



Cazenove UK Growth & Income Fund

Fund commentary – January 2012

Review

The fund (B share class) returned 0.3% (close 30/11/11 to close 31/12/11) versus 0.8% for the FTSE All-Share Index, representing third quartile performance for the month. As has been the case for a number of months, statecraft played a dominant role in markets during December as investors anticipated, and reacted to, Eurozone summits and domestic political developments in member countries. The remarks and actions of central bankers were also critical to market behaviour. While these influences dominated headlines, signs of an improving US economic landscape were also significant as were signs, albeit tentative, that an easing in inflation pressures might make a Chinese soft landing more likely.

Activity

In keeping with our recently discussed view that risk assets offer value relative to defensive assets, we remained vigilant in our search for cheaply valued but higher quality cyclical. In this context, we added to the commodity cyclical, Premier Oil, and to the industrial cyclicals, Informa, Invensys, Premier Farnell and Regus. In this latter style grouping, we are particularly influenced by the potential for positive earnings surprise for companies trading in America. Consumer cyclical additions included out-of-favour IAG and Marks & Spencer while elsewhere we topped up holdings in Resolution and Ultra Electronics after recent underperformance. On the sell tack, we pared back the portfolio's investment in Unilever, driven by a sense that valuation upside now looks somewhat limited.

Outlook

The on-going Eurozone crisis occupies centre stage for the vast majority of commentators since break up and survival of the Eurozone are both costly alternatives. While this prioritisation of Europe as the key issue in 2012 is entirely reasonable, it is important to maintain a sense of perspective on the region's difficulties. First, some progress has been made in terms both of the emergence of technocratic governments in Athens and Rome and in the provision of funding to provide some much-needed short term stability. Second, there is also a danger that too little attention is being given to the prospects for the US and China. As we have written in previous months, there are some straws in the wind for the US economy, borne out at the time of writing by a better than expected ISM release on the first UK stockmarket trading day of 2012. As for China, the easing of inflationary pressures is also an encouraging development as the authorities seek to engineer an economic soft landing.

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

Regulatory Information and Risk Warnings

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