Report of the Investment Manager

GENERAL INVESTMENT CLIMATE

The Economy

Economic growth in the US continues to disappoint as several important indicators point to a further slowdown in growth. The Leading Economic Indicator (LEI) index has dropped to its lowest level since 2001, durable goods orders have declined for two sequential months and the ISM index shows that the manufacturing index is still hardly growing, but employment and order books are already declining. On the positive side, the American consumer continues to be the driving force behind the economy; disposable income continues to grow sufficiently for consumers to keep up their expenditure growth. A further deterioration of house prices could cause the American consumer to hold back on his spending.
The house market remains a major cause for concern. Both the NAHB (National Association of Home Builders) housing market index and the number of new homes started have decreased to historically low levels. The drop in house prices and increase in interest rates has caused some the so-called sub prime lenders, who provide high-yield mortgages to families with bad credit ratings, to run into financial difficulties. Even though they represent only a minor part of the market, the fact that credit has become scarcer and that more repossessed houses are put up for sale, may put further pressure on the market.

The European economy is in very robust shape. Nearly all indicators came in positive. Germany has been the driving force behind the Eurozone's economic growth. In 2006 German GDP growth exceeded expectations for the first time in many years. The Ifo business climate indicator is at a record level and unemployment has dropped below 10%. The weakest link in the German economy has traditionally been the consumer. In recent months, however, *Otto Normalverbraucher* has become a great deal more optimistic about the future however. Even though consumer expenditures are not yet going up, the negative effect of the VAT-increase on January 1st was much smaller than expected and was not long-lasting.
France is looking good as well with the Business Climate Index at a record level and the Economic Confidence index still rising.

The Japanese economy has lost some of its positive momentum during the last quarter of 2006. Even though there was still a very healthy growth, it is no longer accelerating at the same pace. Furthermore, inflation came in far below what was expected (in February of 2007 there even was some deflation again), which means the Bank of Japan will probably not increase rates again in the near future. The Chinese economy continues to be buoyant.

Money markets and exchange rates

During the first quarter, the US Federal Reserve Bank again left its reference interest rate unchanged at 5.25%. What did change however was the wording of the statement. The central bank still warns about the dangers of inflation, since core inflation remains well above the Fed's target of 2%, but it leaves the door open for a potential decrease in interest rates should economic conditions deteriorate. The markets are currently pricing in one or two 25 basis point discount rate decreases for the next year.

The European Central Bank has increased its benchmark rate by 25 basis points to 3.75% in mid March. The consensus is that ECB will further increase its rate to 4% during the second quarter out of a traditional concern for inflation.

The spread between the European and American short term interest rates has further decreased to from 157 basis points at the beginning of the year to 136 basis points at the end of the first quarter. This is largely caused by rising European rates. The long term interest rate differential has decreased with 20 basis points as well to 0.81%.

The US dollar keeps on depreciating in comparison to the euro. During the last 12 months, USD has already become 10% cheaper. The EUR/USD exchange rate has already tested the 1.3400 level a couple of times and might break through it.

Stock Markets

The new year took a start with a volatile first quarter. Markets continued their upward trend during January and February, which ended abruptly on February 27th. The unrest, for which there were no immediate triggers, started overnight in the Asian markets and spread to Europe and the US during the day. Over a period of 5 days, the AEX index dropped 8% from 512 points to around 470 points. By the end of the month however, the index had already fully recovered and ended the quarter at 510.50 points. Over the entire quarter, the AEX posted a return of 3.06%, compared to 1.9% for the BEL20 and 1.5% for the Eurostoxx 50. The German market performed best and posted a return of 4.85%. The American markets continue to be weak compared to Europe.

Table 1.1 - General

	30/mrt/07	29/dec/06 - 3 mth	30/sep/06 - 6 mth	30/jun/06 - 9 mth	31/mrt/06 - 12 mth
AEX	510,5	3,06%	5,56%	15,96%	8,92%
BEL20	4471,65	1,89%	9,85%	20,75%	14,30%
DAX	6917,03	4,85%	15,20%	21,71%	15,86%
EU50	4181,03	1,48%	7,22%	14,58%	8,49%
DJ	12354,30	-0,87%	5,78%	10,80%	11,21%
SP500	1420,86	0,18%	6,36%	11,86%	9,73%
Nasdaq	2421,64	0,26%	7,23%	11,49%	3,50%
EUR/USD	1,3354	1,17%	5,37%	4,41%	10,20%
EUR 3 maanden	3,9240	0,1990	0,5070	0,8680	1,1080
EUR 10 jaar	4,0870	0,1140	0,3600	0,0390	0,3150

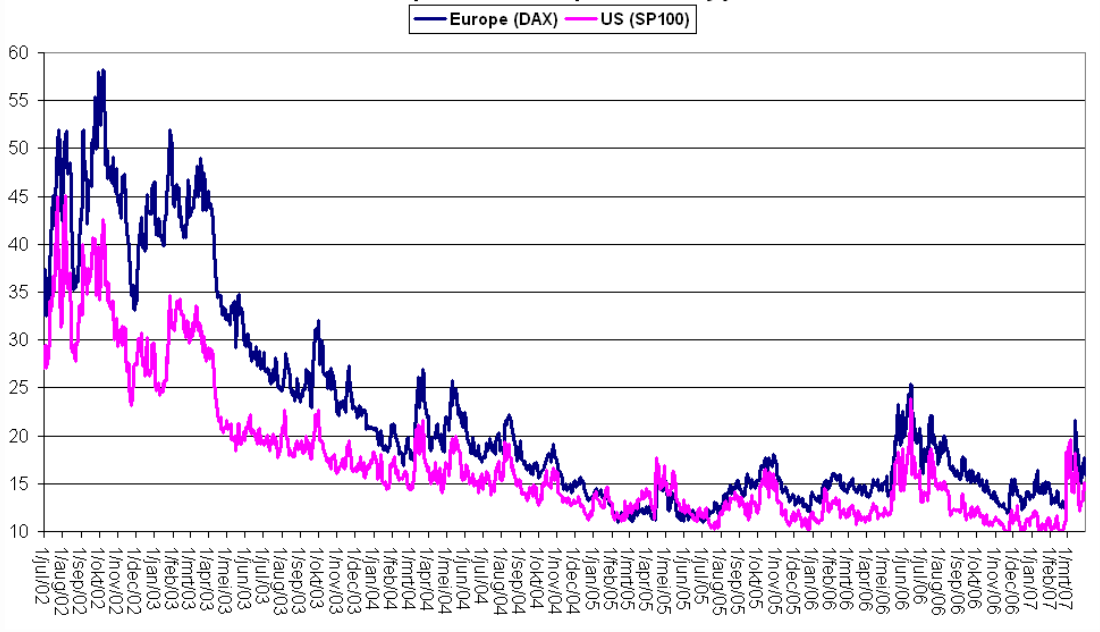
The quick recovery after the correction was reinforced by rising share prices of banks stocks following rumours of a merger between ABN Amro and Barclays. The mid and small cap indices again outperformed the market in both Germany and the Netherlands.

Implied volatility

The correction during the first half of March prompted a steep, but brief, increase of the volatility. The American volatility index VIX soared from 10% at the end of February to

20% in the beginning of March and finished the quarter at 14.64%. The VDAX index (Europe) showed a similar development and finished the quarter at 15.91%.

Table 1.2 Development of the implied volatility jul 02 - mrt 07



Long-term development

When looking at the long term development of the AEX index, the March correction of about 8% has confirmed the 200 day moving average trendline before continuing on its growth path which could be considered as an encouraging sign. From the valuation perspective, little has changed during the first quarter of 2007: even though some sectors are showing a challenging valuation, there is no general overvaluation of the market.

Table 1.3 Long-term development AEX jan 02 - mrt 07