

Market review

Global Equity markets recovered in the third quarter, with the MSCI World index (CAD) delivering a return of 9.8% in the quarter. The global economic picture improved considerably, with strong second quarter GDP growth reported in India and China. Even in core Europe, Germany reported strong second quarter figures, the highest in four years, led primarily by strong exports. The VIX Index, a widely used measure of investor fear, fell steadily to end the quarter at a more reasonable level of 23.7%. Other real assets also performed well, as energy (oil prices increased to \$79 U.S. per barrel) and the broad commodity prices (S&P GSCI All Comm. Index), increased by 8%, in U.S. dollar terms, during the third quarter.

Top contributing stocks in the third quarter

The sharp rally in the Thai baht (up around 20% year- to- date, versus the euro) combined with a re-rating of the stock (price to book multiple has expanded from 1.1 to 1.3) on modestly improved earnings prospects, has seen **Bangkok Bank** become one of the top performing holdings over the quarter. **DnB Nor**, the Norwegian bank, has continued to rebound from depressed valuation levels reached during the financial crisis. Thanks to a strong domestic economy and conservative lending policies, the company was largely unaffected by loan losses. The company further strengthened its capital with an equity offering last year, and we remain confident in our position with the stock trading at 1.2 times book value.

Bottom contributing stocks in the third quarter

CRH fell sharply in August following the announcement of disappointing interim results. With valuation at the low end of its historic range, and a dividend yield of 5% well covered, we remain holders. **People's United**, one of the strongest capitalized banks in the world, has underperformed, as investors have switched their focus to banks that are not as well capitalized and that had previously been regarded as too risky. **People's United**, somewhat inefficiently, used equity rather than some of its substantial cash, to fund a recent small acquisition.

Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value.

This report is published to provide additional information on economic conditions and investment performance. It was prepared by Setanta Asset Management Ltd.