

CASH MANAGEMENT GBP QUARTERLY UPDATE

April 2010 | Issue 4

EPIC Asset Management (EPAM) is an established yet forward thinking asset management company with a highly successful team of investment specialists. We offer clients a range of high performance investment solutions, including financial products that aim to generate significant extra returns for investors. EPAM has been successfully managing cash reserves for clients around the world since its foundation in 2001. EPAM currently manages cash and bond portfolios, in all major currencies, totalling over £2.5 billion, with all of our clients seeking similar objectives – security, liquidity and enhanced income.

Market Overview Q1 2010

FTSE 100 having fallen through Jan has since steadily increased, finishing the quarter up at 5680.

Short dated Gilt yields have declined significantly; Treasury 5% 2012 finished the quarter at 1.15%.

Unemployment steady at 7.8%.

GDP turns positive in Q4 showing growth of 0.4%.

Inflation spiked at 3.5% in Feb but fell back to 3% by the quarter end.

House price growth continues, Nationwide reporting +9% YoY rise at the end of March.

One couldn't help but hope that 2010 was going to be a better year than the last, but if the first quarter is anything to go by we're in for a pretty bumpy ride this year too. As expected growth was positive in Q4, but it seems the recovery is going to be slow and patchy at best. After such a sharp downturn, history teaches us to expect the bounce to be quick when it finally comes but we can be certain that this isn't going to be the case this time. We expect growth to be around 1% for this year and again below trend (2.5%) in 2011.

Unemployment appears to be remaining steady and certainly hasn't risen as much as expected, as employees have accepted reduced hours and low pay increases to keep their jobs but the worry in this area are the public sector cuts which have to come in the post election world, meaning that this figure may well rise further.

Inflation having spiked in February, fell back to 3% in March and other than falling back further the outlook appears to be pretty benign going forward putting no imminent upwards pressure on interest rates.

Growth appears to have returned to the housing market but volumes are low with mortgage approvals reaching a nine month low in February and anecdotally the recovery seems to be very regional. The PMI manufacturing index continues to rise and the construction index also returned to growth in March but confidence in

these sectors is still low and whilst manufacturing/export led growth may be our main hope for the recovery this isn't going to happen any time soon. The consumer doesn't seem to know if they are coming or going with retail sales up one month and down the next. Pressure is increasing on household budgets most notably through petrol prices and with the savings rate higher than ever it isn't going to be consumer spending that leads the recovery.

The tentative recovery we've seen thus far has been largely driven by the Bank of England's monetary and fiscal stimuli and as such serious concerns remain over the timing and method of its withdrawal. Q1 saw no change in the QE programme and the budget offered nothing of any note, overall Q1 2010 felt like a quarter that hasn't moved us forward very much and with the general election now taking centre stage this may well remain the case until the second half of the year. We believe it will be Q4 at the earliest before we see any increase in the base rate.

The most notable change during the quarter has been the significant downward movement in gilt yields, the yield on the Treasury 5% 2012 fell 41 basis points during the quarter driven by nothing more discernible than a flight to quality and ultra low cash yields. Gilt price performance has therefore been excellent on the quarter and we took the opportunity to take profits as appropriate.

Economic Calendar (GBP)

Date	Event
16 April	Retail Sales m/m
21 April	Claimant Count Change
21 April	MPC Meeting Minutes
23 April	Prelim GDP q/q
28 April	Nationwide HPI m/m
03 May	Manufacturing PMI
05 May	Services PMI
06 May	BoE Rate Announcement
07 May	PPI Input m/m
11 May	Manufacturing Production m/m
12 May	Claimant Count Change
12 May	BoE Inflation Report
18 May	CPI y/y
19 May	MPC Meeting Minutes
21 May	Retail Sales m/m
25 May	Revised GDP q/q
28 May	Nationwide HPI
01 June	Manufacturing PMI
03 June	Services PMI
08 June	Manufacturing Production m/m
10 June	BoE Rate Announcement
11 June	PPI Input m/m
15 June	CPI y/y
16 June	Claimant Count Change
18 June	Retail Sales m/m
23 June	MPC Meeting Minutes
28 June	Nationwide HPI



A day in the life of an EPAM Fund Manager

The day starts with a quick roundup of yesterday's economic and financial market news and market movements, in preparation for the day's management of funds. A quick look of the day's economic releases helps to inform the manager of any possible market movements which could affect their portfolios and potential trades.

A routine chat to market participants helps to inform the manager of flows in the markets and individual sectors of interest, together with offerings that could potentially suit the portfolio.

It is important that we are fully aware of all of our clients future cash projections as this helps us to prepare for daily inflows and outflows, aiding the portfolio positioning to meet such liquidity requirements.

Before we can invest in a new security. We must analyse market trends, yield forecasts, horizon return analysis, and then ensure it is permissible for investment from the credit perspective whilst also maintaining the particular limits of the portfolio (e.g. issuer limit, issue limit, sector limit). After the trade is completed the manager will check to see if the portfolio is in line with his targets.

Economic analysis then follows, looking at sectors of interest and preparing charts and information for the monthly investment strategy meeting, where we all discuss the market conditions and prepare future strategies.

We meet with our clients regularly to review portfolio performance, so presentations must be prepared using the conclusions from the investment strategy meetings together with specific objectives depending on the client.

Finally, new business is key to the growth of our company, so we speak with and present to potential new clients at exhibitions and client meetings around the country.

Conference Dates

Please find below a list of the conferences where EPAM will be exhibiting this year. Should you be attending any of these conferences, then please pop along to our stand and meet the Team.



Association of Corporate Treasurers Annual Conference	27th - 28th April 2010
Building Societies Association Annual Conference	5th - 6th May 2010
CIPFA Annual Conference	8th - 10th June 2010
HFMA Annual FT Conference	1st - 2nd July 2010

British University Finance Directors Group Conference

We recently exhibited at the British University Finance Directors Group where Nigel was involved in the workshops 'Investment strategies for sustainable returns'. We thought this year's conference was to a very high standard and was of great benefit to our business. Thank you to everyone who visited us on the stand.

Performance

Fund performance remains pleasing given the low rate environment we've been operating within, cash rates have not moved over the quarter and as such it is still very important to look elsewhere for yield pick up. Asset allocation therefore remains key to our investment strategy, with gilts, corporate debt and longer dated CD's being used to add yield to the

funds when appropriate. We expect this to continue going forward given no change to cash levels in the short term. Our aim is to add value by achieving returns in excess of the benchmarks going forward and we believe that the investment strategy that has been in place for the past 2 years will continue to pay dividends.

EPAM Cash Performance Returns – 31st March 2010



Meet Our Team



Achilles Sofroniou,
Fund Manager

After completing a Masters degree in Mechanical Engineering at Imperial

College London, Achilles undertook a Masters degree in Finance at Cass Business School. He began his career in the City with a fixed income derivatives trading company and subsequently joined EPAM in July 2007 to enhance the research capabilities of the Fixed Income team. Achilles is one of the specialist managers on our GBP, EUR and USD portfolios and also is responsible for economic research and econometric modelling, together with portfolio analysis. Achilles has completed the UKSIP Investment Management Certificate and is a CFA candidate.

Contact Details

Nigel Davies
Investment Director

t: 020 7553 2326
e: nigel.davies@epicp.com

Emma Butler
Portfolio Manager

t: 020 7553 2328
e: emma.butler@epicp.com

EPIC Asset Management Limited
22 Billiter Street
London
EC3M 2RY

www.epicp.com

To receive this newsletter by email or to unsubscribe, please contact victoria.oakley@epicp.com

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