

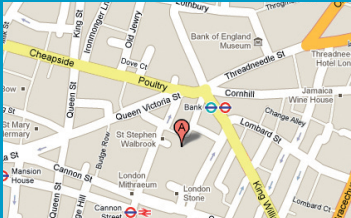
Distinct^o Breakfast Briefing

Part of the WDSScott Group

**WEDNESDAY 19TH
JANUARY 2011**
8.00AM

LOCATION:

THE WALBROOK CLUB,
37A WALBROOK,
LONDON, EC4N 8BS



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WHAT DID WE LEARN IN 2010 AND WILL 2011 BRING MORE OF THE SAME?

SPEAKERS:

David B Smith

Chairman of the Shadow Monetary
Policy Committee

James Mackintosh

Investment Editor, The Financial Times

On Thursday 4th February, Distinct Business Consulting hosted a Breakfast Briefing titled "WHAT DID WE LEARN IN 2010 AND WILL 2011 BRING MORE OF THE SAME?" for its clients and guests. Senior executives from the banking, insurance and private equity sectors listened to two speakers provide their prognosis for the UK and the wider global economy. Both speakers attended the Distinct Breakfast Briefing in February 2010 and returning this year, were able to provide insightful commentary on how their forecasts had performed.

Despite recent predictions of a strong bull market in 2011 and a consensus that markets have stabilised following the "mother of all shocks" both speakers remained pessimistic over the medium term.

Our first speaker was David B Smith, Chair of the Shadow Monetary Policy Committee. David opened the discussion by reminding the audience that we are in the early stages of massive shift of economic and geo-political power from the 'Old West' (including Japan) to the 'Rising East' and 'New South'.

"...in the early stages of massive shift of economic and geo-political power"

David went on to outline on the macroeconomic situation and in particular his view that 'it looks as if the international and British economies are gradually returning to their earlier trends'. In hindsight, the US governments' decision to allow Lehman Brothers to fail can now be seen as potentially the most expensive economic mistake ever.

"...it's like being on a plane when struck by lightning, there is a big shake and whilst you can continue thereafter, time is required to regain confidence"

In the UK he forecast a period of slower monetary growth, combined with a deteriorating current account deficit. Furthermore, the loose stance on interest rates is having the effect of increasing saving rather than stimulating UK spending.

"...The increase in VAT to 20% will make the deficit worse not better"

David pointed out that the UK is holding up better than many of its European neighbors and forecasts show the UK growing on average 2.5% during 2011 before easing slightly during 2012 and 2013 to around 2.4%.

James Mackintosh, Investment Editor at the Financial Times, largely echoed David's position, highlighting that market sentiment remains high.

The day before the Distinct briefing, the FTSE 250 index of mid-sized British companies reached its highest level since 2007 and pointed to a forecast from Goldman Sachs expecting a 19% increase in the S&P 400 which also set a new all-time high a few days earlier.

The major indices, which are dominated by the large financials, have failed to match the progress of the smaller stocks. Although in the case of the Dow Jones Industrial Average, and stripping out the financials, the index has recovered its 2007 levels. Reflecting this, institutional investors are currently the most overweight on equities and underweight fixed income since 2007.

"It's a good time to be a contrarian..."

However James did sound several notes of caution. In the UK austerity measures will impact heavily on growth. He also pointed out that the UK has all the indicators pointing to a continued bursting of the housing bubble. Interesting of the leading global economies, the UK is one of only two which still have property bubbles in economic terms.

Distinct° Breakfast Briefing

Past experience has shown that such levels of optimism have tended to be a precursor to a correction which could be between 5-10% before the end of Q1 with equities then moving towards strong growth for the remainder of 2011. Subsequent falls are likely to be preceded by falls in corporate profits and / or margins.

Past experience has shown that such levels of optimism have tended to be a precursor to correction – potentially between 5-10% before the end of Q1, with equities moving towards strong growth for the remainder of 2011. Subsequent falls are likely to be preceded by falls in corporate profits and / or margins. **“... the US deficit is at a 50 year high”**

In the US, James pointed to a fundamental economic imbalance and overly optimistic view of the market in the short term. Corporate profits reflect the transfer of costs to the Government through increased unemployment and corporate debt has increased to fund share buy-backs at a time when companies should be increasing investment levels. At this level prices can only be maintained by rising consumer or government spending, or continued overseas investment.



At the same time, the US deficit continues to rise and there are no plans by the US Government to reduce fiscal spending.

Q: This prompted a question to the speakers - at what level the US deficit would become unsustainable.

A: in principle the US, while it continues to remain a reserve currency, can continue to maintain a currency deficit but it is unsustainable at this level. The erosion of US economic power due to lax financial government could mean US gradually losing its status as a reserve currency and emerging markets could increasingly seek to shield their currencies against other high growth currencies.

Further afield, China is also showing signs of a housing bubble with prices in parts of Beijing up 800%. Together with rising inflation, that could be the trigger for a fall in global asset prices

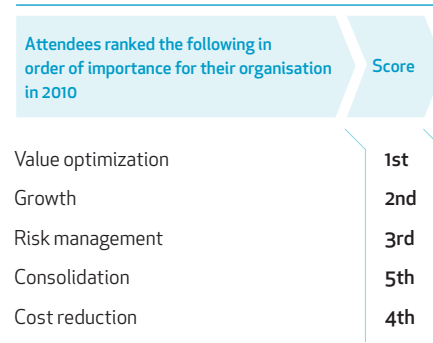
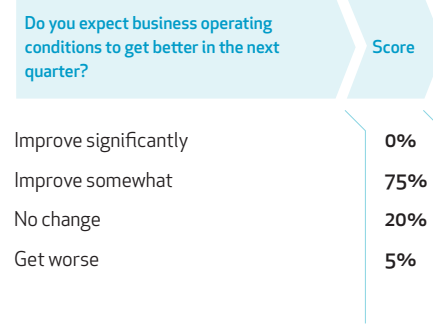
Issues in the Eurozone are centered largely on the ongoing liquidity issues of its banks, so whilst sovereign debt issues remain these have come about largely from economic problems being shifted from the banking sector onto individual governments.

“Regulators don’t think about the macro economic impacts of the decisions they make ... this is particularly true of Basel III”

Q: In answer to a question asking whether the Euro was a doomed currency, and if it does fail what will be the impact on the UK and Sterling, David replied:

A: The key actors are the German people, the German Constitutional Court and the precarious position of Angela Merkel. The German people do not want the burden of a bankrupt Europe on their shoulders – their economy is only now emerging after the years and billions of Euros it took to integrate the former East Germany.

Attendees Views – Pulse Questions



Distinct’s next quarterly Breakfast Briefing will be held on Wednesday 21st April, when the topic we will be investigating is “How any firm can be entrepreneurial?” Our guest speaker for the briefing will be Mike Southon, entrepreneur and author of ‘The Beermat Entrepreneur’.

If you, or a colleague, would like to attend what promises to be another stimulating discussion, please email David Powell at david.powell@distinctpartners.com to receive an invitation.