Cautious Multi Asset Fund (EUR)

Formerly International Reserve Fund (EUR)

Q1 2016 Fact Sheet

PETERHOUSE

Fund Manager

Stephen Dowds
Before he joined Hume Capital, Stephen was head of Northern Trust Global Investors' active International Equity group. Prior to this he was Managing Director and Chief Investment Officer at Dryden Capital Management (a division of Prudential-Bache International). A graduate of the University of St Andrew's with an MA in Economics with International Studies, Stephen is also an Associate (ASIP) of the CFA UK.

Market Background

Bewildering – that might be the best word to summarise the first quarter in markets. Having seen the US Fed finally set a clear path for the "normalisation" of its benchmark interest rate in December, investors entered the year with the expectation that we would see four rises of 25bps in the next twelve months. By late January, however, all bets were off, with many forecasting no more rises and some even believing that there would have to be a reversal of the December rise! Weak economic indicators and renewed fears for the robustness of the European banking system, combined with collapsing oil prices all played their part in shredding investors' nerves such that by the end of January, the yield on US 10 year Treasuries had fallen back to 1.9% and equity markets had fallen roughly 10%. Curiously, with fears of deflation rife, the only asset which showed meaningful strength was gold.

Then, despite the emergence of another risk to the structure of the EU (i.e. "Brexit") markets turned. Oil prices staged a rally, assisted by talk of OPEC production restraint, the US Dollar rose as slightly better economic numbers emerged and, talking of things Emerging, those markets also began to recover some of their previous sharp falls. By the end of the period the prices of many asset classes had recovered back almost to the level at which they started the quarter with the notable exception of high yield credit markets in the US and Europe which struggled as retail investors in the US and hedge funds liquidated positions.

Portfolio Analysis

Fund Holdings (%)

Federated-Fed-EUR-Kurzlaufer	79.4
Federated Stg Cash Plus EUR 3 Acc-SE3	1.5
Federated Prime Rate EURO Liquidity-3	0.0
NB Global C £ Red C Shares NPV	5.2
Providence Hume Fixed Inc C EUR PREF	2.5
Providence Hume Fixed Inc C2 EUR PREF	3.4
Providence Hume Fixed Inc C3 EUR PREF	2.4
Blackstone/GSO Loan Financing Fund	5.3
Cash	0.3
Total	**100.0**

Fund Aim

The Fund aims to provide liquidity and principal preservation, with an emphasis on seeking returns that are superior to those of traditional money market offerings.

Fund Approach

The Fund will normally invest in a portfolio of funds, in the main money market and cash plus funds, any of which may account for up to 100% of the portfolio. Bond funds with an average duration of less than three years may also be included.

Fund Facts

Structure	OEIC
Domicile	Guernsey
Dealing	Daily
Launch Date	1 February 1999
Benchmark	7 Day EUR Libid
Sector	Lipper Global Money Market: Money Market EUR
Fund Size	€10.9m

Fund Price

EUR	12.40

Availability

Direct Investments
Wrap Platforms
Life Office Bonds

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Performance and Activity

Fund Performance and Activity

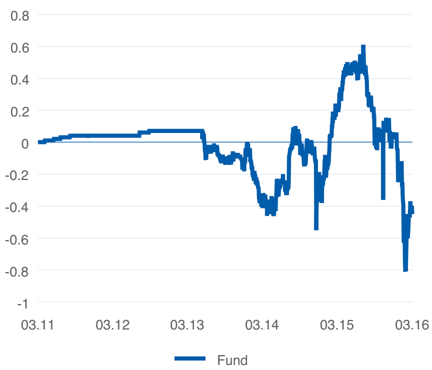
The Fund returned -0.50% over the quarter which lagged the return of -0.07% from Euro cash and the return of 0.01% generated by the Lipper peer group. The underperformance was due almost entirely to the fall in the share prices of the Blackstone GSO Loan Financing Fund as a result of there being a large line of stock placed at a significant discount to both the then share price and the NAV. Though we participated in this placing and the shares settled at a higher price than that of the placing, the fall from the price at the end of the quarter was still meaningful. These shares are now trading at a double-digit discount to NAV, and implying a significant increase in the default rates of the underlying secured loans to levels which we think are unlikely.

Strategy and Outlook

The Eurozone's banking system is still the region's Achilles heel. While former behemoths such as Germany's Deutsche Bank waddle under the burden of an underperforming investment banking division and the weight of bad loans it has accumulated in places such as Greece, the Italian authorities continue to dawdle on the way to finding a much-needed plan to re-structure the country's regional savings banks. Meanwhile, the EU's politicians squabble about the way to handle the flow of migrants in to the not particularly united Union. Unfortunately, given the current circumstances, waddling, dawdling and squabbling are not what is needed to generate renewed growth in the economy and so it has been left to the ECB to fire another round of liquidity injections from Mr Draghi's "bazooka". This may well help buy some time but it won't solve the problem on its own. Nonetheless, it does mean that short term interest rates in the Eurozone will remain negative for the foreseeable future.

Given this, we have continued to pursue the strategy of having the core of the portfolio exposed to short duration assets, complemented by holdings in funds which have either a higher than average yield and / or a significant element of "floating-rate" exposure to protect against any move in interest rates back to a more normal level.

Five Year Performance (%)



Cumulative Performance (%)

	YTD	1m	3m	6m	1y	3y	5y
Fund	-0.50	0.36	-0.50	-0.49	-0.67	-0.51	-0.45

Discrete 12 Month Performance (%)

	31.03.15 31.03.16	31.03.14 31.03.15	29.03.13 31.03.14	30.03.12 29.03.13	31.03.11 30.03.12
Fund	-0.67	0.62	-0.46	0.02	0.04

Literature

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