

# ResearchDigest.

Issue 16  
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## THE NEW FACES OF RD RESEARCH



Guy Stephens, Chief Investment Officer and Tim Cockerill, Head of Collectives Research

## THE MONTH THAT WAS



"With interest rates remaining low for the foreseeable future and the search for income a core requirement of many investors, there is an opportunity to buy into quality corporate bonds, both investment grade and high yield." p.2



"Manufacturing consists of around 13% of US GDP and is therefore no longer the bellwether of the US economy that it once was. Focussing on indicators of activity in the manufacturing sector can therefore be misleading." p.3



"October will mark the point where Greece will run out of money unless Eurozone members have come up with a credible plan. It seems unthinkable that some sort of remedial agreement will not be forthcoming before then but the markets are demanding a final solution so they can achieve closure." p.4

We are delighted to welcome Guy Stephens and Tim Cockerill, the two new additions to the RD research and management team who joined us at the start of this month. Guy and Tim, previously of Ashcourt Rowan Asset Management, join as part of Rowan Dartington's ongoing commitment to expand and further enhance our senior investment expertise. As Chief Investment Officer and Head of Collectives Research, Guy and Tim have arrived some six months after the acquisition of Rowan Dartington by staff and external investors.

Guy held the role of Group Investment Director at Ashcourt Rowan Asset Management, a position he held since the merger of Rowan & Co Capital Management with Ashcourt Asset Management in January 2010. He designed and implemented the discretionary investment management process and had responsibility for the performance and management of the discretionary investment management business with £1.2bn under management.

Previously, Guy spent three years as Investment Manager at Clarke Willmott Solicitors in Taunton. He had also been a Fund Manager in the City of London at United Friendly Asset Management for five years during the mid-nineties, as well as holding investment roles at Aon Corporation and Legal and General.

Tim Cockerill was previously Head of Collectives Research at Ashcourt Rowan Asset Management. He designed the firm's central fund database, which provided unique

research and insight into over 200 funds, and oversaw the collectives research process – while having overall responsibility for the collective fund recommendations covering OEICs, Unit Trusts, Investment Trusts, ETFs and Structured Products. He had been with the company since 2004 and is a frequent commentator in both the national and trade press, having recently been quoted as one of the top 50 most influential commentators in the Financial Services Industry.

Guy said: "I am incredibly excited by the opportunity that awaits us at Rowan Dartington. The recent acquisition of the firm means there are some extremely interesting propositions for growth, and I relish the opportunity to be a part of such a forward-looking company."

Tim added "Rowan Dartington has a great investment management capability already in place. There is excellent potential to expand the discretionary services and it is an honour to be asked to help spearhead this area of the business."

Having Guy and Tim on board is a very significant step for our company. Both men have an enormous amount of investment experience and are very well respected across the industry. We are excited to have them here as we continue to unlock the potential to expand our discretionary service and offer our clients a greater proposition.

Graham Coxell, CEO  
27th September 2011

Tim Cockerill, Head of Collectives Research, discusses the opportunities that come with volatility, in an article first published for Portfolio Adviser.

Volatility in equity markets has risen to some of the highest levels recently since the financial crisis in 2008/09 spooked by the financial funding crisis in Europe and concerns that the US recovery is faltering. It isn't just the equity markets that have seen higher levels of volatility; it has been replicated in fixed interest markets too, particularly high yield.

The cost of insuring against default in the high yield market has risen by approximately 75% and by around 65% in the investment grade market. The actual rise in the cost of insuring any particular bond against default is of course driven by the bonds' underlying fundamentals and these vary, but as a guide, these rises show just how much volatility has come to the fore.

As high yield corporate bonds have sold off yields have risen which presents an investment opportunity but as any manager will tell you, selection is key.

Putting bank corporate bonds to one side, because of the uncertainty over their future, much of the corporate bond sector is in good shape. After the credit crisis many businesses refinanced their debt and extended their terms some years into the future. This re-capitalisation has put them on stronger financial footings, but caution over the outlook for the economy has in turn made them cautious about managing their businesses.

So, after a splurge of bond issues to re-capitalise balance sheets, there has been little new issuance. Consequently there is arguably a scarcity of quality corporate bonds available. With interest rates remaining low for the foreseeable future and the search for income a core requirement of many investors, there is an opportunity to buy into quality corporate bonds, both investment grade and high yield. A consequence of rising volatility is that the implied default rates have risen,

as it did during the credit crisis.

As things stand, BBB rated bonds are priced for default rates of 20% over the next five years, in other words there is a 20% chance that a BBB bond will default in the next five years. History shows that since the 1970's the worst default rate for BBB bonds was just 6%. For defaults to reach 20% the conclusion has to be that a recession is on its way which will be worse than the fall out after the credit crisis. Bonds with lower credit ratings have seen their implied default rates blow out further to nearly 60%. Whilst there is a much higher likelihood that defaults will occur in bonds with weaker credit ratings, the worst outcome at the single B end of the market saw defaults reach around 40% (source: M&G). So it would appear reasonable, given the historical evidence, to expect the actual default rate to be considerably lower than currently priced into the market.

Oliver Cowell, Stockbroker on our Bristol Advisory Team, explains how clients can actively trade the market to capitalise on the current volatility.

"Be fearful when others are greedy and be greedy only when others are fearful."

Warren Buffett

The financial markets have once again been filling the headlines. The key concerns have been worries over whether the eurozone can survive in its current condition, America's growing debt position and let us not forget the UBS rogue trader racking up a \$2.3bn debt (that is what you call a bad day in the office!).

The market uncertainty surrounding these issues creates significant volatility.

The VIX index is the main measure of stock market volatility. As we are currently seeing the markets frequently moving up and down by more than 2% in a day, it is not surprising to see the VIX index is at high levels.

The benefit of the volatility within the markets is that it creates many short term buying and selling opportunities due to market over-reactions. You will probably have noticed that your portfolio is up 10% one week and then down again the next; there is an opportunity to take advantage of these short term market fluctuations.

The advisory trading team is proactively offering clients short term buying and selling opportunities in fundamentally strong stocks. We will endeavour to buy individual companies at the right time when they meet certain criteria.

First of all we will only purchase a stock that the research team are confident will outperform in the long term. Then we will conduct technical analysis to see if the stock is at the lower end of its trading range. We will also consider

other variables that can act as a catalyst in moving the share price such as macro economic data (i.e. non-farm payrolls) and micro economic data (company results).

The art of trading the stock market is knowing when to take a good profit. We will look to sell a stock and take a short term profit when it has reached the higher end of its trading range (its resistance level), or when the markets look overbought and we believe the downside risk is greater than the potential upside.

At RD we pride ourselves on offering a bespoke service to our clients. If you are interested in actively trading the stock market please do not hesitate to contact Oliver Cowell on 0117 933 0012.



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**HERE TO HELP** Please get in touch if you would like more information.

# Investment Strategy - Macro

John Clarke, Rowan Dartington economic adviser, discusses the latest domestic and international macroeconomic developments.

## UK

As expected, the minutes of September's MPC meeting confirmed that the Committee voted unanimously to keep interest rates at 0.5%. Despite the "no-change" decision, we believe it is now a near certainty that the Committee will engage in further asset purchases either as soon as early October or more likely in November, as this will coincide with the next BoE Inflation Report.

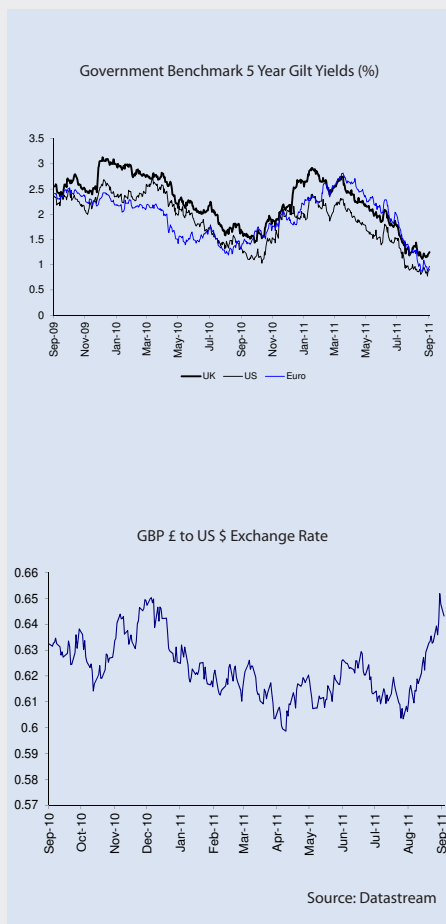
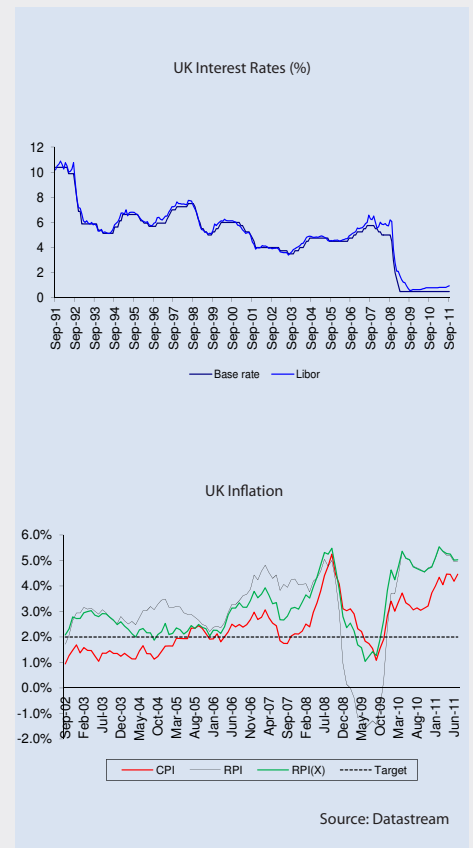
The Committee discussed the policy actions it might take to stimulate activity and concluded that more asset purchases, known as quantitative easing, remained the best available option. It was agreed that the downside risks to activity and inflation had risen over the past month and that the outlook for the remainder of 2011 was materially weaker than assumed in the August Inflation Report.

With regard to inflation, the main factors exerting upward pressure have been the effect of indirect taxes, such as the increase in VAT to 20% at the start of the year. Had VAT been left at 17.5%, the level of consumer prices and the annual inflation rate would today be some 1.6 percentage points lower

at 2.9%. The minutes also noted that "most [members] thought that it was increasingly probable that further asset purchases to loosen monetary conditions would become warranted at some point" and that "a continuation of the conditions seen over the past month would probably be sufficient to justify an expansion of the asset purchase programme at a subsequent meeting." About time too!

Despite hitting an all-time high, public sector net debt, at 61.4% of GDP, remains likely to undershoot the OBR's projection of 66.1% for the end of March 2012. Part of this reflects the downward revisions to borrowing earlier in the year, but it is also attributable to lower debt interest, relative to expectations, as a result of the fall in gilt yields since the first quarter.

Looking ahead, with the improvement in borrowing since April due mainly to healthier tax receipts compared with 2010, concerns about the outlook for growth could see a fresh acceleration in borrowing in the year ahead.



## International

### USA

The Federal Reserve has decided, for the time being at least, not to go for more quantitative easing, but instead opted to increase the maturity of its asset holdings by selling \$400bn of shorter dated bonds in order to buy issues of 6-30 year maturity.

However, as the move will leave the Fed's balance sheet unchanged, the impact on the quantity of money will be zero.

The objective of the move is simply to try to drive down ultra-long bond yields in the hope that this will stimulate the demand for credit. This would make sense if the problem with bank lending was that it was being constrained by the demand side of the equation.

Unfortunately it isn't. The problem lies primarily on the supply side where forcing banks to increase their capital and be "safer" has resulted in the banks reducing their loan assets.

In the absence of QE3, monetary growth will inevitably stall over the coming months with dire consequences for the US economy. QE3 will happen, but sadly the wording of the FOMC policy statement suggests this might not be until the New Year. It therefore looks

like the UK will be the first to reactivate its asset purchase programme.

One of the factors behind the recent sell off in global equity markets has been mounting fears that the US economy is heading back towards recession.

Key here has been a succession of weak economic data releases, particularly that from manufacturers. Manufacturers have had a "chequered" past in predicting recessions and recoveries; under-estimating the strength of activity during the upswing of the cycle whilst conversely, overstating the downside risks during periods of economic weakness.

Manufacturing consists of around 13% of US GDP and is therefore no longer the bellwether of the US economy that it once was. Focussing on indicators of activity in the manufacturing sector can therefore be misleading, causing investors to be unduly pessimistic.

Certainly economic growth over the last couple of quarters has disappointed financial markets, although we have to point out that we have been emphasising the downside risks for some time primarily as a result of the profound weakness in broad monetary growth in late 2010/early 2011.

# Investment Strategy - Asset Allocation

Guy Stephens, Chief Investment Officer, outlines our current views on Asset Allocation, and how this is put into practice within the Balanced Model Portfolio.

The third quarter of 2011 has seen significant weakness with the summer holiday period experiencing a fall of over 15%\* in the FTSE 100. This was caused by the indecision in Congress regarding the extension of the US debt ceiling and then the subsequent downgrading of the US Treasury rating from AAA.

In addition to this were the intensifying European debt problems and similar political indecision and hand-wringing. This has led to elevated readings in the volatility index or VIX as used to measure the fear or risk in the markets. Over the same period this rose from a range of 15-20 to 35-40 which is where it remains today. To put this in context, at the peak of the credit crisis, this figure hit 79 and has ebbed and flowed between 18 and 40 as the Eurozone crisis has fluctuated between May of last year and now.

Meanwhile, the US economy has been softening with speculation mounting as to whether this is just a soft patch or the beginnings of a second recession. The third-quarter US earnings season in October will be a key barometer of this and may presage a strong fourth quarter with the markets enjoying a relief rally or may remain subdued and uncertain if the results disappoint and the trading statements are overly cautious.

In the middle of all this, the second week of October will mark the point where Greece will run out of money unless the Eurozone members have come up with a credible plan. It seems unthinkable that some sort of remedial agreement will not be forthcoming before then but the markets are demanding a final solution so they can achieve closure on the whole sorry debacle. As seen in the US very recently, the market wanted more easing via Quantitative Easing and was given 'Operation Twist' and subsequently sold

**'We are structurally underweight to Financials with the banks remaining one of the most volatile sectors and virtually impossible to value'**

off by 6% in two days as it provided little immediate stimulus.

With high levels of volatility and daily market moves of over 2%, fundamental analysis is proving a challenge as 80% of the UK equity market is moving as one. However, this throws up opportunities in cheap stocks and sectors which are particularly sensitive to economic factors.

We remain underweight and cautious in Consumer Goods and Services in light of the recent poor UK unemployment figures and the on-going austerity measures implemented by George Osborne. Consumer confidence indicators are at low levels once more, illustrating the fragility of our economy and we are therefore focusing more on companies dependent on overseas earnings.

We are structurally underweight to Financials with the banks remaining one of the most volatile sectors and virtually impossible to value. Sticking to quality overseas players in this sector via HSBC and Standard Chartered remains our central view with the rest of the sector vulnerable to regulation and political meddling in equal proportion.

The Vickers Report gave a degree of clarity but effectively muddied the waters further with no definitive guidance as to what parts of a bank are retail banking and which part investment banking. No doubt there will be manipulation and endless debate going forward to the implementation date of 2019.

In the meantime the troubled operators pay no dividend and are some way below a potential re-privatisation price. There will be little progress in this part of the banking sector until Northern Rock is sold on.

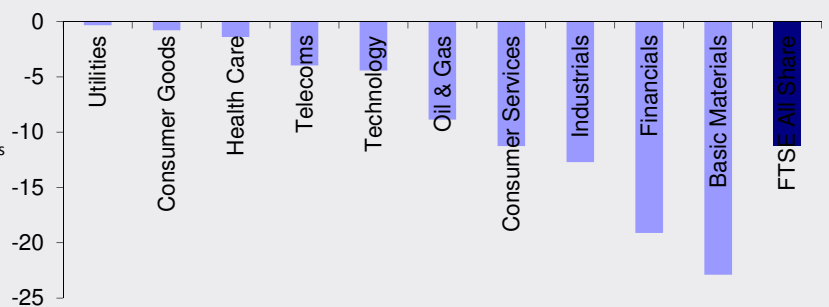
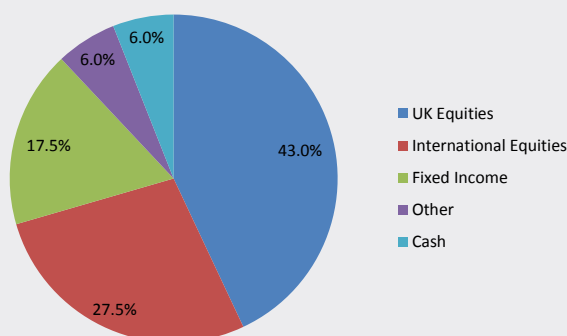
More generally, when the equity market yields more than the Gilt market, this has been a buying signal as earnings and dividend growth is being offered for free. Of course, this is always accompanied by extreme trepidation at the time which requires a high degree of conviction and can feel like foolhardiness.

Fixed Income is priced for Armageddon with yields on the ten year benchmark below those seen at the nadir of the credit crisis in 2008. This can be rationalized by extending the indebtedness issue from the banking sector to peripheral Europe where, as with the peak of the banking crisis, there appears a lack of policy action or any idea how to solve the problem.

What is certain is that there are many good quality, secure and attractive dividend paying blue-chips available in defensive sectors such as Pharmaceuticals, Tobacco, Utilities & Telecoms. For a more geared play on the economy and market, commodity stocks have sold off on economic weakness fears and will recover sharply when signs of improvement become evident. These features are driving our asset allocation, sector allocation and stock selection.

\* (source: Thomson Datastream)

RD Balanced Model Portfolio Asset Allocation



3 Month Growth in Sector Market Value (%)

Source: Datastream (26/09/11)

## Equities - Growth

Source: Datastream (All Data as at market close 23.09.2011)

### PENNON GROUP MEDIUM RISK BALANCED - BUY

UK water and waste management group Pennon is comprised of South West Water (SWW) and Viridor Waste Management. The group has consistently grown profits over the last 5 years by an average of 9.75% per annum, and has a progressive dividend policy. Management remain committed to dividend growth of more than 4% above inflation until at least 2015. SWW remains the main source of group profit thanks to a high profit margin of 29%. New water regulations for the 2010-2015 period permit Pennon to increase prices by 1.9% above RPI per annum. Generating 67% of group revenue, Viridor is the growth driver, having grown revenue by an average of 18% per annum for the last 5 years. Although its landfill business is in decline, Viridor is the UK's largest operator of Materials Recycling Facilities and is investing heavily in Energy from Waste (EfW). Both of these divisions benefit from higher landfill tax and new carbon legislation, and have the potential to grow profits significantly over the next 3 years. Typically for a regulated utility, Pennon is highly geared with net debt c.4.8x EBITDA, reflecting the capital expenditure and long operational lifespan of its assets.



Name: Pennon Group

Price: 663p

Ticker: PNN

Industry: Gas Water &amp; Multiutilities

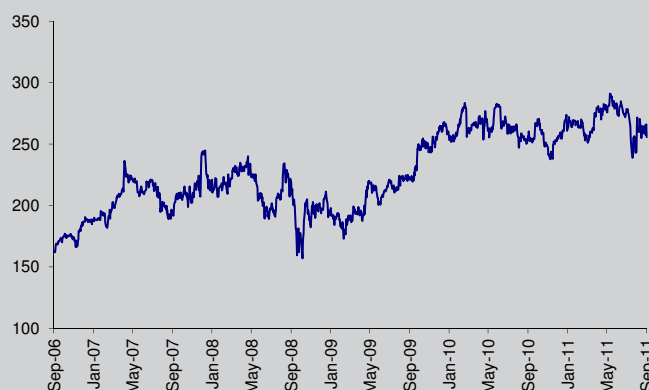
PE estimate1: 15.9x

Dividend Yield estimate: 4.0%

### G4S MEDIUM RISK BALANCED - BUY

Global support services firm G4S has managed to grow sales and profits throughout the economic downturn. A third of revenue is generated through government contracts, and with outsourcing recognised as a way to trim costs in times of austerity the company is well placed, particularly in the UK. The government has announced 8 prisons to move into the private sector, as well as the outsourcing of police back-office functions and facilities management of UK Courts.

The London Olympics will generate an estimated, albeit one-off, £140m in additional revenue (initially estimated at £100m). Through Secure Solutions, G4S has a strong global brand in developing markets that are growing at double-digit rates, particularly Latin America. Management recently showed confidence in the outlook by raising the dividend by 8%, and have earmarked £200m for further acquisitions. Emerging Markets account for 30% of revenue, but could account for 50% on a 5 year view.



Name: G4S

Price: 254p

Ticker: GFS

Industry: Support Services

PE estimate1: 11.2x

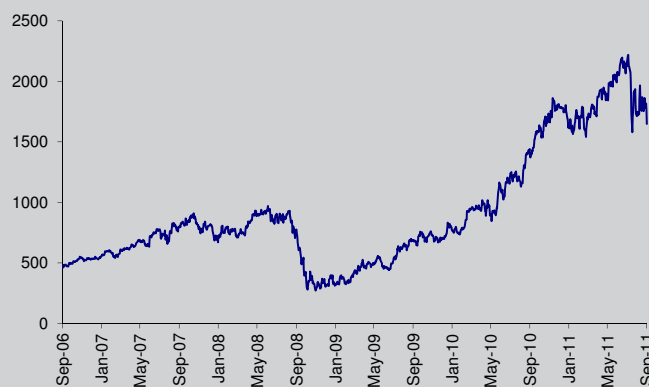
Dividend Yield estimate: 3.3%

### WEIR GROUP MEDIUM RISK BALANCED - BUY

Weir Group manufactures pumps, valves and ancillary equipment for the Mining and Oil & Gas markets (c.75% of revenue), and also supplies the global power generation industry with flow control equipment. Revenue is geographically well diversified, and the 50:50 split between original equipment sales and aftermarket services gives the company repeat earnings and visibility.

At the 2011 interims, order input was 43% ahead of 2010, driven by Minerals and Oil & Gas where capex trends are strong. Order input in Emerging Markets, where a third of revenue is generated, was up 30% with the biggest input coming from South America. Given these trends, management was confident enough to increase the interim dividend by 20%.

During the recent market volatility Weir Group is a good example of a well-managed global business that we would look to buy on market weakness, and currently trades on 12.1x prospective 2012 earnings.



Name: Weir Group

Price: 1546p

Ticker: WEIR

Industry: Industrial Engineering

PE estimate1: 12.1x

Dividend Yield estimate: 2.1%

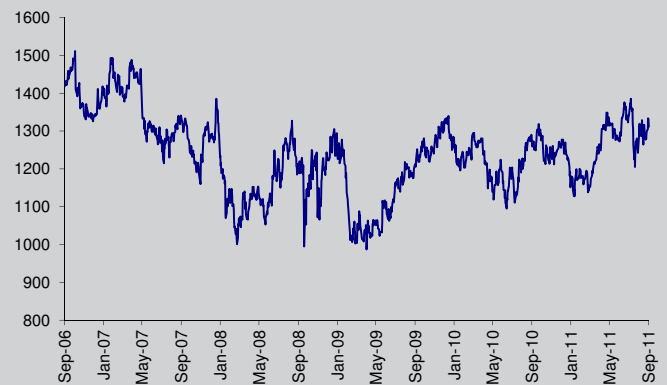
# Equities - Income

Source: Datastream (All Data as at market close 23.09.2011)

## GLAXOSMITHKLINE MEDIUM RISK INCOME - BUY

GlaxoSmithKline, the global pharmaceutical company, has outperformed relative to the FTSE All Share by 16% over the last three months as investors continue to de-risk their portfolios and move to quality companies in light of the worsening macroeconomic environment. In addition to its pharmaceutical division, GSK continues to invest in its consumer healthcare business with brands such as Lucozade, Ribena and Aquafresh as demand for branded goods increases from the growing middle classes of the emerging markets.

GSK will benefit from favourable demographics as the world's population continues to increase and live longer. Strong cash flow supports growth and dividend increases, and GSK will further enhance shareholder returns with its share buy-back programme. Offering a 5.3% prospective dividend yield and a solid, steady growth story, GlaxoSmithKline looks an attractive income situation in a risk adverse market.



Name: GlaxoSmithKline

Price: 1310p

Ticker: GSK

Industry: Pharmaceuticals

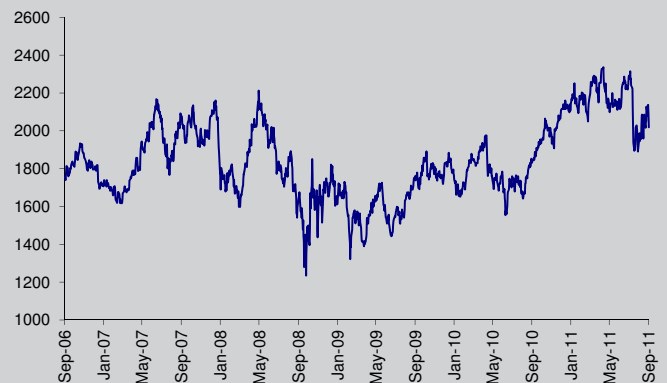
PE estimate1: 11.6x

Dividend Yield estimate: 5.3%

## ROYAL DUTCH SHELL 'B' MEDIUM RISK INCOME - BUY

Despite the extreme volatility, Royal Dutch Shell 'B' outperformed the FTSE All Share by 7.7% over the last three months as its yield, continued cash flow growth and clear earnings visibility have been attractive to risk averse investors. By 2012, the oil major expects to produce more gas than oil and should therefore benefit from the move to greener energy and the shift away from nuclear energy following the disaster in Fukushima.

A \$100bn capex programme has seen Shell launching 14 upstream projects in the last 2 years, and continued successes such as the new hydrocarbon basin offshore French Guiana, announced in September, should help Shell hit its 3.7 million barrels per day production target by 2014. The largest project to date is the \$19bn Pearl gas-to-liquid (GTL) plant in Qatar that will generate 8% of Shell's total production by the middle of next year, producing high-quality cleaner-burning fuels and lubricants. Shell provides a prospective dividend yield of 5.4%, covered 2.5 times and looks an attractive opportunity for the income seeking investor.



Name: Royal Dutch Shell 'B'

Price: 2024p

Ticker: RDSB

Industry: Oil & Gas Producers

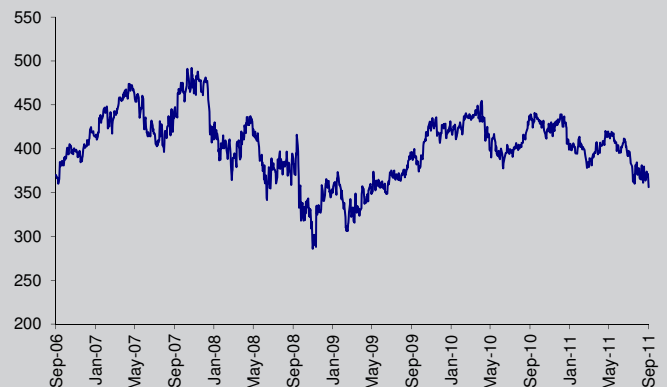
PE estimate1: 7.5x

Dividend Yield estimate: 5.4%

## TESCO MEDIUM RISK INCOME - BUY

With over 5,300 stores in 14 countries, Tesco is our preferred food retailer given the superior geographical diversification to its UK focussed peers. UK sales account for 67% of revenue with the remainder split evenly between Europe and Asia, and a small share of the business in the US. In the first quarter of this financial year sales in Asia were up 11.4% at constant exchange rates, while European sales grew by 9.5%. By the end of 2012 42% of EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) are expected to come from International operations.

Margins across the divisions vary, but are generally market leading (UK 6.1%, Asia 5.55%, Europe 5.73%). Given the current level of volatility in the market, Tesco is attractive on a prospective PE ratio of 10.2x, and 4.2% yield given the strong cashflow characteristics and defensive nature of the business. The company has a 27 year track record of consistent dividend growth, and outperformed the wider market by 15.7% during the last financial downturn from September 2008 to March 2009.



Name: Tesco

Price: 365p

Ticker: TSCO

Industry: Food & Drug Retailers

PE estimate1: 10.2x

Dividend Yield estimate: 4.2%

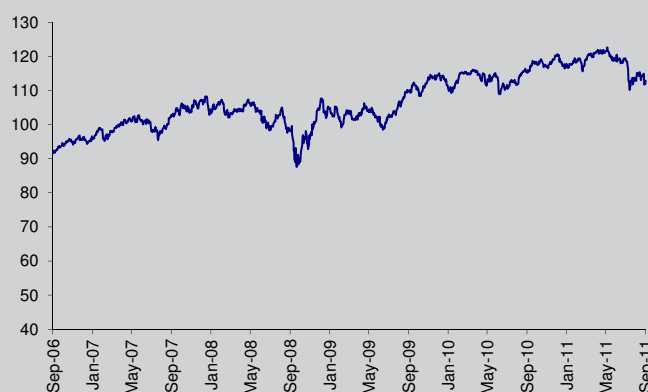
## Collectives

Source: Datastream (All Data as at market close 27.09.2011)

### NEWTON REAL RETURN FUND MEDIUM RISK GROWTH

The deteriorating economic outlook has led many investors to question the resilience of some of their equity investments. With the possibility of huge political errors looming ever closer, worried investors should consider the Newton Real Return Fund as a cautiously managed global multi-asset investment. The fund aims to achieve attractive real returns with significantly less volatility than the equity market. Iain Stewart has managed this core, defensively positioned fund for over 5 years, running similar investment strategies for more than 25 years.

The fund principally invests in equities and bonds but is supplemented with exposure to assets such as commodities and currencies depending on outlook. There is also the flexibility for the manager to increase cash markedly if required. Newton employs a long term thematic approach, supported by a substantial global research team. The manager's cautious nature and the underlying multi-asset portfolio ensure that this investment is towards the lower end of our medium risk universe.



Name: Newton Real Return Fund Initial Charge: 4%  
 Fund Size: £4,315m Discount: 4%  
 SEDOL (Managed Clients): B0702P1  
 SEDOL (Dealing Clients): 0164263

### FIDELITY SOUTH EAST ASIA MEDIUM RISK GROWTH

For investors with a higher tolerance to short term volatility, the significant retrenchment in global equity markets, with many falling into bear market territory, could be a buying opportunity for the longer term. With many Asian economies far better placed to work through these difficult economic conditions and the region benefitting from strong domestic demand, Asia could be an each way bet on this tough environment, or an eventual global recovery.

Suggestions that China is nearing the peak of its interest rate cycle, or a recovery in the Japanese economy following the recent disaster, could be significant catalysts for growth.

The Fidelity South East Asia Fund has a bias to high quality, large cap companies. Allan Liu has managed the fund for over 5 years, supported by Fidelity's extensive global research team. Despite its medium risk status, its more aggressive stance would place it towards the upper end of our medium risk universe.



Name: Fidelity South East Asia Fund Initial Charge: 3.5%  
 Fund Size: £2,733m Discount: 3.5%  
 SEDOL (Managed Clients): 0387918  
 SEDOL (Dealing Clients): 0387918

### IGRE MEDIUM RISK INCOME (PREVIOUSLY BALANCED)

This investment provides an attractive income from a portfolio of listed and unlisted property funds. Following the recent takeover of ING Clarion, the manager of the portfolio, by CB Richard Ellis a strategic review was undertaken.

This resulted in a change of focus towards income and is reflected in the substantial increase in dividend (particularly attractive for tax efficient vehicles as it is paid gross). The higher yield is being supported by an increase in the unlisted property fund allocation from 15% to 30% and a potential increase in the vehicle's gearing of up to 15%. An annual tender facility is also being introduced to limit the discount.

Whilst we have previously recommended this for investors with a balanced objective, this change in strategy means it is no longer suitable for clients looking for growth. However, we believe it remains attractively priced for an income focused investor, yielding around 5% and trading at a discount to Net Asset Value of over 15%.



Name: Investors in Global Real Estate  
 Fund Size: £81m  
 SEDOL: B132SB6  
 Ticker: IGRE

ASSET CLASS		OUTLOOK
EQUITIES	Developed-market equities	Our long-term recommendation is to be Overweight UK equities. Given the CPI measure of inflation remaining above target at 4.5%, equities generally outperform bonds in an inflationary environment.
	Emerging-market equities	High inflationary pressures have led to monetary tightening and concerns of an economic slowdown in some emerging economies, although their rate of growth is still far superior to that of developed economies. In order to gain exposure to emerging market equities we favour the Aberdeen New Dawn Investment Trust and the Templeton Emerging Markets Investment Trust.
FIXED INCOME	Government bonds	Benchmark government bond yields remain at severely depressed levels and finding value here is particularly difficult, especially if the UK's AAA rating comes under pressure. The threat of a Greek default has driven benchmark yields lower and we remain Underweight government bonds.
	Index-linked bonds	Despite UK CPI running at 4.5% it is widely expected that inflation numbers will improve with oil and commodities retreating and the VAT effect dropping out in January. On balance, the price of inflation protection should retreat as concerns diminish.
	Investment-grade bonds	We maintain a preference for high-yield over investment grade corporate debt, however there still appears to be selective value within the investment grade arena.
	High-yield bonds	We remain Overweight good quality high-yield debt. In order to take advantage of higher yields and selective value in investment grade debt, we favour strategic bond funds, such as the Fidelity Strategic bond fund.
CASH		With a low interest rate environment, the return on cash is relatively poor compared to other asset classes. Nevertheless, we continue to be Overweight cash given our defensive positioning and concerns over eurozone sovereign debt defaults.
COMMODITIES	Oil	Oil peaked above \$120-a-barrel in April due to the political unrest in the Middle East and Northern Africa (MENA), and subsequently retreated when the International Energy Agency released 60m barrels to address global oil supply. We anticipate further volatility in the oil price, as weakening economic growth prospects counteract continued MENA unrest, and the prospect of more QE.
	Gold	We maintain our overweight position in gold, given the macroeconomic uncertainty threatening other safe-haven assets such as the US debt downgrade, persistently above-target inflation and the likelihood of further QE.

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