

18 June 2002

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Fund Manager Survey

Stock Market Conditions Take a Turn for the Better
Highlights of This Issue
Merrill Lynch Stock Markets Conditions (SMC) Indicator Improves

It may not feel like it, but according to June's Fund Managers' Survey, global stock market conditions have taken a turn for the better. Our summary measure of the survey - the Merrill Lynch SMC (Stock Market Conditions) Indicator - rose quite sharply this month from 9.2 in May to 12.3 in June to its highest level since March 2002. The improvement was due to a more favourable perception of equity valuations, against a background of resilient earnings expectations and benign monetary conditions.

Serious Disillusionment with Corporate America

32% of fund managers believe that the US now has the least favourable outlook for corporate profits - the worst balance of any region including Japan. 27% now believe that the US market now has the worst quality of earnings, second only to Japan. And 60% of the panel still believe that US equities are relatively the most expensive in the world. Little surprise then that the US equity market is the market that managers would most like to underweight for the next 12 months. The big winner seems to be Japan where more asset allocators are now overweight than underweight.

Merrill Lynch Stock Market Conditions (SMC) Indicator

| Components of the SMC: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|---|-----------------------|----------------------|-----------------------|-----------------------|
| Profit Expectations | 51.0 | 50.0 | 50.4 | 60.7 |
| Interest Rate Prospects | -32.7 | -31.3 | -35.8 | -34.0 |
| Equity Valuations | 15.9 | 4.8 | 0.4 | 3.6 |
| Investor Sentiment | 15.0 | 13.3 | 13.9 | 18.0 |
| MERRILL LYNCH SMC INDICATOR* | 12.3 | 9.2 | 7.2 | 12.1 |
| Average Level During Fieldwork: | 6 Jun - 13 Jun | 2 May - 9 May | 4 Apr - 11 Apr | 7 Mar - 14 Mar |
| Global Equities (MSCI World Index in USD) | 223.6 | 232.7 | 237.2 | 243.7 |
| Dow Jones Industrial Average | 9583 | 10004 | 10253.7 | 10560 |
| US Long Bond Yield (%) | 5.0 | 5.1 | 5.0 | 5.3 |
| CRB Index | 201.7 | 198.9 | 199.9 | 202.2 |
| US Dollar Trade Weighted Index* | 116.6 | 119.6 | 122.8 | 122.1 |

* See Table 43 on page 20 for more information on the Merrill Lynch SMC Indicator. + 1990 = 100. Source: Merrill Lynch, Datastream.

See the June 2002 results in English at:

http://confirmit.private.tnsofres.com/Multimedia/ml/june2002_tg.htm

and in Japanese at:

http://online.tnsofres.com/Multimedia/Merrill_lynch/june2002/june2002reports_kxj.htm

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Stock Market Conditions Take a Turn for the Better

It may not feel like it, but according to June's ML Fund Managers' Survey, stock market conditions have taken a turn for the better. Our summary measure of the survey - the Merrill Lynch SMC (Stock Market Conditions) Indicator - rose quite sharply this month from 9.2 in May to 12.3 in June to the highest level since March 2002.

Looking through the four components that make up the summary SMC Indicator, what is striking this month is the improvement in Equity Valuation. Investors' perceptions of Profit Expectations and Interest-Rate Prospects barely changed. With global stocks some 4% lower than during the May fieldwork period, it should not be a surprise that valuations have improved. The fourth component of the SMC Indicator, Investor Sentiment, showed only a marginal improvement.

In March 2002 we introduced a new framework for analysing our Fund Managers Survey when we launched the Merrill Lynch Stock Market Conditions (SMC) Indicator. The SMC Indicator consists of four distinct components, each one created from up to five questions from the questionnaire. The first is a profit expectations component; the second assesses the prospects for interest rates (a proxy for liquidity conditions); the third looks at equity valuations, while the fourth tracks investor sentiment. These four components are then equally weighted to create an overall composite indicator that we hope captures the tone of each month's survey. For further details, see our methodology note of 8th March, or turn to page 20 of this report.

Profit Expectations

The Profit Expectations Component of the SMC managed a marginal advance last month from +50 in May to +51 in June. This is better than anticipated given all the recent worries about global growth and corporate earnings.

The net balance of fund managers expecting the global real economy to get stronger stood at a rock solid 83% for the third month running. The net balance that thought corporate-profits growth would improve was equally robust at 85%, with more than a quarter of the panel still expecting a strong improvement in corporate-profits growth. What is more, both these two questions cross-check with the outlook for industrial-commodity prices, where a net balance of 73% expects further increases, once again broadly in line with April's and May's results. It is not surprising that this is an environment that generally favours cyclicals over defensives - and this month is no exception. A net balance of 58% still prefers cyclicals over defensives - a slight improvement on recent months.

Fund managers still expect global EPS growth of 11%

over the next 12 months. It may not be an exciting number, but the fact that the growth rate has held up despite all the talk of 'double-dip' recessions is really quite impressive. Cost-cutting is seen by 47% of the panel as making the greatest positive contribution to that profits' recovery, closely followed by 44% who think that higher volumes will be the main driver. Only 5% believe that higher selling prices will drive the earnings recovery.

In a special question this month, we asked fund managers what they would most like to see companies doing with any free cash flow at the current time. Rebuilding of balance sheets through repayment of debt was the choice of 43% of our panel. 33% thought that companies should give back money to shareholders either through higher dividend payments or share repurchases, while only 15% thought they should expand their capital expenditure.

Interest-Rate Prospects

Investors' interest-rate expectations - like their expectations for earnings - remain remarkably stable this month. The Interest-Rate Prospects component of the SMC Indicator deteriorated only slightly from minus 31 in May to minus 33% in June. Core inflation is still a concern for many investors, with a net balance of 54% expecting global core inflation to be higher a year from now. The assessment of monetary policy was broadly unchanged, with only a net balance of 19% of fund managers thinking that monetary policy was "too stimulative". They still expect short-term interest rates to be higher a year from now, any tightening is expected to be modest. The only area where there was a meaningful shift was in the slope of the yield curve: a net balance of 35% now expects global yield curves will become more negative sloping, compared with 28% in May.

Equity Valuations

This is where we have seen the biggest improvement in stock market conditions this month, with the Equity Valuations component of the SMC rising from +5 in May to +16 in June. With the outlook for earnings and interest-rates essentially unchanged, and world stock prices down some 4% between the May and June fieldwork periods, a net 16% of the panel now see global equities as undervalued. It is by no means a one-way street: although more than 29% of the panel regard the market as being 10% undervalued or more, 15% still think that the market is 10% overvalued or more. Interestingly, the mean deviation from fair value (i.e. degree of over/undervaluation weighted by the number of respondents) is now minus 4%. The last time that we saw that was in April and October of last year - occasions that turned out to be great buying opportunities. Moreover, a change appears to have occurred in how investors expect valuations to evolve over the coming months. Back in April a net 21% expected the markets to get more expensive; by June that figure has fallen to 4%. Investors seem to be saying that the market is undervalued and expect it to stay undervalued going forward.

Investors' cash positions have also improved this month. This forms the second element of the Equity Valuation component. This month, the net balance of fund managers overweight cash rose from 10% to 16% and the average cash balance of our panel rose from 4.2% to 4.4%. This is market supportive, but balances remain low compared with the 6%+ spikes seen in April and October 2001.

Investor Sentiment

The Investor Sentiment component of the SMC rose slightly to 15 in June from 13 in May. The good news is that the difficult market environment of the past month has not shaken investor confidence any further. The bad news is that it has failed to improve significantly.

On a twelve-month view, a net 73% of the panel still believe that global equities prices will be higher, with 30% still hopeful of double-digit returns. Investors still want to "Buy the Dips" - a net 76% said they would buy the market if it fell 10% in the next three months. More interesting this month is that only a net 15% said they would sell if the market rose 10% ... one of the lowest balances we have recorded. This cross checks nicely with the view on valuation: investors do not seem to see a 10% rally as hitting any kind of valuation ceiling.

Risk appetite, though, remains poor. A net 16% of fund managers now believe that the level of risk in their portfolios is "below normal". This represents a big shift on three months ago when a net 8% believe that their portfolio risk was "above normal". The currently low level of risk appetite ties in with a shortening of investment-time horizons. However, looking forward, managers plan to increase their level of portfolio risk.

Regional Preferences

Fund managers' regional preferences this month illustrate just how much credibility US equity markets have lost over the past six months. 32% of fund managers believe that the US now has the least favourable outlook for corporate profits - the worst balance of any region including Japan. 27% now believe that the US market now has the worst quality of earnings (in terms of volatility, predictability and transparency) - second only to Japan. And 60% of the panel still believe that US equities are relatively the most expensive in the world - an assessment that has barely changed over the past three months. As far as fund managers are concerned, there is little 'relative value' in the US equity market. It is little surprise then that the US equity market is the market that fund managers - 51% of them - would most like to underweight for the next 12 months.

If they don't like US equity fundamentals, well then what do they like? This is altogether a harder call. The profits outlook for global emerging markets is still regarded as the most attractive. For the best quality of earnings, the UK equity market has knocked the US of its pedestal. And for valuation, Global Emerging equities continue to

be relatively the most attractive, and indeed this is the region that fund managers would most like to overweight (+32%) followed by the eurozone (+29%). Interestingly, although investors have become less negative on Japan, this is not a region that they are anxious to commit to - the jury is still out on that market.

Currency Outlook

Despite the weakness of the dollar these past couple of months, it still overvalued according to 57% of those questioned. It is by far investors' least favourite currency going forward: 55% cited the dollar this month, while only 28% cited the Yen. And on the long side, the euro is overwhelmingly the currency of choice looking ahead, and is still regarded by a majority of fund managers as undervalued. Interestingly the yen is off the radar screen at present: half of those questioned identified long euro - short dollar as their favourite 'pair trade'.

What Asset Allocators Think

Our sub-sample of asset allocators (170 out of the 282 participants) remain committed to equities, despite the 4% fall in the market between the two fieldwork periods. Many continue to be overweight equities and underweight bonds, but more allocators are now overweight cash.

In terms of country positioning, asset allocators have now made the shift to go underweight US equities - a net balance of 36% are now underweight the American equity market (compared with 12% a month ago). Emerging Market and Eurozone equities remain the favourite regions to overweight. But the biggest shift this month has been in favour of Japan. We now have more asset allocators overweight Japan than underweight.

On global sectors, the industries where asset allocators are net overweight include basic materials (+29%), general industrials (+27%), and financials (+26%). The sectors where asset allocators are most negative (again, on a net basis) include telecoms (minus 42%), utilities (minus 37%) and technology (minus 30%).

Long-Term Rates of Return

This year there has been growing concern about the long-term return assumptions used in company pension funds around the world. So we thought it would be useful to ask the asset allocators in our sample what kind of return on global assets they thought could be reasonably expected over the coming decade. On average, our panel expect 10-year returns to average 6.7% p.a., with half those asked expecting a return of 6% and 7%. Almost a quarter of this sample expected returns of 8% or higher. Asset allocators specialising in Japan generally had lower expectations (the mode thought 5% was possible), while asset allocators specialising in global funds were more optimistic (the mode here was looking for 7%).

1. Profit Expectations

This section includes the questions that are related to the profits component of our SMC Indicator. Those questions that are directly included in the indicator are highlighted.

A net 83% expect the economy to be stronger in a year

Table 1: How do You Think the Global Real Economy Will Develop Over the Next 12 Months?

| % of Fund Managers saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|-----------|-----------|-----------|-----------|
| Get a Lot Stronger | 17 | 14 | 24 | 27 |
| Get a Little Stronger | 70 | 74 | 64 | 66 |
| Stay the Same | 8 | 8 | 8 | 6 |
| Get a Little Weaker | 4 | 4 | 4 | 1 |
| Get a Lot Weaker | 0 | 1 | 1 | 0 |
| Global Net Balance | 83 | 83 | 83 | 92 |
| DK/Refused (%) | 0 | 0 | 1 | 0 |

A net 85% think the corporate profit outlook will improve

Table 2: Do You Think the Prospects for Corporate Profits Growth Will . . .

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|-----------|-----------|-----------|-----------|
| Improve Strongly | 27 | 26 | 24 | 30 |
| Improve Slightly | 62 | 63 | 66 | 62 |
| Remain Unchanged | 5 | 6 | 5 | 3 |
| Deteriorate Slightly | 4 | 4 | 4 | 4 |
| Deteriorate Strongly | 0 | 1 | 0 | 0 |
| Global Net Balance | 85 | 85 | 86 | 88 |
| DK/Refused (%) | 1 | 0 | 0 | 1 |

Managers forecast global eps growth of 11% over the next 12 months. Over 70% expect double digit growth.

Table 3: What is Your % Forecast for Global EPS Growth Over the Next 12 Months?

| % of Fund Managers saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|------------------------------------|-----------|-----------|-----------|-----------|
| Minus 25% or less | 0 | 0 | 0 | 0 |
| Minus 20% | 0 | 0 | 0 | 0 |
| Minus 15% | 0 | 0 | 1 | 0 |
| Minus 10% | 1 | 1 | 2 | 1 |
| Minus 5% | 2 | 2 | 2 | 2 |
| Zero | 1 | 2 | 3 | 1 |
| Plus 5% | 18 | 18 | 18 | 24 |
| Plus 10% | 33 | 33 | 36 | 35 |
| Plus 15% | 25 | 23 | 21 | 18 |
| Plus 20% | 11 | 10 | 9 | 11 |
| Plus 25% or more | 2 | 2 | 2 | 2 |
| Average EPS Growth Forecast | 11 | 11 | 10 | 10 |
| DK/Refused (%) | 8 | 8 | 7 | 6 |

Table 4: Comparing Fund Managers' Earnings Expectations (Across the Columns) with Fund Managers' Expectations for Equity Returns over the Next 12 Months (Down the Rows)

| Earnings expectations (see Table 3) and Expected Returns (see Table 21) | -25% or less | -20% | -15% | -10% | -5% | Zero | +5% | +10% | +15% | +20% | +25% or more | DK | Total |
|---|--------------|------|------|------|-----|------|-----|------|------|------|--------------|----|-------|
| Much Higher (positive double digit returns) | | | | | | | 3 | 10 | 9 | 7 | 1 | 1 | 31 |
| Slightly Higher (positive single digit returns) | | | | | 1 | 1 | 11 | 21 | 14 | 2 | | 2 | 52 |
| Unchanged | | | | | | 1 | 2 | 2 | 1 | 1 | | 2 | 9 |
| Slightly Lower (negative single digit returns) | | | | 1 | | | 2 | | | | | 1 | 4 |
| Much Lower (negative double digit returns) | | | | | 1 | | 2 | | | | | 1 | 4 |
| Don't Know | | | | | | | | | | | | 1 | 1 |
| Total | | | | 1 | 2 | 2 | 20 | 33 | 24 | 10 | 1 | 8 | 100 |

Managers are split as to whether profit growth will be through higher volumes or lower costs

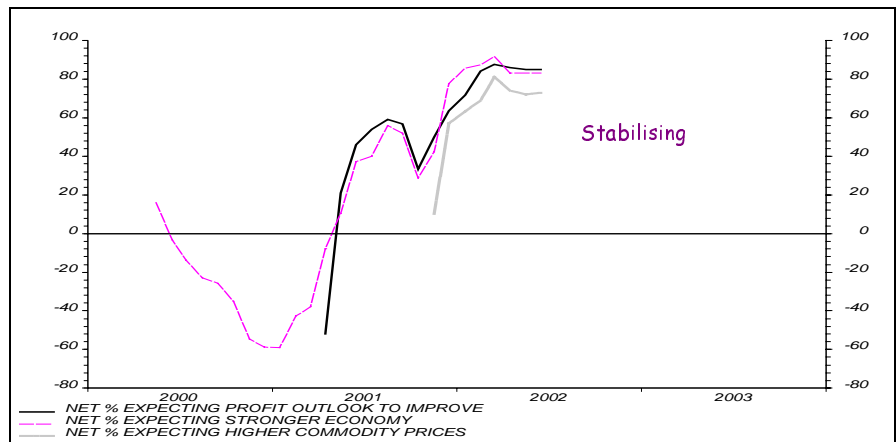
Table 5: What Do You See as the Most Positive Contributor to Global Corporate Earnings Over the Next Twelve Months?

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|--------|--------|--------|--------|
| Higher Volumes | 44 | 44 | - | - |
| Higher Selling Prices | 5 | 5 | - | - |
| Lower Costs | 47 | 46 | - | - |
| Don't Know | 4 | 5 | - | - |

A net 73% think that commodity prices will rise over the coming year

Table 6: In 12 Months' Time Do You Think That Industrial Commodity Prices Will Be . . .

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|-----------|-----------|-----------|-----------|
| A Lot Higher | 7 | 9 | 8 | 16 |
| Slightly Higher | 71 | 68 | 72 | 68 |
| Unchanged | 15 | 18 | 13 | 10 |
| Slightly Lower | 5 | 4 | 6 | 3 |
| A Lot Lower | 0 | 0 | 0 | 0 |
| Global Net Balance | 73 | 72 | 74 | 81 |
| DK/Refused (%) | 1 | 2 | 1 | 2 |

Chart 1: Outlook for Economic Growth, Profits and Commodity Prices


58% of managers think cyclical sectors will outperform defensives

Table 7: Broadly Speaking, Which Do You Think Will Perform Best Over the Next 12 Months?

| % of Fund Managers saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|--|-----------|-----------|-----------|-----------|
| Cyclical Sectors | 74 | 73 | 72 | 84 |
| Defensive Sectors | 16 | 16 | 19 | 8 |
| Net Balance Preferring Cyclical | 58 | 57 | 53 | 76 |
| None/DK/Refused (%) | 10 | 11 | 10 | 8 |

43% of managers would like companies reduce debt with free cash flow

Table 8: What Would You Most Like to See Companies Doing With Free Cash Flow at the Current Time?

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|---|--------|--------|--------|--------|
| Maintain / Increase Dividend Payments | 12 | - | - | - |
| Repay Debt | 43 | - | - | - |
| Repurchase Equity | 21 | - | - | - |
| Maintain / Increase Capital Expenditure | 15 | - | - | - |
| None/DK/Refused (%) | 9 | - | - | - |

2. Interest Rate Prospects

This section includes the questions that are related to the interest-rates component of our SMC Indicator. Those questions that are directly included in the indicator are highlighted.

Most managers think inflation will rise moderately . . .

Table 9: In 12 Months Time, Do You Think Global Core Inflation (in year-on-year terms) Will Be . . .

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|-------------|-----------|-----------|-----------|
| A Lot Higher | 3 | 2 | 3 | 2 |
| Slightly Higher | 60 | 62 | 61 | 62 |
| Unchanged | 26 | 27 | 26 | 20 |
| Slightly Lower | 9 | 7 | 8 | 13 |
| A Lot Lower | 0 | 1 | 1 | 2 |
| Global Net Balance | 54 ← | 56 | 56 | 50 |
| DK/Refused (%) | 1 | 1 | 1 | 0 |

76% of managers think monetary policy is about right – but 21% consider it too stimulative

Table 10: Do You Think That Global Monetary Policy is Currently . . .

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|-----------|-----------|-----------|-----------|
| Too Stimulative | 21 | 20 | 27 | 24 |
| About Right | 76 | 76 | 70 | 74 |
| Too Restrictive | 2 | 2 | 2 | 2 |
| Global Net Balance: | 19 | 18 | 25 | 23 |
| DK/Refused (%) | 1 | 2 | 1 | 0 |

Most expect rates to be higher a year from now. . .

Table 11: In 12 Months, Will Short-Term Interest Rates Be . . .

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|-------------|-----------|-----------|-----------|
| A Lot Higher | 10 | 11 | 17 | 17 |
| Slightly Higher | 79 | 82 | 74 | 76 |
| Unchanged | 8 | 6 | 6 | 6 |
| Slightly Lower | 1 | 1 | 1 | 1 |
| A Lot Lower | 0 | 0 | 0 | 0 |
| Global Net Balance: | 88 ← | 91 | 91 | 92 |
| DK/Refused (%) | 1 | 1 | 2 | 0 |

. . . and yield curves to flatten

Table 12: In 12 Months, Will Global Yield Curves* Be . . .

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|--------------|------------|------------|------------|
| More Positive Sloping | 22 | 24 | 24 | 24 |
| Unchanged | 16 | 20 | 11 | 12 |
| More Negative Sloping | 57 | 52 | 59 | 58 |
| Global Net Balance: | -35 ← | -28 | -35 | -33 |
| DK/Refused (%) | 5 | 5 | 7 | 7 |

* Bond Yields Minus Short Term Interest Rates

3. Equity Valuation

This section includes the questions that are related to the valuation component of our SMC Indicator. Those questions that are directly included in the indicator are highlighted.

Markets perceived as undervalued . . .

Table 13: Do You Think Global Equity Markets are Currently . . .

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|------------|----------|----------|-----------|
| Overvalued | 19 | 21 | 21 | 21 |
| Fairly Valued | 44 | 57 | 60 | 53 |
| Undervalued | 35 | 20 | 17 | 24 |
| Global Net Balance | -16 | 1 | 4 | -3 |
| DK/Refused (%) | 2 | 2 | 2 | 2 |

. . . trading at 4% below fair value

Table 14: If You Think Global Equity Markets are Over or Undervalued, by About How Much Would You Say?

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|---------------------------------------|-----------|----------|----------|----------|
| More than 25% Overvalued | 1 | 2 | 2 | 3 |
| 20% Overvalued | 2 | 2 | 2 | 1 |
| 15% Overvalued | 3 | 5 | 3 | 6 |
| 10% Overvalued | 9 | 9 | 10 | 8 |
| 5% Overvalued | 3 | 3 | 3 | 3 |
| Fair Value | 44 | 57 | 60 | 53 |
| 5% Undervalued | 5 | 2 | 2 | 4 |
| 10% Undervalued | 14 | 13 | 9 | 13 |
| 15% Undervalued | 10 | 3 | 4 | 6 |
| 20% Undervalued | 4 | 1 | 1 | 1 |
| More than 25% Undervalued | 1 | 0 | 0 | 0 |
| Mean Deviation from Fair Value | -4 | 1 | 2 | 0 |
| Don't Know (%) | 4 | 2 | 2 | 2 |

For choice the net balance expect markets to become more overvalued – although there's not much

Table 15: Thinking About the Next 12 Months, Do You Think Global Equity Markets are Likely to . . .

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|--------------------------------|----------|-----------|-----------|----------|
| Become More Overvalued | 24 | 27 | 33 | - |
| No Change to Current Valuation | 36 | 42 | 43 | - |
| Become More Undervalued | 20 | 15 | 12 | - |
| Global Net Balance | 4 | 12 | 21 | - |
| DK / Refused (%) | 20 | 16 | 13 | - |

Chart 2: Equity Valuation and Mean Deviation of Equities from Fair Value

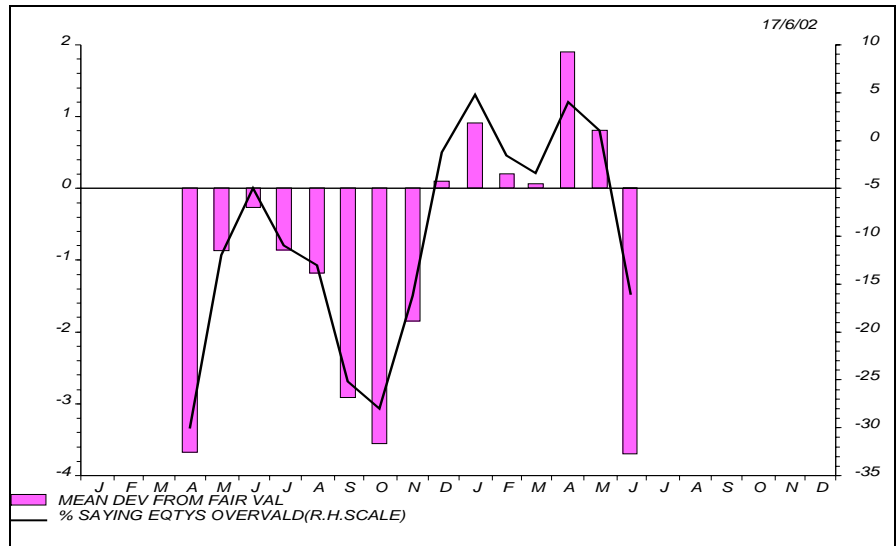


Table 16: Looking Ahead, What Do You Think is the Appropriate Equity Risk Premium With Which to Assess Equity Valuations?

The global equity risk premium has remained fairly stable, around 4%

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|-----------------------------|------------|------------|------------|------------|
| 1% or Less | 0 | 0 | 0 | 0 |
| 2% | 5 | 2 | 5 | 3 |
| 3% | 28 | 33 | 33 | 30 |
| 4% | 27 | 29 | 26 | 29 |
| 5% | 15 | 13 | 11 | 15 |
| 6% | 5 | 4 | 7 | 5 |
| 7% | 1 | 1 | 1 | 2 |
| 8% or More | 1 | 0 | 0 | 0 |
| Estimated Global ERP | 4.0 | 3.8 | 3.8 | 4.0 |
| DK/Refused (%) | 17 | 18 | 16 | 15 |

Table 17: Comparing Current Valuation Assessment (Table 13, across the top) with Valuation Expectations (Table 15, down the side)

20% see the market as fairly valued, and expect it to remain so

| Do You Think Equity Markets Will . . . | Do You Think Equity Markets Are . . . | | | | Total |
|--|---------------------------------------|---------------|-------------|------------|------------|
| | Overvalued | Fairly Valued | Undervalued | Don't Know | |
| Become More Overvalued | 2 | 11 | 11 | | 24 |
| Become More Undervalued | 8 | 7 | 5 | | 20 |
| No Change | 6 | 20 | 10 | | 36 |
| Don't Know | 3 | 7 | 9 | 2 | 20 |
| TOTAL | 19 | 44 | 35 | 2 | 100 |

A net 16% of managers are overweight cash

Table 18: Are You Currently Overweight, Underweight or Neutral Cash Relative to Your Benchmark?

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|-------------------------------|-----------|-----------|----------|----------|
| Overweight | 31 | 27 | 21 | 25 |
| Neutral | 35 | 40 | 47 | 44 |
| Underweight | 15 | 16 | 16 | 21 |
| Net Balance Overweight | 16 | 10 | 5 | 4 |
| Not Applicable/DK (%) | 19 | 17 | 16 | 9 |

The average cash balance is 4.4%

Table 19: Which of the Following Comes Closest to Your Current Cash Position?

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|------------------------------|------------|------------|------------|------------|
| 0% | 15 | 13 | 17 | - |
| 2% | 22 | 28 | 28 | - |
| 4% | 22 | 21 | 19 | - |
| 6% | 8 | 9 | 8 | - |
| 8% | 6 | 7 | 6 | - |
| 10% | 8 | 5 | 4 | - |
| 12% or More | 6 | 6 | 6 | - |
| Mean Cash Balance (%) | 4.4 | 4.2 | 3.9 | 4.3 |
| Not Applicable/DK (%) | 12 | 11 | 11 | - |

Note: the bands for response have changed recently to allow a greater range of responses. The overall cash balance is available historically.

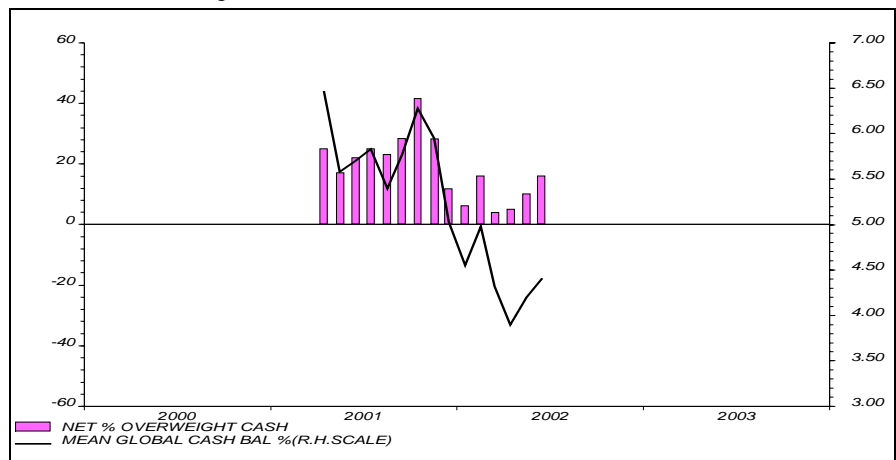
Funds that say they are overweight cash have a balance of around 7%

Table 20: Estimated Cash Balances According to Over/Underweight Stance (June 2002)

| % of Fund Managers Saying: | Underweight | Neutral | Overweight | NA / DK |
|------------------------------|-------------|------------|------------|------------|
| 0% | 14 | 21 | 2 | 26 |
| 2% | 38 | 35 | 2 | 17 |
| 4% | 29 | 26 | 25 | 6 |
| 6% | 5 | 3 | 20 | 2 |
| 8% | 5 | 2 | 14 | 0 |
| 10% | 0 | 8 | 17 | 0 |
| 12% or More | 2 | 0 | 16 | 4 |
| Mean Cash Balance (%) | 3.1 | 3.0 | 7.2 | 0.7 |
| Not Applicable/DK (%) | 7 | 4 | 3 | 45 |

This table is a cross of Table 18 by Table 19

Chart 3: Net Overweight Cash and Mean Cash Balance



4. Investor Sentiment

This section includes the questions that are related to the sentiment component of our SMC Indicator. Those questions that are directly included in the indicator are highlighted.

73% think the markets will be higher in 12 months time

Table 21: The Merrill Lynch Buy-Side Indicator: In 12-Months' Time, Will Markets be Higher or Lower Than Now?

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|--|-----------|-----------|-----------|-----------|
| Much Higher (ie double digit positive returns) | 30 | 25 | 22 | 27 |
| Slightly Higher (ie single digit positive returns) | 52 | 59 | 61 | 62 |
| Unchanged | 9 | 6 | 7 | 4 |
| Slightly Lower (ie single digit negative returns) | 5 | 5 | 8 | 6 |
| Much Lower (ie double digit negative returns) | 3 | 4 | 1 | 2 |
| Global Net Balance | 73 | 76 | 75 | 82 |
| DK/Refused (%) | 1 | 1 | 1 | 0 |

Most managers think equities are likely to beat bonds over the next year

Table 22: How Likely Do You Think it is That Bonds Will Deliver Better Returns than Equities Over the Next 12 Months?

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|------------|------------|------------|------------|
| Very Likely | 4 | 4 | 3 | 3 |
| Fairly Likely | 10 | 9 | 10 | 7 |
| Too Close to Call | 20 | 17 | 17 | 11 |
| Fairly Unlikely | 44 | 47 | 45 | 46 |
| Very Unlikely | 20 | 20 | 23 | 31 |
| Global Net Balance | -50 | -54 | -56 | -66 |
| DK/Refused (%) | 2 | 3 | 2 | 2 |

If the market fell 10% from current levels, a net 76% would buy

Table 23: All Things Being Equal, If Global Equity Prices FELL 10% from Current Levels in the next 3 Months Would You be a Buyer or a Seller?

| % of Fund Managers saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|-------------------------------|-----------|-----------|-----------|-----------|
| Buy | 78 | 80 | 80 | 81 |
| Do Neither | 17 | 14 | 14 | 13 |
| Sell | 2 | 2 | 2 | 2 |
| Buy - Sell Net Balance | 76 | 78 | 78 | 79 |
| DK/Refused (%) | 4 | 5 | 3 | 5 |

And if equities rose 10%, a net 15% would sell

Table 24: All Things Being Equal, If Global Equity Prices ROSE 10% from Current Levels in the Next 3 Months Would You be a Buyer or a Seller?

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|-------------------------------|------------|------------|------------|------------|
| Buy | 12 | 7 | 9 | 7 |
| Do Neither | 55 | 46 | 41 | 45 |
| Sell | 28 | 40 | 44 | 43 |
| Buy - Sell Net Balance | -15 | -33 | -34 | -36 |
| DK/Refused (%) | 5 | 7 | 6 | 5 |

Current appetite for risk has fallen –

Table 25: How Would You Describe the Current Level of Risk in Your Investment Portfolio?

| % of Fund Managers Saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|------------|------------|-----------|----------|
| Higher than Normal | 13 | 14 | 19 | 26 |
| Normal | 57 | 60 | 56 | 56 |
| Lower than Normal | 29 | 24 | 23 | 17 |
| Net Balance | -16 | -10 | -3 | 8 |
| DK/Refused (%) | 1 | 1 | 2 | 1 |

26% plan to increase risk exposure

Table 26: How Do You Plan to Manage This Risk Over the Next 3 Months?

| % of Fund Managers saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|-------------------------------|-----------|-----------|-----------|-----------|
| Increase Level of Risk | 33 | 30 | 26 | 34 |
| Leave Level of Risk Unchanged | 55 | 57 | 59 | 50 |
| Reduce the Level of Risk | 7 | 8 | 10 | 12 |
| Net Balance | 26 | 22 | 16 | 22 |
| DK/Refused (%) | 5 | 6 | 6 | 5 |

Overall, managers are satisfied with their strategy, and few plan changes to their strategy

Table 27: How Satisfied Are You With Your Current Investment Strategy?

| % of Fund Managers saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|--|------------|-----------|----------|----------|
| Satisfied... and no plans to make any changes to my strategy soon | 44 | 39 | - | - |
| Satisfied... but planning to make changes to my strategy soon | 35 | 40 | - | - |
| Dissatisfied... but no plans to make any changes to my strategy soon | 13 | 12 | - | - |
| Dissatisfied... and planning to make changes to my strategy soon | 6 | 8 | - | - |
| Net Balance Planning a Change In Strategy | -16 | -3 | - | - |
| Net Balance Satisfied With Strategy | 60 | 59 | - | - |
| Don't know | 3 | 2 | - | - |

20% have a “shorter than normal” time horizon

Table 28: How Would You Describe Your Current Investment Time Horizon?

| % of Fund Managers saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|------------|------------|------------|------------|
| Longer than normal | 9 | 10 | 6 | 11 |
| Normal | 62 | 63 | 68 | 63 |
| Shorter than normal | 28 | 27 | 25 | 26 |
| Net Balance | -20 | -17 | -18 | -15 |
| DK/Refused (%) | 1 | 1 | 1 | 0 |

5. Regional Preferences

This section includes the questions that are related to regional rotation. These questions are not included in the SMC Indicator.

Table 29: Where is the Outlook for Corporate Profits Most / Least Favourable?

Managers see the profit outlook as best in the Emerging Markets ...

... Worst in the US

| % of Fund Managers Saying: | | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|----------------------------------|--------|--------|--------|--------|
| Most | US Corporate Profits | 19 | 22 | 31 | 45 |
| | Eurozone Corporate Profits | 17 | 16 | 16 | 14 |
| | UK Corporate Profits | 3 | 4 | 3 | 4 |
| | Japanese Corporate Profits | 16 | 13 | 9 | 5 |
| | Global Emg Mkt Corporate Profits | 39 | 39 | 35 | 26 |
| | DK/Refused (%) | 6 | 6 | 6 | 6 |
| Least | US Corporate Profits | 32 | 25 | 16 | 9 |
| | Eurozone Corporate Profits | 13 | 9 | 7 | 6 |
| | UK Corporate Profits | 11 | 13 | 11 | 15 |
| | Japanese Corporate Profits | 26 | 38 | 49 | 58 |
| | Global Emg Mkt Corporate Profits | 5 | 3 | 5 | 4 |
| | DK/Refused (%) | 14 | 12 | 12 | 9 |

Quality of earnings seen as best in the UK, with the US a close second

Quality seen as worst in Japan

Table 30: In Which Region is the Quality* of Earnings the Best / Worst?

| % of Fund Managers saying: | | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|-------------------------|--------|--------|--------|--------|
| Best | US Equities | 26 | 33 | 42 | 43 |
| | Eurozone Equities | 20 | 20 | 21 | 20 |
| | UK Equities | 32 | 31 | 22 | 24 |
| | Japan Equities | 5 | 2 | 2 | 0 |
| | Global Emg Mkt Equities | 5 | 6 | 3 | 3 |
| | DK/Refused (%) | 12 | 9 | 11 | 10 |
| Worst | US Equities | 27 | 17 | 11 | 9 |
| | Eurozone Equities | 2 | 2 | 2 | 2 |
| | UK Equities | 0 | 1 | 1 | 1 |
| | Japan Equities | 36 | 45 | 49 | 55 |
| | Global Emg Mkt Equities | 25 | 24 | 26 | 23 |
| | DK/Refused (%) | 10 | 10 | 12 | 10 |

* Quality in terms of volatility, predictability and transparency.

Chart 4: In Which Region is the Profit Outlook Most Favourable?

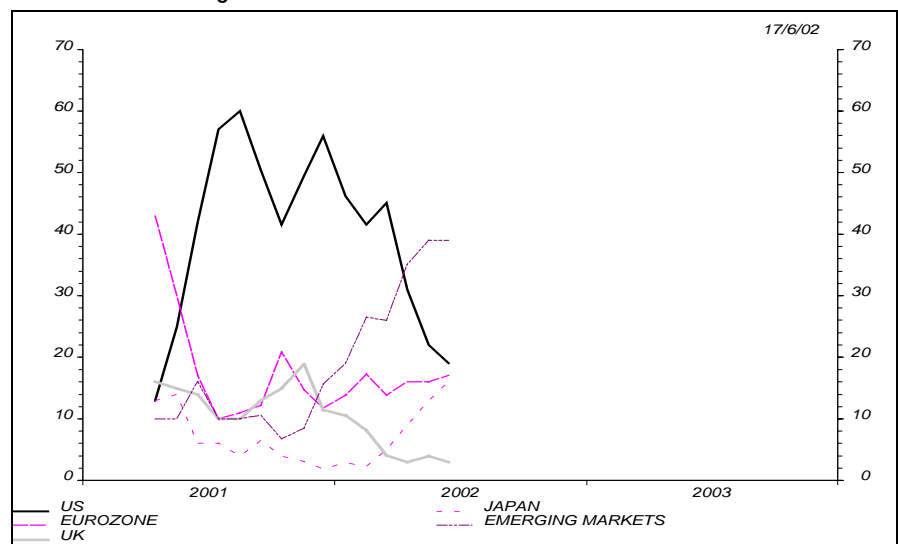


Table 31: Which of the Following Equity Markets is Most Overvalued / Most Undervalued?

US Equities seen as most overvalued . . .

. . . Emerging Markets seen as most undervalued

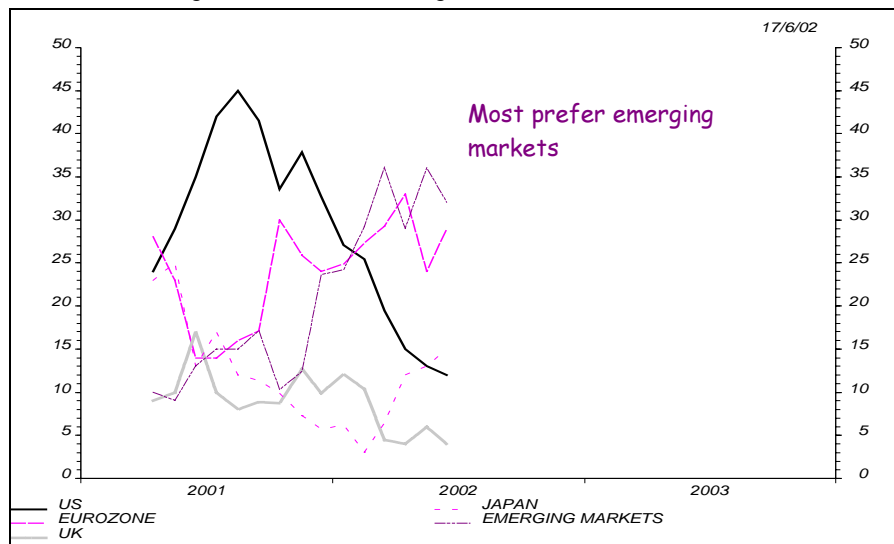
| | | % of Fund Managers Saying: | | | |
|-------------------------|-------------------------|----------------------------|--------|--------|--------|
| | | Jun-02 | May-02 | Apr-02 | Mar-02 |
| Most Overvalued | US Equities | 60 | 63 | 62 | 59 |
| | Eurozone Equities | 6 | 3 | 4 | 3 |
| | UK Equities | 4 | 5 | 5 | 9 |
| | Japan Equities | 11 | 11 | 13 | 18 |
| | Global Emg Mkt Equities | 5 | 4 | 5 | 4 |
| | DK/Refused (%) | 13 | 14 | 10 | 7 |
| Most Undervalued | US Equities | 9 | 5 | 4 | 6 |
| | Eurozone Equities | 19 | 17 | 22 | 21 |
| | UK Equities | 5 | 7 | 7 | 9 |
| | Japan Equities | 22 | 21 | 19 | 19 |
| | Global Emg Mkt Equities | 34 | 38 | 36 | 37 |
| | DK/Refused (%) | 11 | 13 | 13 | 8 |

Table 32: Thinking About Regional Rotation Over the Next 12 Months, Which Region Would You Over/Underweight?

Managers would overweight the Eurozone and Emerging Markets on a 12 month view . . .

And most would underweight the US!

| | | % of Fund Managers Saying: | | | |
|--------------------|-------------------------|----------------------------|--------|--------|--------|
| | | Jun-02 | May-02 | Apr-02 | Mar-02 |
| Overweight | US Equities | 12 | 13 | 15 | 20 |
| | Eurozone Equities | 29 | 24 | 33 | 29 |
| | UK Equities | 4 | 6 | 4 | 5 |
| | Japan Equities | 15 | 13 | 12 | 6 |
| | Global Emg Mkt Equities | 32 | 36 | 29 | 36 |
| | DK/Refused (%) | 7 | 8 | 8 | 4 |
| Underweight | US Equities | 51 | 43 | 38 | 26 |
| | Eurozone Equities | 7 | 4 | 6 | 9 |
| | UK Equities | 7 | 11 | 11 | 18 |
| | Japan Equities | 18 | 26 | 27 | 35 |
| | Global Emg Mkt Equities | 7 | 5 | 5 | 6 |
| | DK/Refused (%) | 10 | 11 | 14 | 7 |

Chart 5: Which Region Would You Overweight on a 12-month View?


Net 58% think the USD is overvalued . . .

26% think the Yen is overvalued

While 62% think the Euro is undervalued!

Table 33: Based on Current Fundamentals, Do You Think the Following Currencies Are . . .

| % of Fund Managers saying: | | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|--------------------------------|------------|------------|------------|--------|
| US Dollar | Overvalued | 65 | 65 | 63 | - |
| | Fairly Valued | 21 | 19 | 23 | - |
| | Undervalued | 8 | 7 | 5 | - |
| | Net % Saying Overvalued | 57 | 58 | 58 | - |
| | Don't Know | 5 | 10 | 9 | - |
| Japanese Yen | Overvalued | 36 | 36 | 33 | - |
| | Fairly Valued | 43 | 40 | 34 | - |
| | Undervalued | 11 | 8 | 17 | - |
| | Net % Saying Overvalued | 25 | 28 | 16 | - |
| | Don't Know | 10 | 16 | 16 | - |
| Euro | Overvalued | 6 | 4 | 3 | - |
| | Fairly Valued | 22 | 19 | 21 | - |
| | Undervalued | 66 | 66 | 66 | - |
| | Net % Saying Overvalued | -60 | -62 | -63 | - |
| | Don't Know | 6 | 11 | 11 | - |

Chart 6: Favourite Currency

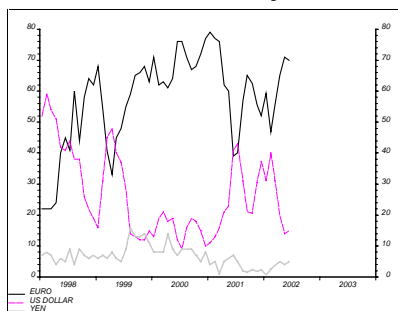


Table 34: Which is Your Favourite / Least Favourite Currency Over the Next 12 Months?

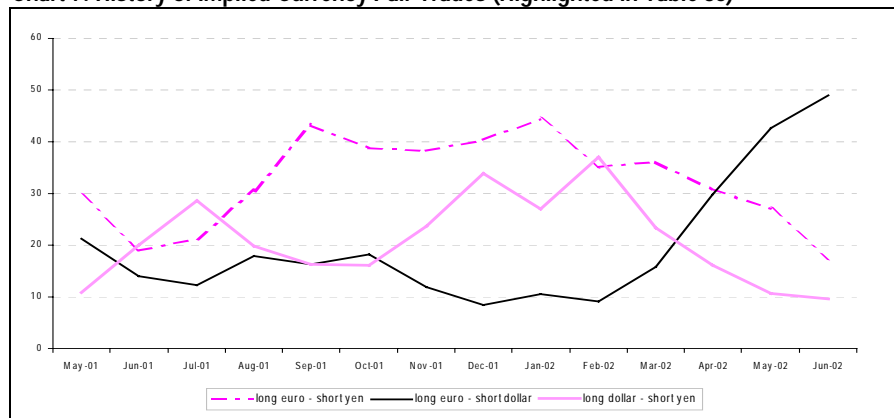
| % of Fund Managers saying: | | Jun-02 | May-02 | Apr-02 | Mar-02 |
|----------------------------|----------------------------------|-----------|--------|--------|--------|
| Favorite | US Dollar | 15 | 14 | 20 | 31 |
| | Euro | 70 | 71 | 65 | 56 |
| | Japanese Yen | 5 | 4 | 5 | 4 |
| | None of the above/DK/Refused (%) | 10 | 11 | 10 | 9 |
| Least Favorite | US Dollar | 55 | 46 | 35 | 19 |
| | Euro | 5 | 4 | 3 | 7 |
| | Japanese Yen | 28 | 38 | 49 | 62 |
| | None/DK/Refused (%) | 12 | 12 | 13 | 13 |

Table 35: Implied Currency Pair Trades (June 2002)

| Most Favourite Currency (ie long) | Least Favourite Currency (ie short) | | | | Total |
|-----------------------------------|-------------------------------------|----------|-----------|-----------|------------|
| | US Dollar | Euro | Yen | None/DK | |
| US Dollar | 0 | 4 | 10 | 1 | 15 |
| Euro | 49 | 0 | 17 | 4 | 70 |
| Yen | 4 | 1 | 0 | 0 | 5 |
| None of the Above / Don't know | 2 | 0 | 1 | 7 | 10 |
| Total | 55 | 5 | 28 | 12 | 100 |

Most managers are long euro, short dollar

Chart 7: History of Implied Currency Pair Trades (Highlighted in Table 35)



6. Asset Allocation

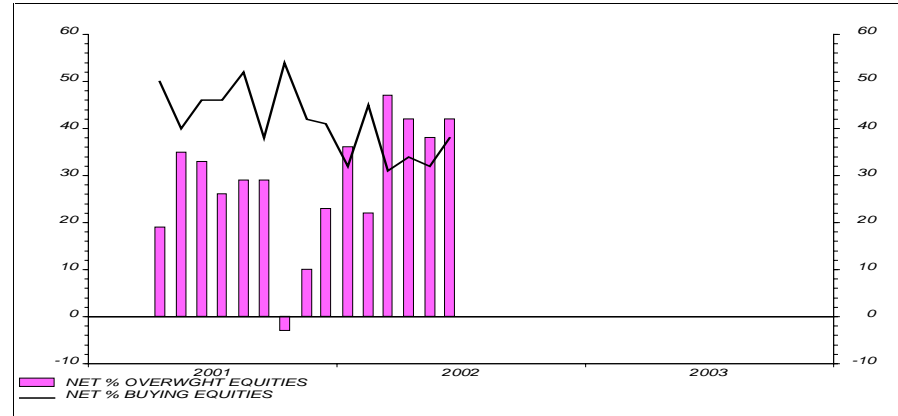
This section includes the questions that are related to asset allocation, equity allocation and sector preferences. These questions are not included in the SMC Indicator.

In the charts, the bars represents the net percent of managers that are overweight (i.e., overweight minus underweight) while the lines represent the net percent planning to increase their exposure (i.e., increase minus decrease).

Assets: Current Position & Future Intentions

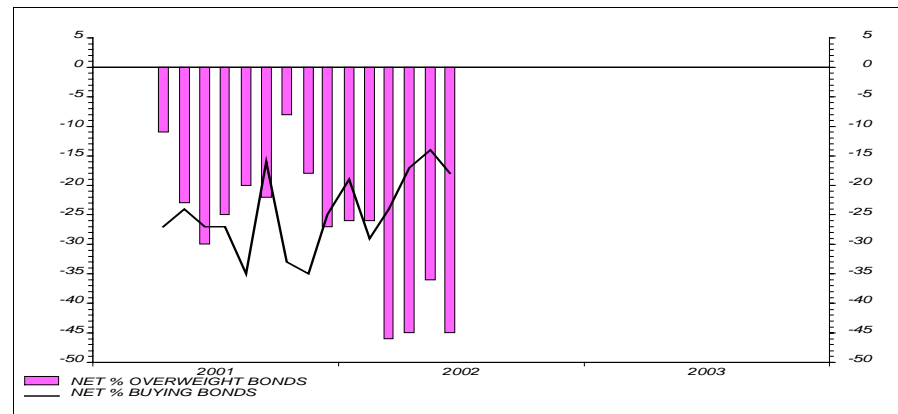
Chart 8: Equities

| Equities | | | |
|-----------------------|-----------|-----------|-----------|
| % Saying | Jun | May | Apr |
| Overweight | 58 | 56 | 57 |
| Underweight | 16 | 18 | 15 |
| Net Overweight | 42 | 38 | 42 |
| Increase | 43 | 40 | 43 |
| Decrease | 5 | 8 | 9 |
| Net Increase | 38 | 32 | 34 |



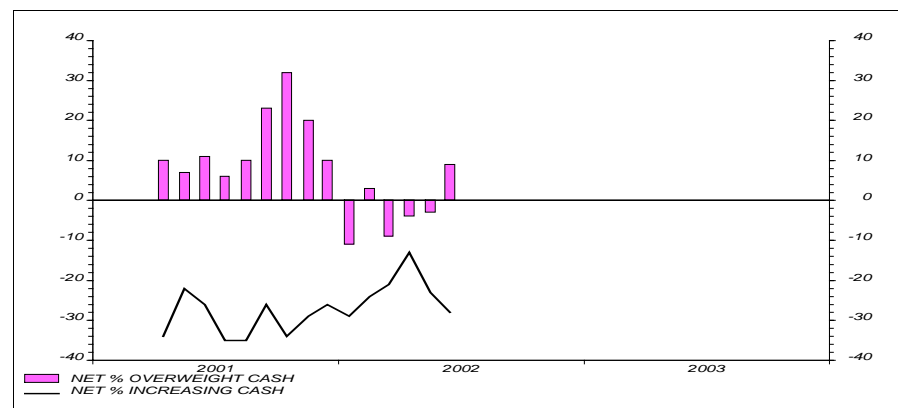
| Bonds | | | |
|-----------------------|------------|------------|------------|
| % Saying | Jun | May | Apr |
| Overweight | 11 | 14 | 11 |
| Underweight | 56 | 50 | 56 |
| Net Overweight | -45 | -36 | -45 |
| Increase | 8 | 10 | 10 |
| Decrease | 26 | 24 | 27 |
| Net Increase | -18 | -14 | -17 |

Chart 9: Bonds



| Cash | | | |
|-----------------------|------------|------------|------------|
| % Saying | Jun | May | Apr |
| Overweight | 29 | 21 | 19 |
| Underweight | 20 | 24 | 23 |
| Net Overweight | 9 | -3 | -4 |
| Increase | 4 | 3 | 10 |
| Decrease | 32 | 26 | 23 |
| Net Increase | -28 | -23 | -13 |

Chart 10: Cash

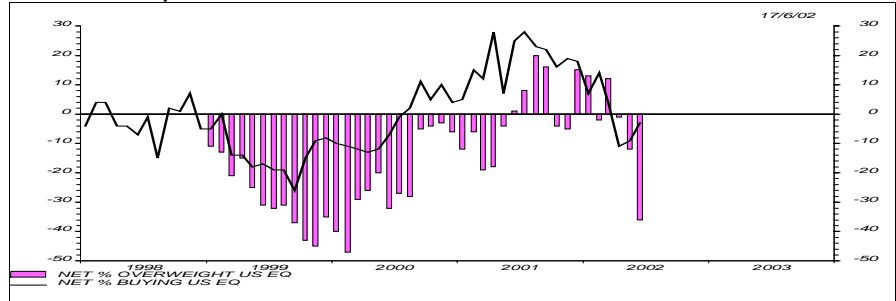


Equity Allocation: Current Position and Future Intentions

US Equities

| % Saying | Jun | May | Apr |
|-----------------------|------------|------------|------------|
| Overweight | 20 | 28 | 34 |
| Underweight | 56 | 40 | 35 |
| Net Overweight | -36 | -12 | -1 |
| Increase | 17 | 13 | 15 |
| Decrease | 20 | 22 | 26 |
| Net Increase | -3 | -9 | -11 |

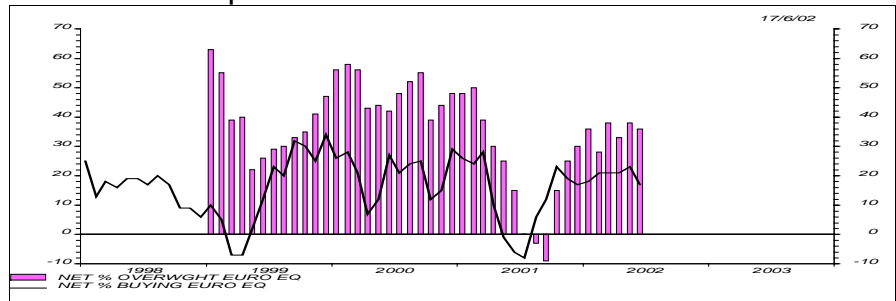
Chart 11: US Equities



Eurozone Equities

| % Saying | Jun | May | Apr |
|-----------------------|-----------|-----------|-----------|
| Overweight | 52 | 54 | 48 |
| Underweight | 16 | 16 | 15 |
| Net Overweight | 36 | 38 | 33 |
| Increase | 28 | 31 | 31 |
| Decrease | 11 | 8 | 10 |
| Net Increase | 17 | 23 | 21 |

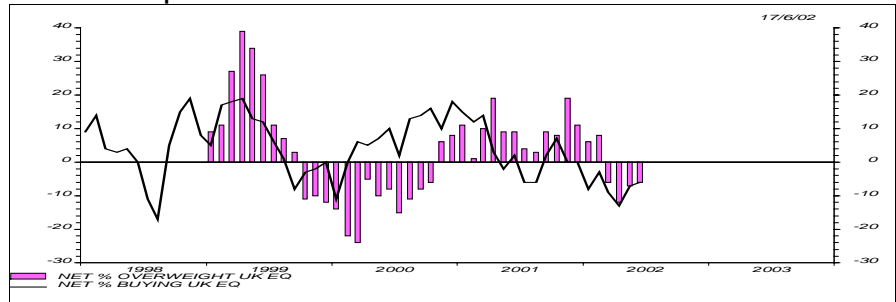
Chart 12: Eurozone Equities



UK Equities

| % Saying | Jun | May | Apr |
|-----------------------|-----------|-----------|------------|
| Overweight | 22 | 21 | 18 |
| Underweight | 28 | 28 | 30 |
| Net Overweight | -6 | -7 | -12 |
| Increase | 10 | 9 | 7 |
| Decrease | 16 | 16 | 20 |
| Net Increase | -6 | -7 | -13 |

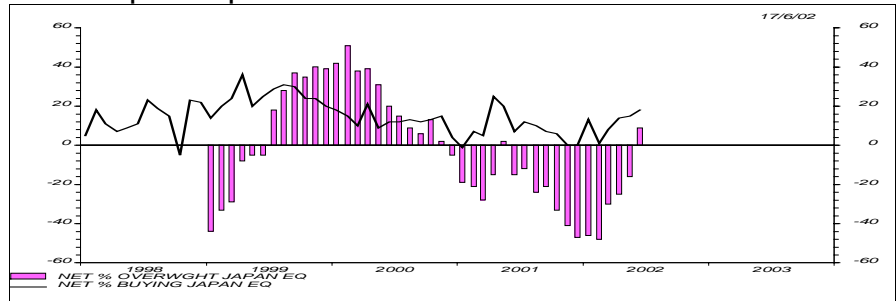
Chart 13: UK Equities



Japan Equities

| % Saying | Jun | May | Apr |
|-----------------------|-----------|------------|------------|
| Overweight | 35 | 24 | 18 |
| Underweight | 26 | 40 | 43 |
| Net Overweight | 9 | -16 | -25 |
| Increase | 26 | 22 | 23 |
| Decrease | 8 | 7 | 9 |
| Net Increase | 18 | 15 | 14 |

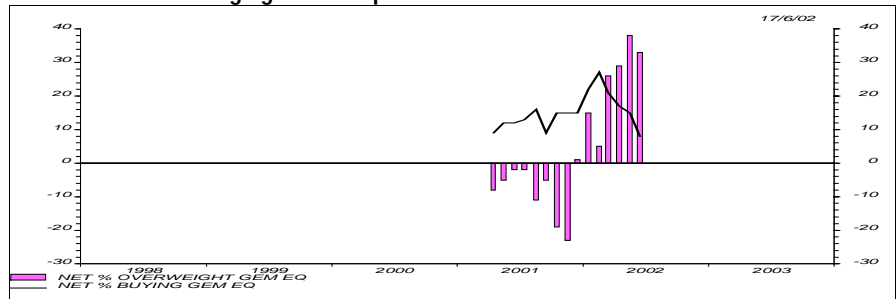
Chart 14: Japanese Equities



GEM Equities

| % Saying | Jun | May | Apr |
|-----------------------|-----------|-----------|-----------|
| Overweight | 45 | 46 | 41 |
| Underweight | 12 | 8 | 12 |
| Net Overweight | 33 | 38 | 29 |
| Increase | 16 | 19 | 22 |
| Decrease | 8 | 4 | 5 |
| Net Increase | 8 | 15 | 17 |

Chart 15: Global Emerging Market Equities



Global Sectors: Current Position
Table 36: How Are You Currently Positioned in the Following Global Sectors Relative to Your Internal Benchmark?

| | | Jun-02 | May-02 | Apr-02 | Mar-02 | |
|-----------------------------------|---|-----------------------|------------|------------|------------|------------|
| <i>Large tech underweight</i> | Technology | Overweight | 14 | 15 | 23 | 30 |
| | | Neutral | 24 | 23 | 26 | 28 |
| | | Underweight | 44 | 44 | 32 | 25 |
| | | Net Overweight | -30 | -29 | -9 | 5 |
| | | NA / Don't Know | 18 | 18 | 19 | 17 |
| | Financials (Banks, Insurance, Life Assurance) | Overweight | 38 | 40 | 25 | 27 |
| | | Neutral | 31 | 30 | 35 | 31 |
| | | Underweight | 12 | 14 | 21 | 25 |
| | | Net Overweight | 26 | 26 | 4 | 2 |
| | | NA / Don't Know | 19 | 16 | 19 | 17 |
| | Consumer Staples / Healthcare | Overweight | 27 | 24 | 20 | 18 |
| | | Neutral | 25 | 32 | 27 | 23 |
| | | Underweight | 29 | 27 | 34 | 42 |
| | | Net Overweight | -2 | -3 | -14 | -24 |
| | | NA / Don't Know | 19 | 17 | 19 | 17 |
| <i>Large underweight telecoms</i> | Telecoms | Overweight | 9 | 7 | 14 | 12 |
| | | Neutral | 22 | 22 | 20 | 27 |
| | | Underweight | 51 | 54 | 46 | 44 |
| | | Net Overweight | -42 | -47 | -32 | -32 |
| | | NA / Don't Know | 18 | 17 | 20 | 17 |
| | Resources (Energy, Mining) | Overweight | 34 | 33 | 34 | 38 |
| | | Neutral | 31 | 33 | 32 | 29 |
| | | Underweight | 16 | 17 | 14 | 16 |
| | | Net Overweight | 18 | 16 | 20 | 22 |
| | | NA / Don't Know | 19 | 17 | 20 | 17 |
| <i>Overweight Basic Materials</i> | Basic Materials (Chemicals, Forestry and Paper, Construction & Building Materials) | Overweight | 45 | 44 | 43 | 46 |
| | | Neutral | 20 | 27 | 24 | 23 |
| | | Underweight | 16 | 12 | 13 | 14 |
| | | Net Overweight | 29 | 32 | 30 | 32 |
| | | NA / Don't Know | 19 | 17 | 20 | 17 |
| | General Industrials (Aerospace & Defense, Diversified Industrials, Engineering & Machinery) | Overweight | 40 | 44 | 40 | 38 |
| | | Neutral | 27 | 31 | 28 | 32 |
| | | Underweight | 13 | 9 | 12 | 12 |
| | | Net Overweight | 27 | 35 | 28 | 26 |
| | | NA / Don't Know | 20 | 16 | 20 | 18 |
| <i>Underweight utilities</i> | Utilities (Electricity, Gas Distribution, Water) | Overweight | 9 | 10 | 11 | 7 |
| | | Neutral | 25 | 29 | 20 | 23 |
| | | Underweight | 46 | 44 | 48 | 53 |
| | | Net Overweight | -37 | -34 | -37 | -46 |
| | | NA / Don't Know | 20 | 17 | 21 | 17 |
| | Cyclical Services (Retailing, Media, Transportation) | Overweight | 37 | 38 | 38 | 37 |
| | | Neutral | 30 | 33 | 30 | 34 |
| | | Underweight | 14 | 12 | 13 | 11 |
| | | Net Overweight | 23 | 26 | 25 | 26 |
| | | NA / Don't Know | 19 | 17 | 19 | 18 |
| | Consumer Goods (Autos, Household Goods) | Overweight | 35 | 25 | 22 | 24 |
| | | Neutral | 27 | 41 | 35 | 37 |
| | | Underweight | 19 | 18 | 23 | 20 |
| | | Net Overweight | 16 | 7 | -1 | 4 |
| | | NA / Don't Know | 19 | 16 | 20 | 19 |

Global Sectors: Future Intentions

Table 37: In Which Global Sector Would You Most Like to Increase or Decrease Your Exposure?

10% would like to increase tech exposure

| | | Jun-02 | May-02 | Apr-02 | Mar-02 |
|---|-------------------------|------------|------------|------------|------------|
| Technology | Increase | 26 | 26 | 26 | 20 |
| | Decrease | 16 | 13 | 10 | 11 |
| | Net % Increasing | 10 | 13 | 17 | 9 |
| Financials (Banks, Insurance, Life Assurance) | Increase | 18 | 20 | 16 | 10 |
| | Decrease | 13 | 12 | 9 | 9 |
| | Net % Increasing | 5 | 8 | 7 | 1 |
| Consumer Staples / Healthcare | Increase | 13 | 9 | 14 | 6 |
| | Decrease | 18 | 19 | 18 | 27 |
| | Net % Increasing | -5 | -11 | -4 | -22 |
| Telecoms | Increase | 4 | 9 | 3 | 3 |
| | Decrease | 6 | 12 | 9 | 10 |
| | Net % Increasing | -2 | -4 | -5 | -6 |
| Resources (Energy, Mining) | Increase | 5 | 7 | 5 | 12 |
| | Decrease | 8 | 6 | 10 | 3 |
| | Net % Increasing | -3 | 1 | -5 | 9 |
| Basic Materials (Chemicals, Forestry and Paper, Construction & Building Materials) | Increase | 3 | 5 | 3 | 14 |
| | Decrease | 9 | 9 | 13 | 2 |
| | Net % Increasing | -6 | -4 | -10 | 12 |
| General Industrials (Aerospace & Defense, Diversified Industrials, Engineering & Machinery) | Increase | 11 | 11 | 12 | 15 |
| | Decrease | 3 | 2 | 3 | 0 |
| | Net % Increasing | 8 | 9 | 9 | 15 |
| Utilities (Electricity, Gas Distribution, Water) | Increase | 1 | 3 | 4 | 2 |
| | Decrease | 12 | 17 | 16 | 31 |
| | Net % Increasing | -10 | -14 | -12 | -29 |
| Cyclical Services (Retailing, Media, Transportation) | Increase | 13 | 7 | 10 | 17 |
| | Decrease | 5 | 4 | 4 | 2 |
| | Net % Increasing | 9 | 3 | 6 | 15 |
| Consumer Goods (Autos, Household Goods) | Overweight | 4 | 4 | 6 | 1 |
| | Neutral | 11 | 4 | 8 | 5 |
| | Underweight | -7 | -1 | -2 | -4 |

10% plan to reduce exposure to utilities

Note: Data is rebased to exclude those who "Don't Know" or refused the question.

Long-Term Rates of Return

Table 38: What Kind of Returns Do You Think Can Reasonably be Expected from Global Assets Over the Coming Decade?

| | Jun-02 | May-02 | Apr-02 | Mar-02 |
|------------------------|------------|----------|----------|----------|
| 4% p.a. or less | 4 | - | - | - |
| 5% p.a. | 14 | - | - | - |
| 6% p.a. | 20 | - | - | - |
| 7 & p.a. | 30 | - | - | - |
| 8% p.a. | 17 | - | - | - |
| 9% p.a. | 4 | - | - | - |
| 10% p.a. or more | 3 | - | - | - |
| Expected Return | 6.7 | - | - | - |
| Don't Know | 8 | - | - | - |

7. Demographic Data

Table 39: Number of Respondents

| No. of Fund Managers (by region): | Jun-02 | May-02 | Apr-02 | Mar-02 |
|-------------------------------------|------------|------------|------------|------------|
| US Specialists | 41 | 41 | 47 | 28 |
| Eurozone / Pan-European Specialists | 68 | 71 | 71 | 71 |
| UK Specialists | 21 | 25 | 20 | 22 |
| Japan Specialists | 23 | 24 | 29 | 15 |
| Asia Pacific Specialists | 22 | 17 | 22 | 20 |
| South Africa Specialists | 15 | 18 | 17 | 17 |
| Global Specialists | 83 | 87 | 89 | 79 |
| None of the Above | 9 | 10 | 10 | 14 |
| Total Number (all regions) | 282 | 293 | 305 | 266 |

Table 40: Position / Institution / Approach to Global Equity Strategy

| % of Fund Managers saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|---|--------|--------|--------|--------|
| Are you a . . . | | | | |
| Chief Investment Officer | 15 | 17 | 18 | 18 |
| Global Asset Allocator/Strategist | 29 | 27 | 24 | 30 |
| Portfolio Manager | 49 | 49 | 50 | 45 |
| Other | 7 | 7 | 8 | 8 |
| Which of the Following Best Describes the Type of Money You are Running? | | | | |
| Institutional Fund | 62 | 63 | 66 | 60 |
| Hedge Fund | 4 | 5 | 4 | 6 |
| Retail Fund | 27 | 25 | 25 | 27 |
| Other | 7 | 8 | 5 | 7 |
| Are You Predominately Using A Country or Sector Approach in Your Strategy? | | | | |
| By Country/Region | 28 | 28 | 29 | 40 |
| By Global Sector | 39 | 40 | 39 | 44 |
| Pure Stockpicking | 21 | 19 | 21 | |
| None of the Above / Don't Know | 13 | 13 | 11 | 16 |
| Which Best Describes Your Investment Style / Process? | | | | |
| Growth | 28 | - | - | - |
| Value | 24 | - | - | - |
| Neither | 48 | - | - | - |

Table 41: What is the Value of Funds Under Your Direct Management?

| % of Fund Managers saying: | Jun-02 | May-02 | Apr-02 | Mar-02 |
|-------------------------------|------------|------------|------------|------------|
| Up to \$250mn | 16 | 18 | 19 | - |
| Around \$500mn | 16 | 15 | 14 | - |
| Around \$1bn | 16 | 18 | 14 | - |
| Around \$2.5bn | 11 | 14 | 14 | - |
| Around \$5bn | 10 | 7 | 8 | - |
| Around \$7.5bn | 4 | 3 | 2 | - |
| Around \$10bn or more | 12 | 14 | 13 | - |
| No Funds Under Direct Control | 16 | 14 | 16 | - |
| Total (USDbn) | 711 | 727 | 739 | 478 |

Table 42: Asset Allocators in the Survey

| | Jun-02 | May-02 | Apr-02 | Mar-02 | Feb-02 |
|---------------------------|--------|--------|--------|--------|--------|
| # Global Asset Allocators | 170 | 177 | 188 | 177 | 166 |

This refers to those fund managers who are involved in the **global** asset and equity allocation of their institution.

8. The Merrill Lynch Stock Market Conditions Indicator

The Merrill Lynch Stock Market Conditions (SMC) Indicator is a composite summary measure of our monthly Fund Manager Survey. It consists of four distinct components, which are built up from the responses to the questionnaire. The first is a profit expectations component, the second measures the prospects for interest rates, the third looks at equity valuation, and the fourth tracks investor sentiment. These four components are then equally weighted to create the Merrill Lynch SMC Indicator. For more information, see our Methodology note published on 8 March 2002.

Table 43: An Overall View of the Merrill Lynch Stock Market Conditions (SMC) Index

| | | What Does This Tell You About Managers' Expectations? | Jun-02 | May-02 | Apr-02 | Mar-02 |
|--------------------------------|------------------------------|---|--------------|--------------|--------------|--------------|
| PROFITS EXPECTATIONS | Economic Growth Expectations | +ve score = stronger economic growth | 50.2 | 48.0 | 52.8 | 59.2 |
| | Profit Expectations | +ve score = improving profits outlook | 56.0 | 54.9 | 55.2 | 58.7 |
| | Commodity Price Outlook | +ve score = rising commodity prices | 40.1 | 40.3 | 41.2 | 48.7 |
| | Cyclicals vs Defensives | +ve score = managers prefer cyclicals | 57.8 | 57.0 | 52.5 | 76.3 |
| | Total Score | Overall positive but weaker score than March | 51.0 | 50.0 | 50.4 | 60.7 |
| INTEREST RATE PROSPECTS | Monetary Policy | -ve score = monetary policy is too slack | -19.1 | -18.1 | -25.2 | -22.9 |
| | Short Rates | -ve score = rates expected to rise | -49.1 | -50.8 | -54.0 | -54.3 |
| | Core Inflation Expectations | -ve score = managers expect inflation to rise | -28.0 | -28.8 | -29.2 | -25.4 |
| | Slope of Yield Curve | -ve score = yield curve to flatten | -34.7 | -27.6 | -34.8 | -33.4 |
| | Total Score | Overall negative score means rate outlook deteriorating | -32.7 | -31.3 | -35.8 | -34.0 |
| EQUITY VALUATION | Assessment of Market | -ve score = market seen as overvalued | 15.7 | -0.7 | -4.3 | 3.4 |
| | Cash Positions | +ve score = cash in portfolios, ready to go to work in market | 16.0 | 10.2 | 5.2 | 3.8 |
| | Total Score | Positive score indicates favourable valuation assessment | 15.9 | 4.8 | 0.4 | 3.6 |
| INVESTOR SENTIMENT | Current Risk Appetite | -ve score = lack of willingness to take on risk | -15.6 | -9.9 | -3.3 | 8.3 |
| | Time Horizon | -ve score = shorter than normal time horizon | -19.9 | -17.0 | -18.4 | -15.4 |
| | Buyers of the Dips | +ve score = managers would buy a 10% fall in the market | 75.9 | 77.5 | 78.0 | 79.3 |
| | Sell on the Rises | -ve score = managers would sell if market rose 10% | -15.3 | -32.7 | -34.4 | -36.1 |
| | ML Buy-Side Indicator | +ve score = expect markets to be higher in 12m | 50.0 | 48.4 | 47.6 | 53.7 |
| | Total Score | Positive score indicates positive sentiment | 15.0 | 13.3 | 13.9 | 18.0 |
| TOTAL SMC SCORE | | Improvement to SMC | 12.3 | 9.2 | 7.2 | 12.1 |

Source: Merrill Lynch Fund Manager Survey

Intermediate-Term Ratings Distribution: Global Group (as of 31 May 2002)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Strong Buy | 521 | 17.75% | Strong Buy | 165 | 26.44% |
| Buy | 1051 | 35.80% | Buy | 255 | 40.87% |
| Neutral | 1185 | 40.36% | Neutral | 184 | 29.49% |
| Reduce/Sell | 179 | 6.10% | Reduce/Sell | 20 | 3.21% |

* Companies in respect of which MLPF&S has received or is entitled to receive compensation for services rendered in connection with equity underwritings and/or merger and acquisition transactions that were publicly announced in the past 12 months.

OPINION KEY: Opinions include a Volatility Risk Rating, Intermediate-Term and Long-Term Investment Ratings and an Income Rating. **VOLATILITY RISK RATINGS,** indicators of potential price fluctuation, are: A - Low, B - Average, C - Above Average, D - High. **INTERMEDIATE-TERM INVESTMENT RATINGS,** indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Strong Buy (minimum 20% - more for High Risk securities); 2 - Buy (minimum 10%); 3 - Neutral (0-10%); 4 - Reduce/Sell (negative return); 6 - No Rating. **LONG-TERM INVESTMENT RATINGS,** indicators of fundamental company factors demonstrating potential total return for the 3-year period from the date of the initial rating, are: 1 - Strong Buy (aggregate minimum 40%); 2 - Buy (aggregate minimum 20%); 3 - Neutral (aggregate 0-20%); 4 - Reduce/Sell (negative return); 6 - No Rating. **INCOME RATINGS,** indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

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