



2010: a year of transition

After 2 atypical years, 2010 should hinge on two key issues:

- ➔ **The first concerns the pace of any self-sustaining economic recovery;**
- ➔ **The second concerns the monetary policies adopted by central banks and their ability to return to a less accommodating stance without putting growth at danger.**

A RECOVERY RUNNING WITH VARYING SPEEDS

2010 will be a year of global recovery but growth rates will be very varied. Emerging countries have emerged in better shape from the crisis. Asia ex Japan continues to lead the field thanks to India and China, Latin America is enjoying a significant economic rebound and the situation in Eastern Europe is gradually improving. G3 countries are reversely still struggling to return to their historic growth rates. The US which is seeing a gradual improvement in household confidence can at least count on support factors like restocking and a modest upturn in investment. After cutting costs and capex, companies now have cleaned-up balance sheets and abundant cash flow.

The global economy's return to growth in 2010 can rely on various support factors: First of all a rise in industrial production as restocking is taking place in developed countries. The two other main growth drivers are a recovery in global trade and private consumption in emerging countries. Note that the emerging consumer is now almost as important as the US consumer.

This momentum is currently being fuelled by ongoing budgetary stimulus (1% of global GDP) and financial conditions which are still expansionary. The question is whether this recovery will survive any future changes in monetary and fiscal policy. Central banks will have to resolve the difficult equation of tightening monetary policy without stifling the pace of recovery.

THE END OF ACCOMMODATING CENTRAL BANK POLICY

It is essential to return to less accommodating financing conditions. Not because of inflationary risks- the upward trend in inflation in Europe and the US would appear to stem more from a mechanical effect than from fundamentals- but to prevent a new risk asset bubble from developing. A massive wave of liquidity could create artificial rises in some asset classes and the consequences would be painful.

So financing conditions will probably be tightened but each country will proceed at its own speed. In Europe and the US, the return to a less accommodating policy will primarily mean ending quantitative easing. A rush to raise rates would imperil growth which is already fragile. In emerging countries with robust growth rates, monetary tightening will probably consist of raising rates gradually. Some countries like China have already started to do so.

FORECASTS ON TRENDS IN MAJOR ASSET CLASSES

There are so many persistent macroeconomic uncertainties that we expect all asset classes will continue to be highly volatile. In bonds, the historically steep slope on principal yield curves offers some protection but the market will be very sensitive to any changes in monetary policy. Risk premiums on the corporate bond market have fallen sharply but there are still some buying opportunities. Equities should continue to rise on the back of very low rates and a contraction in risk premiums which reflects improving company fundamentals. Lastly, we believe commodities will

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appreciate over the long term due to structural factors like emerging country growth. The asset class should however be very volatile over the short term.

There may be no real bargains left in major asset classes, but directional management will continue to benefit from fund flows into risk assets. It is difficult to identify leading trends in 2010 but it will be essential to be flexible and reactive in asset allocation. 2010 is shaping up to be a tactical year.

MAJOR INVESTMENT THEMES IN 2010

2010 should see a reinforcement of some leading themes that will offer opportunities in various asset classes.

Asian currencies will appreciate: due to political decisions, only Asian currencies were not rising against the dollar. Nevertheless, their dynamic economies and property booms require monetary policy to change considerably. So higher interest rates could help these currencies appreciate.

The debt market outside the OECD: developed countries are most likely heading towards downgrades in their credit ratings, but the risk looks lower in emerging countries which are protected by buoyant growth rates. In addition, emerging countries have made progress in managing monetary policy and the emergence of local debt markets has sharply reduced the cost of debt. Its risk too has diminished as governments are now less dependent on international capital flows.

The revival of M&A: margins are recovering and companies have lots of cash. To maintain margins, companies will probably prefer external to internal growth.

Less steep yield curves: When central banks start to tighten, there will be considerable opportunities for yield curve strategies.

QUADRIM 8: FLEXIBLE MANAGEMENT ADAPTED TO THE CURRENT ENVIRONMENT

A fund blending alpha and beta to adapt to the most uncertain market phases
With an annualised performance target of 6%, annual volatility capped at 8% and a recommended investment horizon of 4 years, QUADRIM 8, the new all weather fund from Edmond de Rothschild Investment Managers, stands out for its flexibility. Its original approach combines decorrelation and directional position-taking to benefit from all market configurations. This makes the fund particularly suited to uncertain times like the present.

To meet the targeted return, the investment team opportunistically varies the portfolio's allocation between the two approaches: in a troubled environment, the manager focuses on absolute return by adopting strategies that are uncorrelated with international equity and bond markets. And when market trends are clear, the fund concentrates on directional strategies, though it has the possibility of being a net seller of an asset class, most notably to hedge the portfolio when markets are retreating.

Diversification: a founding principle with QUADRIM 8

Diversification is the investment team's top priority and the driving force behind portfolio construction. Beyond diversity in investment styles and strategies, QUADRIM 8 is characterised by the breadth of the geographical zones it covers and the asset classes used. The fund makes discretionary investments across a broad universe comprising equities, bonds, currencies, convertible bonds and commodities in both developed and emerging markets. This rich investment universe allows the fund to capture numerous opportunities and invest in the leading themes for 2010.

Liquidity and reactivity to promote tactical and opportunistic management

The fund is not meant to invest directly in securities. Management essentially involves liquid and reactive derivatives. These allow the fund to rebalance investments at any one time and help promote the use of tactical allocation and transparent strategies.

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About Edmond de Rothschild Investment Managers

Edmond de Rothschild Investment Managers brings together all the expertise needed to design and manage investment solutions aimed at diversifying a portfolio while protecting its performance and limiting its risk.

By harnessing financial engineering and structuring capacity, Edmond de Rothschild Investment Managers provides investors with transversal competence by bringing multidisciplinary teams together on one platform: specialists in managing fixed income and credit, sourcing alpha (multi management), seeking absolute performance (alternative management and quantitative management) and preserving capital (structured management and products). This wealth of expertise allows the firm to design appropriate, tailored solutions in every asset class.

Edmond de Rothschild Investment Managers is the trade mark for the overall entity which comprises EdRIM Solutions, an investment firm which primarily looks after structuring and the marketing of the joint product range, and EdRIM Gestion, its asset management affiliate.

About La Compagnie Financière Edmond de Rothschild

La Compagnie Financière Edmond de Rothschild Banque is the French branch of the Edmond de Rothschild Group. Its current success has stemmed from its strategy of specialising in private banking and asset management.

Its mutual asset management range has for several years been considerably enriched by a dynamic product innovation strategy. All asset classes are covered: equities, asset allocation and convertible bonds, fixed interest and credit, structured management and asset structuring, direct alternative management, multi management (both alternative and traditional), quantitative management and private equity funds.

Disclaimer: Performance figures are net of management fees. Figures refer to previous years. Past performance and volatility is not necessarily a guide to future performance and volatility.

QUADRIM 8 : main investment risks Capital loss risk, modelling risk, discretionary management risk, risk associated with arbitrage strategies, equity market risk, small and mid cap risk, hybrid product risk (convertibles), interest rate risk, exchange rate risk, risk from investing in emerging markets, risk associated with commodities, credit risk, alternative management risk, risk from the use of forward financial instruments. The fund's principal risks are given in more detail in the full prospectus.

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