



# Sentinel Enterprise Fund

To watch over and guard

## Fund Manager Quarterly Review

February 2009

# Headlines – Sentinel Enterprise Fund

- **Investment Company**

Williams de Broë - Assetmaster

- **Fund Manager**

Laurence Boyle

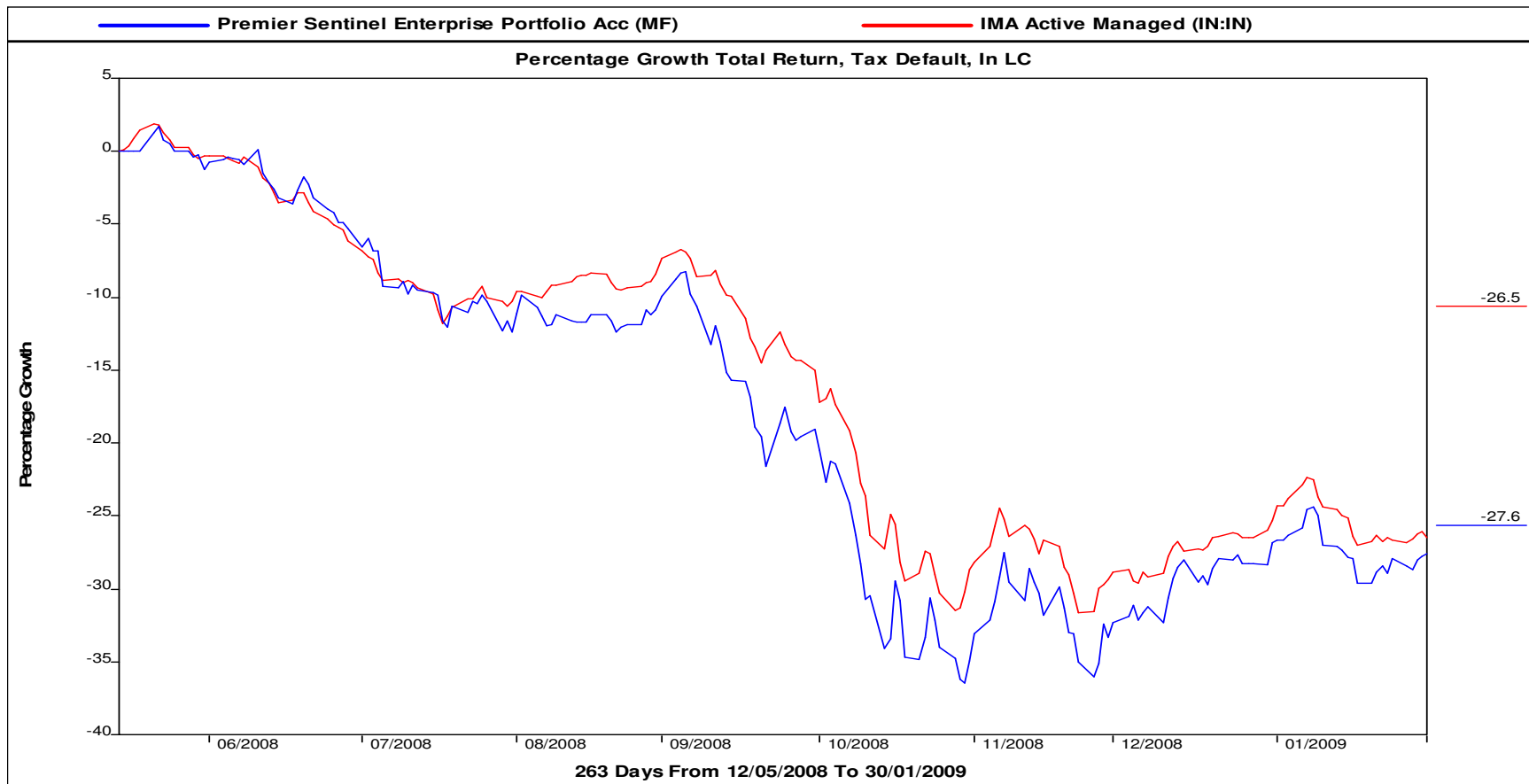
- **Investment Objective**

To provide long term capital growth from a portfolio of investments.

- **Investment Policy**

The investment policy of the Fund is to invest mainly in units of equity and fixed interest based collective investment schemes, the majority of which will be UK investment funds. The Fund may also invest in equities, fixed interest securities, money market instruments, structured products and other derivative instruments, deposits, warrants, cash and near cash. Investments may be made indirectly in immovable property typically through units in collective investment schemes and/or shares in property companies. The Fund may also invest in unregulated collective investment schemes such as hedge funds (where investment in such funds would be consistent with the investment objective and policy of the fund). Derivatives may be used by the Fund for both investment purposes and for the purposes of efficient portfolio management (including hedging).

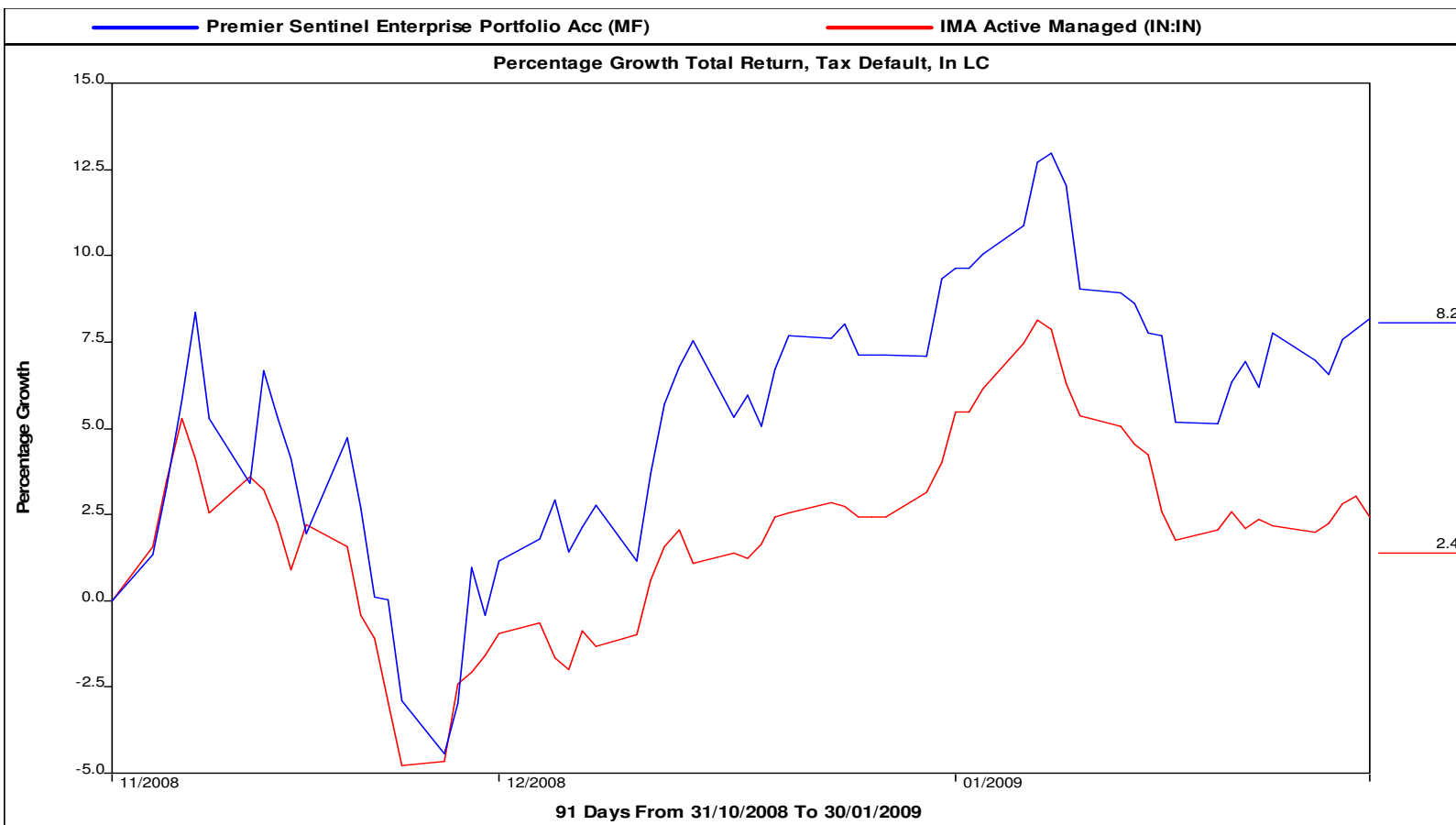
# Performance Since Launch



User may have modified the original chart and axis titles provided by Lipper.



# Performance Over Reporting Period



User may have modified the original chart and axis titles provided by Lipper.



# Performance Review

| Name                                      | % Growth TR GBP<br>1M 31/12/2008<br>To 30/01/2009<br>1 Month |     | % Growth TR GBP<br>2M 28/11/2008<br>To 30/01/2009<br>2 Months |     | % Growth TR GBP<br>3M 31/10/2008<br>To 30/01/2009<br>3 Months |     | % Growth TR GBP<br>6M 31/07/2008<br>To 30/01/2009<br>6 Months |     | % Growth TR GBP<br>263D 12/05/2008<br>To 30/01/2009<br>Launch |     |
|---|--|-----|---|-----|---|-----|---|-----|---|-----|
|   | Value  | Qtl | Value   | Qtl | Value   | Qtl | Value   | Qtl | Value   | Qtl |
| IMA Active Managed                        | -2.85  |     | 3.43  |     | 2.47  |     | -18.61  |     | -26.42  |     |
| Total Average (129)                       | -2.84  |     | 3.46  |     | 2.57  |     | -18.47  |     | -26.21  |     |
| Premier Sentinel Enterprise Portfolio Acc | -1.31  | 1   | 6.96  | 1   | 8.19  | 1   | -18.54  | 3   | -27.59  | 3   |

# Details of Purchases

| Date     | Buy/Sell | Value         | Security Name                            |
|----------|----------|---------------|--|
| 19.11.08 | BUY      | £187,000.00   | Fidelity China Focus                     |
| 13.01.09 | BUY      | £300,000.00   | IGNIS Argonaut European Alpha I Acc      |
| 15.12.08 | BUY      | £420,000.00   | Ignis Cartesian UK 130/30 J Dis GBP      |
| 28.01.09 | BUY      | £480,000.00   | Ignis Cartesian UK 130/30 J Dis GBP      |
| 04.12.08 | BUY      | £400,000.00   | Martin Currie GF Global Resources        |
| 11.12.08 | BUY      | £275,000.00   | Martin Currie GF Global Resources        |
| 19.11.08 | BUY      | £250,000.00   | New Star European Growth Inst            |
| 19.11.08 | BUY      | £187,000.00   | Resolution Hexam Global Emerging Markets |
| 11.12.08 | BUY      | £275,000.00   | Resolution Hexam Global Emerging Markets |
| 28.01.09 | BUY      | £480,000.00   | Resolution Hexam Global Emerging Markets |
| 13.01.09 | BUY      | £1,000,000.00 | River & Mercantile UK Smaller Cos A      |
| 04.12.08 | BUY      | £1,207,200.00 | Symphony FTSE Autocall                   |
| 15.12.08 | BUY      | £206,496.50   | Symphony FTSE Autocall                   |

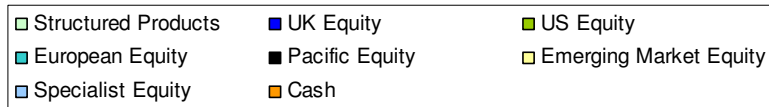
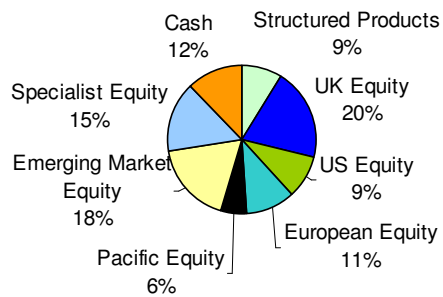
# Details of sales

| Date     | Buy/Sell | Shares           | Security Name                 |
|----------|----------|------------------|-------------------------------|
| 04.12.08 | SELL     | 832,185 shares   | F&C UK Opportunities 2        |
| 04.12.08 | SELL     | 457,855 shares   | New Star European Growth Inst |
| 04.12.08 | SELL     | 661,610 shares   | New Star UK Alpha Inst Acc    |
| 30.01.09 | SELL     | 2,285,240 shares | SG Japan Core Alpha           |

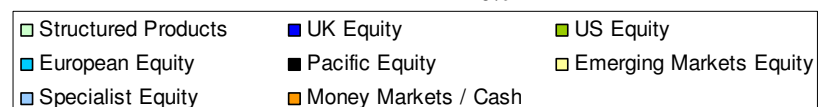
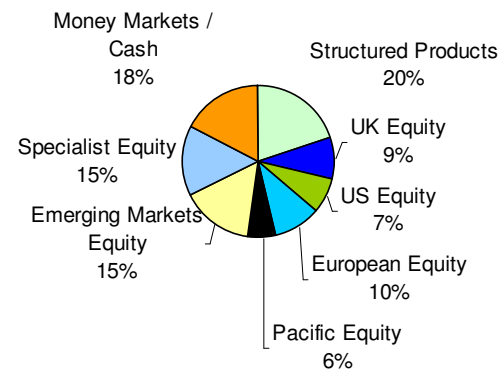
# Asset Allocation

Current position vs target weighting

**Sentinel Enterprise**



**Assetmaster Growth**



# Outlook - Sentinel Enterprise Fund

- The shocks of 2008 will not be forgotten quickly. It seems an eternity ago, but the FTSE 100 started last year at 6,400, a mere 5% below its late 2007 peak. Though credit markets were uneasy, there was no sense of the extraordinary events to come. Yes, we and many others thought that it would be a tough year but the speed of the implosion of economies and markets was terrifying. It will take time for markets to recover from the trauma, but this will come in due course. The crumbs of comfort may be small at this stage, but we look to the coming year with a sense of nervous optimism.
- There is no escaping the reality that the collapse of credit markets over the second and third quarter of last year has done very serious damage to the world economy. We are now only just starting to see the fall out from this as companies around the world lay off staff in a traditional response to sharply reduced sales and profits. The credit crunch has either created or exacerbated a worldwide recession (the precise cause actually matters very little), but the important point is that the policy response is one of dramatic economic stimulus. Thus after the best part of a year tormented by the twin devils embedded in stagflation, both markets and monetary authorities now have only the cyclical downturn with which to cope. Inflation has temporarily been blown off the landscape, meaning that the issues have become much simpler – how bad will it get? How long will it last? And how much is already priced in?
- In many ways the prospects for markets look easier to predict than those of the economy. One of the myriad of lessons learned over the past twelve months though is that the dividing line between a confident prediction and hubris is so thin that the two are indistinguishable. Bearing this in mind, we still see a growing number of reasons why equity markets will make good progress during the year. Please note though that this is “during” and not “over” 2009 – there is an equal number of reasons to look towards the end of the year with a considerable degree of caution.
- First and foremost, the relative valuation of bonds and equities has reached such an extreme level that it has become very difficult to see any value in the former. At the time of writing the gross redemption yield on the benchmark 4.5% Treasury Stock 2019 is 3.4%. The dividend yield of the FTSE All Share Index is 4.6%, some 35% higher. The disconnect between gilts and equities is such that the yield on the FTSE 350 Lower Yield Index (representing the dividend yield on perceived growth stocks) of 3.3% all but matches the 10 year gilt. To find value in gilts and not equities, one has to believe that we are in the very early stages of a prolonged deflationary depression.
- But this is indeed what the market prices are telling us. When we look at the valuations of conventional gilts versus index-linked, we can see that the latter will provide a better return (ignoring tax) if inflation averages more than a mere 1.3% between now and the end of 2017. If we take tax into account, for a 40% payer the average rate need only be 0.6% over the next 7 years for index-linked to provide the higher return.
- Not only does the maths make sense for equities, but there is also a great willingness to see a period of better performance. Institutional cash levels – held by pension and life funds – are reported to be at record highs and the negligible interest now being earned on these raises the pressure to invest into other assets. With bonds yields also being so low, it is unavoidable that a good proportion of this cash will be put into the equity market.
- Valuations of asset classes are such that the reflation packages being thrown at the world are being accorded almost no chance of success. But we have to
- remember that interest rates have been cut to effectively zero in both the United States and Japan and have been cut aggressively pretty much everywhere else. At some stage, some of this will be reflected in the rates that banks are forced to charge rather than their current opportunistic usury. Not only this, but governments the world over are remembering that they can print as much money as they want and are showing a willingness so to do. If we additionally take into account the very significant fall in the price of oil from almost \$150/barrel to under \$40 and the pressure that the utility companies will be put under to cut prices this year, then we see the potential for a rapid easing of the economic contraction.
- Our longer term concern though is what the reaction will be when it is realized that the inflation genie has been let out of its bottle and what the subsequent policy response will be. Gordon Brown’s belief that he has saved the world’s banking system is sadly misplaced, he has merely postponed a large degree of pain until the next cycle. Some of the debt burden will be written off or repaid in the current cycle, but the unabashed encouragement for greater spending to stave off the worst of the recession is merely delaying judgement day. As we have feared for a while, we are well and truly back into a new era of boom and bust.
- The plummeting pound is a fair reflection of the markets’ view on the abandoning of the past 10 years’ economic policies. Control of base rates has moved west from Threadneedle Street to Downing Street, the inflation target has been thrown out of the window of inconvenience and management of public sector debt has been forgotten in the dash to rescue our suicidal banking industry. The drop in the pound to parity against the euro can only pour more flames on the inflationary fires and at some stage in the not too distant future aggressive steps will have to be taken to try to control inflation again. It is debateable whether Mr Brown wishes to take this on himself or if instead he sees it as the poisoned chalice to pass onto the Conservatives.
- In the shorter term though, very probably while the economic data is still dreadful, markets will want to believe that at least some of the global reflation package will work. This will see gilts fall and equities and corporate bonds rising in price as investors switch out of the safe havens of 2008 and into the likely winners for the year ahead. We are therefore looking to 2009 with guarded enthusiasm, though we stress that we see it as year of recovery and relief after the traumas of last year rather than the start of a return of the good times.