



IM Matterley Undervalued Assets Fund

Matterley

Fund Managers



Henry Dixon CFA – Henry Dixon has over ten years of market experience in asset management. He has managed the fund since launch in August 2008 and is a founder of Matterley.

George Godber, Co-Manager – George Godber has over ten years of direct market experience formerly as a Director within the Equities division at Credit Suisse. He has managed the fund since launch in August 2008 and is a founder of Matterley.

Commentary

The Fund returned 1.3%** for the month compared to a return of 0.8% for the FTSE All-Share Total Return.

So we conclude 2011, a year that many in financial circles will be glad to see the back of. The stock market was volatile. Investing was dominated by politics or more often a lack of political action, and the economic activity in the UK, Europe and America slowed.

As we look into our Olympic year, unlike many commentators, we are finding reasons to feel a little more positive about the prospects ahead. During the month, after a long wait, we finally saw the first definite action in Europe. The ECB announced a Long Term Refinancing Operation or LTRO, whereby they offered and will continue to offer large amounts of money to the European banking system at 1% interest rates for very limited collateral. This allows the European banks to borrow money and purchase sovereign bonds or their own bank debt, which are yielding materially more than 1%, thereby giving them in essence a risk-free profit. The other notable economic event in December was a continued improvement in American economic data, especially employment data. Whilst many in the investment community are often focused on the emerging markets, we must not forget America still counts for approximately 25% of the world's GDP.

During the month, the Fund benefitted from a takeover approach to Collins Stewart, a wealth manager and stockbroking business. Prior to the approach, the company had a market cap of approximately £120m with £75m of cash in the bank, despite having a wealth management business with assets under management of over £8bn. Canaccord, a Canadian Financial services company, offered a 75% premium over the share price which has been recommended by the board of Collins Stewart.

In December, we exited our positions in Ashtead, a rental service business, and Beazley, a specialist Lloyds' insurance vehicle. Ashtead shares have risen strongly since the summer on the back of robust results and, whilst there is clear room for further upgrades, we exited our position as the shares traded at fair value on our EVA analysis and on 16 x earnings. Courtesy of a sensible buy back and prudent management of the cycle, shares in Beazley had related to above their book value and had reached our target price, so we exited the position. We will look for an opportunity to reinvest in the shares if the right price is offered to us.

We initiated in two new positions, Elementis and Ultra Electronics, and discuss these in more detail overleaf.

We continue to thank our investors for their support in 2011, and wish you all the best of luck in 2012. We are excited by many of the fascinating investment opportunities that the market is offering us.

**Source: Financial Express Analytics at 31/12/11. Total Return. Sterling, net income reinvested.

December 2011

Fund Facts at 31/12/11

Fund Objective & Policy

The investment objective of the Fund is to achieve long-term capital growth. The Fund aims to invest predominantly in the securities of UK companies, either directly or indirectly, which the Investment Manager considers to be undervalued relative to its asset base and to the returns on capital the companies are generating. The Fund may also invest in other transferable securities, units or shares in collective investment schemes, money market instruments, deposits, cash, near cash and derivatives and forward transactions.

Price :

Retail (A) acc	60.91
Institutional (B) acc	61.71
Launch price	50.00

Yield

Retail (A) income	2.3%
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Launched	12/08/08*
IMA Sector	UK All Companies
Base Currency	GBP
Benchmark	FTSE All-Share
Fund Size	£28.5m
Share Classes	Accumulation Income

ACD	IFDS Managers Limited
Depository	State Street Trustees Limited
Auditors	Deloitte LLP

Performance	6 mth	3yr	31/12/10 31/12/11	31/12/09 31/12/10	31/12/08 31/12/09	Since launch*
IM Matterley Undervalued Assets (Retail) (A)	-10.8	61.9	-9.8	29.1	38.9	21.8
IM Matterley Undervalued Assets (Institutional) (B)	-10.6	64.4	-9.3	29.8	39.6	23.4
FTSE All-Share Total Return	-6.2	43.9	-3.5	14.5	30.1	16.1
IMA UK All Companies Total Return	-8.3	42.5	-7.0	17.5	30.4	10.9
Quartile	4	1	3	1	1	1

Source: Financial Express Analytics at 31/12/11. Total Return. Sterling, net income reinvested. Sector and Quartile performance is based on the institutional share class (B). *Since launch performance data is measured from the institutional share class (B) inception date 12/08/08 with the exception of the retail share (A), measured from its inception date 15/08/08. The figures refer to the past. Past performance is not a reliable indicator of future results. All yields are historic.

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Portfolio Focus

Elementis is a specialty chemical company that has undergone significant restructuring and management change in recent years. The company has moved from a net debt to a net cash position and return on capital has been steadily improving up towards 15% on our analysis. The shares trade on traditional metrics of 10x earnings with a 3% but growing dividend yield. The company has a unique asset, owning the only known deposit of pure hectorite clay in the world. With their chemical binding technology they are able to use this to create the only coating in the world that can cope with the extreme temperatures of Shale gas drilling in America. This looks set to continue the strong earnings momentum we have seen in recent months.

Ultra Electronics is a defense company that has grown operating profit and dividends for the last 15 years. It has recently used its financial strength to make two sensibly priced acquisitions in the surveillance and electronics sectors. Despite a consistent track record of integrating acquisitions, the shares find themselves at their lowest rating for the last 10 years. Our belief is that forecasts are intact and shares offer good upside to our returns based price target.

Portfolio Statistics

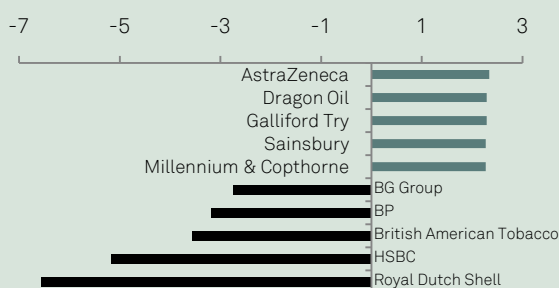
As at 31st December 2011

Source: Matterley

Figures subject to rounding

Holdings	Beta [†]	Distribution of the Fund by Index (ex cash, %)		
		FTSE 100	FTSE 250	Other
60	0.96	42.1	27.1	26.1

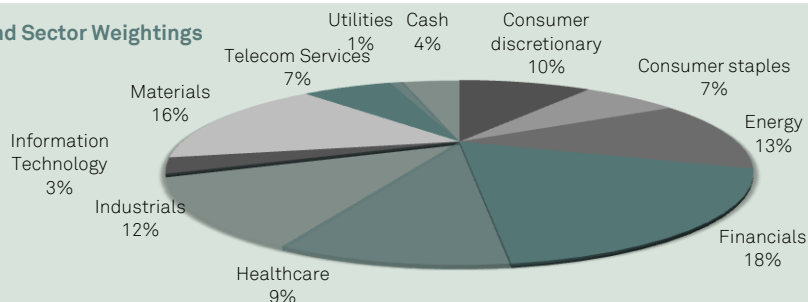
Stock weights: Top overweights/underweights vs FTSE All-Share Index (Percentage points)



Top 10 Holdings (%)

Company	Weight (%)
Vodafone Group	5.9
AstraZeneca	4.6
Rio Tinto	3.0
Sainsbury	2.6
GlaxoSmithKline	2.6
Cairn Energy	2.5
Dragon Oil	2.5
Royal Dutch Shell	2.4
Galliford Try	2.4
Millennium and Copthorne	2.3

Fund Sector Weightings



Annual Management Charge

Retail (A)	1.25%
Institutional (B)	0.75%

Minimum Investment

Retail (A)	
Initial	£1,000
Subsequent	£1,000
Institutional (B)	
Initial	£100,000
Subsequent	£25,000

Identification

Bloomberg	
Retail (A) (acc)	SWMURRA LN
Institutional (B) (acc)	SWMURIA LN
ISIN	
Retail (A) (acc)	GB00B3BSKG91
Institutional (B) (acc)	GB00B3BSKH09
Retail (A) (income)	GB00B635QW70
Institutional (B) (income)	GB00B636RH28
SEDOL	
Retail (A) (acc)	B3BSKG9
Institutional (B) (acc)	B3BSKH0
Retail (A) (income)	B635QW7
Institutional (B) (income)	B636RH2

Dealing Information

Dealing Time	Daily at 12 noon
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Main Dealing Desk	IFDS (UK) Ltd
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Address	IFDS Managers Ltd – Matterley PO BOX 10818 Chelmsford CM99 2BL
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Telephone	0844 9310031
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ISA and SIPP Applications

Contact the Matterley team

Tel:	0207 149 6119
Email:	info@matterley.com

Fund Availability

Please see www.matterley.com

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Disclaimer

The information contained in this document does not constitute advice or a personal recommendation, nor does it constitute an invitation to purchase units. Investment should be made on the basis of the Prospectus and Simplified Prospectus, available on request. You are recommended to seek advice concerning suitability from your investment adviser. The information in this document is based upon sources we believe to be reliable, but its accuracy cannot be guaranteed. Please note past performance is not a reliable indicator of future returns. The value of investments, and the income from them, can go down as well as up and may be affected by exchange rate variations. The levels of taxation and their respective treatment depend on your individual circumstances and the applicable law, which may be subject to change in the future. The authorised corporate director of IM Matterley Investment Funds II is IFDS Managers Ltd which is authorised and regulated by the Financial Services Authority, Registered Office: IFDS House, St Nicholas Lane, Basildon, Essex, SS15 5FS.

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Henry Dixon and George Godber are AA rated by Citywire for their 40 month risk adjusted performance for the period 15/08/2008 -31/12/2011. Source & Copyright: CITYWIRE.

[†]Beta: A measure of market sensitivity –the extent to which a share or a portfolio fluctuates with the market. A fund with a beta of 1 would perform inline with the market.