Spearpoint

Spearpoint (Sterling) Fixed Income Fund

PRICE: GBP 0.9728 / FORECAST INCOME YIELD: 3.00% (as at 28 October 2011) **31 October 2011**

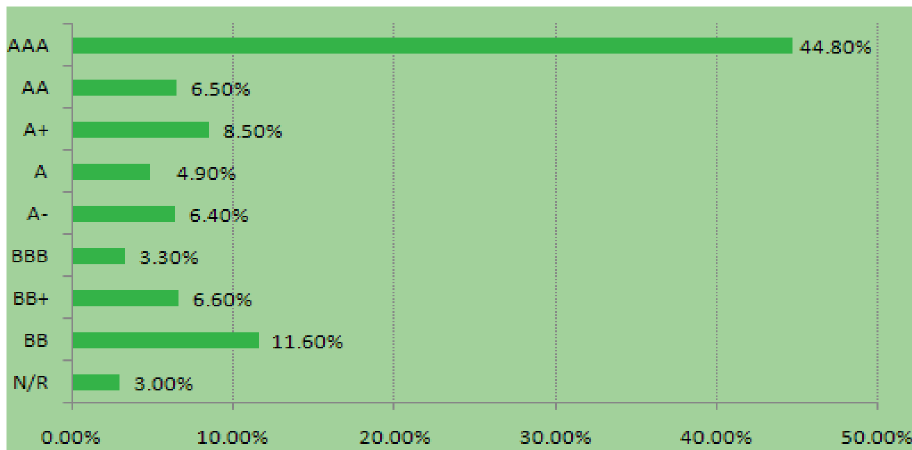
Fund Objectives

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%.

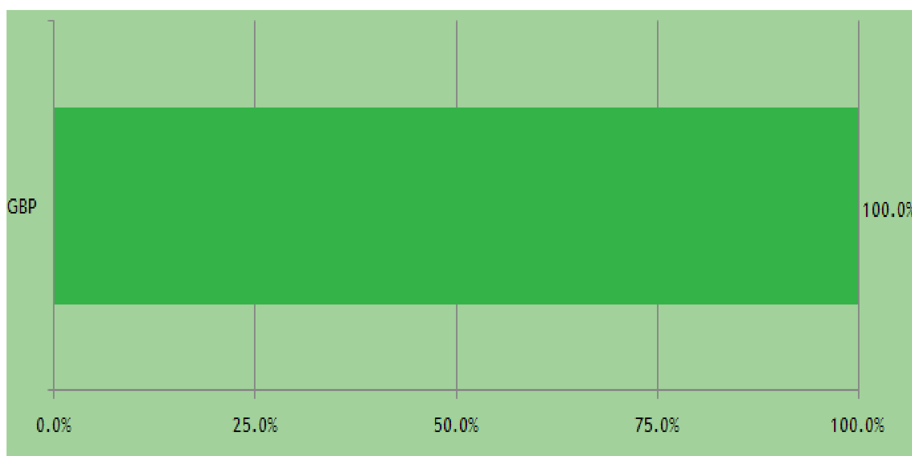
Exposure

Sector	Exposure	Net Exposure	Duration
UK Government Bonds	40.6%	40.6%	1.47
GBP Corporate Bonds	42.3%	42.3%	1.76
Currency Corporate Bonds	12.7%	12.7%	0.41
Cash	4.4%	4.4%	0.00
TOTAL	**100.0%**	**100.0%**	**3.64**

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

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Commentary

Equities and risk assets generally staged an impressive recovery during October, although this came to an abrupt halt towards the end of the month as Greece surprised everyone by announcing that it will hold a referendum on their austerity plans. The rally was partly a technical bounce from extremely oversold levels, but was also a positive response to the European summit held on 26th October, which at least came up with a plan to address the debt crisis, even if that plan lacked detail and was sketchy at best. However, equally important in our view, as a catalyst for markets, was improved data confirming that the US would likely avoid a recession, together with signals from China that their monetary tightening cycle is at an end. Despite the rally, financial markets remained very volatile, with frequent changes of direction.

Government bonds were mixed with Gilts broadly flat, US Treasuries lower and European markets significantly weaker, especially in the periphery area and despite the progress made at the summit. In most countries, including France, Spain, Italy and Greece, the spreads (excess yield) over the German Bund in the 10 year maturity area rose to record levels reflecting the continued stress in the Euro zone debt markets and the risk of contagion from the Greek crisis. Corporate bonds, on the other hand, benefited from a return to the “risk-on” environment as prices were “marked-up”, in some cases substantially. Against this background, the Fund rose a pleasing 1.7% thanks mainly to its exposure to corporate debt, but also due to some active trading within the Gilt holdings. The FTSE All Stock Index was -0.3% on the month.

Global fixed income markets will continue to be driven by the global macro picture and the outlook for Europe in the near-term. In this respect, the past couple of weeks have given us grounds for optimism on the US and China. The recent US data has consistently surprised on the upside and, whilst the structural headwinds to growth remain and the economy is set for a long period of below trend growth, the US economy has at least stabilised. Also, if conditions were to deteriorate again, the Federal Reserve has indicated their willingness to embark on additional quantitative easing (QE), if required.

The Chinese economy has cooled and evidence of a soft landing continues to accumulate, although certain sectors of the economy are suffering, such as property developers. Recent comments from the authorities seem to suggest that the monetary tightening campaign has come to an end and the recent sharp falls in food prices could pave the way for policy to be eased in the near future.

There is no question that the plan announced by European policy makers at their recent summit was a step in the right direction, although it was far from the “comprehensive solution” promised and leaves many unanswered questions. In addition, Europe is almost certainly in recession and long term growth remains a big concern, especially in the weaker periphery countries where the real problem of a lack of growth and competitiveness has not yet been addressed. Progress is painfully slow and there remains much detail to be confirmed. Hence, there is still room for considerable disappointment and turmoil from Europe over the next few months, even without the latest Greek shock.

Nobody can be sure what lies ahead for Greece and there will likely be many “twists and turns” over the coming days and weeks. The current Government will probably not survive for much longer and there is considerable doubt as to whether the promised referendum will even take place. In the meantime, Greece remains insolvent and will eventually default, whilst other European leaders have warned them that any further payments of aid will be withheld until Greece has decided on its future within the Euro zone. The bad news is that this move has dramatically increased the short-term uncertainty and risks associated with Europe and has called into question the entire response to the crisis. If there is a silver lining, however, it might be that this latest development makes it more likely that the European Central Bank (ECB) will eventually be forced to buy unlimited amounts of periphery debt and embark on QE in order to monetize the debts. The chances of this happening may have improved with Mario Draghi taking the helm at the ECB and after his recent comments.

As far as the UK is concerned, the Bank of England Deputy Governor (Charles Bean) highlighted the need for additional QE in a speech at a conference in London. He reiterated that there had been a sharp deterioration in growth prospects during the summer because of the euro area debt crisis and rising energy prices. He argued that, without additional QE, inflation was likely to undershoot the 2% target in the medium term. He also noted that inflation should fall sharply next year, which should relieve some of the pressure on household’s real disposable incomes. Interest rates in the UK are set to stay low for a very long time and additional QE cannot be ruled out yet.

It remains a very challenging and difficult environment for investors. The global macro picture appears to have stabilised but it remains fragile and the indications are that we are set to be in a low growth world for many years to come. Even though policy makers seem to have a better understanding of the seriousness of the issues facing them, the threat of policy error is high and they are running out of tools. The euro area crisis is far from over, but to some extent investors have experienced the European rollercoaster so many times that they are beginning to understand what to expect and discount the fact that eventually policy makers will probably be forced to do the right thing. In the meantime, many investors are underweight equities and have underperformed this year and will now be under pressure to chase returns. In addition, the market itself has arguably discounted much of the bad news.

We continue to see lots of opportunity in the corporate bond area and are looking to add to our exposure over the next few weeks. Investors in quality issues are being very well compensated for lending money to well run and cash-rich businesses with decent earnings prospects and limited re-financing needs. This is highlighted by the fact that neither buying nor selling quality issues is easy at present since liquidity is tight and sellers are few. In the meantime, government bonds will stay well supported by the weak growth and uncertain macro picture, and act as a partial hedge should things deteriorate further. A balanced strategy therefore seems appropriate for now, although we also want to make the most of the opportunities that exist in corporate bonds. However, we are also acutely aware of the multiple threats to the global economy and financial markets and will therefore continue to focus on preserving capital and being ready to change strategy, if appropriate.

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