



Matterley

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 nine 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 | 31/07/09 31/07/10 | Since launch* |
|---|--------|--------|----------------------|------------------|
| S&W Matterley Undervalued Returns (Retail) | -1.4 | 8.8 | 27.0 | 12.7 |
| S&W Matterley Undervalued Returns (Institutional) | -1.3 | 9.2 | 27.8 | 13.4 |
| FTSE All-Share Total Return | -4.4 | 4.0 | 19.4 | 5.4 |
| IMA UK All Companies Total Return in GB | -3.7 | 5.0 | 20.0 | 3.9 |
| Sector Ranking | 29/317 | 32/315 | 27/311 | 31/302 |
| Quartile | 1 | 1 | 1 | 1 |

Source: Financial Express Analytics at 31/07/10. 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 to the past. Past performance is not a reliable indicator to future results. All yields are historic.

Commentary

The Fund rose 8.0% in the month which compared to an increase of 6.9% for the FTSE All-Share Total Return. Year to date (since 1st Jan) the Fund has now risen 7.8% compared to a rise of 0.3% for the FTSE All-Share Total Return.

July was another month where the financial sector took centre stage due to the European Central Bank's "stress test" results. This study investigated the European banking system's ability to cope with a further downturn in the economy and its exposure to leveraged peripheral European Government debt. In the end the outcome, when finally announced, was greeted with muted jubilation as no real surprises occurred. Whether or not the test was stringent enough, was not such an issue for the UK banks. They compared well to their European comparators in terms of capital strength and, in our view, would have passed under even the most bearish assumptions. The capital quality and funding outlook for UK banks will give them a competitive edge over their foreign counterparts in the near future. The Fund benefitted from a holding in Lloyds Banking Group and a well timed initiation in Royal Bank of Scotland. Both of these banks were trading below their tangible book value at the time and rallied heavily throughout the month.

The mid-year earnings season began during the month, with many companies reporting earnings above expectations. Management teams are most definitely cautious in their outlook but it is encouraging to see the market start to materially re-rate those companies that are delivering. The market was also helped from the macroeconomic standpoint with a material beat relative to expectations from UK GDP, coming in at 1.1% quarter on quarter versus an expected value of 0.6%. Our politicians argued over the reasons for this strong growth; however, looking forward, despite the aggressive cuts that the public sector is currently facing we do not expect the UK to fall back into recession.

The Fund benefitted from the increase in M&A activity with Brit Insurance confirming an offer from private equity and International Power attracting the attentions of the French. We have argued in our 2nd half 2010 outlook piece (available at www.matterley.com) that we are likely to see a continued increase in M&A activity over the remainder of the year aided by attractive valuations, low interest rates and record levels of cash in the bank at the corporate level. In a quite exceptional week in the month 3 major companies, Tomkins, SSL and International Power all confirmed they had been subject to takeover approaches.

As ever, we thank all our investors for their continued support.

Fund Facts at 31/07/10

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) | 56.69p |
| Retail (acc) | 56.34p |
| Institutional (income) | 56.71p |
| Retail (income) | 56.42p |
| IMA Sector | UK All Companies |
| Base Currency | GBP |
| Benchmark | FTSE All-Share |
| Fund Size | £12.0m |

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

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Portfolio Focus

We have spoken frequently about buying companies below replacement cost. The cleanest example of this metric is a negative enterprise value. It is pleasing therefore that the Fund benefitted from two of these instances during the month.

Polo Resources, a commodities investment company, was first purchased in April as it was trading below the value of its cash in the bank and of the listed shares that it owned. The shares had drifted since our first purchase affording the opportunity to increase our holding at lower values. During the month Polo realised cash from one of the investments leading the management to propose a significant special dividend; the shares rallied 73%. We continue to concentrate much of our efforts on finding opportunities such as this.

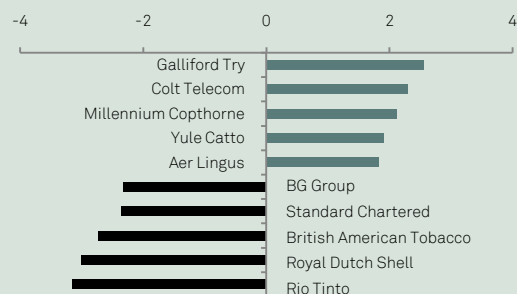
Continuing on this theme we have previously written about our holding in Aer Lingus, the Irish National Flag Carrier. The company issued a very encouraging trading statement during the month suggesting a return to profitability earlier than analysts had anticipated in spite of the problems the industry faced surrounding the Icelandic ash cloud earlier in the year. Despite being a strong performer during the month rising by 16.8%, material upside remains in our view. The company has a market cap of €500m, net cash in the bank of over €300m, value of planes and airport slots of over €1,000m, and no significant balance sheet liabilities.

Portfolio Statistics

Source: Matterley

| Holdings | Beta | Market Cap Wghts(£) | | |
|----------|------|---------------------|-------|------|
| | | <1bn | 1-5bn | >5bn |
| 57 | 0.84 | 33% | 19% | 41% |

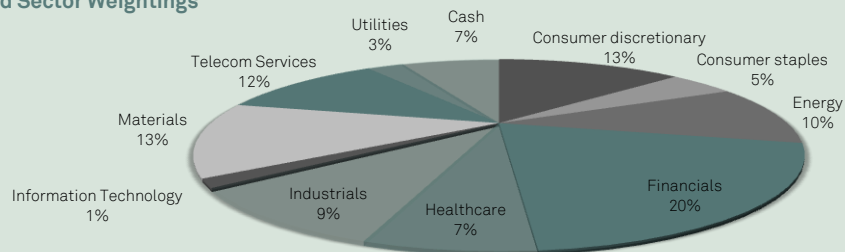
Stock weights: Top overweights/underweights vs FTSE All-Share Index (Percentage points)



Top 10 Holdings (%)

| | |
|------------------------|-----|
| HSBC | 5.7 |
| Vodafone | 5.4 |
| GlaxoSmithKline | 4.3 |
| Royal Dutch Shell | 3.8 |
| Galliford Try | 2.6 |
| BP | 2.5 |
| AstraZeneca | 2.4 |
| Millennium & Copthorne | 2.2 |
| Colt Telecom | 2.1 |
| Barclays | 2.0 |

Fund Sector Weightings



Dealing Information

Dealing Time

Daily at 12 noon

Main Dealing Desk

Tel: 0207 131 4394

Smith & Williamson Fund Administration Ltd
25 Moorgate
London EC2R 6AY

ISA and SIPP Applications

Contact the Matterley team

Tel: 0207 149 6119

Email: info@matterley.com

Funds Supermarkets:

Fund Choice
www.fundchoice.co.uk



Hargreaves Lansdown
www.h-l.co.uk



IFA Platforms:

CoFunds
<http://www.cofunds.co.uk>



Ascentric
www.ascentric.co.uk



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The information in this document is based upon sources we believe to be reliable, but its accuracy cannot be guaranteed.

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