

Cazenove Multi-Manager Global ex-UK Fund

Managed by Marcus Brookes and Robin McDonald - 30th September 2011

Fund performance (% growth)

	3 months to 30/09/11	YTD to 30/09/11	1 year to 30/09/11	3 years to 30/09/11	Since launch** to 30/09/11
Multi-Manager Global ex-UK A (Acc)	-8.4	-9.0	0.1	22.4	40.9
Benchmark index*	-14.9	-12.7	-4.0	17.8	39.5
Relative performance	6.5	3.7	4.1	4.6	1.4

Sources: Fund performance - Lipper. *Benchmark index: FTSE World ex-UK - Lipper. Fund performance based on Accumulation class mid to mid prices, net income reinvested. **22 May 2002

Discrete performance (% growth)

	30/09/10 to 30/09/11	30/09/09 to 30/09/10	30/09/08 to 30/09/09	28/09/07 to 30/09/08	29/09/06 to 28/09/07
Multi-Manager Global ex-UK A (Acc)	0.1	10.5	10.6	-14.2	15.3
Relative to Benchmark index*	4.1	1.0	-1.4	0.2	2.0

Sources: *Benchmark index: FTSE World ex-UK - Lipper. Fund performance based on Accumulation class.

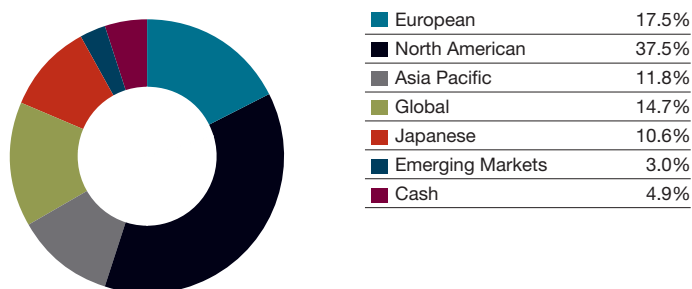
Fund holdings

European 17.5%	Cazenove European iShares MSCI Europe ex-UK Index Neptune European Opportunities
North American 37.5%	Findlay Park America Smaller Cos GBP Gartmore US Growth Gartmore US Opportunities Heptagon Yacktman US Equity JPM US Equity Income
Asia Pacific 11.8%	First State Asia Pacific Leaders
Global 14.7%	DB X-Trackers DJ Stoxx 600 Banks Legal & General Health & Pharmacy Index Majedie Global Focus
Japanese 10.6%	GLG Japan Core Alpha GLG Japan Core Alpha (Offshore)
Emerging Markets 3.0%	Aberdeen Emerging Markets First State Global Emerging Market Leaders
Cash 4.9%	

Fund details

Launch date:	May 2002
Fund size:	£176.8m
Yield:	0.2%

Portfolio distribution



Market review

The third quarter appeared to signal a wider recognition of the significant problems the global economy still faces. Whilst continuing sovereign issues in the Eurozone; weakening economic data and US downgrades have dominated headlines, other worrying developments have also come to the fore. In particular, signs of potential financial stress in China and weakening domestic demand are becoming evident – the impact of which on the global economy cannot be underestimated. A ‘hard-landing’ of the Chinese economy is perhaps a step too far at this stage. However, any material slowdown in growth of the Asian giant would undoubtedly put increased pressure on the western world and provide further affirmation of a drawn out period of stagnant global growth that we have long suspected we are headed into.

The problems in the Eurozone and, in particular, of Greece are well documented. At this point, it seems difficult to envisage anything other than some form of managed default by the Southern Europeans. Furthermore, Germany - despite its many protestations - seems the only viable candidate to foot the bill at some point, should it wish to continue this European adventure. Markets have responded accordingly to this lack of clarity – and the deteriorating positions of both Italy & Spain - and whilst we will touch on our own market view later, recent volatility seems unlikely to dissipate until some cohesive plan of action has been agreed upon.

Economic conditions in the US, as we highlighted in our last quarterly review, have also continued to deteriorate. Headlines early in the quarter were dominated by the political pantomime surrounding the debt ceiling negotiations and the resultant S&P downgrade. What has become evident through the quarter though, is that this slowdown is unlikely to be transitory as many had previously suggested.

The recent ‘Operation Twist’ – in part, an attempt to lower long-term interest rates to benefit mortgage holders – seems, more than anything, like an attempt to be seen to be doing something rather than an effective step to stimulate activity. Indeed many, including the highly respected Bill Gross of PIMCO, have suggested this could put more pressure on the banking system and thus the credit creation process that remains so critical to future growth.

Whilst further monetary stimulus cannot be entirely ruled out, Fed Chairman Bernanke has spent much of the quarter placing the impetus for any further action squarely on the shoulders of Congress and fiscal policy. Absent of any additional policy stimulus, sluggish growth; high unemployment and the threat of deflation – not inflation - seem likely to persist for the time being.

Performance review

The fund generated a return of -8.4% over the quarter*. This compares with an index return of -14.9% and an IMA sector average return of -14.1%*. The fund was ranked in the top decile for the period*.

Activity

During the period, we initiated a new position in iShare MSCI Europe ex UK ETF, whilst selling out of our holding in Henderson European Special Situations. We also exited our position in ETFS Physical Gold towards the end of the quarter.

Outlook & positioning

Given the above, you would be forgiven for thinking we remain in ‘hunker down’ mode. However, despite the continuing economic malaise, we are slowly becoming more encouraged about certain areas of the market. The optionality of cash that we have long talked about puts us on the front foot should valuations offer a sufficient opportunity to invest. We do not yet feel the macro-economic environment warrants an outright bullish stance. However, at the margin we are becoming more constructive and have started shifting the portfolio accordingly.

Perhaps the largest move has been the closure of our long standing underweight to Europe which, to date, had undoubtedly aided performance. Our stance altered towards the end of the quarter given what we saw as the improving risk reward trade off in the European region. In particular, a look at the relative valuations in the US provides an interesting comparison. Whilst European markets hover only some 15% above the market lows of March 2009, the comparative resilience of the US seems questionable. Arguably, at or near 1,150, the S&P 500 is still more than 20% above any cyclically adjusted level of fair value (circa 950) – let alone the even larger gap to its '09 nadir at 666. The end of the Eurozone sovereign crisis may not be in sight, but equity markets appear to have priced in much of the bad news. As such, we felt a shift towards selected areas of domestic value in Europe, whilst modestly reducing our US and Asian exposure was opportune at this stage.

Our other significant move in the quarter has been the sale of our physical gold ETF position. Having benefited handsomely from our position over recent months, we took profits towards the end of the quarter. Whilst the longer term story remains interesting, the changing political rhetoric in the US makes it harder for us to believe another bout of quantitative easing is just around the corner. Absent of this, gold may well come under some near term pressure as the US dollar rallies – indeed we are seeing this through the latter part of the quarter and are benefiting from our continued US dollar position as a result.

As the above suggests, despite its recent rally, we still believe the US dollar looks cheap at these levels. Furthermore, it remains one of only a few ways to hedge our portfolio should markets falter further from here. We continue to hold a modest US dollar position in our cash balance in addition to hedging some of our Japanese yen exposure into dollars.

Elsewhere in the portfolio, our preference remains for ‘quality’ stocks, with strong balance sheets and pricing power – particularly those with growing and durable income streams. Despite the rotation in markets over the quarter, areas such as pharmaceuticals still offer multi-year relative and absolute value.

We continue to be mindful of the many economic headwinds that still exist. However, we are undoubtedly finding pockets of value that are beginning to pique our interest, to which we are allocating capital modestly as the risk reward trade off begins to look more attractive.

*Source: Lipper, Acc, net income reinvested at 30/09/11.

For further information

 www.cazenovecapital.com

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