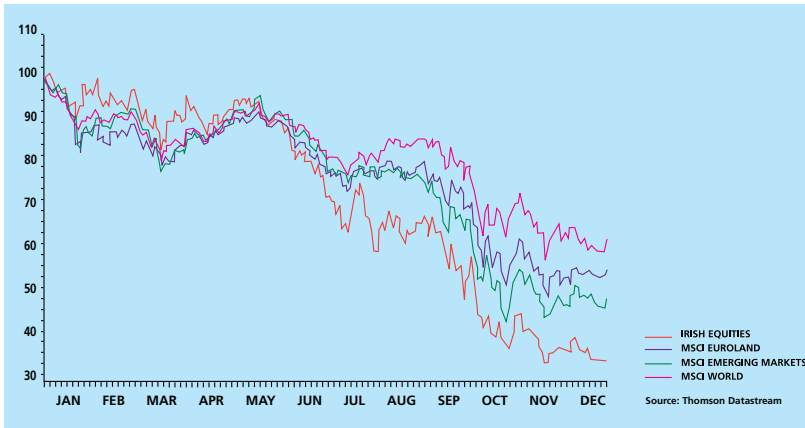




Year to Date Returns to 31 Dec 2008 (in Euro terms)



KBCAM's Outlook Versus Benchmark Positions - 6 Month Time Horizon

	Ireland	Euroland	UK	Rest of Europe	US	Japan	Pac Basin
Equities	↓	↓	□	↓	↓	↑	↑
Bonds	↓	↑	↓	↓	↓	↓	N/A
Property	↓	↑	↓	□	N/A	N/A	N/A

↑ = overweight; □ = neutral; ↓ = underweight

Viewpoint

One of the more insightful stories of 2008 is the performance of the Harvard University endowment fund. The Harvard Endowment Fund is a \$30bn fund set up to ensure the university has funds to provide scholarships; to maintain libraries, museums, to support teaching and research activities etc. Yale University has a similar endowment fund which has assets of ca. \$20bn.

The university endowment funds of Harvard and Yale have been leaders in diversified multi-asset class investing for over two decades. Considered pioneers, Yale and Harvard fund managers apply in practice much of the academic theory that is developed in the universities by Nobel Prize winning academics. Their model portfolios are closely monitored by the asset management community and replicated by the large corporate pension schemes. Indeed it is probably fair to say that most "model portfolios" recommended globally in the institutional and retail marketplaces have their genesis in the approach used by Yale and Harvard.

Through this diversified approach to investing and their exposure to alternative asset classes these foundations have consistently achieved high double-digit annual returns with low risk. The last 10 years for example has seen the Harvard fund return a very respectable 13.8% p.a. return (to the end of their fiscal year to 30 June 2008).

In December 2008 however Harvard reported that the 4 months to end October 2008 had seen the Harvard Endowment Fund fall by 22%. The Fund had only experienced negative annual returns 3 times since 1975; the worst of these being -3%. This surely demonstrates how 2008 was an "annus horribilis" and that even the best constructed portfolios could not be insulated from the financial tsunami that hit the global economy.

So it was "different this time" in 2008. The excess liquidity built up in the global financial system was purged in a major way as highly leveraged positions were and continue to be unwound. It still is, however, part of an investment cycle; a deeply unpalatable, unanticipated (by most participants anyway), and unprecedented, but nevertheless, still one leg of an investment cycle that has just happened to be deeper than others experienced in our working lives.

So what lessons should be drawn in relation to investment decisions in 2009? If you believe in investment cycles then now is not the time to desert equities for bonds. It is also appropriate to allocate up to 30% of your portfolio to "alternatives" or non correlated assets. Our view in KBCAM is that we continue to propose our investors adopt well diversified portfolios in the manner exemplified by Harvard and Yale. One horrible year does not mean that the theory that has served them so well for the past 3 decades should be discounted forever.

Contact

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Broker Update 01/09

Market Comment

The final month of 2008 was another negative one with the MSCI World Index down 5.7% closing out a year which saw the index fall some 37.3%.

As with previous months, the news flow was abundant. On the domestic front the government announced a €5.5 billion recapitalisation plan for the three largest banks. Anglo Irish Bank was effectively nationalised with the government taking 75% of the voting rights in return for 10% preference shares. 25% of the voting rights of both Bank of Ireland and AIB are now held by the government through the issuance of 8% preference shares. The ISEQ was the worst performing index in the world falling 65% over the year.

The globe's major central banks again slashed interest rates in an effort to reignite their respective economies. The US has cut its key rate to a range of 0 to 0.25%, the ECB base rate is now at 2.25% while the Bank of England's rate cutting continued with rates ending the year at 2%.

The market is pricing in rates in the UK and Europe to fall to the 1% mark over the coming months. With the interest rate arsenal now exhausted, the Federal Reserve has further stimulated the US market by pumping money into the system (so-called quantitative easing).

The Euro ended the year worth £GBP 0.96 having started the year at £GBP 0.74 – a 30% move. The strong fall in the value of the British Pound, exacerbated in recent months following the extensive rate cuts in the UK, is making exports from Ireland into the UK more expensive. Further to this the weaker Pound is making it difficult for Irish companies to compete with UK providers exporting into other Euroland countries.

Other headlines during the month included the bailout of the US auto industry and further poor economic data from all major regions with Japan joining the critical list showing very poor key economic survey results.

Over 2008 high yielding equities outperformed the wider market while higher risk strategies such as eco investing strategies underperformed as the market fled for safer assets and stocks were hit hard due to the impact of the credit crunch. Correlation levels between various asset classes were much higher than usual through the year as almost all real assets fell considerably in value.

KBCAM Fund Access

KBCAM manage a range of eco-thematic, high dividend, diversified alternatives and managed funds which are accessible to the broker market through select insurance company arrangements.