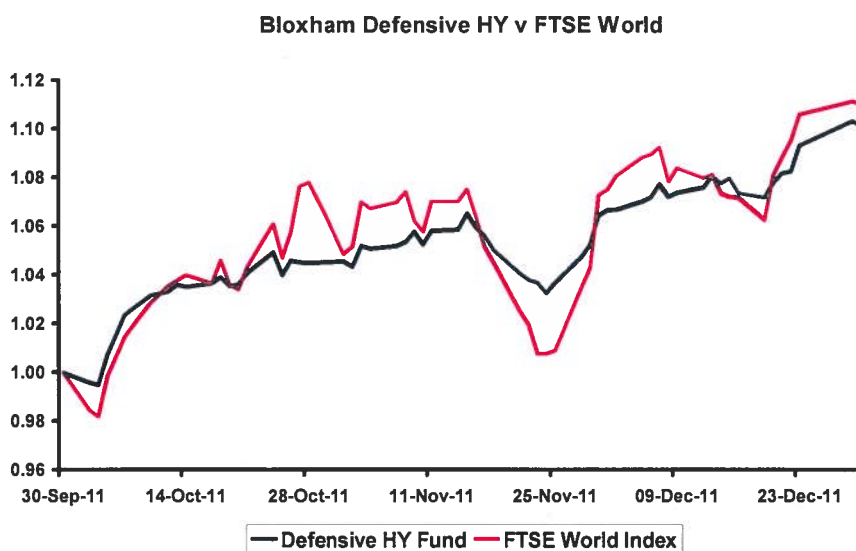


Bloxham Defensive High Yield Fund Q4 Review

Fund Performance – Quarter 4 2011

The Bloxham Defensive High Yield fund has performed very well since its launch at the end of September. The fund was up 10.2% in the quarter to the end of December - just marginally behind the FTSE World index which was up 11.0%.



This was an excellent outturn for the fund given that:

- Firstly, it invests in stocks which have higher than average dividend yields (and these companies typically tend to have a more defensive bias) and,
- Secondly, the Defensive High Yield fund's unique investment strategy would be expected to under perform in strong market conditions.

One of the key objectives of the fund is to offer investors equity market type returns BUT with reduced levels of volatility. In the quarter to the end of December, the annualized volatility of the fund was just 8.2% (versus 16.9% for the FTSE World Index).

The table below highlights the performance of the fund during the five worst days in the market during the quarter. As expected, the fund significantly outperformed in the days when the market fell (indeed on the worst day of the quarter when the market fell by 2.7% the fund actually rose marginally).

5 Worst Days in Markets		
	FTSE World	Def High Yield
01-Nov-11	-2.7	0.1
21-Nov-11	-1.9	-0.9
03-Oct-11	-1.6	-0.4
25-Oct-11	-1.3	-0.9
08-Dec-11	-1.3	-0.4

The FTSE World peak to trough drawdown during the quarter was 6.5% whilst that of the Defensive High Yield Fund was just 3.2%. This was due to the defensive nature of the stocks within in the portfolio and also because the value of the Puts in the fund rose as the general market declined.

Within the fund there were some strong share price performances during the quarter.

- **Total** (the French oil company) rose by 21% in the three months. Its adjusted Q3 earnings were released and came in around 4% better than expected at €2.8bn. In addition, the company generated strong cashflow in the quarter which helped to reduce debt levels.
- **3M** (US industrial) re-affirmed its earnings guidance for 2011 and raised its forecasts for 2012 in November. The company expects its EPS (earnings per share) to rise by c10% next year. The shares rose by 16% in the quarter.
- **Prudential** (the UK based insurance company) provided a Q3 trading update which pleased the market with New Business volumes ahead of expectations. In addition, it re-affirmed that its solvency position was improving further. Prudential shares rose by 15% in Q4.
- **McDonalds** released very strong November “like for like” sales. Global sales rose by 7.4% in the month versus expectations of 3.7%. November was the 103rd month of consecutive growth in global “like for like” sales. McDonald’s shares rose by 15% in the three months to the end of December.



There were a number of stocks which disappointed during the quarter.

- **Reckitt Benckiser** (the UK based manufacture of household goods) fell by 3% in the quarter. Its Q3 results were broadly in line with expectations but there was some disappointment about the performance in its core businesses and there are expectations that margins will come under pressure.
- **Accenture** (the US based consultancy firm) shares rose by just 2% in the quarter. Its results for the quarter ending November were inline with expectations, however the market was disappointed with the conservative earnings guidance for 2012.

Bloxham Defensive High Yield Investment Process

The fund is unique within the Irish market and is designed to offer clients equity market type returns over the medium term BUT with reduced levels of volatility. The objective is to capture a significant amount of the growth in equity markets and to minimize some of the losses. The fund incorporates a three pronged investment strategy:

- **Firstly** – An investment in approximately 40 large global stocks that pay out higher than average dividend yields. The fund is well diversified in terms of its sector and geographic exposure. Stocks in the fund are equally weighted at the beginning of the quarter and include Intel, Nestle, Pepsi, Royal Dutch Shell, HSBC, J&J and McDonalds. These types of stocks offer investors exposure to large well managed global companies.
- **Secondly** – The fund manager will then sell 3 month call options on some of the stocks within the portfolio using a simple options strategy that provides the fund with additional income, and
- **Finally** – The fund manager will use this additional income from selling the call options to buy some “insurance” which is designed to protect against significant market falls (note: this is not capital protection but the strategy will “insulate” against some of any falls in equity markets).

Portfolio Update

Towards the end of December we re-ran our investment process and several of the initial stocks had dividend yields that had declined during the quarter as their share prices rose sharply (CPFL Energia was up 23% in the quarter, Honeywell 22%, Sanofi 10% and Vodafone 10%). These stocks fell out of our initial screening process and hence we had to sell them in December (other stocks that were sold included: AT&T, Air Liquide and Tesco). Our investment process ensures that we also incorporate a strong “sell discipline” within the fund on a quarterly basis.



We replaced these stocks with ones which offered better value in terms of dividend yield (whilst still adhering to our strict investment criteria). Stocks that went into the fund in December included: Vivendi, Microsoft, Ahold, Carnival, Proctor & Gamble, Telstra and Dr Pepper Snapple. The dividend yield of the 40 stocks in the portfolio is c 4.2% and the earnings valuation remains undemanding with a prospective p/e ratio of less than 12 times.

Currently we have sold March Calls on 14 stocks within the fund and this has generated around €150k in income. With this income the fund has purchased some protection against significant market declines. The fund has bought 22 S&P500 Puts with a strike price of 1175, 50 Eurostoxx Puts with a strike price of 2100 and a further 31 Eurostoxx Puts with a strike price of 2150. We would hope to sell calls on over 20 stocks within the fund (out of 40 stocks) before the end of January and will purchase further protection with the proceeds.

The Bloxham Defensive High Yield Fund is available to retail investors via the New Ireland investment platform and to institutional investors directly via the Bloxham UCITS structure.

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