.7%	Hedge Funds 9.4%	Gold 13.0%	EM Equity 41.6%	UK Property shares 45.3%	EM Equity 48.8%	UK Property shares 47.0%	EM Equity 36.2%	Global Govt Bonds 50.7%	EM Equity 64.1%	Private Equity 41.1%
European Equity 27.8%	US Equity 28.0%	Japan Equity 88.6%	Commodities 23.4%	Corporate Bonds 7.2%	UK property 9.6%	UK Property shares 30.8%	UK property 18.3%	Japan Equity 40.9%	European Equity 20.5%	Gold 27.6%	Gold 42.8%	Private Equity 47.6%	Gold 34.7%
Hedge Funds 26.3%	Corporate Bonds 22.7%	EM Equity 72.3%	UK Property shares 19.3%	UK property 6.8%	Gilts 9.2%	European Equity 30.7%	Private Equity 15.1%	Private Equity 39.4%	UK property 18.1%	Commodities 20.6%	Emerging Market Bonds 22.5%	UK Equity 30.1%	EM Equity 23.9%
UK Property shares 24.0%	Index-Linked 20.3%	Emerging Market Bonds 27.0%	Timber 17.6%	Cash 5.5%	Corporate Bonds 9.1%	Japan Equity 28.2%	EM Equity 14.4%	Commodities 33.0%	EM Equity 17.9%	European Equity 17.1%	Timber 9.5%	European Equity 18.3%	Commodities 21.8%
UK Equity 23.6%	Gilts 19.8%	European Equity 25.4%	UK property 10.5%	Emerging Market Bonds 4.3%	Index-Linked 8.2%	Private Equity 25.2%	UK Equity 12.8%	Gold 30.6%	UK Equity 16.8%	Global Govt Bonds 7.6%	Gilts 7.4%	US Equity 14.5%	US Equity 19.2%
Corporate Bonds 23.5%	Global Govt Bonds 14.8%	UK Equity 24.2%	Global Govt Bonds 9.9%	Gold 4.1%	Global Govt Bonds 7.9%	UK Equity 22.0%	European Equity 12.6%	Timber 27.4%	Private Equity 13.5%	Cash 5.9%	Cash 6.2%	Gold 14.4%	Emerging Market Bonds 16%
Timber 17.2%	UK Equity 13.8%	US Equity 23.8%	Hedge Funds 9.3%	Gilts 3.0%	Commodities 6.9%	US Equity 16.1%	Index-Linked 8.5%	Emerging Market Bonds 23.4%	Gold 9.4%	UK Equity 5.3%	Index-Linked 3.7%	Emerging Market Bonds 13.9%	UK property 15.1%
UK property 16.8%	Hedge Funds 13.3%	Hedge Funds 19.0%	Gilts 8.8%	Global Govt Bonds 1.8%	Hedge Funds 4.3%	Hedge Funds 14.9%	Corporate Bonds 6.9%	European Equity 22.5%	Cash 4.7%	Index-Linked 5.3%	Japan Equity -0.6%	Hedge Funds 13.4%	UK Equity 14.5%
Emerging Market Bonds 16.4%	UK property 11.8%	UK Property shares 15.0%	Corporate Bonds 8.6%	Index-Linked -0.5%	Cash 4.1%	Emerging Market Bonds 13.4%	Gilts 6.6%	UK Equity 22.0%	Hedge Funds 4.3%	Gilts 5.3%	Corporate Bonds -8.5%	Corporate Bonds 12.3%	Japan Equity 13.5%
Gilts 14.9%	Cash 7.9%	UK property 14.5%	Cash 6.2%	EM Equity -0.8%	Emerging Market Bonds -2.1%	UK property 10.9%	Hedge Funds 6.0%	UK Property shares 21.2%	Timber 3.7%	Emerging Market Bonds 4.9%	Commodities -11.8%	Commodities 12.0%	Index-Linked 8.9%
Index-Linked 13.4%	Timber 4.9%	Timber 14.0%	Index-Linked 4.3%	Timber -5.0%	UK Property shares -2.2%	Corporate Bonds 9.7%	Japan Equity 4.9%	UK property 19.1%	Index-Linked 2.9%	Hedge Funds 4.5%	US Equity -14.5%	UK Property shares 11.8%	Corporate Bonds 8.7%
Private Equity 11.5%	Japan Equity 2.9%	Cash 5.5%	Gold 4.0%	UK Property shares -6.0%	Timber -6.5%	Gold 8.4%	Cash 4.6%	US Equity 16.9%	US Equity 1.7%	US Equity 4.1%	UK property -22.5%	Index-Linked 6.4%	Global Govt Bonds 7.4%
Commodities 8.5%	Private Equity 2.8%	Commodities 4.5%	US Equity -1.7%	US Equity -9.4%	EM Equity -14.7%	Index-Linked 6.6%	Commodities 4.2%	Corporate Bonds 12.2%	Corporate Bonds 0.8%	Timber 2.6%	Hedge Funds -22.8%	UK property 2.2%	Gilts 7.2%
Cash 6.9%	Gold -0.9%	Index-Linked 3.8%	European Equity -4.0%	UK Equity -13.3%	Japan Equity -21.5%	Cash 3.8%	Emerging Market Bonds 4.0%	Index-Linked 9.0%	Gilts 0.7%	Corporate Bonds 0.2%	European Equity 28.0%	Cash 1.5%	Hedge Funds 4.8%
Global Govt Bonds 4.2%	Emerging Market Bonds -11.9%	Gold 3.6%	UK Equity -5.9%	Commodities -14.8%	UK Equity -23.4%	Global Govt Bonds 3.7%	US Equity 3.2%	Gilts 7.9%	Emerging Market Bonds -3.5%	UK property -1.8%	UK Equity -29.9%	Japan Equity -0.2%	UK Property shares 1.9%
EM Equity -11.3%	UK Property shares -18.8%	Corporate Bonds -0.6%	EM Equity -23.6%	Private Equity -20.5%	European Equity -29.1%	Gilts 2.1%	Global Govt Bonds 2.7%	Cash 5.0%	Global Govt Bonds -6.8%	Private Equity -6.7%	EM Equity -36.6%	Timber -0.2%	Cash 0.7%
Gold -21.4%	Commodities -20.9%	Gilts -1.1%	Japan Equity -24.4%	European Equity -20.9%	US Equity -29.7%	Commodities 0.5%	Timber 1.7%	Hedge Funds 4.0%	Japan Equity -7.7%	Japan Equity -9.5%	UK Property shares -48.0%	Gilts -1.2%	European Equity -0.6%
Japan Equity -28.8%	EM Equity -25.8%	Global Govt Bonds -2.1%	Private Equity -30.1%	Japan Equity -27.5%	Private Equity -30.2%	Timber -0.8%	Gold -4.1%	Global Govt Bonds 3.9%	Commodities -14.6%	UK Property shares -36.7%	Private Equity -64.3%	Global Govt Bonds -7.0%	Timber -0.8%

SOURCE: ECOWIN, BLOOMBERG, BARCLAYS CAPITAL, REUTERS
AS AT 31 DECEMBER 2010

THE VITAL NEED FOR PLANNING

“If you are planning to invest, don’t. Invest in planning.”

Critchleys

Division of disciplines

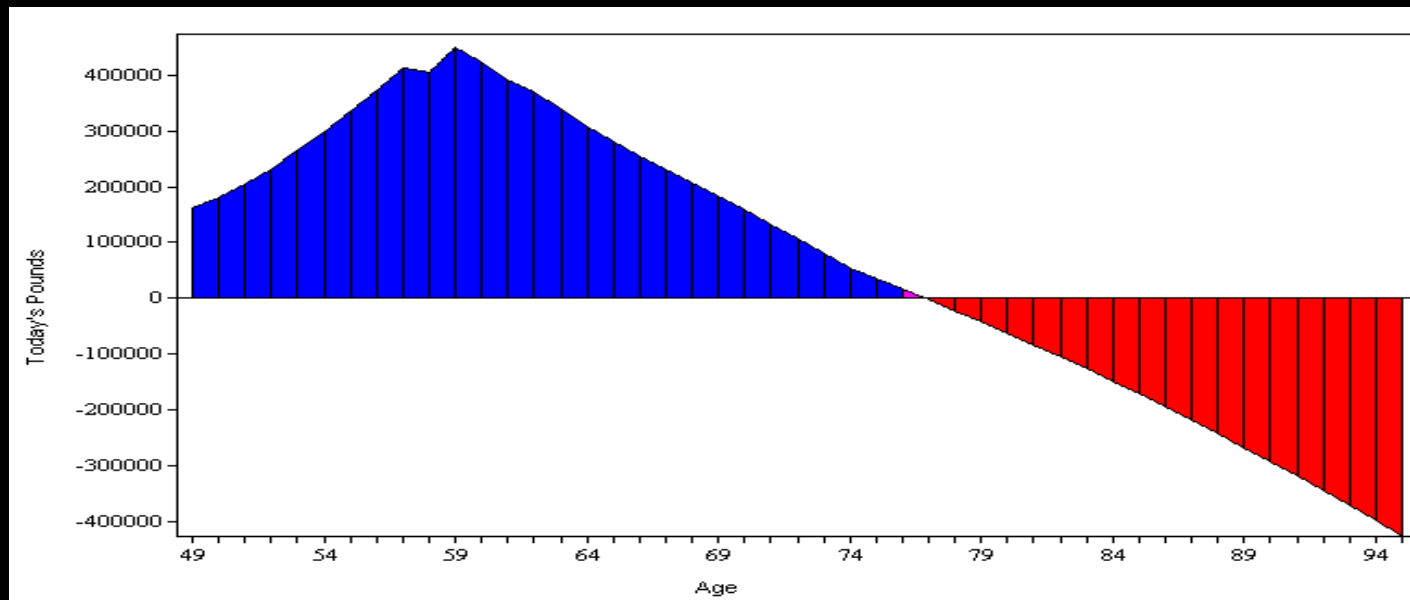
- Planning – Your aims & goals
- Tax wrappers and structure
- Asset allocation
- Fund/stock selection

Process-Structure-Discipline: Not fund picking!

Forward Financial Headlights

Cash flow – income and expenditure

- Now
- Long term future



So what do you do?

Think broader family assets and liabilities

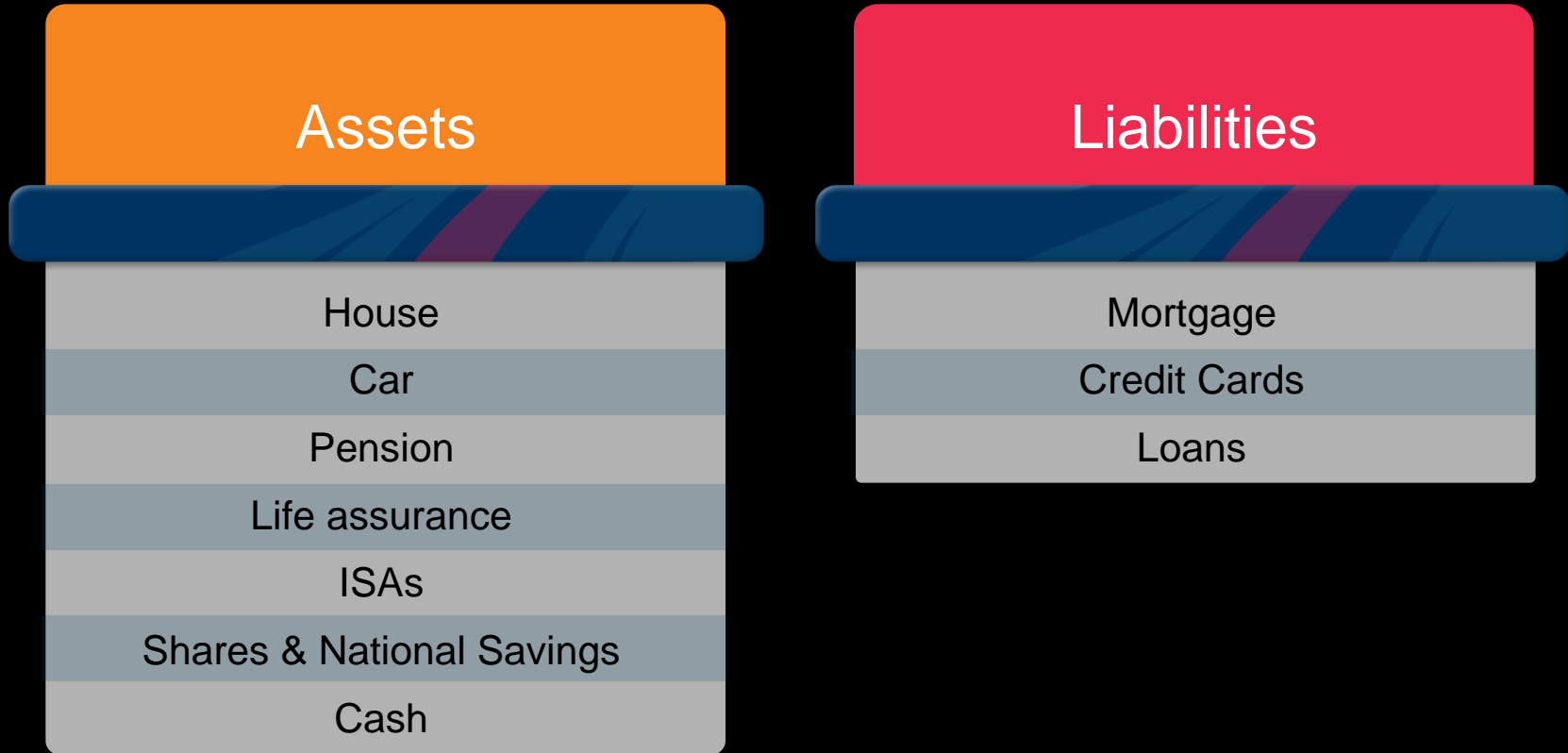
- Managing family assets

Improve Investment Discipline

- Reducing Costs
- Better than average Returns
- Reducing Risks
- Lower Volatility

Regular financial planning

Family Balance Sheet



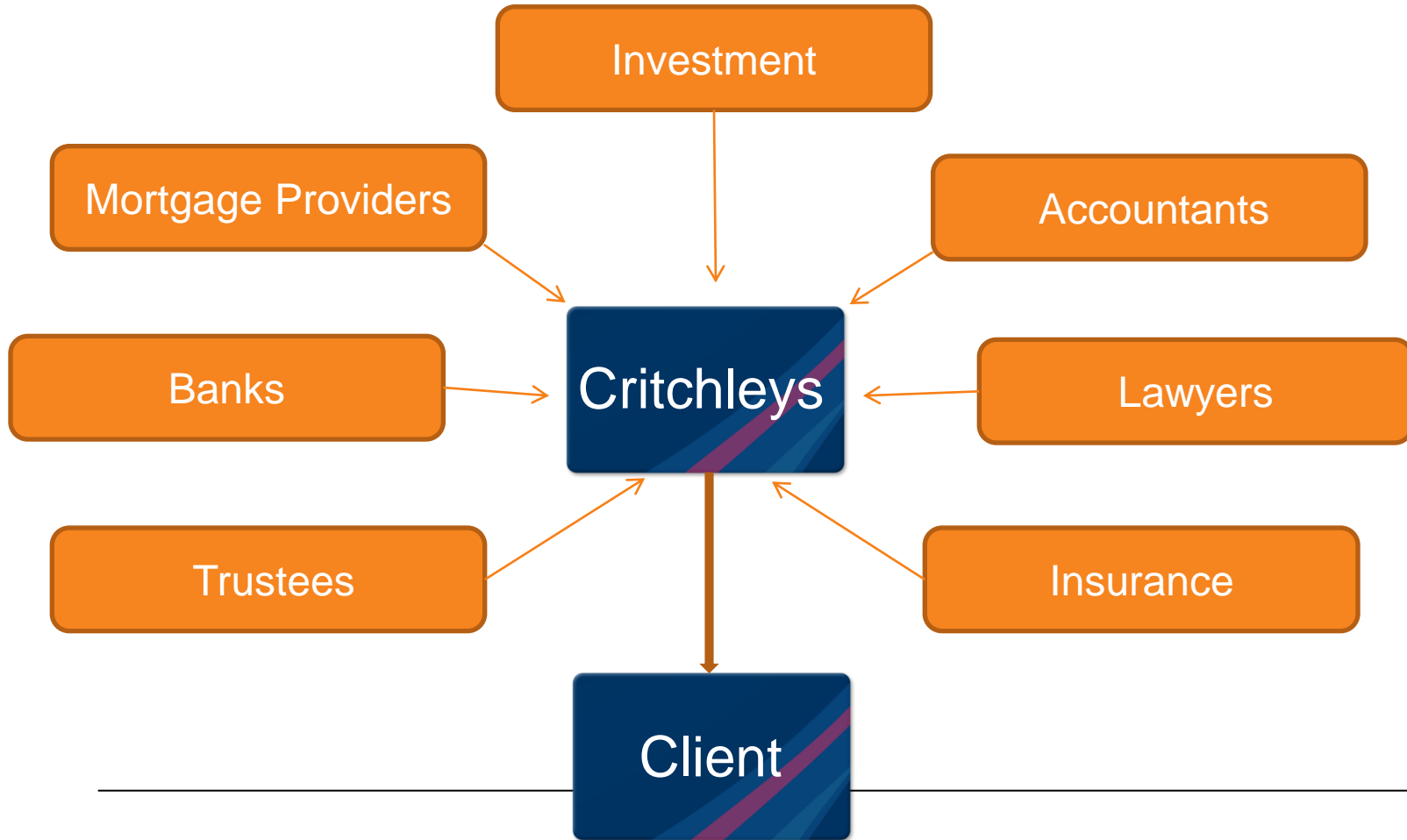
Net Balance £

Trusts & Charities

Effect of the Trustee Act 2000 (& Charities & Trustee Investment (Scotland) Act 2005

- Duty of Care & Liabilities of Trustees
 - Education and understanding
- Evaluate Mandates
 - Asset Allocation policies and actions
- Appointment and Operation of Nominees, Custodians and Investment Managers
- Review process
- Nominee Insurance cover bank

Co-ordinating for the Client



OPPORTUNITY OUT OF AUSTERITY

THANK YOU

JUSTIN A URQUHART STEWART

Seven 
Investment Management