



# 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 -4.1% for the month compared to a return of -0.4% for the FTSE All-Share Total Return. \*\*

Having spoken at length about volatility in the prior three factsheets, it is with an element of regret that we have to do so again. However, an intra month fall of 7.5% was seen before a rally of 7.3% ensued as optimism grew about the outcome of the EU Summit. On the last afternoon of the month the ECB intervened in the interbank market to ease liquidity concerns which resulted in a c3% rally which was not captured by our midday fund price.

For many the ultimate “bazooka” of a Eurobond remains elusive with politicians preferring instead to push for great fiscal unity and austerity. This is the common sense outcome that has to prevail for economies to return to a sounder footing, and the Irish example is instructive as to its success. For example, 10 year Irish Government yields have now fallen from 14% to c8% and economic growth, albeit from a low base, now exceeds that of the rest of Europe.

We do, however, not want to overstate the economic growth potential of Western Europe under coordinated austerity. In fact, we believe there will be many years of low or perhaps no growth and we continue to invest accordingly. This takes the form of backing the companies with the best balance sheets as this affords them three avenues to differentiate themselves, namely attractively priced in fill acquisitions, dividend growth and share buy-backs where appropriate.

Moving to the company level there was also extreme volatility and two notable fallers in the market were Thomas Cook and Cable & Wireless. Thomas Cook highlighted a funding shortfall and a delay to their results as a result. Not surprisingly the market took fright and the shares fell by 65%. Stylistically Thomas Cook has never suited our eye owing to close to £4 billion of intangible assets, sizeable operating leases, significant debt as well as a pension deficit which all seemed to be inadequately supported by just £250m of operating profit.

On the other hand, in recent weeks it has been our view that Cable & Wireless Worldwide would be hard to replicate for the price on the screen. What has stopped us investing to date has been nonexistent cash flow. Interim results during the month were undeniably poor, despite management’s view to the contrary, and the dividend was cut. The shares continued their appalling run year to date and fell by another 40%. This price fall combined with improved cash flow characteristics, owing to the dividend cut, encouraged us to initiate a position and we discuss this in detail over the page as well as other trading activity.

Within the portfolio strong performance came from Ashtead, the hire company, which rose by 19% as news from its US peers continued to be encouraging. Within non life insurance Novae rose by over 10% as a reassuring trading statement was complimented with the start of a share buy-back. Given the material discount to book value we are extremely supportive of this move and believe it will serve to close the 30% gap to net asset value.

Poor performance came from Lloyds which fell by over 20%. This move was out of kilter with the sector, Barclays for example was down by only 7.7%, and can largely be explained by the sick leave taken by the CEO.

We continue to thank investors for their support in what has been a challenging year. We do, however, take some comfort that the equities in the UK are only down by just over 4% despite the plethora of bad news. Also we note with interest that equities in the US ended the month in positive territory on the year and hope this portends to better days ahead.

\*\*Source: Financial Express Analytics at 30/11/11. Total Return. Sterling, net income reinvested.

## November 2011

### Fund Facts at 30/11/11

### 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	60.18
Institutional (B) acc	60.95
Launch price	50.00

#### Yield

Retail (A) income	2.3%
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<b>Launched</b>	12/08/08*
<b>IMA Sector</b>	UK All Companies
<b>Base Currency</b>	GBP
<b>Benchmark</b>	FTSE All-Share
<b>Fund Size</b>	£27.9m
<b>Share Classes</b>	Accumulation Income

<b>ACD</b>	IFDS Managers Limited
<b>Depository</b>	State Street Trustees Limited
<b>Auditors</b>	Deloitte LLP

Performance	6 mth	3yr	30/11/10 30/11/11	30/11/09 30/11/10	30/11/08 30/11/09	Since launch*
IM Matterley Undervalued Assets (Retail) (A)	-13.4	70.5	-1.9	20.9	43.7	20.4
IM Matterley Undervalued Assets (Institutional) (B)	-13.2	73.1	-1.3	21.6	44.3	21.9
FTSE All-Share Total Return	-7.4	47.9	2.6	11.5	29.3	15.2
IMA UK All Companies Total Return	-11.2	46.9	-2.2	13.3	32.5	8.8
Quartile	4	1	2	1	1	1

Source: Financial Express Analytics at 30/11/11. 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

At our initiation at c15p, Cable and Wireless Worldwide had a market capitalisation of c£400m with modest debt. The company has invested £5.8bn into telecoms infrastructure and managed services capability. It enjoys a sales line of over £2bn and generated operating profit of £170m in the year to March 2011. The recent interim results heralded much needed management change and it is pleasing that the incoming CEO has already bought 2 million shares at 16.9p. This is something the previous management team seemed reluctant to do. We have taken a draconian view on working capital, and hence cash flow, as well as the pension but still see a business that we believe can fund itself during what will be a period of change. This should allow time for the market to reappraise the minimal value it is attributing to the asset base of the company.

Elsewhere we sold HSBC owing to its premium to book value combined with a worrying deterioration in 2012 estimates momentum. With the proceeds we revisited a previously profitable investment in the form of the buy-to-let specialist Paragon. Having weakened since our sale in June the discount to book value was once again considerable and the earnings expectations have continued to be revised higher.

## Portfolio Statistics

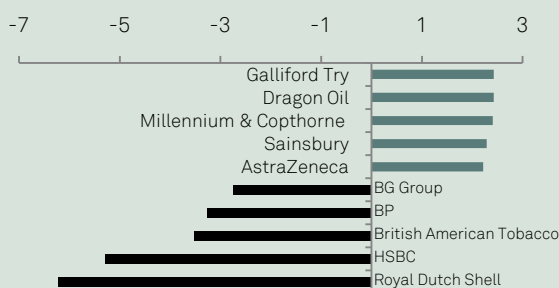
As at 30<sup>th</sup> November 2011

Source: Matterley

Figures subject to rounding

Holdings	Beta <sup>†</sup>	Distribution of the Fund by Index (ex cash, %)		
		FTSE 100	FTSE 250	Other
60	0.95	40.7	30.9	24.6

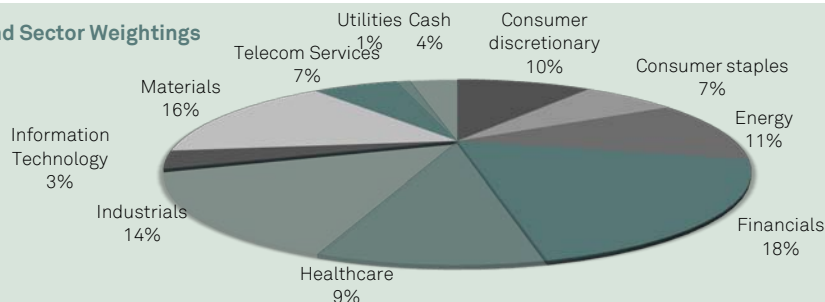
### Stock weights: Top overweights/underweights vs FTSE All-Share Index (Percentage points)



### Top 10 Holdings (%)

Company	(%)
Vodafone Group	5.6
AstraZeneca	4.6
Rio Tinto	3.2
Sainsbury	2.6
Galliford Try	2.5
Millennium and Copthorne	2.4
Dragon Oil	2.4
Royal Dutch Shell	2.2
Aer Lingus	2.0
Kazakhmys	2.0

### 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](http://www.matterley.com)

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## Disclaimer

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Henry Dixon and George Godber are AA rated by Citywire for their 39 month risk adjusted performance for the period 15/08/2008 -30/11/2011. Source & Copyright: CITYWIRE.

<sup>†</sup>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.