BIAS
INVESTMENT MANAGERS - SECURITIES ANALYSTS

CELEBRATING 20 Years

Review Q3 2012

Outlook Q4 2012

September 30, 2012

Investment Managers

Securities Analysts

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World Markets Quarterly Review

1	DJIA	5.0%	3	BSX	-1.7%	7	UK FTSE	7.3%	11	Nikkei	1.7%
1	S&P 500	6.4%	4	Bolsa	5.9%	8	CAC	7.5%	12	Hang Seng	8.1%
1	NASDAQ	6.5%	5	Bovespa	8.0%	9	DAX	14.5%	13	Straits Times	11.2%
2	TSX	10.8%	6	Merval	0.7%	10	Kospi	10.6%	14	ASX	10.4%

*Source: Bloomberg

Stock, Bond, Currency Overview

Global Stock Markets

- In the Third Quarter 2012, global equity prices staged a strong rebound on the realised expectations of coordinated ECB and Fed monetary stimulus. The rise in share prices was largely reflected in European and Asian shares as North America lagged.
- In the eurozone and the US, equity markets rallied as the ECB and the Fed launched various bond purchase programmes to stimulate their respective economies. In Asia, China's economic data worsened in the quarter in a sign that growth in Asia's second largest economy has not yet stabilised.

Bond Markets

- The Fed Funds Rate was unchanged and the Fed pledged to keep rates low into mid-2015 until employment improves.
- Borrowing costs for the troubled peripheral eurozone nations eased as the ECB announced a programme to buy one-to-three year debt of those nations.

Currency Markets

- The dollar weakened against most major currencies after the ECB pledged to protect the euro and the Fed committed to a new bond-buying programme.
- The Australian dollar depreciated against most major currencies except for the US dollar.

The S&P Global 1200 Index closed the quarter up 6.9 percent. All figures shown are for the quarter ended 30 September 2012 and are expressed in US dollar terms.

North American stock markets were broadly higher in the Third Quarter 2012 led by Canada as energy prices rebounded.

North American Stock Markets

Indices	30 Jun 2012	30 Sep 2012	Quarterly Change Local Curr.	Quarterly Change US$
US Dow Jones Industrial	12,880.10	13,437.10	5.0%	5.0%
US S&P 500	1,362.16	1,440.67	6.4%	6.4%
US NASDAQ	2,935.05	3,116.23	6.5%	6.5%
Canada TSX	11,596.60	12,317.50	7.0%	10.8%
S&P Global 1200	1,384.64	1,469.70	6.9%	6.9%

Source: Bloomberg

- On July 20, Chipotle Mexican Grill Inc. plunged the most since the company went public six years ago after reporting Second Quarter sales that trailed analysts' estimates. Chipotle shares fell 22 percent, erasing all gains for 2012 as the stock was up 20 percent for the year the day before the earnings announcement. Slower US consumer spending hurt sales, Chief Financial Officer Jack Hartung said in a conference call. Hartung also alluded to extreme drought in the US pushing food costs higher and eating into profit margins in the future.

- On July 24, CNOOC Ltd. agreed to pay $15.1 billion in cash to acquire the Canadian oil and gas company Nexen Inc. in the biggest overseas takeover by a Chinese company. China's largest off-shore oil and natural-gas explorer is paying a premium of 61 percent to Calgary-based Nexen's previous closing price. Analysts are expecting regulators to approve the deal given Nexen's strong international diversity. Nexen's oil and gas assets include production platforms in the North Sea, the Gulf of Mexico and in Nigeria, as well as oil-sands reserves at Long Lake, Alberta, where the company already produces crude in a joint venture with CNOOC. The takeover comes as Canadian companies prepare to build new pipelines for transporting Canadian fossil fuel to Asia in an effort to reduce dependence on the US market. Shares of Nexen skyrocketed 52 percent on the news.

- Shares of Sprint Nextel Corp., the third largest US wireless carrier, jumped 20 percent on July 26, the most in three years, after the company announced sales that were better than expected. Sales increased 6.4 percent after iPhone demand helped bolster spending on data plans. The carrier is in turnaround mode and has been funnelling money into an infrastructure-upgrade plan called 'Network Vision.' So far the company's plans have been fruitful as Sprint's contract customers spent on average $63.38 a month, up 7.3 percent from a year earlier, which the company said was the biggest year-over-year increase in the history of the US wireless industry.

- On August 6, Knight Capital Group Inc., an automated trading firm, received a $400 million cash infusion through the sale of convertible securities after trading losses spurred by a software failure drove the market maker to the brink of bankruptcy. Investors included Getco LLC, Blackstone Group LP, brokerages Stifel Nicolaus & Co. and TD Ameritrade Holding Corp., and the investment banks Stephens Inc. and Jefferies Group Inc. The new investors will eventually own 73 percent of the recapitalized company after the convertible preferred shares are converted into stock. Knight, whose market-making unit executes about ten percent of US shares, had been fighting for survival since August 1 after a computer malfunction ran errant trades through exchanges leading to a $440 million loss. Knight's shares plummeted 77.6 percent over the quarter.

Latin American Stock Markets

Indices	30 Jun 2012	30 Sep 2012	Quarterly Change Local Curr.	US$
Mexico Bolsa	40,199.60	40,867.00	1.9%	5.9%
Brazil Bovespa	54,354.60	59,175.90	8.9%	8.0%
Argentina Merval	2,346.68	2,451.73	4.5%	0.7%
Chile IPSA	4,400.10	4,230.42	-3.9%	1.4%
S&P Global 1200	1,384.64	1,469.70	6.9%	6.9%

Source: Bloomberg

- On July 4, Grupo Elektra SA, the retail and banking company controlled by billionaire Ricardo Salinas, rose 3.1 percent. Elektra is suing the stock exchange operator and its Chief Executive Officer Luis Tellez for alleged damages resulting from the exchange's new weighting criteria in its benchmark IPC index. A Mexico City civil court temporarily blocked the exchange from implementing the new methodology while the case is underway.

- On July 31, Venezuela signed a deal with Embraer SA to purchase six model-190 airplanes worth $270 million, according to a signing ceremony in Brasilia broadcast on Venezuelan state television. The planes were purchased for Venezuela's state-run airline Conviasa, which also has an option to purchase 14 additional airplanes potentially raising the value of the contract to $900 million. Embraer is Brazil's premier aircraft manufacturer. The stock rose 2.1 percent on the news.

- On August 24, Marfrig Alimentos SA, Brazil's second-biggest food company, rallied on optimism that the company is making progress on plans to sell assets and reduce debt. The Sao Paulo-based food company's plan to sell a stake has attracted the interest of Blackstone Group LP and Tyson Foods Inc. The private equity units of JPMorgan Chase & Co. and Banco Bradesco SA are also interested in buying part of Marfrig or one of the company's units. The shares of Marfrig rose four percent at the close of trading in Sao Paulo for the biggest gain since August 13. Marfrig's shares rose 26.3 percent over the quarter.

- On September 24, Chile's mining deputy minister Pablo Wagner announced that Soc. Quimica & Minera de Chile SA, the world's largest lithium producer, won the license to tap a new deposit of the light metal in Chile, outbidding South Korea's Posco and local rival Grupo Errazuriz. SQM, as the company is known, was granted a license to extract as much as 100,000 metric tons after bidding 19.3 billion pesos ($40.6 million). Analysts expect Lithium demand to triple in the next eight years on wider use of electric vehicles powered by lithium batteries. Santiago-based SQM supplies 31 percent of the world's lithium from the Atacama Salt Lake in northern Chile. SQM finished the quarter rising 9.2 percent.

During the quarter, all Latin American stock markets advanced in dollar terms although Chile lagged the averages due to slowing demand for base metal commodities.

European stock markets surged in the Third Quarter 2012 led by Germany as the ECB pledged to support the eurozone with a bond purchase programme.

European Stock Markets

Indices	30 Jun 2012	30 Sep 2012	Quarterly Change Local Curr.	Quarterly Change US$
UK FTSE	5,571.15	5,742.07	4.2%	7.3%
Germany DAX	6,416.28	7,216.15	12.5%	14.5%
France CAC 40	3,196.65	3,354.82	5.6%	7.5%
Spain IBEX 35	7,102.20	7,708.50	9.2%	11.2%
S&P Global 1200	1,384.64	1,469.70	6.9%	6.9%
S&P Europe 350	1,029.20	1,097.24	7.2%	9.1%

Source: Bloomberg

- On July 31, Hugo Boss AG, the German luxury clothing maker, fell 5.5 percent after announcing disappointing Second Quarter earnings. Gross margins were pressured because of discounting and inventory write downs while revenue growth in Asia weakened to four percent from nine percent in the previous quarter. The clothier gets almost two-thirds of sales from the European market, where the economy is edging toward a recession after budget cuts from Spain to Ireland prompted companies to eliminate jobs and eroded consumer spending. The company is looking to expand operations in Asia and the Americas.

- On August 2, Continental AG, Europe's second largest auto-parts maker, raised forecasts for revenue and profitability after a decline in raw-material costs and growth in sales helped Second Quarter profit. The manufacturer, which is also Europe's second biggest tire maker, is selling more electronic products to the luxury-auto manufacturers such as Bayerische Motoren Werke AG (BMW) and Volkswagen AG's Audi unit, the top two in the industry. The strategy is protecting Continental from a drop in Europe's car market which may fall to a 17-year low in deliveries in 2012. Continental's Chief Financial Officer Wolfgang Schaefer predicted the US and Chinese markets will continue growing and Latin America will pick up in the second half of 2012. Shares of Continental were up 17.1 percent in the quarter.

- Standard Chartered Plc, the UK domiciled bank, plunged 16 percent on August 7 after being accused of violating US money laundering laws over the company's dealings with Iranian banks. New York State's Department of Financial Services (DFS) found the bank conducted deals worth $250 billion with Iranian banks over seven years and earned hundreds of millions of dollars in fees for handling transactions for institutions subject to US economic sanctions. This could have resulted in Standard Chartered potentially losing their license to operate in New York. While Standard Chartered does not have domestic US banking operations, the loss of the New York license would hinder the bank's ability to process dollar payments for clients with businesses in the US and in emerging markets. Standard Chartered later settled with the DFS and agreed to pay a civil penalty of $340 million as well as to have DFS examiners placed on site at the bank.

- On August 13, Julius Baer Group Ltd., the Swiss wealth manager established in 1890, agreed to buy Bank of America Corp.'s Merrill Lynch wealth management units outside of the US for SwFr 860 million. Julius Baer, which is trying to grow as a crackdown on tax evasion pushes customers to repatriate funds from Swiss offshore accounts, said purchasing the Merrill businesses will boost assets by about 40 percent. The company expects the acquisition to be accretive to earnings from 2015 and that profit will be somewhat volatile over the next two years. Investors were not impressed with the deal as the price seemed expensive. Julius Baer fell 7.4 percent on the news.

Pacific Rim Stock Markets

Indices	30 Jun 2012	30 Sep 2012	Quarterly Change Local Curr.	Quarterly Change US$
Japan Nikkei	9,006.78	8,870.16	-0.7%	1.7%
Hong Kong Hang Seng	19,441.50	20,840.40	8.0%	8.1%
Hang Seng Red Chip	3,796.96	4,081.79	8.3%	8.4%
Korea Kospi 100	1,854.01	1,996.21	7.7%	10.6%
Singapore STI	2,878.45	3,060.34	7.5%	11.2%
Taiwan TWSE	7,296.28	7,715.16	9.4%	11.3%
Australia ASX 200	4,094.63	4,387.02	8.8%	10.4%
S&P Global 1200	1,384.64	1,469.70	6.9%	6.9%
FTSE Pacific ex-Japan	411.93	450.06	9.3%	9.3%

Source: Bloomberg

- On July 9, Fast Retailing Co., the Japanese retailer of Uniqlo brand apparel, fell 2.5 percent, the most in a month in Tokyo trading after cutting its forecast for annual profit amid a decline in domestic clothing sales. Net income will likely be ¥79 billion ($993 million) for the year ending August, lower than its previous forecast of ¥81.5 billion, the company said July 6 in a statement, after the market closed.

- On August 22, CNOOC Ltd., the Chinese oil explorer buying Canada's Nexen Inc. for $15.1 billion, asked shareholders to help pay for the country's biggest overseas acquisition by accepting lower dividends. CNOOC shares declined the most in a month yesterday when China's largest offshore oil producer cut the interim dividend by 40 percent to HK15 cents a share, reducing the payout ratio to 21 percent of earnings a share from 28 percent in 2011. CNOOC rose 3.3 percent in the quarter.

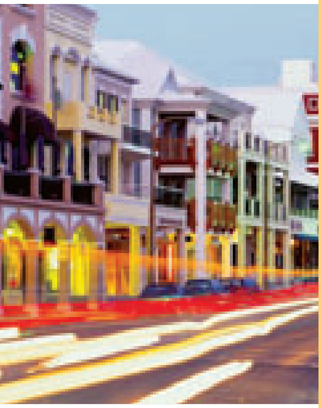
- On September 19, Samsung Electronics Co. failed to persuade a US judge to lift a preliminary ban on US sales of its Galaxy Tab 10.1 tablet computer imposed as part of a patent dispute with Apple Inc. US District Judge Lucy Koh in San Jose, California, issued the order temporarily blocking sales of the Tab 10.1 computer before a jury on August 24 found that Samsung infringed six of seven Apple patents and awarded Apple $1.05 billion in damages. Samsung rose 12.1 percent in the quarter.

- On September 18, BHP Billiton Ltd., the world's largest mining company, froze pay for senior management including Chief Executive Officer Marius Kloppers for the 2013 fiscal year after a 35 percent slump in profit. Salaries for Kloppers, and members of the Melbourne-based company's group management committee have been kept unchanged "in recognition of the prevailing business climate," BHP wrote in the current 280-page annual report.

- On September 30, Baoshan Iron & Steel Ltd. suspended production at a plant making products for the shipbuilding and oil industries, a sign of the pressure that China's economic slowdown is putting on the world's largest steel sector. The decision by China's largest publicly traded steelmaker marked a retreat for a company regarded as one of China's best-run foundries. Sharply falling steel prices have triggered widespread output cuts and a string of dismal earnings at mills. Most of the slowdown has stemmed from government efforts to cool the property market, which pushed down prices for low-end steel used in construction. Baoshan Ltd. rose 6.0 percent in the quarter.

Except for Japan, Pacific Rim stock markets delivered good results during the quarter. To stimulate growth, China implemented a $150 billion infrastructure programme to link the countryside with urban centres, while Australia took steps to ease monetary policy.

Bermuda & Cayman Stocks



The Bermuda Stock Exchange declined almost two percent in the Third Quarter 2012 defying the global equity rally.

Indices	30 Jun 2012	30 Sep 2012	Quarterly Change Local Curr.	Quarterly Change US$
BSX Index	1,096.04	1,066.77	-1.7%	-1.7%
BSX Insurance Index	1,070.00	1,104.00	3.2%	3.2%
S&P Global 1200	1,384.64	1,469.70	6.9%	6.9%
Stocks				
ACE Ltd.	74.13	75.60	3.3%	3.3%
Ascendant Group Ltd.	13.00	12.15	-4.9%	-4.9%
Butterfield Bank	1.27	1.22	-3.9%	-3.9%
Caribbean Utilities	9.69	9.80	2.9%	2.9%
Consolidated Water Co.	8.29	8.27	0.7%	0.7%
XL Capital Ltd.	21.04	24.03	14.7%	14.7%

Source: Bloomberg - Numbers shown include dividends

- On August 2, the shares of Bermuda-based run-off specialist Enstar Group Ltd soared more than six percent in New York Stock Exchange trading after the company announced that second-quarter earnings more than quadrupled. Enstar, which acquires and manages insurance and reinsurance companies and portfolios in run-off, has seen strong growth in recent years, boosted by the sale of a 20 percent stake in 2011 to GS Capital Partners, a private-equity fund controlled by Goldman Sachs. Enstar announced that net earnings were $40.7 million compared to $9.4 million in the same period in 2011. Enstar shares climbed 6.1 percent on the news.

- On August 9, Consolidated Water Co. Ltd., which develops and operates seawater desalination plants and water distribution systems in areas of the world where naturally occurring supplies of potable water are scarce or nonexistent, reported operating results for the Second Quarter and First Half of 2012. Total revenues for the three months ended June 30, 2012 increased 9 percent to $16.2 million, compared with $14.8 million in the Second Quarter of 2011. Bulk water revenues increased 31 percent to approximately $10.2 million in the Second Quarter of 2012, compared with $7.8 million in the year-earlier quarter, reflecting a 30 percent increase in the number of gallons of water sold. The increase was largely attributable to the expansion of the company's Blue Hills plant in the Bahamas during the Fourth Quarter 2011. Consolidated Water fell 0.2 percent in the Third Quarter 2012.

- On September 21, Ascendant Group Limited announced management changes, effective immediately, that pertain to Ascendant Group, Bermuda Electric Light Company Limited (BELCO), Bermuda Gas & Utility Company Limited, and a newly formed company, AG Holdings Limited. Walter Higgins, Ascendant Group President and Chief Executive Officer, who now also becomes BELCO President, announced the changes, saying, "Today, our company and Bermuda face unprecedented challenges. Ascendant Group is changing to ensure that we have the right structure in place for continued improvement, which will enhance our development, as well as our ability to contribute to the Island's progress." Ascendant fell 6.5 percent in the quarter.

- On September 20, BF&M Limited announced that net income for the six month period ended 30th June 2012 of $12.2 million, resulting in an annualized return on shareholders' equity of 12 percent. Shareholders' net income for the comparative six month period of 2011 was $11.4 million. President and CEO John Wight stated, "We were pleased overall with the financial performance of the company, which included the results of Island Heritage Holdings Ltd., a leading Cayman based company that writes property and casualty insurance in the Caribbean through one of its subsidiary companies. BF&M's recent March 30 2012 acquisition of Island Heritage further strengthened BF&M's position as a strong regional insurer in the Caribbean, operating in thirteen countries, with three principal offices in Bermuda, Barbados, and Cayman." BF&M rose 1.6 percent in the quarter.

Global Bond Markets

Benchmark	(Yield to Maturity)		Total Returns	
Indices	**30 Jun 2012**	**30 Sep 2012**	**Local Curr.**	**US$**
US 2 Year	0.30%	0.23%	0.20%	0.20%
US 10 Year	1.64%	1.63%	0.91%	0.91%
US 30 Year	2.75%	2.82%	-0.36%	-0.36%
Canadian 10 year	1.74%	1.73%	0.52%	3.88%
Australian 10 year	3.04%	2.99%	0.89%	2.28%
UK Gilt 10 Year	1.73%	1.73%	2.06%	5.05%
German Bund 10 Year	1.58%	1.44%	2.03%	3.58%
Japanese 10 Year	0.83%	0.77%	0.80%	3.18%
Citigroup				
3-7 Year Treasury Index	1,340.51	1,351.89	0.85%	0.85%
7-10 year Treasury Index	1,681.57	1,698.14	0.99%	0.99%
1-10 Year US Corp. Bond Index	1,517.75	1,570.62	3.48%	3.48%
World Gov't 7-10 Yr Bond Index	1,216.33	1,262.54	3.80%	3.80%

Source: Bloomberg

Treasury yields for all but the longest maturities fell on concern global growth is slowing and Europe's sovereign debt crisis is worsening.

- US interest rates stayed low in the first half of the Third Quarter due to central bank policies in both Europe and the US. Economic data however was not supportive of an increase in interest rates as the US economy was weaker than the Federal Reserve (Fed) forecast at the start of 2012 and growth expectations for the next few quarters trended down. Meanwhile, the European Central Bank's (ECB) actions reduced risk in the eurozone, though growth remained weak.
- On August 22, Germany, Europe's economic powerhouse, raised money at zero cost at a two-year debt auction. Demand for the two-year debt was strong, thus indicating a continued hunt for safety among investors, despite hopes that the European Central Bank (ECB) will help turn the euro crisis around with a buying spree of debt issued by fiscally-stressed eurozone states. In the auction, Germany sold €4.083 billion of zero percent coupon notes maturing in September 2014 at an average yield of 0.00 percent, meaning investors will receive no return.
- On September 6, the ECB approved a proposal by ECB President Mario Draghi for unlimited purchases of bonds in the secondary market of eurozone states struggling to sell their debt. The programme is called 'Outright Monetary Transactions' (OMT) and aims to reduce the borrowing costs in troubled countries. Following the announcement, yields fell in Portugal, Spain, Italy, Ireland and Greece.
- On September 13, the Fed announced it would expand the bank's holdings of long-term securities with purchases of $40 billion of mortgage debt a month in a bid to boost growth and reduce unemployment. The Fed also said it would likely hold the Federal Funds rate near zero "at least through mid-2015." The central bank will also continue Operation Twist to lengthen the average maturity of the bank's holdings as well as reinvesting maturing debt into agency mortgage-backed securities. Treasury yields rose upon the news.
- Brazil's central bank cut the benchmark Selic rate by another 50bps to 7.5 percent in the quarter, bringing the total interest rate cut over the past 12 months to 500bps. According to the statement accompanying the latest interest rate cut, further adjustments in monetary policy, if needed, will be conducted with maximum prudence. The central bank also mentioned that the lagged effects of the easing already deployed, which in part have been reflected in the ongoing economic recovery, were supporting this view.

The euro advanced against the dollar after the ECB pledged to protect the euro from unravelling.

WORLD CURRENCY MARKETS

Value of Currency

US$1 = value in local currency

Currency	30 Jun 2012	30 Sep 2012	Change
Australian Dollar	0.9768	0.9636	1.4%
Brazilian Real	2.0094	2.0264	-0.8%
British Pound	0.6366	0.6185	2.9%
Canadian Dollar	1.0166	0.9838	3.3%
Euro	0.7895	0.7776	1.5%
Japanese Yen	79.7950	77.9550	2.4%
Swiss Franc	0.9486	0.9398	0.9%

Source: Bloomberg

- The euro strengthened against the dollar in the Third Quarter on central bank action. Firstly, on July 26, ECB President Mario Draghi said the central bank would do "whatever it takes" to preserve the euro which increased investor confidence. Secondly, on September 13, the Fed announced further stimulus of the US economy by a new bond buying programme which may ultimately devalue the dollar. Over the quarter the euro gained 1.5 percent against the greenback.
- The Canadian dollar strengthened against the US dollar in the Third Quarter as investors favoured the nation's 'AAA' sovereign credit rating, political stability and sound banking system. In addition to the nation's safe haven status, Bank of Canada's Governor Mark Carney was alone in the Group of Seven to reject stimulus measures to prop up the economy. In fact, on September 5, Carney reiterated his inclination to raise borrowing costs and the loonie advanced 0.79 percent against the greenback on the day.
- The Australian dollar appreciated against the US dollar over the quarter as the Fed floods the world with dollars to support growth. However, while advancing against the greenback, the Aussie weakened against most other major currencies on weak economic data from China. China is Australia's largest trading partner and slowing Chinese growth will be negative for Australia.
- The pound rose to the strongest level in more than a year against the dollar on September 21 as a report showed the UK budget deficit was less than economist forecasts. The report led to speculation the UK economy is poised to recover from recession while the Fed expands monetary easing. Further supporting the pound in the Third Quarter was the British government's attempts to impose the largest budget reduction since World War II through spending cuts and tax increases – the opposite of the US, which faces the 'fiscal cliff' in January 2013.
- The Brazilian real was the only major currency to weaken against the dollar in the Third Quarter as Brazil's central bank repeatedly intervened in currency markets to weaken the real and protect the competitiveness of Brazilian industry. In addition to the central bank intervening in currency markets, President Dilma Rousseff's administration lowered taxes on company payrolls, consumer goods, and reduced bank reserve requirements to spur the economy. The real finished the Third Quarter 0.9 percent weaker against the dollar.

Outlook for the Fourth Quarter 2012

We expect the global economy to enter a period of slower growth in the Fourth Quarter 2012. Moreover, emerging market economies may begin to stabilise although real economic improvement will be elusive.

- The lack of political compromise remains the primary culprit in stalling the economic recovery. Politicians may be dragging their feet to stay in office; consequently, we seem always on the cusp of a recovery that in the end evaporates before our eyes.

- In the US, growth measures are weakening as evidenced by recent employment and manufacturing data. Faced with an upcoming presidential election and the prospect of a severe 'fiscal cliff' in early 2013, the US will experience deteriorating economic conditions and a recession is possible. The recovery in housing is illusory in our view and will remain so until meaningful employment gains are evident.

We believe interest rates may be at a critical juncture.

- US interest rates may decline further as the Fed battles stubbornly high unemployment and investors either prefer--or are forced by regulation-- to seek the safety of US Treasuries and other AAA-rated sovereign bonds.

- With respect to the eurozone, as the ECB implements a plan to buy the sovereign debt of the eurozone peripheral nations (Portugal, Spain, and Greece) via 'Outright Monetary Transactions' (OMT), demand for that debt may rise pushing yields lower.

Depending on the speed and magnitude of OMT implementation, the euro may stabilise. Should the ECB not move rapidly, results will likely be a weak euro, rising volatility, and a strong US dollar through year-end 2012 and into early 2013.

- Because of the recently announced ECB bond purchase programme, the US dollar should decline as investors buy higher yielding peripheral eurozone sovereign debt.

- Commodity currencies are likely to suffer in the near term as the economic growth of emerging nations slows.

Oil prices will be supported near term but with downside risks in the medium term whilst base metals prices trade sideways.

- The macro headwinds now confronting the world should persist into 2013, keeping oil and base metal demand growth in check. Base metal demand by China is falling in-line with softer Purchasing Manager's Index (PMI) data.

- The recent drought experienced in North America will put upward pressure on global food prices as harvest yields are expected to be quite poor.

Our optimistic longer-term outlook for equities remains optimistic as the fundamentals support current valuations. The uncertainty in the eurozone will foster bi-polar market behaviour.

- As measured by the S&P 1200 Global Index, stocks remain inexpensive by any measure and offer superior potential for income and capital appreciation over other liquid assets.
- US equities have led the markets thus far, but that may change as the ECB implements OMT resulting in improved investor confidence in eurozone stocks. Consequently, eurozone equities may outperform both emerging market and US stocks.

"This is a Main Street policy, because what we're about here is trying to get jobs going."

Ben Bernanke
US Federal Reserve Chairman
14 September, 2012

Economics

The World

The world is caught in an economic 'twilight zone' neither falling apart nor growing steadily. In the eurozone, many nations are in recession and some, like Greece, face outright depression. Weak GDP growth is evident worldwide with North America operating just above stall speed. Meanwhile emerging nations are likely to deliver modest economic growth at best. Indeed all of our economic indicators are slumping even as governments and central banks embark on a new round of stimulus. Whilst we agree with consensus forecasts (compiled by Bloomberg) for global growth of two percent for Fourth Quarter 2012, the markets are signalling better economic times six to nine months hence. The primary driver of current poor economic conditions lays squarely on the political situation as courage and leadership are largely absent in the developed world. Global central banks, on the other hand, are trying hard to get their respective economies growing.

Positive elements are:

- The ECB bond-buying programme announced in early September will moderate the economic pain of deleveraging eurozone national balance sheets.
- The Federal Reserve's announced intention to buy $40 billion in mortgage-backed securities (MBS) per month until the employment situation improves.
- A weaker euro will result in eurozone exports becoming more competitive.
- JP Morgan's global PMI Index remains above 50 indicating expansion and interest rates remain low making business investment cheaper.
- China is embarking on a $150 billion infrastructure spending programme to stimulate their economy.

Risks include:

- The US economy is facing a 'fiscal cliff' beginning in January 2013.
- Unemployment in the developed economies remains high particularly in the PIIGS.
- Earnings estimates are coming down and many companies are warning of softer conditions ahead.

North America

North American economic growth should exceed that of the rest of the developed world. In the US, weak data is evidenced by sub-par manufacturing results and stubbornly high unemployment. Despite this, GDP growth should remain positive at around two percent for the region. We are suspicious of the recent US housing recovery as employment levels and consumer confidence are the main determinants of home purchases. With employment improvement elusive, persistence of home sales is questionable.

Federal Reserve Chairman Ben Bernanke has done everything he can to boost the economy through monetary policy and now the politicians in Congress must step in and fix US fiscal policy. Accomplishing this will require the Republicans to erase their red line against raising taxes and the Democrats to erase theirs against touching Medicare benefits.

In this vein, the election presents a serious business problem. This is because the regulatory regime under the Romney administration is likely to be much less stringent than that currently proposed. Moreover, the potential for a major tax overhaul is possible under Romney and less so —in our view—under Obama. Such a rewrite of the tax code could substantially improve the business environment in the US resulting in stronger growth and higher employment.

Europe

Europe may have taken the first steps at crisis moderation as the ECB President Mario Draghi announced the implementation of the Outright Monetary Transaction (OMT) programme to assist eurozone nations in distress. Nevertheless, the region remains mired in crisis that will only be resolved through fiscal union. Absent that, one should expect persistent negative GDP growth for the next several quarters. For the Fourth Quarter 2012, eurozone GDP will register a negative 0.5 percent.

We are more constructive on the German economy and expect to see GDP rise nearly one percent in the Fourth Quarter 2012. Importantly, Germany, the fiscal guardian of the euro, moderated its austerity rhetoric as the German High Court approved up to €190 billion more for the European Financial Stability Fund (EFSF) to help ailing nations. An amount beyond that requires parliamentary approval according to the court.

The UK's economy has likely seen the worst of negative GDP data and conditions going forward should improve. Investors underestimate the potential for the UK to deliver a positive growth surprise relative to other developed economies because (1) macro indicators show the UK is performing better than other key economies; (2) the UK has the most dovish central bank in our view; (3) fiscal tightening is less than elsewhere; and (4) Sterling is a potential safe haven.

Pacific Basin

Australia's economy will likely average three percent growth for 2012 according to the Reserve Bank of Australia. The decline in China's economic performance will likely weigh on Australia's economic growth as China buys much of her raw material product from here.

China's economic growth will likely disappoint this year as the nation shifts its focus from being export driven to relying more on domestic demand. Whilst growth may dip below eight percent for 2012, China is taking steps to increase spending on roads and infrastructure projects via a $150 billion spending package to connect the country's regions in a blitz of stimulus to keep flagging growth alive.

Faced with the prospect of Fourth Quarter 2012 GDP growth rising a mere 0.5 percent, Japan has implemented a stimulus programme of her own in order to counter declining export volumes. In the same mould as the Fed and ECB, the Bank of Japan will increase the size and duration of a government bond-buying programme intended to encourage consumption and make Japan's exports more competitive.

Latin America

For the Fourth Quarter 2012, Latin American economies are likely to grow three percent on foreign demand for agricultural products. Brazil will see GDP rise 3 percent or better given recent actions by Brazilian President Dilma Rousseff.

Rousseff, in a drive to get economic growth restarted, has abandoned many of her party's long-standing policies by backing measures endorsed by business. Most recently, Rousseff announced payroll-tax cuts, reduced the rates industry pays for power, offered private companies licenses to build and operate roads and railways, and unveiled plans to do the same for major airports and ports. If Rousseff can sell her ideas, she can tap billions of dollars in investment capital to modernize and revive infrastructure without increasing taxes.

"Central banks around the world have done a great deal to avoid an escalation of the crisis, but many of the measures also have unwanted consequences."

Jens Weidmann
Bundesbank President
27 September 2012

> **"From a yield perspective, Treasuries are overpriced, but from a safety perspective, where else are people going to go?"**
>
> Wasif Latif,
> Vice President of Equity Investments at USAA Investments
> In San Antonio,
> 21 September, 2012

Bonds

Our view is that interest rates may be at a critical juncture as the 'fiscal cliff' clouds the economic outlook, the Federal Reserve (Fed) battles stubbornly high unemployment, and investors either prefer, or are forced by regulation, to seek the safety of US Treasuries.

The 'fiscal cliff' facing the US amounts to a massive five percent of nominal GDP that takes effect beginning 1 January, 2013 if nothing is done beforehand. Should this event materialise, the US would be driven back into recession. In the end, one hopes Congress and the President will refrain from economic brinkmanship and make a deficit deal in time. Until resolved, uncertainty regarding the "fiscal cliff" will keep Treasury yields low, or even decline, from already low levels.

The Fed has announced that the federal funds rate will be held near zero at least through mid-2015. We do not expect the Fed to be quick to reverse monetary stimulus even after the economic recovery strengthens as growth needs to materialise to accomplish the full employment part of the Fed's mandate. With shorter-maturity yields firmly anchored by the Fed, longer-maturity yields should remain low as well being held down as they are by Fed's 'Operation Twist'. However, longer-maturity yields face upside risks should the 'fiscal cliff' dissipate. This could lead investors to speculate on rising inflation in the longer-term as monetary stimulus in the US and around the globe has been massive.

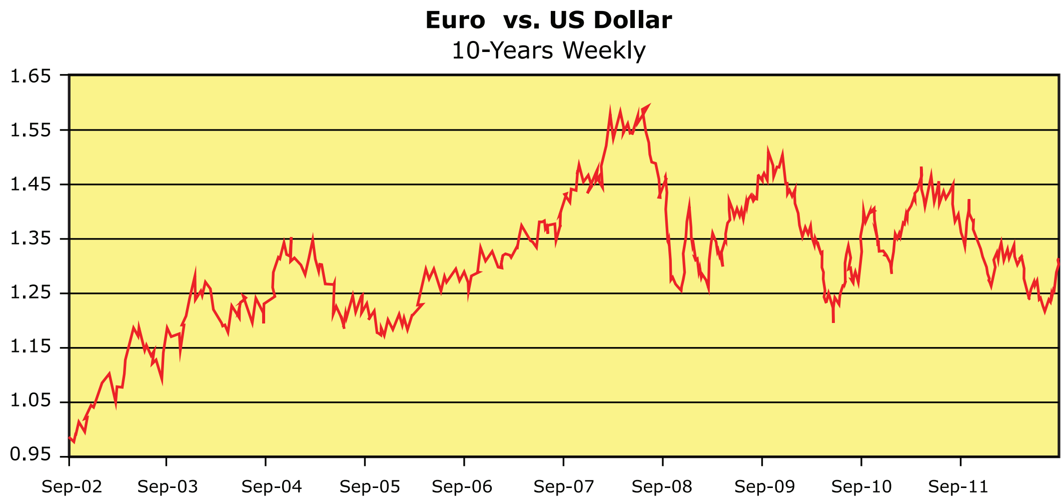
While Treasury (and German bund yields) admittedly are very low, regulation is likely to force banks, pension funds, and insurance companies to hold these assets regardless. Basel III for example is a new comprehensive framework for banks, with the different parts being introduced step by step over the coming years, starting in 2013. The overall purpose is to strengthen banks' ability to withstand losses and reduce the probability of new financial crises. Under Basel III, banks will have to hold more capital of better quality—laudable for sure, but a depressant for new lending.

Interest rates on bonds issued by the financially sound European nations should remain low, or even decline, from current levels as economic growth slows while the politicians talk-the-talk, but do not walk-the-walk. German bunds will remain the safest assets in the eurozone and until there is a credible solution to the region's sovereign debt crisis, German shorter-maturity yields will stay negative and longer-dated yields low. The European Central Bank's (ECB's) latest programme Outright Monetary Transactions (OMT), in which the ECB will be able to intervene at the short end of the yield curve, will provide some relief. Nevertheless, while this latest initiative from the ECB may keep a lid on yields in the troubled peripheral nations, and potentially even lower the yields on debt issued by these nations, OMT is not a solution to the region's crisis. Should speculation increase that Greece is about to exit the eurozone, volatility will spike and German (as well as other financially sound sovereign bonds) will see their yields drop dramatically.

The best rated corporate bonds are likely to outperform and their relative spreads over Treasuries narrow. Over the past few years, companies have been building up huge cash piles but have held back on hiring and investment. This has made most corporate balance sheets very strong, ultimately leading to better credit metrics for highly rated investment grade companies and further supporting tighter credit spreads as investors seek more yield relative to that offered by Treasuries.

Currencies

Weakness in the US dollar is likely very early in the Fourth Quarter as the Presidential elections get closer and market participants remain upbeat from the ECB's latest bond-buying programme. However, eurozone risks are likely to manifest fairly soon and will once more heighten investor aversion to risk. The consequence will be an increase in cash flows to dollar-denominated safe haven assets. Toward the end of 2012 and into early 2013, the euro should weaken relative to the dollar as the eurozone politicians and policy makers are unlikely to succeed in implementing the necessary reforms in the region. While the ECB's latest bond-buying programme (OMT) gave a boost to the euro in the Third Quarter, this programme alone will not be enough to solve the region's crisis. The biggest risk, albeit an unlikely one, to our forecast is if there are positive policy surprises in the eurozone and the PIIGS show that implementation of their adjustment programmes are on track.



Sterling is perceived as a safe-haven relative to the euro even though the UK is by no means free from problems as she struggles with weak growth and austerity. Nevertheless, the currency should appreciate against the euro over the medium term for the same reasons as the US dollar. Should the US Fed embark on a more aggressive easing programme beyond the monthly purchases of $40 billion in mortgage-backed securities (MBS) and political gridlock in Washington worsens, Sterling could gain against the greenback as well.

We do not expect the commodity currencies to strengthen against the dollar in the near-to-medium term. Slowing growth in China is negatively affecting the Australian dollar while downside risks to oil could be a drag on the loonie and the Norwegian krone in particular. However, one must remember Australia, Canada, and Norway all have financially sound economies and enjoy the very highest sovereign credit rating 'AAA'. Consequently, downside risks to these currencies are limited relative to the greenback and, in the long-term, they may outperform the dollar as investors diversify their portfolios.

Brazil has embarked on a campaign to weaken the real in response to stimulus activity in the developed nations. Since the US Fed announced QE3 in early September, Brazil's central bank has repeatedly intervened to weaken the real and protect the nation's industrial competitiveness. Moreover, the government increased tariffs on 100 products and most recently threatened to impose taxes on financial transactions to stem foreign capital flows subverting the government's desire to weaken the real.

"Weak longer-term growth and the incredibly difficult situation facing the euro area as it attempts structural reform while growth is close to zero, suggest that the medium-term pressure on EUR/USD is negative."

Barclays Foreign Exchange Outlook, 25 September, 2012

“Before you know it, we’re going to have so much light, sweet crude that in the US Gulf Coast we’re not going to be importing light, sweet crude, and we think that happens next year.”

Bill Klesse,
Chief Executive Officer,
Valero Energy Corp.,
6 September, 2012

COMMODITIES

Crude oil prices will remain firm near-term but risks remain. The oil rally fizzled after the US Federal Reserve announced a new round of quantitative easing (QE3) in September despite Israeli threats to attack Iran over Iran’s uranium enrichment programme.

In the medium term, a number of factors could drive oil prices lower. Specifically:

- A high probability of a strategic oil reserve release by the G7 after the precedent set during the Libyan supply outage in 2011.
- Hurricanes in the Gulf of Mexico in the Third Quarter 2012 have kept prices elevated but as hurricane season winds down this risk fades.
- Fundamentally, macro headwinds into 2013 will keep oil demand growth in check.
- Increases from unconventional sources, such as the Eagle Ford formation in Texas and Bakken in North Dakota, have contributed to the surge in US output.

According to Energy Department data, US oil output has jumped to the highest level in 13 years which met 83 percent of the country’s energy demand.

Base metals are likely to trade sideways as investors and speculators remain focused on China’s weakening economic growth. Leaders of the ‘Middle Kingdom’ remain wary of igniting inflation, as was the case after enacting broad stimulus measures in 2009. Consequently, we do not see the Chinese government implementing stimulus on the same scale this time. Moreover, Morgan Stanley argues that European copper demand will likely soften whilst US demand remains flat year over year as construction continues to languish. Supply side fundamentals remain attractive as world mine production of copper-in-concentrate continues to stagnate, falling by 0.7 percent so far this year according to the International Copper Study Group.

Two fundamental factors supporting gold prices include:

1) The European sovereign debt crisis has yet to be resolved pushing investors to seek the perceived safety of gold.

2) Stubbornly high unemployment and a sluggish economy in the US has pushed the Fed into another round of quantitative easing.

Consequently, gold prices will firm, but sustained moves above $1800 per ounce are unlikely in our opinion.

The worst US drought since the 1950’s will support already elevated grain prices as supply falls short of expectations. Despite the supply constraint, corn prices will trade sideways as consumers substitute corn for cheaper input products and corn exports slow. Moreover, ethanol production has been falling implying that price equilibrium has been achieved. Wheat crop losses in both the US and Russia will keep prices firm and if past is prologue then Russia may curb exports despite the country’s Deputy Prime Minister’s remarks to the contrary. Soybean production has suffered from drought conditions as well and thus prices will trend higher.

Equities

Equities have already priced in central bank actions and therefore any further short-term rise in stock prices in the near-term will be limited. Our reasons for believing this are:

- The markets did not rally substantially following the ECB announcement of the Outright Monetary Transactions (OMT) programme or

- The Fed's announcement of open-ended MBS purchases (QE3).

Year-end 2013 Expected Values				
	P/E	**P/B**	**P/CF**	**Dividend**
S&P Global	**11.71**	**1.57**	**7.39**	**3.05%**
Euro Stoxx 600	10.75	1.36	6.40	4.19%
S&P 500	12.60	1.98	8.70	2.34%

The market is entering a traditionally weak period. This seasonality, coupled with weaker than expected earnings reports, may result in a short-term decline in equity prices presenting investors with a buying opportunity. Longer-term we are optimistic as stocks will reward investors with both income greater than that delivered by bonds and capital appreciation. Our optimism is supported by the fundamentals that indicate stocks are undervalued when compared to five-year corporate bonds that yield less than one percent. Many stocks pay dividends that yield over three percent and offer the opportunity for capital growth, something bonds cannot provide. Consequently, we are holding equities at an overweight allocation. Within this, we are balancing our approach to portfolio construction by combining global growth holdings with quality dividend paying companies.

Aside from the aforementioned seasonality, the magnitude of a price retreat in stocks should be somewhat muted given current depressed valuations. While US equities may show greater weakness, given the election and the approaching 'fiscal cliff', European equities are quite inexpensive when compared to the S&P Global 1200 and the S&P 500 Index as shown in the table above. Any decline here will present us with an excellent opportunity to increase exposure to the region on a selective basis. Furthermore, eurozone companies have been as careful managing their balance sheets – ex finance – as have US companies.

Our constructive view of UK, Scandinavian, and German markets remains unchanged and we look to add other continental holdings as the opportunity presents. At this point, we are neutral Asia and Latin America but conditions may change sufficiently to warrant a greater investment in the latter given changes in government policy toward a more business friendly regimen.

Our largest regional overweight is North America. Both the US and Canada will deliver positive GDP growth. Tactically, we are underweight the Materials and Consumer sectors preferring instead Telecom, Technology, Energy, and Industrials.

"The historically 'normal' equity market valuations make equities look like a strong 'buy' in crossasset comparative terms."

Barclays
Global Outlook
September 2012

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 57 percent (versus index weighting of 56.1 percent), 7 percent of which is allocated to Canada (versus an index weighting of 4.3 percent).
- Overweight Germany at 6.5 percent (versus index weightings of 3.2 percent), whilst remaining underweight Europe at 24 percent (versus index weighting of 26.4 percent).
- Underweight Australia at two percent (versus index weighting of 3.7 percent).

Industry Sector Strategy

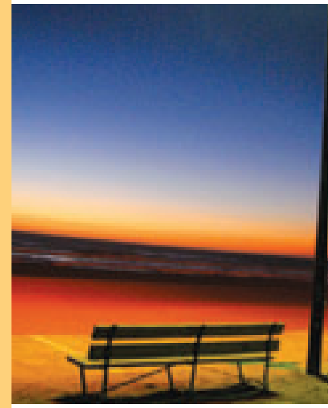
- Overweight Telecom at 6.5 percent (versus index weighting of 4.8 percent).
- Overweight Industrials and Utilities at 14 percent and 6.5 percent (versus index weighting of 10.4 and 3.8 percent, respectively).
- Underweight Consumer Discretionary at 7 percent (versus index weight of 10.4 percent).

Geographic Allocation

North America	57%
Europe	24%
Smaller Asia	4.5%
Japan	7%
Latin America	2.5%
Australia	2%
Other	3%

Sector Allocation

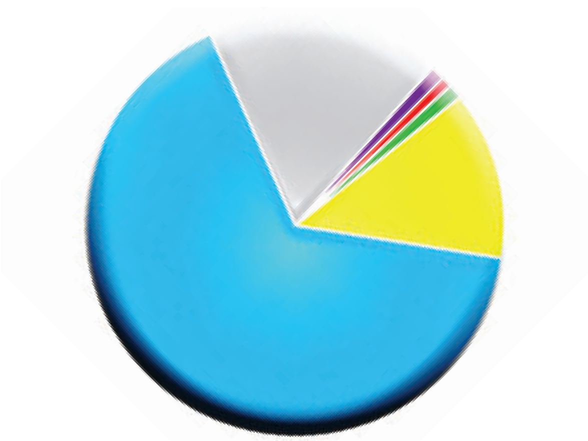
Financials	15%
Telecom Services	6.5%
Consumer Disc.	7%
Health Care	10%
Technology	13.5%
Consumer Staples	9%
Industrials	14%
Utilities	6.5%
Energy	12%
Basic Materials	6.5%



Bonds

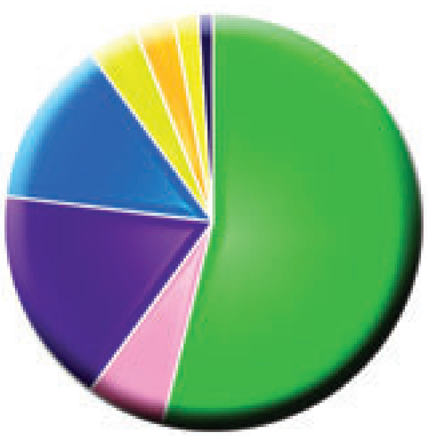
- Stay neutral benchmark duration and add to longer maturity positions at sell offs for better yields.
- Hold high quality corporate bonds for their better income relative to that of US Treasuries. We will go down in credit rankings as economic conditions improve.
- Hold positions in Canadian dollar and Norwegian krone bonds.

Bonds Strategy Allocation



LIBOR FRN	1%
CPI FRN	1%
0-1 yr	13%
1-3 yr	66%
3-5 yr	18%
Cash	1%

Credit Ratings



AAA	54%
AA+	6%
AA	17%
AA-	13%
A+	4%
A	3%
A-	2%
BBB+	1%

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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