

# Cazenove Multi-Manager UK Growth Fund

Managed by Marcus Brookes and Robin McDonald

31<sup>st</sup> December 2010

## Fund performance (% Chg)

|                                 | 3 months to<br>31/12/10 | YTD to<br>31/12/10 | 1 year to<br>31/12/10 | 3 years to<br>31/12/10 | Since launch* to<br>31/12/10 |
|---------------------------------|-------------------------|--------------------|-----------------------|------------------------|------------------------------|
| Multi-Manager UK Growth A (Acc) | 6.4                     | 13.9               | 13.9                  | -0.3                   | 54.5                         |
| Benchmark Index*                | 7.4                     | 14.5               | 14.5                  | 4.4                    | 64.0                         |
| Relative                        | -1.0                    | -0.6               | -0.6                  | -4.7                   | -9.6                         |

Sources: Fund performance - Lipper. \*Benchmark Index: FTSE All-Share - Lipper. Fund performance based on Accumulation class mid to mid prices, net income reinvested. \*22 May 2002

## Discrete performance (% Chg)

|                                    | 31/12/09 to<br>31/12/10 | 31/12/08 to<br>31/12/09 | 31/12/07 to<br>31/12/08 | 31/12/06 to<br>31/12/07 | 31/12/05 to<br>31/12/06 |
|------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Multi-Manager UK Growth A (Acc)    | 13.9                    | 19.9                    | -27.0                   | -0.0                    | 17.1                    |
| Out performance of sector average* | -0.6                    | -10.3                   | 3.0                     | -5.3                    | 0.4                     |

Sources: \*Sector IMA UK All Companies - Lipper. Fund performance based on Accumulation class.

## Fund details

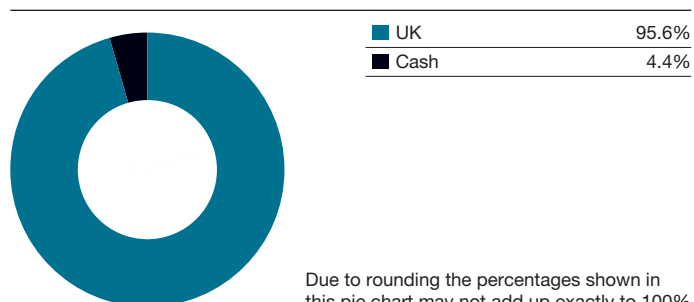
|              |          |
|--------------|----------|
| Launch date: | May 2002 |
| Fund size:   | £152.7   |
| Est. yield:  | 1.1%     |

## Fund holdings

|          |   |
|----------|---|
| UK 95.6% | Artemis UK Special Situations<br>Capita Walker Crips UK Growth<br>GLG UK Select<br>Invesco Perpetual Income<br>Investec UK Special Situation<br>JOHCM UK Opportunities<br>Jupiter Financial Opportunities<br>Rensburg UK Mid Capital Growth<br>Schroder UK Alpha Plus |
|----------|---|

Cash 4.4%

## Portfolio distribution



## Market Review

At the start of 2010, we felt there was likely to be a period of significant instability. As the impact of government stimulus wore off, we were uncertain as to whether the economy could generate sufficient momentum itself to pick up the slack. We suggested that this was unlikely in the near term, as many issues (deleveraging, unemployment etc) remained unresolved.

Our fears were confirmed in the spring as a number of leading indicators turned down, and heightened European sovereign concerns saw markets reverse many of the near term gains. Whilst a number of these indicators have subsequently recovered, the data through the course of the year has remained volatile and the outlook particularly uncertain.

The advent of further quantitative easing in November ("QE2" as it has been coined) has merely highlighted the fragile state of the global economy. Furthermore, in a period of continued private sector deleveraging, it is unclear to us whether such stimulus can have the desired impact on employment and personal income – areas that need to see sustainable growth if any recovery is to persist.

Rather, through the suppression of long-term interest rates, QE2 seems to be encouraging speculation in risky assets – areas such as commodities and emerging markets - in the hope of boosting individual wealth. At present, the market appears willing to engage in such speculation. However, we do not know the longer term impact or side effects of such stimulus – after all these are unprecedented policy moves. One wonders whether QE3, QE4 and so on will be greeted with such excitement if and when they should be needed. Ultimately, we believe this policy will prove ill-advised as it risks dangerous over-valuation in certain areas and the

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formation of new asset bubbles - a return to the policy errors of the past that got us into this mess in the first place.

## Performance Review

The fund generated a return of 6.4% over the quarter. This compares with a return on the FTSE All-Share of 7.4% and an IMA sector average return of 8.1%. The fund was ranked in the fourth quartile for the period. Year to date, the fund has generated a return of 13.9% versus a return on the FTSE All-Share of 14.5%.

Notable performers during the period were Rensburg UK Mid-Cap Growth & Investec UK Special Situations. Underperformers included Jupiter Financial Opportunities and JOHCM UK Opportunities.

## Outlook & Positioning

In our eyes, developed world growth will remain sluggish through the new-year as we continue to muddle our way through this credit crisis. There is also the potential for emerging market growth to slow as policy is tightened in these regions.

It would be remiss not to note that there have been some recent improvements in economic data. Both sentiment and employment statistics have tentatively begun to recover - particularly in the US smaller companies sector, which crucially accounts for almost half of the US employment force and remains vital to any upturn. However, we are far from a scenario where we can get complacent about the veracity of any recovery. A resumption of credit growth remains crucial and whilst there is some evidence that supply is improving, demand remains relatively anaemic and savings rates elevated.

The apparent desire of the Federal Reserve to stimulate growth by driving the value of the dollar down and asset markets up is also concerning and potentially self-defeating. Already we are hearing the murmurs of unrest from other nations. 'Currency wars' and rising protectionism would not bode well for future prospects.

Downside risks to the economy therefore remain. In the near term, there is a possibility that QE2 led speculative activity pushes markets further away from fair value without the requisite improvement in fundamentals. Should this transpire, we would undoubtedly look to reduce risk in our portfolio. In such scenarios, cash becomes an increasingly

useful asset class, providing us some downside protection. In addition, it allows us a degree of 'optionality' to invest should asset markets correct back towards fair value.

Ultimately, however, we are confident that we can continue to produce strong risk adjusted returns for investors through this period. Indeed, for those with a longer term perspective, we believe there are areas that look positively attractive.

Our preference for 'quality' stocks remains, concentrating on those companies with strong balance sheets and pricing power. These relatively unloved areas continue to look good value on both a relative and absolute basis. For us, however, a number of the more cyclical sectors of the market (industrials, basic materials etc) look increasingly stretched. Indeed, the valuation differential between these areas and some of the more defensive sectors is higher now than it was in 07/08 - just prior to the market's collapse.

We continue to believe that the risk reward profile is not particularly favourable. Therefore, on balance, we retain a defensive bias within the portfolio.

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For further information visit:

[www.cazenovecapital.com](http://www.cazenovecapital.com)

or call: 0800 015 9592

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