

ALLOCATION newsletter

FROM EDMOND DE ROTHSCHILD INVESTMENT MANAGERS



Editorial

Over the past few days, a form of euphoria has been driving the markets. To be precise, markets have surged since the European summit of 28-29 June. Market players, tired of these

prior to the 19th meeting between the European heads of state. And the surprise was all the more pleasant as the past few months had been particularly painful.

a slowdown in the world's two largest economies were confirmed in the second quarter. In the United States, the economy created fewer jobs than expected and the advanced indicators rolled over – the ISM index has dropped to below 50. At the end of the year, the Bush administration tax breaks will end, and the fiscal cliff – as it is known - will weigh on a recovery that remains fragile. Markets are hoping for a third round of quantitative easing, although the second round delivered mixed results. Finally, a rare occurrence, the economic slowdown has led the Chinese government to ease interest rates.

As we had anticipated, the first quarter rally soon ran out of steam. The second quarter saw renewed tension in Europe. This time, the epicenter of the crisis was no longer Greece but Spain. Admittedly, much has still been written on Athens; but the elections of 17 June have set back -if not ruled out, the near-term implosion of the euro zone.

Before the crisis, Spain was often used as an example. And still today, the country's debt remains reasonable compared to some of its neighbours. Spain is unlike Greece; its situation would be more comparable to that of the US in 2007: the economy is dragged down by a speculative bubble on the real estate market, which has burst and lodged itself into the banks' balance sheets. Looking at the American example, the country could take years to recover.

The European summit will have had the merit of moving political leaders closer to the acceptance stage: the real problems are now being addressed and discussed

So is the post-summit "Europhoria" justified? More importantly, can it last? The management of the crisis will go through the five stages of mourning: denial, anger, bargaining, depression and acceptance. Until last autumn, politicians were in denial: no,

Greece is not a problem, and no, the crisis is not contagious. After the anger (expressed by electors and taxpayers), the bargaining (19 European summits) and the depression (on the markets), the European summit will have had the merit of moving political leaders closer to the acceptance stage: the real problems are now being addressed and discussed.

Jacques Tebeka

Head of Long Only Funds of Funds

Written on 2012/07/06

As a backdrop to the European crisis, early signs of

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EDMOND DE ROTHSCHILD
INVESTMENT MANAGERS

ALLOCATION STRATEGY OF THE EDMOND DE ROTHSCHILD ALLOCATION RANGE

Aware that the fundamental imbalances within the euro zone had not been dealt with, and despite the rally at the beginning of the year, we have remained cautious this year. This defensive approach enabled us to cushion the fall when markets plunged in the 2nd quarter.

During this troubled period, our road map has been very clear: reduce risk, prefer liquidity and implement hedging strategies.

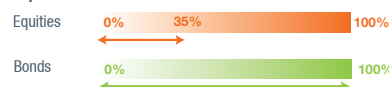
On the equity side, we increased our regional diversification. Our high dividend equity funds were beneficial. We also shorted the Dax, on the assumption that the spread in favour of the German index would not last.

With attractive valuations, our high yield bonds contributed positively to our returns, with convertibles bonds showing compelling resilience during market downturn. Preferring liquid investments, we sold these positions at attractive prices. We have, however, held on to our absolute return and short maturity US and European corporate debt strategies.

As far as portfolio risk management is concerned, we have increased our exposure to the US dollar. Finally, we have introduced a long position on volatility. These investment decisions enabled our funds to show resilience during the past quarter.

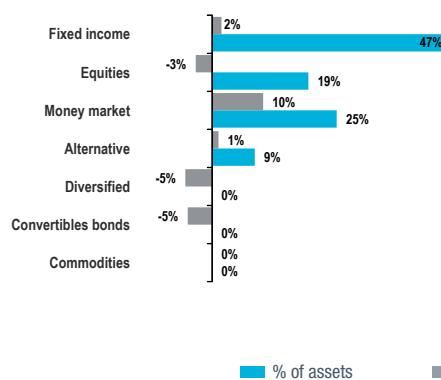
Edmond de Rothschild Allocation Rendement

Exposure limits

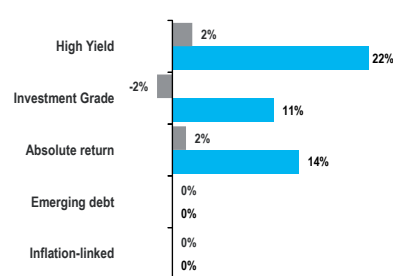


- A flexible allocation fund that invests on all international markets with a cautious approach
- Focus on risk management seeking to limit the maximum losses to 5% per calendar year
- Aiming to outperform a composite index: 20% MSCI World Local Currencies index and 80% Euro MTS 3-5 years index

BREAKDOWN BY ASSET CLASS



ALLOCATION OF THE BOND COMPONENT



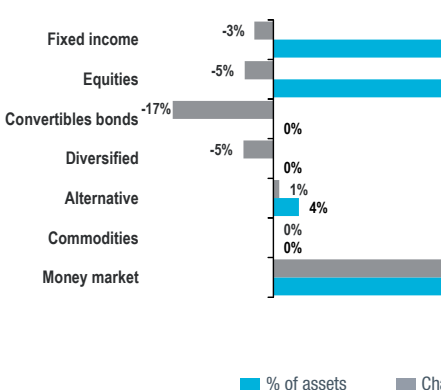
Edmond de Rothschild Allocation Patrimoine

Exposure limits

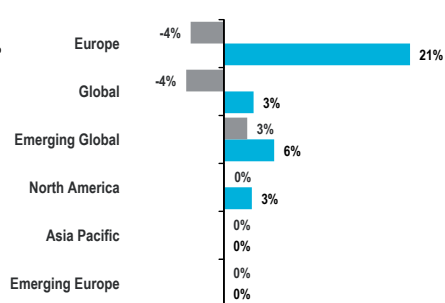


- A flexible allocation fund that invests on all international markets with a balanced approach
- Focus on risk management seeking to limit the maximum losses to 10% per calendar year
- Aiming to outperform a composite index: 50% MSCI World Local Currencies index and 50% Euro MTS 3-5 years index

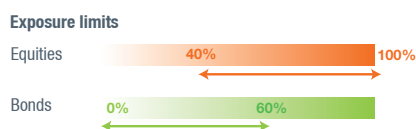
BREAKDOWN BY ASSET CLASS



ALLOCATION OF THE EQUITY COMPONENT



Edmond de Rothschild Allocation Dynamique



- A flexible allocation fund with an equity bias, investing on all international markets
- Focus on risk management seeking to dampen the equity markets volatility
- Aiming to outperform a composite index: 80% MSCI World Local Currencies index and 20% Euro MTS 3-5 years index



Julien de Saussure
Analyst-Fund Manager

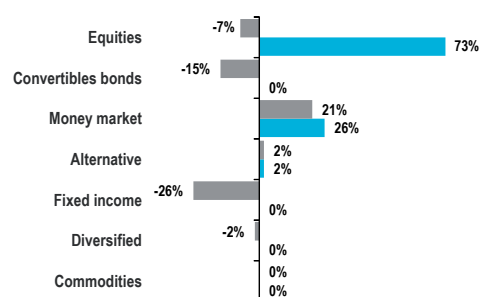
The banking world and the crisis

Once again, banks are being singled out. The banking crisis seems to feed and amplify the crisis on sovereign debt. The solutions that have been put forward so far are frustrating and cosmetic, and always seem to be one step behind. Banks are endlessly absorbing the money given to them for recapitalization purposes by their home countries, as well as the funding from the ECB. In addition, the European Banking Association (EBA) is demanding that banks pursue their recapitalization efforts.

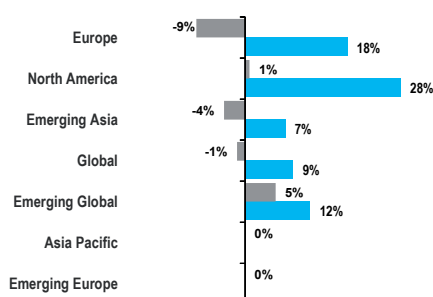
It seems that putting an end to this crisis will require breaking the vicious circle that persists between sovereign countries and banks. When a country rescues a bank, its debt burden increases, its taxpayers are unhappy and agencies can downgrade the country's credit rating. This has a negative impact on the banks themselves, which further feeds the crisis, as these banks also hold significant amounts of their home country's sovereign debt. Imagining the EFSF / ESM, rather than the country alone, recapitalizing banks in difficulty is an attractive solution. This would also be a form of debt pooling. However further steps towards banking integration will be required. A common regulatory and supervisory framework has become a necessity.

The summit of 28-29 June 2012 therefore seems encouraging. These issues were addressed for the first time, although these are only the early stages. In the meantime, the banking instrument market offers considerable upside potential, both in absolute terms (discount on equity) and relative terms (yields versus corporate bonds and low money market rates). This market, however, requires investors to be selective, nimble and patient. Selective in terms of the "recommended" countries and banks; nimble in reacting to the political decisions and the move towards European banking integration; and patient, because this process takes time and issues will not be solved overnight.

BREAKDOWN BY ASSET CLASS



ALLOCATION OF THE EQUITY COMPONENT



■ % of assets ■ Change in comparison to 31/03/2012

NET PERFORMANCE AS AT 29/06/2012

	Morningstar stars	1 month	3 months	2012	1 year	3 years	5 years	3-year volatility
Edmond de Rothschild Allocation Rendement (C)	***	0,73%	-0,55%	0,34%	-4,43%	8,30%	-4,67%	3,97%
Benchmark index ⁽¹⁾		1,20%	-0,65%	3,88%	3,85%	8,44%	17,85%	3,19%
Edmond de Rothschild Allocation Patrimoine (C)	***	1,01%	-1,50%	0,44%	-8,15%	11,60%	-14,27%	7,65%
Benchmark index ⁽²⁾		2,38%	-1,90%	5,03%	2,04%	25,53%	4,95%	6,73%
Edmond de Rothschild Allocation Dynamique (C)	***	0,40%	-4,24%	4,41%	-5,33%	17,72%	-14,48%	11,23%
Benchmark index ⁽³⁾		3,56%	-3,18%	6,13%	-0,08%	36,67%	-7,88%	10,52%
MSCI World LC		4,33%	-4,05%	6,83%	-1,67%	35,00%	-15,04%	14,60%
Euro MTS 3-5 yrs		0,41%	0,17%	3,08%	4,88%	7,36%	24,63%	3,39%

⁽¹⁾ Edmond de Rothschild Allocation Rendement benchmark index: composite index 80% Euro MTS 3-5 years + 20% MSCI World Local Currencies TR (since 15/09/2010)/TEC 10 up to 15/09/2010

⁽²⁾ Edmond de Rothschild Allocation Patrimoine benchmark index: composite index 50% Euro MTS 3-5 years + 50% MSCI World Local Currencies TR (since 15/09/2010)/50% Euro MTS 3-5 years + 50% MSCI World € up to 15/09/2010

⁽³⁾ Edmond de Rothschild Allocation Dynamique benchmark index: composite index 20% Euro MTS 3-5 years + 80% MSCI World Local Currencies TR (since 15/09/2010)/20% Euro MTS 3-5 years + 80% MSCI World € up to 15/09/2010

Sources : Edmond de Rothschild Investment Managers, data as of 29/06/2012 and (C) 2012 Morningstar, Inc. All rights reserved. Quoted figures relate to previous years. Past performance, volatility and prices are not an indicator of future performance, volatility and prices.

*European Financial Stability Facility / European Stability Mechanism

Edmond de Rothschild Investment Managers, *Asset Managers and Designers of Investment Solutions*

Edmond de Rothschild Investment Managers is committed to managing assets and designing solutions that help diversifying and limiting risks while maximizing performance.

Thanks to a strategy of continuous innovation, the investment teams keep on developing a range of products and services covering five areas of expertise:

Fixed income management	Long only funds of funds
Funds of hedge funds	Absolute return
Asset structuring and structured products	

CHARACTERISTICS

French law collective investment scheme UCITS IV	EDMOND DE ROTHSCHILD ALLOCATION RENDEMENT	EDMOND DE ROTHSCHILD ALLOCATION PATRIMOINE	EDMOND DE ROTHSCHILD ALLOCATION DYNAMIQUE
ISIN codes	C unit : FR0010618504 I unit : FR0010908269 S unit : FR0010908277	C unit : FR0010618520 I unit : FR0011011238	C unit : FR0010618538 I unit : FR0011011212
Income attribution	Capitalisation	Capitalisation	Capitalisation
Recommended investment horizon	More than 2 years	More than 3 years	More than 4 years
Valuation	Daily	Daily	Daily
Terms of subscription and redemption	11:00 each day at that day's NAV	11:00 each day at that day's NAV	11:00 each day at that day's NAV
Initial subscription minimum	C unit : 1 unit I unit : 500 000 EUR S unit : 10 millions EUR	C unit : 1 unit I unit : 500 000 EUR	C unit : 1 unit I unit : 500 000 EUR
Initial NAV <i>(inception date of the fund : 15/11/2000)</i>	C unit : 100 EUR I unit : 10 000 EUR S unit : 10 000 EUR	C unit : 100 EUR I unit : 1 000 EUR	C unit : 100 EUR I unit : 1 000 EUR
Subscription fee	C unit : 4,5% max (not attributed to fund) I and S units : none (not attributed to fund)	4,5% max (not attributed to fund)	4,5% max (not attributed to fund)
Redemption fee	None	None	None
Management fee (fixed)	C unit : 1.40% includ. VAT I unit : 0.70% includ. VAT S unit : 0.50% includ. VAT	C unit : 1.70% includ. VAT I unit : 0.80% includ. VAT	C unit : 2.00% includ. VAT I unit : 1.00% includ. VAT
Performance fee	None	C unit : None I unit : 10 % of the outperformance over the benchmark	C unit : None I unit : 10 % of the outperformance over the benchmark
Management fee (indirect)	The fund includes indirect fees, please see prospectus		

Disclaimer

Potential investment risks: Risk of capital loss, risk linked to discretionary management, interest rate risk, credit risk, equity risk, currency risk, risk linked to investment in emerging markets, risks linked to commitments on futures contracts, risks linked to hybrid products (convertible bonds), ancillary risks: risk linked to the management and strategies implemented by the underlying. For a complete description of risks, please refer to the prospectus, which is available online at www.edrim.fr or on request from the registered office of EdRIM Gestion.

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