GENERAL INVESTMENT CLIMATE

The Economy

After a year with drastic events, such as the escalation of the debt crisis in Europe, the Arab Spring and the nuclear disaster of Fukushima, 2012 is expected to be a difficult year for the world economy.
Economic growth expectations were reviewed downwards several times over the past months. Most European countries are now only expected to see a modest growth of 0.5% to 1.0% in 2012, after growing about 3% in 2011. Several countries are currently already in a recession. The fact that most governments are forced to a tough austerity policy to eliminate the large budget deficits puts the economic growth under further pressure.
To regain confidence and to calm the financial markets, a sustainable solution for the debt crisis in the Eurozone is needed. At the European summit in December, a first step towards more economic integration was taken, by enforcing a tighter budget discipline. Of the 27 member states, 26 (only the Britons are once again not participating) agreed to enshrine the commitment of a balanced budget (i.e. a deficit of maximum 0.5%) in their constitution. Importantly, offenders will be sanctioned automatically this time.
After the European summit the bond markets calmed down and the interest rates of most troubled countries declined somewhat.
A financial system crisis seems to have been avoided. There definitely is a political will to rescue the euro. However, a lot of work remains to be done: rescuing Greece, stopping the contamination of other weak member states, strengthening the European rescue funds and recapitalizing the banks.
According to the latest stress test, the European banks will have to raise 110 billion euro new capital by the end of June, in order to raise their capital ratios up to the required 9 percent.
Whereas the ECB remains reluctant towards directly purchasing government bonds on a large scale, she tries to support the troubled states indirectly; by providing the banks with cheap credits, the ECB hopes that they will (partially) convert this cheap money into government paper, which offers much higher interest rates. The first credit offering of the ECB for a 3-year term (the so-called LTROs, long term refinancing operations) was a huge success, with 523 banks taking up 489 billion euro. This isn't really a surprise, as the banks will only have to pay less than 1 percent.
The European rescue funds EFSF and ESM (which will become operational ahead of schedule in June 2012, as successor of the temporary EFSF) now have a firepower of circa 500 billion euros. According to several experts, this should be raised to at least one trillion euros to calm down the financial markets.
Besides, the IMF has designated 200 billion euros to help solve the European debt crisis. Non-European countries such as Russia and China would be prepared to deliver extra funds in return for a stronger influence at the IMF.
Germany remains opposed to the idea of creating eurobonds, seen by many as the ultimate solution for the European debt crisis.
Nevertheless there are several hopeful signs for the economy: German producer confidence unexpectedly rose again in December, for the second month running, and unemployment in the largest European economy is at a historically low level.
The weaker euro is also positive news for the European industry.

Most companies are now much better prepared for a crisis than in 2008, thanks to restructuring done. The order books are still nicely filled and inventories are at a low level.
The American economy, not so long ago considered as the main concern for the world economy, seems to be holding up better than the European economy after all. The consumer confidence in the US rose to its highest level in six months in December, and unemployment fell back to its lowest level in two and a half years. The economic growth in the US will almost certainly be a lot higher than in Europe in 2012.

Money markets and exchange rates
The ECB lowered its interest rate twice with 25 basis points each in November and December, to 1.0%. Herewith, the interest rate increase that somewhat prematurely was set in earlier in 2011 is cancelled out again. Analysts are expecting a further decrease towards a record low interest rate of 0.75% in the beginning of 2012. With the gloomy economic prospects, interest rates will most probably remain low for quite some time.
The entry of the new president of the ECB, Mario Draghi, didn't pass unnoticed.
Whereas the ECB is statutory not allowed to purchase new bonds on the primary market, the Federal Reserve has injected over two trillion dollars in the US economy since the fall of Lehman Brothers in 2007.
Short term interest rates declined quite strongly in Europe. Long term interest rates continued their downward trend.
The euro fell below the 1.30 dollar mark, ending the year at its lowest level. The European debt crisis certainly plays a large role in the decline of the euro.
On an annual basis, the euro only lost 3% of its value against the dollar though.

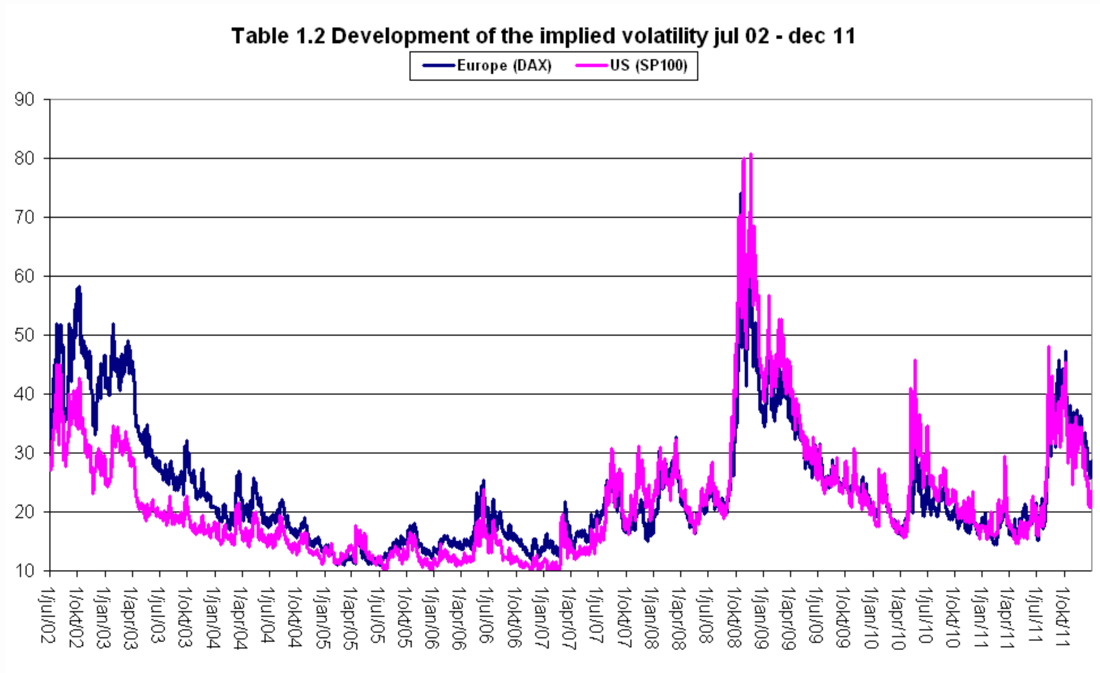
Stock Markets

	31/dec/11	30/sep/11 - 3 mth	30/jun/11 - 6 mth	31/mrt/11 - 9 mth	31/dec/10 - 12 mth
AEX	312,47	11,52%	-8,00%	-14,54%	-11,87%
BEL20	2083,42	-2,25%	-19,01%	-21,74%	-19,20%
DAX	5898,35	7,20%	-20,04%	-16,23%	-14,69%
EU50	2316,55	6,28%	-18,68%	-20,42%	-17,05%
DJ	12217,60	11,95%	-1,58%	-0,83%	5,53%
SP500	1257,60	11,15%	-4,77%	-5,15%	0,00%
Nasdaq	2605,15	7,86%	-6,07%	-6,33%	-1,80%
EUR/USD	1,2959	-3,20%	-10,64%	-8,47%	-3,20%
EUR 3 months	1,3560	-0,1980	-0,1910	0,1170	0,3500
EUR 10 year	2,1880	-0,0970	-1,1550	-1,4540	-0,9660

After a nice market recovery in 2010, 2011 turned out to be a bad year for the stock markets again.
Despite a strong fourth quarter, with gains of 10% and more (thanks to a very good month of October), most European stock markets suffered losses of 10% to 20% over 2011. The European debt crisis obviously is the main reason for this poor performance.
The American stock markets strikingly performed much better, with an annual gain of over 5% for the Dow Jones and only a slight loss of 2% for the Nasdaq. The S&P500 closed the year virtually unchanged. The growth markets (BRIC countries) performed even worse than the European stock markets.
The Dutch small- and mid cap indices performed a lot worse than the main index, with an annual loss of 24% for the ASCX and even 27% for the AMX. Further analysis shows

that this is mainly due to the strong performance in the AEX of the heavyweights Royal Dutch Shell and Unilever. In the fourth quarter these indices weren't able to recover: the ASCX lost 6%, the AMX only gained 0.5%. In Germany, the MDAX (-12%) and the SDAX (-15%) performed more or less in line with the DAX on an annual basis. In the last quarter of 2011, the MDAX gained 7% and the SDAX 2%.

Implied volatility
After a couple of turbulent months, the volatility of the stock markets ebbed away towards the end of the year, to a more normal level of just above 20%.



Long-term development
The AEX was able to somewhat limit the losses this year. Meanwhile, a lot of shares are historically cheap according to various valuation measures, even when taking the less good economic climate into account.