2[nd] half 2007

Global Perspectives – n°45

It is obvious that after the turbulent times we have gone through since mid-July, it is time for an update on our Global Perspectives.

Where does CapitalatWork see value ?

1. There is little or no value in Government Fixed Income, after 4-months of "act-first, think-later" flight-to-safety. We do have a preference for Inflation-linked Govies over Nominal Govies as discounted inflation is low.

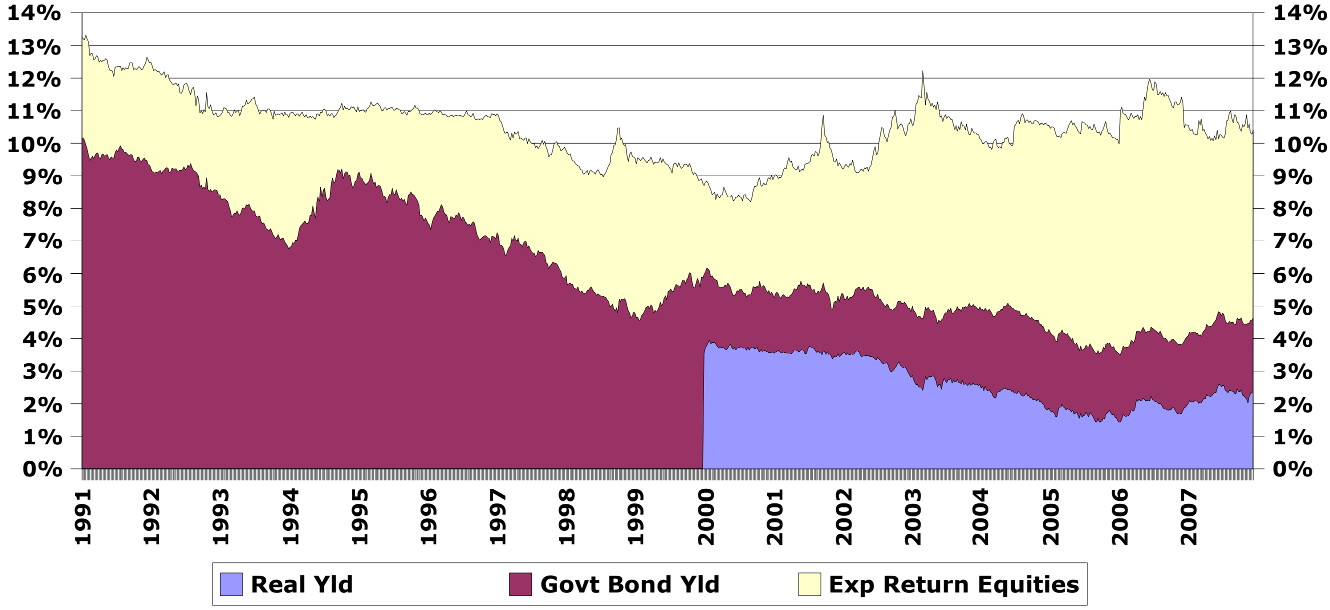
2. There is again value in Corporate Fixed Income. This certainly includes Financials but selectivity is key.

3. There is substantial value in Equities in general. There is more value and less risk in companies exposed to Global Economic Growth. Our Globalization at Work theme is still in place.

4. The USD decline versus the Euro is basically over.

5. Emerging currencies in general and Asian currencies in particular are where the value is. Their upward adjustment versus the USD and the Euro over the next ten years is the next major move. Volatility and complexity guaranteed.

Expected Return European Equities
Available Nominal Govt Bond Yld
Available Inflation-Linked Real Yld



Although over the last few weeks the news flow on the US Residential Real Estate Market has remained grim, we think the more general environment has improved significantly.

Since the eruption of the crisis in July07, we have been worrying about a financial accident and accidents have happened but they haven't caused a systemic crisis yet and our conviction today is that we won't have one notwithstanding the fact that the credit crunch is for real.

The way out of the crisis goes through recognition of the problem, disclosures, write-offs, recapitalizations where needed, government intervention and ... lower interest rates.

Interest rates, short and long, have come down and central banks have the potential to bring short rates even lower if needed. If the credit crunch were to continue unabated, inflation-worries would be crushed along with it.

The financial services industry participants have worked very hard over the last few months to get a clear view of their exposures, to quantify potential losses, to write-off part of the losses (there is probably more to come) and ultimately to asses their capacity to maintain their business model and possibly grow it.
For some, the above process has already led to the toughest of conclusions, a recapitalization being necessary. Over the last few weeks we have indeed seen some major recapitalizations at fire-sale prices: Countrywide, Citigroup, FreddieMac, Fortis, etc ... UK's Northern Rock is in the process and others will most probably follow. Interbank rates remain stubbornly high but we think the problem is being processed.

The US government has just disclosed how it plans to intervene (during an election year !) without using taxpayer's money. It comes down to a forced recognition of the problem. Indeed freezing adjustable mortgage rates will force more write-offs of losses which would have happened anyway through foreclosures.
As said higher, central banks will ease the swallowing of the pill through lower interest rates.
The US treasury is still sponsoring a privately funded super fund to invest in the highest-quality mortgage bonds.

During this turbulent period we have put in place some option-based protections at zero cash cost to the portfolios and our equity funds. If they will prove to be too conservative and possibly ill-timed, so be it.
Our worries were genuine and these protections increased our and our clients' chances of staying calm.

Beyond the US Real Estate Market ...

We have been touting the "Globalization at Work" theme for more than four years, which was and still is right on the mark.
On top of that we have had great USD-hedges in place which have shielded our investors from USD weakness.
At the end of June our portfolios and funds were doing great in absolute and relative terms.

Since the end of June our funds & portfolios have underperformed because we are light on defensive stocks like telecoms, utilities and IT's and overweight economic-sensitive stocks. Look at the weakness in our advertising-sensitive media stocks or in our construction & materials related stocks for an illustration.
Our bond funds are underweight government bonds and overweight corporate bonds, including financials.

There are no reasons to worry, on the contrary.

We are owners of GREAT COMPANIES, active all over the world for their manufacturing and for their revenues, huge generators of Free-Cash-Flow with very strong balance sheets and therefore little or not dependent on credit, AT LOW PRICES.

The valuations of most of these stocks lead me to this bold statement "a wall of worry masks a mountain of opportunity".

We have gone through turbulent times before and we therefore advise our relations to stay calm and stay focused on the fundamentals!

Our portfolios are going to rebound handsomely, it is just a question of when ? not if !

Ivan Nyssen, 7 December 2007