



Cazenove Absolute UK Dynamic Fund Fund commentary – January 2012

Review

The fund delivered a return of +0.06% for the P1 shares. The FTSE All-Share Index posted return of +0.8 % over the same period and the FTSE SmallCap Index delivered 0.0%. The much anticipated 'Santa Rally' certainly did not come to small caps although larger cap indices did see some strength in the latter part of the month. December was yet another month of small cap underperformance during which we saw the FTSE SmallCap ex IT Index hit new two year lows. Given this, the fund continued to fare relatively well and protect capital as we continued to actively manage the funds net positioning in order to try to capture some of these risk on / risk off movements in the market.

Activity

During the month we have continued to focus our small cap holdings in the long book – adding to some of our higher conviction positions such as Vitec and Innovation Group and continuing to actively manage exits in others where we have less confidence in the outlook. Phoenix IT and Globeop being two we have completely exited in the month. At 31st Dec the fund had a net long of +31.1% and beta adjusted net long 12.3% off a gross of 127.6%.

Outlook

Looking into 2012 we still see consensus earnings forecasts as being too high – with bottom up analysts looking circa 10% in the UK market as a whole. Interestingly the emerging top down consensus from equity strategists seems to be around zero – hence making sure we are on the right side of this likely downgrade cycle has been a focus for our positioning of late. Our small cap long book has become more focussed around the stocks where we have strong conviction in the earnings outlook for 2012 and beyond, and we will continue to meet with the management of these businesses on a regular basis. Valuations at the smaller end of the market remain attractive – with small caps trading on a 2012 PE of 7.6x and yielding nearly 4%, but we may well need to remain patient if the current macro-economic and political uncertainty continues.

As always we will continue to meet, visit and selectively invest in these companies on our long book and actively seek out opportunities in the larger cap areas of the market where the earnings risk discussed above should provide some good shorting opportunities. Here's to, a no doubt challenging, but hopefully rewarding 2012.

Performance data source: Bloomberg at 31/12/11 unless otherwise stated.

Regulatory Information and Risk Warnings

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