Spearpoint

Spearpoint (Sterling) Fixed Income Fund

PRICE: GBP 1.0136 / FORECAST INCOME YIELD: 3.00% (as at 31 March 2011) **31 March 2011**

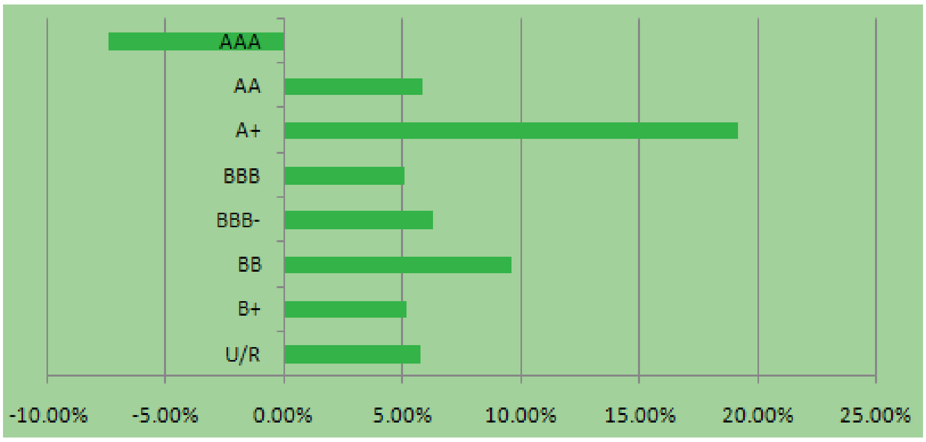
Fund Objectives

The investment objective of the Spearpoint (Sterling) Fixed Income Fund is to seek to maximise total return, consistent with the preservation of capital and prudent investment management, from investment into fixed income instruments which are predominantly Sterling denominated. The target, although not guaranteed, is 3 month Sterling LIBOR + 2%.

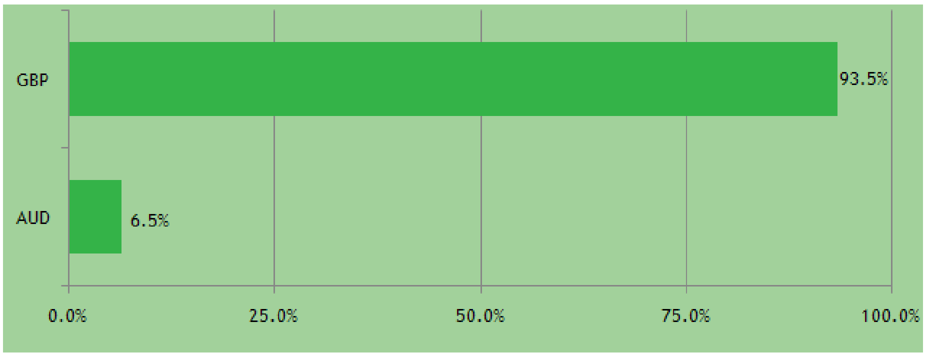
Exposure

Sector	Exposure	Net Exposure	Duration
UK Government Bonds	36.7	-7.4%	-0.24
GBP Corporate Bonds	56.9%	56.9%	2.85
UK Short Term Interest Rate	0.0%	-3.3%	0.00
Cash	6.4%	0.0%	0.00
TOTAL	**100.0%**	**42.6%**	**2.61**

Net Exposure By Rating



Currency Allocation



Fund Facts

Base Currency: GBP

Launch Date: 04 Nov 2010 at GBP 1.00

Minimum Investment: GBP10,000

Target Total Return: GBP 3 month LIBOR + 2%

Management Fee: 0.65% + Performance Fee

Dealing Frequency: Daily (t+3 settlement)

Lead Manager: Mark Despres

Income: Semi-annually

Payment Dates: Jan, Jul

ISA/PEP/SIPP Eligible: Yes

Reporting Fund Status: Yes

Sedol: B40J0B5

ISIN: IE00B40J0B52

Bloomberg Ticker Code: SPAFIAU ID

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Commentary

The Fund has enjoyed a strong start to the year, increasing in value by 1.69% total return net of all fees and expenses, which compares favourably to Government bonds which fell 0.79%[1] and Corporate bonds which increased in value 1.55%[2].

March proved to be a very difficult month for all asset classes and markets. Volatility was high as participants reacted to fast moving social, economic, political and monetary events.

Unrest in the Middle East and North Africa was a continual threat, albeit to date it appears to have had limited impact on Saudi Arabia and Iran, the two major forces in the region. Although the oil price remains close to its highs since the crisis began, putting upward pressure on global inflation, we do not believe that it will restrict global growth at the current level.

The shocking events in Japan led to a sell-off in risk assets, such as equities and commodities, which correspondingly led to some safe-haven buying of US and UK Treasury bonds. Interest rate expectations also shifted with market participants pushing back their forecasts for rate rises as the Bank of Japan (BoJ) reacted to the tragic events. The BoJ has flooded the banking sector with liquidity to support asset prices, and latterly with the help of their G7 peers to weaken the Japanese Yen. The prompt actions of the BoJ should effectively restrict the impact of events in Japan on global growth and, with the monetary taps back on, push inflation and future expectations higher.

Along with the BoJ, the US Federal Reserve's (FED's) balance sheet continued to expand in March, providing further liquidity for risk assets and stoking inflation pressures. We have long argued that monetary authorities are playing a dangerous game and the bond markets which they are artificially supporting are at risk moving forward. With bond yields in the developed markets now in negative real yield territory (i.e. after inflation) it is only a matter of time before yields rise and prices fall. The experiences of 1994 provide us with a clear warning and an insight into what can happen when monetary policy shifts abruptly from being accommodative to restrictive. In early 1994 the FED surprised the market with a rate hike in response to a post recession pickup in economic activity and in anticipation of a rise in inflation – a similar environment to now. In 1994 US Treasuries fell 15%, in price terms, in 6 months. The key difference of course is that monetary policy is significantly looser now, which could amplify any bond moves. These factors are starting to attract the attention of some members of the FED, who are becoming increasingly vocal and are starting to call for a normalisation of monetary policy.

Based on our concern for Government bonds, all exposure to this sector has been hedged using financial derivatives. Capital allocations and exposure continues to be focused on short dated quality corporate bonds trading at or below par. We are bullish for the prospects for certain sectors of the corporate bond market and believe that the recent price action provides good opportunities in quality short dated corporate bonds. We are confident that the Fund will continue to provide superior returns to cash over the next few years.

[1] Government Bond Index: FTSE UK Gilt All Stocks Total Return Index.

[2] Corporate Bond Index: IBOXX GBP All Corporate Bond Total Return Index.

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