

Peer Group:

Global Bond Funds in Euro Hedged

Investment Objective:

Total Return

Fund Manager/Adviser:

Erwin Deseyn (since launch), Peter de Coensel (since June 2005)

Location:

Brussels

Launch Date:

September 2000

Fund Size (January 2008):

€222m

Fund Benchmark:

75% JPMorgan Global GBI Hedged

Eur + 25% JPMorgan Global GBI

Unhedged Eur

Group Contact No:

+352 254 701 9282

Website:

www.capitalatwork.com

S&P ID Number:

OS503109

Share Class screened:

Cap

Further information on S&P's fund coverage can be found at

www.funds.standardandpoors.com



Performance Data Source - © 2007 Morningstar, Inc. All Rights Reserved. All statistical data on this report has been run to 31/12/2007 on NAV to NAV basis, with gross income reinvested, in .

STANDARD & POOR'S OPINION (FEBRUARY 2008)

Although the fund is assessed against an index comprising 75% JPM Global GBI Hedged into euros +25% JPM unhedged, in practice the fund is likely to deviate markedly. In particular the fund tends to hold larger holdings of corporate paper than others in their peer group.

During 2007, overall corporate holdings increased from around 50% to 79%. In their search for yield and value, the managers will invest in sub-investment grade paper and move down the capital structure of the company. High yield paper has also increased from 10% to 18% over the year. The managers also invest in structured notes, where we have concerns regarding both the instruments' liquidity and pricing.

In a fund that deviates markedly from a benchmark, tracking error is of limited value. VaR is not used and portfolio risk is contained by the managers' experience and by internal portfolio restrictions.

The fund underperformed the peer group median in 2007, as is to be expected given its high exposure to credit. The CMS floaters also underperformed, because swap curves did not steepen much, although government curves did. There was strong retail selling of these types of issues. However, the emerging market holdings did better and added some value.

The stable process and objective, together with the experienced managers, enable the fund to retain its S&P A/V4 rating.

FACT FILE

Group: Capital@Work is an employee-owned company that applies an intrinsic value approach to all of its mandates. Originally based in Brussels, the group now has seven offices in five European countries.

Team: The group's 13 equity research analysts carry out fundamental research on corporate bond issuers. The fund managers perform interest rate positioning and bond selection.

Fund Manager: The two managers, Erwin Deseyn and Peter de Coensel, each have more than 15

years' experience in fixed income trading and portfolio management.

Style: This euro-biased fund aims for high current income by investing in a bottom-up fashion in corporate bonds, while keeping duration between 4 and 7 years, and with up to 30% in inflation-linked bonds.

Performance: Over the five years to 31/12/2007 the fund has returned 19.3%, compared with 10.2% for the sector median and 18.8% for the index, ranking 12/96.

FUND MANAGER & TEAM

Capital@Work manages €850m in bond assets. Fund managers Erwin Deseyn and Peter de Coensel are the house fixed income specialists, with CIO Ivan Nyssen leading the house macroeconomic outlook. There is also a risk manager, recruited in 2007. The 13 research analysts cover the equity and bond issues of companies. They are sector specialists, but for idea generation they act as generalists. Corporate bonds are valued according to the same methodology based on a proprietary model. Main members for this fund are:

Erwin Deseyn - economics (Katholieke Universiteit Leuven), started his career in 1991, working at Bacob and Générale Bank, before joining Capital @Work in 1999. He specialises in credit decisions.

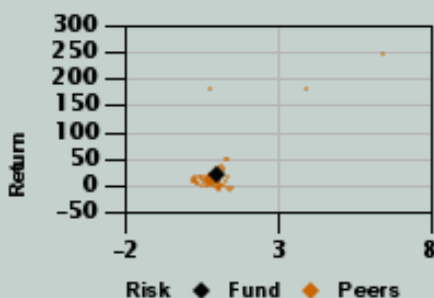
Peter de Coensel - MSc European economics (ULB), began his career as a fixed income trader in the early 1990s and worked at BBK, ABN Amro and CDC Paris. He joined Commodities Corp in 1994 and moved to IBM as a consultant in 2000. He joined Swiss Life Belgium in 2003 and moved to Capital@Work in 2005.

Ivan Nyssen - CIO - economics (RUCA Antwerpen), started his career with Lehman Brothers in 1987, moving to Capital@Work three years after the company was founded in 1994. He is the company's chief strategist.

INVESTMENT STYLE

	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			

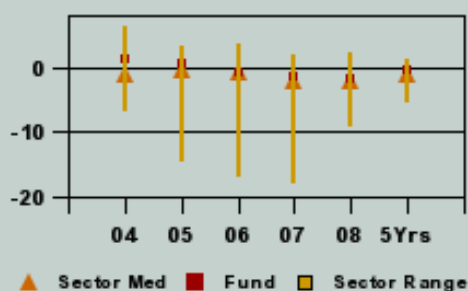
RISK RETURN (STD DEVIATION) OVER 5 YEARS



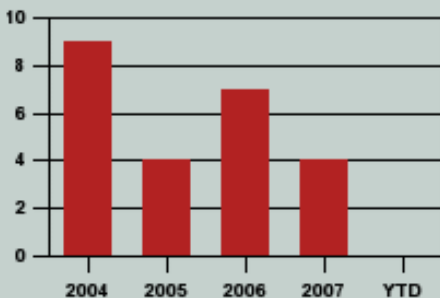
3 YEAR RISK CHARACTERISTICS

Maximum Drawdown (%)	Low	-5.6
Volatility	Low	3.5
Correlation	Medium	0.3
Beta	High	0.3

SHARPE RATIO VS PEER GROUP



CALENDAR YEAR DECILE RANKS



Decile ranking in annual periods. 1st decile shown as rank 10, 2nd decile as rank 9, etc. to 10th decile as Rank 1.

PORTFOLIO CHARACTERISTICS

No. of holdings	122
Turnover ratio (%)	25 est
Modified duration (years)	4.31
Portfolio yield (%)	N/A

SOURCES OF RETURN (01/01/08)

	Low Emphasis	Average Emphasis	High Emphasis
Portfolio Duration	██████████		
Credit Spreads			██████████
Country / Sectors		██████████	
Yield Curve Positioning	██████████		
Currency Exposure		██████████	
Derivatives		██████████	
Trading Strategies	██████████		
Quant. Value Techniques	██████████		

BREAKDOWN BY CREDIT RATING (01/01/08)

	%
AAA	4.0
AA	10.0
A	35.0
BBB	32.0
BB	11.0
B & below	1.0
Unrated Securities	6.0
Cash	1.0

Ucits III permits net fund exposure to be less or greater than 100%.

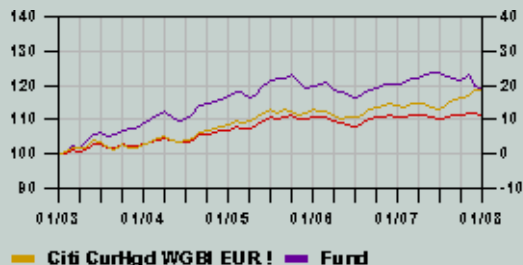
PORTFOLIO EXPOSURE

	Fund	
	Bond	Curr
North America	6.0	3.0
Europe (ex UK)	58.0	74.0
United Kingdom	0.0	0.0
Japan	4.0	4.0
Others	27.0	19.0
Cash	5.0	0.0

PERFORMANCE STATISTICS

	3 Years	5 Years
Fund	2.2%	19.3%
Standard & Poor's Peer Median	3.6%	10.2%
Index**	9.4%	18.8%
Fund Rank	86/126	12/96
Annualised Standard Deviation	3.5	-
Relative Standard Deviation	1.4	-
Volatility Adjusted Ranking	88/126	-

CUMULATIVE PERFORMANCE



BONDS@WORK

Peer Group: Global Bond Funds in Euro Hedged



MANAGEMENT STYLE

- The fund is managed in a value-driven style, aiming to deliver alpha over a global government bond index: 75% JPM Global GBI hedged in euros and 25% JPM Global GBI unhedged. It invests in corporate bonds, although up to 10% may be held in high yield bonds. Added value may come from sector allocation, individual credit selection and others (including emerging market and inflation-linked bonds).
- Analysts, who cover both equities and credit, assess balance-sheet strength and provide internal estimates of enterprise value, free cashflow and growth on companies followed. An in-house valuation

model is used to compute relative credit valuation ratios. Free cashflow relative to market value of capital employed is key.

- The managers determine credit selection and asset allocation, based on the analysis of credit spreads, expected inflation, and equity risk/premium levels. Overall duration is kept in the range 4 to 7 years, but can be distorted due to the inflation-linked bond component.
- Corporate bond holdings can include structured notes. Convertibles and baskets of reverse convertible bonds (where performance suffers if the equity rises) may also be held.

PORTFOLIO REVIEW

At the time of review the fund held 20% in government bonds, including 5% in Poland and 1.5% in South Africa and 1% in Japanese index-linked bonds. It added exposure to Asian investment grade government bonds in November by buying an ETF.

Agricole, Nordea and Santander. In financial bonds, 3% are perpetual with step-ups, and 5% are fixed-rate perpetuials.

A further 78% was held in corporate bonds, of which 32% was held in financials and 46% in non-financials. In index-linked bonds, 2% was held. Financials included a 12% holding in a structured bond, Tier 1 CMS, where underlying names include Axa, Credit

One-third of the portfolio was invested in each of single-A and BBB rating bands, with a further 1.2% in Brazil and Turkey, both of which are rated BB. Turkey was bought in the first and third quarters of 2007, and Brazil had been held since 2006. The fund has a 1.2% holding in Tui, which was downgraded twice in 2007 to single-B.

PERFORMANCE ANALYSIS (JANUARY 2008)

Relative performance was strong in 2006, but slipped in 2007 to third quartile, leaving the fund third-quartile over three years cumulatively and top-quartile over five years. Volatility, however, remains significantly above median.

were reviewed and only one name caused concern.

Performance was in line with the benchmark until the downturn in the credit markets, resulting from the subprime crisis in the third quarter. All the credit names in the portfolio

The Tier 1 CMS financial paper has coupon resets, based on 10-year swap rates, and performs best in a bearish yield curve steepening. Government curves steepened markedly in 2007, but swap curves did not; these bonds did poorly, but Capital@work is taking a long-term view on this investment.

The managers made money on Turkish lire and Brazilian real, but not on other currencies.

DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004		2005		2006		2007		YTD 31/12/2007	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	7.3	15/113	2.4	86/127	0.7	42/130	-1.0	91/132		
Index**	5.5		4.0		0.9		4.3			
Median	4.2		3.3		-0.2		0.1			

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