GENERAL INVESTMENT CLIMATE

The Economy

Over the past year 2013, confidence in a recovery of the economy was gradually restored. In Europe, the long-standing recession finally came to an end in the second half of the year, and in the United States there are clear signals that the economy is shifting into a higher gear.

However, the growth of the world economy in 2013 was hampered by some less positive developments in the emerging markets. After the strong growth of the past decade, several of these countries now seem to have reached their limits.

Whereas countries like Brazil and Russia in the past were able to benefit from the strong rise in raw material and energy prices, the economic success story of China was based on the combination of the abundant availability of cheap labour and a strongly centralized economic policy. At the pentannual meeting of the communist party, the transition of China from an export driven to a consumption driven economy was announced. Besides, the political leaders decided that the Chinese economy will gradually be liberalized further over the coming years.

Sustainable long term economic growth will only be possible in these countries if the necessary political, social and economic reforms are implemented.

During the last quarter of 2013, there were encouraging signs on both sides of the Atlantic Ocean that the economic recovery is gaining traction.

In Germany, producer confidence increased further in December, and consumer confidence reached its highest level in over six years.

The contrast with France is striking. France is increasingly losing competitiveness due to a lack of structural reforms and its state-heavy economy.

On the other hand, the problem countries in the European periphery are slowly climbing out of the doldrums. Nevertheless, the economic growth of the Eurozone as a whole will remain modest over the next years. For 2014, most economists only expect 1% to maximum 1.5% growth. The drastic savings and higher taxes that most governments had to carry through to get public finances back on track put a brake on the economic recovery.

In the United States, the political deadlock finally came to an end; Democrats and Republicans were able to reach a last-minute agreement on an increase of the debt ceiling.

The budget deficit will decrease to 4% of GDP this year, after reaching 10% in 2009.

Meanwhile, positive signals over the American economy keep showing up. The situation at the labour market is continually improving. The unemployment rate declined to 7% in November, the lowest level in five years. Private consumption and corporate investments are moving in the right direction, and the recovery of the housing market is also continuing, with a strong increase of the number of new build houses and strongly rising house prices.

In the third quarter, the US economy grew 4.1% on annual basis, the strongest growth since two years. For the full year 2013 a growth of more than 2% is now expected. In 2014 and 2015 the US economy will grow by 3% or more according to most economists.

The oil price remained relatively stable over the past quarter, at a level of about 110 dollar. Herewith, we are back at the level of the start of 2013.

The inflation in the Eurozone declined to 0.7% in October, the lowest level in four years. In November there was a slight recovery to 0.85%.

Money markets and exchange rates

At the beginning of November, the European Central bank rather unexpectedly decided to lower its basic interest rate from 0.5% to 0.25%, a new historic low. ECB president Draghi also hinted at the possibility of a further decrease. Herewith, the ECB reacts to the changed inflation outlook; a long period of low inflation is now being expected.
Besides, president Draghi also announced that banks will be able to lend money at the ECB without limitations until at least mid 2015, one year longer than promised before.
In the US, the Federal Reserve decided mid December that they will start tapering. From January onwards, the purchasing program of government bonds will be reduced from 85 to 75 billion dollar per month. As the economic situation in general and the labour market in particular is improving, a phasing out of the stimulation program becomes possible.
The basic interest rate will nevertheless remain at the current level of 0% to 0.25% for a long time to come, even when the unemployment rate falls below 6.5%, which was previously mentioned as criterion for a possible interest increase.
The euro continued its upward trend in the fourth quarter of 2013, ending the year at 1.37 dollar, an increase of more than 4% on an annual basis.

Stock Markets

Table 1.1 - General

	31-dec-13	30-sep-13 - 3 mth	30-jun-13 - 6 mth	31-mrt-13 - 9 mth	31-dec-12 - 12 mth
AEX	401,79	7,17%	16,60%	15,42%	17,24%
BEL20	2923,82	4,34%	15,74%	12,79%	18,10%
DAX	9552,16	11,14%	20,01%	22,54%	25,48%
EU50	3109,00	7,46%	19,46%	18,48%	17,95%
DJ	16576,70	9,56%	11,18%	13,71%	26,50%
SP500	1848,36	9,92%	15,07%	17,79%	29,60%
Nasdaq	4176,59	10,74%	22,72%	27,82%	38,32%
EUR/USD	1,3743	1,60%	5,63%	7,20%	4,18%
EUR 3 months	0,2870	0,0620	0,0690	0,0760	0,1000
EUR 10 year	2,2340	0,0710	0,1120	0,4640	0,7350

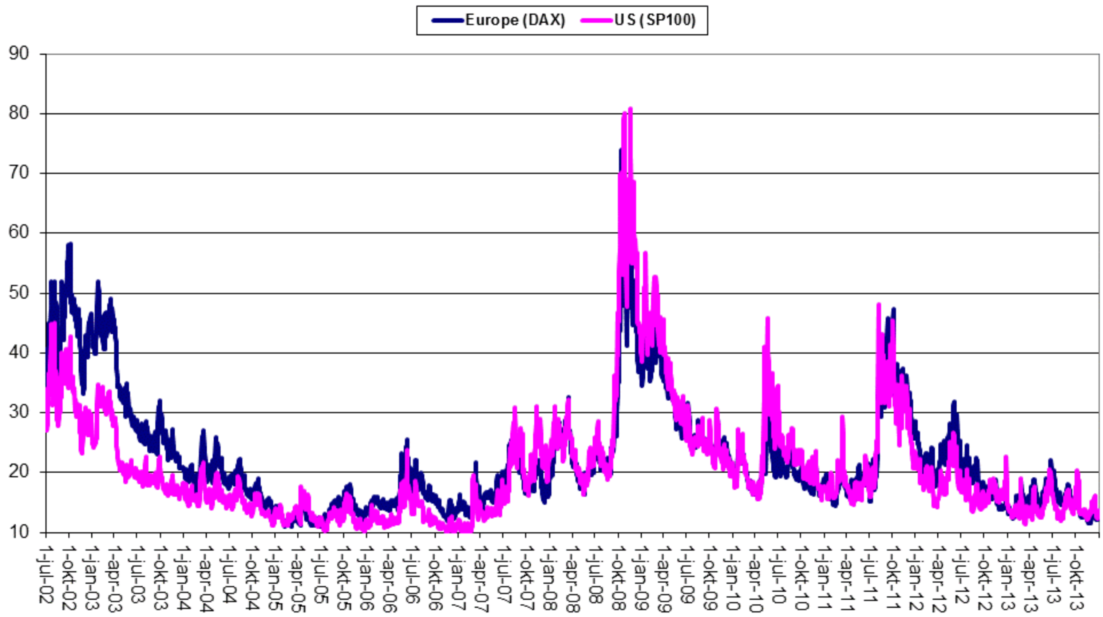
The stock markets continued their upward trend in the fourth quarter, with gains of 5% to 10% for most important indices.
The German DAX index was once again the star performer, with a gain of 11%.
On an annual basis the DAX even increased more than 25%, reaching a new all-time high end of December. Most other European stock markets also recorded very nice gains for the second year running.
The American stock markets performed even better than the European, with annual gains of around 30%. European investors should take the weak American dollar into account though.
In the Netherlands, the ASCX performed in line with the main index in the fourth quarter, with a gain of 7.3%. The AMX was able to outperform, increasing 9.9%.
In Germany, the SDAX (+6.2%) and the MDAX (+10.2%) both performed somewhat less well than the DAX in the fourth quarter.
On an annual basis, the small- and midcaps in general were able to outperform the main indices. In the Netherlands, the AMX increased nearly 18%, and the ASCX even finished the year 26% higher.

In Germany, the SDAX increased by 29% in 2013 and the MDAX was even able to record an annual gain of 39%.

Implied volatility

On both sides of the Atlantic Ocean volatility remained very low during the fourth quarter. The financial markets were a lot calmer in 2013 than in previous years.

Table 1.2 Development of the implied volatility jul 02 - dec 13



Long-term development

The AEX was able to continue its upward trend during the last quarter of 2013.
The Dutch main index finished the year at 402 points, a quarterly gain of over 7%.
On an annual basis the AEX gained 17%, its best performance since 2009.

Table 1.3 Long-term development AEX jan 03 - dec 13