

# Fund Manager Quarterly Review



Reporting period: Q4 2011

31 December 2011

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**Premier** 

## Performance to 31 December 2011

	3m	6m	1yr	Since 13 <sup>th</sup> May 2008	Volatility*
Sentinel Defensive Fund	1.20%	-2.44%	-0.41%	5.70%	3.83%
3 Month GBP LIBOR + 1%	0.50%	0.97%	1.87%	9.68%	0.03%**
FTSE Government All Stocks	5.01%	13.68%	15.57%	38.34%	5.09%
FTSE 100	9.40%	-4.75%	-2.18%	2.76%	13.11%

Source: FE Analytics. Data to 31 December 2011. Taken on a bid to bid, total return, UK sterling basis. Data taken on 5 January 2012. Past performance is not a guide to future returns.\*Annualised ratios taken from monthly returns from 31 December 2010 to 31 December 2011.\*\* 3 Month GBP LIBOR volatility.

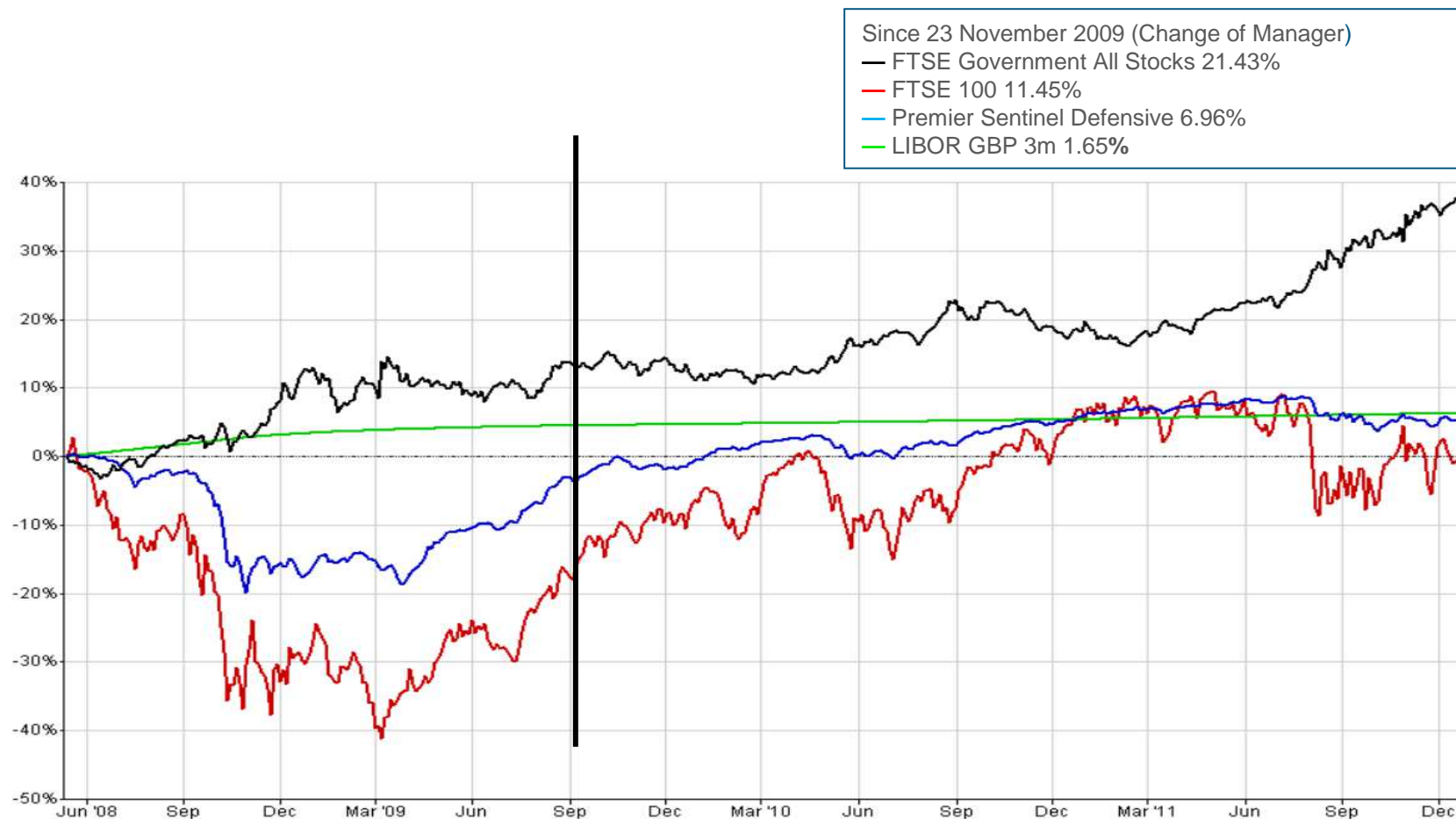
## Discrete Performance

Discrete Quarterly Performance	31-Dec-11	30-Sept-11	30-June-11	31-Mar-11	31-Dec-10
Sentinel Defensive Fund	1.20%	-3.59%	1.05%	1.01%	2.48%
Benchmark (LIBOR +1%)	0.50%	0.47%	0.46%	0.45%	0.44%

Discrete Annual Calendar Performance	31-Dec-11	31-Dec-10	31-Dec-09	31-May-08 to 31-Dec-08
Sentinel Defensive Fund	-0.41%	6.72%	18.55%	-16.10%
Benchmark (LIBOR +1%)	1.87%	1.70%	2.22%	4.08%

Source: FE Analytics. Taken on a bid to bid, total return, UK sterling basis. Data taken on 5 January 2012. Past performance is not a guide to future returns

# Performance Since Launch



Source: FE Analytics. Data from 13 May 2008 to 31 December 2011. Taken on a bid to bid, total return, UK sterling basis. Data taken on 5 January 2012. Since change of management performance taken on 5 January 2012, data taken from 23 November 2009 to 31 December 2011. Past performance is not a guide to future returns

# Transactions

Settlement Date	Buy / Sell	Holding	Quantity	Price	Currency	Consideration	Long Note1	Long Note2	Long Note3
29-Dec-11	S	ABERFORTH GEARED INCOME TRUS	50M	115.00	GBP	57,500.00	1.45X Cover, 6% GRY, 5.56 yrs	Raising liquidity for new zero issues.	
28-Dec-11	S	ACORN INCOME FUND LTD-ZDP	50M	101.50	GBP	50,750.00	1.5% before even paying for it, I should	do this for a living.	
21-Dec-11	S	ABERFORTH GEARED INCOME TRUS	125M	115.00	GBP	143,750.00	1.45X Cover, 6% GRY, 5.56 yrs	Raising liquidity for new zero issues.	
15-Dec-11	B	UBS -CW14 S&P 500 INDEX	325M	1.00	GBP	323,375.00	7.03% GRY, 1.67 Cover, 3yrs.	Paid 3.77% S/A if SP500 is 746.75+ (60%)	Future growth locked in if SP500 1369+ (110%)
14-Dec-11	S	CAYENNE TRUST PLC	10	103.00	GBP	10,300.00	GRY = 2.65%. Price has held up despite market	fluctuations. Have 3.3% weighting in Ords so	ample upside potential if company performs.
13-Dec-11	H	SHORT GILT FUTURE Mar12	100	105.23	GBP	10,523,000.00			
13-Dec-11	H	LONG GILT FUTURE Mar12	5	115.74	GBP	578,705.70			
12-Dec-11	B	LONG GILT FUTURE Dec11	5	132.74	GBP	663,701.00			
12-Dec-11	B	SHORT GILT FUTURE Dec11	100	106.03	GBP	10,602,970.00			
12-Dec-11	S	ABERFORTH GEARED INCOME TRUS	50M	115.25	GBP	57,625.00	1.45X Cover, 6% GRY, 5.56 yrs	Raising liquidity for new zero issues.	
09-Dec-11	S	UTILICO INVESTMENTS-ZDP 2014	100M	149.50	GBP	149,500.00	GRY = 4%, reducing pre 10m issue which	is likely to come at higher yield.	
08-Dec-11	S	BURFORD CAPITAL LTD	50M	121.00	GBP	60,500.00	Reducing exposure to 1%. Results dependent	holding. Hold Juridica for re-rating/ legal	win potential.
08-Dec-11	S	ABERFORTH GEARED INCOME TRUS	125M	115.75	GBP	144,687.50	1.45X Cover, 6% GRY, 5.56 yrs	Raising liquidity for new zero issues.	
29-Nov-11	B	CREDIT SUISSE LONDON	250	94.80	GBP	237,000.00	6.49% GRY, 1.81x Cover, 4.96yrs		
25-Nov-11	S	March 12 Puts on UKX	20	402.00	GBP	80,400.00	REDUCING HEDGE FOLLOWING INCREASE AFTER	EQUITY MARKET WEAKNESS.	
25-Nov-11	S	December 11 Puts on UKX	20	82.00	GBP	16,400.00	REDUCING HEDGE FOLLOWING EQUITY MARKET	WEAKNESS, HEDGE HAD INCREASED.	
17-Nov-11	S	MORGAN STANLEY	390	106.25	GBP	414,375.00	Redeemed at full entitlement (6.25% return)		
16-Nov-11	S	DEXION EQUITY ALTERNATIVE LD	108274	115.00	GBP	124,515.10			
15-Nov-11	S	DEXION EQUITY ALTERNATIVE LD	100M	114.75	GBP	114,750.00			
14-Nov-11	B	ALTERNATIVE INV STRATEGIES-O	150M	103.75	GBP	155,625.00			
11-Nov-11	B	CREDIT SUISSE LONDON	1M	100.00	GBP	1,000,000.00			

Source: Premier

# Transactions Continued

Settlement Date	Buy / Sell	Holding	Quantity	Price	Currency	Consideration	Long Note1	Long Note2	Long Note3
10-Nov-11	B	March 12 Puts on UKX	20	340.50	GBP	68,100.00			
09-Nov-11	S	ELECTRA PRIVATE EQUITY	25	1,065.00	GBP	26,625.00	YTM 4.75%, 2.77x Cover, 6.15 yrs	Parity 756.1, Premium 38.48%	
09-Nov-11	S	ELECTRA PRIVATE EQUITY	25	1,065.00	GBP	26,625.00	YTM 4.75%, 2.77x Cover, 6.15 yrs	Parity 756.1, Premium 38.48%	
09-Nov-11	B	ELECTRA PRIVATE EQUITY	25	1,065.00	GBP	26,625.00	YTM 4.75%, 2.77x Cover, 6.15 yrs	Parity 756.1, Premium 38.48%	
08-Nov-11	S	BARCLAYS SYNTHETIC ZERO	550M	1.38	GBP	757,900.00	Selling back to Barclays following maturity	Final Entitlement 137.8%	
02-Nov-11	B	MITON WORLDWIDE GROW TRU PLC	250M	125.63	GBP	314,062.50			
01-Nov-11	B	UBS AG	550M	0.96	GBP	529,210.00	7.55% GRY, 1.77x Cover, 4.92yrs		
01-Nov-11	S	BH MACRO LTD	29954	1,970.00	GBP	590,093.80	Rallied during downturn	Raising cash for investments.	
31-Oct-11	B	JPMORGAN ELECT PLC-MGD GRWTH	20M	370.00	GBP	74,000.00	c.3% discount. Company seeks to maintain 2%	discount. Underlying global equities hence	volatile assets but we could hedge if req.
27-Oct-11	B	March 12 Puts on UKX	70	259.60	GBP	181,752.94	Hedging equity market risk following rally		
27-Oct-11	B	JUPITER SECOND SPLIT TR-ZDP	350M	34.50	GBP	120,750.00			
27-Oct-11	B	JUPITER SECOND SPLIT TR-ZDP	250M	34.50	GBP	86,250.00			
21-Oct-11	B	CREDIT SUISSE INTL	200M	0.96	GBP	192,520.00	Triggers 100,100,100,87,74,60%, 10.55% stepup	Worst of UKX & SPX	9.71% GRY to maturity, Cover on Indices 1.58
20-Oct-11	B	JUPITER SECOND SPLIT TR-ZDP	550M	34.50	GBP	189,750.00	GRY = 5.43%, COVER 1.3x, End of Sept still	majority invested in cash although risk	remains of this being invested.
17-Oct-11	B	UTILICO INVESTMENTS-ZDP 2012	50M	169.75	GBP	84,875.00	GRY = 4.18% AFTER COSTS. COVER = 4.4x	HURDLE = -75%pa	
17-Oct-11	B	UBS AG	250M	0.95	GBP	236,600.00	GRY = 7.85%pa, COVER = 1.79x	Topping up small existing holding following	credit spread widening
14-Oct-11	B	JUPITER SECOND SPLIT TR-ZDP	150M	34.00	GBP	51,000.00	GRY = 5.91%, cover = 1.28x, hurdle = -7.8%pa	End of Sept portfolio allocation still showed	predominantly cash, encouraging considering
14-Oct-11	B	JZ CAPITAL PARTNERS ZERO DIV	100M	290.00	GBP	290,000.00	GRY = 5.32%pa, Cover = 5.25x, hurdle -29%pa	Topping up smaller holding and increasing	zero allocation to defend against volatility
07-Oct-11	S	MORGAN STANLEY	855	93.26	GBP	797,373.00			

Source: Premier

## Zero Dividend Preference Shares

- We continue to maintain a majority weighting in zeros with significant asset cover to provide a degree of protection when equity markets fall.
- Over the reporting period zeros have provided a defensive return insulating the Fund from equity market falls and volatility.
- Demand for zeros continues to remain strong. As mentioned in the note sent on the 5<sup>th</sup> December, the Fund participated in the recent issue of Acorn Income Fund Zeros 2017 which was well received and the price has risen since issue.
- Invesco Perpetual Recovery Trust zeros wound up voluntarily at their full entitlement at the end of October. Our largest short dated exposure continue to be the Utilico 2012 zeros and the JP Morgan 2013 zeros. These zeros still maintain a significant cover and should continue to generate steady capital returns.

## Structured Products and Synthetic Zeros

- The majority of synthetic zeros that we hold have significant headroom to their barriers and as such equity markets need to fall significantly for their final entitlements to be at risk. The pipeline of future zeros will help satisfy some of the demand for zeros but it is unlikely to halt share price growth.
- In October, with equity markets up and credit spreads tighter, our structured products rallied benefitting from these market conditions. Over the month we topped up our exposure to the UBS Synthetic Zero that we launched in September on an attractive redemption yield given its defensive structure.
- The initial widening of credit spreads in November allowed us to add to certain structured products on higher yields such as our Credit Suisse 2016 Synthetic zero. These positions benefitted along with our structured product holdings in general, as credit spreads tightened in December.
- We continue to seek defensive products with sizeable downside protection.

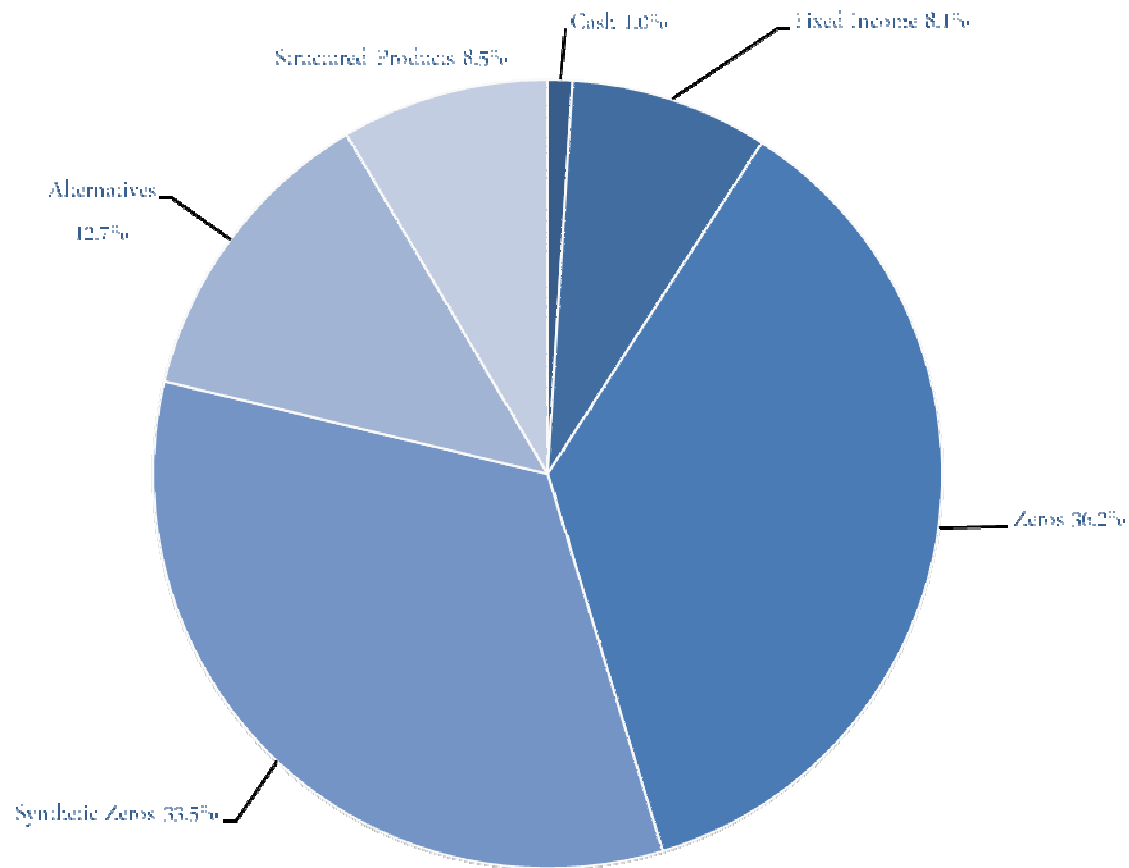
## Alternatives

- Companies continue to remain under pressure to control their discounts. We have seen share buybacks occur, which is beneficial to the share price and a positive sign for liquidity and management capabilities.
- At the end of October we sold our holding of Brevan Howard Macro Limited as this position has performed well over the past few months despite equity markets deteriorating. It was sold because we see no obvious future value in retaining this investment in the Fund.
- The Alternative weighting in the Fund has been reduced over the reporting period. However we continue to retain and invest in holdings that we believe will be beneficial and provide diversification benefits to the Fund.
- The Fund continues to hold a FTSE 100 Put Option. This is used to maintain the stability of the Fund whilst markets remain volatile.

## Fixed Income

- Convertible Unsecured Loan Stock (CULS) provide a high degree of capital protection with attractive return profiles and the potential for equity upside.
- We realised gains on our holding of Cayenne Trust CULS given that the price held up despite volatile financial markets and weak company performance.
- The fixed income element of the portfolio comprises entirely of CULS, aside from one traditional fixed income holding in the form of a Lloyds floating rate note.

# Asset Allocation



Source: Premier, data as at 31 December 2011.

## Outlook and Anticipated Changes

- Continue to position the Fund with a large weighting in investments characteristically defensive and capital growth in nature.
- The duration effects on the Fund are monitored on a continual basis with the view to protect against rising risk free rates.
- Invest in a wide range of asset classes, providing liquidity, diversification and enhanced cash returns with minimised levels of volatility.
- We seek to control risk and return by investing in products with fixed entitlement and fixed maturity dates – The Two F's.

## Important Information

- Risk of investments
  - Past performance is not a guide to the future. The price of shares and income from them may go down as well as up and you may get back less than you invested. Movements in exchange rates may also affect the value of the investment. Please remember that these investments are intended as long term investments. Details of the nature of the investment and the commitment required are described in the Simplified Prospectus document which is available on request. Reference to any particular stock does not constitute a recommendation to buy or sell the stock.
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