Pan Europe Update

Aberdeen

Market Overview

European markets rose in December, as optimism over the global recovery offset worries over debt downgrades for Greece and Spain. Mining stocks outperformed on expectations that demand from China and other emerging markets would drive up prices of basic resources. The FTSE World Europe Index closed about 5% higher. For the year, it rose almost 30%, for its biggest annual gain in 10 years, compared to the sharp 40% decline in 2008.

The European Central Bank kept interest rates unchanged, as did Sweden, Switzerland and the UK. It started to unwind some of the exceptional measures taken to keep the financial system liquid and upgraded its 2010 growth forecast. Deflation fears eased, as Eurozone consumer prices rose year-on-year for the first time since April.

European economic confidence improved, although data indicated a patchy recovery. The jobless rate stayed at a decade high. Industrial production posted the first monthly decline since March. Lending to companies fell for a third month, as spare capacity led to reduced demand for investments.

Germany's recovery gathered pace. Exports rose, unemployment fell and business confidence reached a 17-month high. Its government also pushed through an €8.5 billion emergency tax-cut bill, aimed at supporting the economy.

In contrast, conditions were more challenging elsewhere. Unemployment concerns crimped French consumer spending. Spanish retail sales fell at the fastest pace since May. In the UK, services-sector output expanded less than expected, while industrial production was flat.

Meanwhile, sovereign debt concerns grew after Standard & Poor's downgraded Spain's credit outlook. S&P also cut Greece's credit rating, as did Moody's and Fitch. The Greek parliament later approved a budget that included public spending cuts but was thin on structural reform otherwise.

Moody's warned the UK to rein in its budget deficit or risk losing its triple-A rating. With the general election just months away, the Labour government's pre-Budget report contained few details on reducing the deficit but sprang an unpleasant surprise on the financial sector – a 50% tax on bankers' bonuses.

We expect policy to remain very accommodative in the short term, given the fragile recovery. This could help sustain the market's short-term momentum, although the recent rally has meant that valuations have become stretched. The European Union has turned more positive on growth in the coming year, as the recovery in both Germany and France gathers pace. This could also boost the UK, given that the two countries are key trading partners.

The region's longer-term performance, however, would hinge on whether policymakers can fix worryingly high public-sector debt without derailing the recovery, and whether the revenue growth of companies can meet market expectations.

Model Portfolio News (Pan Europe)

In a relatively quiet month, we top-sliced Centrica, Schroders and Wincor Nixdorf following recent relative strength.

Note:
The changes refer to our model portfolio, which is the basis for actual portfolios we manage that have similar investment objectives. However, there might be minor variations, so the changes may not apply to all portfolios.

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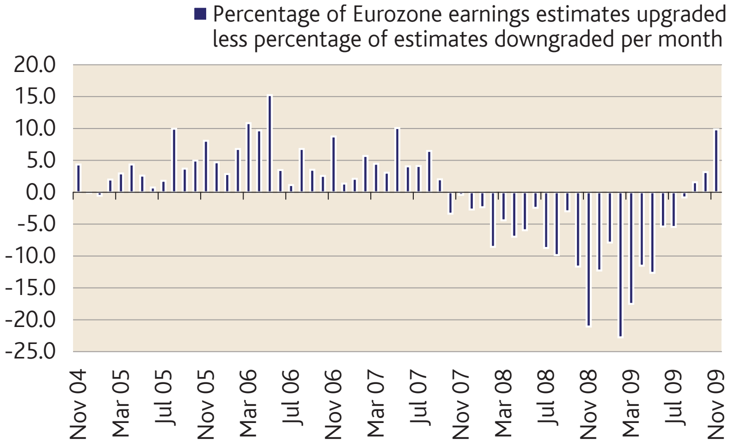
Focus: High earnings hopes



Source: Citi, Datastream and CIRA, 10 Dec 09

The earnings outlook for European companies appears to have brightened. Analysts' profit upgrades have outnumbered downgrades since September, reversing the trend of the past two years. This follows stimulus efforts and tentative signs of a recovery in key export markets. Companies have also made swift and deep cost cuts to shore up margins. All this has boosted expectations of a pick-up in earnings. But with stock prices at their highest level in almost 15 months, there's little margin for disappointment.

Corporate News

Basic Materials: **BHP Billiton** sold its Ravensthorpe nickel mine in Western Australia to focus on more profitable ones.

Consumer Goods: **BMW** expects the trend in vehicle sales growth to continue in December after deliveries rose in November.

Financials: Spain's **Banco Bilbao Vizcaya Argentaria** will increase its stake in China Citic Bank to pursue opportunities in China. **Standard Chartered**'s trading update showed strong performance year-to-date, with its wholesale banking division driving income to record levels, and asset quality improving.

Health Care: **AstraZeneca** and Targacept agreed to develop an anti-depressant drug. **GlaxoSmithKline** took a stake in Austria's Intercell, enhancing its portfolio of vaccines.

Industrials: **Flughafen Wien**'s fall in passenger traffic decelerated significantly in November; separately the operator of Vienna International Airport will resume the expansion of its Skylink terminal. **MAN** agreed to pay a fine to resolve a customer-bribery investigation.

Oil and Gas: UK energy services company **AMEC** will focus on developing expertise in new energy engineering niches.

Utilities: **Centrica**'s British Gas retail business will benefit from subsidies for the installation of energy-efficient boilers in UK homes announced during the pre-Budget report.

We hold the companies highlighted above.

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Performance of European Stock Markets^

Region/Country	Index/Fund	USD Dollars			Local Currency		
Developed Markets		MOM	3M	YTD	MOM	3M	YTD
UK	FTSE Allshare	2.77%	6.42%	44.77%	4.35%	5.55%	30.66%
UK	FTSE 100	2.78%	7.11%	41.71%	4.36%	6.24%	27.90%
UK	FTSE 250	3.04%	3.28%	67.45%	4.63%	2.44%	51.14%
UK	FTSE Small Cap	0.84%	-2.46%	71.44%	2.40%	-3.25%	54.74%
UK	FTSE 350 Real Estate	4.17%	4.83%	19.81%	5.77%	3.97%	8.14%
Europe	FT Europe	1.50%	3.20%	37.43%	4.93%	3.96%	29.35%
Europe	FT Europe ex UK	0.98%	1.53%	34.88%	5.18%	3.02%	29.86%
Denmark	Denmark - OMX Copenhagen 20 Index	-1.43%	-1.52%	40.68%	2.94%	0.53%	38.23%
Finland	Finland - OMX Helsinki 25 Index	2.26%	3.33%	44.59%	6.80%	5.53%	42.32%
France	France - CAC 40	2.54%	2.09%	31.19%	7.15%	4.31%	27.73%
Germany	Germany - DAX	1.39%	2.79%	25.82%	5.89%	4.97%	23.85%
Ireland	Ireland - ISEQ Overall Index	1.49%	-12.82%	33.30%	6.06%	-10.92%	29.77%
Italy	Italy - MIB30	1.05%	-2.69%	20.28%	6.02%	-0.55%	23.94%
Netherlands	Netherlands - AEX	4.90%	5.88%	45.75%	9.62%	8.18%	41.90%
Norway	Norway - OBX	5.15%	15.34%	106.01%	6.85%	15.80%	70.40%
Portugal	Portugal - PSI 20	-1.87%	-2.21%	42.78%	2.54%	-0.08%	39.01%
Spain	Spain - IBEX	-1.29%	1.04%	40.15%	3.09%	3.19%	37.95%
Sweden	Sweden- OMX Stockholm 30 Index	-0.38%	3.12%	61.97%	1.66%	6.13%	49.22%
Swiss	Swiss - SMI	1.51%	3.53%	24.43%	4.55%	3.52%	22.06%
World	MSCI AC World Free	2.10%	4.72%	35.41%	3.79%	4.93%	29.97%
World	Citigroup World Government Bond	-5.03%	-1.93%	2.55%	-5.03%	-1.93%	2.55%

^ Total indices performance table for the month ended 31 Dec 09
Source: Bloomberg

During the month, we met the following companies:

France: Casino, Danone and Pernod Ricard

Germany: Rhoen Klinikum

Netherlands: Fugro and TNT NV

Switzerland: Novartis

UK: Anite, Daily Mail & General Trust, Helical Bar, Holidaybreak, Inmarsat, Numis Corporation, Prudential, Resolution, RPC, Sage, Shaftesbury, Tui Travel and Victrex

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Important information