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Newsflash

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The markets in October provided investors with an interesting mix of both positive and negative news. For the bullish there are now reasons to push the turbulence of July and August 2007 further from their mind, but for the less staunchly optimistic investor there are still reasons for caution. The effects of these tides of positive and negative sentiment can be traced from the performance of equity markets over the month, with a strong start, followed by a drop and a strong finish after the Fed's interest rate decision. The most notable event of the month was the US Federal reserve cutting interest rates by a further twenty five basis points. This was an attempt to ensure that the economy is not damaged by the recent financial shocks, coupled with related discomfort over the state of the housing market. The Fed have provided investors with some comfort by complying with what they had hoped (or perhaps even demanded) the Fed to do, but the fact that the cuts were necessary may not be a positive sign in the short term, even if in the long run the outcome will be positive. There is less conviction in the market than there had been before the 'Credit Crunch', and equity markets are more data sensitive as a result. In addition to the global equity rally, October saw a bond rally as interest rates were cut and the consequent drop in the US Dollar against almost every major currency. Thus October's theme was a mixed message for investors, with the most preferred option being to 'wait and see' while further news on the state of personal and corporate finances filter into the public domain.

Equity markets began October with late September's lower volatility, but this crept up as the month progressed. Many equity

indices posted a strong start to the month, before retracing all or more to sit at flat to slightly negative levels mid month. Most then experienced a final rally to end the month posting a positive total return in local currency terms. For example UK equities returned 4.4%, continental European equities returned 2.2% and US equities returned 1.6%. Japanese equities were the laggard of the major markets, returning 0.2% in local currency. NASDAQ, the US tech index, enjoyed a strong period towards the end of October, finishing the month up 5.8%. The performance of equity markets since the mid-August lows has been impressive, and are a testament to the optimism that remains in the marketplace. The S&P 500 has returned 8.4%, the Nikkei 9.6% the FTSE 100 outperformed both of these markets, returning 14.7%. This substantial return was, however, eclipsed by the Hang Seng index, which has returned 53.8% to investors mid August to date. October's equity performance was impressive given the lack of consensus between market participants over the state of the global economy. It is possible that the performance is a greater reflection of the fact that as more liquidity is introduced into the US, investors hope for a rally similar in nature to that from late 2002 to date, fuelled by lower interest rates.

Global government bonds rallied reflecting the opinion within the fixed income market that interest rates have only risks to the downside. This is certainly the case for North America, and thus US Treasuries provided a strong return of +0.8% on the back of the Fed's twenty five basis point cut in interest rates and investors preferring to hold bonds as they reduced their exposure to securities with a different risk return profile. US ten year Treasuries currently yield 4.5%. The US was slightly out performed by UK Gilts, which returned 0.9% in the month, leaving the ten year bond yielding 4.9%. In US Dollar terms the UK return will have benefitted from sterling's positive return against the dollar. European government bonds suggested a similar combination of rate cuts and investor's changing risk appetite, posting a total return of 0.7%, pulling the ten year yield down to 4.2%. Overall global government bonds returned 0.7%. In other bond markets, US Credit was a strong sector, returning 1.2%. Emerging market bond spreads were broadly flat in October, suggesting that the concern regarding future economic growth is centred on the developed markets.

Global property markets continued in October to demonstrate a degree of isolation from the returns of other markets. In particular the ability of Asian real estate to generate positive returns, despite negative returns in other regions was again in evidence. In a month where listed UK property returned -3.8%, European Property returned -1.0% and North American properties returned 1.2%, Asian property returned +6.8%. This represents an out performance of over 10% over the UK listed property in a single month. This performance differential is due to the uniquely localised nature of property markets. The supply and demand fundamentals for a particular region are not as readily substitutable as they are in other security markets. As a result of this difference, each region's property is able to post performances that bear little relation to property in other areas. This lack of correlation is more pronounced year to date, with Asian Property securities returning +37.6%, Europe -13.4%, UK -28.3% and the US -3.0%, a range of 66% from best to worst region year to date. Asian property is benefitting from strong demand and limited supply. There is not an oversupply of property in the UK either, but there is concern that demand is waning particularly as financial companies' earnings struggle to keep up with expectations.

Commodities replicated two recent themes by both providing strong returns for investors, up 9.6% in October, whilst at the same time providing much copy for the financial press. Even as central banks cut interest rates in an attempt to cushion their economies, they remain explicitly vigilant to the inflation risks that are in part posed by rising commodity prices. Indeed the Federal Open Market Committee explicitly highlighted inflation as a risk factor as they cut rates. From this perspective agricultural and energy prices are of particular interest as these have a direct effect on headline inflation measures. The oil price surged in October as tensions in the Middle East added to supply anxieties and the weakening US Dollar hurt producers. West Texas Intermediate Crude Oil ended the month priced at 94 US Dollars per barrel, an increase of 15.8% in October, and 54.8% year to date. Another strong commodity performer was gold which added 6.3% in the month. Other precious metals moved in concert, with Silver and Platinum returning 5.6% and 4.3% respectively. The 'hard' commodities were underperformed by agricultural commodities, however, which returned -3.0% in the month.

Emerging Market equities performed well in October returning 11.2% in US Dollar terms. China, Indonesia and India were the strongest markets in Local Currency terms, all returning

over 15.5%. These performances were enhanced in US Dollar terms as the Renminbi, Rupiah and Rupee outperformed the US Dollar. The fact that these three countries represent one quarter of the EM index demonstrates how broadly this recent strong performance has been felt. The performance of Emerging Markets has a strong momentum influence at the moment which has the effect of flattering some investors in the short term. Investors in emerging markets should be careful to choose managers whose approaches are more likely to last the test of time rather than those who have performed well as a consequence of strong emerging markets momentum.

As mentioned above, October was a poor month for the US Dollar which experienced declines against major currencies for the second month in a row. While some losses were only moderate, some were more significant, with the Canadian Dollar outperforming its southerly neighbour by 5.2%; a return which was matched by South African Rand. The US Dollar has suffered as investors reappraise their US interest outlook in the wake of the 'Credit Crunch' earlier this year. Interestingly in their minutes released on 31 October the Federal Reserve's Open Market Committee suggested that a cut in interest rates to 4.5% was warranted despite reasonable economic growth in the third quarter.

Thus the mixed messages continued through October. Positives included reasonable asset performance and the fact that even the Federal Open market committee suggest that worries "in financial markets have eased somewhat". Yet in spite of this investors should remain cautious as, according to the committee, the "pace of economic expansion will likely slow in the near term, partly reflecting the intensification of the housing correction". Central banks are leaving their options open, with the ability to cut rates to "help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and promote moderate growth over time".

Asset Class Performances

Asset Class Performance (%)	Oct 2007	2007 YTD
US Equities $	1.6	10.4
UK Equities £	4.4	10.3
Cont. European Equities €	2.2	10.1
Japanese Equities Yen	0.2	-2.5
Global Equities $	3.1	15.2
Global Emerging Markets Equities $	11.2	49.5
US Bonds $	0.9	5.7
European Bonds €	0.8	1.5
Japanese Bonds Yen	0.5	1.7
Global Bonds $	1.6	7.8
US REITs (property) $	1.2	-3.0
FTSE Real Estate £	-3.8	-28.3
FTSE EPRA Real Estate ex UK €	-1.0	-13.4
Euro vs. US Dollar	1.7	9.7
Sterling vs. US Dollar	2.0	6.1
Yen vs. US Dollar	-0.2	3.4
AUD vs. US Dollar	4.7	17.6
Rand vs. US Dollar	5.5	7.8
Commodities $	9.6	30.3
Oil $	15.8	54.8
Gold $	6.3	24.3

* ***Source:*** *Bloomberg, Lipper*

Focus: The time for Large Cap?

The recent volatility in global equity markets has brought into focus investors' willingness to take on relatively high levels of risk in their portfolios. For efficiently constructed portfolios, when assessing investment options, investors should balance potential or forecast investment returns against the level of risk that the particular investments pose. In recent years large cap stocks have suffered relative to smaller as this sort of analysis suggested that the risk-return profile of small and mid cap stocks were deemed more acceptable by investors. Indeed investors' disregard for large caps has enabled small cap stocks to provide investors with strong returns since the aftermath of the tech bubble subsided in 2002, whilst the large caps, though rising consistently, have appeared sluggish by comparison.

Recently large cap stocks have attracted the attention of investors for a number of reasons. Firstly their valuations have become attractive in a relative sense. Financial ratios such as Price to Earnings and Price to Book Ratios are becoming appealing for large cap stocks as the book value of their assets and the forecast earnings have increased at a faster rate than their price. Secondly investors have become more risk averse. A common reason that investors turn to large caps is that uncertainty has grown and investors believe that these corporate behemoths, with low debt, established brands, strong balance sheets, and an air of dependability appear well placed to weather any impending storm. Not only can large caps provide less volatility for portfolios over these periods, they can out perform relative to their smaller counterparts during periods of uncertainty, by being less susceptible to large drawdowns. A further benefit of large cap stocks is as their businesses are established and cash generative, they tend to pay higher dividends than their smaller counterparts. For example, at the end of October the dividend yield of the FTSE 100 is 3.6%, whereas on the small cap stocks the yield is 1.1%, less than a third of the level of income from the large caps. Thus from a total return point of view, large caps have a higher perceived dependability from the dividend portion of their total return, which should dampen the volatility of returns overall.

There are also macro economic reasons for possible large cap strength going forward. The composition of large cap indices when compared to smaller caps demonstrates a higher proportion of established energy and mining/resources stocks. These companies are currently being buoyed by strong commodity prices and continued moderate to strong forecast economic growth globally. This growth should result in continued demand for the elements required for construction and infrastructure including, building materials, energy, utilities and even IT and telecoms. The US economy is possibly poised to slow as the consumer appears vulnerable and the housing market slows, despite this several global regions are experiencing strong growth, notably the emerging markets. For example China has current GDP growth of over 11% year over year and no obvious sign of abating. A possible result of the growth in emerging markets will be beneficial for companies that earn a large percentage of their earnings abroad. This should become particularly appealing if investors believe the US economy is likely to slow. Furthermore, the weakness of the US Dollar currently may help US companies as their dollar priced products and services become relatively cheaper in their local currencies. In contrast, whilst the cost of credit remains high, the level of mergers and acquisition activity is likely to be lower across the board, a phenomenon which arguably has a greater influence on small cap valuations, despite the recent spate of large cap M&A stories.

One area of the large cap universe which is currently under a cloud is the financial sector. The recent market volatility had a strong influence on financial stocks. The level of defaults of US Sub Prime mortgages increased and this affected the credit markets, which fed through to banking operations via products such as Special Investment Vehicles (SIVs) and Collateralised Debt Obligations (CDOs), both of which relied on credit and money markets to function smoothly. These areas of operations generated strong revenues for financial institutions and their reduced viability, coupled with the potential for sub prime skeletons in closets, the increased viscosity/cost of the credit markets, reduced M&A and the already announced losses due to the recent 'Credit Crunch' mean that investors are pricing in a poor performance from financial companies in the short term. It is possible that the US housing markets slows as the full extent of the sub prime mortgages problems comes to light. This may yet further affect financial stocks, especially those with a large

exposure to these loans, however the broad financial market may prove itself resilient to these issues than is currently forecast.

Increasing exposure to large cap stocks is one common method to reduce risk in portfolios at times of increasing investor uncertainty and therefore investors may believe that increasing their allocations to large cap stocks is prudent at the moment. It is important to remember to view risk from a whole portfolio perspective and to remain properly diversified in order to reduce the level of risk in portfolios. As a result investors should not totally discount small and mid cap stocks, but they should be aware of the potential for higher volatility of returns from these stocks in the short term. Furthermore, having adequate holdings outside of equity markets is another common way to reduce risk by increasing diversification at a portfolio level. Other assets with historically defensive characteristics at times of global uncertainly include bonds and cash. Currently the RMB MM Balanced Funds have allocations to regional equities, global bonds, cash, property, agricultural commodities and alternatives. This mixed allocation reduces the effect of any particularly significant move in any single asset class on the portfolio as a whole. This adherence to the principle of portfolio diversification is an attempt to produce an efficient portfolio of assets, one which will aim to achieve a strong return when viewed in the context of the risk taken to achieve it.

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Strategic Portfolios

Portfolio	Month	12 Months
USD Conservative	1.52%	9.48%
USD Balanced	1.90%	11.93%
USD Growth	2.28%	15.46%
USD Alpha	2.54%	17.27%
EUR Conservative	0.59%	2.80%
EUR Balanced	0.88%	4.44%
EUR Growth	1.46%	8.01%
EUR Alpha	1.72%	8.12%
GBP Conservative	1.18%	5.14%
GBP Balanced	1.23%	6.91%
GBP Growth	2.01%	9.60%
GBP Alpha	2.51%	10.05%
AUD Conservative	0.08%	4.63%
AUD Balanced	0.19%	5.71%
AUD Growth	0.34%	10.42%
AUD Alpha	0.44%	12.57%
JPY Conservative	1.33%	6.85%
JPY Balanced	1.47%	4.27%
JPY Growth	2.30%	6.18%
JPY Alpha	2.28%	4.82%
ASIAN Balanced	2.47%	(i)
ASIAN Growth	3.38%	(i)
ASIAN Alpha	3.86%	(ii)

Harmony

Portfolio	Month	12 Months
USD Balanced	1.50%	12.17%
USD Growth	1.73%	14.35%
EUR Balanced	0.75%	7.79%
GBP Balanced	0.97%	5.73%
GBP Growth	1.82%	8.35%

Figures as of October 2007.
(i) Launched Dec-06
(ii) Launched July-07

Prior to the Inception Date of the Fund, the Portfolio was managed as a Strategic Portfolio, maintaining the same investment policy. The historical performance of the Strategic Portfolio is shown up to 30 June 2007, during which the Fund was in transition. Performance net of all investment management fees. Benchmark data source: Lipper Hindsight.

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While the portfolio manager will attempt to minimise risk, the value of investments in discretionary accounts and the income derived from those investments may fluctuate and it is possible that the investor could incur losses, including the loss of principal invested. Past performance is not necessarily indicative as to future performance. An investor whose reference currency differs from that in which the fund or segregated account is denominated may be subject to exchange rate movements, which may cause fluctuations in the value of their investments. In addition, investments involving exposure to a currency other than that in which the segregated account or fund is denominated may also cause values to fluctuate.

The alternative strategies funds may invest in unregulated funds. Such unregulated funds may engage in the short selling of securities or may use a greater degree of gearing (including the ability to borrow for a leverage strategy) than is permitted in regulated funds. A relatively small movement in the price of an asset held may result in a disproportionately large movement in the value of an investment in the fund. Whilst the purpose of gearing is to achieve the high returns that are associated with greater exposure, it also gives an increased exposure to the risk of loss. Investments in unregulated funds may be highly volatile. Although the alternative strategies funds will follow a wide diversification policy, such funds' investments may be subject to sudden and large falls in value. Due to the illiquid nature of the underlying funds in the alternative strategies funds, the funds deal infrequently and require substantial notice before redemption instructions are accepted. Investments in such funds are therefore not readily realisable. Reliable information about the value of an investment in an alternative strategies fund may not be available (other than at the fund's infrequent valuation points). If an alternative strategies fund fails to perform, it may not be possible to realize the investment without further loss in value.

Funds that pursue a multi-management approach have an extra layer of fees, with fees payable to both the underlying managers and the manager of the fund itself. Normally both annual management fees and performance fees are payable to the underlying managers and an annual management fee is payable to the manager of the fund.

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