

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 is hit by Euro problems but finishes the quarter up at 5945

Gilt yields have tumbled during the quarter; Treasury 4.5% 2013 finished the quarter at just 0.82%

Unemployment down marginally at 7.7%

GDP splutters back to growth, 0.5% in Q1 2011

Inflation continues to worsen, finishing the quarter at 4.5%

House prices fall, Nationwide down -1.10% YoY at the end of June

Greece gives the markets a wobble!

Summary

April brought the first estimate of Q1 GDP at 0.5%. This rather unimpressive figure barely erased the contraction seen in Q4 and cast further doubt on the strength of the economic recovery.

While the MPC remains split on whether to raise rates to curb inflation, which reached 4.5% in May and is expected to go higher, the weakness in growth seems to have provided the committee with sufficient evidence to defer rate rises at least until later in the year. Yields have reflected this, trending downwards throughout the quarter.

This downward trend in yields was exacerbated by the escalating problems in the Euro area and the very real chance that Greece would default on its debt. This was averted in late June as the Greek parliament narrowly passed austerity measures sufficient to secure further bail out funds from the EU/IMF to the tune of €12bn.

Whilst this has settled the markets for now, gilt yields rose in the last week of June; it is by no means the end of the story. Greek default has not yet been avoided, they have bought more time but the fundamental problem has not been solved. They spend more than they raise in taxes even before they begin to service their debt.

Closer to home, UK data releases have provided little support for a quick return to

strong growth in Q2. PMI indices across all sectors (manufacturing, construction and services) have fallen from the peaks seen earlier in the year although these numbers do include the disruption caused by the many holidays we enjoyed in April, but still they suggest a strong return to growth in Q2 is unlikely.

If growth remains weak then it is unlikely to produce much in terms of job creation but even given the government's austerity measures we do not expect unemployment to soar. Whilst jobless benefit claims have increased over the last two months the unemployment rate has actually fallen to 7.7% driven by full time work.

The housing market continues to worsen and transaction volumes remain very low, and this is unlikely to change until we see an increased willingness to lend by mortgage providers coupled with an increase in consumer confidence which does not seem to be coming any time soon.

The coming months seem set to produce a slow recovery, rate rises will adversely affect consumer confidence and the impact this would have on spending and business perceptions of desired productive capacity mean that for the time being we do not think they are likely to happen, we see a November rise as the earliest possibility.

Economic Calendar (GBP)

Date	Event
7 Jul	Manufacturing Production m/m
7 Jul	BoE Rate Announcement
8 Jul	PPI Input m/m
12 Jul	CPI y/y
13 Jul	Claimant Count Change
20 Jul	MPC Meeting Minutes
21 Jul	Retail Sales m/m
26 Jul	Prelim GDP q/q
26 Jul	Nationwide HPI m/m
1 Aug	Manufacturing PMI
3 Aug	Services PMI
4 Aug	BoE Rate Announcement
5 Aug	PPI Input m/m
9 Aug	Manufacturing Production m/m
10 Aug	BoE Inflation Report
16 Aug	CPI y/y
17 Aug	Claimant Count Change
17 Aug	MPC Meeting Minutes
18 Aug	Retail Sales m/m
24 Aug	Nationwide HPI
26 Aug	Revised GDP q/q
1 Sept	Manufacturing PMI
5 Sept	Services PMI
8 Sept	BoE Announces Rates
9 Sept	PPI Input m/m
13 Sept	CPI y/y
14 Sept	Claimant Count Change
15 Sept	Retail Sales m/m
18 Sept	BOE Quarterly Bulletin
21 Sept	MPC Meeting Minutes
23 Sept	IMF Meetings
26 Sept	Nationwide HPI
30 Sept	Final GDP q/q
3 Oct	Manufacturing PMI
5 Oct	Services PMI
6 Oct	BoE Announces Rates
7 Oct	Manufacturing Production m/m
7 Oct	PPI Input m/m



Performance

With interest rates continuing to be at historic lows, investing in shorter maturities has been interesting. Investors are not only looking for return but are also very conscious of risk levels, and with many European countries under the microscope and their major banks being stress tested, it has been testing times for investors.

As fund managers it has been imperative that any advice given and investments made in money market instruments and bonds (corporate debt or sovereign) are with the highest quality counterparties available.

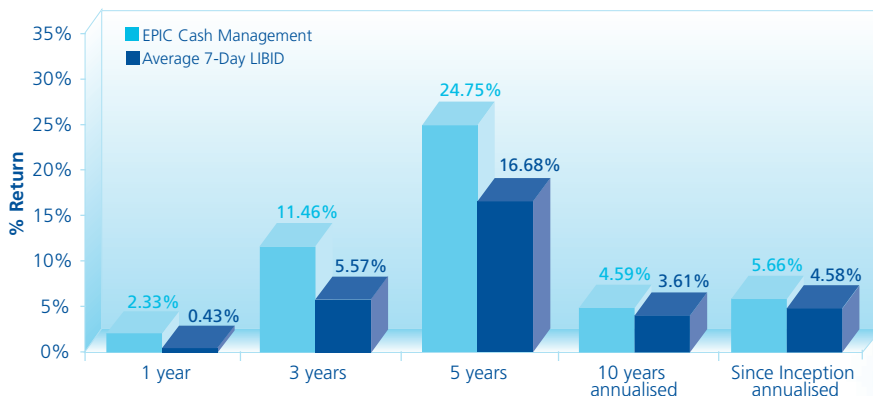
At EPAM we only manage segregated portfolios on behalf of our clients and do not enter into any pooled vehicles, hence keeping our fees to a minimum. More importantly this gives our fund managers a greater scope to perform against our given benchmarks. Our clients' investment policies are very similar and therefore performance is reasonably uniform across the board which provides for consistency.

We believe that our performance across all funds has been outstanding and certainly compares exceedingly well with our peers. The average return for the last year has been 2.33%. This can be seen on our charts along with the previous 16 years' performance returns.

Consistent performance is only possible if a robust investment process is in place with a strict view on risk adhered to. We understand that it is not possible to know about every single credit and counterparty but using the processes we have in place the risks associated with unforeseen events are minimised.

We are confident that we will be able to report again in 12 months time about our continued successful performance with more clients taking advantage of our service.

EPAM Cash Performance Returns - 30 June 2011



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

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.

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

Meet Our Team



Nigel Davies
Investment Director

Nigel joined EPAM in December 2008, having held similar posts at Singer & Friedlander Investment Management and Tilney Fund Management. Throughout his career Nigel has specialised in all aspects of treasury business with particular emphasis on the UK and European bond markets. He has managed fixed income and short-term liquidity portfolios for major institutions and advises a large number of building societies on their liquid assets.

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