

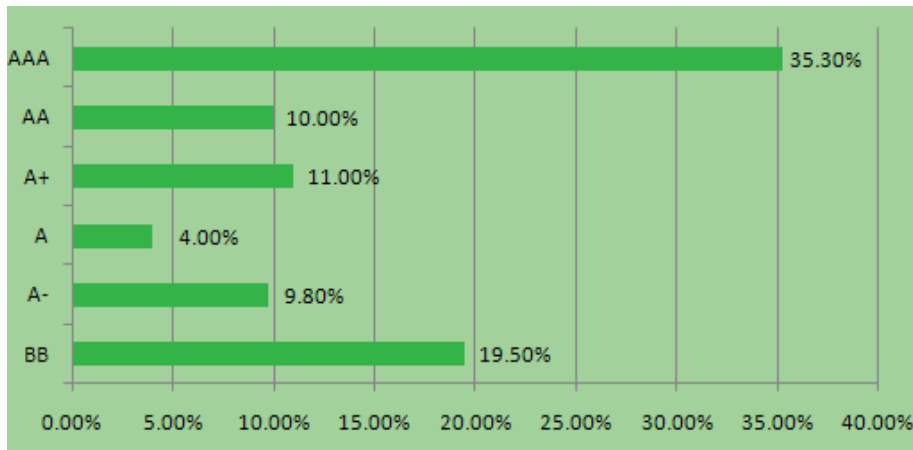
### Fund Objectives

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%.

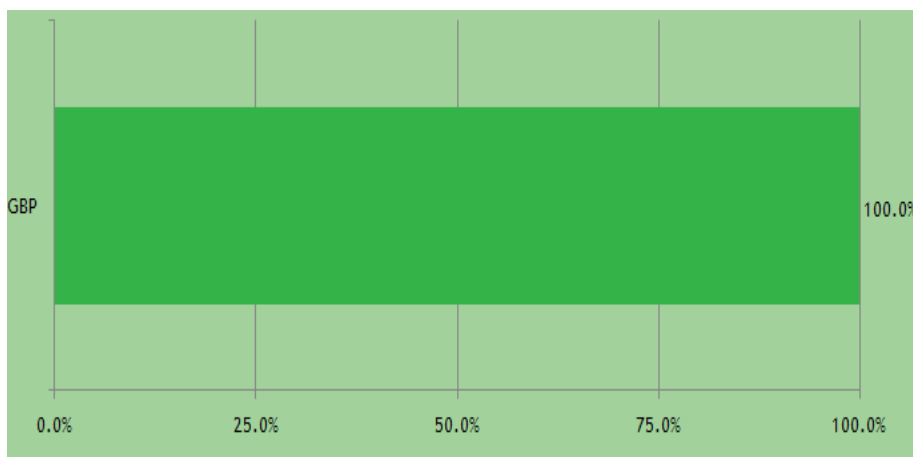
### Exposure

Sector	Exposure	Net Exposure	Duration
UK Government Bonds	31.4%	31.4%	1.68
GBP Corporate Bonds	36.7%	36.7%	1.61
Currency Corporate Bonds	11.8%	11.8%	0.38
GBP Floating Rate Notes	10.5%	10.5%	0.02
Cash	9.6%	9.6%	0.00
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>3.69</b>

### Net Exposure By Rating - S&P 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:** Spearpoint Limited

**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

**Fund Structure:** Dublin UCITS IV SPL Investment Funds PLC is an open-ended umbrella investment company with segregated liability between sub-funds, registration number 454277

**Custodian:** BNY Mellon Trust Company (Ireland) Limited

**Auditors:** Deloitte & Touche



## Commentary

Global stock markets suffered further heavy falls in September and many indices have now declined by between 15-25% in the year-to-date. In a similar manner to the credit crisis in late 2008/early 2009, there were few hiding places from the turmoil as most asset classes became more closely correlated. For example, corporate bond spreads widened, emerging market debt and currencies sold off and commodities and commodity-linked currencies fell sharply. Even Gold, which had risen to new highs of around \$1900 per ounce in early September, collapsed as the panic selling became indiscriminate and margin calls increased. The US Dollar was a major beneficiary of the crisis, as were government bonds, although even this safe haven exhibited unusually high volatility during the month. Against such a difficult background, the Fund was fairly stable and fell a modest 0.3%. Positive gains on the government holdings were offset by significant mark-to-market losses on the corporate issues.

The global economy is in a dangerous new phase and policy makers and financial markets face a number of serious issues at the current time. Global activity has weakened and become even more uneven, confidence has fallen sharply recently and downside risks are growing. As global markets have suffered a major sell-off of risk assets, there are growing signs that this is spilling over into the real economy, further threatening an already fragile macro environment. Consequently, global economic forecasts are rapidly being revised down, even in China and other emerging economies.

Investors are scared by the possibility that policy makers are either incapable of action, horribly lagging or don't have the tools to avoid calamity. There is also a growing realisation that the developed economies face a prolonged period of slow growth as deleveraging runs its course and as central banks and governments run out of policy options.

In our view, it is inevitable that Greece will default on its debts, which will probably result in at least a 50% write-down for its creditors. Germany and France appear to be leading an attempt to put in place a plan for an orderly default. This would likely involve using the European Central Bank (ECB) and European Financial Stability Facility (EFSF) to put a "firewall" around other peripheral debt (especially Italian and Spanish) and to re-capitalise European banks. This is critical because the Euro zone cannot afford to offset the hit to bank capital if either of these two countries were to default. For this solution to be effective, Germany (and any other dissenters) will need to quickly abandon their political resistance to such a move, since this would involve the ECB shedding its reticence and demonstrating decisively that it is seriously backing the system.

The creation of a sufficiently large lender-of-last resort, together with a capital injection into the banks, would have a chance of allowing Greece to default or restructure more meaningfully without setting off a domino effect in other bond markets. A key question for the next few months is how much more pain will be required before European politicians make the right decisions. The longer they delay, the greater the damage to the global economy and the more financial markets will have to fall.

In the meantime, the chances of further Quantitative Easing (QE) from the Federal Reserve (Fed) and the Bank of England have also increased. In Japan the government should pursue more ambitious measures to deal with the very high level of public debt, whilst also embarking on more QE to weaken the Yen and stimulate activity. As for China, we believe that their monetary tightening is in its late stages, if not over. The authorities will continue to be focused on dampening inflation concerns and preventing a property bubble from bursting. However, the good news is that inflation has probably peaked, especially with the recent falls in global commodity prices. Whilst there remains a risk of a Chinese hard-landing, we believe that policy makers have plenty of tools available to stimulate domestic demand and keep the economy growing at a solid pace.

The weak growth environment and the prospect of further QE from a number of sources will likely continue to support government bonds in the near term. The Bank of England may even lead in this respect, given recent economic weakness and the strong signals coming from a number of official sources. The Government have again re-stated their intention to stay with their fiscal plans and with most members of the Monetary Policy Committee making it clear that they see the current inflationary pressures as transitory, a monetary easing is likely on the cards for November, although it may happen sooner depending on the data.

The risk of a financial accident or policy error together with tightening fiscal policy is also supportive for government bonds. In the developed markets, policy makers are clearly happy to see lower yields across the maturity range, in order to keep borrowing costs low and encourage investment and consumption. Although higher inflation may ultimately be a price to pay for a prolonged period of loose monetary policy, this is still preferable to a renewed bout of deflationary pressures and is not a concern for now.

Corporate debt has been hit hard during the past few weeks and the recent sharp market declines suggest that investment grade and high yield are already discounting a contraction in earnings and an increase in default rates in the coming months. There is no question that companies will face a more difficult business climate in a very low growth world with earnings and margins likely to come under considerable pressure over the next year or so. However, most companies are in sound financial shape and should be able to withstand the tougher environment. Investment grade credit is especially attractive at present, and there are also select opportunities in the high yield space.

As far as currencies are concerned, we are in an era of currency wars and competitive devaluation, where no economy wants an overly strong currency as they struggle with deleveraging and low growth. It is much easier to make a case why all of the major currencies should be weak, rather than strong. For choice, we currently favour the US Dollar, since it is undervalued on most measures and the problems in Europe and Japan are more entrenched. Also, we believe that interest rates will eventually need to be cut in Europe, whilst further QE is as likely in Europe, Japan and the UK as it is in the US. In the meantime, selected Asian and commodity-linked currencies are also attractive.

Our strategy has not changed for the time being as we continue to see opportunities in both government stocks and quality corporate issues. Indeed, with the clear value now emerging in the corporate space, we would anticipate adding to this area once we are certain that the macro picture has improved and we see the required policy action. Certainly, we are confident that the stocks currently held in the Fund will recover quickly and provide significant gains over the coming months. In the meantime, we remain focused on protecting the Fund's capital in a very challenging and volatile environment. Sentiment remains very fragile and risk aversion is likely to prevail for some time. It is not just equities that are difficult to read at present, there are clearly risks in all asset classes in the near term. We are ready to change strategy quickly and aggressively as events unfold, but for now continued caution is required.

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