CAZENOVE
CAPITAL MANAGEMENT

For professional advisers only.

# Multi-Manager

## Asset allocation dashboard - May 2012

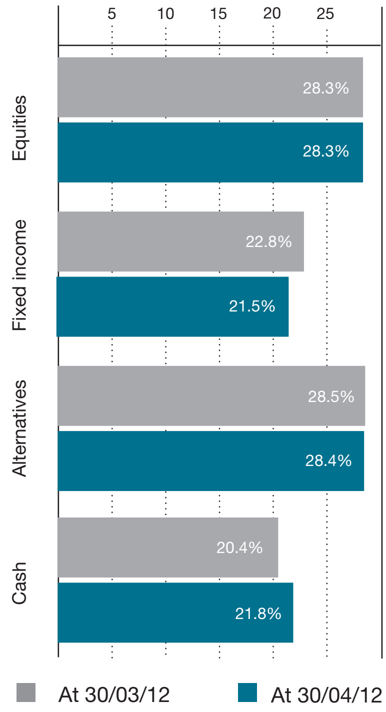
Positive (green) | Neutral (orange) | Negative (red)

Keep track of the multi-manager team's latest thoughts on asset classes - whether they are positive, neutral or negative and why.

| | | | |
|---|---|---|---|
| Fixed income | High yield | Positive | High yield spreads continue to look attractive, on a relative basis. Absolute levels less so. |
| | Investment grade | Neutral | Spreads look 'fair value' at this point. We expect higher-quality bonds to trade like gilts. |
| | Government bonds | Negative | The longer-term outlook remains challenged, despite the potential for further short-term rallies if the 'risk on' trade falters. |
| Currencies vs £ | Yen | Negative | Coordinated weakening of the yen likely to continue, although it remains a 'risk-off' currency in near-term bouts of uncertainty. |
| | US$ | Positive | The dollar continues to look cheap at this level relative to most currencies. |
| | € | Negative | Sovereign issues remain and we expect ongoing bouts of weakness. |
| | Asian currencies | Neutral | These remain undervalued relative to western currencies over the longer term, but may experience continued near-term volatility. |
| Equities | UK | Neutral | We remain positive on selective areas of both cyclical and defensive sectors. The earnings outlook for some of the industrial cyclical/basic material sectors remains challenged though. |
| | European | Neutral | Valuations have moved significantly in recent months, through ongoing political discussions over the sovereign crisis. Selective depressed value and defensive growth areas continue to look attractive, although politics may impact sentiment in the near term. |
| | North American | Neutral | Valuations look fair on a relative basis at this stage although we remain mindful of any potential near-term rolling over of economic data. |
| | Japanese | Positive | Japanese large cap valuations remain attractive, against a backdrop of yen weakness. |
| | Asia Pacific | Neutral | Chinese policy remains a key driver, with easing not happening at the speed many have expected. The wider region continues to remain vulnerable to a western slowdown. |
| | Emerging markets | Neutral | The longer-term domestic consumption story remains intact and modest exposure remains in these areas but, as is the case with Asia Pacific equities, a western slowdown may impact growth expectations from here. |
| Alternatives | Absolute: Equity | Positive | Relative value trades remain attractive in a period of high actual volatility. |
| | Absolute: Fixed income | Neutral | As is the case with Absolute: Equity, relative value strategies offer potential upside in volatile markets. |
| | Absolute: Macro | Positive | Unconventional global monetary and fiscal policy continues to provide significant opportunity for macro-managers. |
| | Commercial property | Negative | Valuations remain problematic and yields do not yet offer an interesting entry point. |
| | Agriculture | Negative | All commodities are likely to struggle in an environment of a strengthening US Dollar. |
| | Precious metals | Negative | In the near term, the need to hold gold has fallen but increasing talk of future quantitative easing may make this a more interesting proposition at some point. |
| | Industrial metals | Negative | The longer-term supply constraint story remains clear, but near-term valuations still look stretched and remain vulnerable to a western slowdown and a US Dollar upswing. |
| | Energy | Neutral | The longer-term supply constraint story remains clear. Despite recent volatility, near-term valuations still look somewhat stretched and remain vulnerable to a western slowdown and a US Dollar upswing. |

Source: Cazenove Capital at 30/04/12.

## Diversity Fund




**Equities**

**UK:** Our UK equity holdings remain balanced with exposure to some of the more attractive domestic cyclical sectors via the likes of Fidelity Special Situations. Alongside this, we retain exposure to companies with strong balance sheets; good cashflows and high dividend yields.

**European:** Whilst the macroeconomic picture remains challenged, we continue to maintain a weighting to selective defensive growth and depressed value sectors where valuations look attractive.

**North American:** Exposure to selective secular growth stories remains.

**Japanese:** Valuations remain attractive in sectors such as financials. Our holdings continue to be hedged into the relatively cheap US dollar.

**Asia Pacific:** On a relative basis, the domestic growth story looks expensive at this point.

**Fixed income**

Credit exposure continues to be weighted towards selective high yield credit where spread levels remain attractive. Government securities appear challenged over the longer term, although they continue to act as the "risk-off" asset of choice for many in the near term. We remain uninvested at this stage.

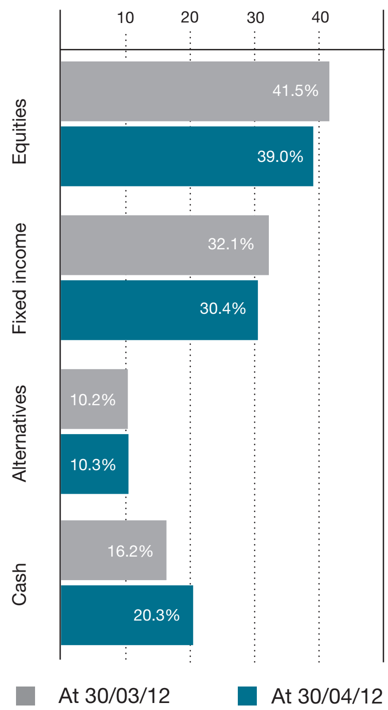
**Alternatives**

Populated with a number of 'risk off' hedges such as Eclectica and Jupiter Absolute Return. We continue to hold a Short EUR Long USD ETF given the expectation of further euro weakness.

**Cash**

The post LTRO rally in most asset classes have allowed us to prudently take profits at the margin through the last couple of months. Cash has increased, although we view this as temporary. A small US Dollar position remains.

## Diversity Income Fund




**Equities**

**UK:** Our holdings still favour companies with strong balance sheets; good cashflows and high dividend yields. However, we continue to obtain exposure to areas of value in selective domestic cyclical industries via the likes of Schroder Income Maximiser.

**Asia Pacific:** A modest holding remains, predicated on the long-term domestic consumption story where yields remain attractive.

**Fixed income**

Credit spreads remain selectively attractive, particularly in high yield where we continue to have exposure. Government securities appear challenged over the longer term, although they continue to act as the "risk-off" asset of choice for many in the near term. We remain uninvested at this stage.

**Alternatives**

Populated with a number of "risk-off" hedges such as Eclectica and Jupiter Absolute Return. Relative value portfolios such as Majedie Tortoise provide rotational exposure to equity markets, with certain select areas of cyclicality still offering value at this stage.

**Cash**

The post LTRO rally in most asset classes have allowed us to prudently take profits at the margin through the last couple of months. Cash has increased, although we view this as temporary. A small US Dollar position remains.

Source: Cazenove Capital at 30/04/12.

**www.cazenovecapital.com/dashboard**