Querns Asset Managers

Querns Income First Fund - February 2012

The Fund Managers

Stephen Whittaker (Equities)
Stephen has 29 years' experience of managing a wide variety of UK portfolios, including small companies, special situations, income and growth funds

Phil Roantree (Bonds)
Phil has 23 years' experience in the financial services industry. He has managed a broad spectrum of bond portfolios for 18 years, including segregated, unit linked, sterling, global, government and credit portfolios

Fund Objective
The objective of the Fund is to achieve a high level of income, together with some long term capital growth

Fund Managers
Stephen Whittaker (Equities)
Phil Roantree (Bonds)

Launch Date
14 June 2010

IMA Sector
UK Equity and Bond Income

Currency
UK Sterling

Type of Shares
Income and Accumulation

Yield
6.6% for gross shares*
5.9% for net shares*

Income Paid
Monthly

Minimum investment
Lump sum £1,000
subsequently £500
Monthly Savings £100

Management Charges
Initial Charge 0%

Annual Charge 0.75%
charged to capital

SEDOL And ISIN Numbers

Share Type	SEDOL	ISIN
Net Acc	B61JRG2	GB00B61JRG28
Net Inc	B625QM8	GB00B625QM82
Gross Acc	B613JG8	GB00B613JG83
Gross Inc	B602290	GB00B6022909

Investment Commentary

There was a firm start to the new year for risk assets, buoyed by stronger business surveys, optimism that discussions would resolve Greece's next bailout package, and action from the Chinese authorities to boost its cooling economy. There was still negative news coming out of Europe: rumours that Spain was considering seeking IMF support, that Spanish banks would have to set aside a further €50bn in provisions for bad loans, and the reality of credit rating downgrades by S&P for many European sovereigns as well as the Eurozone's rescue fund, the EFSF. After consecutive rate cuts in previous months, the ECB held rates at 1% in January. ECB President Draghi suggested tentative signs of stabilisation in economic activity and was also pleased with the impact of December's 3 year LTRO (Long Term Refinancing Operation), which had "avoided a complete collapse in credit". Perhaps an indication of success of the 3 year LTRO was the sharp fall in short-term borrowing costs in Spain (3 year bonds issued at 3.38% in January compared with 5.19% in December) and Italy (12 months bills sold at 2.74% in January down from 5.95% in December). Discussions on Greece were still on-going at the end of January.

The UK monetary policy stance was maintained, although some MPC members remain wary about risks to inflation, which could prompt the £275bn asset purchase programme to be expanded. Despite acknowledging a continuing improvement in US economic conditions, the Fed now expects an even more protracted period of low rates, indicating no hike until late 2014, instead of the previously forecast mid 2013.

Market performance tailed off into month end as some of the economic data out of the US disappointed, but the FTSE All Share index still rose by 2.6% in January. 10 year gilt yields fell 1bp to 1.97% over the month, well off their high of 2.18% (iBoxx Gilt index capital return +0.1%). 10 year German yields fell by 4bp to 1.79%, however in Italy, successful issuance of shorter bonds (3 year LTRO inspired) had a knock on effect further down the curve, with 10 year yields down from 7.11% to 5.95%. The move in Spain was less dramatic, following the rumour-led move higher in yields early in the month, 10 year yields 12bp lower at 4.97%, but down from the high of 5.71%. Portugal, however, did not benefit from the support of the 3 year LTRO, with concerns that it too may require a second bailout package, pushing 10 year yields up from 13.36% to 16.40%. Another 3 year LTRO is due at the end of February, and with several banks indicating increased appetite, the massive €489bn borrowed last time is likely to be surpassed, which should remain supportive for bank and Sovereign funding. Corporate bonds had another good month, the spread on the iBoxx Sterling Non-Gilt index 17bp tighter at +248bp, yield 19bp lower at 4.70%, giving a capital return of +1.5%. Subordinated financial spreads were 93bp tighter at +656bp, the yield 96bp lower at 8.41%, a rise of 5.9% in capital values.

Prices

	Net Accumulation Shares	Gross Accumulation Shares
Price at launch 14/06/10	100.00p	100.00p
Price as at 31/12/11	107.92p	108.96p
Price as at 31/01/12	111.72p	112.90p

Top 10 Holdings

	%		%
Royal Dutch Shell "B"	3.4	Balfour Beatty	2.7
Vodafone	3.1	Premier Farnell	2.4
BAE Systems	2.9	GlaxoSmithKline	2.3
Provident Financial	2.8	Intermediate Capital	2.3
Catlin Group	2.7	Aviva	2.2

Current Weightings (ex income)
Equities: 53% Bonds: 45% Capital Cash: 2%

* Gross shares are shares where, in accordance with relevant tax law, distribution or allocation of income is made without any tax being deducted or accounted for by the fund although dividend income received will have been received after a tax credit or tax deduction. Gross Shares are available only to those investors in respect of whom distribution or allocation of income may be made without any tax being deducted or accounted for by the fund, for example UK pension funds and ISAs. All other investors will hold net shares. The Historic Yield reflects distributions declared over the past 12 months as a percentage of the mid-market share price, as at the first business day of the current month. In the case of net shares the yield is net of taxation deducted from the distributions, the yield will vary and investors may be subject to tax on their distributions. The fund charges and expenses estimated, based on the current size of the fund, to be 1.8% per year, are charged to capital. This has the effect of increasing the distribution(s) for the year by the amount of the charges and expenses and constraining the funds capital performance to an equivalent extent.

Equity Portfolio

January was a busy month for interim management statements covering about a third of the equity portfolio. They were, overwhelmingly, positive, reiterating previous guidance despite the difficult economic conditions.

UK equities have started the year well with the FTSE All Share Index rising 2.6% in January. There were some strong movers in the portfolio including Intermediate Capital (+21.3%) having had a positive trading update and a very profitable disposal, Aviva (+17.9%) and Premier Farnell (+15.7%).

Defensive stocks which had performed well during difficult market conditions tended to lag the rally such as Tate and Lyle (-5.7%) and Go Ahead (-7.8%).

While there are clearly hurdles to negotiate, investor optimism and appetite for risk appears to be increasing and 2012 may well be a much better year than last.

Total number of equity holdings: 27

ICB Industry Breakdown

Basic Materials	0.0%
Consumer Goods	12.1%
Consumer Services	4.1%
Financials	24.5%
Health Care	7.8%
Industrials	25.1%
Oil & Gas	6.5%
Technology	0.0%
Telecoms	9.4%
Utilities	10.5%

Bond Portfolio

Holdings were unchanged, with the portfolio benefiting from its exposure to rallying financials. The spread was 50bp lower at +673bp, redemption yield 48bp lower at 8.33% and capital values up 3.1%.

Banks and Insurers represent 55% of the bond portfolio

Total number of bond holdings: 48

Breakdown by credit rating

AAA	0%
AA	2.4%
A	26.5%
BBB	55.5%
Non-Rated	2.6%
Below Investment Grade	13.0%

Portfolio Yield

Average Life (Years)	8.71
Redemption Yield (sa)	8.33%
Running Yield	7.46%
Spread vs Gilts (bp)	673

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