



**Third Quarter in Funds: Risk pays;
industry consolidates rapidly.**

European & Asian Funds, October 2009

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Performance Overview

Continuing a trend that started in March, funds delivered strong gains in the third quarter on the back of surging equity and bond markets. Once again, higher risk areas outperformed as funds with significant exposure to high-yield bonds, small-cap or emerging-markets equities, or to the financials or resources sectors derived benefit from rebounds in those areas. On the flip side, funds that continued to emphasise government bonds or defensives such as large-cap pharmaceuticals or consumer staples lagged.

Despite that strength, we think investors and fund houses should exercise caution. Some houses have already suggested they might try to launch more higher-risk vehicles to take advantage of recent performance trends. In our view, this is the wrong path to take: funds are meant to be long-term investments and to serve investors well in that regard, they should not be launched just to capture whatever the market happens to favour at a point in time. For investors, we think the best course of action is to design a diversified portfolio in line with their long-term risk tolerance and investment goals, ignore short-term noise, and to rebalance as needed. Our own research suggests most investors cost themselves performance (not to mention sales charges) by trying to time moves in and out of different slices of the market.

Industry Trends

During the boom years that came to an abrupt end in late 2007, the European fund industry rapidly expanded in an attempt to gather assets. The result was far too many funds chasing a pool of assets that was too small to permit many offerings to achieve economies of scale. Morningstar currently tracks a universe of 33,105 European domiciled funds excluding money-market offerings (36,779 with money-market funds). This compares to only 6,736 non money-market funds domiciled in the United States. That's not an unreasonable comparison: While Europe's population is more than double that of America, the size of assets invested in funds is in the same general neighbourhood, with EUR 4.5 trillion in funds compared to EUR 3.8 trillion in the US, ex MM and ex FoF. (Europe asset figure consists of UCITS offerings ex Money Markets and ex funds-of-funds, plus non-UCITS funds at 30 June 2009; data from Morningstar and EFAMA).

Outside of money-market funds, the current largest funds in Europe top out at EUR 14.5bn, with roughly 100 offerings- only 0.03% of the non money-market universe by number of funds- at more than EUR 1bn. In the United States, the largest non money-market funds top out at EUR 127bn and there are 862 funds (12.8% of the universe) with more than EUR 1bn in assets.

In our view, this proliferation of funds in Europe has had poor results for investors. While investors have increased choice, funds are unable to achieve economies of scale and must spend a great deal on distribution to compete in a crowded market. Although other factors are certainly at work- poor governance structures and inadequate regulatory frameworks chief among them- a significant knock-on effect of this over expansion is that funds in Europe are costly to own, which erodes investors' returns through time.

We therefore believe investors would benefit from a consolidation and rationalisation of fund line-ups. We have seen a clear trend in that regard in the past few years, but none as strong as

in 2009, when for the first time since the credit crunch began, Morningstar projects that more funds will be closed in Europe than launched. In all, 2,968 individual funds (the figure excludes multiple classes of the same fund) have closed for the year to date, with 996 of those merged and 1,972 liquidated. Assuming the same level of activity, this equates to projected fund closures of 3,957 for the year. That would be a 22% increase in closures from 2008 and a 73% increase in closure over 2007. At the same time, only 1,560 new funds have launched in Europe for the year to date, which projects to an estimated 2,080 for the full calendar year--down 45% from 2008 and 43% from 2007. If trends hold, this suggests the European domiciled universe of funds will shrink by 1,877 funds or 5% of its size at the start of the year.

Although we think the larger trend is for the best, investors and advisers should keep in mind that fund houses are undertaking this activity to ensure their own profitability, not to help fund owners. Specific dangers to investors include being put into a fund that is not invested in a similar style or asset class or one that has a lesser manager, or if a fund is being liquidated, having one's assets increasingly in cash. In the event their fund is merged, we believe that investors should take the opportunity to fully assess the available universe of options rather than to accept where the fund company places the assets. One may well find superior management or a fund that better fits into the investor's portfolio plan by moving away from the previous fund house, although switching costs must always be kept in mind.

Year	Net Change in No. of Funds	Count Launched	Count Closed	Count Merged	Count Liquidated
Projected for all of 2009	-1877	2080	3957	1328	2629
First Three Quarters of 2009	-1408	1560	2968	996	1972
2008	+554	3787	3233	1079	2154
2007	+1401	3685	2284	632	1652

Source: Morningstar, Inc. Counts include all funds domiciled in Europe. Projections made on straight-line basis.

Sector Equity Funds: Indirect Real Estate, Financials, lead the way

The performance of sector funds broadly reflected investors' willingness to take on more risk and to hunt for bargains amid the wreckage of the credit crunch. Funds in the Morningstar Indirect Real Estate - Europe category led the way, with a return of 36.4% GBP/27.1% EUR in the quarter. Financial Services funds followed with a sharp bounce, up 30.9% GBP/22.0% EUR in the quarter. Funds with a bank focus were the strongest performers here, whilst funds with more of an emphasis on insurance tended to lag. Industrials funds also fared well, rising 24.8% GBP/16.3% EUR in the period. At the other end of spectrum, funds specialising in Asian real estate, direct real-estate, and defensives such as healthcare and utilities, fared relatively poorly. We note, however, that absolute gains were still strong in most cases.

Morningstar Category	Total Ret 3 Mo (Qtr-End) GBP	Total Ret 3 Mo (Qtr-End) EUR	Total Ret 3 Mo (Qtr-End) USD
Sector Equity Real Estate Indirect - Europe	36.41	27.13	32.48
Sector Equity Financial Services	30.90	21.98	27.12
Sector Equity Real Estate Indirect	27.04	18.39	23.38
Sector Equity Industrial Materials	24.75	16.26	21.15
Sector Equity Private Equity	23.62	15.20	20.05
Sector Equity Consumer Goods and Services	21.90	13.60	18.38
Sector Equity Technology	21.81	13.51	18.29
Sector Equity Natural Resources	20.83	12.61	17.35
Sector Equity Communications	20.81	12.59	17.33
Sector Equity Precious Metals	19.51	11.37	16.06
Sector Equity Energy	17.87	9.85	14.47
Sector Equity Infrastructure	17.85	9.83	14.45
Sector Equity Ecology	17.05	9.08	13.67
Sector Equity Utilities	16.75	8.81	13.39
Sector Equity Real Estate Indirect – South Africa & Namibia	16.29	8.37	12.93
Sector Equity Health Care	15.66	7.79	12.33
Sector Equity Real Estate Indirect - Asia	15.59	7.72	12.26
Sector Equity Biotechnology	15.40	7.55	12.08
Sector Equity Alternative Energy	15.11	7.28	11.79
Sector Equity Real Estate Direct	6.35	-0.89	3.28

Emerging Markets Equity: Emerging Europe, LatAm funds lead; China funds lag

Funds focussed on Emerging Europe delivered exceptionally strong returns in the period, with the Morningstar Turkey Equity, Morningstar Emerging Europe ex Russia, Morningstar Emerging Europe, Morningstar Russia and Morningstar Poland fund categories all returning more than 33% GBP/24%EUR in the quarter. This partially reflects the return of investors to riskier assets, but also the bounce in resources and financials issues which dominate some of these economies. Brazil funds and Latin America funds also ran up sharply, but Africa and China funds lagged. The latter rose 9.9% GBP/2.4% EUR and was the worst performing fund category of those focussed on the four BRIC countries. The market was held back as Chinese banks cut lending sharply, sparking investor concerns.

Morningstar Category	Total Ret 3 Mo (Qtr-End) GBP	Total Ret 3 Mo (Qtr-End) EUR	Total Ret 3 Mo (Qtr-End) USD
Turkey Equity	37.93	28.54	33.95
Emerging Europe ex-Russia Equity	37.28	27.93	33.32
Russia Equity	35.55	26.32	31.64
Poland Equity	34.89	25.71	31.00
Brazil Equity	33.71	24.61	29.86
Emerging Europe Equity	33.40	24.32	29.56
Latin America Equity	29.59	20.77	25.85
Emerging Markets Equity	24.03	15.58	20.45
ASEAN Equity	23.98	15.54	20.40
India Equity	22.31	13.99	18.79
BRIC Equity	22.05	13.74	18.53
South Africa & Namibia Equity	20.08	11.91	16.62
Africa & Middle East Equity	19.27	11.15	15.83
Africa Equity	16.72	8.77	13.35
Greater China Equity	14.89	7.07	11.58
China Equity	9.88	2.40	6.72

Regional European Equity Funds: As Pound slides, small-cap and Eurozone funds outperform

Among the 10 broad Morningstar equity categories focussed on Europe, the three Eurozone and two Europe ex UK categories proved strongest across market cap bands, in part due to their lack of exposure to the weakening Pound. As elsewhere, funds focussed on small caps led the way. The Morningstar Europe Small Cap Equity category returned 27.8% GBP/19.1% EUR, compared to an average return of 24.6% GBP/16.1% EUR for the three Morningstar Europe Large-Cap Equity categories. The Morningstar Eurozone Small-Cap Equity category returned 29.7% GBP/20.9% EUR, outpacing the Eurozone Large-Cap Equity category by 2.0% GBP/1.9% EUR on average.

Morningstar Category	Total Ret 3 Mo (Qtr-End) GBP	Total Ret 3 Mo (Qtr-End) EUR	Total Ret 3 Mo (Qtr-End) USD
Eurozone Small-Cap Equity	29.71	20.88	25.97
Europe ex-UK Small/Mid Cap Equity	29.39	20.58	25.66
Eurozone Mid-Cap Equity	29.34	20.53	25.61
Europe Small-Cap Equity	27.82	19.12	24.13
Eurozone Large-Cap Equity	27.72	19.02	24.03
Europe ex-UK Large-Cap Equity	27.63	18.94	23.95
Europe Mid-Cap Equity	26.17	17.58	22.53
Europe Large-Cap Value Equity	25.57	17.02	21.95
Europe Large-Cap Blend Equity	25.00	16.49	21.39
Europe Large-Cap Growth Equity	23.26	14.87	19.71

A slight style affect was also discernable, with the Morningstar Europe Large-Cap Value Equity category outperforming the Europe Large-Cap Growth Equity category by 2.3% GBP/2.2% EUR percentage points in the period. Our analysis suggests this is because many value funds would have been bargain hunting among beaten down areas such as financial services and mining that rose sharply in the period.

Single Country European Equity Funds: Go East!

As discussed in our segment on emerging markets, funds focussed on Eastern European equities fared extremely well in the quarter. This owes in part to capital moving back to markets with relatively limited liquidity, but also to the association of many of these markets with rebounding resources and financials issues. The top performing single-country Morningstar fund categories in Europe reflect this, and are as follows: Turkey Equity (37.9% GBP/28.5% EUR), Russia Equity (35.6% GBP/26.3% EUR), Poland Equity (34.9% GBP/25.7% EUR), and Austria Equity (33.6% GBP/24.5% EUR).

At the other end of the spectrum, funds in the five Morningstar UK Equity categories fared comparatively poorly. However, this was largely a function of the depreciation of the Pound by roughly 7% versus the Euro in the period. In local currency terms, UK fund performance was as robust or more so than that of funds focussed on other developed European markets, though it lagged that of funds focussed on emerging economies.

Morningstar Category	Total Ret 3 Mo (Qtr-End) GBP	Total Ret 3 Mo (Qtr-End) EUR	Total Ret 3 Mo (Qtr-End) USD
Turkey Equity	37.93	28.54	33.95
Russia Equity	35.55	26.32	31.64
Poland Equity	34.89	25.71	31.00
Austria Equity	33.57	24.48	29.72
Sweden Small/Mid-Cap Equity	33.00	23.94	29.16
Belgium Equity	31.66	22.69	27.86
Netherlands Equity	31.25	22.31	27.46
Norway Equity	30.84	21.93	27.07
France Small/Mid-Cap Equity	30.74	21.84	26.97
Sweden Large-Cap Equity	29.67	20.84	25.93
France Large-Cap Equity	29.29	20.48	25.56
Finland Equity	28.66	19.90	24.95
Spain Equity	28.27	19.54	24.57
Portugal Equity	27.99	19.28	24.30
Nordic Equity	27.68	18.99	24.00
Germany Large-Cap Equity	27.67	18.98	23.99
Denmark Equity	27.44	18.76	23.76
Italy Equity	26.60	17.98	22.95
Switzerland Small/Mid-Cap Equity	26.32	17.72	22.68
Greece Equity	26.29	17.69	22.65
Germany Small/Mid-Cap Equity	26.00	17.42	22.37
Switzerland Large-Cap Equity	25.99	17.41	22.35
UK Small-Cap Equity	22.99	14.61	19.44
UK Mid-Cap Equity	21.77	13.48	18.26
UK Large-Cap Blend Equity	20.76	12.54	17.28
UK Large-Cap Growth Equity	20.74	12.52	17.25
UK Large-Cap Value Equity	20.64	12.42	17.16

Austria Equity Funds: Investors willing to take on more risk

The Austrian market had another strong quarter after beating most European markets in the second quarter. Once again, emerging European markets and Russia, which were beaten down in 2008, were strong absolute and relative performers in the second and third quarter 2009. While defensive stocks OMV, Österreichische Elektrizitätswerke and Telekom Austria underperformed, banking stocks rose as investors sought exposure to Emerging Europe through Austrian banking groups. By the end of September 09, Erste Bank dominated the ATX with a weighting of nearly one fifth of the index. Wienerberger rose as the Libyan Investment Authority subscribed to a capital increase. The typical fund in Morningstar's Austria Equity category rose by 33,6% GBP/24,5% EUR/ 23,8% CHF.

In terms of performance, 3 Banken Österreich-Fonds A had a strong run. With 40% of the portfolio in small and micro caps the fund generated a strong third quarter return of 37.3% GBP/28.0% EUR. Like most of its peers, the fund has historically been positioned in the mid cap area of the Morningstar Style Box, but it has a distinct smaller-cap tilt. Given the size of the overall Austrian stock market, only one Austrian equity fund is placed in the large-cap field, but most funds still have a larger-cap bias than the 3-Banken offering. The sole large-cap offering in the peer group is SSgA Austria Index Equity Fund which can override the 10% limit of single stock weighting. That fund devotes 24% of portfolio assets to Erste Bank—making for an extremely concentrated portfolio.

Belgium Equity Funds: Banks Give Funds Major Lift

The funds in the Morningstar Belgium Equity category performed relatively well compared to other Morningstar equity categories over the last three months, outpacing all but two other single-country Europe categories in the period. This was primarily due to their exposure to financials, especially banks. This sector has rallied mainly thanks to the revival of KBC Group and its holding company KBC Ancora. As all funds within the category hold this bank, they benefited from this uptick and rose on average 31.7% GBP/22.7% EUR over the last quarter. Other contributors to the relatively strong performance of the Belgian equity category were Solvay and Fortis. The latter sold its banking and asset management activities to BNP Paribas and has a cash position that is regarded by the market as highly valuable.

In general, funds with more exposure to large-cap stocks had a harder time over the third quarter of the year. Funds falling in the small- and mid-cap region of the Morningstar Style Box, such as KBC Business Belgian Equity and KBC Equity Flanders, with the latter having no exposure at all to large caps, returned more than 30% in the third quarter. Within the top-10 holdings of the KBC Equity Flanders fund, D'leteren and Afga-Gevaert helped power the fund to a 39.1% GBP/29.7% EUR rise in the quarter. The latter had tumbled sharply in recent years, but rebounded by more than 75% EUR over the past three-month period.

Investors in the Morningstar Belgium Equity category should be aware of the concentration within the market due to the small pool of potential portfolio candidates and the importance of the Bel 20 (large-cap) companies. Petercam Equities Belgium, rated Superior by Morningstar's qualitative analysts, did not keep up with its peers in the period. With a portfolio well diversified

among market capitalizations the fund has returned 27.9% GBP/19.2% EUR over the past three months, notably below the 31.7% GBP/22.7% EUR category average. Of course, short-term returns mean little, and given our research into Petercam's organisation, management experience, and the robust process behind the fund, we continue to believe that it's one of the better offerings for those seeking Belgian equity exposure.

France Equity Funds: Cash levels decrease as funds ride rally; consolidation continues

After dropping at the beginning of July, the French stock exchange started to gain ground, with the bellwether CAC 40 index rising from 3,140 points to 3,795 points by the end of September, generating a total return (with dividends) of 29.7% GBP/20.9% EUR. The index was driven by stocks such as Alcatel-Lucent in the telecom equipment area, Saint-Gobain and Lafarge in the industrial material area, and to a certain extent, banks and insurance companies such as Crédit Agricole, Société Générale, Axa and BNP Paribas.

During the quarter, large cash positions in French equity funds' portfolios continued to decrease to reach an average level below 5%. Portfolios invested in French large cap equities increased their exposure to stocks from Morningstar's Information super-sector to around 17%, while exposure to services stocks slightly eroded to 30% (industrial stock maintained their share to 51%).

Morningstar's Large Cap and Small/Mid Cap French Equity categories posted returns in-line with the market, 30.7% GBP/20.5% EUR and 27.7% GBP/21.8% EUR respectively. In the large cap category, the best performer was Agressor from boutique Financière de l'Echiquier (the fund has slightly more than 10% its assets in non-French equities), followed by UFF Actions France whose top holding is Saint-Gabain. In the French Equity Small & Mid Cap category, the best performer was Montsegur Opportunités, whose Morningstar Style Box is firmly in small-cap territory.

The major phenomenon in France during the quarter is without doubt the consolidation in the industry : UFG finalised the acquisition of LFP; local "boutique" Tocqueville Finance started discussions with La Banque Postale (the banking arm of state-owned postal services); Italian bank Leonardo increased its stake in French "boutique" DNCA; and Prim'Finance (which specializes in alternative funds) signed an agreement with OFI AM.

Germany Equity Funds: Strong performance from attribution by dominant stocks

The typical fund in Morningstar's Germany Large Cap Equity category rose by 27.7% GBP/19.0% EUR/ 18.3% CHF and beat the DAX 30—the most prominent benchmark in Germany by 1.1 % GBP/ 1% EUR). Most fund managers started the third quarter with an underweight to Volkswagen ordinary shares. By the beginning of July, Volkswagen had a DAX weighting of 4.92% - by the end of September Volkswagen's index weighting fell to 0.94% due to a share price fall of 50% GBP/53.4% EUR. The German equity market is dominated by utility EON and industrial materials company Siemens which both have weightings of roughly 10% in the DAX. While EON was a drag on the index and some actively managed funds, managers with an optimistic economic outlook were fully invested in Siemens.

Actively managed German small and mid cap equity funds returned on average 26.0% GBP/17.4% EUR/ 16.8% CHF in the third quarter, putting them behind the small cap indexes. Industrial heavy weight MDAX increased 37.2% GBP/27.9% EUR/ 27.2% CHF , Germany's new market index TecDAX gained 29.7% GBP/20.9% EUR/ 20.2% CHF while micro cap index SDAX rose 29.2% GBP/20.3% EUR/17.7% CHF.

During Q3, SEB Aktienfonds was one of the top performers in the Germany Large-Cap Equity category. The fund follows a disciplined contrarian approach and benefitted from the resurgence of Heidelberger Druck, Deutsche Postbank, and Henkel. Fondak fund showed great timing by climbing down the market cap ladder and investing in Sky Deutschland and Aixtron and replacing Volkswagen ordinary with bearer shares. German Mid Cap offering Allianz RCM Nebenwerte was also a stellar performer in Q3. Manager Frank Hansen was particularly active in subscribing to capital calls of beaten down companies and was also successful in picking up Deutsche Postbank shares on the cheap.

Italy Equity Funds: Big proves beautiful in 3Q

The average fund in Morningstar's Italy equity fund category posted a 26% GBP/18.0%EUR gain, lagging MSCI Italy's 30.7%/GBP/21.8% EUR gain. Over this quarter, and unusually for Europe in the period, funds that invested in large-cap stocks won over those that invested in small-cap stocks. As an example, Pioneer Funds Italian Equity did better (27.8%/19.1% EUR) than Nextam Partners Azionario Italia (25.7% GBP/17.1% EUR), given its higher exposure to large stocks. In addition, the best performers have successfully overweighted banks, materials and financial services, while those managers who were still significantly invested in health care and oil & gas lagged behind the category average. As an example, Fidelity Italy, which invested about 50% of net assets in financials, proved to be one of the best funds, gaining over 32.9% GBP/23.9% EUR.

The distressed Italian asset management industry gained € 2.8 bn of new assets under management in August. Liquidity (€ 1.6 bn) and bond funds (€ 901 million) attracted the largest portion of new assets, while hedge funds (€ -127 million) continued to face large redemptions.

Netherlands Equity Funds: Financials Drive Equity Fund Returns

With an average performance of 31.2% GBP/22.3% EUR for the third quarter, the Morningstar Netherlands Equity category ranked fourth among single-country Developed-Market Europe categories in the third quarter. As with Belgium, the recovery of financials helped Dutch Equity funds. Financial conglomerate ING Group gained no less than 98.1 % GBP / 70.1% EUR. The cyclical stock Randstad (staffing) returned 69.5% GBP/ 49.7% EUR in the third quarter, considerably more than the 10.6 GBP / 7.6% EUR of Royal Dutch Shell. Moreover, the Dutch market is light on defensives such as pharmaceuticals and utilities--both areas that investors steered clear of in the period. There was not a clear trend of small-cap outperformance among Netherlands Equity funds in the quarter.

Nordic Equity Funds: Sweden Small/Mid-Cap funds lead the way

While equity funds investing in the Nordics recorded good absolute returns in the third quarter, performance was subdued relative to other European categories. Indeed, only the Sweden Small/Mid-Cap Equity and Norway Equity categories ranked among the top ten third-quarter performers among Morningstar's European categories. However, for the year to date the Norway Equity category still wears the regional performance throne, with Sweden Small/Mid-Cap Equity a close second.

Morningstar Category	Total Ret 3 Mo (Qtr-End)GBP	Total Ret 3 Mo (Qtr-End)EUR	Total Ret 3 Mo (Qtr-End)SEK	Total Ret 3 Mo (Qtr-End)DKK	Total Ret 3 Mo (Qtr-End)NOK
Sweden Small/Mid-Cap Equity	33.00	23.94	16.57	23.90	16.43
Norway Equity	30.84	21.93	14.68	21.90	14.55
Sweden Large-Cap Equity	29.67	20.84	13.66	20.81	13.52
Finland Equity	28.66	19.90	12.77	19.86	12.64
Nordic Equity	27.68	18.99	11.91	18.95	11.78
Denmark Equity	27.44	18.76	11.70	18.73	11.57

Active managers added value in the third quarter as average fund performance beat prominent benchmark indexes with the exception of Finland equity, which was a bit behind OMXH Benchmark Capped. The key for active managers has been overweighting small caps, which outperformed large caps during the quarter. Finland is the exception here, however. The average Finnish equity fund does have a significant small cap bias compared to prominent benchmarks, which should have helped. But Finnish equity funds did not manage to gain a performance edge over large cap benchmarks, suggesting that execution by management was not strong.

Spain Equity Funds rise strongly, but fail to beat benchmark indices

The Morningstar Spain Equity category delivered a return of 28.3% GBP/19.5% EUR in the third quarter, competitive with the results of funds focussed on other European markets.

But if we compare the funds' returns with the category benchmark's return (MSCI Spain dividends included) we will see that only 13 funds out of a total of 113 have been able to beat this index. At the top list, unsurprisingly, we find leveraged funds such as Foncaixa Bolsa España 150 (42.7% GBP/33.0% EUR) and BBVA Bolsa Ibex Quant (39.1% GBP/ 29.6% EUR). These funds are among the riskiest in the category and risk paid in the quarter. Their standard deviation (around 50% in the last 3 years) is far above the average category (around 30% in the last 3 years). However, the relation between risk (when measured by the historical volatility) and return has not always been so clear in the past especially over long periods of time (see table below). Moreover, our own research shows that investors have a hard time using higher-risk offerings well, often entering and exiting at poor times and costing themselves significant performance.

Top 10 Spain Equity Funds by 10Yr Return	10Y Annualized Return	Rating Morningstar 10Y	Ranking Volatility 10Y
Bestinver Bolsa	13.16	5	4
Metavalor	7.69	5	23
Euroagentes Plus	7.04	5	5
Fonbilbao Acciones	6.33	5	1
EDM-Inversión	5.74	5	7
BK Bolsa España 2	5.20	4	14
Bankoa Bolsa	4.94	5	2
Bankpyme Iberbolsa	4.89	4	33
Fonpastor Renta Variable	4.76	4	11
Bancaja Renta Variable	4.59	4	20

Morningstar Direct - Data as of 31/07/2009

Bottom 10 Spain Equity Funds by 10Yr Return	10Y Annualized Return	Rating Morningstar 10Y	Ranking Volatility 10Y
CAM Bolsa Indice	1.63	2	41
Cajasol Bolsa I	1.55	2	38
Beta Acciones	1.40	2	46
Rural Indice	0.83	2	39
Safei Oportunidad España	0.33	1	35
Cartera Variable	0.31	2	18
Caixa Catalunya Index	0.23	1	60
Bolsalíder	-0.01	1	58
Kutxavalor	-1.16	1	48
Bancaja Renta Variable	-1.82	1	8

Morningstar Direct - Data as of 31/07/2009

Switzerland Equity Funds: Banking stocks surge, defensive stocks lag

The Morningstar Swiss Large-Cap Equity category rose an average of 26.0% GBP/17.4% EUR/16.7% CHF. The Swiss market is dominated by the three key defensive stocks that fared poorly in the quarter: Nestlé, Novartis and Roche. While Roche's valuation was stable, Nestlé's and Novartis's weighting fell by roughly 2% each. Swiss Large Cap funds have significant exposure to this trio, and they are also important for European and global mandates due to their defensive characteristics. At the other end of the spectrum, Swiss banking giant UBS and insurance company Zurich Financial were on the rise in the third quarter helping keep Swiss funds competitive with the broader European market.

Morningstar's Swiss Small/Mid-Cap Equity category showed slightly more strength. Funds rose by 26.3% GBP/17.7% EUR/17.1% CHF and outperformed the Swiss Mid Cap and Swiss Small Cap Indexes. The best performing Swiss small and mid cap fund was 3V Invest Swiss Small Mid Cap with a 40.8% GBP/31.3% EUR/30.5% CHF third quarter gain. The fund is invested 40% in Swiss micro and small caps and was badly hurt with a -32.9% GBP/-49.0% EUR /-54.4% CHF/ loss in 2008. After taking another hit in Q1 2009, the fund has coming roaring back, starting with a second quarter gain of 27.4% GBP/ 38.5% EUR/40.0% CHF.

UK Equity Funds: Small Caps, Financials boost fund returns

Among UK Equity funds, small was beautiful and financials and mining exposure benefitted many funds. The average fund in the Morningstar UK Small-Cap Equity category returned 22.99% GBP/14.6% EUR in the third quarter, compared to an average of 20.7% GBP/12.5% EUR for the three UK Large Cap Equity categories. Among the three large-cap categories, there was no clear style trend--funds from across the spectrum bought into financials and mining issues (many of which appear in the FTSE 100) helping fuel returns.

Morningstar Category	Total Ret 3 Mo (Qtr-End) GBP	Total Ret 3 Mo (Qtr-End) EUR	Total Ret 3 Mo (Qtr-End) USD
UK Small-Cap Equity	22.99	14.61	19.44
UK Mid-Cap Equity	21.77	13.48	18.26
UK Large-Cap Blend Equity	20.76	12.54	17.28
UK Large-Cap Growth Equity	20.74	12.52	17.25
UK Large-Cap Value Equity	20.64	12.42	17.16

The performance of the 10 largest UK equity funds was in line with what we expect given our analysis of their portfolios. Most notably, the two Invesco Perpetual offerings run by Neil Woodford continued to lag other large funds and their UK Large-Cap Value Equity peers (they ranked in the category's bottom 3% for the period). Woodford has outperformed dramatically over the long term, but has refused to invest much in financials or cyclicals, instead focussing on healthcare and consumer goods. That stance has cost his funds dearly in the rally off the bottom so far in 2009. Newton Higher Income, Artemis Income and Jupiter Income also lagged their UK Large-Cap Value peer group, in part owing to light exposure to financials and heavier weights to dividend rich areas such as integrated energy and utilities. At the other end of the spectrum, Sanjeev Shah strongly outperformed his UK Large-Cap Value Equity peers and all of the other 10 largest UK Equity funds with a return of 26.2% GBP/17.6% EUR, largely on the back of an overweight in the financial services sector. Finally, Tom Dobell's M&G Recovery continued its impressive run, rising 21.4% in the quarter on the back of strong mining picks.

Fund Name	Fund Size, GBP, Billions	Morningstar Category	Total Ret 3 Mo (Qtr- End) GBP	Total Ret % Rank vs. Morningstar Cat 3 Mo (Qtr-End)
IP High Income Acc	9.03	UK Large-Cap Value Equity	13.40	97
IP Income Acc	6.71	UK Large-Cap Value Equity	13.28	97
M&G Recovery A Acc	4.33	UK Large-Cap Blend Equity	22.52	18
Cler Med UK Growth 1	3.71	UK Large-Cap Growth Equity	21.40	54
L&G UK Index I Acc	3.37	UK Large-Cap Blend Equity	21.54	38
Jupiter Income Trust	2.95	UK Large-Cap Value Equity	17.34	83
Fidelity Special Situations	2.89	UK Large-Cap Value Equity	26.17	5
Artemis Income Acc	2.86	UK Large-Cap Value Equity	17.58	80
Newton Higher Income	2.72	UK Large-Cap Value Equity	17.22	84
Cler Med UK Equity Income 1	2.30	UK Large-Cap Value Equity	21.29	41

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Asia Pacific Equity Funds

Asia Pacific Regional Equity Funds: cyclicals remain in favour, boost top performers

Morningstar's Asia Pacific equity categories delivered mixed performance in the quarter. The Australia & New Zealand Equity category delivered the highest total return as cyclicals and financials, both of which have heavy weights in Australian equity funds, flourished. The weakness of Japan dragged down the Asia Pacific with Japan category, holding it to a return of 17.2% GBP / 9.2% EUR, poor in relative terms. In contrast, the Morningstar Asia Pacific ex Japan category rose 22.8% GBP /14.5% EUR, a strong showing relative to global equity funds. The dispersion of returns among funds in the Asia Pacific with Japan equity category was wide, ranging from single digits to more than 30%. The best performing funds generally hold a larger portion of cyclicals, including financial, tech and material stocks. Many investors believe that cyclicals will be in the sweet spot if Asian central banks tighten their monetary policies. Meanwhile, with small cap stocks slightly outperforming large, funds with exposure to the smaller end of the spectrum did well in the period.

Morningstar Category	Total Ret 3 Mo (Qtr-End)GBP	Total Ret 3 Mo (Qtr-End)EUR	Total Ret 3 Mo (Qtr-End)USD	Total Ret 3 Mo (Qtr-End)JPY	Total Ret 3 Mo (Qtr-End)CNY
Australia & New Zealand Equity	38.10	28.70	34.12	24.45	34.03
Korea Equity	32.54	23.52	28.72	19.45	28.64
Taiwan Small/Mid-Cap Equity	25.54	16.99	21.92	13.13	21.84
ASEAN Equity	23.98	15.54	20.40	11.73	20.32
Taiwan Large-Cap Equity	23.78	15.35	20.21	11.55	20.13
Singapore Equity	23.68	15.26	20.12	11.46	20.04
Asia-Pacific ex-Japan Equity	22.81	14.45	19.27	10.68	19.19
India Equity	22.31	13.99	18.79	10.23	18.71
Hong Kong Equity	17.46	9.47	14.08	5.86	14.00
Asia-Pacific with Japan Equity	17.16	9.19	13.79	5.59	13.71
Malaysia Equity	15.88	7.99	12.54	4.43	12.47
Japan Small/Mid-Cap Equity	12.13	4.50	8.90	1.05	8.83
China Equity	9.88	2.40	6.72	-0.97	6.65
Japan Large-Cap Equity	9.35	1.91	6.20	-1.45	6.13

China Equity Funds: Poor performance flows from concerns on lending

For the quarter, the average fund in the China Equity category fared poorly relative to global equities and especially relative other emerging markets as investors evinced concern about tightening of bank lending. On average, China Equity funds rose just 9.9% GBP/2.4% EUR. The average fund in the category also underperformed the MSCI China index by a thin margin. Morningstar performance attribution suggests that China equity fund managers in general subtracted value in both stock selection and sector allocation versus the index in the first two months of the quarter. We also note that China equity funds have a slight tilt toward financial services stocks, which are laggards in this period given concerns about pre-mature credit tightening.

Economic Sector	Portfolio Weighting %	Attribution Effect:			
		Benchmark Morningstar Sector		Attribution Effect:	
		Weighting %	Weighting %	Selection %	Active Return %
Business Services	4.15	3.23	-0.01	-0.08	-0.10
Consumer Goods	7.57	6.90	0.12	-0.37	-0.25
Consumer Services	2.12	1.50	0.01	0.05	0.06
Energy	13.89	18.12	-0.07	-0.13	-0.20
Financial Services	34.14	33.42	-0.14	-0.32	-0.46
Hardware	0.78	0.61	0.03	-0.01	0.01
Health Care	0.79	0.19	0.03	0.01	0.03
Industrial Materials	9.98	9.38	0.04	-0.24	-0.20
Media	0.07	0.00	0.00	0.00	0.00
Software	0.17	0.00	0.03	0.00	0.03
Telecommunications	9.26	16.97	-0.03	0.02	-0.01
Utilities	1.36	0.86	-0.05	0.04	-0.01
Unclassified	1.29	0.00	-0.07	0.00	-0.07
Attribution Total	85.57	91.17	-0.11	-1.05	-1.16

During the quarter, H-shares and red-chips listed on Hong Kong exchange easily outpaced A-shares, which are listed on the Shanghai and Shenzhen exchanges and are only open to domestic and qualified foreign institutional investors, thanks to worries of a sudden withdrawal of arguably excessive liquidity in Mainland China. But China equity funds tend to have little exposures to A-shares, so they did not suffer. It's worth noting that the State Administration of Foreign Exchange announced its plans to raise the amount foreign funds can invest in Mainland shares by 25% to USD 1 billion, which may permit more funds to gain A-share exposure in the future.

Japan Equity Funds: Another dismal quarter

The landmark victory of the Democratic Party of Japan in the Japanese general election gave a boost to the Japanese Yen but failed to cheer the equity market as the economic outlook remains gloomy. For the quarter, the typical fund in the Morningstar Japan Large-Cap Equity category and Japan Small/Mid-Cap Equity category gained 9.4% GBP/1.9% EUR and 12.1% GBP/4.5% EUR respectively, proving once again to be a drag on regional equity fund performance. According to Morningstar's holding data, many Japan large-cap equity funds have a large underweight to financial services shares. That underweight helped many of them beat the benchmark but the market as a whole fared poorly.

Korea Equity Funds: Economic indicators surprise on upside, boost funds

The Morningstar Korea Equity category was the strongest performing Asia Equity category in the period, rising an average of 32.5% GBP/23.5% EUR. Investors in Korean equities have more upbeat views than a quarter ago as many economic indicators beat estimates. The stellar returns of Samsung Electronics, which typically features prominently in Korea equity fund portfolios, also contributed to the strong performance in the period.

US Equity Funds: Small-cap and Value funds lead way

Funds in the Morningstar US Equity categories fared well in absolute returns during the period, but lagged funds focussed on European and Asia-Pacific ex Japan equities. As in other markets, smaller-caps outperformed and funds in the US Small-Cap Equity category rose 21.4%GBP/13.2% EUR on average. US Mid-Cap Equity funds followed close behind with an average gain of 20.4% GBP/12.2% EUR in the quarter. Among large-cap offerings, funds in the US Large-Cap Value Equity category outperformed their Blend and Growth rivals with a return of 20.2% GBP/12.0% EUR. Morningstar holdings data show that US Large-Cap Value funds held an average of 18.3% in financial services stocks, compared to just 13.7% for funds in the US Large-Cap Blend category and 11.1% for funds in the US Large-Cap Growth category. That explains the bulk of the outperformance given the strength of financials in the period.

Morningstar Category	Total Ret 3 Mo (Qtr- End)GBP	Total Ret 3 Mo (Qtr- End)EUR	Total Ret 3 Mo (Qtr- End)USD	Equity Sector Financial Services % (Long Rescaled)
U.S. Small-Cap Equity	21.44	13.17	17.94	14.62
U.S. Mid-Cap Equity	20.35	12.16	16.88	18.89
U.S. Large-Cap Value Equity	20.22	12.04	16.76	18.31
U.S. Large-Cap Blend Equity	18.40	10.34	14.99	13.66
U.S. Large-Cap Growth Equity	17.88	9.85	14.48	11.10

Bond Funds: Credit risk continues to pay off

Investors' penchant for risk was not only on display in equity funds in the third quarter. In fixed-income, funds focussed on riskier credits strongly outperformed funds orientated to higher-quality issues. This was apparent across the major currency spectrum, with High Yield Bond categories delivering the strongest returns within each currency grouping, followed by Convertible Bond and Corporate Bond categories, with Government Bond categories delivering considerably lesser results.

Morningstar Category	Total Ret 3 Mo (Qtr-End) GBP	Total Ret 3 Mo (Qtr-End) EUR	Total Ret 3 Mo (Qtr-End) USD
Euro High Yield Bond	24.53	16.05	20.94
Euro Convertible Bond	18.70	10.62	15.28
Euro Corporate Bond	14.68	6.87	11.37
Euro Long Bond	13.37	5.66	10.10
European Bond	12.18	4.54	8.95
Euro Diversified Bond	11.29	3.71	8.08
Euro Inflation Linked Bond	11.01	3.45	7.81
Euro Global Bond	10.87	3.32	7.67
Euro Global Bond - Hedged	10.80	3.26	7.60
Euro Government Bond	10.09	2.60	6.92
Euro Short Bond	8.87	1.45	5.73

Morningstar Category	Total Ret 3 Mo (Qtr-End) GBP	Total Ret 3 Mo (Qtr-End) EUR	Total Ret 3 Mo (Qtr-End) USD
Sterling High Yield Bond	15.49	7.63	12.16
Sterling Corporate Bond	10.60	3.07	7.42
Sterling Global Bond	9.44	1.99	6.28
Sterling Diversified Bond	7.08	-0.21	3.99
Sterling Government Bond	3.55	-3.50	0.56

Morningstar Category	Total Ret 3 Mo (Qtr-End) GBP	Total Ret 3 Mo (Qtr-End) EUR	Total Ret 3 Mo (Qtr-End) USD
Dollar High Yield Bond	17.43	9.44	14.05
Dollar Corporate Bond	12.04	4.41	8.81
Dollar Global Bond	11.08	3.51	7.87
Dollar Diversified Bond	8.62	1.23	5.49
Dollar Short Bond	6.97	-0.32	3.88
Dollar Government Bond	6.24	-0.99	3.18

Morningstar Category	Total Ret 3 Mo (Qtr-End) GBP	Total Ret 3 Mo (Qtr-End) EUR	Total Ret 3 Mo (Qtr-End) USD
Emerging Europe Bond	15.16	7.32	11.84
Emerging Markets Bond	15.16	7.32	11.84