GENERAL INVESTMENT CLIMATE

The Economy

The year 2012 was marked by regained confidence at the financial markets. The European debt crisis is under control – for the time being at least – mainly thanks to bold action of the president of the ECB Mario Draghi, who in his maiden year was able to convince the financial markets that the existence of the euro is not in danger.

A lot of member states of the Eurozone are still in recession and with the austerity measures that are currently in place no real improvements are to be expected in the short term. Economic activity is rather weak and unemployment remains high in most countries.

There are also positive signals though. German producer confidence, which reached its lowest point in two and a half years in October, was able to halt its negative trend. The IFO index rose for the second consecutive month in December, an encouraging indicator showing that the engine of the European economy isn't breaking down. The problem countries in the periphery are also showing first signs that the drastic structural reforms are starting to pay off.

The growth of the world economy will not come from Europe this year either. Most economists lowered their growth forecasts over the past months. The Eurozone is now expected to only achieve zero growth in 2013, what nevertheless already is an improvement versus the expected decline of 0.4% for 2012. A real economic recovery is only expected in 2014.

Once again the emerging economies will have to lead the way, with China as frontrunner. The Chinese economy is expected to grow 8% this year. The government is facing the challenge to make the growth more consumption driven and thus more sustainable. After a difficult year 2012, the Brazilian economy is also expected to gain traction again.

In the United States the recovery of the housing market seems to persist and there are also positive signs from the labour market. Most analysts expect a moderate growth for the US of about 2% in 2013.

The good news at the start of the new year was that the much feared fiscal cliff was avoided, albeit at the eleventh hour. Both the Senate and the House of Representatives approved the last-minute fiscal deal that the Democratic Party of the re-elected president Obama struck with the Republicans. Hereby a budget crisis, with tax increases and spending cuts for a total of $600 billion automatically coming into force at the beginning of 2013, was averted. This would have almost certainly put the American economy back into recession. Although this imminent threat has now been addressed, the budgetary problems of the US are by no means solved permanently. Within two months a decision will have to be made on the automatic spending cuts (amongst others on the defense budget) which have only been frozen for the time being. Moreover, the US government debt is close to its legal ceiling of 16.4 trillion dollars, making structural saving measures inevitable.

The oil price has remained rather stable over the past quarter at a level of around 110 dollars per barrel.

Inflation in the Eurozone declined to 2.2% in November.

Due to the large scale exploitation of shale gas in the US, oil and gas prices are decoupling. US gas prices are four times lower than the European, which is beginning to undermine the competitive position of the European heavy industry.

The question is whether Europe can afford to stay on the sidelines for environmental considerations.

According to many, shale gas is a real game changer which could turn the US from a net importer into a net exporter of energy sources.

Money markets and exchange rates

The ECB has kept its main interest rate unchanged at the historic low level of 0.75% since July 2012.

In December the Federal Reserve decided that the policy of monetary easing will be continued. In 2013 the Fed will buy 45 billion dollars of long term government bonds per month.

Bernanke also announced that the extremely supportive monetary policy from now on will be linked to two criteria: an unemployment rate above 6.5% (currently at 7.7%) and inflation expectations for the coming years. According to some, Bernanke, who previously said he would keep interest rates extremely low until 2015, is herewith preparing the markets for an exit from the historic low level of interest rates, which are at 0-0.25% since the end of 2008. Anyway such increase shouldn't be expected in the near future.

The euro climbed to its highest level against the dollar for over seven months in December, finishing the year at 1.32 dollar, a quarterly gain of 2.6%.

On an annual basis the euro, apart from a temporary dip in the summer, remained relatively stable at a level of around 1.30 dollar.

Stock Markets

Table 1.1 - General

	31/dec/12	30/sep/12 - 3 mth	30/jun/12 - 6 mth	31/mrt/12 - 9 mth	31/dec/11 - 12 mth
AEX	342,71	6,04%	11,52%	5,93%	9,68%
BEL20	2475,81	4,32%	11,14%	6,53%	18,83%
DAX	7612,39	5,49%	18,64%	9,58%	29,06%
EU50	2635,93	7,40%	16,39%	6,40%	13,79%
DJ	13104,10	-2,48%	1,74%	-0,82%	7,26%
SP500	1426,19	-1,01%	4,70%	1,26%	13,41%
Nasdaq	3019,51	-3,10%	2,88%	-2,33%	15,91%
EUR/USD	1,3192	2,59%	4,15%	-1,14%	1,80%
EUR 3 months	0,1870	-0,0330	-0,4660	-0,5900	-1,1690
EUR 10 year	1,4990	-0,2170	-0,6040	-0,8300	-0,6890

After a hesitant start of the quarter, the European stock markets started a year-end rally mid November, which resulted in quarterly gains of around 5% for the most important indices.

Despite the weak economic growth, 2012 on balance was a very good year for the stock markets. Most indices gained over 10% on an annual basis. The German star index DAX was the strongest performer with a gain of 29%.

The American stock markets had a weak last quarter, with losses for all three main indices. On an annual basis the American stock markets still performed strongly, although the Dow Jones stayed behind with a gain of 7%.

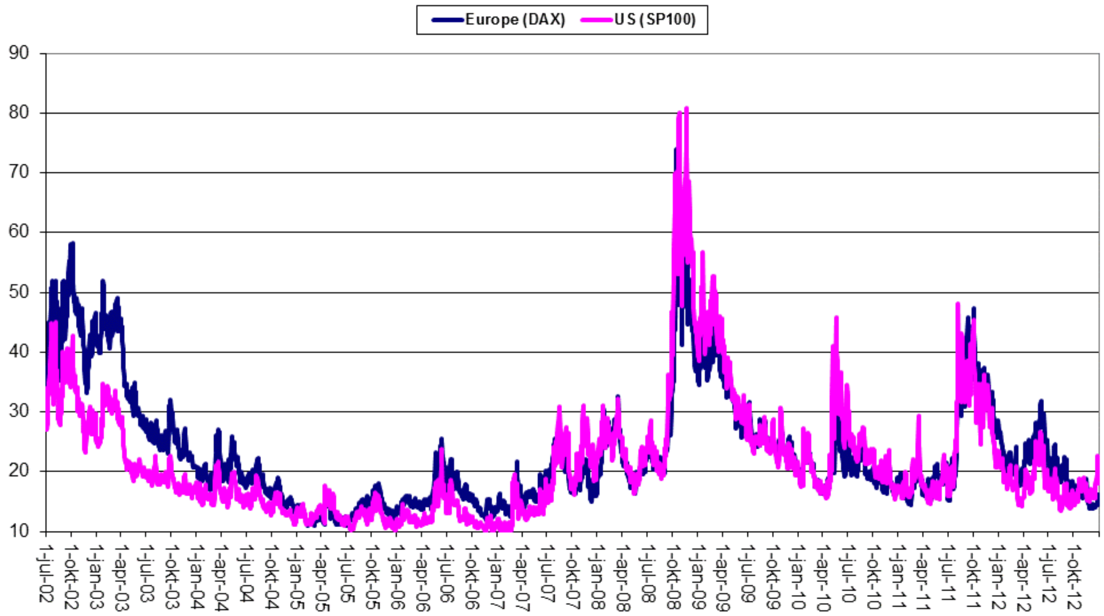
In the Netherlands the small cap index ASCX performed remarkably well in the last quarter, with a gain of 8.3%. The AMX only rose 2.9%. On an annual basis the situation was the other way round: the ASCX gained 7.0% in 2012, the AMX 14.1%.

In Germany the MDAX had a very good final quarter (+8.5%), whereas the SDAX (+4.9%) performed in line with the DAX. Over the full year 2012 the MDAX gained an impressive 33.9%; the SDAX lagged behind but still increased 18.7%.

Implied volatility

The volatility of the stock markets remained low over the past months, although there was a slight increase to above 20% in the US towards the end of the year, due to the looming fiscal cliff.

Table 1.2 Development of the implied volatility jul 02 - dec 12



Long-term development

In the final quarter of 2012 the AEX gained 6% and thus continued its good run that started in the summer. Finishing 2012 at 343 points, close to its highest level of the year, the AEX was able to record a nice annual gain of nearly 10%.

Table 1.3 Long-term development AEX jan 02 - dec 12