

CASH MANAGEMENT GBP QUARTERLY UPDATE



EPIC Asset
Management Limited

October 2010 | Issue 6

EPIC Asset Management (EPAM) is an established and 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 billion, with all of our clients seeking similar objectives – security, liquidity and enhanced income.

Market Overview Q3 2010

[FTSE 100 recovers from last quarters drop to finish Q3 at 5549](#)

[Short dated Gilt yields continue their downwards trajectory; Treasury 5% 2012 finished the quarter at 0.636%](#)

[Unemployment steady at 7.8%](#)

[GDP showing strong growth in Q2 of 1.2%](#)

[Inflation refuses to fall back below 3%, finishing the quarter at 3.1%](#)

[House price growth slows considerably with Nationwide reporting just a 3.1% YoY rise at the end of September](#)

[More Quantative Easing in Q4?](#)

Summary

The last quarter started well with Q2 GDP coming in at 1.2% and whilst this wasn't completely unexpected it was still strong given the economic context, data has done little but disappoint since however. As such we reached the end of Q3 with market fears of a double-dip still strong and attention focused on the MPC for the possibility of more quantitative easing, QE2.

It is now largely accepted that if growth weakens significantly by the end of the year and disinflationary pressures increase then the asset purchase scheme will be resumed. However at present inflation is stubbornly refusing to fall back below 3% contrary to all market expectations and is presenting the MPC with quite a dilemma. Just the talk of QE2 has been enough to push gilt yields lower though and despite a short spike when the Q2 GDP figures were released they have continued to trend downwards throughout the quarter.

The unemployment rate has remained steady at 7.8% over the quarter but jobless claims increased in August for the first time in 7 months raising concerns ahead of the governments huge austerity drive, full details of which will be revealed later this month. Whilst manufacturing and industrial production numbers appear to be holding up for now the PMI manufacturing index reached a 10 month low in September and so it remains difficult to see how well these

sectors will perform going forward. The PMI services index did however show an unexpected rise in September hinting at signs of resilience in what is the UK's largest industry but with business confidence at an 18 month low we don't expect to see significant growth in the next few months.

The best indication of where the economy is heading will be with the release of first estimate GDP figures for Q3 later this month and they are likely to have a significant impact on markets no matter what the outcome. Q3 has also seen house price growth decline sharply, with Nationwide reporting falls in both July and August and the year on year figure dropping from a high of 10.5% back in April to 3.1% by the end of September. This is coupled with a fourth consecutive month of declining mortgage approvals and suggests demand is weakening as banks keep credit tight and consumers brace themselves for government spending cuts.

We don't expect any significant growth and as such see QE2 as very real option going forward; we will therefore be watching the Gilt market closely to take advantage of any opportunities this creates. Whilst inflations 'stickiness' means we expect interest rates to remain on hold at 0.5% at least until early next year and as such do not see any imminent upward movement in cash rates.

Economic Calendar (GBP)

Date	Event
19 Oct	CPI y/y
20 Oct	MPC Meeting Minutes
22 Oct	Prelim GDP q/q
22 Oct	Retail Sales m/m
28 Oct	Nationwide HPI m/m
30 Oct	Daylight Saving Time Shift
1 Nov	Manufacturing PMI
3 Nov	Services PMI
4 Nov	BoE Rate Announcement
9 Nov	Manufacturing Production m/m
10 Nov	BoE Inflation Report
12 Nov	PPI Input m/m
16 Nov	CPI y/y
17 Nov	Claimant Count Change
17 Nov	MPC Meeting Minutes
19 Nov	Retail Sales m/m
26 Nov	Revised GDP q/q
29 Nov	Nationwide HPI
1 Dec	Manufacturing PMI
3 Dec	Services PMI
7 Dec	EPAM's Economic Lunch
9 Dec	BoE Announces Rates
10 Dec	PPI Input m/m
14 Dec	CPI y/y
15 Dec	Claimant Count Change
17 Dec	Retail Sales m/m
22 Dec	MPC Meeting Minutes
27 Dec	Nationwide HPI

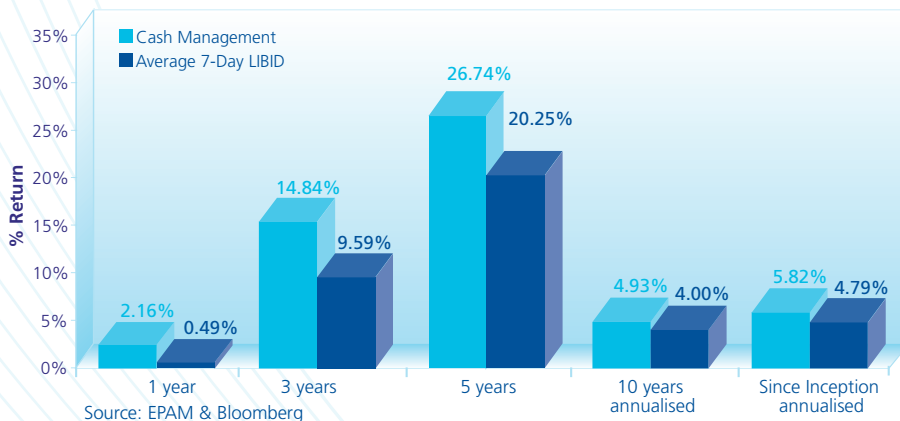


Performance

Fund performance remains good given the low interest rate environment we're working within, cash rates continue to offer little value and so other areas have been key to enhancing yield. Longer dated CD levels are holding up for now and as such we have switched cash longer where appropriate. As Gilt yields continue to fall they have performed well for those funds able to hold them and we have looked for volatility in this market to make short term trading gains, overall

we are looking to increase exposure in this sector but Q3 provided no real opportunities to make significant changes. Corporate bonds remain key for those clients that can utilise this sector, adding significant yield over current cash rates. We expect asset allocation to remain our best tool for enhancing yield given no upward movement in bank interest rates any time soon and as such fund performance will remain strong relative to benchmark.

EPAM Cash Performance Returns - 30 September 2010



Date for the Diary!

Economic Lunch – 7th December 2010

EPAM are pleased to be hosting an economic discussion followed by a sit down lunch on Tuesday 7th December at The Baltic Exchange in London. We will be joined by Economist Peter Bickley (previously at Deutsche Bank) and Andrew McConnell (FD at the University of Huddersfield & BUFDG Chairman) to discuss the current environment and what 2011 holds for the Financial Sector.

Should you wish to attend this event then please RSVP to Victoria Oakley, victoria.oakley@epicip.com.

We hope to see you there!

EPIC International Bond Fund

EPIC Asset Management Limited launched the EPIC International Bond Fund on the 12 July 2010 and since inception the fund has grown by 30% with strong performance returns of 4.67% (Gross p.a.)

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.

Meet Our Team



Nigel Marsh
Senior Fund Manager

Before joining EPAM in July 2010 Nigel worked at New Star Asset Management where he was responsible for managing the Institutional fixed interest and liquidity mandates. Nigel has gained a wide range of experience in managing funds from short term cash through to govt., index-linked and corporate bonds. Previous to Nigel's 10 year experience in fund management he spent over 20 years working with various investment banks specialising, largely, in sterling fixed interest and cash products.

Contact Details

Nigel Davies
Investment Director

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

Emma Butler
Portfolio Manager

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

EPIC Asset Management Limited
22 Billiter Street
London
EC3M 2RY

www.epicip.com

To unsubscribe, please email:
victoria.oakley@epicip.com

Disclaimer

Articles in this newsletter are intended only to provide a general outline of the subject and should not be considered advice or a basis for making investment decisions. The opinions given are relevant at the time of going to press and may change in the future.

The content should not be viewed as indicating any guarantee of return from an investment or as a recommendation to buy and sell stocks. The value of an investment can go down as well as up and investors may not get back their original investment.

EPIC Asset Management Limited is authorised and regulated by the Financial Services Authority and is a member of the Syndicate Asset Management plc group of companies.

Registered Office: c/o Ashcourt Group, 6th Floor, East Wing, Vintners Place, 68 Upper Thames Street, London. Registered in England & Wales No 04195976