

# CASH MANAGEMENT GBP QUARTERLY UPDATE



EPIC Asset  
Management Limited



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EPIC Asset Management (EPAM) is an established asset management company with a highly successful team of investment specialists. EPAM currently manages cash and bond portfolios for institutional clients seeking similar objectives - security, liquidity and enhanced income.

## Market Overview

FTSE 100 has a torrid quarter finishing down over 800 points at 5128

Gilt yields fell further during the quarter; Treasury 4.5% 2013 finished down 25 bps at just 0.57% as investors sought safe havens

Unemployment up marginally at 7.9%

GDP growth stalls at just 0.1% for Q2 2011

Inflation finishes the quarter back at 4.5%

House prices continue to fall, Nationwide down -0.30% YoY at the end of Sept, although volumes are up

Eurozone problems cause market turmoil with little sign of decisive action from the EU

## Summary

The start of the summer period saw markets in holiday mood with not much occurring in the way of yield movement or interest rate speculation. These traditionally quiet markets didn't begin to move until August when all of a sudden we saw huge volatility in the FTSE 100. This was sparked by the US debacle over the raising of the debt ceiling and the subsequent US downgrade; significant reductions in global growth forecasts and increasing fears for the periphery Eurozone countries. The European markets put a ban on the "short selling" of financial institutions after a number of banks received bad speculative press and media comment. The ban wasn't imposed in the UK and there was large "short selling" of the major banking stocks, which in quiet markets caused extreme volatility. Equity markets came under severe pressure as UK investors looked to the safe haven of gilts.

Contagion across the Eurozone meant sovereign debt markets came under increasing pressure with the cost of funding for both Spain and Italy reaching unsustainable rates until the ECB stepped in. It is now the Eurozone sovereign debt crisis driving continued market turmoil, banking stocks are under huge pressure as large holders of government debt. Bank equity and bond prices have fallen considerably over the period, especially European banks that naturally have more exposure to the Eurozone periphery countries, particularly Greece.

Ratification of the extension to the EFSF (European Financial Stability Fund) by individual euro governments is largely complete but what markets require to bring about stability has now grown considerably, the EU's inability to act quickly, decisively and in unity continues to exacerbate market fears pushing us closer to another banking crisis. This is already reflected in the problems at Dexia Bank which has been unable to secure short term funding and as such requires further support from the French and Belgian governments.

Speculation is rife as to what can and will be done to stabilise the Eurozone but it is becoming clear that a further write down (default) of Greek debt will be necessary, probably to 50% which markets would accept if it was presented orderly and was accompanied by support for banks in the form of recapitalisation and possibly access to short term funding. For this to be achieved a significant expansion to the size and remit of the EFSF would be required and gaining approval of this from the EU members (particularly Germany) looks anything but certain, as such market fears and volatility will continue until a path forward becomes clearer.

In the UK GDP for Q2 came in at just 0.1% and this was accompanied by worsening economic data almost across the board throughout the quarter. Lower global growth forecasts have had a detrimental effect on

## Economic Calendar (GBP)

Date	Event
6 Oct	BoE Rate Announcement
7 Oct	PPI Input m/m
11 Oct	Manufacturing Production m/m
12 Oct	Claimant Count Change
14 Oct	G20 Meetings
15 Oct	G20 Meetings
18 Oct	CPI y/y
18 Oct	RPI y/y
19 Oct	MPC Meeting Minutes
20 Oct	Retail Sales m/m
25 Oct	Prelim GDP q/q
28 Oct	Nationwide HPI m/m
29 Oct	Daylight Saving Time Shift
1 Nov	Manufacturing PMI
3 Nov	Services PMI
3 Nov	G20 Meetings
4 Nov	PPI Input m/m
4 Nov	G20 Meetings
8 Nov	Manufacturing Production m/m
10 Nov	BoE Rate Announcement
15 Nov	CPI y/y
15 Nov	RPI y/y
16 Nov	BoE Inflation Report
16 Nov	Claimant Count Change
17 Nov	Retail Sales m/m
23 Nov	MPC Meeting Minutes
24 Nov	Revised GDP q/q
28 Nov	Nationwide HPI
1 Dec	Manufacturing PMI
5 Dec	Services PMI
8 Dec	BoE Announces Rates
9 Dec	PPI Input m/m
13 Dec	CPI y/y
14 Dec	Claimant Count Change
15 Dec	Retail Sales m/m
18 Dec	BOE Quarterly Bulletin
21 Dec	MPC Meeting Minutes
22 Dec	Nationwide HPI
22 Dec	Final GDP q/q
25 Dec	Merry Christmas!
26 Dec	Bank Holiday
27 Dec	Bank Holiday
2 Jan	Bank Holiday

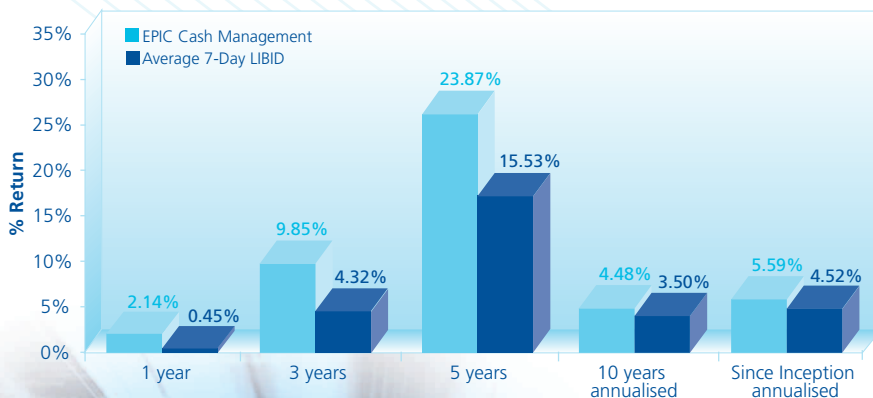
world economies and speculation over further impetus by way of QE is ongoing. It is becoming increasingly accepted that low interest rates on their own may not be enough to stimulate global growth given the austerity packages currently in place and other measures may be needed to kick start economies. Although the usefulness of further QE is rightly being questioned.

Interest rates remain on hold with little prospect of a rise on the horizon in the UK or the US, but the possibility of a rate reduction in the Euro zone becoming increasingly likely.

## Performance

Performance returns have remained largely steady over what has been a difficult quarter for bank stocks. Trading volumes have been lower in these thin and volatile market conditions. The longer end has offered increasing value as pressure on banks has pushed up yields and whilst it presents investment opportunities it also means that price performance has suffered for those portfolio's with longer dated CD's and corporate bonds. This is largely a 'swings & roundabouts' situation and the good purchase yields we bought these stocks on will be achieved as we hold to maturity regardless of current price movements. Strong gilt performance has continued as investors sought safe havens but we continue to monitor the market for buying opportunities for those clients looking to increase their exposures. As market uncertainty continues we will be looking to maintain good returns without incurring undue risks.

### EPAM Cash Performance Returns - 30 September 2011



Source: EPAM, Tilney Fund Management, Singer & Friedlander Investment Management & Bloomberg

## Meet Our Team



**Darren Sadek**  
**Director of Operations and Compliance**

Darren is a co-founder of EPIC Investment Partners.

He was previously with Benfield Greig Asset Management and before that with Barclays Global Investors and Kemper (Zurich) Investment Management where he was an Assistant Vice President responsible for the supervision of fixed income and equity settlement and client service. He has over 25 years experience in the industry.

## New Offices

Please note that we have recently moved offices and are now based in Blackfriars. Our email addresses will remain the same but our telephone numbers have changed. Please make a note of our new contact details.

## Contact Details

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All data is correct as at the 30 September 2011 unless otherwise stated.