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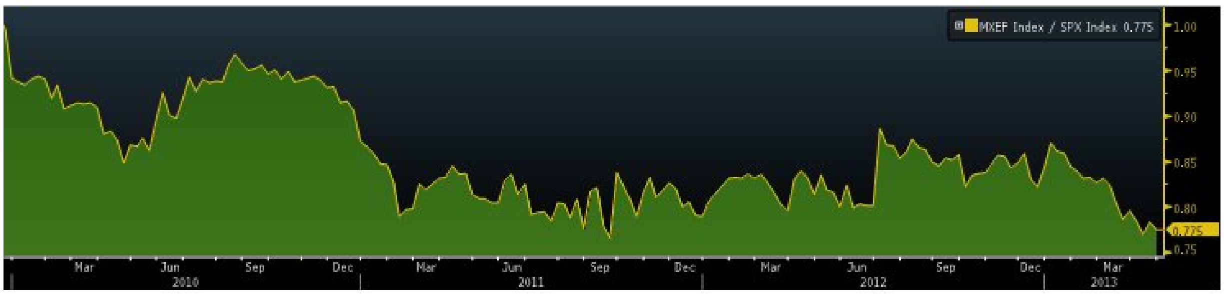
Monthly Commentary 2nd May 2013

Markets were mixed in April, with equities and bonds generally stronger and commodities much weaker. So while world equities rose about 2% and benchmark government - as well as high yield bonds - were well up, the likes of gold, oil and copper fell more than 7% - a large drop even by commodity standards.

Within equities there was a large divergence in performance, with defensive sectors and regions doing much better. For example healthcare handily outperformed materials while Japan, with an 8% gain, trounced Emerging Markets which were flat.

Looking at valuations, Emerging Market Equities are now trading at the highest discount (of 22.5%) to US equities in more than 4 years. The chart below shows that this discount has widened lately.



So why have EM's lagged the US markets so dramatically this year? After all, they account for most of the world's economic growth, they have much lower debt/GDP ratios, have a growing consumer class and corporate governance has improved. With broad commodity prices falling, and thus inflation expectations dropping, one would assume that this is another plus for Emerging Markets.

Yet, they are still down 1.5% YTD. One of the factors is decreasing profitability, as large export-oriented companies are facing reduced demand from Europe. Another is that the weak Yen has eaten into exports from competing powerhouses like Korea & Taiwan, which together account for a disproportionately large 25% of the MSCI Emerging Markets Index.

The latter is one of the reasons we prefer to use top managed funds rather than ETF's (Exchange-Traded Funds) in emerging markets. Almost all the portfolios we manage contain either the Aberdeen or First State GEM funds. The chart below shows that they have outperformed their index by more than 3% YTD.

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1) Settings 2) Actions Page 1/7 Comparative Return

Range 12/31/2012 - 04/30/2013 Period Daily No. of Period 120 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	ABEFROA LX Equity	USD	1.48%	1.48%	-.34%	4.57%
2.	FSGLEML ID Equity	USD	1.82%	1.82%		5.62%
3.	MXEF Index	USD	-1.49%	-.93%	-2.75%	-2.81%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
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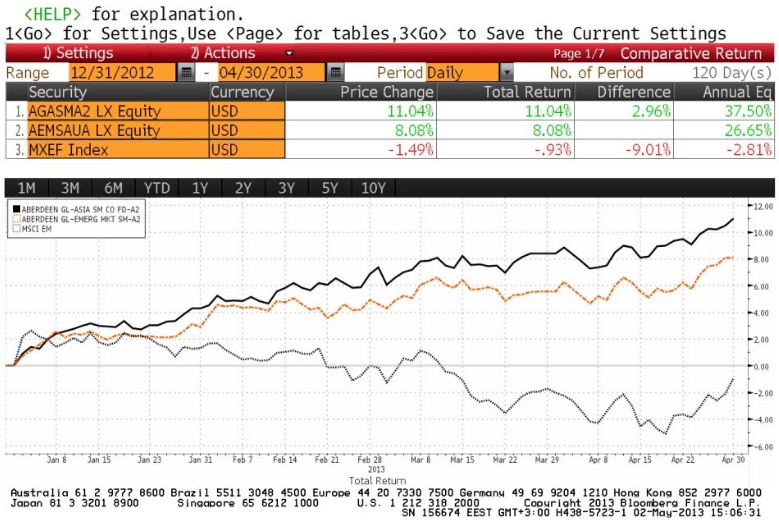
We also believe that by investing in smaller companies, that are more domestically focused, we will largely avoid the drops in the main EM index. As such, we have been investing in two Aberdeen Funds – the Asian Smaller Companies and the Global Emerging Smaller Companies Funds, shown below, that have held up well this year.



Pedal to the metal

We still believe that ongoing extraordinary monetary policy will support equity markets, and will trump any argument against rising prices for the rest of this year. Japan is a poster child for ongoing stimulus and the market there, while seemingly overextended, should end the year higher than where it is today. The chart below from UBS supports the thesis that Japanese equities are at historically low valuations on a cyclically adjusted P/E ratio (10-years of real earnings per share).

Source: Bloomberg, Datastream, UBS Global Equity Strategy

At the same time, to maintain diversification we are still invested in High Yield Bonds and hedge funds. CTAs like Winton Capital finally started performing more "traditionally" this year, and are up almost 5%. We have decided to sell the Numisma Fund, further reducing our hedge fund exposure.