

Listed Equity Allocation Notes

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The PineBridge Investments Listed Equity Allocation Committee (LEA) establishes equity views for the firm. The LEA meets monthly with key equity professionals to review developments in the four equity regions — North America, Europe, Japan, Emerging Markets — based on various criteria, including:

Valuations: Determine if the stocks in the region are over-, under-, or properly valued.

Revisions: Evaluate current guidance by the companies and their impact.

Fundamental Progress: Review of what the fundamentals are likely to look like going forward.

Equity View - Driving Themes

- We are maintaining our constructively optimistic equity allocation through our overexposure to emerging markets (where real growth is occurring) and our underexposure to Europe (where headlines seem never ending).
- Hundreds of billions of US dollars of European sovereign debt comes due between now and the end of April. Concerns over Greece invoking a collective action clause (forcing all investors to accept the majority approved debt write-down) gives investors a real sense of unease. Yet new forms of liquidity are being injected into the region's banks, which

TABLE 1 Allocation Weightings As of 17 January 2012

'X' indicates our current stance on allocation. (-) indicates our intended relative allocations over the medium term.

	Unfavorable	Cautious	Neutral	Constructive	High Conviction
North America			X		
Europe	X				
Japan			X		
Emerging Markets					X

The allocations above may be subject to change.

may be the "green shoots" the market is looking for.

- The US is showing numerous signs of recovery, although this now seems to be built into prices as this market outperformed the rest of the world by approximately 20% last year.
- We believe emerging markets, particularly those in Asia, will regain market leadership after their central banks call a truce to their cyclical battle with inflation. China, India, Korea, and Indonesia remain top candidates for such moves.

UNITED STATES

Valuations: While many equity markets around the globe are undervalued, the US market is close to fair value, according to our Capital Market Line (CML), after achieving relatively strong performance in 2011 (US markets were flat while most of the major global markets saw declines in the range of 20%).

Revisions: It is early to get a read on fourth quarter earnings, but the US banks are showing signs of a modest turnaround for the first time in over three years.

Fundamental Progress: The Bear Case on US Equities (that there would be a double dip) has disappeared. With economic and profit fundamentals

now increasingly appearing to be self sustaining, we must now assess the pace of growth beyond 2011's mid-cycle pause: Is an austerity driven slowdown inevitable in 2013, and if so, to what degree?

United States Equity View: We see this outperforming market losing its luster as the year goes on and the focus begins to shift to 2013. At that juncture, Europe will look to have addressed its fiscal situation, whereas the US will just be in the early stages of resolving its current runaway deficit. We may be a bit early in having already turned neutral, yet we prefer to position with an intermediate-term perspective.

EUROPE

Valuations: On a "price to earnings" basis, valuations appear low; our CML, however, attempts to also factor in growth, which may have structurally declined in Europe. With unquantifiable dilution in front of us as a result of recapitalizing European banks by June 2012, it's hard to have much conviction with respect to the forward looking valuation of European equities. We do not see Europe as compelling yet.

Revisions: While not particularly worse than revisions found in other regions, the European recession is in its very early innings whereas other regions

have merely seen their growth pause before beginning another upward phase. Europe's relative revisions should deteriorate as the year goes on.

Fundamental Progress: A major item to watch will be whether Germany can stay out of recession even while their European neighbors sink ever deeper into their own recessions.

Europe Equity View: At the risk of sounding like a broken record, we continue our stance of avoiding European equities completely where guidelines permit and underweighting elsewhere. While we do believe they are finally tackling their issues, and that relief rallies are to be expected as they achieve certain milestones, this is a very long-term workout.

EMERGING MARKETS

Emerging Europe, Emerging Asia, Latin America, Africa, and The Middle East

Valuations: We continue to view these markets as cheap with P/Es struggling to break out of the single digits. We believe this region is due for a breakout. The BRICs (Brazil, Russia, India, and China), plus Turkey and Hungary have moved up rapidly in January.

Revisions: These markets are proving to be divergent. However, through much of the region, domestic demand continues, as the fear of central banks provoking hard landings fades into the background. Revisions are still negative, yet in our view, these self induced slowdowns will soon begin to show signs of stabilization. We see companies throughout Asia beginning to move ahead with investment programs after pausing last fall.

Fundamental Progress: Central banks stoked hard landing fears as they decelerated emerging economies throughout 2011. But soon we should see the degree to which their 2011 slowdowns were self induced, and we believe they were. With restrictive measures ending (and some reversing), renewed momentum and profit characteristics will likely come into focus in 2012 in these economies.

Emerging Markets Equity View: We turned optimistic several months ago. This was a bit premature, but in 2012 these markets have finally come to life and have begun leading the global equity rally. Emerging markets continue to have the best valuations placed upon the best short-term fundamentals as well as the best long-term secular prospects. This remains the place to be in 2012, in our view, as the hard landing fears are debunked.

JAPAN

Valuations: Our CML work suggests that Japan is relatively expensive for a developed market unless they rapidly converge their profitability and growth towards levels more common around the rest of the world. There is no competitive reason that this should not occur. Nonetheless, "Japan Inc." remains extremely reluctant to push aggressively for profitability or growth.

Revisions: The least poor of the major regions as "Japan Inc." pushes production in the short-term to regain share lost during the tsunami.

Fundamental Progress: Exporters expect weak growth out of China after the new year. We have been disappointed at the slow implementation of rebuilding efforts and hold out some hope in rumors that monies are now being filtered out of the bureaucracy toward that effort.

Japan Equity View: We reiterate our comment from last month that the best scenario for Japan will be modest global growth and the resumption of risk-taking. This will help keep the yen from rising, improve prospects for exporters (especially in relation to China), and allow for confidence among government officials in rolling out reconstruction efforts. Until then, we remain neutral (at best) on Japan. ■

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