

CASH MANAGEMENT GBP QUARTERLY UPDATE



EPIC Asset
Management Limited



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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 currently manages cash and bond portfolios, in all major currencies, totalling over £2.3 billion, with all of our clients seeking similar objectives – security, liquidity and enhanced income.

Market Overview Q2 2010

FTSE 100 fell over 750 points, finishing the quarter down at 4917.

Short dated Gilt yields continued their decline; Treasury 5% 2012 finished the quarter at 0.73%.

Unemployment steady at 7.9%.

GDP remains positive in Q1 showing growth of 0.3%.

Inflation remains above 3% over the quarter, finishing at 3.4%.

House price growth appears to be slowing, Nationwide reporting +8.7% YoY rise at the end of June.

Summary

Well that was quite a quarter, where do we start! It was dominated early on by the general election which led to not only a new government but a Conservative / Liberal Democrat coalition government no less. The hung parliament scenario was one most people were dreading and it remains to be seen how well it will work but we think the early signs are positive.

In the run up to the election and in the uncertainty immediately post election, UK financial markets fell. Both the FTSE and Gilt yields plummeted and whilst the FTSE remains volatile its level is holding around the 5000 mark, whereas gilt yields have continued to fall. The second half of Q2 was spent anticipating the promised emergency budget and whilst we all knew it was going to be painful it has still pushed markets lower.

Chancellor of the Exchequer, George Osborne announced the deepest spending cuts in a generation and higher taxes in an effort to cut the budget deficit and restore confidence in the UK's credit worthiness. Public sector cuts of 25% in real terms across all departments will be severe and impact on both unemployment and growth in the coming months but a smaller public sector in the long term is not bad news for private business and is something a lot of people support. The VAT increase will impact consumers and household budgets and this is reflected in falling consumer confidence numbers which reached a six month low in June. Talk abounds of a double dip given the risk to growth the budget cuts may inflict but

we feel that this is an unlikely scenario and that the slow recovery will continue.

Retail sales have held up but it is only a matter of time before the tightening effects of the budget are felt and the feel good factors of the world cup (if you can call it that!) and the sunshine drop out of these numbers putting little or no upward pressure on inflation which we expect to fall back below 3% in the coming months. This along with the fragile growth figures, GDP was just 0.3% in Q1, will allow the BOE to keep rates low and we foresee no upward movement in rates until the end of the year at the earliest.

Whilst continued low interest rates should provide support for the housing market recent figures do show growth slowing as supply has increased. Nationwide reported month on month growth of just 0.1% in June and mortgage approvals have fallen from earlier in the year, they are still at half the levels seen at the peak in 2007. Given the coming squeeze on household incomes we expect price growth to be minimal but that the housing market will remain broadly stable.

Whilst economic data has stalled somewhat in last couple of months there have been positive signs too, official figures showed a 7.8% rise in business investment for Q1 and purchasing managers' surveys suggest British industry performed well in the first quarter. This is all set against the backdrop of the Euro zone problems which do represent a significant risk to UK growth via exports as they too tighten fiscal policy going forward.

Economic Calendar (GBP)

Date	Event
13 July	CPI y/y
14 July	Claimant Count Change
21 July	MPC Meeting Minutes
22 July	Retail Sales m/m
23 July	Prelim GDP q/q
28 July	Nationwide HPI m/m
2 Aug	Manufacturing PMI
4 Aug	Services PMI
5 Aug	BoE Rate Announcement
10 Aug	Manufacturing Production m/m
13 Aug	PPI Input m/m
11 Aug	Claimant Count Change
11 Aug	BoE Inflation Report
17 Aug	CPI y/y
18 Aug	MPC Meeting Minutes
20 Aug	Retail Sales m/m
25 Aug	Revised GDP q/q
30 Aug	Nationwide HPI
1 Sept	Manufacturing PMI
3 Sept	Services PMI
7 Sept	Manufacturing Production m/m
9 Sept	BoE Rate Announcement
10 Sept	PPI Input m/m
14 Sept	CPI y/y
15 Sept	Claimant Count Change
17 Sept	Retail Sales m/m
22 Sept	MPC Meeting Minutes
27 Sept	Nationwide HPI
1 Oct	Manufacturing PMI
5 Oct	Services PMI
7 Oct	BoE Announces Rates
8 Oct	PPI Input m/m



Outstanding Performance Continues Across All Funds

Fund performance is holding up exceptionally well given the low rate environment and as cash rates have again not moved over the quarter we continued to look elsewhere for yield pick up. Asset allocation therefore remains key to our investment strategy, with gilts, corporate bonds and longer dated CD's being used to add yield to the funds when appropriate. We expect this to continue going forward given no imminent upward movement

in bank interest rates. Short term volatility in the gilt market has enabled us to take some profits this quarter but in general we will be looking to increase exposure to this sector over the coming months as yields pick up from the very low levels we saw at the quarter end. Going forward we expect performance to remain above the benchmarks as we use asset allocation opportunities to add value.

EPAM Cash Performance Returns - 30 June 2010



EPIC International Bond Fund

EPIC Asset Management Limited has recently launched the EPIC International Bond Fund on the Dublin Stock Exchange. The International Bond Fund is the first time EPIC has launched an open-ended, ISA qualified, fund into which both retail and institutional investors can invest.

A conservatively run open-ended sterling based fund, the EPIC International Bond Fund will be invested in government, supra-national and corporate bonds and aims to provide a significantly higher return than the yield on cash - as benchmarked against sterling 3-month LIBOR. Equally, it is looking to ensure a low volatility of returns.

For further information please contact Nigel Davies or Emma Butler.

Conferences 2010

The conference season for the Spring & Summer has drawn to an end, and what a season it has been. Over the past 6 months we have had fantastic opportunities to meeting with existing clients, explore new sectors and market our services to new people. We would like to thank everyone who came to visit us on our stand and hope to see you again next year.



Nigel Davies & Victoria Oakley at the ACT Annual Conference 2010, Manchester Central.

New Clients

We are please to announce that in the last quarter the Portsmouth NHS Charitable Trust and the University of Bristol have signed up to use our Treasury and Fixed Income Services, and we are delighted to have these new clients on board.

Meet Our Team



Emma Butler
Fund Manager

Emma has a BSc honours degree in Economics and is also a Member of the

Association of Corporate Treasurers. She has extensive knowledge of the institutional sector, specialising in the management of Fixed Income and Money Market Securities on behalf of such bodies as universities, building societies, friendly societies and local authorities. Emma joined EPAM in January 2009 to enhance our institutional business, having fulfilled similar roles at Tilney Fund Management and more recently at Singer & Friedlander Investment Management.

New Starter

We are pleased to announce a new addition to the Treasury and Fixed Income team. Nigel Marsh previously of New Star Asset Management, will be joining EPAM on the 12th July as a Fund Manager. Nigel has over 30 years experience within the Fixed Interest arena and has worked at both Investment Banks and Fund Management Firms. His institutional background will no doubt be an asset to the team and we wish him well in his new role.

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