

CASH MANAGEMENT GBP QUARTERLY UPDATE



EPIC Asset
Management Limited



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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 Q4 2010

FTSE 100 rallies into the year end finishing at 5899

Gilt yields improved; Treasury 5% 2012 finished the quarter at 0.694%

Unemployment remaining steady at 7.9%

GDP growth continues, reporting 0.7% in Q3

Inflation refuses to fall back below 3%, finishing the quarter up slightly at 3.3%

House price growth continued to slow, Nationwide reporting just a 0.4% YoY rise at the end of December

QE2 off the cards for now!

Summary

The last quarter has certainly been an interesting one, we've had details of the comprehensive spending review which without any great surprises set out the coalitions plans to eliminate the structural deficit by 2015 and we've had the not inconsiderable problems in the eurozone, more specifically Ireland which has proved to be a little closer to home than Greece. Whilst markets and consumers largely took the governments spending cuts in their stride the same cannot be said of the eurozone troubles which have spread fear and pushed up yields. Ireland was publically forced to accept a rescue package by Europe's big players and in doing so they pushed the markets to question the whole viability of the Euro, not a prospect that we want to consider at this stage in the global economic recovery. In the weeks since the package was announced fears have been allayed slightly but concern abounds for other periphery states and their actions over the coming months will be critical in ensuring fear itself does not push them into 'accepting' rescue packages.

With this as the backdrop UK plc has been quietly doing ok, Q3 GDP came in at 0.7% providing some confidence for growth prospects and reducing the need for further quantitative easing at least in the short term. Manufacturing which showed

signs of having peaked earlier in the year has returned to strong growth, this had been coupled with continuing strength in the service sector but Decembers PMI Services figure came in worryingly low raising fears for how the service sector will perform in 2011. Whilst the past decade has been all about the demise of the manufacturing sector let's hope the recent growth reflects that what is left has quality and is efficient, not discounting the competitive value added by the weak pound.

We hope this is the case because consumer confidence has tumbled and retail sales continue to trend down, house prices are falling, mortgage approvals are low, credit remains tight and this combined with inflation stubbornly above target all suggest that for now the consumer is not in a position to push the economic recovery. We have no doubt 2011 is going to be a tough year but if employment holds up against the public sector job cuts and evidence of private sector job growth supports this and if interest rates remain low then the consumer may well return in the latter half.

As it stands we feel the UK economy is balancing on the edge of a stable recovery but as the Irish troubles have proven the apple cart can be easily tipped, further unexpected eurozone problems or a

Economic Calendar (GBP)

Date	Event
13 Jan	BoE Rate Announcement
13 Jan	Manufacturing Production m/m
14 Jan	PPI Input m/m
18 Jan	CPI y/y
19 Jan	Claimant Count Change
21 Jan	Retail Sales m/m
25 Jan	Prelim GDP q/q
26 Jan	MPC Meeting Minutes
27 Jan	Nationwide HPI m/m
1 Feb	Manufacturing PMI
3 Feb	Services PMI
4 Feb	PPI Input m/m
10 Feb	BoE Rate Announcement
10 Feb	Manufacturing Production m/m
15 Feb	CPI y/y
16 Feb	BoE Inflation Report
16 Feb	Claimant Count Change
18 Feb	Retail Sales m/m
22 Feb	Nationwide HPI
23 Feb	MPC Meeting Minutes
25 Feb	Revised GDP q/q
1 Mar	Manufacturing PMI
3 Mar	Services PMI
4 Mar	PPI Input m/m
10 Mar	BoE Announces Rates
16 Mar	Claimant Count Change
22 Mar	CPI y/y
23 Mar	MPC Meeting Minutes
24 Mar	Retail Sales m/m
28 Mar	Nationwide HPI
29 Mar	Final GDP q/q
1 Apr	Manufacturing PMI
5 Apr	Services PMI
6 Apr	Manufacturing Production m/m
7 Apr	BoE Announces Rates
8 Apr	PPI Input m/m

weakening in the US economic situation could provide set backs.

We see no signs of interest rate rises in the short term but given inflation remains above 3% and with rising commodity prices and the recent VAT increase we wonder how long the MPC can sit on their hands claiming technical / one off reasons for the continued high CPI rate. That said cash yields are still painfully low and other assets should be considered to add yield. Some value has returned to gilts, the tentative signs of improved economic prospects for 2011 means for now QE2 is not an issue and as such gilt yields have risen but if Q4 GDP undershoots expectations then be in no doubt QE2 will be firmly back on the agenda.

Performance

December's rally in gilt/bond yields constrained performance on the month for those funds able to hold these instruments but in the long term performance remains strong relative to cash rates. We have continued to look at the longer end, 2 year cd's and corporate bonds for added yield and if growth holds up this will continue. The improvement in gilt yields has provided

a buying opportunity and we have increased our exposure as appropriate, we will be monitoring these closely and if the economic recovery falters and talk of QE2 returns then we will be in a strong position to take profits from this sector. We expect performance to remain strong even in the face of rising yields given our use of asset allocation to add yield and spread risk.

EPAM Cash Performance Returns - 31 December 2010



Source: EPAM & Bloomberg

Economic Lunch

We would like to thank everyone who attended our first Economic Lunch which was held at The Baltic Exchange on the 7th December. An extra thank you to our speakers Andrew McConnell (Chair of the BUFDG and Finance Director at the University of Huddersfield) and Peter Bickley (Independent Economist), without whom we wouldn't have been able to make the day happen. We were extremely pleased with how the day turned out and hope to run a second Economic Lunch in early June, please let us know if this would be of interest to you or your colleagues.

Should you have any feedback on the day or would like further information on future events then please contact us by email: victoria.oakley@epicip.com.

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 EPAM Team.

British University Finance Directors Conference:	11th-12th April 2011
Building Societies Association Annual Conference:	4th-5th May 2011
British Insurance Brokers Association Annual Conference:	11th-12th May 2011
HFMA Foundation Trust Annual Conference:	23rd-24th June 2011
CIPFA Annual Conference:	5th-7th July 2011

Meet Our Team



Phil Riches
Portfolio Administrator

Phil Riches is a Portfolio Administrator with over 20 years experience in the Fund Management industry. Before EPIC he supervised the Operations team at Cigna Investment Management which he joined from the settlements department of JP Morgan Chase Bank. There he was responsible for Fixed income and Equity trade settlements. Previously he worked for a UK Stockbroker. Phil holds the FSA Investment Management Certificate.

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