

RCM Press Conference

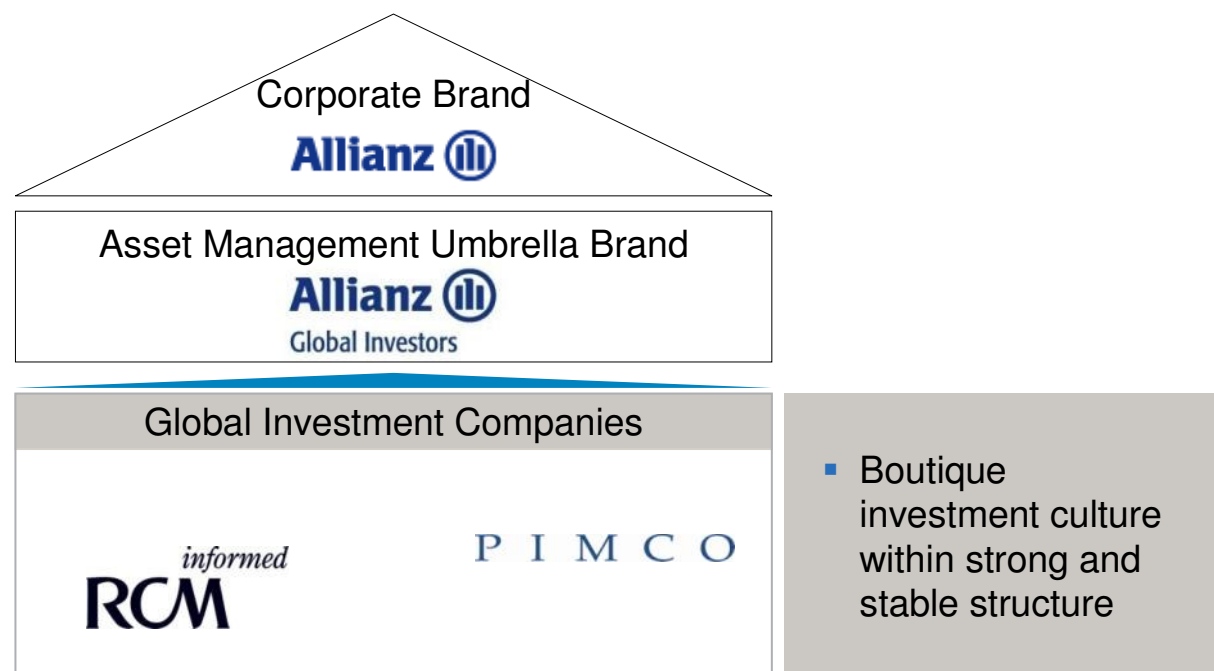
Paris, April 29 2010

informed
RCM



Andreas Utermann,
Global Chief Investment
Officer,
RCM

Strong and supportive ownership



RCM - an experienced, global asset manager with strong and stable ownership

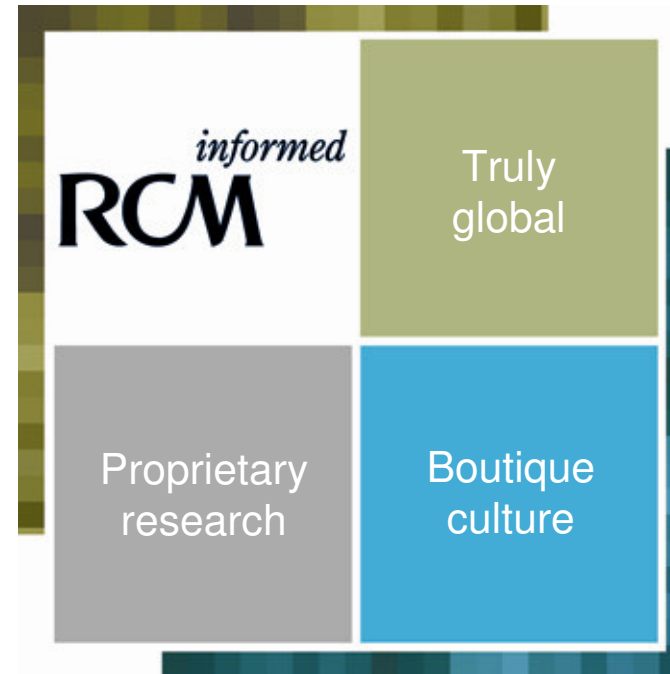
Our philosophy

We believe that by generating and exploiting an information advantage, we will be able to drive superior and consistent investment results for the benefit of our clients. A philosophy we call RCM informed.

It is a philosophy that we apply to all areas of our company, from investment management to our commitment to engage with clients proactively and dynamically in partnership.

The result is a company with many distinctive features, including:

1. A truly global structure.
2. An emphasis on innovative proprietary research.
3. A boutique culture.



A global asset management company

- Over 460 investment, research and business professionals across the world
- Over 260 investment professionals
- Virtual 24 hour office – structured to promote communication and information flow
- Global investment infrastructure customised to provide highest quality management of fundamental and quantitative information; from research to portfolio management to trading, compliance and client service



Our structure facilitates information travelling faster and more freely

Global research

	Consumer	Financial Services	Health Care	Industrials	Technology	Telecom/Media	Sustainability Research (SR)	Special Situations	Grassroots SM Research	Total
Europe	4	5	4	7	2	3	5	2	2	34
US	3	2	4	3	4	2	0	0	3	21
Asia Pacific	1	3	1	3	2	1	0	0	1	12
Total	8	10	9	13	8	6	5	2	6	67

- An average of 13 years of industry experience, six of which with RCM
- Innovative and proprietary investment tools
- Analysts manage sector and thematic mandates
- Each analyst conducts circa 100 meetings per year with corporate management
- Research identifies the key drivers of each stock, which frames and focuses the analytical process
- Dedicated sustainability research analysts
- Complemented by GrassrootsSM Research

The cornerstone of our investment process – generating an information advantage

GrassrootsSM Research

Mission:

Provide RCM investment professionals with timely business insights that help identify inflection points and increase investment conviction

Methodology:

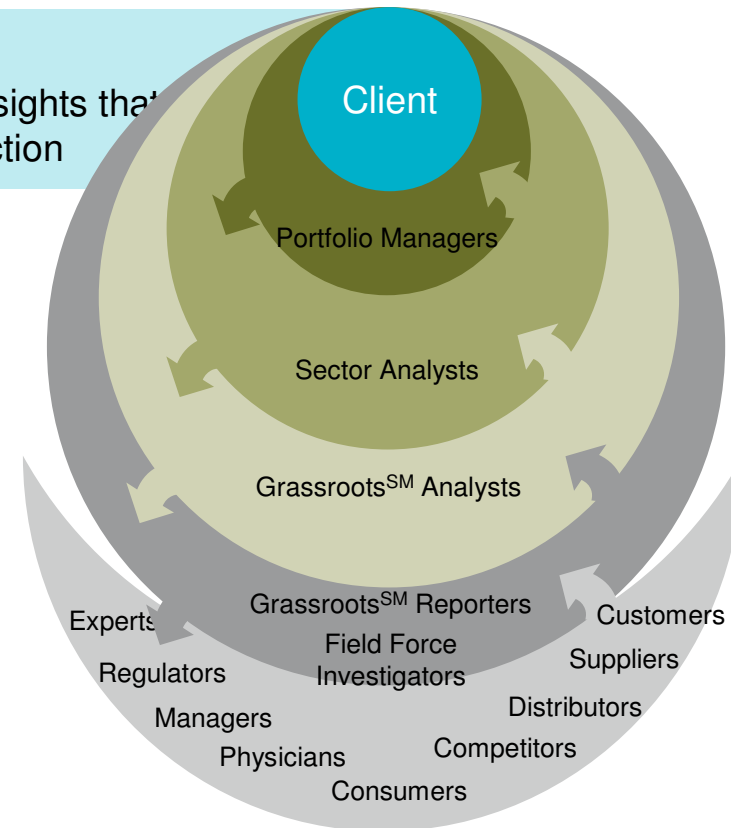
- Customised to answer specific questions about key stock drivers identified by portfolio managers and analysts

Resources:

- In-house staff of 11
- 70 reporters
- 250+ Field Force investigators
- 50,000+ industry contacts

Results:

- 30+ company/industry studies per month



www.grassrootsresearch.com

Investment decisions – reality checked

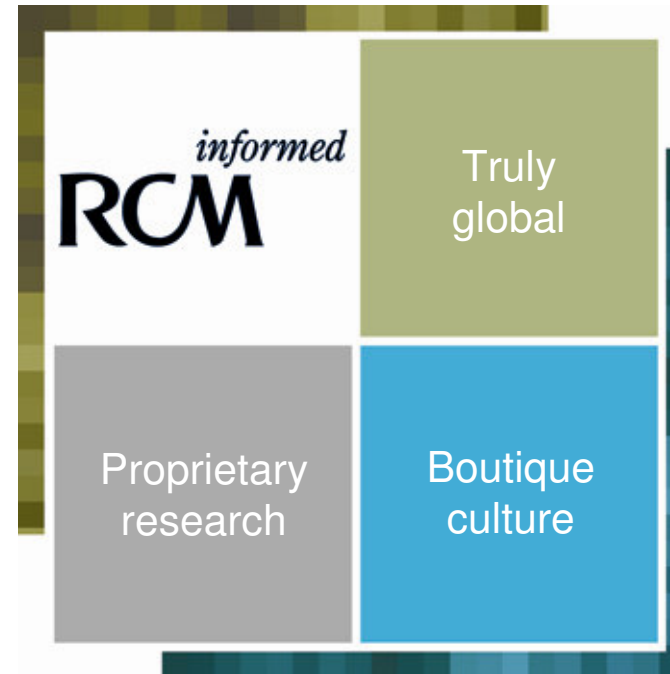
As at 31 December 2009

GrassrootsSM Research is a division of RCM. Research data used to generate GrassrootsSM Research recommendations is received from reporters and field force investigators who work as independent contractors for broker-dealers. Those broker-dealers supply research to RCM and certain of its affiliates that is paid for by commissions generated by orders executed on behalf of RCM's clients.

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Focused on delivering results

- Strong and supportive ownership by Allianz Global Investors
- Flat, fast and focused decision-making
- Team orientated investment culture with transparency and accountability clearly defined at each step of the investment process
- Investment professionals rewarded for meeting client investment objectives
- Dedicated business professionals engaging with clients proactively and dynamically in partnership to provide
 - The right investment solutions to meet objectives
 - The right service to meet needs
 - The right reporting to ensure that clients are fully informed about the performance of their portfolios



We attract and retain professionals with a culture that inspires and encourages performance at every level

Economic outlook 1/2

- The global economy has clearly re-accelerated in 2009 and early 2010, as leading indicators around the world show. We expect this economic rebound to be moderate by historic comparisons, though. In our base case scenario, we expect low but positive economic growth in 2010 and a gradual return to the potential growth path thereafter.
- The private sector deleveraging process has only just begun for the US but also for several European economies, especially UK and Spain but also some CEE economies.
- Government spending will have to support economic growth for cyclical reasons. Government debts are likely to rise substantially in this downturn.
- Longer-term, also the Government sector needs to deleverage. Historically, this has usually led to a slightly weaker growth trend compared to the re-leveraging period.
- Leading indicators for both, G7 and BRICs countries, are showing signs of rolling over again. After strong growth in 1Q 2010, we expect growth rates to moderate again, as a) monetary policy stimulus is likely to come down and b) the inventory rebuilding will have run its course soon.

Economic outlook 1/2

- Central bank rates will remain ultra-low until the end of 2010. At year end, both the ECB and the FED may start hiking rates again. At least, current policy rates would be very accommodative at the time. Currently, fair value Central bank rates are still too high! For that reason and also because of still existing distortions in the credit markets, we expect Central bank liquidity injections to be phased out only very carefully and only very gradually.
- In the medium to long-term, expansionary monetary and fiscal policy of the past may ultimately lead to higher inflation. Expansionary monetary policy, not only since last autumn, but already since the burst of the TMT bubble until around 2006/07, has planted the seeds of higher inflation in the future. In addition, several of the factors, which contributed to falling inflation rates and rising global potential growth rates, are running out of steam (e.g. demographics, deregulation).
- The very expansionary monetary policy of the last 15 months or so could be the basis for new future asset bubbles. In particular China could turn out to be the next bubble economy, if policy makers are not successful in preventing the current loose monetary policy stance, excessive credit growth and financial market liberalisation to lead to economic overheating. China-related assets, e.g. EM equities and bonds as well as commodities could be especially affected in the long run.

Economic growth capped in the developed world

- Economic growth in the developed world will be capped on the upside
- Over the coming two to three years or so, we think that growth rates, on average, will not exceed potential growth rates. For the US, we estimate potential currently to be at around 2 ¼%, for EMU around 1 ½% and 1% for Japan
- Global potential growth, i.e. taking into account emerging markets, has probably fallen from 4% from before the financial crisis to around 3 ½%
- Due to the difficult access to capital in 2009 and the companies' cautious economic outlook, investment activity had been cut back below depreciation. The existing stock of capital, consequently, shrunk
- With Government deficits rising sharply, there is increasing pressure on the public sector to tighten their belts. This is not only true for EMU periphery economies, especially Greece. It is also very much true for the US, where the Federal public deficit is rising sharply to around 100% of GDP until 2011 and where the market is pricing in for selected states, e.g. California, default rates in excess of Portugal, Spain and Ireland

Equities: a repeat of 2004?

- We expect economic growth in developed economies to be lower than before the crisis in the years to come. Consequently, we also expect only a moderate underlying earnings trend. Our long-term earnings model indicates that globally as well as in all three major markets (US, Europe, Japan) a lasting rise in earnings growth should not be expected before 2012.
- From a pure valuation point of view, the US is slightly overvalued. On our preferred valuation metric, the Shiller P/E using 10 year average earnings, the S&P is currently trading at a multiple of 21, close to one standard deviation higher than the long-term average. European and Japanese markets are much more attractively priced, admittedly.
- The risk for equity markets on the downside is, clearly, that global growth fails to be self sustained once fiscal and monetary policy start to become less supportive. On the other side, we can't rule out, that the monetary stimulus in emerging markets in 2009 and too low interest rates in developed economies going forward could fuel a new asset bubble, similar to the period 2003-2007. In that case, investment themes related to emerging market growth (BRIC stock markets, commodity stocks) would be the most likely candidates for an eventual overshooting. But also broad equity markets in developed economies could benefit.
- The two regions which we currently prefer are US and Japan. We have started to warm up to Japanese stocks in late 2009. Our main arguments remain unchanged: Japan looks attractively priced on various valuation tools.
- We currently have a neutral recommendation on Europe. The region is moderately priced, but is cyclically lagging the recovery in the US and in emerging economies.

Bond yields anchored by Central bank rates. For now.

- Bond yields in the US currently reflect a very pessimistic long-term growth outlook. US 10 year Government yields currently are priced for real GDP growth of 1.5% and inflation of 2.5% over the coming ten years, leaving any risk premium considerations aside.
- We would expect real growth to be at least 50 bp and inflation at least 25 bp higher over the next decade, on average. Nominal growth in the last two decades before the recent crisis averaged at around 5.5% - around 75 bp above our cautious estimates. Consequently, our long-term fair value for interest rates, taking into account risk premium for the long end of the curve, is in the range of 4.75 to 5.5% - at least 100 bp above current levels. For EMU, too, based on the same line of argumentation, we come up with a long-term fair value estimate for 10 year bonds in the range of 3.5 to 4.25%, rather than current yields for 10 year Bunds at 3.1%.
- If our long-term, i.e. 10 year forward, estimates for long-bond yields, which are based on global monetary aggregates, are correct, US long bond yields are likely to edge up from 2011 onwards for the rest of the decade. US 10 year yields in the area of 6 to 7% towards the end of this decade would not surprise us at all. For EMU, we would expect a rise in bond yields of a similar order.

FX view

- EUR weakness was the major market topic in Q1 2010. Euro area sovereign risks were again a dominate theme.
- Structurally the EUR has taken over the „role of the problem child“ from the USD, as the Greece case has uncovered the structural/legal flaws in the EUR monetary system. This weakness, although largely discounted already, will likely linger on during the months to come.
- Fitch's downgrade of Portugal's ratings knocked market sentiment towards the periphery.
- Greek bond yields were little changed on the month, with the 10Y trading around 6.45%. This is down from the 7.16% high posted in January, but is still well above the levels seen back in December last year.
- The February US employment report was surprisingly strong despite the adverse weather over the month. Payrolls fell by "only" 36k, against a fall of 68k expected and there were net upward revisions to December and January. The jobless rate stayed at 9.7%. Over the month, anecdotal evidence increased showing that the labour market is beginning to strengthen meaningfully.
- UK election fears heightened as risks of a hung parliament increased, while the Bank of England continued to convey a sense of uncertainty over the policy outlook. Fears over the budget deficit were temporarily soothed by better public finances data and downward revisions to the government's projections in the 2010 budget. However, with no clear plan on how the deficit will be reduced, market fears remained and Fitch reaffirmed the country's negative outlook. Despite this, GBP managed to reverse some recent losses.
- The JPY is overvalued, particularly vs. other Far Eastern currencies e.g. the Yuan. Very high stock of public debt and large JGB issuance, particularly when monetised by the BoJ form a long term bear case for the JPY.

Appendix



Biography



Andreas Utermann, Global Chief Investment Officer, RCM

Andreas Utermann joined RCM in October 2002 as Global Chief Investment Officer and is a board member of Allianz Global Investors AG. As Global CIO of RCM, he is co-chair of the RCM Executive Committee and chairs the firm's Global Policy Council. Prior to joining, Andreas worked for 12 years at Merrill Lynch Investment Managers (formerly Mercury Asset Management), where he was the Global Head and CIO, Equities. Before joining MLIM, Andreas worked for two years at Deutsche Bank AG. He holds a BSc in Economics from the London School of Economics and an MA in Economics from Katholieke Universiteit Leuven. Andreas is an Associate of the Institute of Investment Management and Research.



For more information

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