Matterley

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IM Matterley Undervalued Assets Fund January 2012

Fund Managers

AA

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 rose by 7.3%** for the month compared to a return of 2.7% for the FTSE All-Share Total Return.

Market commentators understandably get excited about the index performance in January. Since the inception of the FTSE 100 in 1984, January has posted a positive return on 16 occasions, and on 14 of these occasions the year has ended positively as a whole. The two false readings were in 1994 and 2001. However, the market on both these occasions was trading on close to 20x earnings. Today the market is trading on slightly less than the 10x and the Fund also echoes this appealing headline valuation, as it is the cheapest it has been at the outset of any year since its inception in 2008. For portfolio analysis please see our 2012 outlook document (link).

It was therefore pleasing that this value was well rewarded in the month. Strong performance came from Aer Lingus which, having started the month with a market capitalisation of less than its net cash in the bank, rose by 40%. Our recent foray into UK domestic banks, which we discussed in our 2012 outlook document, was also well rewarded with RBS rising by 32%. Keller, the ground engineering specialist, put in good performance from below its replacement cost and also rose by 32% as optimism about a US recovery gathered pace. Elsewhere, Cable and Wireless Worldwide, which was discussed in detail in our November factsheet, rose by 28%.

Given some of the price moves we saw during the month, trading activity was relatively high. We felt it appropriate to trim some of our holdings in the shares mentioned above and we also entirely exited our positions in CSR and Smith Nephew. CSR had risen by over 25% in January to its replacement cost, but with an expensive earning based valuation and disappointing estimates momentum we were reluctant to run the position any further. Smith & Nephew was initiated in the Fund during the sell-off of the last year, but in recent weeks we have been disappointed by comments from competitors and also estimates momentum; as a result we felt it was appropriate to move on. We continue to think it is a great franchise but will require greater clarity on the outlook for earnings before revisiting.

With purchases in mind we welcomed the opportunity afforded to us by the Tesco profit warning to revisit Morrison's. We had sold the shares on valuation grounds in the second half of last year but the shares fell by over 12% during the month to a level that exhibited good upside to our price target. We also initiated a position in Xstrata as the shares were exhibiting both absolute value relative to replacement cost and good relative value versus the sector as a whole.

We continue to thank investors for their support and wish you all the best for 2012.

**Source: Financial Express Analytics at 31/01/12. Total Return. Sterling, net income reinvested.

Fund Facts at 31/01/12

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	65.33
Institutional (B) acc	66.22
Launch price	50.00
Yield	
Retail (A) income	2.18%

Launched	12/08/08*
IMA Sector	UK All Companies
Base Currency	GBP
Benchmark	FTSE All-Share
Fund Size	£30.7m
Share Classes	Accumulation Income
ACD	IFDS Managers Limited
Depositary	State Street Trustees Limited
Auditors	Deloitte LLP

Performance	6 mth	3yr	31/01/11 31/01/12	31/01/10 31/01/11	31/01/09 31/01/10	Since launch*
IM Matterley Undervalued Assets (Retail) (A)	-2.9	86.3	-3.1	30.3	47.6	34.9
IM Matterley Undervalued Assets (Institutional) (B)	-2.7	89.2	-2.6	31.0	48.3	36.0
FTSE All-Share Total Return	-1.5	56.9	-0.3	18.1	33.2	19.7
IMA UK All Companies Total Return	-3.2	55.3	-2.5	19.8	33.0	18.5
Quartile	3	1	3	1	1	1

Source: Financial Express Analytics at 31/01/12. 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

Further to the trading activity mentioned overleaf we also sold our position in Renovo. We had initiated the position in February of last year after the company had been unsuccessful in its clinical trials and the shares had just fallen by over 75% to trade well below their cash in the bank. We rarely shun negative enterprise values such as this, and we have been rewarded for this approach with a positive return when the wider market has struggled. We were encouraged to sell owing to price appreciation, the time lag in receiving our money, and the emergence of better value elsewhere.

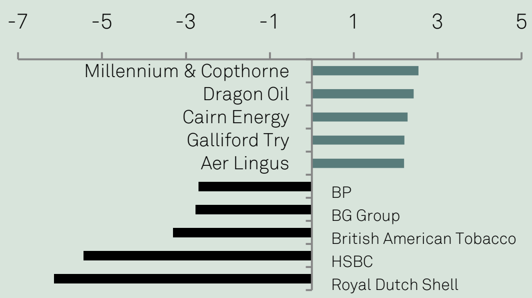
With the proceeds we initiated in Sherborne Investors, the cash shell operated by Edward Bramson. Last year the shell company acquired 20% of F&C Asset Management and Bramson became the new Chairman of the company. Sherborne Investors today continues to hold this stake (currently valued at £72m) and further to this the company has £31m of cash. These figures combined compare favourably with the current market capitalisation of £74m and we are hopeful a patient approach will be well rewarded in the year ahead.

Portfolio Statistics

As at 31st January 2012
Source: Matterley
Figures subject to rounding

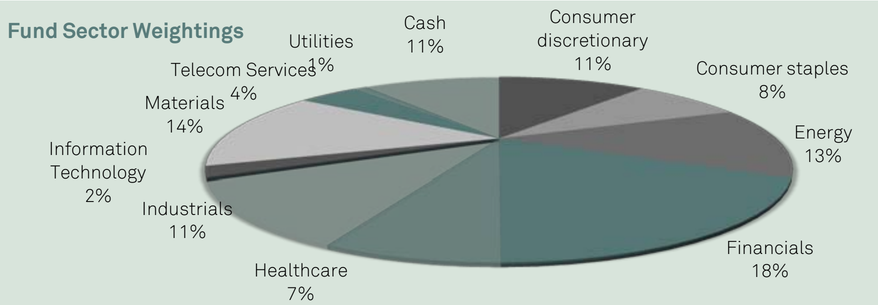
Holdings	Beta†	Distribution of the Fund by Index (ex cash, %)		
		FTSE 100	FTSE 250	Other
60	0.96	42.2	23.4	23.9

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



Top 10 Holdings	(%)
AstraZeneca	4.4
Vodafone	3.6
GlaxoSmithKline	2.7
Millennium and Copthorne	2.6
Cairn Energy	2.5
Dragon Oil	2.4
BP	2.4
Sainsbury	2.3
Galliford Try	2.2
Aer Lingus	2.2

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
Main Dealing Desk	IFDS (UK) Ltd
Address	IFDS Managers Ltd – Matterley PO BOX 10818 Chelmsford CM99 2BL
Telephone	0844 9310031

ISA and SIPP Applications

Contact the Matterley team

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

Fund Availability

Please see www.matterley.com

Matterley is a division of Charles Stanley

Disclaimer

†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.