STRATEGISE
COLLINS SARRI STATHAM

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INVESTMENTS

Introduction

Collins Sarri Statham Investments Ltd

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Please refer to the CSS Strategise Brochure for further details.

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Please ensure that you fully understand all risks attached to each strategy when investing.

This is the first quarterly review of CSS Strategise, our new advisory service aimed at providing clients with a new approach and framework to volatile markets. CSS Strategise encompasses six strategies, Income, Value, Special Situations, Growth, Emerging Markets and Midcap / Small cap. There are exacting selection criteria for inclusion into the specific strategy.

Our launch of CSS Strategise took place in October 2011 and we are pleased to report it has received a very positive response from our client base.

CSS Strategise- Additions/ deletions

The following additions/ deletions are being made to CSS Strategise:-

NEW ADDITIONS / DELETIONS				
INCOME				
ADDITIONS	Descriptions	Mid Price	TARGET	RECOM
SBRY.L	SAINSBURY(J) ORD	288.1	375	BUY
SSE.L	SSE ORD 50P	1211	1400	BUY
SIV.L	ST.IVES ORD 10P	82.25	100	BUY
SPECIAL SITUATIONS				
DELETIONS				
ARE.L	ARENA LEISURE ORI	44.375	40	REDEEM
CHTR.L	CHARTER INTL ORD	980		REDEEM
ADDITIONS				
POLY.L	POLYMET INT ORD N	1117	1300	BUY
MIDCAP				
ADDITIONS				
AQP.L	AQUARIUS PLAT.	179.85	250	BUY

These are conservative new choices that reflect strong recent trading updates (St Ives, Aquarius Platinum and Sainsbury) and M&A speculation (Polymetal).

CSS Strategise- The Income Strategy

The CSS Strategise Income strategy focuses on companies with high payouts that are adequately covered by earnings where there is a boardroom commitment to shareholder distributions. As such the returns are largely income based with capital returns expected to be lower relative to other strategies.

***Glaxosmithkline**; Disappointment over Relovair Phase III trials – it demonstrated performance in asthma and COPD that was inferior to Advair raises the issue of how GSK will replace Advair's £5bn sales post patent expiry. Advair is GSK lead drug in the $32bn global asthma market which is expected to grow to $43.8bn by 2015.

CSS Strategise- The Value Strategy

The CSS Strategise value strategy targets companies trading at a discount to book value and exhibiting other value criteria.

Since 2008 companies valued at under book value have typically included a wider range of companies than previously. Many banks, insurers, property and hotel stocks fall into this category – though we expect the field to shrink during 2012.

***Vodafone;** the Indian Supreme Court win opens the way for an IPO of Vodafone's Indian operations, a high revenue/ low margin operation with negligible impact to Vodafone group profits. We expect further rationalisation of VOD's emerging markets' businesses weeding out the weaker areas over 2012.

CSS Strategise- The Special Situations Strategy

The Special Situations strategy focuses on companies experiencing corporate activity and often in "bid situation". Two selections of the Special Situations were the subject of M&A deals over the quarterly period to end January 2011.

***Arena Leisure**; The board agreed a 44.25p cash offer from the Reuben Brothers. The majority owners, Rumney Manor (41.09%) and Coatbridge Ltd (11.19%) have pledged their holdings to the deal which, after protracted negotiations (since 22 June 2011) we now expect to close quickly.
***Charter International**; Now de-listed. Final terms were 730p in cash plus 0.1241 Colfax (NYSE: CFX $31). There was a small gain on the position.
***SportingBet**; pleased with gains from 31p to 39p, we remain keen given positive US online gaming developments and a re-rating of major competitor BwinParty Digital.
***Micro Focus**; positive on 22 for 25 consolidation and 45p special dividend, MCRO has gained about 50p per share over the period.
***Polymetal Int;** New addition; speculation of a Polymetal/ Polyus combination in the short-term. We set a price target of 1300p.

An improvement in mergers and acquisitions activity is expected later in 2012. There has been very little hostile interest with the majority of deals being agreed deals. Assuming M&A picks up we should see more contested takeovers in the mix of activity.

CSS Strategise- The Growth Strategy

The growth strategy targets sector related investments in renewable energy, uninterruptible power, internet, social media, emerging market property, oil exploration etc. To some extent there are limited investable choices in these categories, making it hard to easily replace Growth selections.

***Aggreko** reached our £20 per share target which has been lifted to £24 – the board is confident of strong order intake in international power products and 2011 profit before tax of £324m. It expects Q4 revenue growth of 22% year on year.

***BP** investors welcomed the board's more muscular approach to Halliburton (NYSE:HAL) and Macondo liability coupled with strong crude oil prices despite a very mild US winter. The fact that Anadarko/ Mitsui/ Cameron have settled make it easier for BP to argue negligence and joint liability with the Department of Justice – the main outstanding issue. We expect Q4 revenues will be helped by higher realisations with some offset relating to weaker refining margins as highlighted by Chevron Corp.

***Monitise;** The board's forecast of a three-fold increase in interim revenues (£75m order book/ £35m new orders) and the FIS licence was ostensibly positive. However concerns have emerged that the Monitise push into the US market and the route to market via strategic partnerships is taking longer than expected. The group needs to crack the US market and not be marginalised as a UK/EU provider. Despite the downward move in **Monitise** and **Centamin** (continued Egypt concerns) we are maintaining these at present.

The Growth Strategy is likely to see new additions over the course of the next quarter especially if the IPO environment improves. The strategy contains a number of "best of breed" picks in their chosen sector that would be hard to replace if they exited the strategy.

CSS Strategise- The Emerging Markets Strategy

Q4 2011 saw a sharp sell-off in BRIC markets and particularly in the Far East/ SE Asian markets. The strategy tended to overweight Russian/ Far East related investments on its debut though we expect to add more LatAm/ EMEA exposure over the next quarter. January 2012 has been positive for BRIC investment with the selections up 3.12% on average. Key features include:-

a) Crude oil > $100 per barrel impacting Russian and Brazilian equities.
b) The slowdown in Chinese GDP growth whilst inflationary appears to no longer

require further monetary tightening.

c) The accommodative US Federal Reserve moving out the promise of low interest rates to end 2014 is generally supportive for base and precious metals.
d) A generally positive US economy, both corporate (Q4 reporting season) and economic data were supportive.
e) The perception the EU debt crisis has abated with the ECB's move to inject €489bn in new liquidity via the LTRO.

CSS Strategise- The MidCap/ Small Cap Strategy

The MidCap/ Small Cap portfolio focuses on FTSE 250 and smaller companies with a threshold / floor valuation of £250m and a ceiling valuation of £3bn.

It is worth bearing in mind the FTSE 250 performance over 2011 (-15%) was significantly worse than the blue chip index hence there was arguably more scope for a bounce. Key points that we would note:-

a) Bid premiums have emerged in January with two stocks, Tui Travel and Gulf Keystone.
b) Property issues have benefited from the move in gilts and flush liquidity conditions helping alternative asset demand and commercial property.

Gulf Keystone Petroleum; Speculation of an Exxon Mobil (NYSE:XOM) or Sinopec approach, since denied by the board, plus updates confirming the vast oil reserves at the Shaikan field have helped double the valuation since October 2011. We await the drilling update from Shaikan 5 and 6.

Total SA announced that a move to acquire Kurdistan licences using a similar approach to the Kurdish Regional Government as with Exxon.

The board are likely to move Gulf to the Official List where the stock would be borderline FTSE 100. A full list move would broaden Gulf's investor base and visibility. We are still keen on the Gulf story and its ongoing accumulation of crude oil in a now de-militarised Iraq.

***Savills**; improving property sentiment has boosted Savills by 33% in the last quarter. SVS is one of the few one stop proxies on global commercial property with substantial exposure to Far East, EU and US commercial property and London/ Home Counties £5m+ residential markets. Overall the benign monetary environment should continue to boost real estate volumes, a trend that could have another 18-24 months to run.

*__Tui Travel;__ hard hit by the travails at peer Thomas Cook, investors are now focusing on the prospect of an approach by parent TUI AG. This is credible, the German group has made no secret of its intention to acquire the minorities however it needed the sale proceeds from its container shipping unit Hapag-Lloyd. This deal is possible at some point in 2012, though the upside may be tempered by the lack of alternative buyers and the likely paper nature of any offer.

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Please also note that investing in emerging markets carry higher levels of risk due to the nature of these investments. These investments tend to be more volatile than investments in established markets. The exchange rate may cause the value of these investments to go down as well as up.

Definitions:

Correlation: A statistical measure that measures how investments move in relation to each other. For example if the correlation was 0 the two investments would move independently of each other. Typically correlation measurements are between -1 (opposite direction) to 1 (moves in lock step with each other).
Alpha: broadly the degree of outperformance from a given benchmark. For example if the investment rises 10% and the benchmark return is 5% it would have an alpha of 5%.
Beta: broadly the sensitivity of the investment to the movement in the market i.e. if the investment had a ratio of 1 it would move the same as the market. Beta measures covariance of the returns of the asset in respect of the portfolio to the variance of the portfolio.
R-Squared: the percentage of the asset's movement attributable to the movement of the market.
Sharpe ratio: excess return per unit of risk i.e. Expected returns ("R") less the risk free (Rf) rate divided by the standard deviation of returns (σ).
Treynor ratio: returns in excess of risk free return (Ri - Rf) divided by market risk (Bi); i.e. risk adjusted returns per unit of market risk.
Information ratio: measures the risk adjusted return divided by the standard deviation of returns

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BUY: A "buy" rating is applied to companies with established businesses that are profitable and where there is further profit growth expected. A "buy" recommendation means the analyst expects the share to appreciate by 20% or otherwise to reach the share price target on the note.
HOLD: The company's valuation appears to reflect investor expectations in the short-term. Alternatively the company is awaiting key developments that will impact on the share price. Investors are advised to await the resolution of these key developments.
SELL: The company's valuation appears too high having regard to material uncertainties, declining profit prospects or has sizeable funding requirements. A sell recommendation may also be applied where the board have failed in key objectives or appear to be frequently changing strategy. A sell recommendation means the analysts expects the shares to fall by up to 20% or to fall to the price target on the note or otherwise to underperform the FTSE All Share Index.
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