

S&W Revera UK Dynamic Fund

A focused, UK, Special Situations Fund



January 2012

Back to Business

Perhaps it was simply a yearning amongst equity investors to return to their comfort zone of earnings, dividends and valuations that saw last year's concern over Eurozone sovereign debt relegated to the sidelines. Attention switched to the US where there is growing evidence of recovery taking hold - the performance of the US economy will be the key determinant of whether 2012 proves simply to be a re run of 2011 or whether early gains can be sustained. Additional confidence derived from recent bond auctions in Spain and Italy with yields being driven down. How much Eurozone related 'bad news' - either in the shape of a default or break up - is genuinely priced in remains a moot point.

We made one new investment - AMEC, an oil services business which has the bulk of its activities in the North Sea, the US and the Canada. We identified two further businesses which we want to purchase but given the volatility in markets we do not believe it appropriate to chase prices for the sake of showing a fully invested position. We decided to sell Kewill over concerns that contract news had not materialised and there was increased risk of an earnings disappointment. We will revisit Kewill, if it can demonstrate greater consistency in its earnings.

We recognise that markets are still capable of delivering a wide range of potential outcomes. We believe that growth, albeit of a more muted variety, remains the most likely scenario. Hence our continuing investment in businesses that can exploit the opportunities such conditions will confer.

Discrete Performance

	Dec 2010- Dec 2011	Dec 2009- Dec 2010	Dec 2008- Dec 2009	Launch - Dec 2008
Retail	-8.7%	14.2%	32.9%	-6.0%
Institutional	-8.5%	14.5%	-	-
Founder	-8.5%	14.6%	33.1%	-18.5%

Movers & Shakers

January is light on concrete newsflow. A number of our investments which laboured during the second half of 2011 rebounded strongly as investors upped their risk appetite. This was encouraged by data on activity levels in the US and the belief that China would manage to avoid a 'hard landing'. Despite minimal new information companies such as CSR, Gooch & Housego, IMI, Morgan Crucible and Victrex all posted strong increases. Such is the fickle nature of investor sentiment. Lloyds Bank and Legal & General benefitted from a similar theme whereby investors took a less hawkish stance on the prospects for sovereign debt contagion spreading across the European banking sector.

Kewill retreated as investors became concerned over the absence of newsflow on the closure of key contracts before its financial year end in March. With the prevailing uncertainty in the Eurozone, we recognised the increased risk that customers will defer signing deals. This is likely to persist until there is greater clarity over prospects within the Eurozone. Whilst these events are outwith Kewill's direct control, they will exert a disproportionate impact on the share valuation. Game Group continued to slide after it issued a disappointing Christmas trading update and admitted it was technically in breach of one of its banking covenants although its solvency was not at issue.

Rolling Performance

	1 month	3 months	1 year	3 years	launch	FTSE AllShare since launch
Retail	5.8%	1.2%	-4.6%	55.9%	37.9%	26.3%
Institutional	5.9%	1.3%	-4.4%	-	8.3%	11.0%
Founder	5.9%	1.3%	-4.3%	57.1%	20.5%	14.2%
FTSE AllShare	3.6%	1.3%	-3.1%	41.2%	-	-

Top Twenty Investments

Top 20 Holdings	Sector	%
Optos	Healthcare Equipt	5.0
Brewin Dolphin	Speciality Financials	4.9
CSR	IT Hardware	4.7
Morgan Crucible	Engineering	4.5
RD Shell B	Oil & Gas	4.4
Senior	Engineering	4.3
Premier Oil	Oil & Gas	4.3
Legal & General	Life Assurance	4.2
BG Group	Oil & Gass	4.2
Victrex	Chemicals	4.2
Total for top 10		44.6
Standard Life	Life Assurance	4.1
IMI	Engineering	4.1
Smiths Group	Engineering	4.0
Sage Group	Software & Comp Servs	4.0
Diageo	Beverages	4.0
Lloyds Banking Grp	Banks	3.9
AstraZeneca	Pharmaceuticals	3.9
Gooch & Housego	Electronics & Elects	3.6
Spirent Comms	IT Hardware	3.5
Babcock Intl	Support Services	3.4
Total for top 20		83.2
Other equity holdings (4)		3.8
Bonds and net liquidity		13.0
TOTAL		100.0

NAV and Indices priced at midday. Source: Smith & Williamson Fund Administration Ltd. FTSE AllShare Launch priced at close of day. Launch Dates: Retail Shares 7 October 2008; Institutional Shares 17 September 2009; Founder Shares 26 September 2008.

Taking US Higher

Although we are wary of the speed at which investor sentiment appears to have shifted, equity markets are firmly underpinned by valuations. In addition to the support provided by valuation metrics we believe that dividend increases will be a source of positive surprises during 2012. Earnings are still subject to downward revisions, but the magnitude of downgrades has diminished significantly.

On balance the prognosis for the global economy is positive. US economic data have generally surprised on the upside. However, the Fed is clearly still sufficiently concerned about the US economy's vulnerability to external shocks and has flagged an extended period of low interest rates. Arguably many necessary adjustments have taken place within the US domestic economy - the housing market has seen a substantial correction and by and large the US banking sector now appears better capitalised. Personal indebtedness is also lower. Investors have bought into the Chinese 'soft landing' scenario, whilst the principal risk remains that of a bubble in the property sector. In the Eurozone, there has been a reversal in sentiment helped by a fall in bond yield in both Italy and Spain. However, those of a more nervous disposition will still want to see the small print of any details, particularly in relation to the enforceability of any fiscal compacts. Our judgement is that US momentum and growth in Asia is strong enough to offset Eurozone drag.

Key Facts

Structure - UCITS OEIC

ACD - Smith & Williamson Fund Administration Ltd

Price - Retail (Sedol B3BSKK3)	97.896p
Institutional (Sedol B3BSKL4)	98.406p
Founder (Sedol B3BSKJ2)	98.532p

Annual Charge - Retail Shares	1.5%
- Institutional Shares	1.3%

Initial Charge - Retail Shares up to	5%
- Institutional Shares	0%

Minimum Investment - Retail Shares	£1,000
- Institutional Shares	£100,000

All Share Classes are Accumulation Shares

Dealing Line 0207 131 4951

Market Analysis

Key Parameter	Outcome	Signal
FT All-Share PE Ratio	10.6	
Real Bond/Equity Yield	-0.9	
Earnings revisions	Negative	
Appetite for new equity	Negative	
3mth market direction*	2.5%	
MARKET PHASE DECISION:	Fallow Phase	

*trailing 3mth movement of FTSE AllShare Index Indices at end of day.

Fund Manager Stephen Grant Investment Director

Normally disclaimers appear at the end - I'll begin with mine. Blame my father. As a child he took me to watch a football team that no-one else followed. Consequently, the idea of going with the crowd or trend has been alien to me. In almost 25 years of investment management experience, I've learned to temper my contrarian instincts. Sometimes the crowd is right and there is nothing to be gained by adopting a contrarian stance for the sake of it.



As an investor I want to own a portfolio of businesses which have sustainable and durable earnings, not ones that happen to be in vogue. In order to make an objective assessment of what I believe a business is worth I track its cash generation. I believe that the most reliable means of assessing a business's long term performance is to monitor how much money it puts in the bank each year. It is a more objective measure of a company's capacity to generate shareholder wealth than either earnings or management rhetoric. Profitable investment opportunities arise most often when the prevailing view proves to be ill founded. Having a clear understanding of a company's value remains the best means of deciding when it is right to invest against the flow.

Risk Factors

- This OEIC is designed as a medium to long term investment, for example at least five years.
- The value of any investment in this fund is not guaranteed and can go down as well as up. Investors may not get back capital originally invested.
- The OEIC's portfolio is likely to be more concentrated than other investment funds and therefore may be more risky than more diversified portfolios.
- There can be no guarantee that the investment objectives of the OEIC will be met.
- There will be times when this OEIC's performance will be unlike that of any stock market index which may or may not be advantageous to investors.

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