Press release

informed RCM

12 May 2010 LONDON

EU bail out has bought time, but great uncertainty remains

- The ECB has reacted in a pragmatic way and had no alternative but to intervene
- In the near-term, the measures taken are likely to reduce inflationary pressures
- Fiscal austerity measures imply a cap on economic growth
- It is unclear to what extent a weaker Euro can help to compensate for tighter fiscal policy
- Country risk has a new significance for investors

Stefan Hofrichter, Chief Economist at RCM, a company of Allianz Global Investors, gives his comments on the EU bail-out package:

"The EU bail-out package is likely to soothe markets, as the immediate risk of a Government bond default and, consequently, of eventual write-offs on banks' holdings of EMU Government bonds has been reduced substantially by the size and design of the measures taken. Most importantly, the package buys time: three years. However, economies with structural and inter-related problems – i.e. high Government debt levels, huge current account deficits, a corporate sector lacking power to compete in international trade - have to use this time to put their house in order. Otherwise, we cannot rule out that Government debts in some countries may be set on an explosive path. Admittedly, a rise in nominal GDP down the road will help stabilise Government debt ratios.

"While some have argued that the ECB has lost its credibility, by deciding to intervene in the bond market, there was no realistic alternative. The ECB's involvement is central to the overall bail-out package and without it there was the risk that important segments of the bond market, for example the market for selected EMU Government bonds, would remain paralysed. This would have resulted in liquidity problems for Governments and balance sheet problems for the financial sector. The ECB has reacted in a pragmatic way.

"In the near-term, the measures taken are likely to reduce inflationary pressures as Governments will have to tighten their belts drastically in order to benefit from the loans and guarantees. If no action had been taken, a new financial crisis could have started which would have been deflationary.

"It remains unclear whether these measures will lead to higher inflation in the long-run. The ECB intends to sterilise bond purchases, hence, base money will not increase. If that's the case, the ECB would not be 'printing money' by monetising Government debts. But we have to watch this very carefully. If, in contrast to the original announcement, the ECB ends up buying Government bonds without sterilising the purchases, this would change the long-term outlook for inflation substantially. Indeed, historically, a financial crisis has typically led to high Government debt levels resulting in either outright default or implicit default via inflation.

"This package has reduced the risk of the EMU breaking up as it actually leads to a quasi-fiscal union. Tight fiscal integration is a necessary element in a currency area.

"The Euro is likely to devalue structurally as tighter fiscal policy combined with more expansionary monetary policy are usually conducive to a weaker currency. Actually, a weaker currency is the usual way of stabilising economic growth when the public and the private sector are in a deleveraging process. We expect the Euro to devalue against the US Dollar, however, from a longer-term perspective, the US is facing a debt problem as well and it will be primarily emerging currencies which will appreciate. This would also help to rebalance global economic growth. Emerging economies need

to become less reliant on exports and focus more on domestic demand. Stronger emerging currencies would accelerate this process.

“We expect EMU periphery bond spreads to tighten going forward and core-EMU yields to rise as the risk aversion of the past weeks will be unwound. Medium-term, with short rates in EMU remaining lower for longer, the long end of the yield curve remains anchored. We expect the curve to remain structurally steep as a consequence of very low interest rates and ongoing strong bond issuance.

“In the near term, risk aversion trades in the equity markets will most likely be unwound and we will get a technical rally (a good part of this may have already happened on Monday, May 10). In particular financial stocks/ banks should benefit in this technical bounce. In the medium-term, however, we are not sure that equity markets should be euphoric. Fiscal austerity measures imply a cap on economic growth. It is unclear to what extent a weaker Euro can help to compensate for tighter fiscal policy. Admittedly, the corporate sector in the EMU is cash positive and could start investing again, thereby stimulating the economic cycle. But the overall effect on economic growth is undecided. With leading indicators in the global growth region, Asia, rolling over as a consequence of tighter monetary policy, we think the cyclical headwinds are likely to cap the equity markets on the upside.

“Leaving the argument of attractive valuations aside, we would need to see strong nominal GDP growth in order to become positive on equities structurally. This is feasible in an economy characterised by public sector deleveraging, however, it necessitates that external demand is strong (perhaps from emerging markets); that the currency devalues sufficiently; and that domestic demand recovers after private sector balance sheets have recovered. All this clearly needs expansionary monetary policy and the return of inflationary expectations to the system. One way to measure this improvement is a pick-up in money velocity.

“Country risk will become more important again for bond and equity investors structurally as the cost of capital will increasingly be impacted by country factors, as sovereign risk and fiscal policy have turned out to be less uniform than perceived by market participants in the past.”

- Ends -

For more information:

Emma Taylor, Head of Media Relations UK, RCM, Phone 020 7065 1526 Email Emma.Taylor@uk.rcm.com
Amy Butler, Lansons Communications, Phone 020 7566 9709 Email Amyb@lansons.com
Anna Moulds, Lansons Communications, Phone 020 7294 3681 Email Annam@lansons.com

Notes to Editors:

Past performance is not a reliable indicator of future performance. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation and anyone who acts on it, or changes their opinion thereon, does so entirely at their own risk. The opinions expressed are based on information which we believe to be accurate and reliable, however, these opinions may change without notice.

Photographs

High-resolution photographs of our investment professionals are available to download here:
http://www.rcm.com/london/press_professionals.php

.. / 3

Awards

- RCM named winner of Active North American Equity at Pensions & Investment Provider awards 2009. RCM US Large Cap Select Growth is managed by Scott Migliori, Co-CIO for US Equities, RCM.

- RCM named No.1 leading fund management firm for SRI Research by Thomson Reuters Extel 2009.

- Global CIO of RCM, Andreas Utermann, named CIO of the Year by Funds Europe magazine 2008.

- Winner of European Investment Trust of the Year by Investment Week magazine, 2008, for the RCM-managed Charter European Trust.

- Allianz RCM Global EcoTrends Fund named winner Best Climate Change Investment fund 2008, by Holden & Partners/ Incisive Media.

About RCM (all data source: RCM as at 31/12/09)

RCM is a global asset manager operating from six international offices - San Francisco, London, Frankfurt, Hong Kong, Tokyo and Sydney – with assets under management of over $140 billion worldwide. The firm provides a range of investment management solutions to institutions and individual clients. At RCM we believe that by generating and exploiting an information advantage, we will be able to deliver superior and consistent investment results for the benefit of our clients - a philosophy we call RCM informed. RCM is a company of Allianz Global Investors, a pre-eminent global asset management group committed to helping clients achieve sustainable success. As a company of Allianz Global Investors, RCM offers a distinctive investment philosophy and culture, while benefiting from the scale and substantial resources of our parent; including business support, industry best-practices and financial investment. This enhances our ability to attract and retain talent, and provide superior insight and investment performance.

This press release is intended for journalists in their professional capacity and is not intended to be a financial promotion. Issued in the UK by RCM (UK) Ltd, 155 Bishopsgate, London, EC2M 3AD. Authorised and regulated by the Financial Services Authority.