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SUMMARY

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EDITORIAL

The Great Wall of China

Despite the lack of growth in the West, it is reassuring to see the world's emerging forces operating at full tilt, and China out in front. China's economic cycle has essentially been liberated and no longer follows America's lead. This autonomy does not spell the end of economic cycles, especially when we observe that what is fuelling its growth is financial credit and industry investment, both of which are volatile components. Not content to be the world's biggest market, selling everything from cranes to automobiles to nuclear plants, China has also become the world's leading power based on the number of war ships. China's wall, overseer of world growth, offers us no "protection", we are at the mercy of the shockwaves to come. From now on, it's the flapping of a butterfly's wing in Shanghai rather than in New York that will threaten the economy.

Romain Boscher,
Chief Investment Officer

The Actively Responsible Asset Manager

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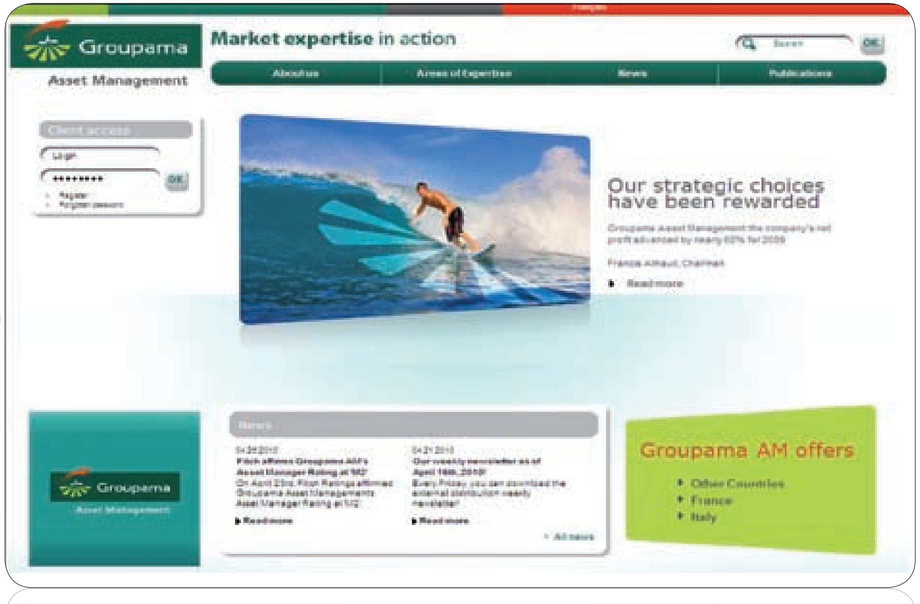

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ECONOMIC ENVIRONMENT

United States

CONTINUING GROWTH IN 2011, WITH HIGH RISKS

In 2011, the major current trends are likely to continue: an average of 100,000 jobs created per month, too few to significantly reduce unemployment, which hovers around 9.5%; tight financing for households and SMEs, which should continue but to a lesser degree. Under these conditions, residential investment should stabilise and consumption grow at an annual rate of 2%, with savings rates remaining steady at some 6%. Foreign trade, which should benefit from the decline in the dollar and the growth of emerging countries, should remain active, unlike this year.

Thus, despite the slowing of corporate investment, growth excluding inventory should improve significantly, from 1.6% to 2.4%. Meanwhile, the return of the inventory cycle is likely to take 0.6 points off 2011 growth, which will be 1.8%, versus 2.6% in 2010. Through foreign exchange, the Fed's QE should allow reinflation of an economy currently on the verge of deflation: inflation is expected to be slightly positive at year-end. There are a number of downward risks to this scenario: the anticipated new wave of defaults in real estate lending, the new decline in property prices that is underway, and that will likely exacerbate financing constraints, an economy falling into deflation, ongoing tensions on bond rates. The main upward risk remains a return of lending.

Euro zone

GROWTH SUFFERING FROM DIFFICULTIES OF EUROPEAN GOVERNANCE

GDP slowed by over half in the third quarter, rising only +0.4% versus 1% previously, due to the stability of corporate spending, after a contribution of 0.7 points to the previous quarter's growth. Private consumption is maintaining its modest growth rate of 0.2-0.3%.

Geographically, growth remains driven by German momentum and French domestic demand, while being penalised by the sharp contraction in domestic demand in peripheral countries. Most of these trends are expected to continue in 2011. In Germany, despite slowing exports, growth in corporate investment is projected to be 2%, thanks to consumption, sustained by the resulting wage increases. In France, by contrast, growth is expected to fall to 1%, penalised by rising long rates and elimination of the cash-for-clunkers program.

Finally, the entire euro zone will be affected by the simultaneous implementation of austerity plans, which are expected to reduce 2011 growth by some 1 point: the increase in long rates that will accompany this illustrates the lack of confidence that these economic policies will restore equilibrium to public finance. 2011 growth is expected to be 0.6%, versus 1.6% this year, and inflation will likely fall to 0.7%.

Japan

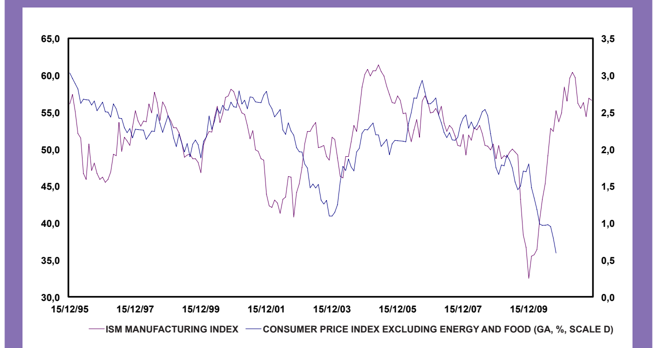
NEW DECLINE IN 2011 PROSPECTS

Growth was 1.0% in the third quarter, after +0.4% in the second, sustained by household consumption (+0.7 point contribution), foreign trade (+0.1 point contribution) and inventory (+0.2 points). GDP, however, is expected to sharply contract in the fourth quarter, by 0.7%: durable goods consumption is likely to plunge 30% after the elimination of green premiums for automobiles in September.

Beyond this technical correction, the weakening of growth will continue, due to foreign trade. Exports exacerbated their decline in October and, analysed in GA, are slowing in all regions. Moreover, the yen's appreciation is forcing companies to sharply reduce their margins. The decline in company profitability foreshadows a reduction in investment spending and is likely to have an impact on payroll: household consumption excluding automobiles would then likely slow significantly in 2011. Expected growth in 2011 is 0.5%, after +3.2% this year.

Laurent Berrebi,
Chief Economist

United-States: an economy verging on deflation despite accelerating activity

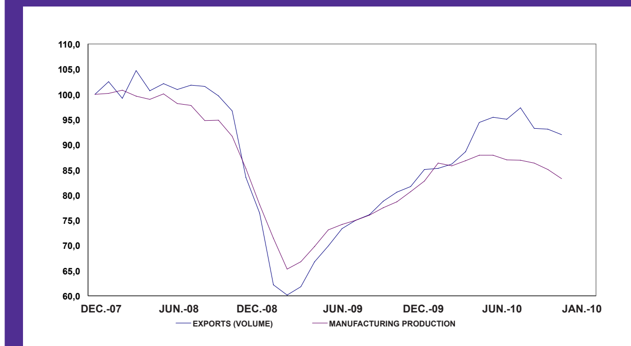


Sources: Datastream, Groupama AM

Euro zone: domestic demand already down in peripheral countries (Q var, %)

Sources: Datastream, Groupama AM

Japan: foreign trade will weaken growth in 2011 (indices at base 100 at start of period)



Sources: Datastream, Groupama AM

Return to Summary

FIXED INCOME MANAGEMENT

Short rates

Since the start of the crisis, the central banks have demonstrated their ability to step outside the box and implement unconventional solutions. The second wave of the Federal Reserve's quantitative easing and the BCE's resumption of peripheral bond purchases, simultaneously with Mr. Trichet's speech, are two recent examples of this trend. We are convinced it will last into 2011, although the goals are not the same.

UNITED-STATES

In the US, they will remain vigilant not to fall into deflation, and to protect a fragile recovery. We will therefore probably see a third wave of US quantitative easing.

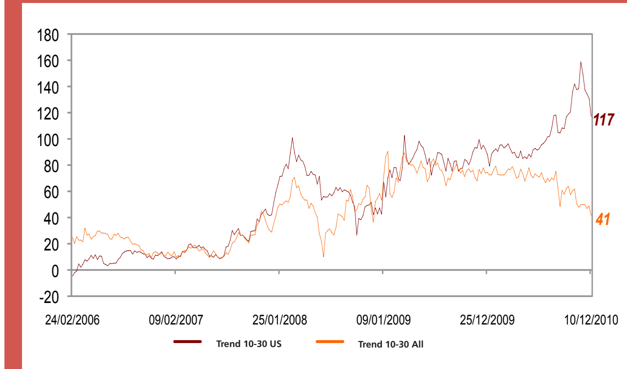
EUROZONE

In the euro zone, the zone's very survival is in question, and that will require even more markedly unconventional responses, with regard to both liquidity and political measures. Although we are aware of the critical fundamental difficulties of certain peripheral countries, we do not subscribe to the catastrophic scenarios that have been flourishing for some time. We think the BCE will continue and even increase its bond purchases within a framework of European-style quantitative easing, while maintaining a high level of liquidity. On the other hand, this will not occur without significant political commitment, which is difficult to anticipate, but we can count on 'the market' to compel them to undertake a 'forced march.'

The increase in refinancing rates is not a current trend, and market moves in this direction are now pushed back, on both the Fed and BCE sides, to the first half of 2012.

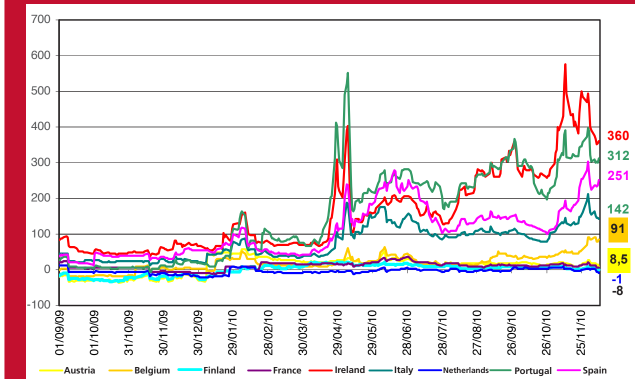
Within this context, monetary adjustment is likely to be long, with short rates permanently low and the Eonia very close to the low end of the refinancing range, far from the 1% refi rate.

Change in 10-30 yr slopes for Germany and the United States



Source : Bloomberg

Evolution of 2 year interest rate spreads in the eurozone*



Source : Bloomberg

*The rates used are generic rates, a change in the benchmark obligation could result in an increase in yield

Long rates

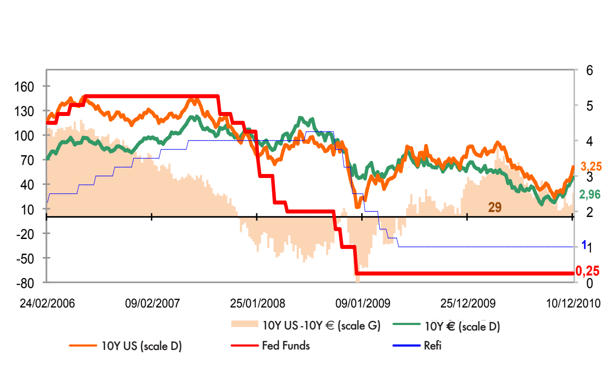
Bond tension in the "core" countries has clearly accelerated recently. The US 10-year yield has risen from 2.4% in early October to 3.3% in early December, and trends are similar in France and Germany. The reasons for these tensions are largely due to the US, with its positive macroeconomic surprises and political decisions for a budget stimulus. In the euro zone, the recovery of bond purchases by the BCE has resulted in sharp volatility in peripheral debts, with very different results between Greek debt, which has stabilised around its highs, and Irish and Portuguese debt, which fell sharply in December from their November highs.

Our 2011 scenario anticipates stable, or slightly lower, long rates in the short term, followed by a high that will bring the next year-end yields slightly higher than their current levels. The first trend is related to fundamental thinking in our growth and inflation projections, which remain positive but very low. They are below current consensus, while the correction in this consensus with the appearance of the next publications will naturally bring rates down. As for the second trend, in the US it is the result of the anticipated third wave of quantitative easing, leading to an increase in inflationary expectations and therefore interest rates. In the euro zone, we look to unconventional responses from the BCE and politicians to, if not build, at least maintain stability in the euro zone. Implementing these mechanisms will yield a sort of mandatory solidarity, resulting in a rate convergence with the appearance of risk premiums imported to the 'guarantor' countries, which will then see their rates edge up.

We have thus slightly increased our target yields for 10-year rates on the 12-month horizon, and kept current levels on a 3-month horizon, even though we do not exclude the possibility of lower transition points.

FIXED INCOME MANAGEMENT

Change in the short and long rates in the United States and the Eurozone



Source : Bloomberg

Inflation indexed

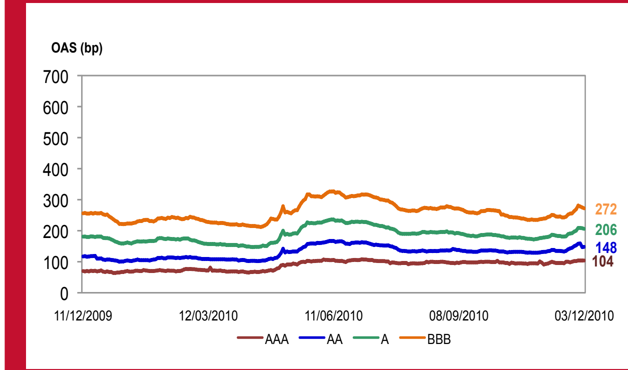
Our growth and inflation projections have a very low profile, which argues for sustainably low nominal and real rates. The real 10-year rate in the euro zone is currently some 1.1%, which already makes it very expensive for consensus growth and inflation levels, as well as for our price expectations. Moreover, the class of assets is similar to that of a risk asset, making it very sensitive to the trend of risk aversion, as we have confirmed this year with a negative relative net performance versus that of its nominal counterparts. Our 2011 scenario therefore does not favour this class of assets, but we will continue to monitor it along with the implementation of future quantitative easings and the resulting increases in inflationary expectations.

Unconventional measures will be applied only with difficulty and on the basis of a "forced march", and for now we therefore continue to prefer core countries, to the detriment of peripheral ones.

Lending

Certainly, the market has recently turned lower in accordance with the decline in nominal rates, but it remains a good year for credit, which posted a clearly higher annual performance than that of government debt. Volatility was troubling, with violent movements on the subordinated debt side and liquidity drying up very rapidly. The two factors that sustained this class of assets in 2010 are expected to remain present in 2011. The quest for yields in a low-rate and high-liquidity environment is indeed still a factor. The fundamental quality of businesses with low default rates and sound balance sheets is all the more important. On the other hand, it is once again necessary to emphasise selectivity, because there are a number of shadowy areas, whether due to the influence of sovereign risk, the consequences of regulatory change, or changes in the rules of the game relating to financial debt. Overall, this class of assets will certainly retain its attractiveness, but we must remain prudent in allocation, and very active in selection.

Change in risk premiums by rating



Source : Barclays Capital

Past performance is not a reliable indicator of future performance.

Philippe-Henri Burlisson
Core Management Director

EQUITY MANAGEMENT

Earnings outlook and market assessment

PROFITS OUTLOOK

Earnings projections and market assessment: finally a good 2010

• The consensus has lifted its 2010 earnings estimates for all regions except the euro zone, where growth has been revised downward and is tending to converge toward our projections, at +30 %.

Still attractive valuations: the markets are starting to take upward earnings revisions into account

• Valuations have rebounded under the effect of the rate increase.
• The US and Europe are still lagging behind the historic valuation levels of 2003-2007.

OTHER FACTORS

Flow funds: Record subscriptions in European equities funds

• US funds saw modest subscriptions ($0.4 billion), putting an end to an uninterrupted period of withdrawals since May 2010. At €8.7 billion, European funds have posted their strongest results since April 2006.
• Financial activities are multiplying. New stock listings: TDC, GM (at $23 billion, the largest of the year), and finally new takeover bids: Prysmian on Draka, Agrium on AWB, K+S on Potash One.

Small caps: still just as attractive!

Could small caps continue to perform well in 2011? Yes, because:
• They closely track the credit market
• The Mergers & Acquisitions cycle is based largely on this class of assets
• Stronger growth in earnings
• A major source of incubation for under-valued securities

Graphic analysis: no doubts about the positive trend

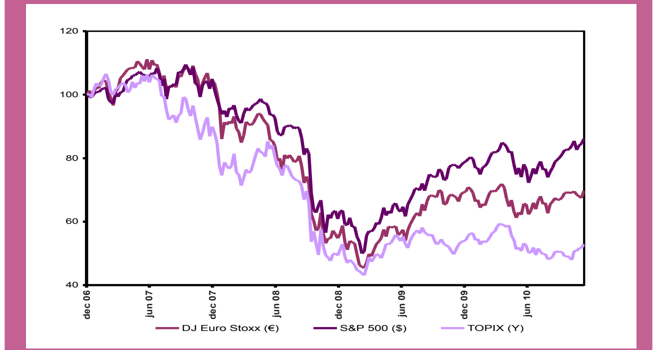
• US indices are still bumping up against the year's "highs" (April 2010). Early December could see a new correction, however given the improvement in medium-term indicators, the positive trend is expected to extend into 2011.

Performance of the main indices since the start of the year

	09/12/10	Var. 2010 in euros
DJ Euro Stoxx 50	2841	-4,2 %
SBF 250	2827	1,3 %
CAC 40	3858	-2 %
FTSE 100 (UK)	5808	13,8 %
S&P 500	1233	20,4 %
Nasdaq	2617	25,6 %
Topix (Japon)	892	18,6 %

Source : Datastream

Performances of international stock market indices in local currency



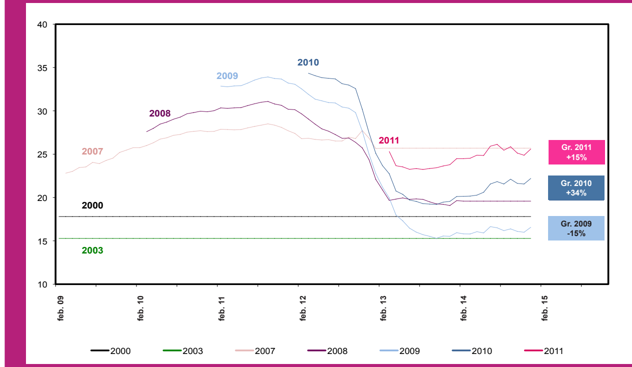
Source : Datastream

Market outlook

Resistance by equities, despite everything...

• As we have noted for several months, a number of factors are contributing to significant appreciation in the equities markets: attractive valuations, dividend yields at historic highs, particularly when compared to government or corporate rates, solid results, companies with comfortable war chests that allow them to envision not only a return to buying shares (already underway), but also a return to mergers and acquisitions, etc.
• Everything would be perfect if only…the sovereign debt crisis in the euro zone had not put a dark cloud over the equities markets, particularly in Europe. In the best case, we expect high volatility, probably with less and less conventional support from the central banks, without excluding the possibility of an orderly and organised restructuring of certain debts. Without fail, these events will have a painful impact on the financial sector's balance sheet, which remains a major burden on European indices.
• We foresee increasing polarisation in the equities markets, between the countries and the sectors most exposed to emerging country growth, and those prisoners of the problems of their countries of origin: sovereign debt and domestic demand handicapped by austerity policies.
• These uncertainties force us to reduce our 3-month and 12-month expectations slightly, while maintaining a long-term preference for emerging and US markets.

Profits forecast by the consensus on Euro Stoxx



Source : IBES

Claire Chaves d'Oliveira
Head of Equity Management

Return to Summary

GLOBAL BALANCED PORTFOLIO MANAGEMENT

Trend

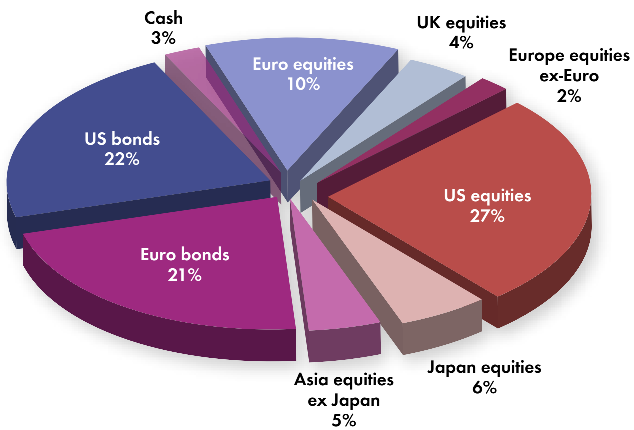
No, it is not the financial remake of Apocalypse Now that is currently being played out in the euro zone…it is, rather, thanks to the inventiveness of our biggest (?) money-men, the set of "Apocalypse 2014" that is being built before our very eyes, day by day, in this infernal game of dominos.

Indeed, as regards the region's public finances, 2014 is THE critical date. Although solidarity between countries to reduce the difficulties of those at greatest risk is expected to automatically play a role up to 2013, as for 2014, there is complete uncertainty. Until then, we have no choice but to trust in the fertile imagination of our politicians to prevent such a fearsome apocalypse.

Clearly, everyone wants to believe it (or appears to). Traders are thus hailing the arrival of the traditional "window dressing" period, which is likely to push the equities markets toward their annual highs in sparse volumes (requiring wide-spread use of the fast close). True, macro-economic publications have recently been encouraging this, whether in the euro zone where Germany is continuing to impress, or in the US, where the latest statistics tend to be reassuring. An additional positive factor is the fact that overseas, with the resumption of quantitative easing, we expect to see additional budgetary stimulus measures aimed at pushing back the risk of deflation (to 2014?). At the same time, however, in the Far East and in China, although the risk of overheating is a threat, nevertheless the monetary authorities appear to have controlled the situation. Adept at "fine tuning", they have prepared a cocktail of increases at moderate rates and a gradual rise in the obligatory reserve coefficients generally deemed effective in bringing the economy in for a soft landing.

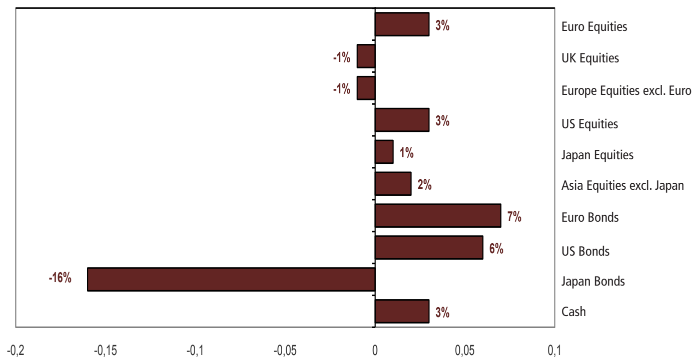
In this context, continuing appreciation in risk assets is likely, although visibility remains low.

Model portfolio



% difference

BETWEEN BENCHMARCK AND MODEL PORTFOLIO



Portfolio closed on 13/12/2010. Benchmark composed of 50% JPM global hedged + 50% MSCI world. Source: Groupama AM

Allocation

GLOBAL ALLOCATION

Equities 54% / Debt 43% / Money market 3%

With our allocation biased in favour of equities due to the fact that their highs closely track the lows in the bond markets, we are repositioning the portfolio to the previous equities target, which leads, in fact, to a levelling of our equity positions. At the same time, we are lightening the weight of bonds.

EQUITY MARKETS (54%) =

- **USA (+1):** the market continues to be supported by reassuring economic statistics, the ongoing QE and prospects for maintaining budgetary stimulus measures (particularly keeping taxes low). From a technical standpoint, currently the indices are also favourably configured: we are increasing our weighting.
- **Europe (-2):** on a relative basis, the attractiveness of the European bourses is not as clear, particularly given the increasing uncertainties of the future, even in the euro zone. We are taking our profits.
- **Asia (+1):** the Japanese bourse is currently evolving in a dynamic all its own, allowing it to quickly make up a portion of the ground it ceded in 2010. We are slightly over-weighted there.

BOND MARKETS (43%) -1

- **USA (=):** like their European counterparts, US bonds are suffering: scheduled purchases by the central bank are not enough to offset the overall toxic sovereign debt environment.
- **Europe (-1):** too many uncertainties (impact of support programs, possible issuances of euro bonds) make us cautious, we are lightening up at the margins.
- **Japan (=):** absolute yields still too low; we are remaining on the sidelines.

MONEY MARKET (3) +1

our cash position is up slightly, strengthened by the sale of bond products.

Jean-Louis Autant,
Head of Global Balanced Management

Return to Summary

IN THE BLINK OF AN EYE

Our strategy

		Current level 07/12/2010	Short-term objective	1 year objective
United States	Fed Funds	0,25	😐	😐
	10 yr T - bill	3,00	😐	😐
Eurozone	Refi rate	1,00	😐	😐
	10 yr OAT	3,30	😐	☹
Japan	BOJ rate	0,10	😐	😐
	10 yr JGB	1,18	☹	☹

Sources : Groupama AM, Bloomberg

Our model portfolio in € 07/12/10

BENCHMARK	EURO MTS GLOBAL
Sensitivity	😐
Inflation indexed allocation	☹
Curve choice	
1- 3 yr	😐
3 - 5 yr	😐
5 - 7 yr	☺
7 - 10 yr	☺
10 - 15 yr	☹
15 yr +	☹

Sources : Groupama AM, Bloomberg

Conclusions of the equity markets committee 07/12/10

	Indices 07/12/2010	Forecasts Groupama Asset Management short term (<3months)	a 1 yr
France (CAC 40)	3 749	☺	☺
Euroland (DJ)	272	☺	☺
United-Kingdom (FTSE 100)	5 770	☺	☺
United-States (S&P 500)	1 225	☺	☺☺
Japan (Topix)	881	☺	☺
MSCI Asia free ex-japan	557	☺	☺☺

Sources : Groupama AM, Bloomberg

Sector Outlook

Energy	☹	Consumer Products - Cosmetics	😐
Basic Materials	☺	Health Care Equipment	😐
Capital Goods	😐	Pharmacy & Biotech	☹
Industrial and Commercial Services	😐	Banks	😐
Transportation	☺	Diversified Financials	😐
Automobile	☺	Insurance	☹
Consumer Durables	☺	Real Estate	😐
Hospitality & Leisure	😐	Software & Computer Services	😐
Media	😐	Technological Equipment	😐
Non-Food Retail	😐	Semiconductors	☺
Food Retail	☹	Telecoms Operators	😐
Food Processing	☺	Utilities	☹

Sources : Groupama AM

☺☺ Positive ☺ Positive neutral 😐 Neutral ☹ Negative neutral ☹☹ Negative

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