



Tactical asset allocation

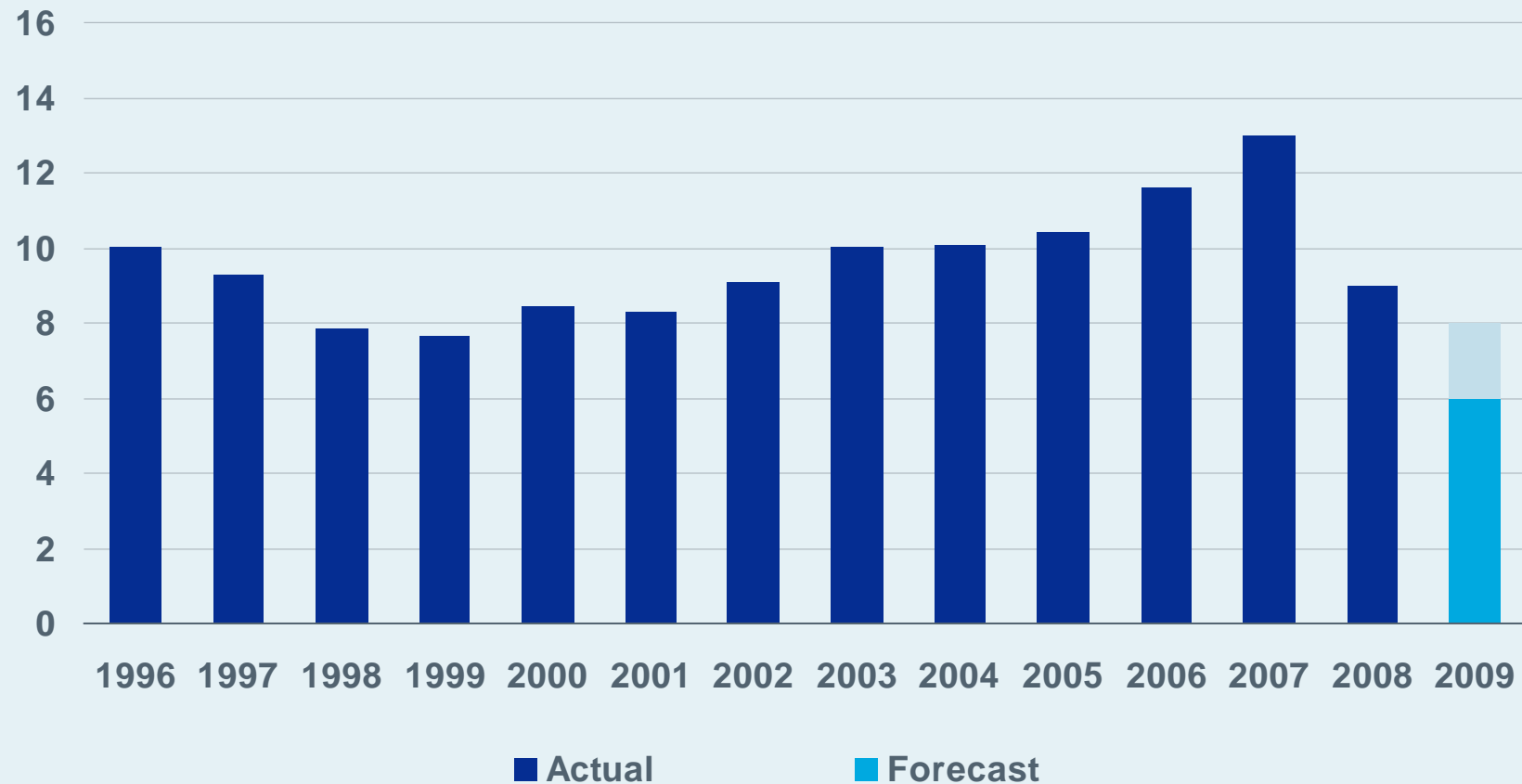
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Key Questions for Asset Allocation in 2009

1. Recession or Depression?
2. China?
3. Recession rally?
4. Cheap enough assets?

Chinese growth recovery – on track

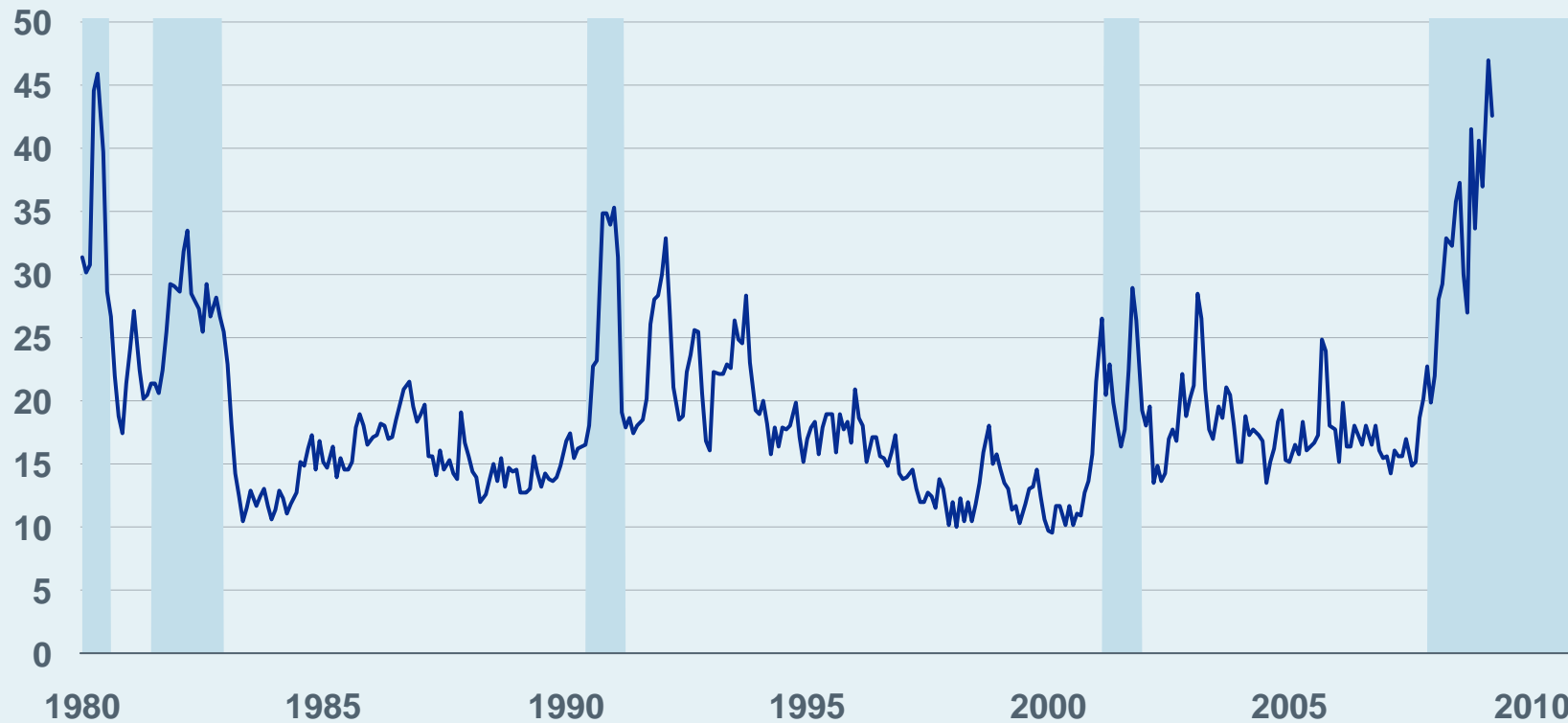
Chinese GDP growth rate



Source: Thomson Financial and Aviva Investors

US households worried about jobs

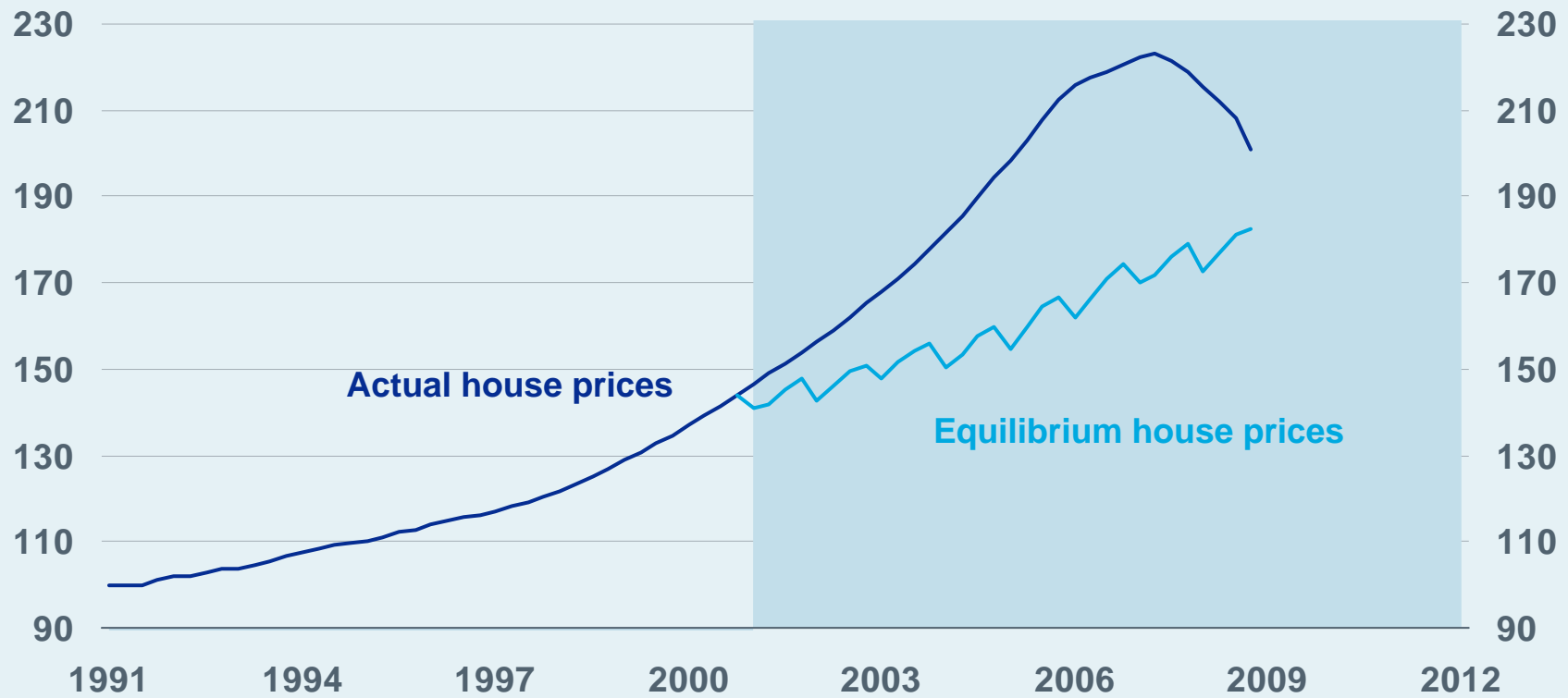
Fewer jobs expected over the next six months



Source: Thomson Financial and Aviva Investors

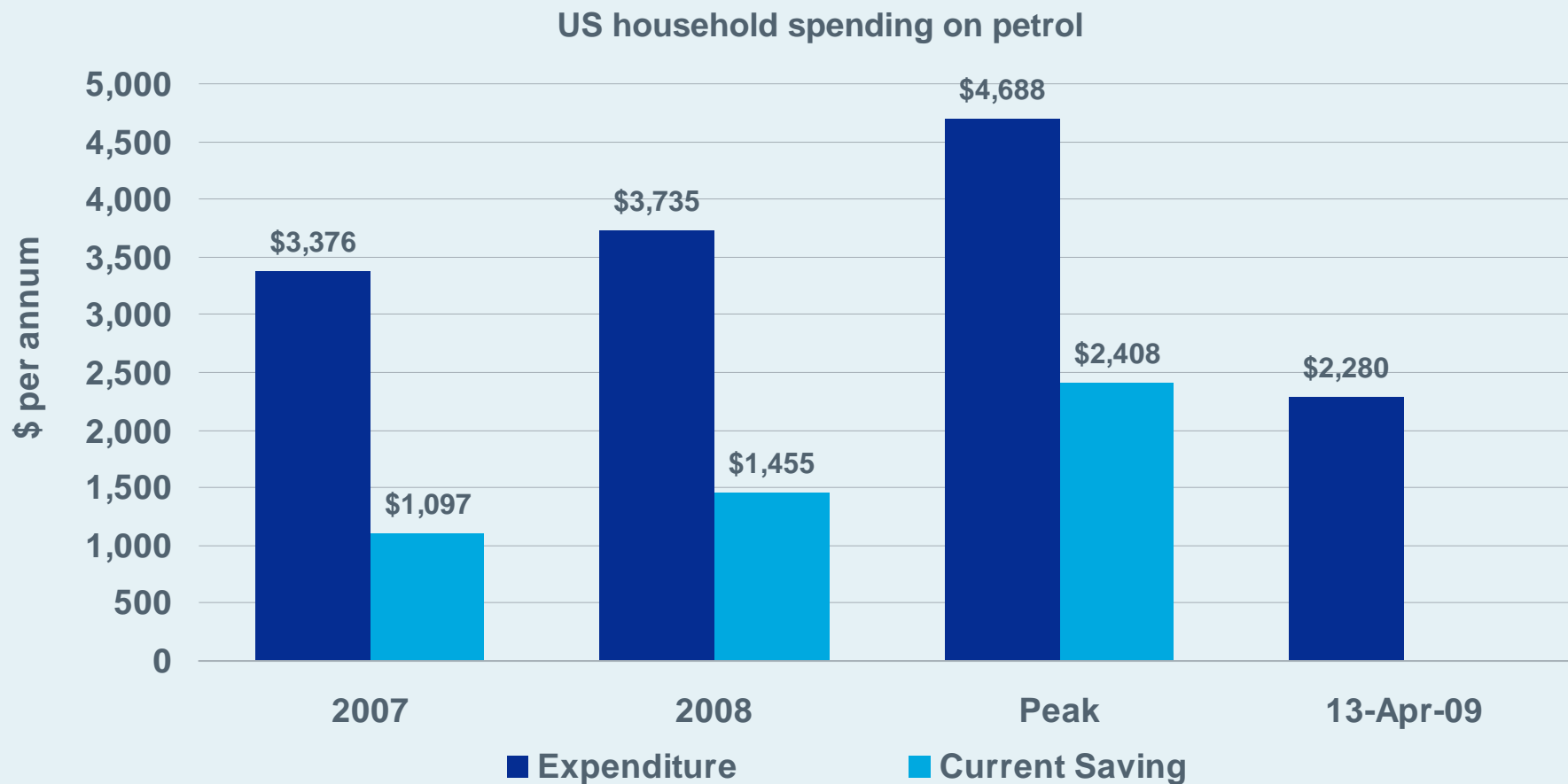
US house prices still falling

US house prices – actual versus equilibrium



Source: Thomson Financial and Aviva Investors

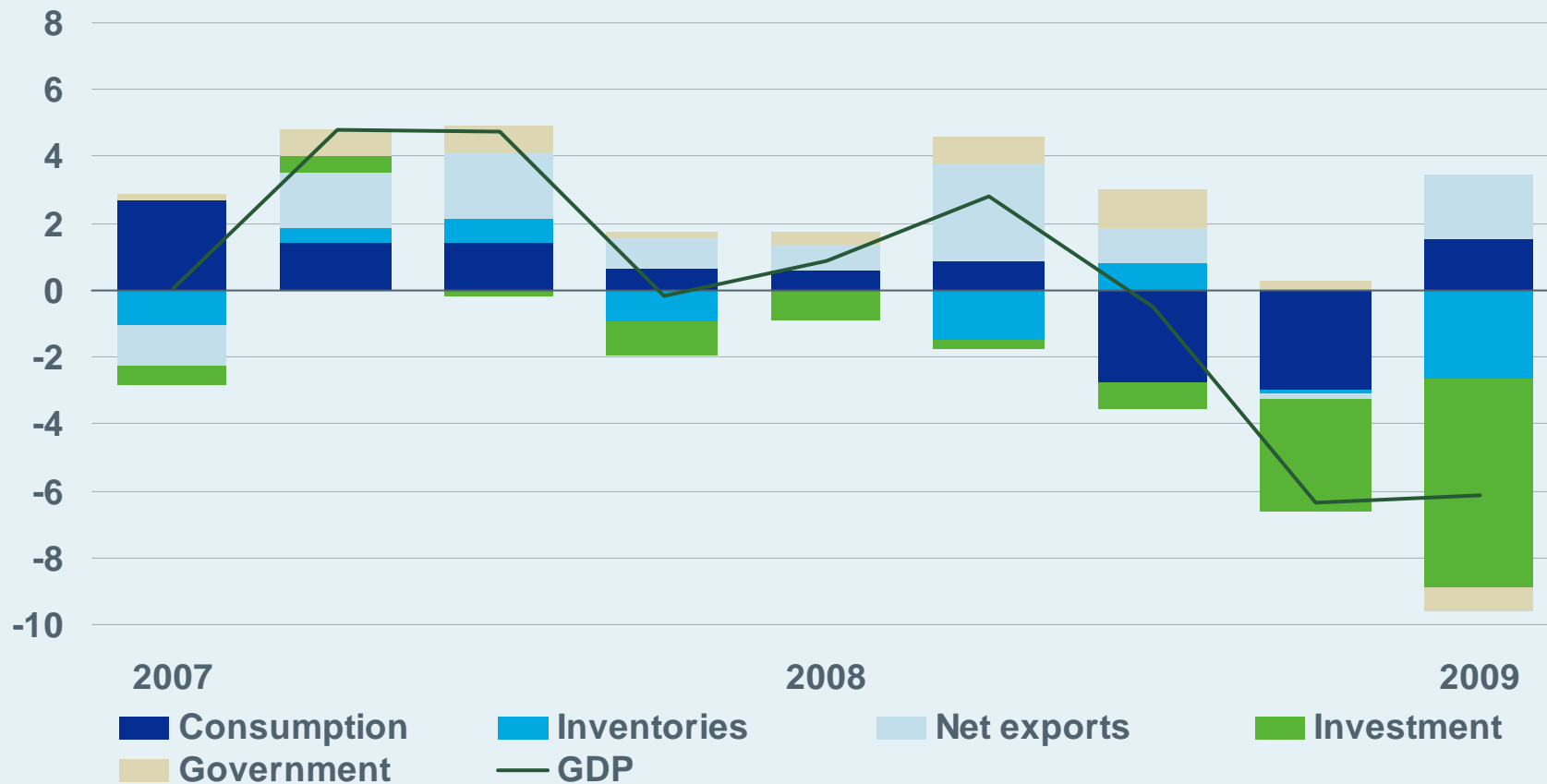
Lower commodity prices helping households



Source: Thomson Financial and Aviva Investors

US activity – where will recovery come from?

US GDP: Contributions to quarterly growth annualised



Source: Thomson Financial and Aviva Investors

Economic Scenarios for 2009



Deep Recession 45% @ 20 Apr 2009

- Significant recessions in US, UK, EU. US growth troughs Q4



Depression 15% @ 20 Apr 2009

- Credit crunch worsens. GDP falls 8-10% in worst setback since 30s



Respite 40% @ 20 Apr 2009

- Stimulus creates short-lived growth spurt, reversed in 2010

Economic Scenarios for 2009-10



Headwinds 40% @ 5 May 2009

- Sub-par recovery from 2010, with normal cycle drivers held back



Double-Dip 30% @ 5 May 2009

- Stimulus creates short-lived growth spurt, reversed in 2010

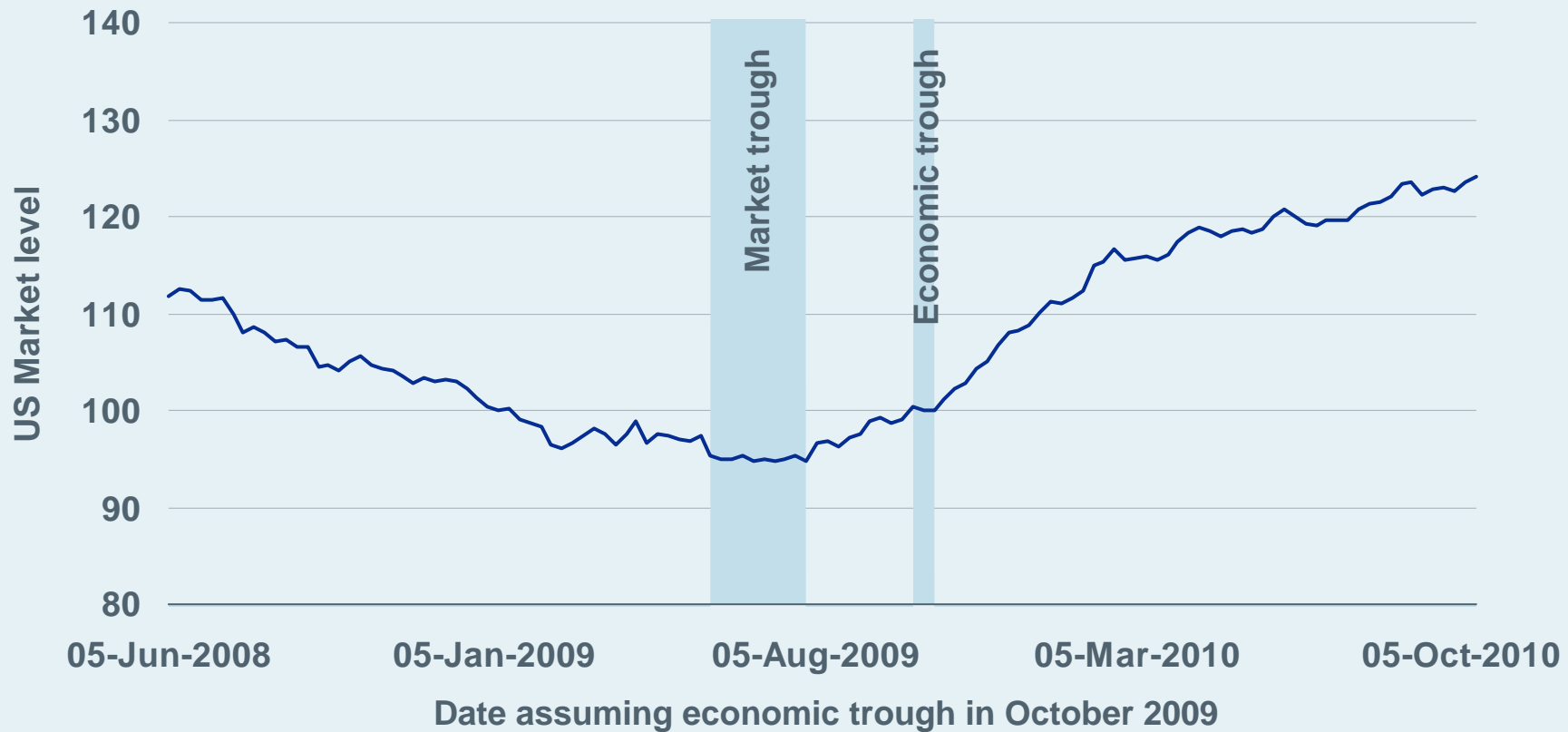


Commodity Déjà Vu 30% @ 5 May 2009

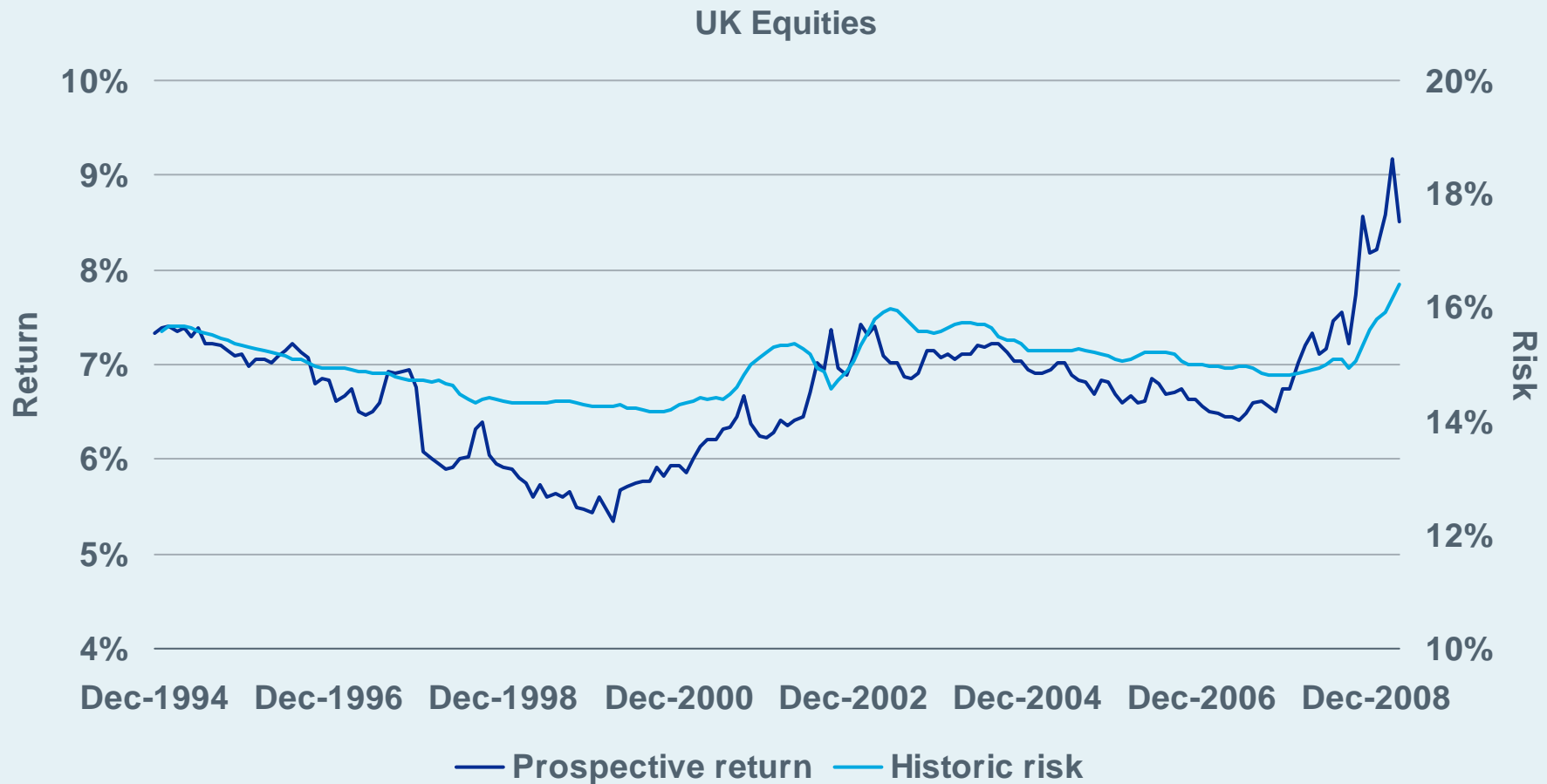
- Global stimulus and Chinese spending push commodities up

Can risk assets rally in a recession?

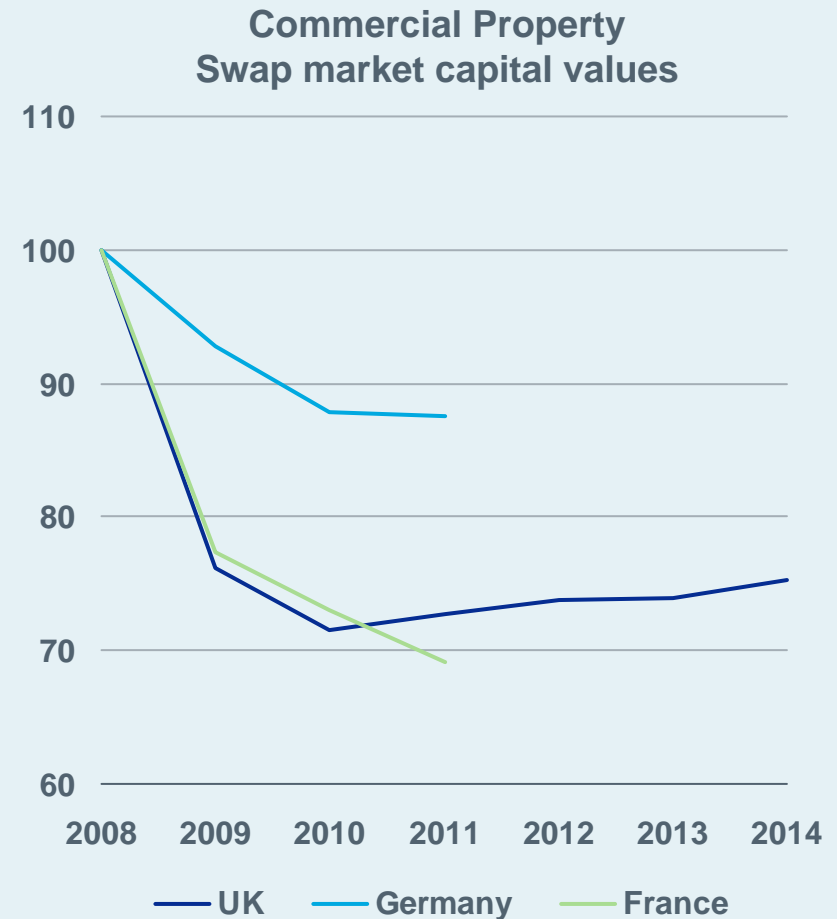
US Equity Price Returns Around Economic Troughs since 1900



Long term equity return prospects very high



Under-valuation of other assets more extreme





- Assuming the next five years are the worst in history for defaults, the sustainable return for Investment Grade corporates is over 7-8%

- Property swap market is now offering 8.8% sustainable return

Robust Asset Allocation

 Deep
Recession

 Respite

 Depression

Position 1
Buy Credit



Position 2
Euro fixed for floating



**Positions
combined**



Tactical outlook at May 2009

1. Recession or depression

Depression becoming increasingly unlikely



2. China?

On track for 6-8% growth



3. Recession rally?

History is supportive of rally – eventually



4. Cheap enough assets?

Good value remains, but look beyond equities



5. Economic scenarios for 2009-10?

Headwinds, Double-dip or Commodity déjà vu



Important information



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