BIAS Global Navigator

PORTFOLIO MANAGERS SECURITIES ANALYSTS March 2013

IT Security: Clear and Present Danger

Studies place the cost of IP theft to US companies at $250 billion per year, global cyber crime at $114 billion ($388 billion if you factor in down time), and remediation at $1 trillion globally.

The perpetrators range from malicious nerds to big business and governments looking to ferret out defence secrets or simple industrial espionage. Whilst it is easy to point the finger away from the west, such perpetrators are everywhere.

In 2009 Chinese hackers (part of the infamous Unit 61398 of the People's Liberation Army) are suspected with a "high degree of certainty" to have made off with secrets from Lockheed Martin's new F-35 Stealth Fighter enabling them to produce a Chinese Stealth Fighter of their own 2 years later, the J-20.

F-35 Stealth Fighter

Much debate within the US' defence sector is whether such operations should be conducted for offence or defence. The US privately rates itself as 9/10 on offence, a view supported by the success of the Stuxnet worm and Flame virus attacks against Iran. These intrusions were launched either by the US, Israel or the two working together according to the Economist and the Wall Street Journal, and were designed to paralyse centrifuges at Iran's Natanz uranium-enrichment plant ultimately destroying 10 percent of its capability.

Chinese hackers are suspected with a "high degree of certainty" to have made off with secrets from Lockheed Martin's new F-35 Stealth Fighter enabling them to produce a Chinese Stealth Fighter of their own 2 years later, the J-20.

The Flame virus apparently came from the same source as the Stuxnet worm and was aimed at Iran by infecting computers in its oil ministry and at targets in the West Bank, Syria and Sudan. In return, Iran designed the Shamoon virus that recently crippled thousands of computers at Saudi Arabia's Aramco and Qatar's RasGas fields in August 2012.

In contrast however, the US' own experts rate the nation's defense capability as only 3/10 leaving considerable room for improvement.

Obama in October 2012 signed a directive, the contents of which are still secret, containing new guidelines for federal agencies carrying out cyber-operations and moved Howard Schmidt, the head of Cyber Security coordinating US Government, military and intelligence efforts, into an office in the White House itself. Such is the importance with which this subject is held and government money directed.

The problem is both serious and costly and is only going one way.

J-20 Chinese Stealth Fighter

(Continued on Page 3)

QUARTERLY MARKET BRIEFING – UP CLOSE

Bermuda

May 1st or 2nd, 2013 • 12:10 p.m. & 5:10 p.m.
Please RSVP Time Preference • qmb@bias.bm
BIAS Office • Wessex House • First Floor

Cayman

May 7th or 9th, 2013 • 12:10 p.m. & 5:10 p.m.
Please RSVP Time Preference • qmb@bias.ky
BIAS Office • Governors Square • First Floor

A Steepening Yield Curve

The yield curve graphically plots interest rates of bonds having equal credit quality, but different maturity dates. The Treasury yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. Mortgages typically price off the 10-years Treasury, for example. The shape of the yield curve provides insight into the market's expectations for future interest rates as well as economic activity and normally rises over time. Longer-term maturities, in theory, entail more risk because there is more uncertainty about economic conditions farther out in time; therefore investors demand a greater yield. A rising or positive slope also reflects investors' expectations for a growing economy, as well as expectations that inflation will rise. The yield differential between the short end and the long end of the curve tells how steep the yield curve is. A steep yield curve is typically seen at the end of a recession, when economic expansion is underway – like now in fact.

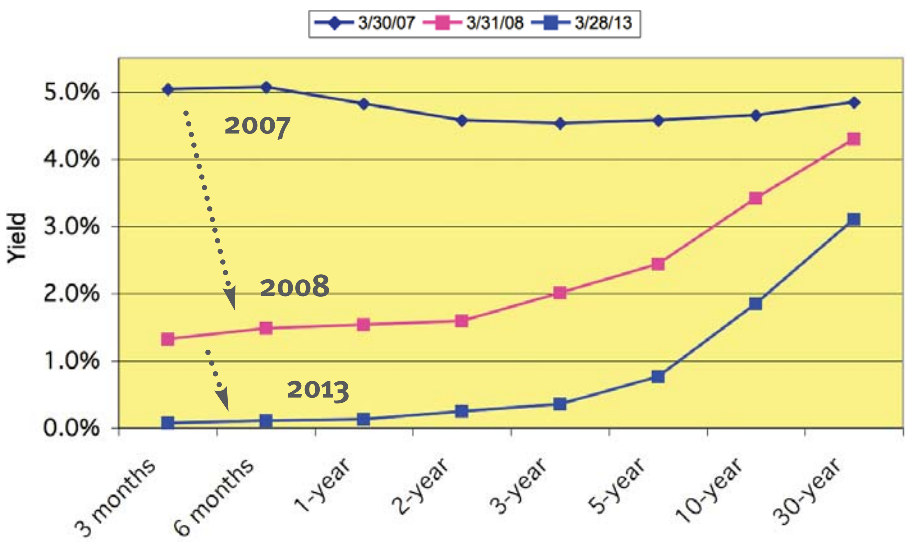
The Fed has kept the Fed funds rates in a range of zero to 0.25 percent since late 2008 and will not raise rates until unemployment drops below 6.5 percent, thus the short end of the curve is firmly anchored. However, with improving economic growth longer dated rates will start rising, steepening the yield curve. However, some pundits warn that massive monetary stimulus by the Fed and other central banks, combined with an increasing sovereign debt level in the US, could lead to a dramatic rise in long term interest rates, making the yield curve even steeper still.

We do not share this dramatic view, but we do believe the yield curve will steepen gradually over the next couple of years.

The yield curve is of importance to everyone. It decides the savings rate on bank deposits, which are based on the short end of the yield curve, while mortgage rates are based on rates at the long end of the yield curve. Hence, as the yield curve steepens, bank deposit rates will stay low, while mortgage rates will rise. The winner on this is the banks who borrow at low rates and lend at higher rates and as the yield curve steepens the gap between the two increases and so does banks' net interest margin.

Life insurance companies are particularly sensitive to interest rate risk due to their investments in longer maturity fixed-income assets given that bond prices decrease as yields rise. However this loss would not be realized unless the portfolio was sold and the benefits of rising long term interest rates would partially be offset by higher reinvestment yields for maturing bonds. The worst case scenario for a life insurance company is an inverted or flat yield curve. In such an environment it is quite difficult for life insurance products to compete effectively given the lower yields it would be receiving on the long end and might result in an asset-liability mismatch. Today's positive sloping yield curve benefits life, reinsurance and property & casualty insurance companies and as the curve steepens further they will be in a better position to match their assets with their liabilities and generate stronger investment returns.

U.S. Treasury Yield Curve



The shape of the yield curve provides insight into the market's expectations for future interest rates as well as economic activity and normally rises over time.

IT Security (Continued from Page 1)

IDC Consulting Group estimates that the cyber security industry is presently worth $17.7 billion in global revenue terms — although this is likely to rise given government's attention and the fact that we are at the start of a firewall upgrade cycle as cloud computing drives companies to software not hardware solutions. The main players are large companies: Intel, Microsoft, Oracle, SAP, Google, Cisco, Tyco, and BAE for whom this represents only a small part of their overall revenues.

Many companies are still privately owned – for example the world's second largest player in this space is Russian-owned, but London-headquartered, Kaspersky, Laboratories. In the US, Palo Alto Networks is an example of the $1 billion plus market cap new entrants.

BIAS' choices in this sector are Israel headquartered Check Point, the largest independent listed company, who is highly profitable, cash rich, and consistently beat out larger competitors with its service offerings. Also Fortinet which is a smaller US player with a lower cost 'one-stop' alternative that is making inroads into this sector placing it firmly in the sights of larger predators such as Cisco who have both a cash pile and the stated desire to buy smaller software company competitors.

BIAS Global Dividend Income Fund

Dividend Reinvestment Impact on Share Price

The BIAS Global Dividend Income fund offers investors an opportunity to accumulate wealth through the combination of high and rising dividend yields coupled with capital appreciation potential. Exploiting total return is best accomplished through the reinvestment of dividend income which BIAS implements just after the end of each calendar quarter. While the mechanics of dividend reinvestment impacts the Fund's NAV, there is no effect on the value of an investor's holdings.

Date	Client Action	NAV	Units	Dividend	Net Assets
Jan. 1	Invest $100,000	$100	1,000	–	$100,000
Mar. 31	Dividend Declared	$102	20	2%	$2,000
Apr. 1	Dividend Reinvested	$100	1,020	–	$102,000

Chart 1 Unlike other BIAS Global Portfolio funds, the Dividend Investment Income Fund automatically distributes any income in the form of a) additional units or b) cash payment. This means that the distribution forces a devaluation equal to the amount of income distributed. Your holding maintains its value through the receipt of the equivalent value of shares should you choose to reinvest the dividend even though the unit price will fall.

Date	Client Action	NAV	Units	Dividend	Net Assets
Mar. 30	Invest $100,000	$102	980.39	–	$100,000
Mar. 31	Dividend Declared	$102	19.60784	2%	$2,000
Apr. 1	Units Sold	$100	1,000	–	$100,000

Chart 2 Opportunists will not benefit from buying the unit the day before a dividend is declared as the unit price falls in equal to the value of dividend income distributed.

To explain, when BIAS reinvests accumulated dividends, the fund administrator buys shares for the client. This increase in shares outstanding without the corresponding increase in overall fund value results in an apparent decline in Net Asset Value, or share price, as illustrated in *Chart 1*.

As is evident from *Chart 1*, the decline in NAV is offset by the increase in shares an investor holds resulting in no net change in wealth. Of course this is a simplified illustration and the change in NAV, due to market forces, from 31 March to 1 April will likely occur. The upshot is that aside from changes in market prices, the NAV decline is purely accounting driven.

A fair question at this point is whether an investor that commits capital just prior to a dividend reinvestment cycle will profit without having invested for the entire period? The simple answer is 'No', as shown in *Chart 2*.

Clearly, there is no wealth effect from entering just prior to a dividend reinvestment date as at purchase, the NAV reflects the income earned and adjusts proportionally after the reinvestment date.

Certain statements contained within this literature are forward looking statements including, but not limited to, statements that are predications of or indicate future events, trends, plans, or objectives. Undue reliance should not be placed on such statements because by their nature they are subject to known and unknown risks and uncertainties. Actual results could differ materially from projected results due to numerous factors, many of which are beyond our control.

BIAS GLOBAL PORTFOLIOS SPC
BIAS ASSET MANAGEMENT LTD

Performance (as at 31st March 2013)

SHORT DURATION INCOME FUND

Risk: low ■ □ □ □ □ high

Benchmark: Citigroup 1-3yr Treas Index
Inception Date: December 29, 2006

Performance	Q1/13	1-Year	2-Year (Annualized)	3-Year (Annualized)	Since Incept. (Annualized)
Short Duration Fund	0.00%	-0.04%	0.11%	0.87%	1.85%
Benchmark	0.12%	0.64%	1.00%	1.21%	2.98%

GLOBAL BALANCED FUND

Risk: low □ ■ □ □ □ high

Benchmark:* Blended Composite†
Inception Date: December 29, 2006

Performance	Q1/13	1-Year	2-Year (Annualized)	3-Year (Annualized)	Since Incept. (Annualized)
Balanced Fund	3.13%	1.61%	0.02%	2.84%	1.47%
Benchmark	3.96%	6.23%	3.46%	5.15%	2.37%

GLOBAL DIVIDEND INCOME FUND

Risk: low □ □ ■ □ □ high

Benchmark: S&P Global 1200 Index
Inception Date: September 28, 2012

Performance	Q1/13	1-Year	2-Year (Annualized)	3-Year (Annualized)	Since Incept. (Annualized)
Dividend Fund	6.15%	—	—	—	4.28%
Benchmark	6.49%	—	—	—	8.99%

GLOBAL EQUITIES FUND

Risk: low □ □ □ ■ □ high

Benchmark:* S&P Global 1200 Index
Inception Date: December 29, 2006

Performance	Q1/13	1-Year	2-Year (Annualized)	3-Year (Annualized)	Since Incept. (Annualized)
Equities Fund	4.95%	0.26%	-2.00%	1.92%	-1.31%
Benchmark	6.49%	8.94%	2.97%	5.72%	-0.18%

*Prior to April 1, 2012 benchmark was FTSE World Equity Index. † 60% S&P Global 1200 Index/ 20% Citigroup 1-3Yr Treas. Index/ 20% Citigroup 3-7 Yr Treas. Index

Management Commentary

Equities Q1 2013

Global equity markets experienced strong results in the First Quarter 2013, with the S&P 1200 Global index rising over 7 percent in dollar terms with the US advancing 10.6 percent. In a pleasant surprise, Japan's NIKKEI climbed 9.8 percent in dollar terms on the expectations for changes in Japan's monetary and fiscal policy that is hoped will bring an end to twenty-three years of deflation. From a sector perspective, the best returns were had from Health Care, Staples, Consumer Discretionary, and Industrials. Materials, Technology, and Utilities lagged.

Currencies Q1 2013

The dollar strengthened against most major currencies in the First Quarter consistent with positive US economic data and a global equity rally. As the US economy showed signs of decoupling from both the eurozone and the UK in terms of GDP growth, the dollar rallied. Additionally, the inconclusive Italian election and Cyprus' banking crisis weighted on the euro. The yen was the weakest performer as Prime Minister Abe kept his promises of aggressive reflationary fiscal and monetary policies with the goal of ending Japan's long period of deflation.

Fixed Income Q1 2013

Treasury prices fell, and their yields rose, in the First Quarter 2013 as economic data improved and the unemployment rate fell to 7.7 percent in February, damping demand for the safety of US government securities. Recall, last year the Fed tied monetary policy to economic targets, explicitly stating that interest rates will stay low until unemployment trends down to 6.5 percent. The yield curve steepened as longer-maturity yields rose more than shorter-dated ones.

www.biasglobalportfolios.com

Bermuda Investment Advisory Services Limited
Wessex House, First Floor, 45 Reid Street, Hamilton HM12
P.O. Box HM 988, Hamilton HM DX, Bermuda
Tel: (441) 292-4292 • Fax: (441) 292-7292
E-mail: **info@bias.bm** • Web Site: **www.bias.bm**

BIAS (Cayman) Limited
Governors Square, 23 Lime Tree Bay Avenue, Suite 5-203,
P.O. Box 30862, Grand Cayman, KY1-1204, Cayman Islands
Tel: (345) 943-0003 • Fax: (345) 943-0004
E-mail: **info@bias.ky** • Web Site: **www.bias.ky**