GENERAL INVESTMENT CLIMATE

The Economy

Over the past quarter, concerns about the economic developments increased again. Two years after the beginning of the crisis, the main global imbalances are still prevailing. While the US is burdened with a chronic trade and budgetary deficit, the emerging economies are building up huge foreign exchange reserves. China alone has already piled up foreign exchange reserves to an amount of 2,650 billion dollar. These are increasingly used to strengthen its geopolitical position. While usually targeting strategically important sectors, such as raw materials, China recently offered the possibility of investing in government bonds of weaker member states of the Eurozone, in order to avoid a speculative attack on the euro. Obviously, China isn't doing this as a charity; the Eurozone is the most important market for Chinese products, and an implosion of the Eurozone would trigger a whole series of currency devaluations, which could hamper Chinese exports.

Mounting tensions between the US and China over their respective currency policy were somewhat tempered – at least for the time being - at the G20 summit in Seoul mid November. Member states committed each other to abstain from competitive devaluations of their currencies. However, China is very recalcitrant towards foreign interference in its policy. It could take some time before we see a longly awaited fundamental revaluation of the yuan.

While Germany is keeping the economy of the Eurozone upright, the US economy also seems to be improving. However, the fundamentals remain weak; unemployment is still around 10%, and a general recovery of the housing market isn't in sight yet.

The Obama administration closed a tax deal with the Republicans begin November, with the idea that temporary lower taxes should stimulate economic growth. This caused a strong increase of US interest rates.

The growth of the world economy is expected to slow down somewhat, from 4.8% in 2010 to 4.2% in 2011, according to the IMF. The gap between the industrialised countries (2.7% growth expected in 2010, 2.2% in 2011) and the emerging economies (respectively 7.1% and 6.4%) remains large.

Over the past months, tensions within the Eurozone mounted again. The euro is expected to remain under pressure in 2011. Several countries, including Portugal, have large refinancing needs in the coming months, while the interest rates they are to pay have increased strongly. Meanwhile, the Greek interest rates are higher than at the peak of the euro crisis begin 2010. In Ireland, the upcoming general elections won't make it any easier to execute drastic reforms. A European support plan for Ireland worth 85 billion euro was announced at the end of November.

It remains to be seen whether one of the larger member states (in casu Spain or Italy) will also run into problems. In that case, the European Financial Stability Facility of 750 billion euro most likely won't be sufficient. With Germany as driving force, a new, independent European financial institution is being contemplated, in order to support weaker member states and guarantee the stability of the euro.

After a long period of relative stability, oil prices increased strongly over the past months. Due to continuously strong demand from China and the exceptional early winter cold in Europe and parts of the US, oil prices surpassed 90 dollars per barrel, levels which haven't been seen for two years.

Because of rising energy prices, inflation in the Eurozone increased to 2.2% in December, surpassing the inflation target of the ECB for the first time since 2008.

A lot of other raw materials, notably metals such as gold, silver and copper, also reached record highs near the year-end.

Money markets and exchange rates

While the major European and US central banks once again left their interest rates unchanged (close to 0%), the Chinese central bank rather unexpectedly raised its interest rate at the end of December, causing some anxiousness at the financial markets. The intention of the Chinese authorities is to prevent an overheating of their economy.
To stimulate the US economy, the Federal Reserve announced a new, controversial treasury bond purchasing program ("QE2") worth 600 billion USD in November. Nevertheless, long-term US interest rates increased.
In Europe, the continued decline of the interest rates finally came to an end; the long-term interest rates increased sharply, above the 3% level even for the stronger countries.
After strengthening during the third quarter, the euro weakened again over the past months, mainly due to renewed concerns over the strength of its fundamentals, notably the contradiction of having a monetary union without at least the beginning of a budgetary union.
On an annual basis, the euro lost 6.5% against the USD, despite the fact that the latter also performed poorly, notably against the Japanese yen and the Swiss franc.
With the accession of Estonia as of January 1 2011, the number of member states of the Eurozone increased to 17.

Stock Markets

Table 1.1 - General

	31/dec/10	30/sep/10 - 3 mth	30/jun/10 - 6 mth	31/mrt/10 - 9 mth	31/dec/09 - 12 mth
AEX	354,57	6,03%	11,92%	3,01%	5,74%
BEL20	2578,60	-0,43%	8,05%	-2,64%	2,67%
DAX	6914,19	11,00%	15,90%	12,36%	16,06%
EU50	2792,82	1,63%	8,53%	-4,72%	-5,81%
DJ	11577,50	7,32%	18,45%	6,64%	11,02%
SP500	1257,64	10,20%	22,02%	7,54%	12,78%
Nasdaq	2652,87	12,00%	25,77%	10,63%	16,91%
EUR/USD	1,3387	-1,80%	9,40%	-0,90%	-6,55%
EUR 3 months	1,0060	0,1140	0,2390	0,3720	0,3060
EUR 10 year	3,1540	0,6440	0,3460	-0,1730	-0,4010

Thanks to a strong last quarter, most stock markets were able to close the year with quite nice annual gains. However, the Eurostoxx 50 and the Southern European stock markets (including France, Italy and Spain) ended the year with a loss.
The German stock market performed a lot better than most other European indices, with an annual gain of 16%, thanks to the strong export driven economy.
In general, the American stock markets had a better year than their European counterparts, with annual gains of 11% (Dow Jones) to 17% (Nasdaq).
The Dutch small- and midcap indices performed a lot better than the AEX over the past quarter; the ASCX gained 9%, the AMX 13%.
In Germany, the MDAX (+15.5%) and the SDAX (+18%) performed roughly in line with the DAX.

On an annual basis, the outperformance of the small- and mid-cap indices was striking: AMX +25%, ASCX +11%, MDAX +35%, SDAX +46%.

Implied volatility

Despite raising concerns over the fundamental global imbalances, the volatility at the stock markets decreased further over the past months, below 20%. Investors seem to be rather confident.

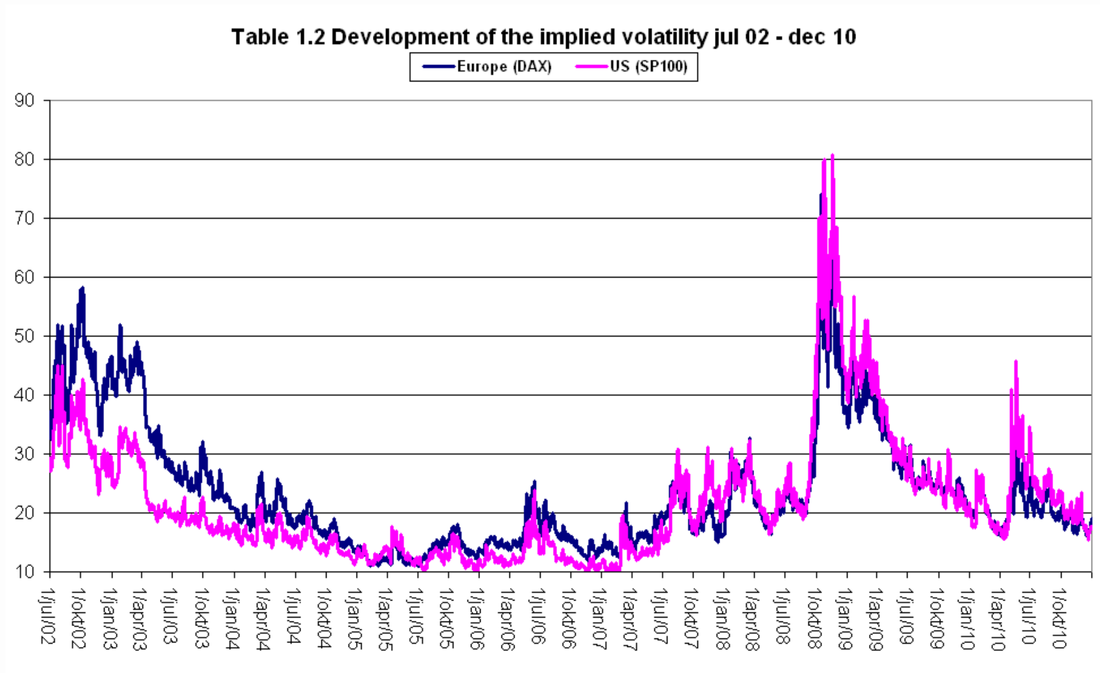

Table 1.2 Development of the implied volatility jul 02 - dec 10

Long-term development

After a strong final quarter (+6%), the AEX managed to finish the year on a positive note, with an annual gain of 5.7%. Although the index didn't break out of the trading range of 360 points yet, the index moved above its 200-day moving average.

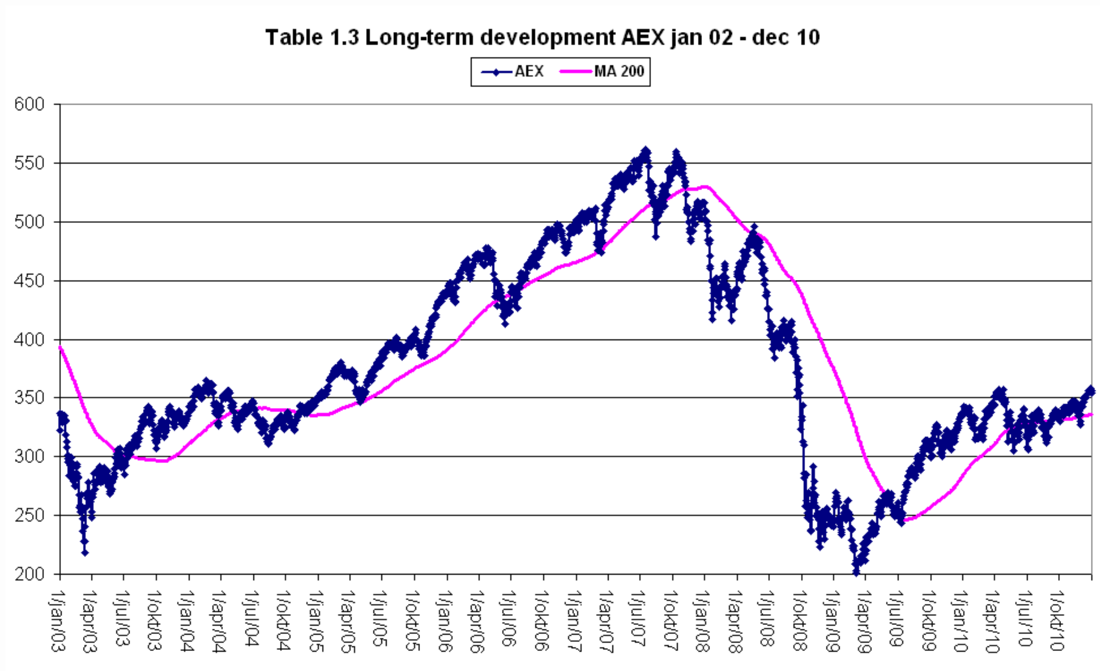

Table 1.3 Long-term development AEX jan 02 - dec 10