



PRESS RELEASE

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**RWC's Ajay Gambhir sets a positive tone for long/short investing in 2012,  
against a tough macro backdrop**

Speaking to investors this week, Ajay Gambhir, manager of RWC's £190 million RWC Europe Absolute Alpha Fund, outlined to investors why despite a range bound outlook for equities in 2012, the environment for stock picking is compelling.

Firstly, valuation dispersion between sectors is at multi-year highs. Sector performance will drive portfolio returns more so than market beta or the cyclical / defensive tilt of a portfolio (that drove returns in 2011). Gambhir explains: "We do not have a strong view on market direction in 2012, although we do believe that the potential exists for sectors to drive performance through a convergence of valuations. We think the sector shifts will be strong enough to be independent of market direction. **By way of example, food stocks are on 16 times P/Es and telcos on 9 times P/Es, both are arguably defensive sectors, but rated very differently. Meanwhile, autos are on 8 times P/Es and industrials are on 13 times P/Es, so there is a lot of scope for re-rating and de-rating. These are clear long/short opportunities to my mind**".

Gambhir also sees improving stock picking opportunities over the next 12 to 18 months.

He continues: "In addition to the opportunities between sectors the level of valuation dispersion between stocks within sectors is much higher than in 2007 and higher than in 2009. What's most interesting about this is that these opportunities offer the opportunity to make money irrespective of market direction."

Gambhir believes that value investing will work well this year; specifically the style of seeking high and growing dividend yields. Explaining this reasoning, he says: “Investors will seek the security of dividend income - this style outperformed last year after a period of underperformance. **“I like some companies available at the right price with sustainable well covered dividends, but I can also see opportunities to add alpha by being short some expensive defensives”.**

Looking at the stress within the Eurozone Gambhir believes a recession in Europe is more likely than not. Bank deleveraging may continue in the second half of 2012 and could resurface as a drag on markets. Gambhir comments further: “I am unsure if improvement in the US will continue into Q4 2012 or 2013 given the fiscal realities in the region – these will need to be confronted. However, in China we do not expect a hard landing and we expect that the country will ease monetary and fiscal policy as headline inflation declines.

“These macro elements point to a two-way pull in markets; on the one hand, between the negative deleveraging effects in Europe and the US fiscal issues, and, on the other hand, the positive global liquidity effects that could ensue as cash returns to risk assets from safe havens. Our best view currently of the equity markets for 2012 is of a large sideways trading range. It will be punctuated by periods of uncertainty and market volatility but we believe that the liquidity on the sidelines will provide a reasonable floor due to the levels of cash in safe haven assets.”

*RWC Europe Absolute Alpha was launched on 29<sup>th</sup> July 2010 and is up over 9.5% since then against the MSCI Europe Index which is down just over 0.5%. Gambhir is managing approximately £425m in his European Long/ Short strategy at RWC.*

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RWC's investment teams comprise many of the asset management industry's most respected names in long only and absolute return investing.

RWC's seven investment teams include:

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Ajay Gambhir	European Equities
Priya Kodeeswaran	Global Growth Equities
Mike Corcell	US Equities
John Innes	UK Equities
Davide Basile	Global Convertible Bonds
Peter Allwright and Stuart Frost	Absolute Return Bond and Currency

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