BIAS

INVESTMENT MANAGERS - SECURITIES ANALYSTS

Review Q2 2013

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June 30, 2013

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World Markets Quarterly Review

1	DJIA	2.9%	3	BSX	3.9%	7	UK FTSE	-1.9%	11	Nikkei	4.7%
1	S&P 500	2.9%	4	Bolsa	-12.1%	8	CAC	4.3%	12	Hang Seng	-4.6%
1	NASDAQ	4.5%	5	Bovespa	-23.6%	9	DAX	3.6%	13	Straits Times	-5.8%
2	TSX	-7.4%	6	Merval	-16.1%	10	Kospi	-9.4%	14	ASX	-14.5%

*Source: Bloomberg

Stock, Bond, Currency Overview

Global Stock Markets

- In the Second Quarter 2013, global equity prices were up modestly after having peaked on 22 May in advance of Fed Chairman Bernanke's tapering speech. While the rally was uneven the decline was not as all markets reacted to the comments.
- Emerging markets took the brunt of the decline. Already lagging the developed regions, trouble in Brazil, liquidity problems in China and the collapse of Gold hit emerging nations the hardest.
- European equity markets rose on hopes that the crisis in the eurozone had stabilized.

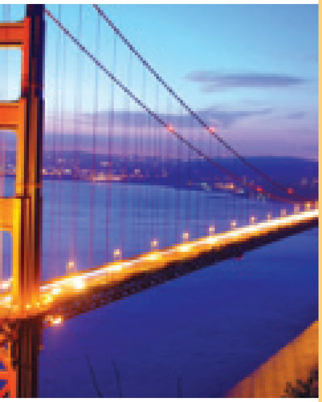
Bond Markets

- Treasury yields rose in the Second Quarter and upon the announcement that the Fed may begin reducing quantitative easing this year, the 10-year Treasury yield rose to 2.51 percent for the first time in almost two years.
- The ECB cut interest rates to a record low 0.50 percent and held out the possibility of further policy action to support the recession-hit euro area.

Currency Markets

- The US dollar advanced after Fed Chairman Ben S. Bernanke made the case for reducing monetary stimulus as the economy improves.
- The Japanese yen weakened against most major currencies, giving Japan's Prime Minister Shinzo Abe a symbolic victory for his easy money policies.

The S&P Global 1200 Index closed up 0.7 percent. All figures shown are for the quarter ended June 30, 2013 and are expressed in US dollar terms.



North American Stock Markets

NASDAQ led US markets in the Second Quarter 2013.

Indices	31 Mar 2013	30 Jun 2013	Quarterly Change Local Curr.	Quarterly Change US$
US Dow Jones Industrial	14,578.50	14,909.60	2.9%	2.9%
US S&P 500	1,569.19	1,606.28	2.9%	2.9%
US NASDAQ	3,267.52	3,403.25	4.5%	4.5%
Canada TSX	12,749.90	12,129.10	-4.1%	-7.4%
S&P Global 1200	1,601.88	1,598.90	0.7%	0.7%

Source: Bloomberg

- While investors in US stocks have suffered losses amid signs the Federal Reserve will pare stimulus measures, the declines look small when compared with the route elsewhere in the world. US shares have dropped at a slower pace than those in Asia and Europe since May 22, when Fed Chairman Ben S. Bernanke signaled that the central bank could taper quantitative easing as the economy improves. The benchmark Standard & Poor's 500 Index fell 4.6 percent from its May high through the week ended June 21. That compares with a decline of 9.7 percent for the Stoxx Europe 600 Index and 12 percent for the MSCI Asia Pacific Index.

- On April 26 Cerner Corporation announced strong bookings, reporting numbers above guidance. First Quarter 2013 bookings were $801.6 million, up 23 percent year-over-year, exceeding the initial guidance range of $720-$760 million, as Cerner continues to sign new business in 2013. Second Quarter bookings guidance is $825-$875 million, representing 18 to 25 percent year-over-year growth and 3 to 9 percent sequential growth. Importantly, the ratio of long-term bookings in the quarter of 32 percent is consistent with historical rates. Cerner rose 1.4 percent in the quarter.

- On April 17 China CITIC Bank and MasterCard signed a Memorandum of Understanding (MOU) for strategic cooperation in the virtual payments space within and outside China. The two parties aim to jointly develop and promote innovative products and services including Quick Response (QR) code services and collaborate to provide a safe and efficient payment experience for domestic and overseas cardholders and merchants. In the quarter MasterCard rose 6.17 percent and CITIC Bank rose 8.43 percent.

- On June 21 Bloomberg reported that Amazon and Google, which lack food retail expertise, are entering into the perishables side of food retail with same-day delivery. Amazon, which appears to have a procurement group buying both fresh and non-perishable items, is also offering to include orders from local businesses, such as bakeries and restaurants, with its deliveries. Google's early stage strategy seems to be more focused on coordinating orders with traditional suppliers. Google and Amazon fell 0.43 and 0.03 percent, respectively, while the S&P Global 1200 retreated 0.32 percent on the day.

Latin American Stock Markets

Indices	31 Mar 2013	30 Jun 2013	Quarterly Change Local Curr.	Quarterly Change US$
Mexico Bolsa	44,077.10	40,623.30	-7.3%	-12.1%
Brazil Bovespa	56,352.10	47,457.10	-15.8%	-23.6%
Argentina Merval	3,380.78	2,976.27	-11.7%	-16.1%
Chile IPSA	4,432.14	4,029.67	-9.1%	-15.6%
S&P Global 1200	1,601.88	1,598.90	0.7%	0.7%

Source: Bloomberg

- On May 14 Banco Itau Unibanco agreed to buy Citigroup Brazil's Credicard, its non-banking credit card and consumer finance business. Financial details of the transaction were not disclosed though Citi anticipates that the deal, subject to approval by Brazilian regulators, will generate an after-tax gain of about $300 million, or 10 cents per share, at closing. The transaction includes 96 Credicard stores and roughly $3.26 billion in consumer loan balances, as of December 31. The deal also includes portfolios of Credicard-branded cards and a personal loan portfolio. In regular trading Banco Itau rose 1.64 percent while shares of Citigroup advanced 2.4 percent.
- On May 21 SkyWest Inc, the world's largest regional airline group, agreed to buy at least 40 new jets from Brazilian planemaker Embraer SA, in a deal that could climb to 200 aircraft and a total price tag of more than $8 billion. The first forty E175s, which SkyWest will fly for United Airlines, enter directly into Embraer's order backlog, while orders for another sixty planes depend on Skywest's upcoming contracts with major airlines. SkyWest also has options for an additional 100 aircraft, bringing the potential value of the contract to $8.3 billion at list prices. This order will guarantee the rebound of its commercial aircraft division, which had slumped to about half of revenue as the company trimmed production on weak order flow as well as secure Embraer's lead over its chief rival, Canada's Bombardier Inc (BBDb.TO), in the race for new orders from major US airlines. Embraer shares jumped as much as 4.8 percent to 19.81 reais, their highest in over five years, in early trading on that day.
- On June 17 Chilean retailer reached a deal with Cencosud to Itau Unibanco Holding SA, Latin America's largest lender by market value, to operate its card business after a series of scandals. The Supreme Court in April fined Cencosud an estimated $70 million for a unilateral hike of the supermarket unit's credit card maintenance fees in 2006. In May, Cencosud said it would set aside provisions of 20 billion pesos ($40 million) after Chile's Supreme Court ordered the retailer to compensate clients affected by"abusive" clauses on its credit-card contracts. Itau will buy 51 percent of the credit-card operations of Cencosud in Chile and Argentina for $307 million and fund 100 percent of future credit-card loans in both countries. This strategic growth opportunity will help build up and strengthen the credit-card business. Cencosud shares fell 13.8 percent for the quarter.

Latin American stock markets fell sharply as protests in Brazil and declining demand for commodities weighed on results.

European markets fared well in the quarter as evidence grew that the eurozone crisis had stabilised.

European Stock Markets

Indices	31 Mar 2013	30 Jun 2013	Quarterly Change Local Curr.	Quarterly Change US$
UK FTSE	6,411.74	6,215.47	-1.9%	-1.9%
Germany DAX	7,795.31	7,959.22	2.1%	3.6%
France CAC 40	3,731.42	3,738.91	2.8%	4.3%
Spain IBEX 35	7,920.00	7,762.70	-0.8%	0.7%
S&P Global 1200	1,601.88	1,598.90	0.7%	0.7%
S&P Europe 350	1,197.22	1,164.76	-0.9%	-0.9%

Source: Bloomberg

- On May 15 Hennes & Mauritz AB (H&M), a Swedish fashion retailer, reported lower-than-estimated monthly revenue due to cold April weather that weighed on sale of Spring fashions. Revenues at stores and operations open at least one year rose one percent compared to the previous year. The gain in April put an end to six straight months of decline but the rise was much smaller than the 5.6 percent estimated by analysts. Shares of H&M fell 5.41 percent for the quarter.

- On May 30 Santander, Spain's biggest bank, reached a deal with US private equity firms Warburg Pincus and General Atlantic LLC to sell them a 50 percent stake in its asset management arm. Santander is expected to book a €700 million ($914 million) net profit from the deal, which valued Santander Asset Management at €2.05 billion. SAM had €152 billion under management at the end of March, with a presence in Spain, Germany, Britain, Brazil, Mexico and six other countries in Europe and Latin America. The three companies intend to form a holding company that will manage Santander Asset Management's eleven companies. Shares of Santander fell 6.49 percent for the quarter.

- On June 20 Irish budget airline, Ryanair, announced plans to return up to one billion euros ($1.3 billion) to shareholders over the next two years through share buybacks and a possible special dividend. This is as the company reported a 13 percent increase in net profit of €569 million in the year through to March. Ryanair does not currently pay a regular dividend. The airline plans to purchase €400 million worth of shares by March 2014 and a further €600 million in the following twelve months. Shares of Ryanair rose 19.5 percent for the quarter.

- On June 24 Vodafone agreed to buy Germany's largest cable operator Kabel Deutschland for €7.7 billion ($10 billion). In Vodafone's largest deal in six years and its second major buy of a European fixed-line network in 12 months. The agreed offer of €7.7 billion which equates to €87 per share is a 38 percent premium to where the stock was trading before Vodafone's initial interest was reported in February. The high price shows the desire of the world's second-largest mobile operator to adapt in its core market of Europe, where increasing regulation and recession have hit revenue and forced it to write down the value of its assets. Shares of Vodafone edged up 0.67 percent for the quarter.

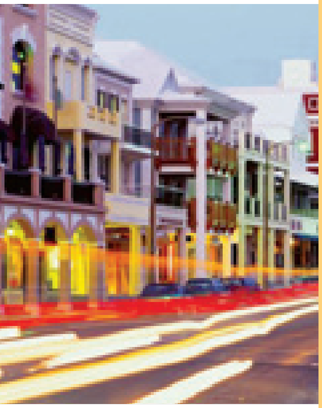
Pacific Rim Stock Markets

Indices	31 Mar 2013	30 Jun 2013	Quarterly Change Local Curr.	Quarterly Change US$
Japan Nikkei	12,397.91	13,677.32	10.4%	4.7%
Hong Kong Hang Seng	22,299.60	20,803.30	-4.7%	-4.6%
Hang Seng Red Chip	4,362.55	4,028.72	-6.3%	-6.2%
Korea Kospi 100	2,004.89	1,863.32	-7.1%	-9.4%
Singapore STI	3,308.10	3,150.44	-3.6%	-5.8%
Taiwan TWSE	7,918.61	8,062.21	1.9%	1.5%
Australia ASX 200	4,966.50	4,802.59	-2.4%	-14.5%
S&P Global 1200	1,601.88	1,598.90	0.7%	0.7%
FTSE Pacific ex-Japan	482.35	441.59	-8.2%	-8.2%

Source: Bloomberg

- On April 27 Bloomberg reported that Kawasaki Heavy Industries Limited, Japan's third biggest shipbuilder, would consider merging to thin out the number of Japanese companies operating in a crowded field. Mr. Mitsutoshi Takao, senior executive VP of Kawasaki Heavy Industries Limited, said that "In the future, a merger is one option to consider given that there are too many companies in this industry." Pressure among Japanese companies has arisen in the face of competition from lower cost producers in China and South Korea. Kawasaki Heavy rose 3.04 percent in the quarter.
- On May 10 Australia and New Zealand Banking Group Ltd. cut its benchmark mortgage rate by 27 basis points, the first time one of the nation's four major lenders passed on more than the central bank's reduction since October 2008. ANZ trimmed its standard variable mortgage rate to 6.13 percent, matching National Australia Bank Ltd.'s rate as the lowest among the country's four biggest banks. Competition for mortgages is intensifying because they remain the banks' main area of growth even as they expand at the slowest pace on record, stock exchange filings show. With the yield premium on bank bonds over government debt at the smallest since November 2007, lenders have cut home loan rates to their lowest since 2009. ANZ rose 0.18 percent in the Second Quarter.
- On May 29 Shuanghui Group, China's biggest pork producer, agreed to acquire Smithfield Foods Inc. for about $4.72 billion to boost supplies for the nation that is the biggest consumer of the meat. Shuanghui, parent of Henan Shuanghui Investment & Development Co., will pay $34 a share for the Smithfield, Virginia-based producer, both companies said in a statement. The price represents a 31 percent premium over Smithfields closing share price on May 28. Shuanghui Group closed up 1.47 percent on the day.
- On June 24 emerging market stocks dropped to the lowest level in a year as China's CSI 300 Index entered a bear market after the central bank signaled it will keep efforts to curb credit growth. The MSCI Emerging Markets Index declined 2 percent to 882.70 at 1:25 p.m. in New York, extending a slump from its January 3 high to 18 percent. The CSI 300 slid 6.3 percent, sinking 22 percent from this year's peak, while the Shanghai Composite Index capped the biggest retreat since August 2009. The premium investors demand to own emerging market debt over US Treasuries climbed to an 11-month high, according to JPMorgan Chase & Co.

Except for Japan, most Asian markets were weak as China's economic growth slowed.



The Bermuda Stock Exchange Insurance Index fell 26.2% in the Second Quarter 2013.

Bermuda & Cayman Stocks

Indices	31 Mar 2013	30 Jun 2013	Quarterly Change Local Curr.	Quarterly Change US$
BSX Index	1,127.69	1,162.86	3.9%	3.9%
BSX Insurance Index	1,200.00	886.00	-26.2%	-26.2%
S&P Global 1200	1,601.88	1,598.90	0.7%	0.7%
Stocks				
ACE Ltd.	88.97	89.48	0.6%	0.6%
Ascendant Group Ltd.	11.45	11.00	-2.2%	-2.2%
Butterfield Bank	1.36	1.39	2.9%	2.9%
Caribbean Utilities	10.09	10.30	3.7%	3.7%
Consolidated Water Co.	9.90	11.43	16.2%	16.2%
XL Capital Ltd.	30.30	30.32	0.5%	0.5%

Source: Bloomberg - Numbers shown include dividends

- On May 2 Ace Limited completed the acquisition of Mexican personal lines insurer ABA Seguros from Ally Financial Inc. for approximately $690 million in cash, after a $175 million pre-closing dividend taken by the seller. ABA Seguros is Mexico's fourth-largest personal lines insurer, providing auto, homeowners and small business coverages. Evan Greenberg, chairman and CEO, Ace Limited hopes that the combination of ABA with ACE Seguros will allow the company to be better positioned to take advantage of the many growth opportunities that will occur in Mexico in the future. Shares of Ace Limited rose 0.57 percent for the Second Quarter.
- On May 7 Caribbean Utilities Company Ltd. announced that its earnings for the three months ended March 31, 2013 improved over the same period last year as the company continued its focus on controlling costs and improving efficiencies throughout the organization. Net earnings for the First Quarter totaled $2.9 million, an increase of one million dollars. This was due primarily to lower general and administration and financing costs as well as an increase in other income. Shares of Caribbean Utilities rose 4.9 percent for the quarter.
- On May 13 Bermuda-based insurer Catlin Group Ltd reported a 12 percent increase in gross premiums written in the First Quarter. The positive results were driven by strong growth in its property and casualty businesses. The company posted gross premiums written of $1.84 billion, up 12 percent from the $1.64 billion the company reported last year. The firm said total gross premiums written by non-London underwriting hubs increased by 21 percent for the period and accounted for 58 percent of gross premiums written as opposed to 54 percent last year. The company incurred no catastrophe losses in the quarter. Catlin's total investment return for the first three months of this year was $48 million or 0.5 percent compared with $47 million or 0.6 percent as of March 31, 2012. Catlin shares rose 4.2 percent in the Second Quarter.
- On June 24 Argus Group reinstated its dividend, declaring a dividend of six cents per share payable on September 9, 2013, for shareholders of record on July 15, 2013. The Board expects that dividends will be considered on a semi-annual basis to coincide with financial reporting cycles. The company profit of $12.6 million for the year ended March 31 compared to $1.7 million in the previous fiscal year. The positive results were due to higher net unrealized gains and dividend income and interest income from its equity and bond portfolios. Shares of Argus rose 39.1 percent for the quarter.

Global Bond Markets

Benchmark Indices	(Yield to Maturity) 31 Mar 2013	30 Jun 2013	Total Returns Local Curr.	US$
US 2 Year	0.24%	0.36%	-0.09%	-0.09%
US 10 Year	1.85%	2.49%	-4.51%	-4.51%
US 30 Year	3.10%	3.50%	-6.14%	-6.14%
Canadian 10 year	1.87%	2.44%	-4.56%	-7.69%
Australian 10 year	3.41%	3.76%	-1.79%	-13.86%
UK Gilt 10 Year	1.77%	2.44%	-5.09%	-5.00%
German Bund 10 Year	1.29%	1.73%	-3.19%	-1.75%
Japanese 10 Year	0.56%	0.86%	-2.48%	-7.32%
Citigroup				
3-7 Year Treasury Index	1,354.73	1,328.15	-1.95%	-1.95%
7-10 year Treasury Index	1,696.25	1,625.98	-4.12%	-4.12%
1-10 Year US Corp. Bond Index	1,591.73	1,555.70	-2.23%	-2.23%
World Gov't 7-10 Yr Bond Index	1,206.47	1,161.35	-3.85%	-3.85%

Source: Bloomberg

- Microsoft Corp. was among US borrowers selling the most bonds in Europe since the start of 2008, taking advantage of record-low borrowing costs that outstrip dollar rates. On April 25 Microsoft raised €550 million from 20-year bonds yielding 2.625 percent in a debut sale in the euro. That was the lowest coupon offered in the eurozone for similar-maturity, non-financial corporate notes. Microsoft said the debt sale will help the company reduce its cost for capital.

- On May 2 the European Central Bank, ECB, cut interest rates for the first time in ten months and held out the possibility of further policy action to support the recession-hit eurozone economy. The ECB lowered the main interest rate by a quarter percentage point to a record low 0.50 percent, citing low inflation and rising unemployment. ECB President Mario Draghi indicated that some policymakers had pushed for a bigger cut and also promised to provide as much liquidity as eurozone banks will need into next year and to help smaller companies get access to credit. The ECB also said it was “technically ready” to cut the deposit rate from the current zero percent into negative territory, meaning the ECB would start charging banks for holding their money overnight.

- On May 7 the Reserve Bank of Australia cut the benchmark interest rate to a record-low 2.75 percent. This was the seventh cut since the end of 2011. Most economists had expected the central bank to maintain the rate at the May meeting, but the central bank board said the inflation outlook gave them scope to ease rates further and that a decline in the benchmark rate was appropriate to encourage sustainable growth in the economy.

- On June 19 Fed Chairman Ben S. Bernanke said the central bank may begin reducing quantitative easing this year and end it in mid-2014. The comment led to a sharp sell-off in the bond market and on June 21 the 10-year Treasury yield had risen to 2.51 percent for the first time in almost two years. The 10-year Treasury yield is the benchmark for everything from mortgages to corporate loans. Bernanke said that reducing bond purchases would depend on the economy achieving the central bank’s objectives.

- In the week ended June 21 the yield on Mexico’s benchmark peso bonds due in 2024 jumped 0.67 percentage points, the most since November 2008 in the aftermath of Lehman Brothers Holdings Inc.’s failure, and closed at a yield of 5.93 percent. Foreign investors had been boosting holdings of Mexican higher yielding debt to a record as the Federal Reserve suppressed interest rates – making investors reaching for yield going to riskier lower quality debt. Following the remarks from Ben S. Bernanke on June 19 global bonds sold off and Mexican debt, held by a lot of foreign investors, was the hardest hit market.

Fed Chairman Bernanke’s comments on May 22 initiated a sell-off in the bond market that drove yields higher on all major sovereign bonds.

The dollar advanced against the major commodity currencies of Canada, Australia and Brazil.

World Currency Markets

Value of Currency

US$1 = value in local currency

Currency	31 Mar 2013	30 Jun 2013	Change
Australian Dollar	0.9598	1.0909	-12.3%
Brazilian Real	2.0217	2.2317	-9.4%
British Pound	0.6580	0.6574	0.1%
Canadian Dollar	1.0174	1.0519	-3.3%
Euro	0.7801	0.7686	1.5%
Japanese Yen	94.2150	99.1350	-5.0%
Swiss Franc	0.9492	0.9450	0.4%

Source: Bloomberg

- The US dollar advanced against all major currencies after Fed Chairman Ben S. Bernanke made the case for reducing stimulus as the economy improves, sparking declines in emerging-market assets and commodities.
- On June 20 the Norwegian krone tumbled 3.3 percent against the euro after the Norwegian central bank kept the benchmark rate at 1.5 percent and signalled an increased chance for an interest rate cut this year. Still, as of June 21, the krone was still up 19 percent against the euro since the end of 2008 after emerging as a haven during Europe's debt turmoil. The eurozone is Norway's biggest trading partner and Norway's economy has started to suffer from the fallout of the euro area's recession, pushing unemployment to the highest since May 2010 as companies also struggle with a surging krone and manufacturing labour costs that are nearly 70 percent higher than the EU average.
- The Japanese yen weakened against most major currencies in the Second Quarter, giving Japan's Prime Minister Shinzo Abe a symbolic victory for his easy money policies. Abe's bold leadership saw some early payoff as Japanese exports increased more than imports, thus narrowing the trade balance. Japanese workers also appeared to be cheered, with service sector worker's sentiment outlook hitting a record in April, while confidence among manufacturers also rose. For the quarter, the yen weakened 5.0 percent against the greenback.
- On June 26 India's rupee plunged to a record 60.7650 per dollar as investors favoured the greenback after latest data bolstered the US economic outlook. The rupee fell over 4.9 percent in June, the world's worst performance, and slumped 8.6 percent in the quarter, the most since 1991. The depreciation will inflict "significant damage" on India's economy and the central bank's ability to stem the drop is limited, according to Royal Bank of Scotland. Part of the plunge in June was attributed to overseas funds which pulled $1.5 billion from Indian stocks and $5.1 billion from rupee debt holdings in June.

OUTLOOK FOR THE THIRD QUARTER 2013

On a regional basis, the global economy will grow at varying rates in the Third Quarter 2013. Growth will jump ahead in the US, Japan, and parts of Latin America.

- From a US perspective, the reasonable growth experienced thus far will persist but at a slightly slower pace owing to the payroll tax hike.
- From a top down perspective, the largest improvement in economic data is likely to come from parts of Asia and Latin America, particularly Mexico.
- Japan's growth will likely be the best among developed nations according to Barclay's economic team.

We believe the US Treasury yield curve will steepen.

- Longer-dated US interest rates will likely retrace some of the rise resulting from a lack of inflation and slow economic growth despite concerns about the tapering effect of withdrawal of Quantitative Easing (QE).
- Global central banks remain accommodative which will obviate dramatic rate movements in any of the major regions.

Most currencies will remain weak against the dollar as nations manage their exchange rates.

- Commodity currencies will remain under pressure in our view as world GDP growth remains modest.
- The euro, Sterling and yen will continue to be weak as soft economic data impacts the first two and policy decisions drive the latter lower.

We believe that the commodity super-cycle is over.

- Supply/demand fundamentals are becoming endemic, weighing on base metals and grains.
- Oil prices have some upside potential as there is still a deficit in crude supplies versus demand. We are not convinced that the price rise will be precipitous or persistent as US crude supplies are improving.

We are bullish on equities although stocks are not as inexpensive as earlier in the year.

- Stocks are indicating economic improvement – even in Europe – and given low interest rates and the steep yield curve will likely move higher after a pause.
- US equities will lead markets for most of 2013 subject to continued profit growth.
- We expect rotation to 'new' emerging markets previously overshadowed by China as investors seek better growth prospects and profits from parts of Latin America, particularly Mexico.

"The whole economic discussion is being framed incorrectly. Austerity serves no purpose; it's based on a fundamental intellectual mistake."

Adam S. Posen,
President
Peterson Institute for
International Economics
OECD Forum,
May 31, 2013

Economics

The World

World economic growth will continue but results will be uneven as different regions grapple with specific economic headwinds like austerity, unemployment and debt. The broad themes of our economic and market outlook remain unchanged from previous Reviews and Outlooks: Growth is slowly improving but not yet broad based, volatility is low, and equities outperform. While still attractive, valuations in the US are near fair value. Relative to bonds, however, equities are the place to be. As if to reinforce BIAS' view of monetary policy convergence exhibited by Japan's policy changes, the European Central Bank (ECB) announced that it too would alter monetary policy by taking a more aggressive stance.

Both the bond and equity markets entered a correction on May 22 as Fed Chairman Bernanke discussed the end of Quantitative Easing sending markets into a reactive sell-off unwarranted by the underlying fundamentals. We continue to favour equities over bonds in the developed markets both on a valuation basis and our view that the next major move in growth is more likely up than down. Supporting our position are two recent data points:

- The OECD Leading Economic Indicator is positive 100.6, where less than 100 is contraction.
- JP Morgan's Global Composite Purchasing Managers Index indicates economic expansion with a reading of 56. Less than 50 indicates contraction.

North America

The United States will deliver consistent economic growth, as all forces seem to be aligning to support economic improvement. Our optimistic view is based on: 1) Improved confidence that the economy is on a sustainable path; 2) The private sector (ex-government) spending which is 82 percent of real GDP, has risen at an annualised pace of 3.1 percent over the last six months implying three percent GDP growth for 2013; 3) Most policies remain accommodative as money supply growth has exceeded inflation by six percent, mortgage rates are still reasonable and home prices are rising.

A convincing improvement in US growth is likely to show up in the data in late 2013/early 2014. Given the volatile markets, investors seem unwilling to believe in that outcome until it becomes more evident. However, recent economic indicators such as unemployment claims and housing data make clear that a recovery is in place in both activity and pricing. This means that the Fed can rightly reduce its depression style policy. Moreover, with $3 trillion in bank reserves going unused, household net worth rising and labour markets and housing on a solid footing, normalisation is the proper course.

Europe

The eurozone is far from a homogenous economy as evidenced by the difficulty policymaker's face in trying to correct the imbalances. However, there are some signs that the region is recovering due to Draghi's adoption of Fed-like stimulus and Germany's abandonment of strict austerity in favour of growth oriented policies. While the ECB has yet to make good on its promise to do "anything it takes" to protect the integrity of the euro area, we suspect that investors have little inclination to test the ECB's determination. Consequently, the risks of a self-fulfilling run on peripheral European banks or sovereigns seem low.

Despite the ECB's strong support for whatever stimulus is necessary to get euro-zone growth going, fiscal and structural adjustment, along with bank de-leveraging, continues to depress economic growth. With peripheral debt having stabilised as a result of the backstop from the ECB, the main risk is political and social unrest. Recognizing this, policymakers are allowing for a slowing in the pace of fiscal consolidation which, along with stronger financial conditions generally, should allow for a resumption of very modest growth.

The UK economy gives us reason for optimism as the arrival of new Bank of England (BoE) Governor Carney carries with it the potential for increased “monetary activism”. Nevertheless, the potential for more monetary support appears to be hampered by the inflation data which remains above target. Barclay’s believes Mr. Carney is likely to encourage the Monetary Policy Committee (MPC) to adopt more explicit forward guidance on interest rates and further credit-easing measures. We believe the UK is in a slow and gradual recovery as evidenced by:

• GDP expanded by 0.3 percent in the First Quarter (quarter-over-quarter).
• Improvement from business surveys and the housing market.
• The BoE recently revised upward the UK’s growth forecast and revised lower the forecast for inflation.

Pacific Basin

The Bank of Japan is purchasing assets at an even faster pace than the Fed relative to the size of Japan’s economy and financial markets. Moreover, Barclay’s economic team expects Japan to produce the strongest GDP growth among all of the developed economies this year (Q1 came in at a four percent annualised rate). Japan is the only major country employing substantial fiscal stimulus this year and exporters have already begun to benefit from the weaker yen. Further, there is evidence that consumer spending is picking up in reaction to the government’s efforts to end deflation. Despite these encouraging signs, structural reform will be necessary and this is the most challenging component of Prime Minister Abe’s program.

China’s economic data have disappointed on the downside, with industrial production slowing. Fundamentally, our cautious view reflects a belief that China is experiencing a transition. The old investment and export led growth model cannot continue, while new growth drivers, such as the service sector and consumption, have yet to fully appear. Barclay’s argues rightly, that China’s potential growth rate has slowed to 7-8 percent from 10 percent in the past decade resulting from:

• Slowing working age population growth,
• a decline in the growth of infrastructure spending to a sustainable pace, and
• falling productivity growth.

In fact, in recent speeches, Premier Li has highlighted challenges to reach the seven percent growth target this decade and the need to accelerate structural reforms. This reinforces a widely held view that no new policy stimulus will be forthcoming, although the government may become more concerned if there are big unemployment problems.

Latin America

Latin America, like the eurozone, is not homogenous and this means growth rates will vary among nations in the region. Those nations that are increasing manufacturing and research at the expense of mining and agriculture will deliver the best intermediate and long-term performance.

Mexico is particularly well positioned to benefit from a stronger US economy as exports to the US account for 78 percent of Mexican trade. Moreover, the nation’s reform-oriented government, large current account surplus, and an investment grade rating provide a positive backdrop for attracting capital flows. Mexico’s manufacturing sector has become increasingly competitive with China, and is gaining market share in the sectors in which that nation has shown a comparative advantage, particularly in the areas of autos, electronics and Liquid Crystal Displays (LCD).

“We need more investment, and we need more programs.”

Wolfgang Schaeuble
German Finance Minister
As reported in
Der Spiegel Magazine
May 27, 2013

“We agree that QE must end. It has distorted incentives and inflated asset prices to artificial levels. But we think the Fed's plan may be too hasty.”

William H. Gross,
Article in Barrons
June 25, 2013

Bonds

We believe the US yield curve will steepen as the economic recovery and reduced asset-purchases by the Fed push longer-dated interest rates gradually higher while shorter-dated yields stay low as the Fed keeps the Fed Funds Rate on hold until 2015. This steepening of the yield curve will create better margins for banks as deposit rates stay low while lending interest rates rise.

While economic growth is lukewarm, it is improving and the employment situation in the US is getting better as well. The Fed is placing a greater weight on labour market metrics than on inflation or growth, and it is now expected that the Fed will taper monthly asset purchases starting in September, putting upward pressure on longer-maturity yields. Reduced quantitative easing is by now priced in by the market after a sharp sell off in June. While this pricing is perfectly reasonable in a rosy scenario where the Fed’s forecasts are realized, any disappointment in labour metrics or growth in the near term will likely lead to a mild rally in bond prices.

It is worth noting that lower asset purchases by the Fed do not necessarily mean that the FOMC is any closer to hiking interest rates than had been thought earlier. This means that the short-end of the yield curve remains firmly anchored by the Fed, which has stressed that 6.5 percent unemployment rate is a threshold, not a trigger. Monthly payroll growth of about 150,000 could lead to the threshold being reached by late 2014. As a result, the timing of the first Fed hike is expected in spring 2015.

Fiscal and structural adjustment continues to depress economic growth in the eurozone, even as it is positive for the longer-term outlook, but the region seems set to resume growth, albeit just barely. For this reason, we expect the ECB to keep the monetary policy extremely accommodative for quite some time and just like in the US, short-term interest rates will stay low. The yield curve is likely to steepen as longer-maturity interest rates slowly nudge higher as economic growth improves.

We expect to see higher yields in the UK in the Third Quarter but with the move likely to be led by international markets. This is because of the perception of a dovish new Governor of the Bank of England, as Mark Carney takes over from Sir Mervyn King on July 1. The market’s impression of the new governor is that of a ‘monetary activist’ with expectations for a move to further accommodative policy. Counter to this is the fact that the most recent data flow has been indicative of a nascent recovery.

Canadian yields will trade in concert with the US, the nation’s biggest trading partner. Economic data from Canada have been mixed lately, inflation is low, and there is no need for the Bank of Canada to start hiking interest rates as it will only push the loonie higher, making the nation’s exports less competitive.

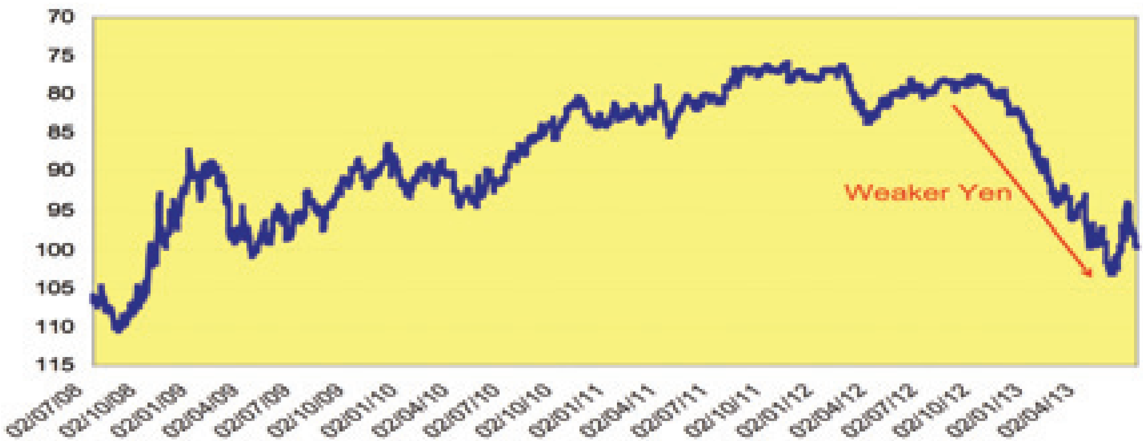
Corporate bonds offer a yield pick-up over Treasuries and we expect high quality corporate yields to move in tandem with changes in Treasury yields. As yields slowly begin to increase we expect to see less demand for riskier non-investment high-yield debt as investors have other alternatives for income. For this reason we believe that high-yield low quality bonds will become increasingly illiquid and underperform investment-grade bonds.

Currencies

We expect the dollar to show strength against most major developed market currencies supported by better relative growth prospects. Further, other major central banks are either easing or are not expected to tighten policy anytime soon, whereas the Fed is about to taper stimulus and pursue a more normal policy.

The yen should depreciate from current levels of USD/JPY around 97 and stabilize near USD/JPY 103 as the Japanese government is unlikely to be satisfied with the yen consolidating at current levels and with USD/JPY in the mid-90s, it is unlikely that the Bank of Japan will reach the two percent inflation target in reasonable time. For these reasons monetary stimulus will continue, ultimately weakening the yen.

U.S. Dollar Value of Japanese Yen



Several factors point to downside risks for Sterling against the greenback: 1) US growth looks stronger despite an expected rebound in UK growth; 2) The Fed exit strategy is far more advanced; 3) James Carney will take over as Bank of England Governor on July 1 and there is still uncertainty in the market as to which direction he will choose to lead the central bank.

The euro should weaken against the greenback, but it is a close call as the euro so far has been remarkably stable against the dollar despite the uncertainty posed by the Italian election in February, the Cyprus bailout in March, and increasing fiscal slippage in Portugal. A recent ECB press conference raised the possibility of negative deposit rates, which would weigh on the euro, but we think the barrier for this is fairly high and ECB action would require significant further weakness in the euro area. US economic growth has improved and the Fed is talking about tapering quantitative easing, but the euro area has also enjoyed improved confidence and economic data.

The commodity currencies – the Australian dollar, the Canadian dollar and Norwegian krone – will remain under pressure as global growth at best will be modest. Both Canada's and Australia's export destinations are geographically concentrated, i.e. Canada exposed to the US and Australia to China, while Norway's krone is dependant on the price of oil. Of the three, we expect the Canadian dollar to be the strongest. The loonie is sensitive to the US economy, the nation's largest trading partner and positive surprises from key economic US data tend to be positive for the currency. Further, the Canadian dollar is also sensitive to US housing starts as Canada exports forestry/building material to the US. The Australian dollar faces ongoing headwinds from softening mining investment and the change in composition of Chinese economic growth – away from exports and investment towards domestic consumption – reducing demand for Australia's hard exports. The Norwegian krone will trade in tandem with oil prices, the nation's biggest export above herring.

"Notions that we are likely to see the demise of the dollar and/or the waning of the US light appear to be overstated."

Brown Brothers Harriman, Foreign Exchange Third Quarter 2013 Report, June 2013

“China has a much more profound impact on base metals than on the oil market, because it’s an industrial economy.”

Amrita Sen,
Chief Oil Market Analyst
Energy Aspects. Ltd.
London
Financial Times
June 26, 2013

Commodities

Conditions for commodity prices remain unchanged and they will likely underperform other risky assets particularly developed market equities. A rally in the Third Quarter 2013 is unlikely as global growth is modest at best and could weaken. Whatever opportunities exist will be driven by product specific (idiosyncratic) fundamentals rather than broad fluctuations in risk appetite. We maintain an underweight allocation to commodities generally, and gold in particular. The outlook for gold prices remains challenging given the prospects for Fed tapering as global financial stability risks remain contained.

Base metals will remain under pressure in our view owing to lower market expectations for Chinese growth and ample supply for the existing demand. Most traders favour selling rallies in the base metals, as there are ample supplies in most markets as evidenced in the table below. This surplus condition means prices are likely to stay under pressure in the second half of the year.

We see modest upside to prices of crude oil resulting from the end of refinery maintenance, the addition of new refining capacity, and a seasonal pick-up in demand. Moreover, while crude production in the US has improved considerably, the world remains in a deficit condition. Further, one issue that is yet to be resolved is the lack of refining capacity which constrains processed supply. Finally, spare capacity remains low, making prices sensitive to potential geopolitical events.

Global Crude Oil			
	Production	Consumption	Surplus/Deficit
Date	Millions of Barrels/Day		
Y-t-D 2013	75,742	89,300	(13,558)
12/31/2012	76,032	91,800	(15,768)
12/30/2011	75,569	90,800	(15,231)
12/31/2010	74,934	90,800	(15,866)
12/31/2009	72,795	86,900	(14,105)

Grains will react to pricing as sufficient plantings have been completed to ensure a good harvest if the weather cooperates. Infrastructure issues in Brazil, a large soybean producer, are further impacted by the social unrest now gathering momentum. The problems started innocuously enough with a bus fare hike, but have now broadened into the public’s dissatisfaction with education, infrastructure, and the massive new spending on the build out for the World Cup and the Olympic Games.

Equities

Increasingly, global economic data suggests that we are in transitional equity markets. Market transitions are characterised by improving data but rarely follow a direct path as there are frequently small setbacks along the way. Broad based inflation appears benign and the current backdrop is supportive of rising equity markets. Further, equities offer a better risk/reward profile than bonds.

The outlook for the United States is improving with lower unemployment, rising existing home sales, growing homeowner mortgage refinancing as well as improved corporate balance sheets and earnings. As such, we expect the US equity markets to maintain their leadership for the second half of 2013. Sector leadership is likely to transition from consumer staples, basic materials, and some of the more mature sub-sectors of healthcare toward financials, consumer discretionary, industrials as well as the faster growing technology stocks. We have reduced exposure to high dividend paying stocks and REITs preferring instead to emphasize earnings growth.

We are increasing our focus on the financial sector; but rather than “painting with a broad brush”, we have isolated those subsectors we expect to perform particularly well as consumer and business financial health improve. For example, we expect the performance of bank stocks to improve with the “steep yield curve” as the difference between rates on savings and rates to borrow expand, referred to as the Net Interest Margin or NIM. As corporate balance sheets improve, companies are more likely to purchase or increase insurance, an area where we see firming prices. Large banks such as J.P. Morgan and Citigroup are likely to benefit from any increase in Mergers and Acquisitions.

Outside the US, we view Japan and Mexico as markets of opportunity: Mexico because of its proximity to the US and recent implementation of business friendly initiatives. We see investment opportunities in Japan because of improving pragmatic economic and monetary policies.

We are monitoring economic fundamentals in the Eurozone for sustained improvement. Germany’s recent decision to drop austerity and embrace economic stimulus is encouraging. Germany now intends to support plans to spend billions to revitalize the economies in Southern Europe. This dramatic expansion of lending and investing in the still stressed peripheral nations bodes well for continued economic improvement in the region. We have seen surprisingly positive industrial production out of Europe. We may increase our exposure in Europe if economic improvements persist, earnings growth resumes, and valuations remain attractive.

10 Year Treasury Bond Yield Minus S&P 500 Earnings Yield

“When the dust settles, the only place to be is in stocks. All of the concern in the markets is because the Fed sees the economy stronger in the future.”

David Tepper,
Hedge Fund Manager
June 21, 2013

BIAS is not endorsing any particular security for purchase for a specific investor since BIAS is not aware of any investor’s overall portfolio holdings or financial needs.

Conclusion and Strategy Points

Equities

Regional Strategy

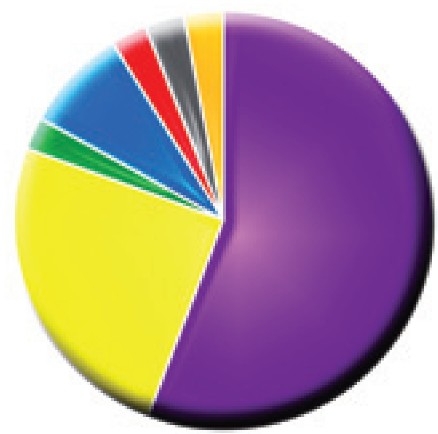
- Overweight North America at 56 percent (versus index weighting of 55.3 percent).
- Overweight Germany at 4.0 percent (versus index weighting of 3.5 percent).
- Overweight Latin America 2.7 percent (versus an index weighting of 1.6 percent).

Industry Sector Strategy

- Overweight Health Care at 12.5 percent (versus an index weight of 10.9 percent).
- Overweight Financials, Industrials, Discretionary, and Technology 22.5, 11.2, 12.3 and 14.4 percent, respectively (versus index weights of 20.7, 10.6, 11.1 and 12.3 percent, respectively).
- Underweight Consumer Staples and Utilities 7.1 and 1.6 percent, respectively (versus 10.8 and 3.3 percent, respectively).

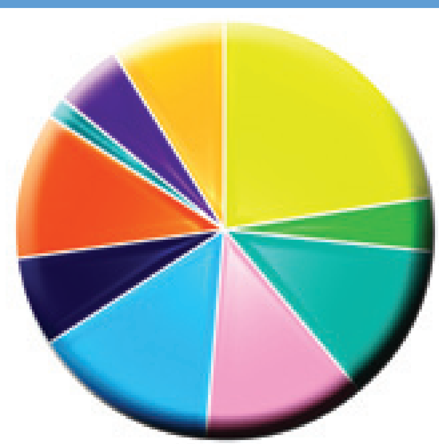
Geographic Allocation

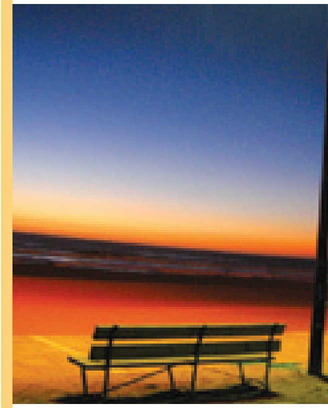
North America	56%
Europe	24.8%
Smaller Asia	2.4%
Japan	8.1%
Latin America	2.7%
Australia	3.1%
Other	2.9%



Sector Allocation

Financials	22.5%
Telecom Services	4.2%
Consumer Disc.	12.3%
Health Care	12.5%
Technology	14.4%
Consumer Staples	7.1%
Industrials	11.2%
Utilities	1.8%
Energy	5.3%
Basic Materials	8.7%





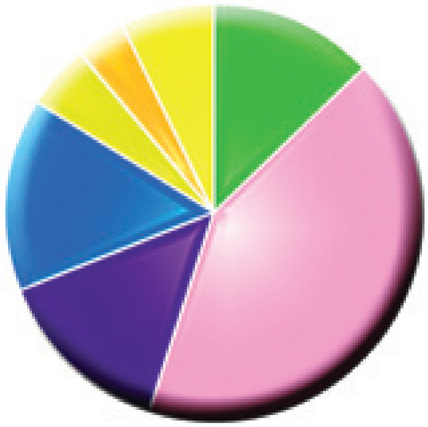
Bonds

- Stay neutral benchmark duration.
- Add floating rate notes to keep duration short and to take advantage of rising interest rates.
- Hold high quality corporate bonds for their yield advantage relative to US Treasuries.

Bonds Strategy Allocation

LIBOR FRN	6%
CPI FRN	2%
0-1 yr	10%
1-3 yr	62%
3-5 yr	12%
Cash	6%
Preference Shares	2%

Credit Ratings



AAA	13%
AA+	42%
AA	14%
AA-	15%
A+	5%
A	4%
A-	7%

BIAS structures portfolios according to the needs and risk profile of a specific investor. Some systemic risks should be acknowledged over which BIAS and other asset managers have no control including: trading on exchanges not regulated by any US Government agency, the Bermuda Monetary Authority, or the Cayman Islands Monetary Authority; possible failure of brokerage firms or clearing exchanges; illiquid markets which may make liquidating a position at a given price more difficult. For more details on these and other risk factors, please refer to BIAS' Form ADV as filed with the US Securities and Exchange Commission.

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