

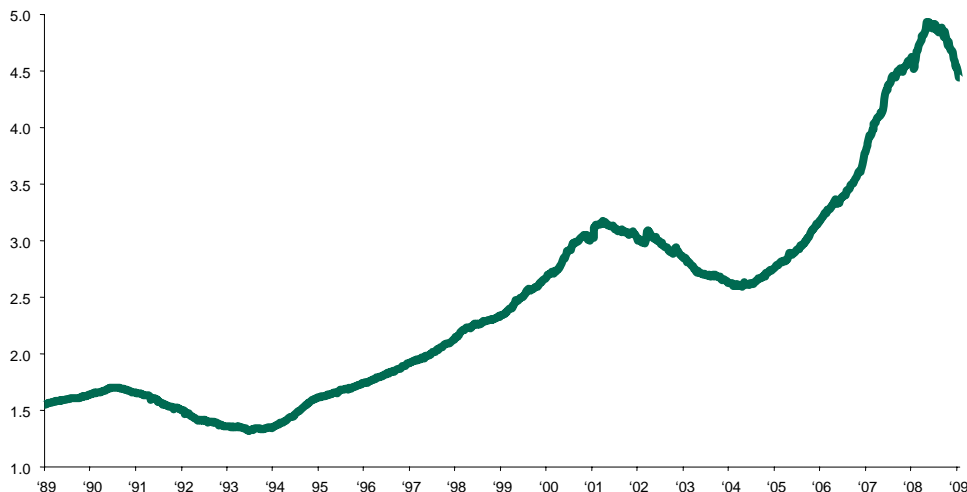
Global Equity 2009 Investment Review & Outlook for 2010 January 19, 2010

Market Review

2009 proved to be a very volatile year for equity markets as the panic seen in the first quarter ultimately faded and investors began to focus on the anticipated economic recovery in 2010 and beyond.

At the beginning of the year investors were still trying to come to terms with the failure of Lehman Brothers and the seizure in credit markets that followed. This lack of credit led investors to hoard cash at the expense of all other asset classes with the amount of money held in U.S. money market funds or short term CD's exceeding 5 trillion dollars. This panic selling saw MSCI World Index fall a further 25% in the first few months of the year.

Individual & Institutional Cash
MM Funds & Small CDs



Source: ISI Group

What ultimately turned the markets in March was a belief that governments around the world would take any action necessary to avert a second great depression. This took the form of both fiscal and monetary stimulation culminating in a quantitative easing program that was unambiguously expansionary. At the same time valuations of equities hit lows not seen in a generation which prompted investors to begin bargain hunting. As the markets started to rally investors began to take a more rational view of events and concluded, as Paul Krugman noted, that the “end of the world had been postponed”.

In many respects the rally that occurred this year followed a similar path of those seen after the dramatic bear markets of 1974/75 and 2000/2002, both periods when markets fell by almost 50% and then rallied dramatically in the next 2 years, albeit with a considerable amount of volatility. Following a fall of 56% from the market's peak in 2008 this rally in 2009 has also been dramatic with the MSCI World Index rising by 70% from the trough seen in March to record a gain for the year of 30.0%.

Portfolio Review

W.P. Stewart Global Equity Composite 2009 (Net)	38.2%
MSCI World Index Return 2009	30.0%

At W.P. Stewart we tried to look through the short-term fluctuations of the market by focusing on investing in those companies that we believed could continue to grow through this difficult period and we reduced our exposure to those that could not. We also stuck firmly to our valuation discipline which helped us, at the end of 2008 and in the early part of 2009, switch out of some of our more defensive names that had held up relatively well, into faster growing names. These companies had been on our investment universe for sometime but had previously looked expensive. When they were hard hit in the market crash this gave us an opportunity to buy them at prices we felt were attractive.

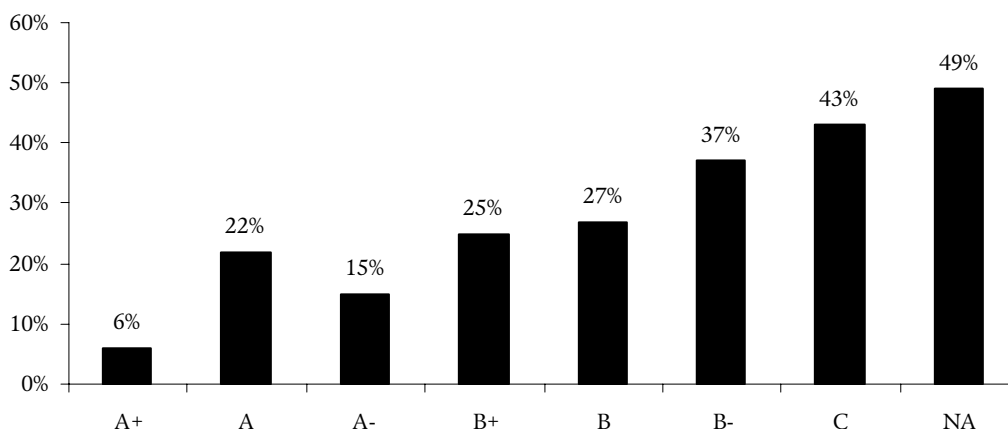
Throughout the year we have continued to move our investments into faster growing companies in the technology arena and away from companies whose growth rate has slowed. We have also looked at companies that may benefit from changes in the regulatory frame work for financial services.

We also continue to believe that the Asian economies will grow faster than the developed economies as domestic demand in India and particularly China takes up the slack from slowing export growth. We would expect both economies to grow by approximately 8% per annum in the next couple of years.

This strategy of actively managing the portfolio using our long standing valuation discipline has stood us in good stead in both 2008 and 2009, allowing us to significantly outperform the MSCI World Index in both years. In particular, we are pleased that the companies in the portfolio have managed to grow even in these difficult times.

We are also particularly pleased to have outperformed in 2009 given the market's sharp recovery was primarily led by cyclicals and lower quality stocks, areas to which we have very limited exposure. In the chart below you can see that the best returns in 2009 were achieved by the lowest quality stocks as measured by the S&P quality rating and the lowest returns by the A+ companies. This is a phenomenon we expect will reverse in 2010.

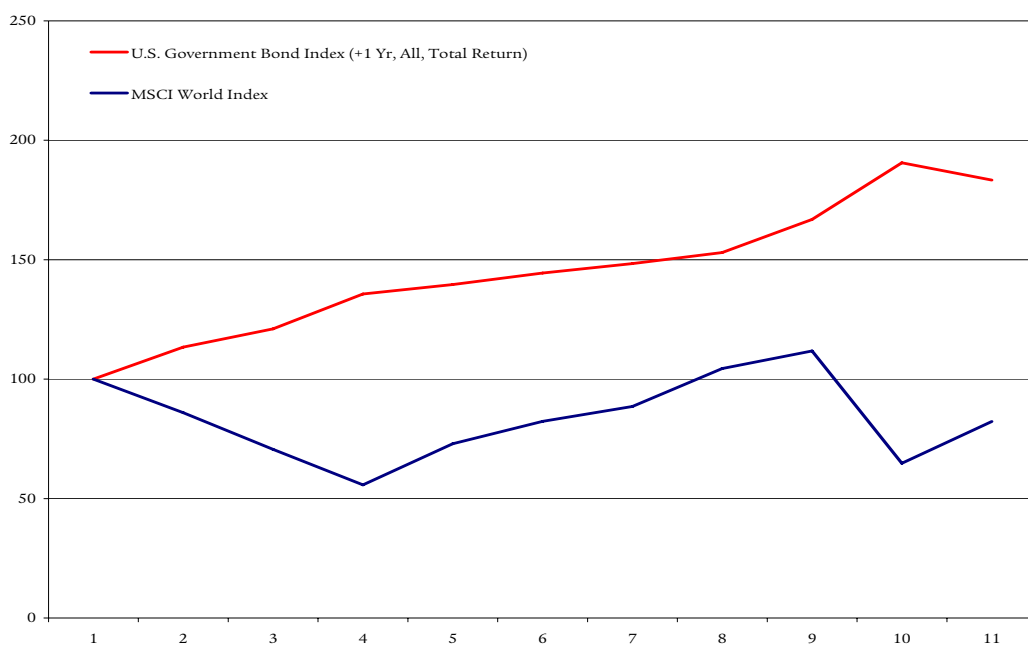
2009 S&P 500 Performance by S&P Equity Quality Rating



Source: FactSet, Morgan Stanley

Investment Outlook

Despite the strong rally recorded by stocks over the last 12 months, the returns for equities over the last 10 years are still one of the worst on record. Not surprisingly, many investors are questioning what their exposure to equities should be and in particular whether they should favor bonds. We always believe that our clients should hold enough cash and bonds to sleep well at night but we would strongly argue that the next 10 years are much more likely to favor equities over bonds.



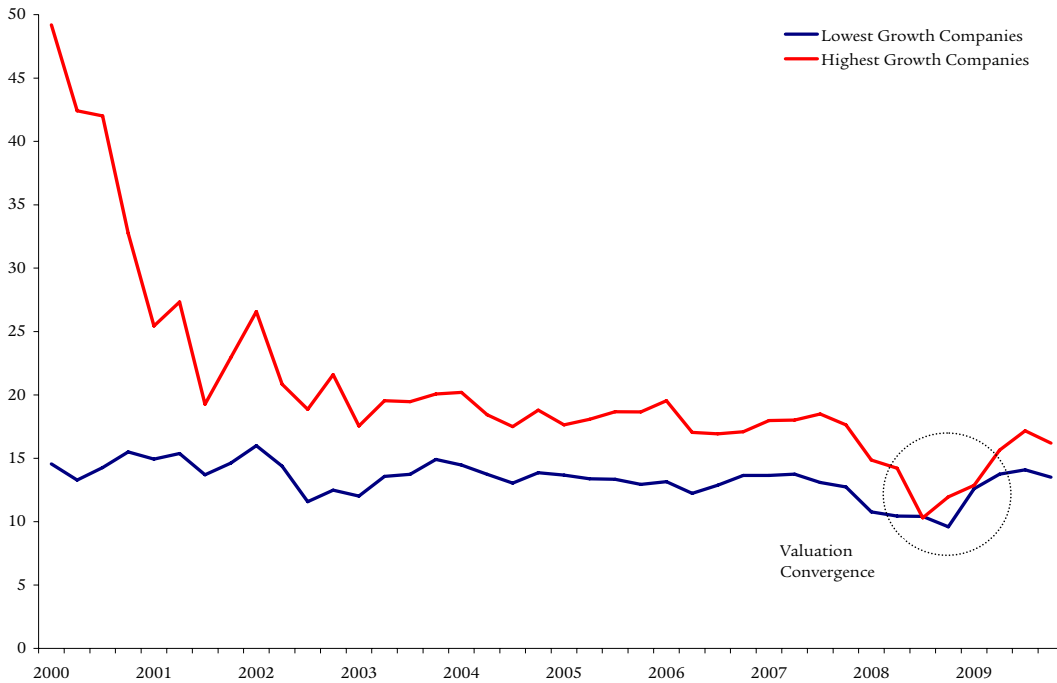
Source: Bloomberg

As we can see above, bonds have significantly outperformed equities over the past 10 years. This is a phenomenon that we have seen only three times in the U.S. in the past 100 years, namely the decades ending 1939, 1974 and 1982. In each of these periods equities have recorded negative returns whilst bonds have grown strongly. All these periods have seen financial crises of one sort or another, as well as booms and busts for the stock market. What we find particularly interesting is that following each of these periods the S&P 500 Index performed very strongly rising by 9% per annum in the decade following 1939, 14% per annum in the decade following 1974 and 19% per annum in the decade following 1982.

We believe this historical perspective is persuasive for holding equities on a global basis particularly as the non-developed world is now one of the leading engines of economic growth but we are well aware that there are a number of uncertainties that will overshadow markets for some time to come. In particular, the stimulus packages that have been so important to the markets must be reduced as governments in the West begin to bring their fiscal deficits under control, although it should be noted that in the U.S. only about 25% of the current stimulus package has been spent. This will certainly be a headwind but is necessary for long-term stability. We would also expect interest rates to begin to rise towards the end of 2010 but again would argue that this is necessary if we are to avoid the next bubble in markets on the back of too much cheap money sloshing around the system. However, we believe this move is much more likely to be positive for equities than bonds. A third issue that needs to be addressed is inflation which currently looks subdued but is likely to rise modestly as economic growth recovers. In Asia, stronger economic growth is likely to require early action by the central banks to curb inflation and we would expect tightening to take place in India, China and Australia. This is an issue that needs to be watched closely but is likely to figure more in 2011 than 2010 and once again we believe is likely to be more negative for bonds than equities. Finally we need to consider the level of unemployment and how it is likely to develop in the Western economies.

The good news is that the data is likely to begin to improve within the next few months but the challenge is to see whether it will improve significantly. On balance we believe the recovery in employment will be slow and that many of the jobs lost will not necessarily return in the U.S or Europe. However, productivity numbers are likely to remain positive given this employment outlook and corporate profitability is likely to be very strong with any improvement in top line sales feeding through to bottom line numbers.

MSCI World: FTM P/E by EPS Growth Long Term Quintile



Source: Thomson Portfolio Analytics

Given this background, we believe that equities offer the prospect of positive returns in 2010 albeit probably a little less than in 2009. The P/E for the market has already risen in 2009 so further gains are dependent on earnings growth. It seems likely that in the short-term the cyclicals may have a little further to run but as the rebound in cyclical earnings growth slows later in the year, we anticipate that higher quality growth stocks will take up the slack, particularly as the valuations for these companies are not at a significant premium to the market as can be seen in the chart above. For higher quality growth stocks we do believe there may be some P/E expansion but even if we get returns in line with the 16% earnings growth we are projecting for our portfolio companies that would be an attractive alternative versus other potential investment choices. In these circumstances we remain fully invested and are encouraged to see our analysts continue to come up with new interesting growth ideas.