# Spearpoint (Sterling) Fixed Income Fund

PRICE: GBP 1.0121 / FORECAST INCOME YIELD: 3.00% (as at 31 May 2011)

31 May 2011

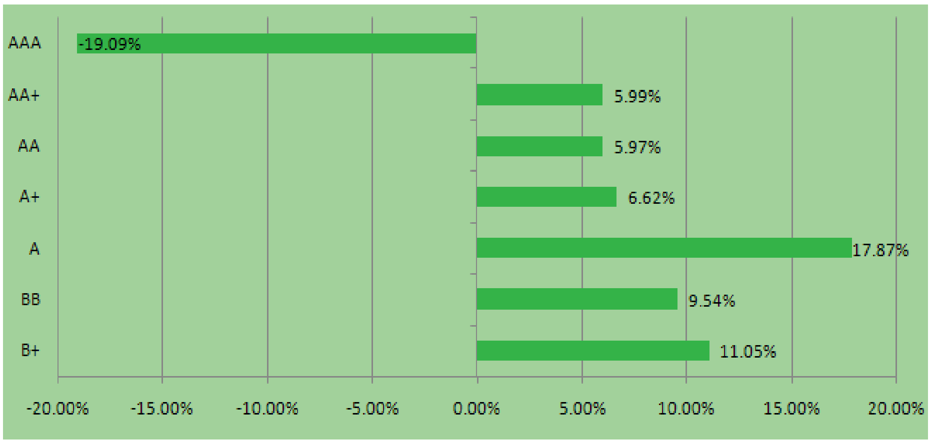
## Fund Objectives

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%.

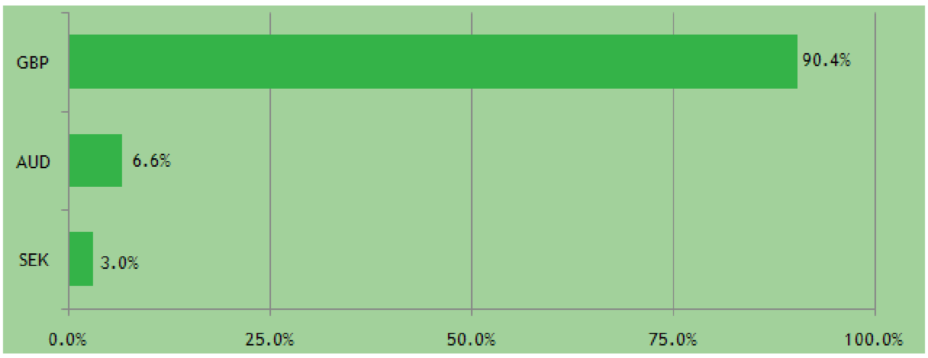
## Exposure

| Sector | Exposure | Net Exposure | Duration |
|---|---|---|---|
| UK Government Bonds | 37.4 | -22.0% | -1.30 |
| GBP Corporate Bonds | 42.0% | 42.0% | 1.98 |
| GBP Floating Rate Notes | 17.9% | 17.9% | 0.02 |
| UK Short Term Interest Rate | 0.0% | -3.4% | 0.00 |
| Cash | 2.7% | 0.0% | 0.00 |
| **TOTAL** | **100.0%** | **34.5%** | **0.70** |

## 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

Spearpoint

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## Commentary

Global government bonds rallied in May as uncertainty over the future path of global growth and risk aversion returned to asset markets. The Fund was flat on the month as our defensive stance on UK government bonds and hawkish view for interest rates offset gains in corporate holdings.

In the UK, inflation continued to surprise to the upside. Core Consumer Price Inflation (CPI) increased to 3.7% year on year in April, which has significantly ahead of both market expectation and the previous months read of 3.2%. Inflation is clearly a problem in the UK and the Bank of England are starting to lose credibility both with consumers and market participants. With the UK also experiencing a softening in growth and the government forcing though fiscal austerity, stagflation (slowing growth and rising inflation) looks increasingly likely, which is not a good environment for UK government bonds.

The UK's fiscal position remains precarious. Due to strong spending, which conflicts with the government's austerity plans, the UK's April fiscal deficit (the first mark of the new fiscal year) was the largest on record. If this deterioration in the UK's finances continues in the months ahead, the UK will start to once again attract the attention of the ratings agencies.

Recent auctions of UK government bonds have attracted the lowest level of cover (total number of bids received divided by the number of bonds to be sold) for many years. The issue of government bonds is critical to the UK's ability to run a large budget deficit and any hint that the market is starting to tire at the large and ongoing supply of bonds is of significant cause for concern.

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 confident that the Fund will continue to provide superior returns to cash over the next few years

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