



## Cazenove UK Opportunities Fund

### Fund commentary – January 2011

#### Review

The UK equity market maintained November's positive momentum into the year end, buoyed by improving US economic data and the ECB's Christmas gift to the Eurozone banking sector of unlimited three-year liquidity. The FTSE All-Share Index finished December up 0.78%, led higher by the FTSE 100 with a rise of 1.2% whilst the FTSE 250 lagged -2.0% with small caps steady at +0.17%. This performance brings the total return for the market in the fourth quarter to 8.4% and for the year 2011 to -3.5%, a disappointing result compared with the bullish expectations of many market participants at the start of the year but less bad than the year's many apocalyptic headlines might have caused one to fear.

#### Activity

During December we took advantage of the rally in risk assets to exit from some holdings which had generated good returns for us (Jupiter, Morgan Crucible, Yule Catto, Xstrata) and recycled proceeds into similar assets which had lagged (Laird, Rio Tinto, GKN, Elementis, N Brown) which overall modestly increased your fund's active overweight in industrial and consumer cyclical stocks. We also banked profits in some financials (Aviva, Barclays) and we continued to reduce weightings in fully priced growth defensive stocks such as Compass, Sage and Smith & Nephew. Some defensive stocks still offer an attractive combination of growth and value – such as GlaxoSmithKline, Serco and Babcock – and we retain sizeable holdings in these stocks.

#### Outlook

As we enter the fourth year of the global credit crisis, the invidious nature of its solution - de-lever and save-before-you-spend – means it is too early to be unequivocally bullish. However, historically UK equity returns from a single digit market p/e have been in double-digit territory and currently the UK equity market trades on a 2012 PE multiple of 9x and a yield of 4.3%. This is a very supportive valuation level if earnings can show resilience this year. We expect markets will be volatile again this year, until the Eurozone crisis is resolved and anticipate a high dispersion of returns at the stock level. We hope our active business cycle approach to portfolio management will continue to generate consistent, competitive returns for our investors.

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

#### Regulatory Information and Risk Warnings

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