

A look at the UK market

Fund Webcast Script - July 2010

Simon King, Senior Investment Manager



Simon King
Manager of the Premier
UK Thematic, Premier Alpha
Growth and Premier Smaller
Companies Funds.

The UK general election is now firmly behind us and the UK market now has the chance to focus on the global and domestic economic outlook.

On the whole, it is not a pretty sight, with concerns over Greek default, collapse of the euro, oil spills in the US, rising protectionism, coalition government and double dip recession, battering the market on a regular basis.

However, is it really as bad as it looks?

Certainly from an equity perspective we believe not. On virtually any valuation measure, equities are cheap in the UK and around the world, both on a standalone basis and relative to other asset classes. Companies are generally in recovery or growth mode, balance sheets are strong, dividend yields are good and growing and takeover activity is beginning to pick up. Most companies have been severely tested by the recession and many have come through it with flying colours.

So why are markets going down?

Fears over the macro environment are overwhelming fundamentals and investors fear a repeat of late 2008 when many companies that had been trading well literally saw demand fall off a cliff. Although there is a chance of a total freeze in the global financial transmission system, it is a small one and companies are better prepared for it this time around and are definitely more financially robust.

Where is the upside?

The UK market is not the same as the UK economy. The UK economy will, in our view, be very dull and will take many years to stage a full recovery. However, there are a multitude of companies which offer exposure to the growth areas of the globe, which have great market positions, genuine pricing power and the ability to protect these. Many are currently available at very attractive valuations.

So, how are the Premier Alpha Growth, Premier UK Thematic and Premier Smaller Companies Funds positioned?

We are looking to gain as much exposure to Asian growth as we can. We hold stocks such as HSBC and Standard Chartered, both well known banks with large operations in the Far East, and Inchcape, a motor retailer with the majority of its business overseas.

The capital goods sector is also an interesting one. It meets all of our requirements; benefitting directly from weak sterling, enjoying strong market positions and

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experiencing good growth in demand, which is resulting in persistent upgrades. We particularly like Invensys and Melrose.

The media sector is also a feature with the likes of WPP and Pearson gaining from a recovery in advertising and educational spend in the US. Even in the UK, ITV is witnessing a sharp pick up in advertising expenditure generated by the World Cup and more retail advertising.

Looking forward, we see lots of opportunities for stocks to re-rate and for strong earnings growth. The challenge for equities will be to translate these strengths into share price performance when challenged by a highly indebted UK government and a fragile consumer. A difficult task, but not an impossible one.

Contact Us:

Investment Relations Team

Chris Warren

Telephone:
01483 400 466

Email:
chriswarren
@premierfunds.co.uk

Jonathan Lewis

Telephone:
01483 400 437

Email:
jonathanlewis
@premierfunds.co.uk

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Premier Asset Management Limited, Eastgate Court, High Street, Guildford, Surrey, GU1 3DE
Tel: 0845 230 9033 Email: marketing@premierfunds.co.uk Web: www.premierassetmanagement.co.uk