Report of the Investment Manager

GENERAL INVESTMENT CLIMATE

The Economy
The world wide financial sector experienced a turbulent third quarter caused by the difficulties in the US mortgage market. The American housing market continues to weaken: the sales of new homes dropped by 8.3% in august and prices for new homes declined by 7.5% compared to 2006.
In the second half of July, several US mortgage providers announced that they had run into difficulties. The problems started in the sub-prime segment of the market where providers offer mortgages to people with bad credit ratings. These are the so-called NINJA mortgages (No Income, No Job or Assets). The junk mortgages are then pooled and repackaged as usually intransparent “collateralized debt obligations” (CDOs) and sold to financial institutions and institutional investors.
The problems in this relatively small subsegment of the mortgage market caused unrest in the global financial markets because it was not immediately clear which party was exposed to which risks. Because of mutual mistrust, banks no longer want to give each other credits which caused money market rates to soar. Interventions by the US and European central banks were needed to stabilize the market again. The credit crisis also had consequences in Europe where several smaller financial institutions - IKB (Germany), Northern Rock (UK) - were faced with liquidity issues.

Markets feared that the problems in the financial sector and the housing market would spill over to the real economy. Up to now, it seems that this has not been the case. About 50 mortgage providers have already stopped their operations, causing a loss of 20.000 jobs in American financial sector. Despite this loss, the US labor market continues to perform well: the employment number rose by 110.000 in September and unemployment remained stable at 4.7%. Consumers have become more cautious, but there are no signs of a real collapse in consumption expenditure.

In Europe, most indicators suggest a slowdown of the pace of growth, but the economy continues to perform at a high level. A number of indicators based on sentiment surveys decreased, but the more fundamental ones remain strong. The Dutch consumer confidence declined sharply in August and September, while consumption expenditure in France and Germany continued to increase. Moreover, German unemployment continued to decrease. It can not be excluded that inflationary pressure will increase in the following months.

So far, Japan does not appear to be harmed by the credit crisis and the strong Yen. An increase of the industrial production and a positive Tankan report suggest a positive climate in the industrial sector. The Japanese consumer is the only weak point: consumption expenditures remain at a low level.

After a decrease to below $70 per barrel in August, oil prices increased again during the second half of the quarter and reached new records of more than $80 per barrel.

Money markets and exchange rates

The American central bank surprised the markets in September by cutting its benchmark rate by 50 basis points to 4.75% instead of 25 basis points. The Fed took this step to avoid a negative impact of the problems in the credit market on the real economy.

The European Central Bank kept its rates unchanged at 4% in September. At the beginning of the summer, markets still expected in increase to 4.25%, but after its injections of extra liquidity in August and September, the ECB had little other choice than to keep rates unchanged. Because inflation (2.1% in September) and money supply growth (11.7% in September) remain to levels which are considered too high, a European interest rate cut is unlikely to happen in the near future.

At the beginning of July, the long-lasting upwards trend of the long-term interest rates came to an end. The European 10-year rate peaked on July 6th at 4.73% and declined to 4.4% at the end of the third quarter. The American 10-year rate decreased even faster (from 5.26% to 4.82%) which caused the spread to the European rate to decrease to 40 basis points.

The US dollar continued to weaken against all major currencies. The euro-dollar exchange rate ended the quarter at 1.4267, the lowest level since the introduction of the euro. In the past twelve months, the dollar has already lost 12.5% of its value compared to the euro.

Stock Markets

The credit market difficulties were the trigger for an abrupt correction of the stock markets. The AEX reached its highest level in six years in the middle of July (563.98 points) and dropped by 15% to 480 points in august. In the second half of the quarter, the big cap indexes gradually recovered. The AEX ended the quarter at 540.98 points, only 4% below the top.

Mid and small caps had a similar decline, but the recovery has been much slower since then. The Amsterdam Small Cap Index initially dropped 16%, but was still 13% below the top at the end of the quarter. The same phenomenon could be seen in Germany. Over the third quarter, the DAX only declined 1.8%, while the MDAX mid cap index and the SDAX small cap index dropped by 6.3% and 11.5% respectively.

The big US indexes recovered even faster than their European counterparts and were able to end the quarter higher.

Tabel 1.1 - Algemeen

	30/sep/07	30/jun/07 - 3 mnd	31/mrt/07 - 6 mnd	29/dec/06 - 9 mnd	30/sep/06 - 12 mnd
AEX	540,98	-1,32%	5,97%	9,21%	11,86%
BEL20	4325,29	-6,77%	-3,27%	-1,44%	6,25%
DAX	7861,51	-1,82%	13,65%	19,17%	30,93%
EU50	4381,71	-2,41%	4,80%	6,35%	12,37%
DJ	13895,60	3,63%	12,48%	11,49%	18,98%
SP500	1526,75	1,56%	7,45%	7,65%	14,29%
Nasdaq	2701,5	3,77%	11,56%	11,85%	19,62%
EUR/USD	1,4267	5,35%	6,84%	8,09%	12,57%
EUR 3 maanden	4,7920	0,6170	0,8680	1,0670	1,3750
EUR 10 jaar	4,4190	-0,1880	0,3320	0,4460	0,6920

Implied volatility

Because of the credit crisis, uncertainty increased, which was reflected in the levels of the volatility indexes in July and August. The high volatility was however short-lived: at the end of September both the European VDAX and the American VIX were again at the more normal levels of around 17%.

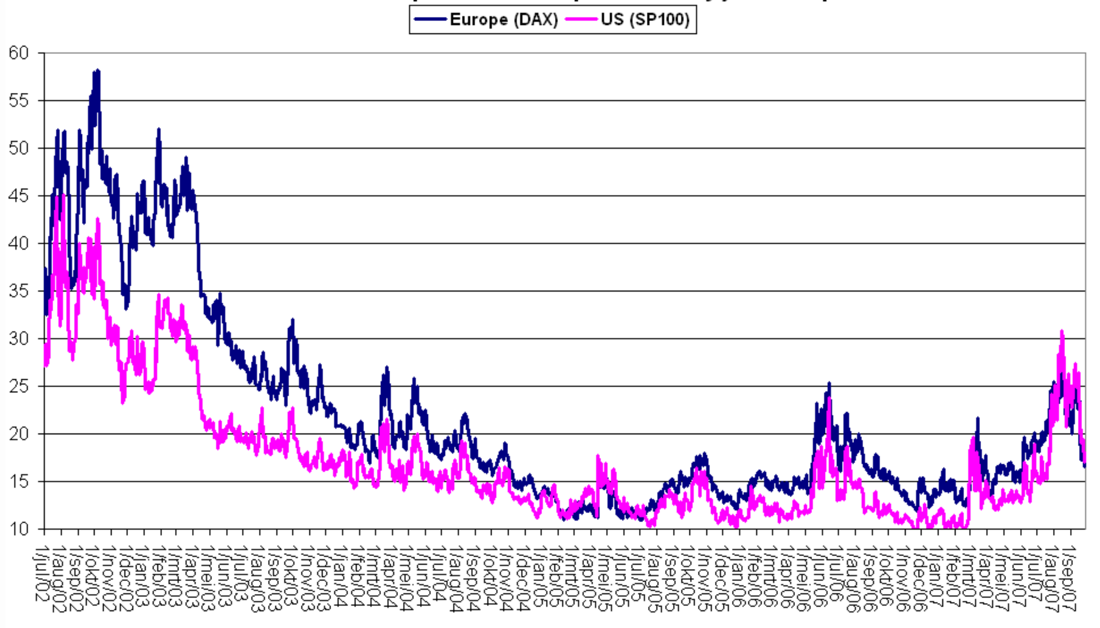

Table 1.2 Development of the implied volatility jul 02 - sep 07

Long-term development

The AEX fell below its 200-day moving average during the correction, but quickly recovered to a normal level above this long-term trend line. Because of the sharp correction in the share price in combination with a continuing strong business performance, a number of mainly small- and medium-sized companies have become attractively valued again.

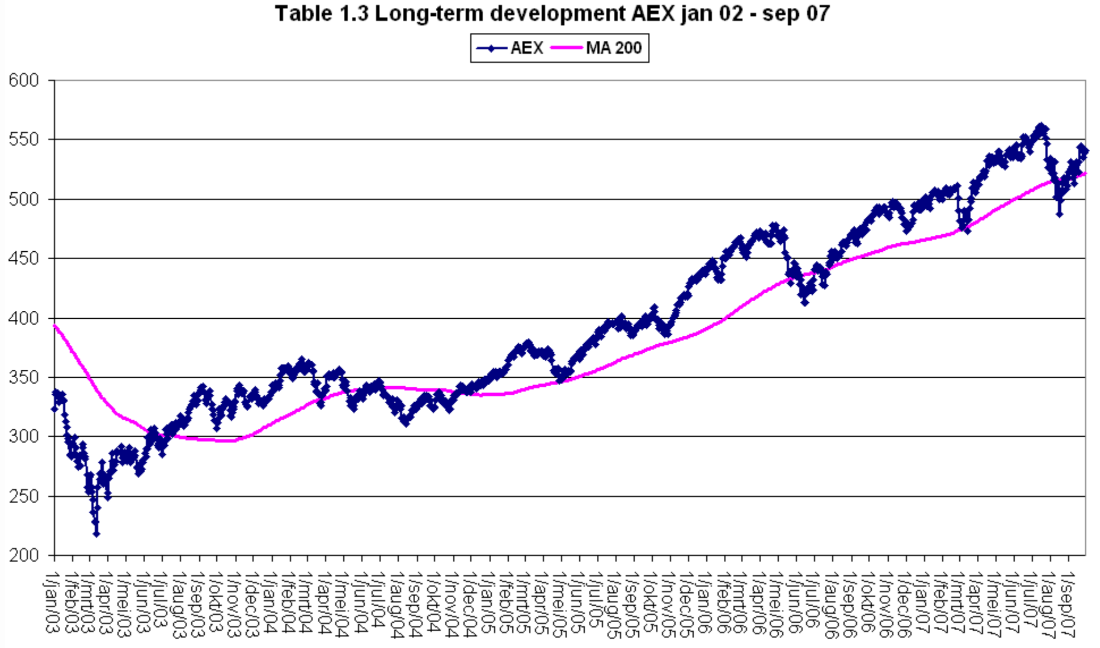

Table 1.3 Long-term development AEX jan 02 - sep 07