

Cazenove Multi-Manager Diversity Tactical 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 Diversity Tactical A (Acc)	-5.4	-5.2	0.3	16.1	44.3
Composite benchmark*	-11.2	-9.2	-2.7	18.7	44.7
Relative performance	5.8	4.0	3.0	-2.6	-0.4

Sources: Fund performance - Lipper. *Composite benchmark: 50% FTSE All-Share, 30% FTSE World ex-UK, 5% FTSE British Govt. All-Stocks, 10% HFRI, and 5% IPD - Datastream. Prior to 31 January 2009 (52% FTSE All-Share, 28% FTSE World ex-UK, and 20% 3-month UK Interbank (cash)) - Datastream.

Fund performance based on Accumulation A 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 Diversity Tactical A (Acc)	0.3	5.0	10.3	-17.9	11.6
Relative to Composite benchmark*	3.0	-6.4	0.8	-3.2	0.4

Sources: *Composite benchmark Index: 50% FTSE All-Share, 30% FTSE World ex-UK, 5% FTSE British Govt. All-Stocks, 10% HFRI, and 5% IPD - Datastream - Lipper. Prior to 31 January 2009 (52% FTSE All-Share, 28% FTSE World ex-UK, and 20% 3-month UK Interbank (cash)) - Datastream. Fund performance based on Accumulation A class.

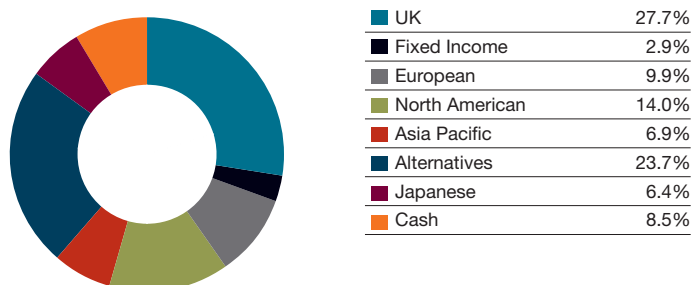
Fund holdings

UK Equity 27.7%	Capita Walker Crips UK Growth Invesco Perpetual Income iShares IFTSE 100 Index JOHCM UK Opportunities Rensburg UK Mid Capital Growth
Fixed Income 2.9%	Invesco Perpetual Tactical Bond
European Equity 9.9%	Cazenove European iShares MSCI Europe ex-UK Index Neptune European Opportunities
North American Equity 14.0%	Findlay Park America Smaller Cos GBP Gartmore US Growth JPM US Equity Income
Asia Pacific Equity 6.9%	First State Asia Pacific Leaders
Alternatives 23.7%	Eclectica Jupiter Absolute Return Majedie Tortoise Nevsky OEI MAC
Japanese Equity 6.4%	GLG Japan Core Alpha GLG Japan Core Alpha (offshore)
Cash 8.5%	

Fund details

Launch date:	May 2002
Fund size:	£37.3m
Yield:	0.0%

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 -5.4% over the quarter*. This compares with an IMA sector average return of -11.2%*. The fund was ranked in the top decile for the period*.

Activity

A new holding in the iShare FTSE 100 ETF was initiated in early September to benefit from a near term rebound in market sentiment. We also purchased the iShare MSCI Europe ex UK ETF to increase our exposure to the region given the valuation opportunity that now exists. Our position in the ETFS Physical Gold ETF was exited.

Important information

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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.

In particular, we have begun to selectively add to our European equity exposure, given the attractive risk reward characteristics that current valuations now offer. 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 our 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 European equity markets appear to have priced in much of the bad news. As such, we have started to allocate towards selected areas of domestic value in the region, whilst modestly reducing our US and Asian exposure. However, our currency hedge via the ETFS Short EUR Long USD remains in place at this point.

In fixed interest, credit still looks relatively attractive in relation to government bonds over the longer term. Undeniably, exposure to sovereign markets would have provided significant upside in the last few months. However, we continue to believe that the longer-term value in these markets is marginal to non-existent.

Instead, we continue to utilise our alternatives pot to provide similar protection in periods of turmoil that Treasuries could not provide. Pleasingly, these holdings have provided significant positive returns through the quarter. The likes of ETFS Physical Gold, Eclectica, Majedie Tortoise and Jupiter Absolute Return have provided the true diversification we required in a period where equity and credit markets, at times, sold off aggressively.

Having benefited handsomely from our gold position over recent months, we took profits in this position 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.

Our overall cash position remains relatively high at present. We anticipate deploying much of this cash as valuations across various asset classes become increasingly attractive.

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

For further information



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