Matterley

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S&W Matterley Undervalued Returns

Fund Managers

Henry Dixon CFA – Henry Dixon has over nine years of market experience in asset management and is a founder of Matterley. He was previously a fund manager at New Star Asset Management.

George Godber, Co-Manager – George Godber has over eight years of direct market experience. Formerly a Director within the Equities division at Credit Suisse and is a founder of Matterley.

Performance

	3 mth	6 mth	28/02/09 28/02/10	Since launch*
S&W Matterley Undervalued Returns (Retail)	3.1	5.8	57.2	4.5
S&W Matterley Undervalued Returns (Institutional)	3.2	6.1	57.9	4.8
FTSE All-Share Total Return	4.0	10.1	47.3	-1.42
IMA UK All Companies Total Return in GB	2.7	7.9	43.7	-0.5
Sector Ranking	107/321	245/320	22/315	52/309
Quartile	2	4	1	1

Source: Financial Express Analytics at 28/02/10. Total Return, Bid to Bid, Sterling, net income reinvested. Sector and Quartile performance is based on the Institutional share class. *Fund inception date 15/08/08. The figures refer the past. Past performance is not a reliable indicator to future results. All yields are historic.

Commentary

The Fund rose 0.9% in February, compared to a rise of 3.4% for the FTSE All-Share Total Return. The Fund is ahead of the benchmark for the year (since 1st Jan) having returned 0.0% compared with -0.3% for the FTSE All-Share Total Return.

The market climbed against a back drop of a lot of negative sentiment surrounding macroeconomic concerns. We had to cope with continued discussion regarding the perilous state of the Greek economy as well as peripheral Europe. The USA made its first move towards raising interest rates by raising the rate at which banks could borrow emergency funds from the FED. This was seen as a prelude to a tightening monetary policy. There were plenty of worries surrounding Chinese policy as they aimed to curb excessive lending growth in their economy. However, global economic data continued to improve throughout the month. Whilst the fears over sovereign default in Greece are real, we have seen that they are solvable given the outperformance of the Irish stock market and of Irish government bonds relative to the other leveraged parts of Europe. The Irish government for example has taken steps of cutting public sector pay and jobs aggressively. While the macro environment remains hard to forecast it should not be forgotten that the micro environment remains supportive. 75% of the S&P and FTSE 100 companies that have reported have beaten expectations at the earnings line.

Unfortunately there will continue to be lots of posturing in the UK owing to the general election. It seems neither party is really making any inroads in being elected with a clear mandate, or even admitting that we have a significant budget deficit to address. There are clear ways this is manifesting itself in markets - 10 year gilts have been weak and, of more media coverage, sterling has been weak too. Readers of these factsheets will know we have regularly discussed our bias to investing in overseas earners and we feel a significant number of these investments have earnings and dividend upgrades with £/$ at 1.49. We will only invest in domestic companies where there is significant valuation opportunity, in the main based not on earnings, but on physical asset value.

From a trading perspective we revisited Schroders NV during the month. The shares fell to a single digit ex cash p/e, coupled with a 3.5% dividend yield. Our returns based analysis suggests some 30% upside. We also switched one of our holdings in the Lloyds insurance vehicles. Lancashire has been a very successful investment and profits were booked as the shares traded to book value. We rotated into Brit Insurance trading on 0.7x book value with an 8% dividend yield.

We continue to thank investors for their support.

Fund Facts at 28/02/10

Fund Objective

The investment objective of the Fund is to produce long term capital growth in excess of the FTSE All Share Index. The Fund predominantly invests in securities of U.K. companies that the investment manager considers to be undervalued relative to the returns on capital the companies are generating.

Launched 15/08/08

Price:

Institutional (acc)	52.41p
Retail (acc)	52.26p
Retail (income)	52.27p
IMA Sector	UK All Companies
Base Currency	GBP
Type of Shares	Accumulation
Benchmark	FTSE All Share

Minimum Investment

Retail:

Initial	£1,000
Subsequent	£1,000

Institutional:

Initial	£100,000
Subsequent	£25,000

Initial Charge Up to 5%

Annual Management Charge

Retail	1.25%
Institutional	0.75%

Bloomberg

Retail (acc)	SWMURRA LN
Institutional (acc)	SWMURIA LN

ISIN

Retail (acc)	GB00B3BSKG91
Institutional (acc)	GB00B3BSKH09
Retail (income)	GB00B635QW70
Institutional (income)	GB00B636RH28

SEDOL

Retail	B3BSKG9
Institutional	B3BSKH0
Retail (income)	B635QW7
Institutional (income)	B636RH2

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Portfolio Focus

As mentioned above we have very limited UK domestic exposure. Despite poor performance we continue to avoid REITs, retailers and supermarkets. A key rationale for this stance is excessive debt. We do however think there are some interesting debt free domestic opportunities being offered up by the market owing to this malaise.

One of these in our view is Galliford Try. The company has a construction and support service division and a reinvigorated house building division. It has a strong balance sheet with £50m of cash, compared to a market cap of £270m. The company largely got out of house building in the last bull market, but since midway through last year has been building this division back up. In house building they now have 9300 plots. Using the most conservative plot valuation in the sector ascribes just over £300m to this division. The company's second division is a construction and support service division, with an order book of business of £1.8bn. This gives good visibility on c£20m of profits on an annual basis. Valuing this earnings stream at only 6x derives a value of £120m so we believe in aggregate the divisions have over £400m of value when the market capitalisation of the company, less the cash today, is just over £200m.

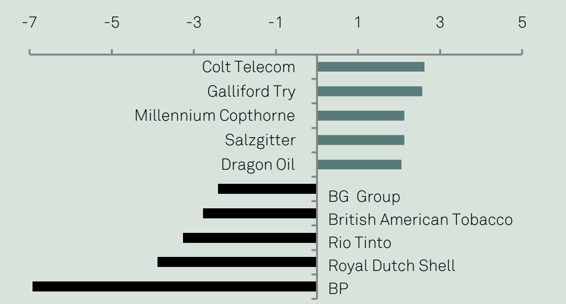
With domestic plays such as this we believe net cash balance sheets are critical as the cash buyer is in an exceptional position. This was clearly illustrated during the month when they announced a deal with RBS. Galliford managed to pay £4 (yes just £4) for 50% of a house building business, with 742 plots, but had to assume £40m of debt from the bank which they cleared immediately with their own cash. They estimate a total future development from these sites of £140m. We believe that they dealt at 50p in the pound and we remain happy holders.

Portfolio Statistics

Source: Matterley

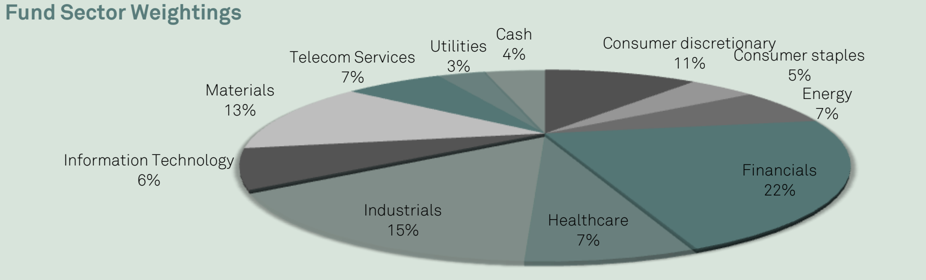
Holdings	Beta	Market Cap Wghts(£) <1bn	1-5bn	>5bn
58	0.87	39%	24%	33%

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



Top 10 Holdings	(%)
HSBC	6.19
Vodafone	4.24
GlaxoSmithKline	4.07
Royal Dutch Shell	3.04
AstraZeneca	2.57
Colt Telecom	2.37
Lloyds Banking Group	2.27
Galliford Try	2.22
Millennium & Copthorne	2.22
Dragon Oil	2.15

Fund Sector Weightings



Dealing Information

Dealing Time

Daily at 12 noon

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ISA and Sipp Applications

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