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Global Outlook, Greek Crisis and the Cypriot Economy

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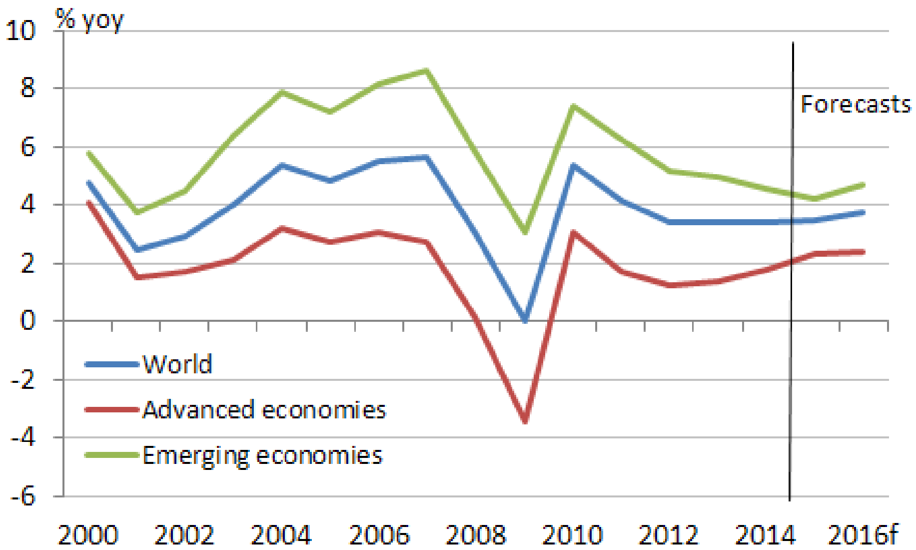
Group Chief Economist
Cyprus
April 2015

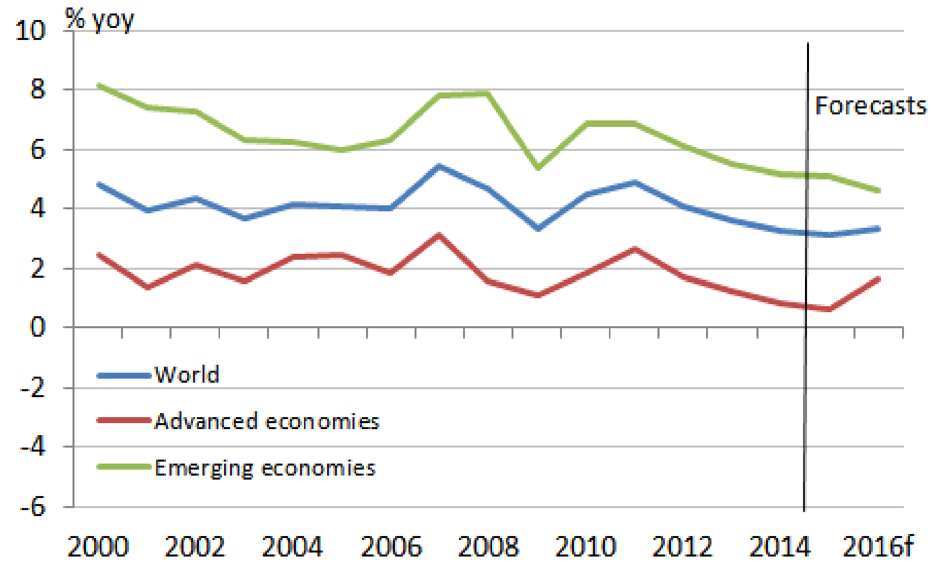
Gradual acceleration in global growth

- ❑ World economic growth gaining momentum (2015: +3.5% & 2016: +3.8% vs. 3.4% in 2014)
- ❑ US to remain the primary engine of global growth, mainly supported by improved household finances
- ❑ Global inflation expected to remain broadly subdued in the remainder of 2015 due to lower energy & commodity prices
- ❑ Some inflation uptick expected next year as impact of lower oil prices starts to fade

Real GDP growth



Headline inflation

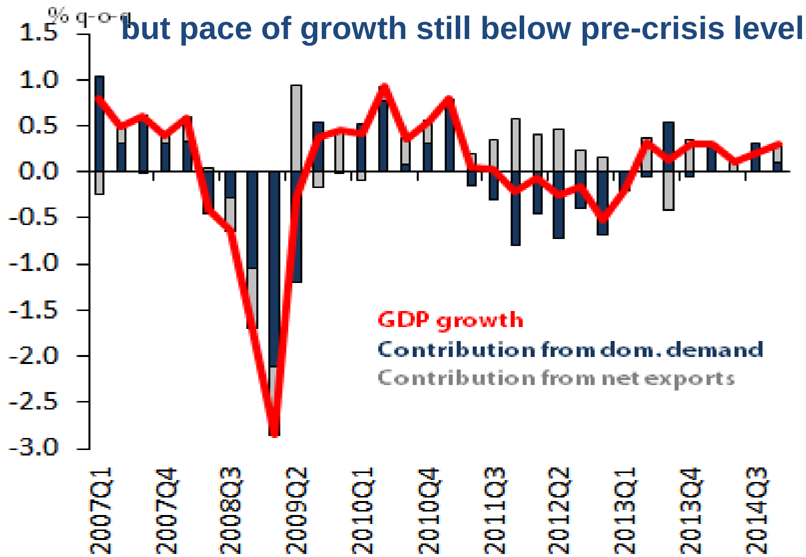


Source: IMF, Eurobank Research.

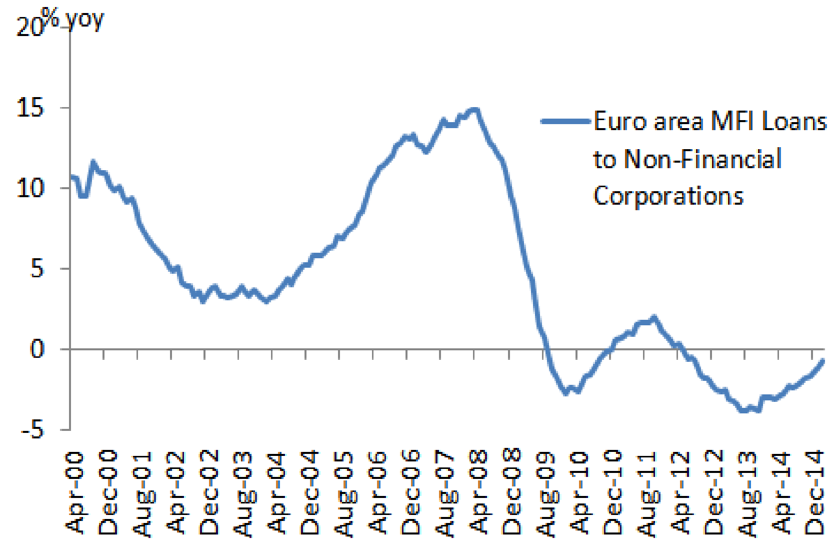
Euro area: economic recovery has gained momentum, but structural problems remain

- ❑ Economic growth expected to gather pace this year on weaker EUR and improving credit conditions
- ❑ Real GDP growth forecasts: +1.4% in 2015 & +1.6% in 2016 (vs. 0.9% in 2014)
- ❑ Yet, longer-term risks prevail due to weakened investment environment and persistently high unemployment
- ❑ Lack of reforms & lingering structural rigidities continue to weigh on labor and product market integration

EA18: Broad based recovery in Q4 2014, but pace of growth still below pre-crisis level



Improved credit dynamics



Source: Eurostat, ECB.

FX Outlook

Summary of views

- ❑ **EUR**: to retain a negative tone short-term amid lingering portfolio outflows and CB reserves reallocation Weakness to be more pronounced vs. the USD on relative growth differentials & monetary policy divergence. Yet, euro area's robust current account position suggests any further weakness to be likely gradual

  Upside risks

  - ✓ US economic growth disappoints / inflation surprises to the downside
  - ✓ ECB halts QE earlier than scheduled
  - ✓ Major central banks expand their EUR currency reserves

  Downside risks

  - ✓ Euro area inflation surprises to the downside; hawkish shift in Fed rate hike expectations
  - ✓ No meaningful improvement in Eurozone economic growth, disinflation woes prevail
  - ✓ Renewed EU political jitters

- ❑ **CHF**: Downside risks on SNB rate easing expectations

Greece

Domestic economic & political developments

Short-term risks & long-term outlook

Adjustment program achievements & socioeconomic costs

Notable progress in correcting macro imbalances

- ❑ Twin deficits nearly eliminated
- ❑ Price competitiveness restored *(ULC-REER back to pre-Euro entry levels)*
- ❑ Average maturity of Greek public debt extended significantly *(c. 16.5 years currently vs. 6.3 years in 2011)*
- ❑ Effective interest rate on debt stock currently below 3 percent, among the lowest in the euro area
- ❑ Real GDP up 0.7% in 2014 following 25ppts contraction in prior 6 years

But, fiscal adjustment heavily frontloaded and progress on structural reforms broadly uneven

- ❑ Adjustment in consumer prices has seriously lagged adjustment in wages, putting additional pressure on incomes
- ❑ Current account adjustment mostly due to imports compression
- ❑ Goods exports performance improving lately, but not yet in line with huge adjustment in ULCs
- ❑ Unemployment still unacceptably high, despite last year's 2ppts improvement *(25.8% in Nov.)*
- ❑ Problem exacerbated by weak social net *e.g.* limited jobless benefits and heath care to long-term unemployed

Short-term risks

Politics

- Heightened frictions with official creditors and erosion of trust
- High probability of a *full-fledged* 3rd bailout program

State financing

- Sizeable funding needs & limited sources of financing for the remainder of this year
- Interest & amortization payments in May-Dec. 2015 c. €16bn
- Need to roll over significant T-bills exposures
- Parliament approves legislation to allow short-term State borrowing from social security funds and legal entities (c. €2.5bn)
- Borrowing requirement more manageable in 2016-2020

Fisal & macro

- Lower than projected primary surplus in 2014
- Q1 2015 budget execution data provide room for some optimism
- Projected fiscal gap has likely increased; but 2015 primary surplus target to be adjusted downwards (1.2% vs. 3.0%-of-GDP)
- Downside risks to the official forecast for 2015 GDP growth, despite positive carry-over from last year (+0.15ppts)

Bottom line

- We continue to expect a comprehensive agreement with official lenders to be reached by late June 2015
- Situation remains difficult, but “GREXIT” fears broadly exacerbated
- Government financing situation to become much more manageable from Q4 2015 onwards

Cyprus

A turn-around story

Cyprus: Program on track & macroeconomic outturns better than expected

- **Output losses lower than expected**
  FY2014: -2.3% vs. -4.8% forecast , FY2015(f): +0.4%

- **Fast internal & external adjustment**
  REER-ULC cum. decline since Q3-2011: -16.3%
  CAD (% GDP): -3.5% in 2014 vs. -15.6% in 2008

- **Fiscal consolidation consistently outperforming targets**
  FY2014: GGPB (+2.8%-of-GDP) achieved 2 years ahead of schedule
  Improved public debt sustainability - hefty GDP revision & favorable dynamics
  Public debt ratio expected to drop below 100% in 2016, from peak of107% in 2014

- **Massive restructuring & recapitalization of domestic banking system**
  Post-bail in : Coops recap with public funds, HB recap with private funds; Successful BOCY €1 bn capital increase; Satisfactory stress-test results; Total Assets (% GDP): 425% ,CET1:14.8% in Sep2014

- **Capital controls fully lifted, domestic financial conditions normalizing**
  Three stage roadmap completed successfully; Deposits base stabilizing at €46.5bn

- **Strong political commitment to the stabilization program**
  Satisfactory institutional capacity & determination on politically-difficult decisions

- **Rating upgrades & gradual restoration of market access**
  (S&P upgrade: B+ positive outlook, Yields decline below 4%, Two issues in 2015: 7Y-10Y)

Cyprus: Short & medium term challenges

- High NPLs ratio (>50%) deterring credit recovery; lengthy clean-up process
- Slow private sector deleveraging (*private sector indebtness the 2nd highest in EU-28*)
- Credit-less recovery favors sectors less dependent on bank credit, but more exposed to external shocks (*e.g. tourism & business services*)
- ELA funding declining, but still substantial (*€6.9bn in Mar. 2015 vs. €11.4bn in Mar. 2013*)
- Unemployment peaked but still at elevated levels (*16.2%, 4th highest in EU-28*)
- Spillovers from Russia-Ukraine conflict
- Litigation risks (*arbitration in Washington Court in process*)
- Stronger push for structural reforms needed (*increase efficiency of welfare state & professions liberalization*)
- Need to timely implement privatization plan

Cyprus: medium-term growth drivers

- Pre-crisis macro imbalances nearly eliminated
- MoU implementation broadly satisfactory, but still a need for comprehensive post-program growth strategy *(reduced dependence on banking sector & possibility of less that initially expected energy-related revenue)*
- New growth strategy should rely on take key comparative advantages (*low corporate tax rate, key geostrategic position, quality human capital, and facilitation of international businesses*)
- Need to define & implement reforms that are compatible with the new growth paradigm

ANNEX

Key elements of a long-term growth strategy for Greece

A long-term growth strategy for Greece should not rely on

- ❑ A new unsustainable increase in (private & public) consumption
  (currently 90%-of-GDP in Greece vs. long-term avrg of 77% in EA; still negative savings rate)
- ❑ Channeling of new investment into low-productivity, low value-added sectors
- ❑ Prolonged trapping of resources in insolvent & poorly managed companies (expeditious management of NPLs is needed)

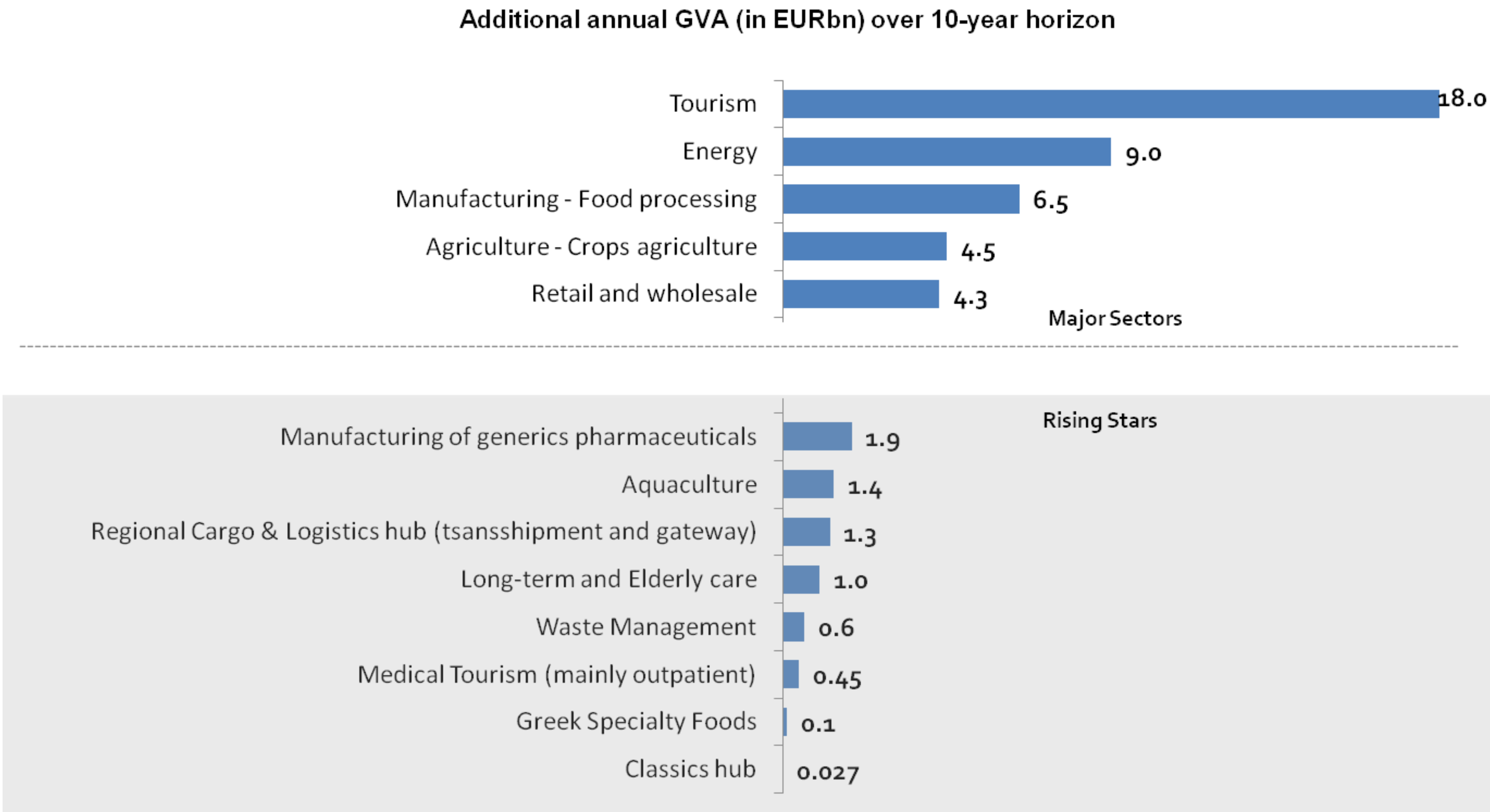
Instead, a viable long-term growth strategy should emphasize…

- ❑ Higher domestic investment spending & FDI
  (gross fixed investment 11.5%-of-GDP in Greece vs.18%-of-GDP in EA)
- ❑ Improvements in non-cost competiveness and extroversion
  (*total exports 32.5%-of-GDP in Greece vs. 46.5% in EA*)

…**and should rely on**

- ❑ Further improvements in domestic business & regulatory environment
- ❑ Reforms in judiciary system to protect investor rights & expedite resolution of business and household bad loans
- ❑ Stable, simple & just taxation system
- ❑ Cut of red tape and simplification of custom procedures

Greece: potential sources of long-term economic growth



Source: McKinsey & Co, 2012

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28 April 2015

The Cyprus Investment & Asset Management Conference
Deploying capital for sustainable growth

Marios Yiannas FIA

Investment Opportunities
Where we are in the cycle

As a number of countries in the EU have entered economic adjustment programmes, foreign investors have exhibited similar behaviour in participating in the economic recovery.

Greece
2010

Ireland
2010

Portugal
2011

Spain
2012

Cyprus
2013

Approach the Cyprus market accordingly in order to offer appropriate solutions and project ideas across the different investment themes as the economic recovery gathers pace.

Government Bonds
- Trading already active
- Future volatility

Corporate Bonds
- Low size currently
- New issues expected

Listed Equity
- Liquid enough for main issuers
- Specialist brokers for large blocks

Private Equity
- Privatizations and infrastructure
- Public-Private Partnerships
- Capital raise for local companies

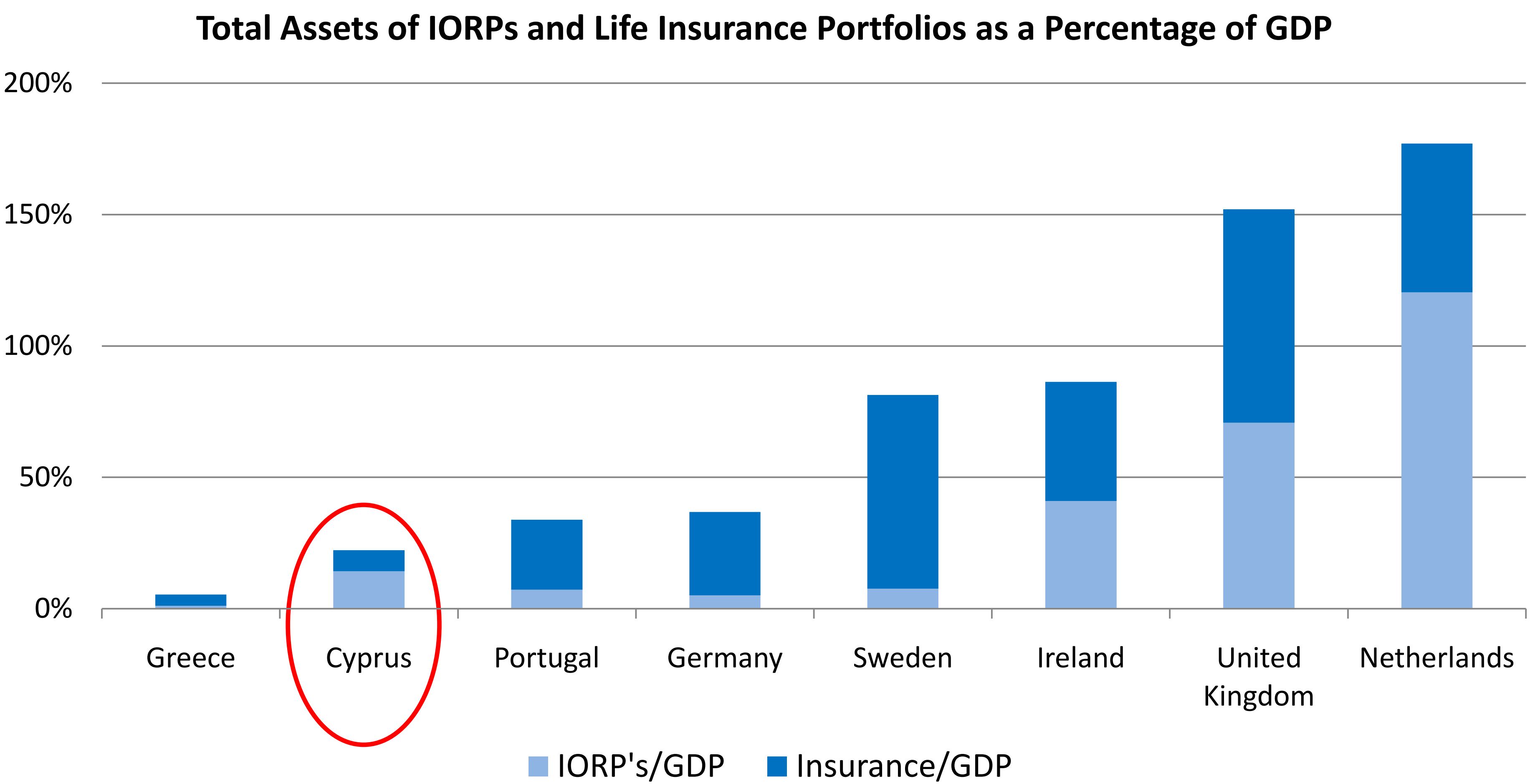
Non Performing Loans
- Total amount Greece: c. €80 bn
- Total amount Cyprus: c. €30 bn

Real Estate
- Direct purchases
- Possibly in 2015/2016+

Getting back on track
Focus on Objectives

- Target a **sustainable** economic growth model – *no more opportunism*
- Set up a **master plan** – *if you fail to prepare, then prepare to fail*
- Fix the **governance** structure – *at long last…*
- Optimize the **allocation of capital** – *no more good money after bad money*
- Target the **right investors** – *foreign and local*
- Promote **new ideas**, in a variety of economic sectors – *not just land development…*
- Make **structural** reforms – *not short-term fixes*
- Take a leaf from someone else's book – *no harm in **copying** other success stories!*
- Fight **corruption** – *ruthlessly, at all levels*

Institutional asset market size as a % of GDP
The most likely long-term investor in any economy



Sources: Eurostat, Insurance Europe and EU Commission report on impact assessment on IORPs.

Institutional asset market in Cyprus
In desperate need of reform

- Promote **long-term savings** patterns
- Increase population **coverage** – *currently, at less than 1/3 of working population in the private sector*
- **Increase the sources** of private savings – *occupational pension and provident funds, insurance companies, appropriate retail products*
- Government policies to provide the right **incentives**
- Efficient **supervision** – *focus on principles and not check-lists*
- Avoid or limit distribution of funds for **consumption** purposes
- **Retirement is not the end of the road** for an individual's investment needs – *20 or more years to go…*

Building Confidence and regaining Trust
Making good progress

BEFORE		AFTER
•*Lack of clear objectives* •*No emphasis on retirement needs* •*Designed by asset managers*	**RETIREMENT PLANNING / TARGETS**	• *Quantifiable retirement targets* • *Designed with the use of actuarial modelling* • *Quantifiable risk – return characteristics*
• *Majority of assets not under professional management*	**PROFESSIONAL MANAGEMENT**	• *Shift towards professional management for the entire portfolio – including cash* • *Regular advice regarding tactical asset allocations, cash placement and illiquid assets*
• *Lack of direction (e.g: invest in equities... then what?) – no guidelines provided to managers* • *Focus on local markets / issues* • *Non-transparent processes for asset manager selection* • *Allocations not in-line with client profile*	**IMPLEMENTATION / ASSET CLASS STRATEGY**	•*Investment guidelines and restrictions, including benchmarking and risk limits* • *Global direction* • *Asset class strategy and allowable instruments (direct, Mutual Funds, ETFs)* • *Clear, transparent selection processes*
• *Very limited and infrequent reporting* • *Not independent! carried out by managers* • *Carried out per manager and not evaluated in the entirety of the investment portfolio* •*Portfolio performance and risk levels not assessed against appropriate benchmarks*	**MONITORING / FEEDBACK**	• *Regular (Quarterly) reporting* • *Carried out by independent consultant – verification and additional requirements from asset managers* • *Evaluation vs guidelines and agreed mandate* • *Link to investment strategy with results*

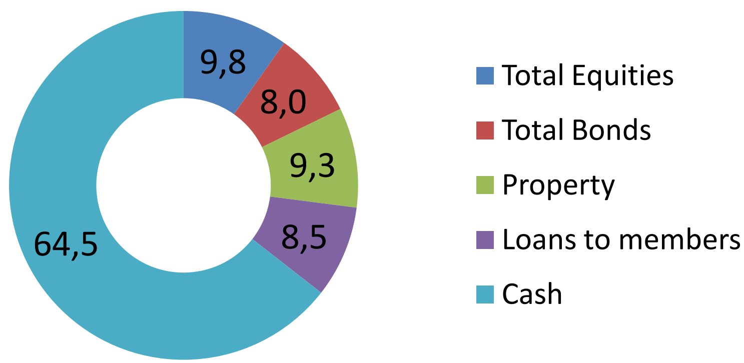
Building Confidence and regaining Trust
Making good progress

BEFORE		AFTER
• *Unnecessary portfolio complexity ('over-engineering')* • *Inclusion of investments not clearly understood by the asset manager / clients* • *Bundled, non-transparent fees* • *Arbitrary performance targets (linked to fees!)*	**ASSET MANAGEMENT**	• *More focussed on client needs* • *Simpler portfolios taking into account implementation and transaction costs* • *Sell-off, gradual decrease of complex instruments not suited for clients* • *Simpler fee structures, unbundling of fees*
• *Custodian services not used by the majority of retirement funds* • *Limited services offering* • *Restrictive access to managers and funds*	**CUSTODY**	• *Increasing trend of custodian services utilisation* • *Increased access to institutional funds* • *Better reporting*
• *Limited use of specialised tools (for record keeping, collections, payments, loan applications)* • *Minimal amount of member communication* • *Delays in report preparation*	**FUND ADMINISTRATION**	• *Introduction of dedicated administration tools* • *Online access to member data* • *Automated reporting*

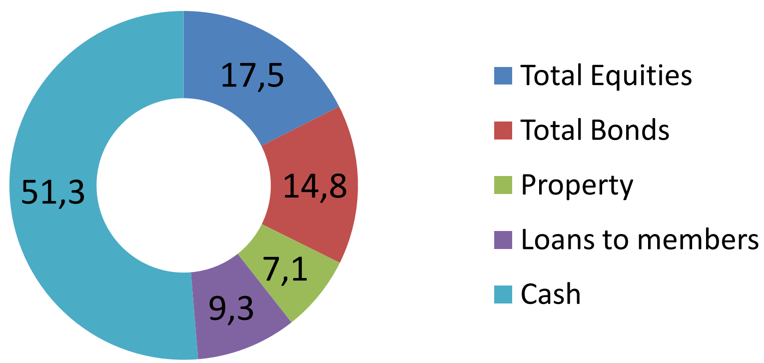
Building Confidence and regaining Trust
Sample market data

shift continues....

2013 Average % Allocation

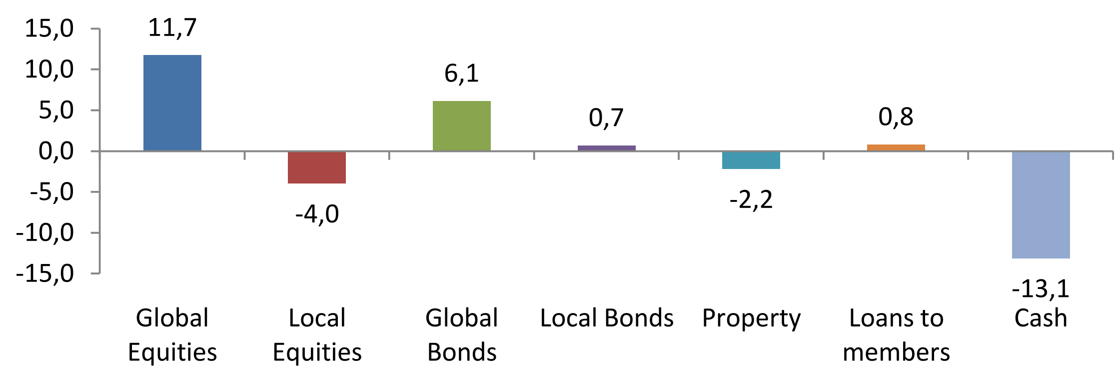


2014 Average % Allocation



...and, shift towards global investments....

% Allocation change year-on-year



Kind reminder

Save wisely and invest responsibly!

Thank you for your kind attention!

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The Role of the Asset Management Industry in the Recovery of the Cyprus Economy

The Cyprus Investment and Securities Corporation Ltd

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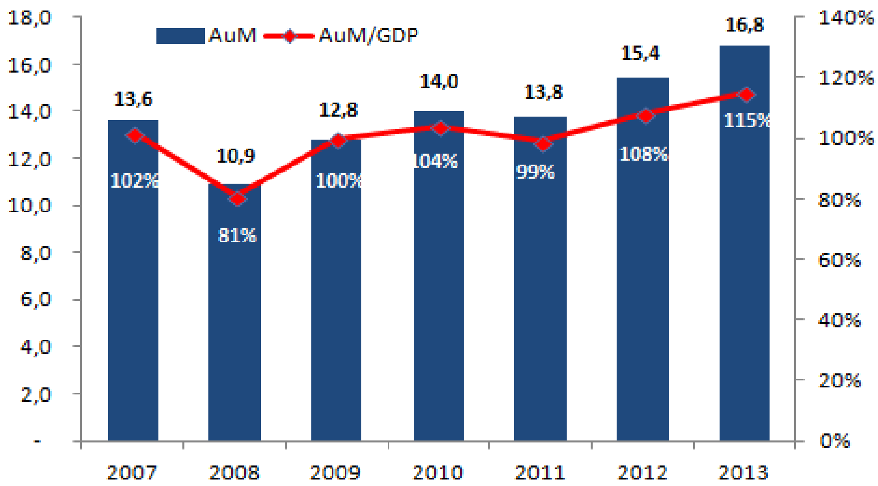
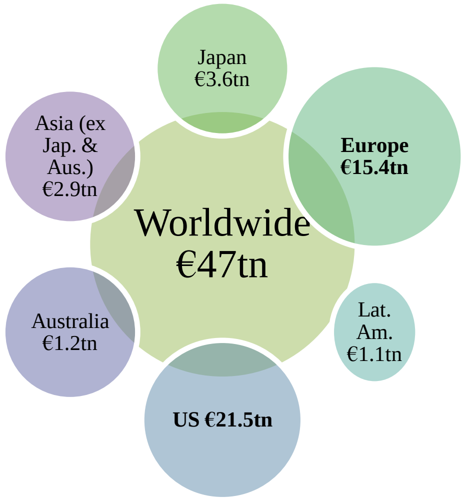
Regulated by the Cyprus Securities and Exchange Commission: 003/03

1 Asset Management in Europe

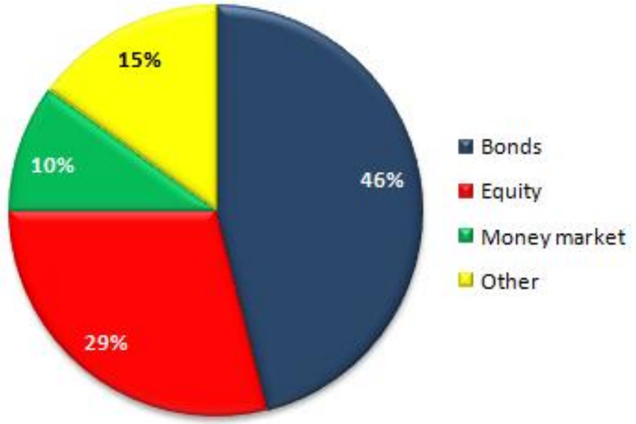
Europe: A highly developed picture



Global AuM at end 2012



Investment portfolio of European asset managers



Europe's top institutional asset management firms

EUR mn	Company	2013 AuM
1	BlackRock	625,065
2	BNY Mellon Inv. Mgmt	434,653
3	Legal & General Inv. Mgmt	381,975
4	APG	343,000
5	State Street Global Advisors	260,121
6	Amundi	255,098

Source: EFAMA + EY

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2 Asset Management in Cyprus

Cyprus:

	AuM (EUR bn)
Pension/Provident Funds	2,5
Insurance Companies	1,4
Total	**3,9**
AuM/GDP (%)	**22%**

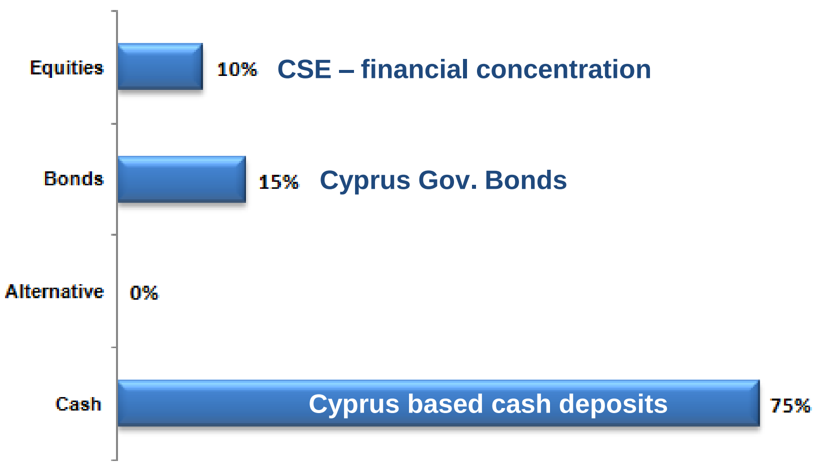
Source: CY Actuaries + IMF

Snapshot of the Cyprus situation:

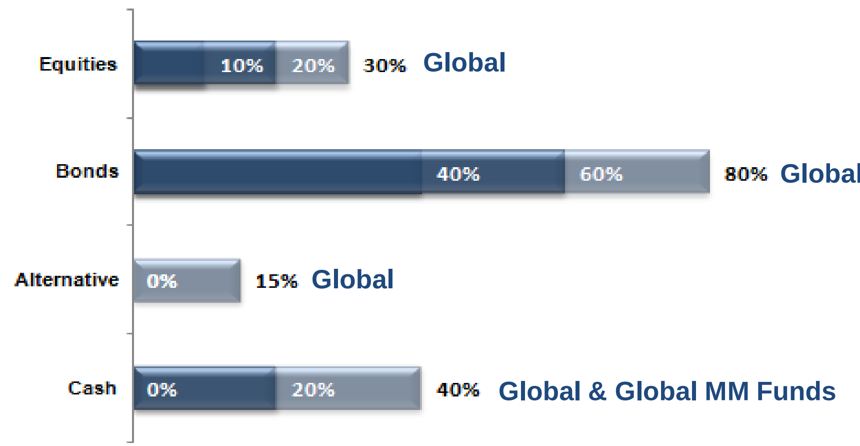
- Weakness in Cyprus Economy – insufficient size of savings industry.
- Pension/Provident Funds felt effect of 2013 – dissolutions and distribution – **retirement timebomb**.
- Investment Funds – ICIS funds convert to AIF and green-shoots for UCITS funds – total assets doubled since 2011. EUR 2.6bn (Dec-14)
- Portfolios now much more **globally diversified**

Evolution of a typical Cyprus Provident Fund Portfolio:

10 years ago



Today



Strategic with min and max range

Source: Simulated portfolios based on aggregate examples

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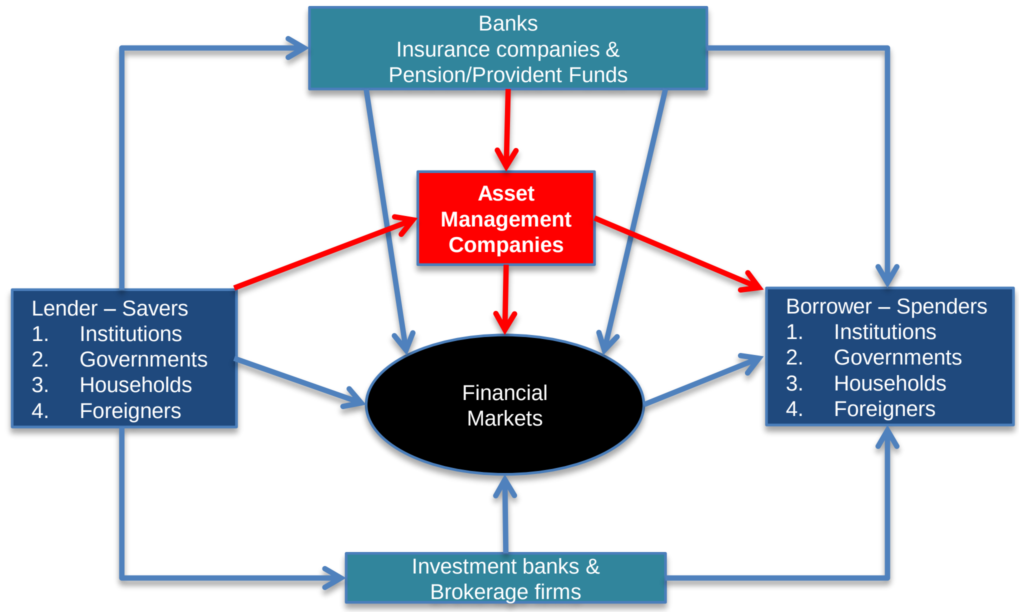
3 Asset Management Impact on the Economy

Long term benefits

1. Employment
2. Crucial link between investors and financing needs
3. Bond financing: filling the gap left by banks
4. Contribution to GDP: profits, staff costs, taxes...
5. Provision of liquidity to financial markets
6. Catalyst for the improvement in corporate governance

Flow of Funds in the Asset Management Industry:

- The Asset Management industry channels the savings of institutions and individuals to companies and governments in the need of funds.
- Investments, therefore, fund economic activity while offering investment expertise to savers.



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4 Development of a Fund Industry in Cyprus

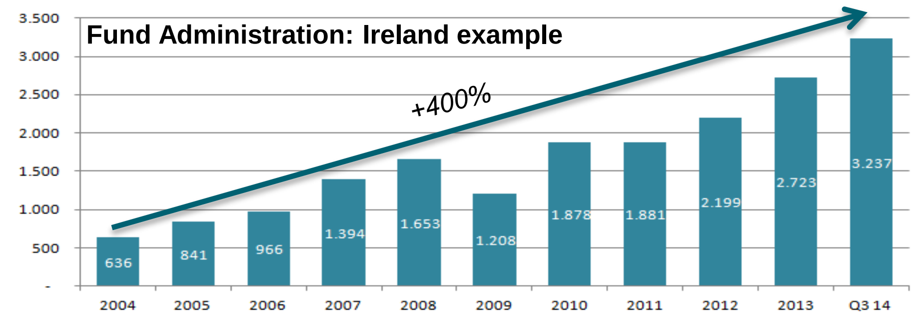
1999 — Introduction of International Collective Schemes (ICIS)

2012 — UCITS IV Directive

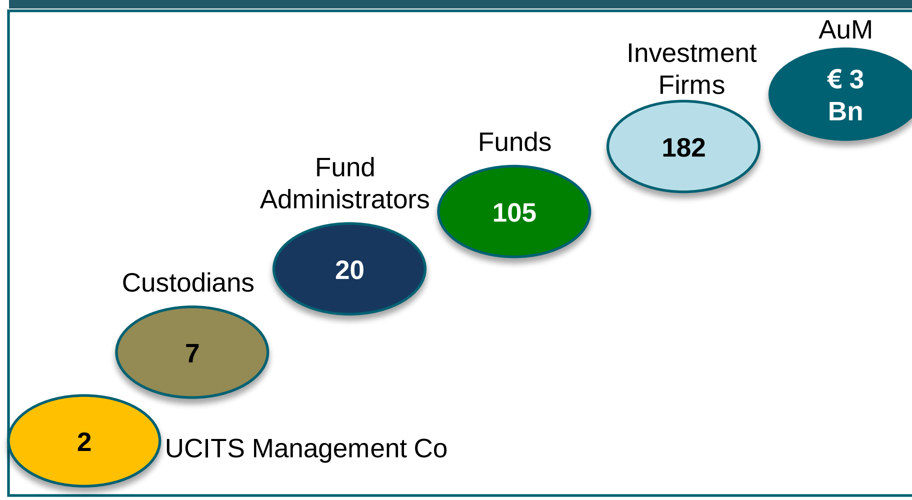
2013 — Alternative Investments Funds Managers Directive (AIFMD)

2014 — New Law on Alternative Investment Funds (AIFs)

1. Creation of UCITS – UCITS Management Companies
2. Offering of Fund Administration Services
3. Offering of Fund Custodian Services
4. Establishment of Recovery / Infrastructure / Energy Funds



Flow of Funds in the Asset Management Industry:



Source: CYSEC, IFIA

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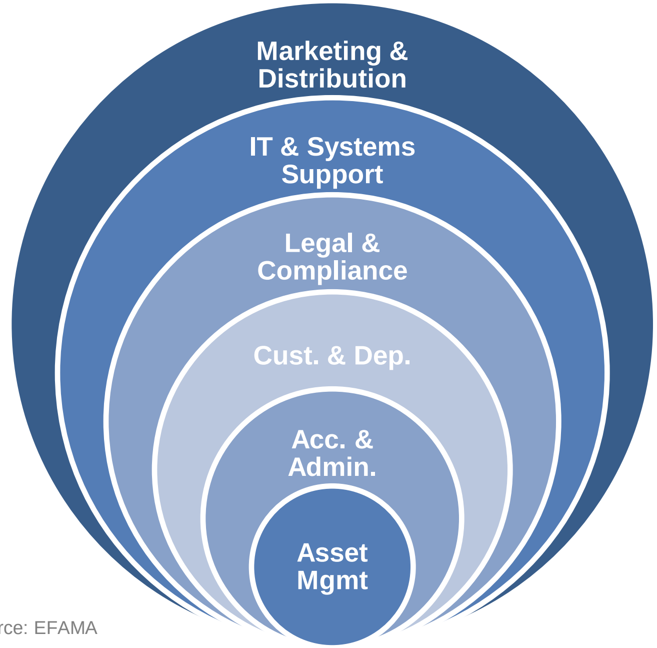
Positive Impacts on Employment

Contributing to the Economy:

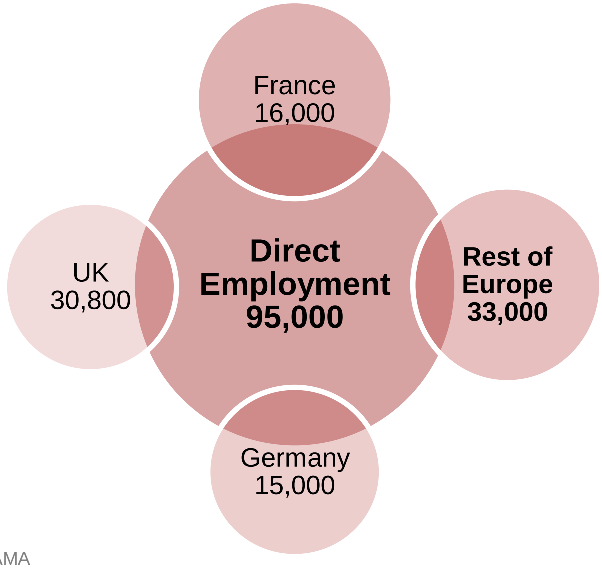
- Important indicator of the contribution of the Asset Management industry to the economy is the employment numbers.
- This is very small in Cyprus at the moment – but should rise given the need for development.
- Employment is **highly qualified and highly skilled**

Asset Management and Related Services



Source: EFAMA

Direct Employment - Asset Management (Europe)



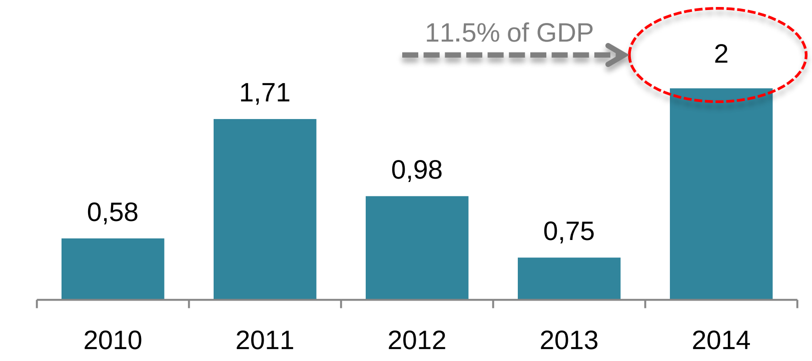
Source: EFAMA

Significant Indirect Employment Impact:

- The French Asset Management Association (AFG) estimated that in France every direct position in AM gives rise to an additional 4.55 people in the related services.
- A substantial employment multiplier for the Economy. Taking above European numbers, using the multiplier, the employment effect of AM is approximately 530,000.

Local/Foreign Investor Collaboration

Increasing Foreign Investments: (EUR bn)

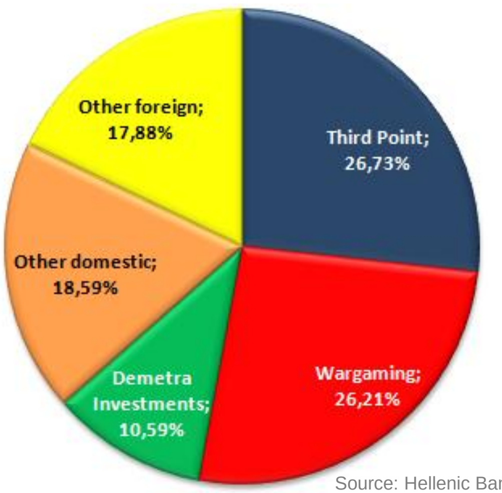


Source: Central Bank of Cyprus

Joint collaboration – Local and Foreign Investors:

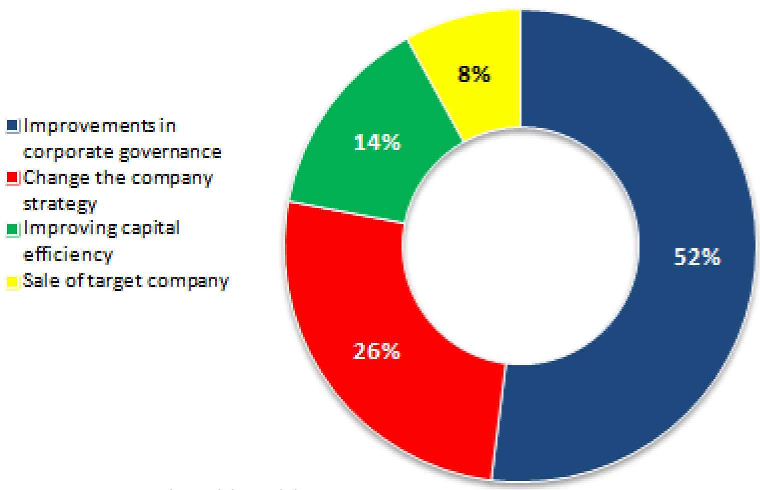
Hellenic Bank:

- Influence
- Control
- ROI
- Exit Strategy
- Corporate Gov.



Source: Hellenic Bank

Activist hedge fund objectives:



Source: AIMA Research, Activist Insight

Investor Power:

- Offer a Return on Investment by developing a Return on Equity
- Influence but not overwhelming control – maintain local entity – and maintain exit route.
- Improvements in corporate governance – a lasting legacy for the economy
- Local partners must have good governance too

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The future evolution of Asset Management

Key Areas where Asset Management can evolve – and assist the recovery:

AuM Growth
Drivers of growth in the Asset Management industry will magnify – increased population, increased 'middle-class', ageing and wealth needs, incomes..

Research & Analysis
The development of internationally distributed research on local market. Increased visibility of the local market.

Due Diligence Services
Going the extra step for Institutional clients – performing due diligence on share issues, mergers/acquisitions, IPOs...

Funds Origination
The development of the UCITS and Non-UCITS funds originating in Cyprus – Recovery Fund, Infrastructure, Real Estate...

8 Conclusion

The future impact of Asset Management – to assist recovery:

- Development of the Cyprus Funds Industry – UCITS and AIFs – Recovery, Infrastructure, Energy...
- Re-establish link between investors and those with financing needs via Asset Management and bond financing
- Positive contribution to the economy through direct and indirect employment – positive multiplier effect
- Provide transparency, liquidity and access to the local market through research
- To be a catalyst for increased active investment - improved corporate governance in the economy
- To encourage Foreign Direct Investments – via Asset Managers being the local point of expertise

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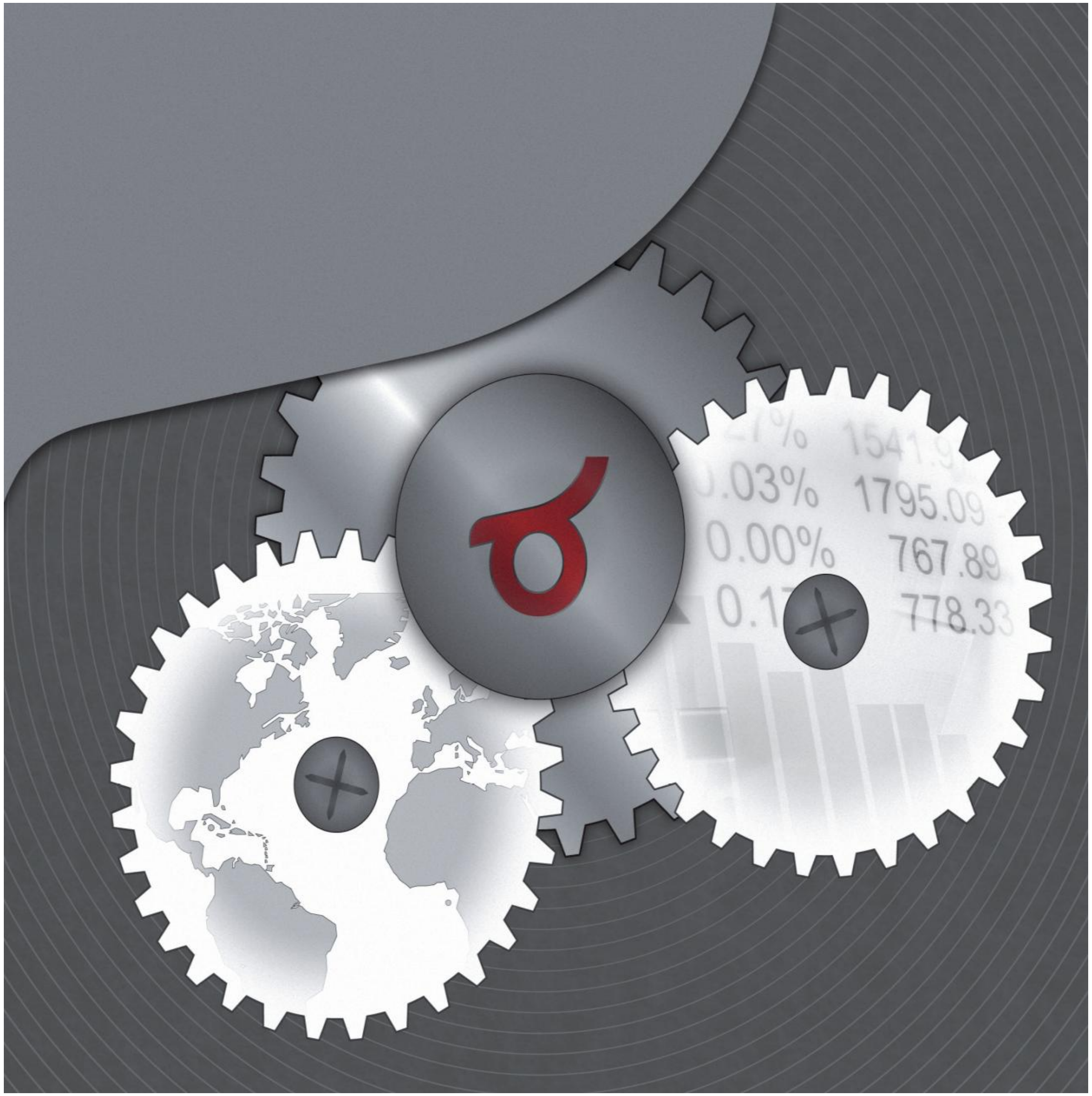
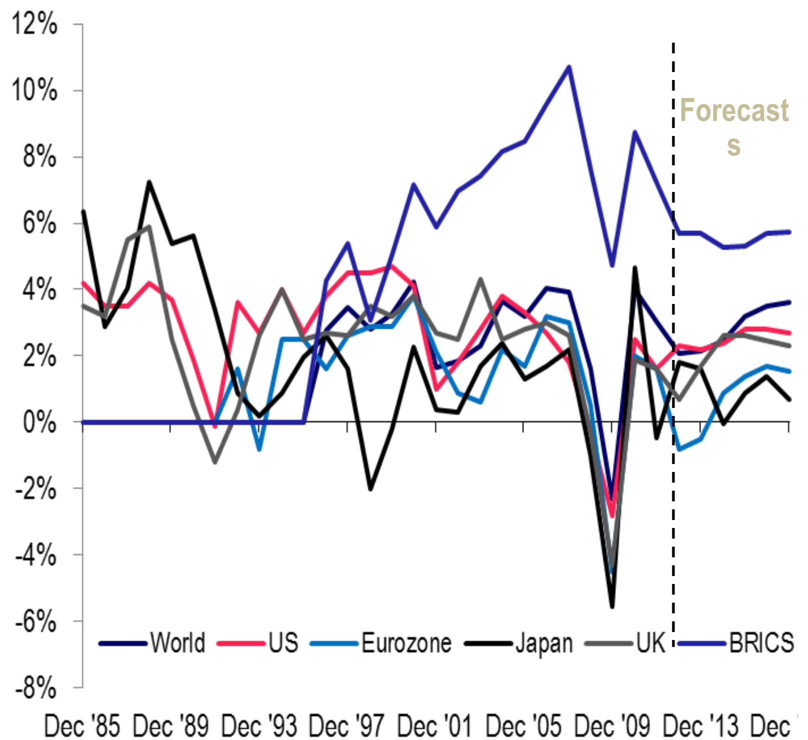
Investing in a period of low yields and elevated asset prices



Global Macro

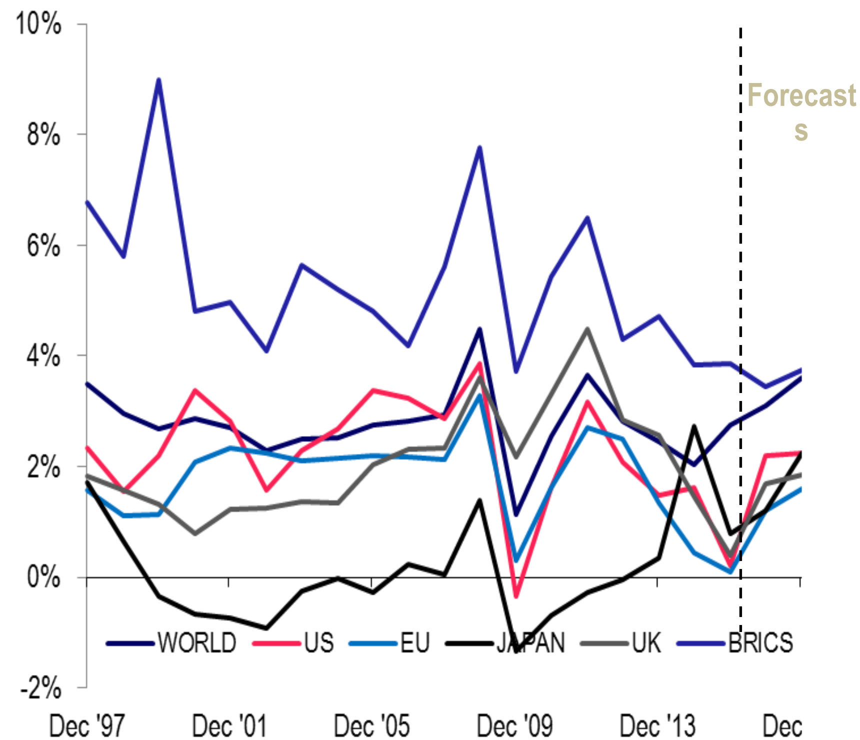
- Weak global economic recovery
- Persistent low inflation (Low growth, “China effect”, economic slack, e-commerce)

Real GDP Growth (y-o-y)



Source: Bloomberg

Inflation

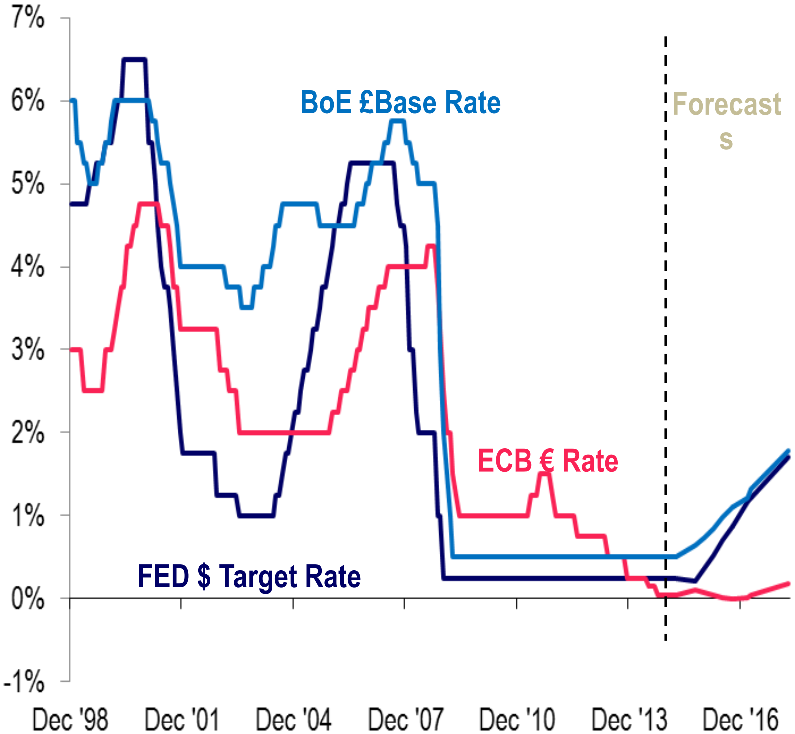


Source: Bloomberg

Monetary easing - negative real rates

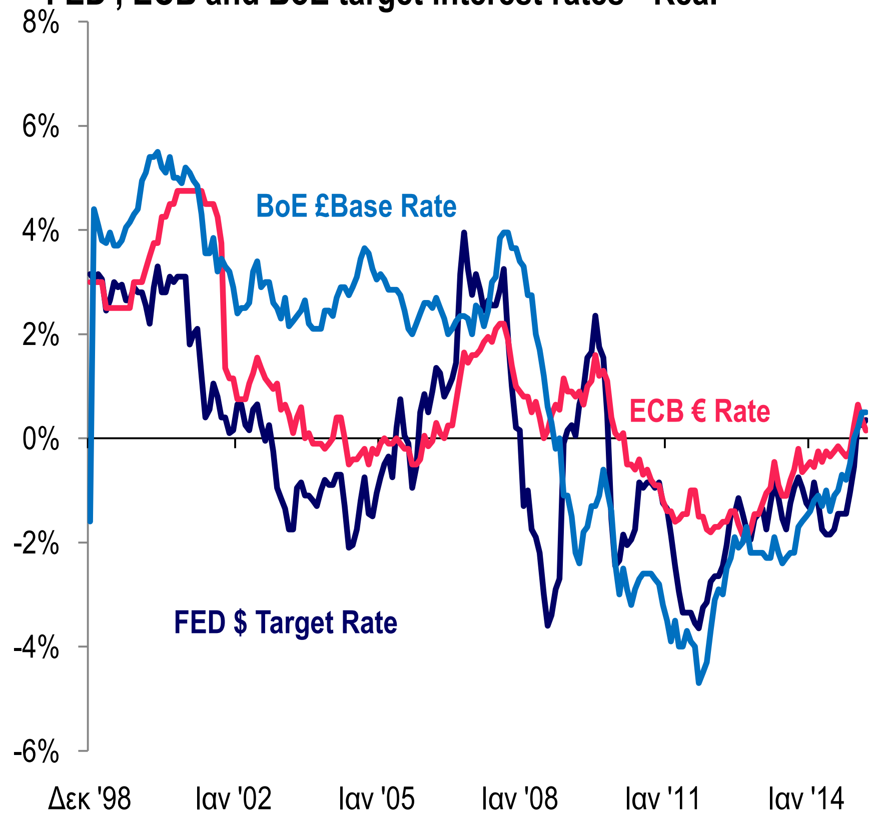
- Record low rates – negative rate policies
- Forecasts for continuation of accommodative policies

FED , ECB and BoE target interest rates - Nominal



Source: Bloomberg

FED , ECB and BoE target interest rates - Real

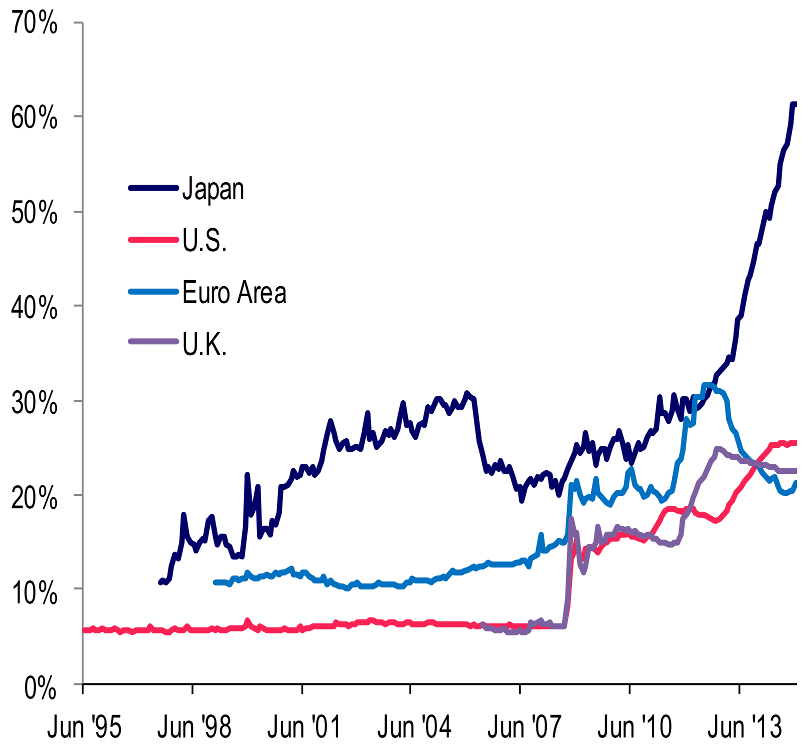


Source: Bloomberg

Monetary easing – Central Bank asset purchases

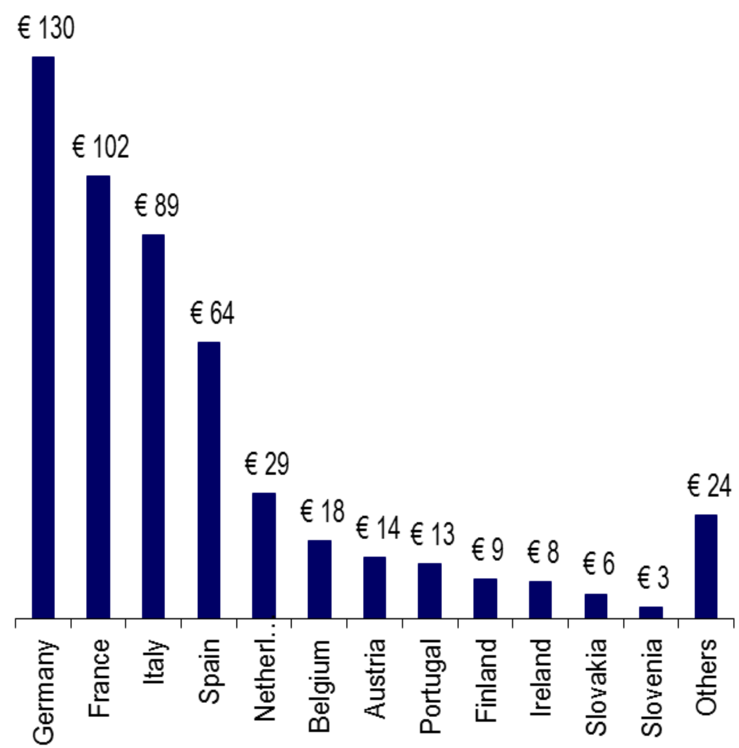
- Central Banks' asset purchase programs in full effect
- As balance sheets expand

Central Bank Assets as % of GDP



Source: Bloomberg

ECB asset purchase program - implied buying

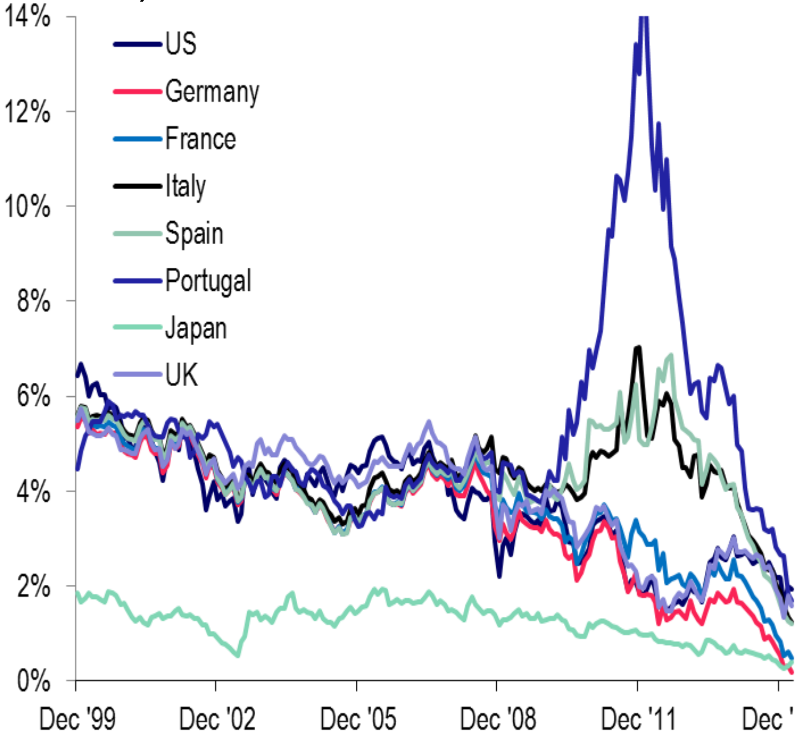


Source: Bloomberg

Low yields

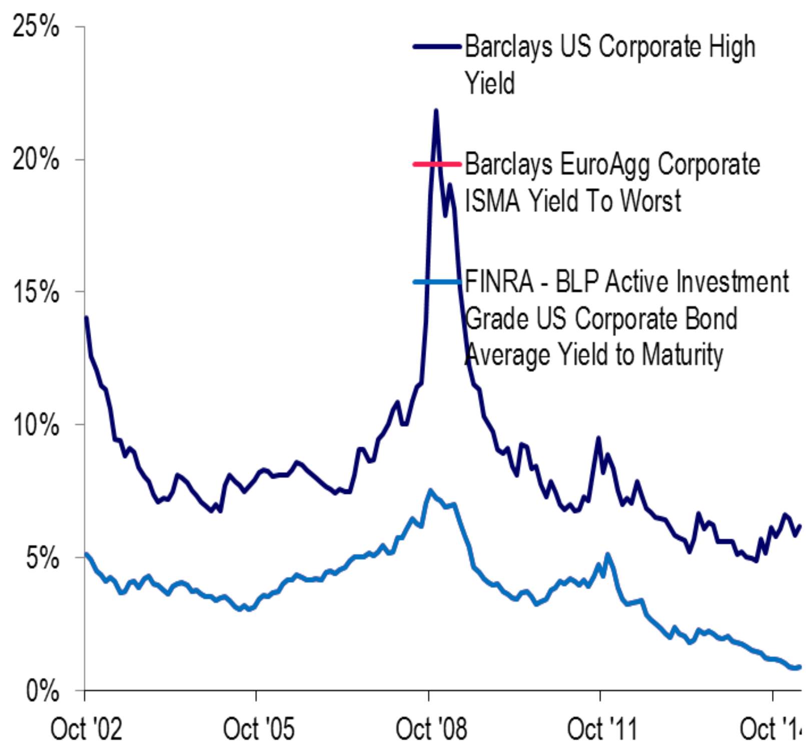
- Record low Government and Corporate yields
- Spreads tighten further

Yield of 10 –Year government bonds (selected countries)



Source: Bloomberg

Corporate Bond Yields (selected indices)

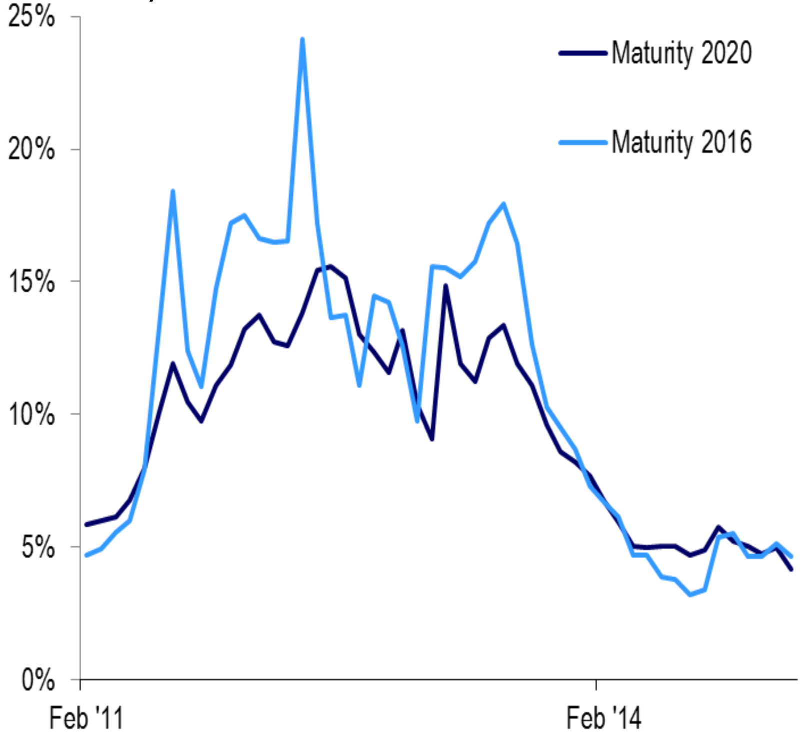


Source: Bloomberg

Cyprus bonds also benefit – deposit rates suffer

- Cyprus Government international yields now at lowest levels
- Local deposit rates decline

Yield of Cyprus government bonds (international securities)



Source: Bloomberg, CBoC

Cyprus Banks Deposit rate (<1 year new deposits)

Source: Bloomberg, CBoC

Low rates and elevated asset prices : impact on asset allocation

ARGUS Global Equities

- Historical evidence a valuable guide

…but

- Major differences exist between this economic cycle compared to other cycles such as:
  - Unprecedented low base rates
  - Historically low government and corporate yields
  - Impact of Globalization, China and e-commerce on keeping inflation low (structural?)
  - Meaningful shift in Bond vs Equity inverse correlation
  - High levels of Government Debt limiting policy flexibility
  - Political imbalances (especially in EU)
  - Prolonged period of monetary easing and accommodative policies by Central Banks

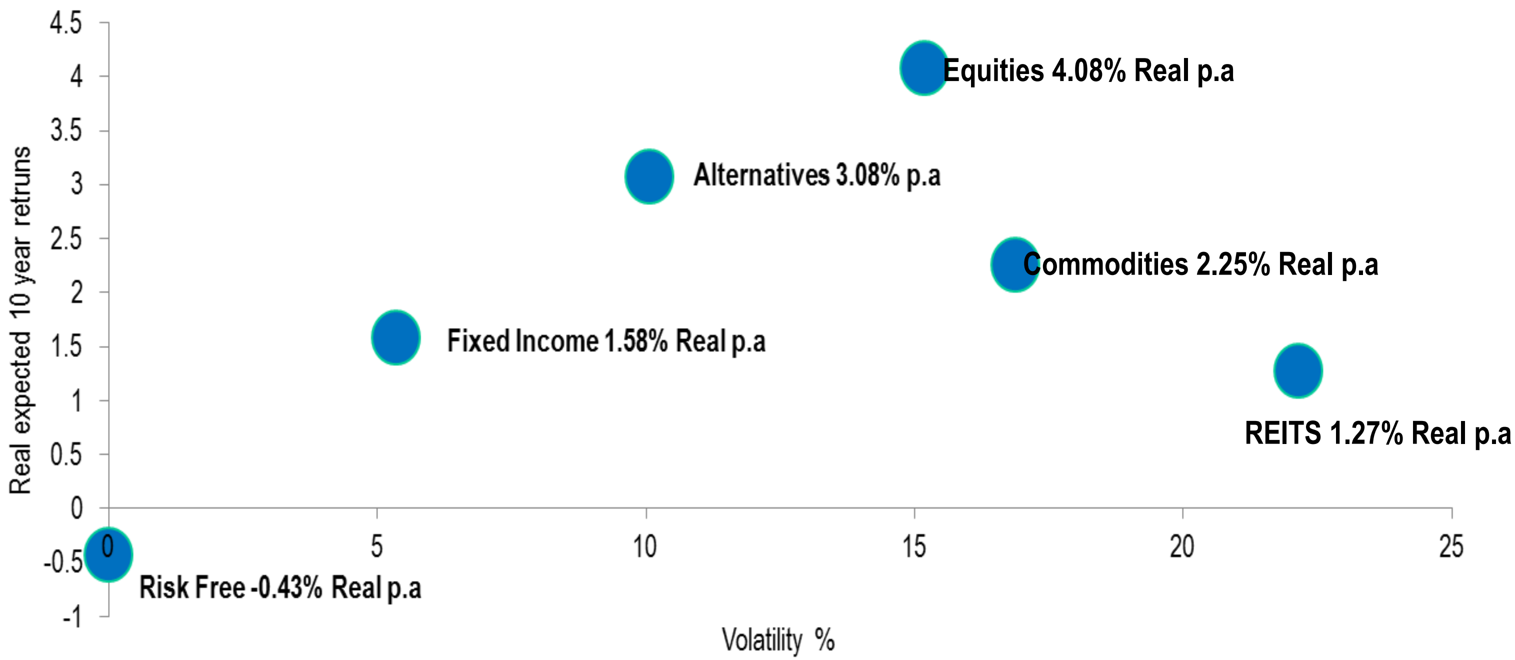
… which always means that …

- Allocation should be all about diversification

Performance in low rate / yield environment

- High Yielding assets to over perform in low rate environments but 5%-6% real returns (7%-8% nominal) may be unrealistic
- This implies that Equities, High Yield Bonds, Alternatives should over perform Fixed Income

Real 10 year annual expected returns



Source: Bloomberg, Research Affiliates, Argus Stockbrokers Research

Performance in rising rate environment

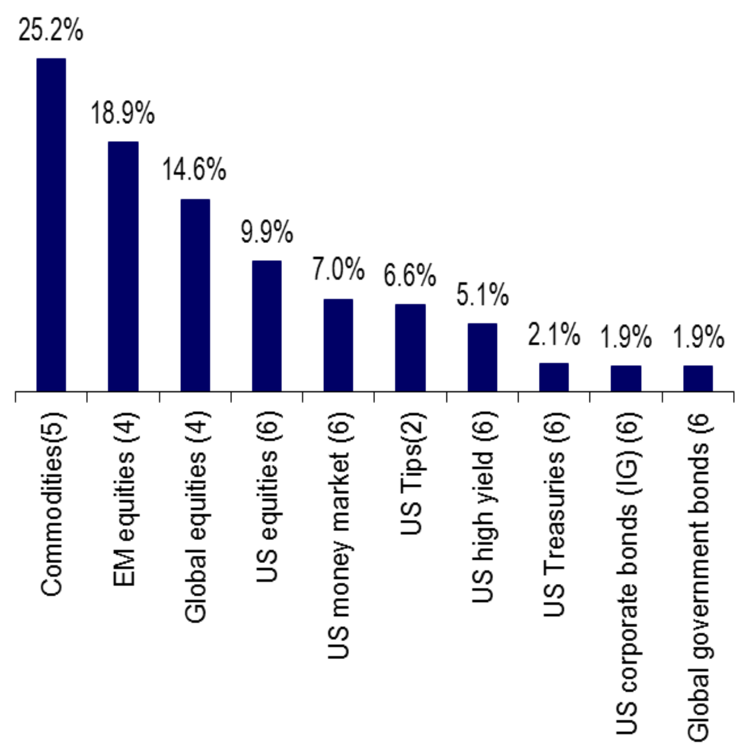
- The US is likely to see rate hikes sooner. The US also has more reliable history to allow for assessment
- Over the last 6 rate cycles (1983 onwards) the average returns (nominal) of asset classes favour growth assets

Fed rate hike cycles since 1983

			FED's $ target rate		
Start	End	Days	Start	End	change
02/05/1983	21/08/1984	477	8.50%	11.75%	3.25%
16/12/1986	04/09/1987	262	5.88%	7.25%	1.38%
29/03/1988	24/02/1989	332	6.50%	9.75%	3.25%
04/02/1994	01/02/1995	362	3%	6%	3.00%
30/06/1999	16/05/2000	321	4.75%	6.50%	1.75%
30/06/2004	29/06/2006	729	1%	5.25%	4.25%

Source: Bloomberg

Average nominal returns during Fed rate hike cycles



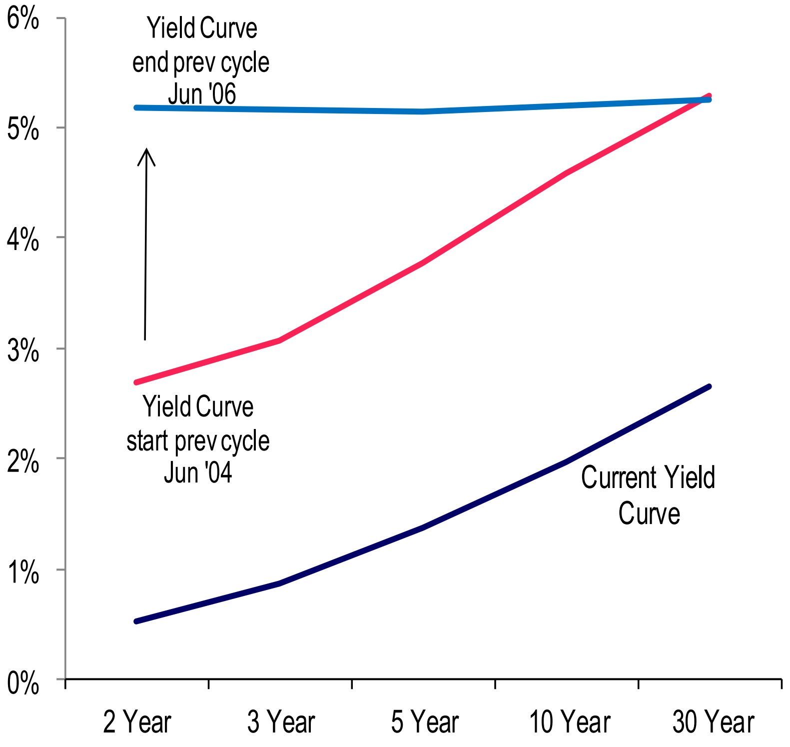
Source: Bloomberg, Allianz Global Investors

Fixed Income - History not always an accurate predictor of future ret

Global Equities

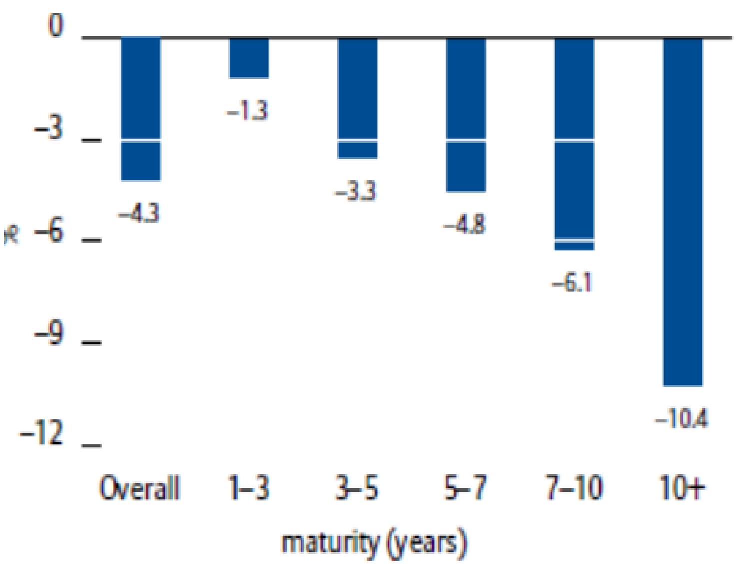
- The current level of yields compared to previous rate hike cycles means that historic returns for Bonds are unlikely
- This is because starting yields are extremely low compared to precedent and capital risk is much higher

US treasuries prev. vs current cycle curve position



Source: Bloomberg

US Treasuries potential impact of average rate hike cycle

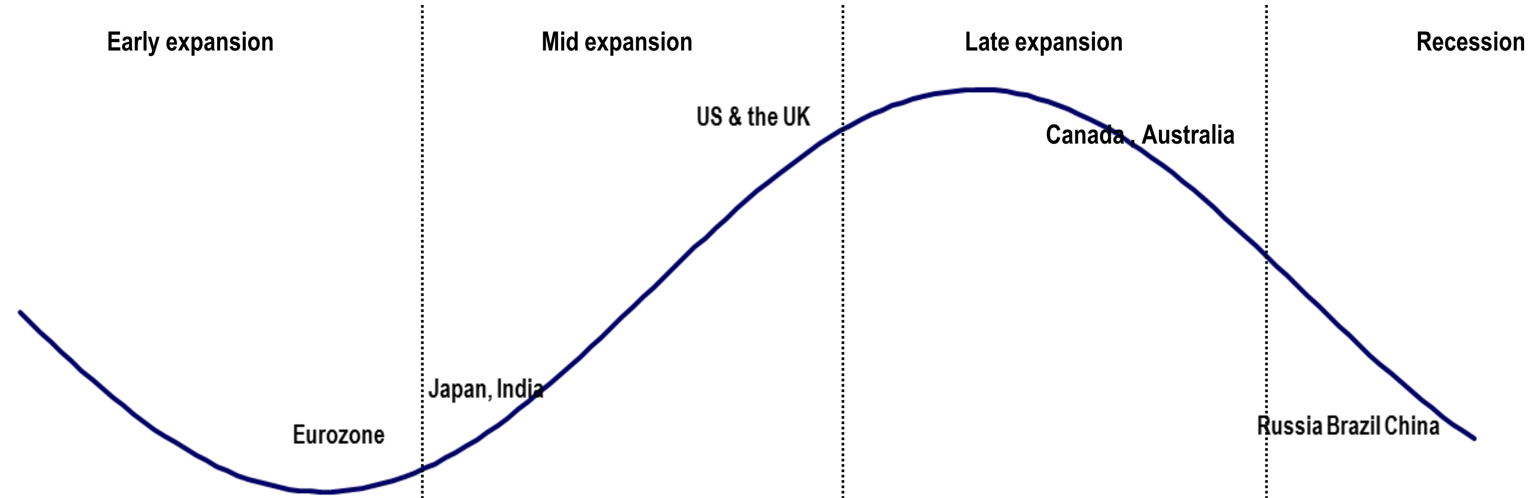


Source: Allianz Global Investors, Bloomberg, Argus Stockbrokers Research

Allocation through economic cycles

- Not always applicable but textbook allocation through the economic cycle is as below

The economic rollercoaster



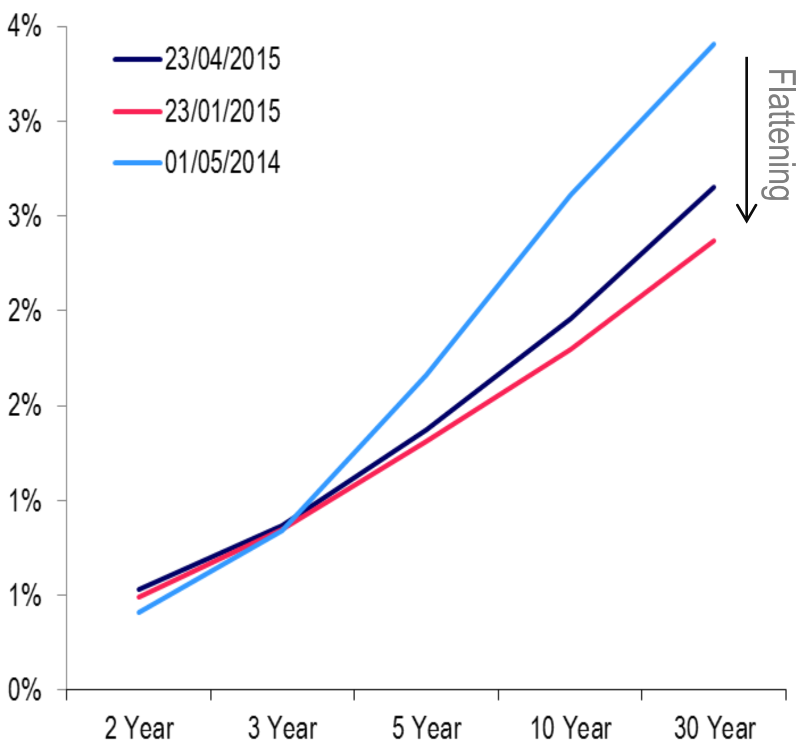
Slow economic growth	**Economic growth picks up**	**Economic growth decelerates**	**Slow growth/recession/stagnation**
Low inflation - monetary easing	Moderate inflation	Inflation peaks	Inflation easing
Expansive monetary policy	Neutral Central Bank policies	Monetary policy tightening	Expansive monetary policy
Outperformance: Equities, Govies, H/Y, Alternatives	**Outperformance**: Equities, H/Y, Alternatives	**Outperformance**: Commodities Equities, Alternatives	**Outperformance**: Govies, Bonds , Cash, Alternatives
Curve flattens	Yield Curve steepens	Curve flattens / inverted (bearish)	Curve flattens

Source: Bloomberg, Argus Stockbrokers Ltd Research

Flattening of yield curves

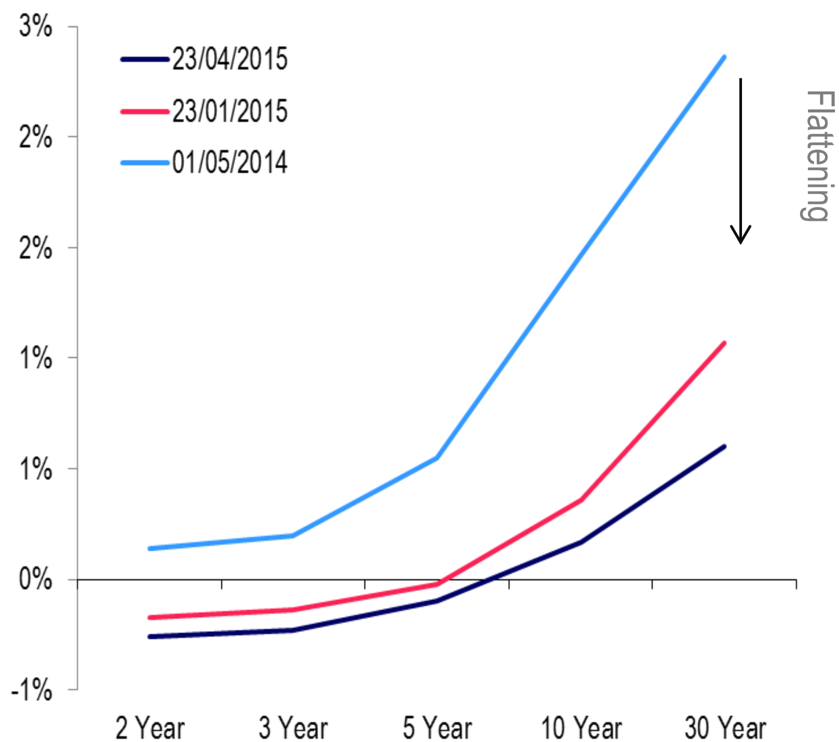
- Bond markets signal low growth / low inflation expectations
- Through flattening of the curves

US Gov Yield curve



Source: Bloomberg

EUR Gov Yield curve

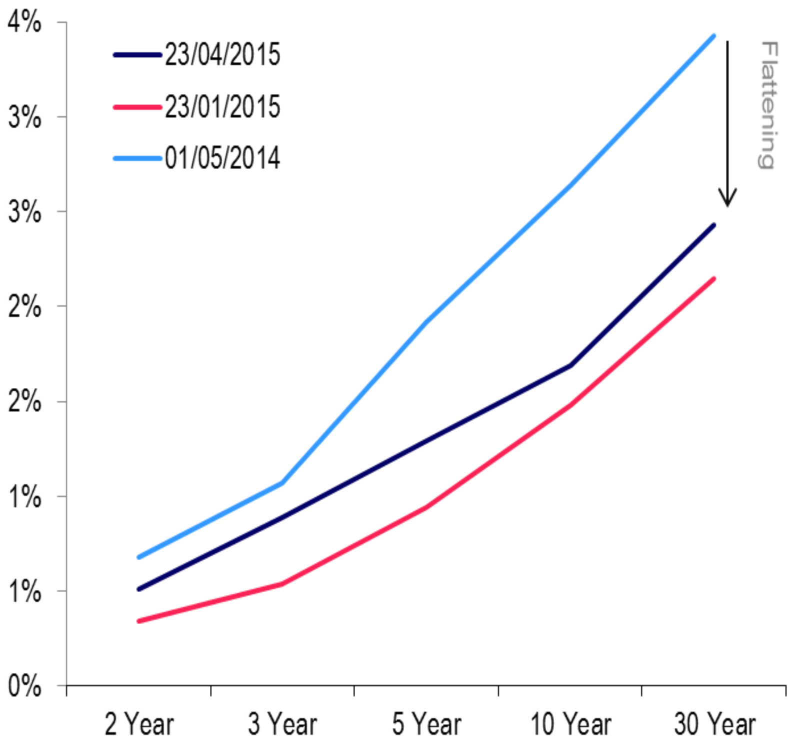


Source: Bloomberg

Flattening of yield curves

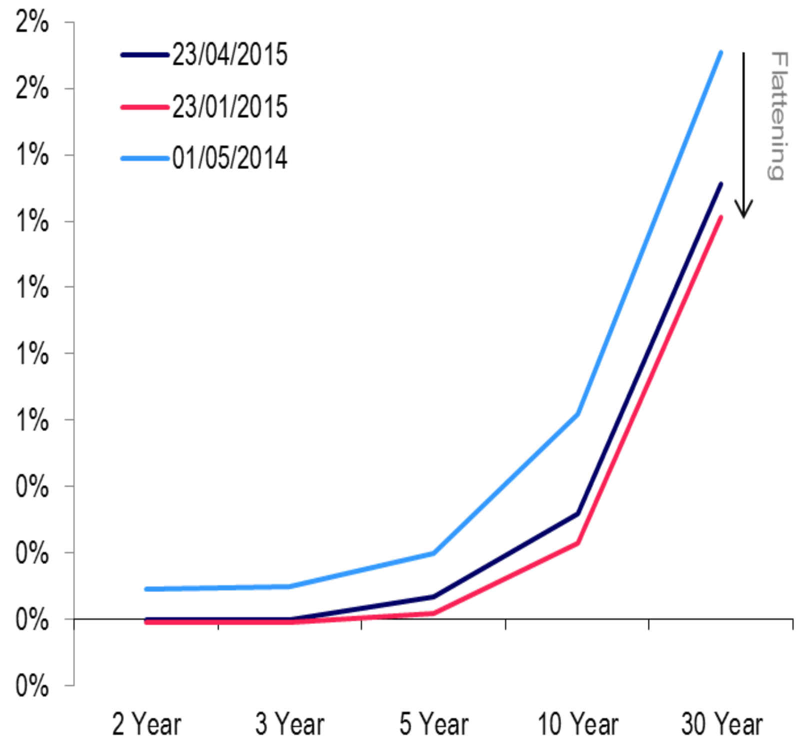
- Bond markets signal low growth / low inflation expectations
- Through flattening of the curves

UK Gov Yield curve



Source: Bloomberg

Japanese Gov Yield curve



Source: Bloomberg

Equities benefit from monetary easing

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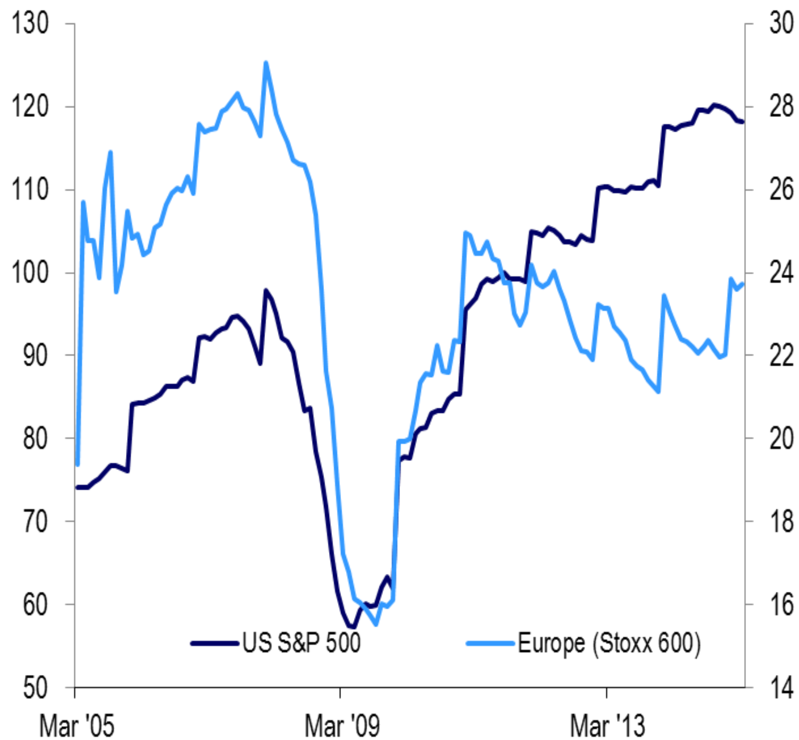
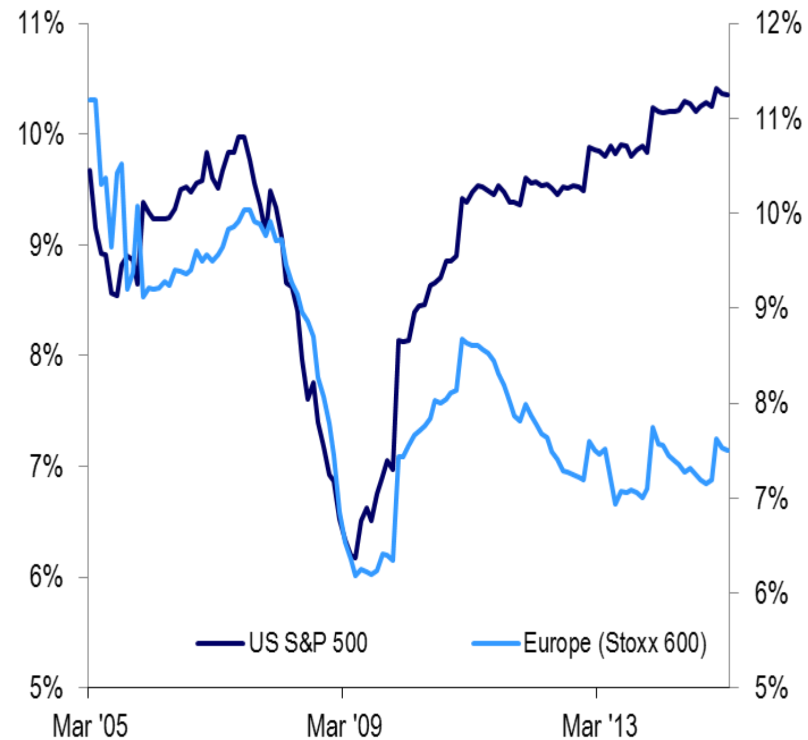
- Equities have benefited most from low rate environment and asset purchases from Central Banks
- This is evidenced by robust earnings growth amidst margin expansion

Earnings Growth (EPS) Europe and the US



Source: Bloomberg

Net Profit Margin Europe and the US

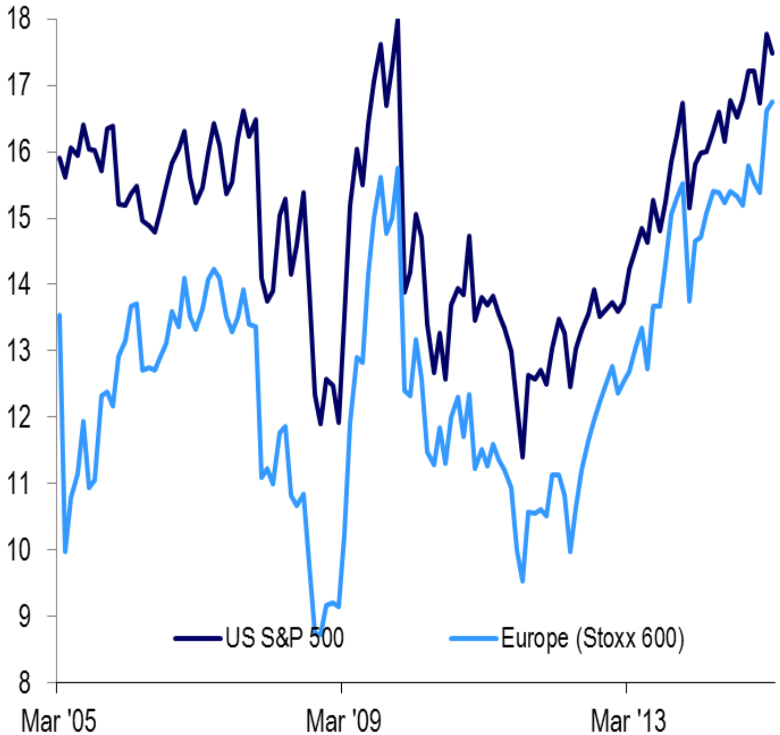


Source: Bloomberg

Equities benefit from monetary easing

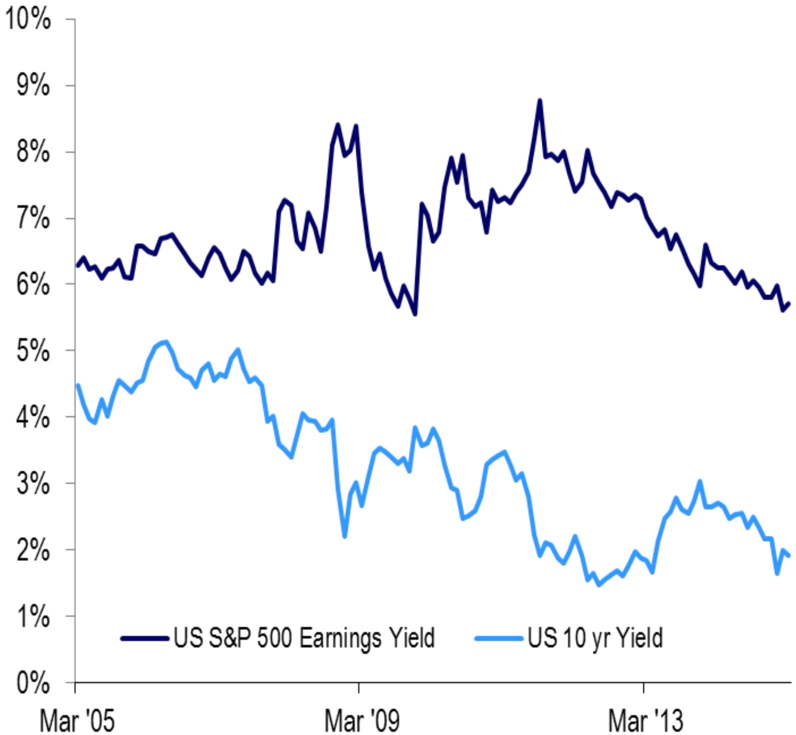
- Whilst valuation multiples for Equities have increased …
- …relative attractiveness of Equities vs Bonds and Other classes remains intact

Equities valuation (forward P/E ratio) Europe and the US



Source: Bloomberg

Equities attractive vs Bonds on implied equity yield metric



Source: Bloomberg

Bonds vs Equities dividend yields

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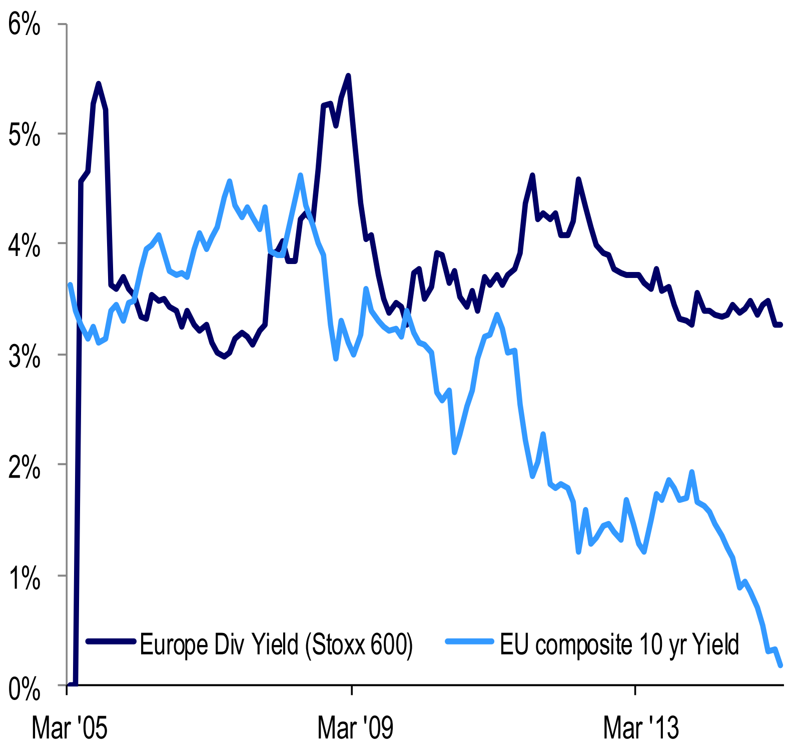
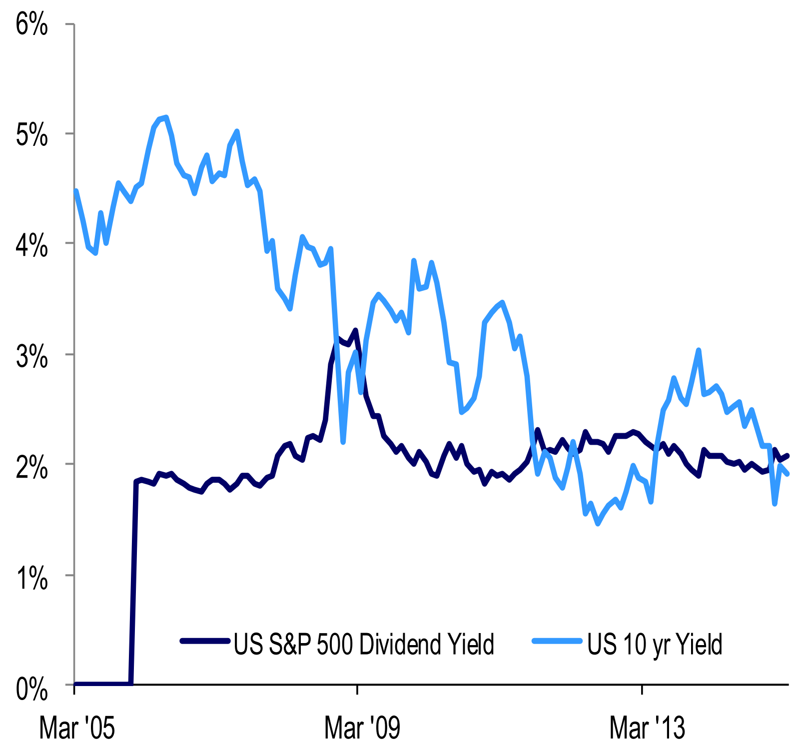
- Stock Dividend Yield is now higher than level of depressed Government yields
- Equities attractive relativelto Bonds and other classes

European Equities Dividend Yield vs 10yr Gov Yield



Source: Bloomberg

US Equities Dividend Yield vs 10yr Gov Yield



Source: Bloomberg

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Alternatives and Commodities

- Commodities impacted by low inflation and excess supply
- Alternatives continue to offer attractive risk return profile amidst continued uncertainty in other asset classes

S&P Commodities total return index

Source: Bloomberg

Credit Suisse Hedge Fund Index

Source: Bloomberg

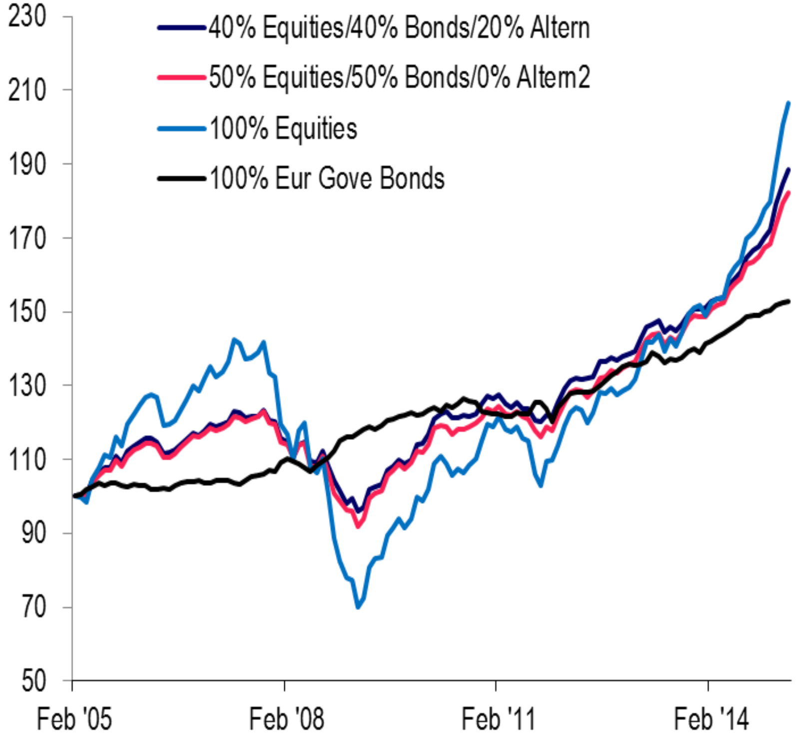
Low rates and elevated asset prices : impact on asset allocation

- Key takeaway = **Diversification, Diversification , Diversification**
- In this environment diversification is more important and critical than ever:
  - Uncertain economic environment
  - Potential for bubble formation
  - "Uneconomical" returns on low risk assets
  - Elevated equity valuations but cheap compared to Fixed Income and Cash
  - Need to diversify into traditional non correlated assets , especially Alternatives

Diversification, Diversification, Diversification

- Optimized through diversification asset allocation strategies to continue to offer best risk / return profiles

10 year Portfolio returns : Equities, Bonds and Alternatives



Source: Bloomberg

Start	40% Equities/40 % Bonds/20% Alt	50% Equities/50 % Bonds/20%	100% Equities/	100% Bonds
Total Return	88.58%	82.09%	106.35%	52.93%
Annualised Return	6.44%	6.07%	7.39%	4.27%
Mean Monthly Return	1.33%	1.06%	2.19%	-0.07%
Volatility Monthly	0.03%	0.03%	0.14%	0.01%
ST Dev Monthly	1.79%	1.87%	3.78%	0.86%
Volatility Annual	6.19%	6.46%	13.10%	2.97%

Source: Bloomberg

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