INTEREST

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Hume Capital part of enlarged group

The Hume group of companies are now part of XCAP Securities plc, the independent stockbroking, corporate advisory and market making investment bank. Hume's founder Nitin Parekh is Chief Executive of XCAP and Sir Peter Middleton serves as Non-Executive Chariman. Sir Peter spent nearly 30 years at HM Treasury and is UK Chairman of Marsh & McLennan Companies. He was previously Group Chairman of Barclays Bank PLC and Chairman of Camelot Group PLC.

XCAP's discretionary and advisory wealth management services complement Hume's fund management services. As corporate advisor specialising in UK small cap companies we are able to offer investors insight and access to new and interesting opportunities. In addition, we are able to offer our stockbroking services to all our clients.

Our article on Project Defluo provides a flavour of our corporate advisory business.

Hume funds produced positive absolute returns in 2012

Our Multi Asset and equity funds achieved over 10% in 2012. Across our bond, equity and multi asset range we ended the second half of the year ahead of indices and peer group in each of our funds.

HUME FUND	FUND %	BENCHMARK %	PEER GROUP %
Dynamic Multi Asset	10.1	9.6	9.9
Diversified Multi Asset	10.4	5.2	6.9
Global Opportunities	10.4	6.4	6.0
European Opportunities	13.8	12.4	12.5
International Bond	3.1	0.3	2.4

Source: Lipper 30 June – 31 December 2012

Hume took over management of the funds during 2011. During the earlier part of 2012 the funds were restructured and repositioned to reflect the Hume approach. The second half of 2012 saw the funds' return reflect our approach, we look forward to the future with confidence. The team we have here at Hume is of the highest calibre and we believe we can continue to perform well in the coming months.

We believe that under the new ownership of London AIM listed investment boutique XCAP we are in a strong position to grow the funds and incorporate a first class funds offering within the wealth management franchise at XCAP.

INSIDE THIS ISSUE...

Hume Capital

www.humecapital.com

Investment Outlook – 2013

While we cannot promise to do as well as last year, when in our first version of Interest in Q1 2012 we picked out 20 investments we thought investors should take a look at, ranging from blue chip equities like Deere, LVMH and Rolls Royce through to oversold banks like UBS and special situations like Wind Telecom, that returned an average of 18% which compared favourably with a return on the average stock of 12% (MSCI World), we do believe stock pickers should have a good year again in 2013 given the thousands of undervalued companies out there and the strong corporate profits cycle driving global growth.

As last year, we pick out themes that we believe are part of the long term growth dynamic investors should position themselves to and drill down to select 20 investments from there. There is terrific value in the world's stock markets from small companies in the UK to industrial companies in the US and Chinese, Indian and Japanese blue chips, global equities are priced cheaply versus cash and government bonds.

13 FOR 2013

1 Year of the Snake

In Chinese folklore the Snake is a symbol of intelligence, gracefulness and materialism – they enjoy luxury. People born in the Year of the Snake are supposed to be influential, insightful, analytical and motivated in business. Despite 13 being deemed to be unlucky in the West in China it is lucky. We expect a great year for Chinese equities and pick out three investments- retailer Bosideng, truck maker Qingling and transport company SITC The snake also features in one of the oldest legends in China: 'The Legend of the White Snake' which is a love story. Chinese tourists in Bicester Village may buy Mulberry bags, but we would buy the shares.

2 Made in the Good ol' U.S. of A.

US industry we believe is on the verge of a multi-year renaissance that will drive corporate profits higher and onto a new plane in manufacturing. Abundant cheap energy, rapidly improving productivity and leading edge global technology that many countries clamour for particularly in defence and aerospace puts US manufacturing in an enviable position versus its global peers GM, Parker Hannifin and the more interesting small companies like Barnes Group may do well.

3 A boom in cheap gas

Closely related to the renaissance in manufacturing, the promise of abundant supplies of low cost gas resulting from the shale gas boom in the US is an important development. Drillers like Helmerich and Payne are well placed to benefit, while chemical companies like Chemtura, Dupont and Innospec will see lower feedstock costs improve profitability.

4 E-commerce turning profitable

All those years of heavy investment in e-commerce is turning profitable for hundreds and hundreds of businesses ranging from Amazon in the US to Asos in the UK and Alibaba and Rakuten in China and Japan.

5 Miniaturization

Mini mouse-Miniaturization is moving on to a new level inspired by advances in flash memory for smartphones and 3D printing which is about to transform manufacturing. Industry is setting the pace as far as new technology is concerned…chip makers Qualcomm and Dassault Electroniques are big beneficiaries of this trend.

6 Hasta la vista to bonds bebe

Bond investors face a tricky time as the 30 year bond bull market comes to an end as rates turn. Bond managers need to be good to make money in this environment and fortunately we've got a Citywire rated bond manager at Hume who can navigate through-Polish and Mexican high yielders look good value yielding 7%, while in the UK Nationwide PIB's yield 7%. Domestic demand proxies like car rental firm Localiza and telecom group OI are poised to benefit.

7 A mergers and acquisitions frenzy ahead

Subdued since the 2008 Financial Crisis, companies will start to deploy their cash in a big way. US companies hold a staggering USD1.6trillion of net cash equivalent, 12% of the value of the market itself. They either invest it or lose it as hungry governments grab it from them.

8 Fortune cookies

A devilish alliance-much to the disapproval of the human rights lobby, western fears over Chinese human rights and their treatment will be put to one side as China and America maintain an uneasy alliance. China spends, America invests, trade imbalances right themselves, so look out for an infrastructure boom in the US and retail and services boom in China. Japanese companies should do well as they cash in on both! Toshiba and Hitachi win on both sides of this particular trade.

9 Lindo maravilhoso!

Brazil will do well as the country accelerates investment ahead of the football World Cup in 2014 and Olympics 2016 and we are on the lookout for opportunities here.

10 Mumma Mia, carpe diem!

Italian assets look underpriced-Berlusconi's loss will be Italy's gain. Reform is on the way, the general election in Italy on 24 February may well be the catalyst to unlock value in Rome and Milan. The Italian market trades below book value and Exor, Italcementi and Ti Savings all look good value.

11 From the cradle of humanity

Africa, volatile and unpredictable as it is, will entice investors. Some of the world's last great mineral deposits reside here and producers in Egypt and Mali like Centamin and Randgold, to say nothing of the huge potential from 54 countries and 1bn consumers, are eyed ambitiously by businesses.

12 On the road to Mandalay

In Asia, Myanmar and Vietnam offer the most compelling outlooks while the Philippines should finally start to fulfil its long awaited potential as a country of 100m consumers.

13 India's growth will be 3 x Britain's

India has 2,000 listed stocks ranging from the mighty Tata, owner of the Jaguar Land Rover, United Spirits that Diageo is taking over at double the price of a year ago and watch retailers like Titan Industries.

European Opportunities

In our view there remains outstanding value in Europe across the asset classes in our view. We believe investors will look back at the European crisis and realise they should have bought equities in 2012.

- As we argued in our edition of "Interest" in May 2012 – *"We argue that… French assets are at their cheapest in a generation and poised to enjoy a spell of strong performance."*
- Even today after a near 20% rally from the June 2012 lows there remains considerable value across a broad spectrum of French and European equities as well as more broadly in the higher yielding space, by which we mean fundamentally, bonds of blue chip companies, blue chip dividend paying equities, smaller quoted companies, European property and European private equity.
- Here at Hume we have been promoting the virtues of the eurozone bloc since June, holding significant weightings across our bond, equities and multi asset clients in Eurozone assets. Extraordinary value remains in France and Italy especially, with the equities of many blue chip companies yielding 5% or more, which versus an average European interest rate of 1.5% represents excellent long term value for the investor.
- We have taken profits in some of the more highly leveraged European financial stocks with the stocks of banks like BNP and Unicredit having rallied 50% or more from those June lows. Likewise some global growth names like Diageo and Inditex have become expensive exhibiting "Nifty 50" type characteristics.
- However, the broader markets in consumer stocks, and the shares of energy, industrial, and utilities include a plethora of established European companies like Acerinox, Lagardere, Total, as well as niche industry leaders like ARM, OMV and SGL Carbon.

While under no illusion about the hurdles ahead for European policy makers and households, we believe June 2012 will have marked an important low for stock markets in the region and higher yielding bonds, equities and inflation beneficiaries like property investment we expect to provide attractive returns for investors in coming years.

Cheap Gas-Will the American phenomenon go global?

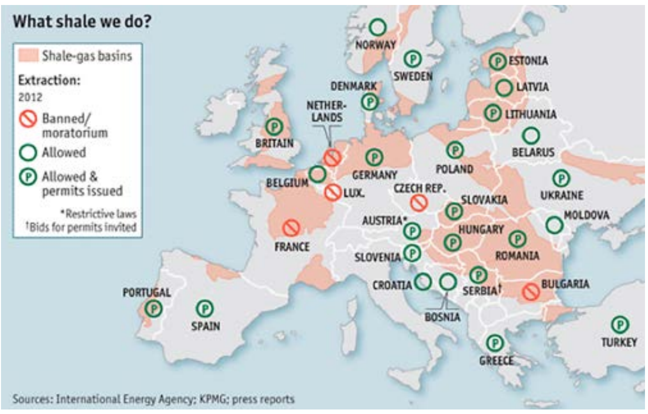
2012 saw the US increase oil production by 760,000 barrels per day, and is forecast to produce more gas and oil in 2013 than at any point since 1992. Producing over 7m barrels of oil per day the US will be a net exporter for the first time since 1949.

The nation's success in developing a process called "Hydraulic fracturing", or "fracking," is the key driver. This involves blasting massive supplies of oil and natural gas from shale rock deep beneath the earth, raising the possibility the US replacing Saudi Arabia top oil producer by 2017.

Shale-gas and oil are propelling America toward energy self-sufficiency and giving its economy a leg up. Europe's significant shale-gas deposits have to date not been exploited due to geology and primarily political factors.

This mismatch between hope and reality for European shale gas was summed up by Exxon walking away from Poland in June 2012, a disappointing move given the reputed abundance of shale deposits reported there. Similarly Shell's miserly move to sign an agreement in January to sink 15 wells in Ukraine, also potentially rich in gas, again suggests caution on behalf of the oil majors.

It is too early to tell whether Europe and for that matter other parts of the world will develop shale deposits in the same way the US is proceeding. However whichever way the world goes the consequences will be profound and long lasting. Watch this space…



Source: The Economist

Project Defluo - Corporate Advisory

This is a breakthrough, patented technology that provides small scale, onsite waste disposal for expensive, hard to treat materials (such as offensive and hazardous waste). It is effectively a 'bin that empties itself'. It provides efficient waste treatment, with energy recovery, that is cheaper and easier to use than existing conventional, centralised disposal methods.

A unit is the size of a large chest freezer and processes up to 20 tonnes of waste per year in small batch cycles. It produces more energy than it consumes, while destroying over 99% of the waste, with the solid residue washed into the sewer. This compares to current technology with an incinerator the size of a house and significantly greater environmental impact.

Defluo charges a monthly fee for its units and typical dry clinical healthcare waste gives a unit payback under two years. Having just received its Environment Agency permit, Defluo is now raising £6m of equity to fund the commercial roll out of its units and take it to profitability and existing investors are subscribing. The investment is subject to EIS relief and there is a minimum investment size of £250k.

An exit could take various routes, but the most likely is a trade sale to a larger company in the waste market, in facilities management or an equipment supplier into Defluos market looking to broaden its scope.

With a high-growth 'own and operate' model, building an installed base of recurring revenue, the Company has the potential to deliver a 50% operating margin and more than a 6x investor return.