REYL
ASSET MANAGEMENT

MARKET COMMENTS
EQUITIES & FIXED INCOME

FEBRUARY 28, 2011

ASSET MANAGEMENT

Equities

MARKET COMMENTS - FEBRUARY 28, 2011

Reyl Emerging Markets Equities

- 1,52 %, class USD - February

- 2,81 %, class USD - YTD

More attractive valuations for the satellite countries

ANALYSIS

Over the month of February we have observed the continuation of the trends witnessed in the beginning of the year which saw investors move from emerging markets towards developed countries.

The MSCI Emerging Markets has thus shown a drop of 3.11 % since the beginning of the year, against an S&P500 ahead by more than 5 %. These movements represent a break from the trend established in 2010, and can probably be explained by a desire on the part of investors to reduce risks and take profits, in a context where the tensions in the Middle East and inflationary threats are affecting the morale of the markets.

In this difficult context for bottom-up stockpickers, the Reyl Emerging Markets Equities fund is holding up relatively well; despite an under-performance of 56bps over the month of February, the fund has still outperformed the MSCI Emerging Markets by nearly 1% since the start of the year. The relative stability of the fund over the last two months and the very good performance in 2010 allows the fund to differentiate itself from many competitors over the last 12 months, with an increase of 31.38 % for a volatility of 17.96 %, 2 points below that of its benchmark (see chart).

In particular the fund has benefited from being underweight on the BRIC, less attractive in terms of valuations than more mature markets in 'satellite' countries such as Taiwan, Korea, Hong Kong or even Australia, which is included in our universe to the extent that it has made China the principal destination of its exports. The fund's exposure on the BRIC is limited to 16 % while the exposure of its peer group amounted to 44 % at the end of January.

SNAPSHOT

Reyl Emerging Market Equities

AUM : USD 162 M

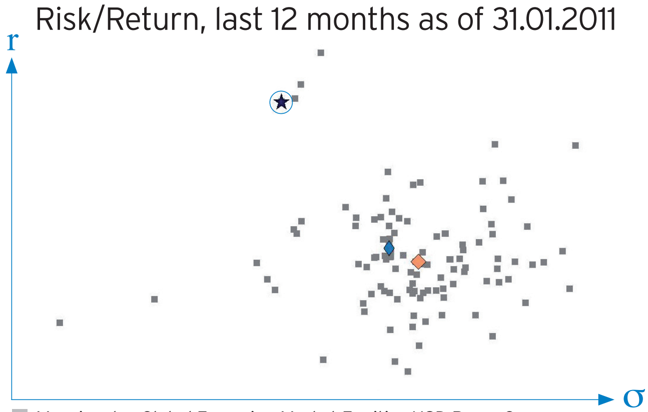
Launch date : 31.07.2009

Performance 2010 : 32.8 % vs 18.9 % MSCI Emerging Markets

Performance since launch : 54,12 % vs. 35,17 % MSCI Emerging Markets

Ranking Morningstar : 1st decile on 1 year

Risk/Return, last 12 months as of 31.01.2011



■ Morningstar Global Emerging Market Equities USD Peers Group
★ Reyl Emerging Markets Equities B
◆ Morningstar Global Emerging Market Equities USD Peers Group Median
♦ MSCI EM NR USD

A return of 31.38% for a volatility of 17.96% over the past 12 months. The Reyl Emerging Markets Equities fund positions itself clearly amongst the best funds in its category.

3 QUESTIONS TO

EMMANUEL HAUPTMANN

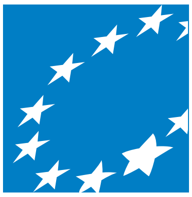
Senior Portfolio Manager

What impact have had the tensions in the Middle East on the performance of the Reyl Emerging Markets Equities fund since the Tunisian crisis?
It has been virtually negligible. The fund has only modest exposure to the countries of this region. In addition, the securities linked to the energy sector are also underweight. The same goes for the Reyl European Equities fund.

With respect to the Reyl European Equities fund, have you increased your Large Caps positions since the beginning of the year?
Only to a limited extent. We have practically stayed with the 2010 allocations. About a third in Large Caps, 40 % in Mid Caps and the rest in Small Caps. Our Large Caps exposure thus remains relatively low. There is no defensive reversal as such. We still consider ourselves in the continuity of the recovery.
The corrections on the Momentum strategies noted in January and February have not brought any major modification. Moreover, the level of beta has remained relatively stable over this period.

What are the significant points to note on the North American Equities fund?
We are strongly overweight on Canada in this fund. The allocation linked to this geographical sector approaches 25 %, with high exposure to commodities and energy. This is due to the attractive valuations and strong growth prospects of securities in these sectors. In a very integrated market such as North America, Canada offers a fine source of decorrelation. The currency effect further adds to this decorrelation.

OVERVIEW



Reyl European Equities

+ 0,95 %, class EUR - february
+ 0,60 %, class EUR - YTD

With regard to European equities, the month of February has seen the continuation of the tendencies noted in January. Wishing to reduce the risks in their portfolios, investors took their profits in large numbers on Small and Mid Caps. The essence of the Reyl European Equities' under-performance in February stems from its Small Caps allocation, which remained at around 30 %. The fund's exposures by sector were not upset by the market movements. The fund remains underweighted with regard to banking, in favour of industrial sectors and discretionary consumer goods.

Reyl North American Equities

+ 3,04 %, class USD - february
+ 4,55 %, class USD - YTD

The fund shows a very slight under-performance vis-à-vis the S&P 500, which registers a 2.58 % progression over the month. This small variation of 20 bps is principally explained by the negative impact caused by the securities' selection in the discretionary consumer goods sector. On the other hand, the fund benefited from good stock-picking in the IT sector. It is also interesting to note that its beta level, close to 1, remains relatively stable in line with its reference index.

Reyl Absolute Return

- 0,21 %, class EUR - february
- 3,73 %, class EUR - YTD

In 2010, the fund registered a 16,56 % increase. Following a difficult month of January, when the portfolio suffered due to its exposure on the Small and Mid Caps segments of the market, the Reyl Absolute Return fund reached a certain level of stability in February. It shows a very slight under-performance of around 20 bps. The weakness of the Momentum strategies continued, but the Value strategies performed well in the last week of the month. Furthermore, the return of our strategies at the end of February leads us to believe that the correction of January has reached its term.

Fixed Income

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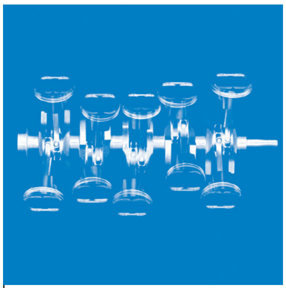


Bond Markets

The direct effects of Middle East tensions

ANALYSIS

During the month of February, the eyes of the bond markets have remained riveted on the geopolitical events in the Middle East and North Africa. The Tunisian and Egyptian revolts have spread to Bahrain and Libya, with direct effects on the price of oil, which has
crossed the level of $100 per barrel. If energy prices were to remain at these levels in the longer term, the consequences would be significant for growth prospects, as well as increasing the risk of inflation – particularly for emerging economies, where energy efficiency is lower.

In the face of this situation, there is once again a totally different approach between the Fed and the ECB. The former prefers to concentrate on the underlying inflation (excluding energy and food), by minimizing the risk of a long-term effect on prices, while the latter claims to be very attentive to the development of prices, inflationary expectations and the second round effects of the increase in commodity prices. However, apart from the rhetorical aspects, it is difficult to imagine the European Central Bank tightening monetary conditions in the current context.

In this uncertain environment, reactions are very different in terms of the various bond indices. In summary, a global Governments index is flat with a zero performance, a global Investment Grade Corporates index shows a gain of + 0.67 %, a global High Yield index + 1.42 %, a Convertible index + 1.42 % and an Emerging Markets index + 0.25 %.

Our Fixed Income approach

REYL Asset Management's Fixed Income investment target is to produce for its investors a Total Return as regular as possible and without the constraints of index replication. Since 2008 we have developed an approach based on tactical allocation within the different segments of the bond market. Only a flexible allocation which is adapted to the cyclical phases (global macro, interest rates and credit) can generate long-term results. We have developed two funds around this principle. The Reyl Quality Bond Fund focuses on Investment Grade quality bonds which aim for returns of 5 – 6 % at a volatility level of 3-4 %. The Reyl Diversified Income Fund works within a larger investment universe which encompasses all bond strategies and aims at higher yields of 8 – 10 % at a volatility level of 5 - 7 %.

ASSET MANAGEMENT

OVERVIEW

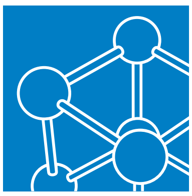
2 QUESTIONS TO

STEPHANE DECRAUZAT
Head of Fixed Income

Which elements continue to play in favour of Corporate credits?
The short answer would be good fundamentals which can still improve and which are still attractively valued. One could also add more visibility, particularly at a time when there are many uncertainties as to the evolution of deficits and public debts. However, one needs to be selective in the choice of sectors and issuers. There are also a number of names where we prefer to stay away, either due to fundamentals or valuation issues.

What would be the risks to take into account in the Corporate sector?
Apart from the elements of credit analysis and the usual ratios, it is advisable to pay particular attention to regulated sectors, where the risks of a new regulation could call into question current analyses. Merger/acquisition risks also play an important role in our analyses, as well as companies which are very generous towards their shareholders to the detriment of their creditors.

Reyl Quality Bond
+ 0.42 %, class E - february
+ 0.73 %, class E - YTD
As in the previous month, a general trend has not emerged within the bond markets. In such an environment, the Reyl Quality Bond fund has returned by + 0.42 %, a result in line with the level of the average coupon on the portfolio. By way of comparison, the composite "neutral exposure" index gained + 0.36 % during the month.The Corporates sector once again outperformed the Governments sector, with the financial issuers outperforming the industrial issuers. In the context of technical and tactical markets, our selective approach finds an environment which is rather positive. We have not been very active in the primary market, where opportunities are scarce.
We maintain our strong conviction on the credit space in general and for quality corporates with reasonable valuations (about ✥ of our exposure). Our selection of themes and sectors remains unchanged compared to the previous month.
With regard to the principal metrics of the fund, the average yield is at 5.05 %, the average OAS spread is 248 bps, and the average adjusted duration 4.92.



Reyl Diversified Income
+ 0.72 %, class E - february
+ 1.19 %, class E - YTD
The High Yield and Convertible strategies have had a very positive month in comparison with the previous month. However, as the yield differential between the HY and IG Corporates decreases, the differences between performances likewise tend to diminish.
In our tactical allocation, we have completely cut our opportunistic positions in ABS/CLO, which have performed well but their upward potential seems to be exhausted. We have redeployed the capital in the direction of quality names, and have also put in place positions in order to take advantage of an expected flattening of yield curves.
With regard to the principal metrics, the average yield is 6.20 %, the average OAS spread is 305 bps, and the average duration 6.85.

REYL ASSET MANAGEMENT

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IMPORTANT INFORMATION