INTEREST

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UK Equity Market Review and Outlook

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Well before 2015 began the UK stock market was on "worry" alert. The economic progress made in 2014 is undoubtedly helpful but 2015 was always going to include a UK general election, interest rate and inflation worries, and geopolitical concerns such as Middle Eastern and Russian global politics and acts of religious terrorism. Life perhaps was simpler in years past when the rate of Chinese economic growth was the overriding concern. How does an investor put a market valuation on this collection of factors? One thing in our view is certain- dividends are important for valuations and the good news is that the flow of dividends from the FT350 index members is transparent, estimated to be £97bn in the financial year 2014, up from the cycle low of £58.7bn for 2010. That said, absent a severe downturn, dividends are underpinned by the strength of corporate balance sheets and this is the bedrock in our view for profitable stock picking in 2015.

The UK market is currently yielding 4.3%, with a one year out estimate of 4.7%. And this is before the resumption of dividends paid out by the banks. Lloyds paying out 3p this year does make a difference to the total especially as the stock is the 10th largest UK PLC. What of RBS? There were 2433 stocks listed on the LSE at the 31/12/14 but in reality only 500 are investible with a long tail of potential lottery winners. According to a recent analysis, 80% of the current FT350 yields more than a 10 year UK gilt. This alone does offer equities downside protection even if the bond market is overpriced in our view.

Our stock research looks for predictable dividend payments with interesting and well constructed business models. There are two known corporate events a year, being the interims and finals that will more than likely give dividend guidance. Also investors are never that far away from a trading update and PLC's are meeting investors constantly. This is classic bottom up investing and there is an old adage there is no such thing as a bad PLC just the wrong entry price!

Our yield search throws up many such as PHP for example, an owner of GP surgeries whose rents are Government backed that yields 5%. A gilt edged equity? There are many individual stock ideas to investigate in 2015, well away from the top down stock market gloom that the press often writes about and we shall be working hard to investigate these opportunities.

Hume Capital

www.humecapital.com

Hume Investment Dynamics Q1 2015

There are a number of important dynamics which are likely to drive financial markets in 2015 and five in particular we believe are likely to shape the year.

The five most important in our view worth highlighting are:

OIL PRICES

The fall in the price of oil in 2014 has been both severe and unexpected. Almost without exception strategists at the start of 2014 did not expect the oil price to be below $80. So a price of $50 is a genuine surprise and companies, governments and household sectors will be impacted to varying degrees in 2015.

The collapse in the second half of 2014 if sustained will have important consequences for investors. From scrapped shale gas and North Sea oil projects on one side, to a boom in airline profits on the other, consumers of energy are being handed a one off windfall at the expense of producers. At a GDP level UK economic institute NIESR recently revised up its forecast for 2015 UK economic growth from 2.5% to 2.9%.

BOND YIELDS

One of the features of 2014 has been the precipitous drop in bond yields. At the start of 2014 the average government ten year bond yielded 2.5%. By end 2014 this had dropped to below 2% in America and the UK, and in the case of Germany and Japan, well under 1%. Indeed, given it now appears to be a stated aim of central banks to depress returns on risk free money, with banks in Germany and Switzerland charging customers to deposit money, this situation is becoming the ''new normal." In Switzerland the average equity and property yields over 3%, a full 300bps above the ten year bond yield.

In the short term, with central banks maintaining the pressure on both household and corporate sector to invest, the outlook for short duration assets is likely to be tricky. And with G7 bond yields at 1% or below we believe investors will be forced to move further out into medium term corporate debt, asset backed securities, convertibles and equities. In the UK a report by investment bank Citibank calculates that versus gilts the UK stock market is the cheapest it has been versus gilts for a century with the reverse yield gap (a measure of the relative value of bonds v equities) standing at over 2.5, equities yielding 4% and gilts 1.5%) an historically unusual situation only usually associated with depressions such as the 1930s.

However we believe that the US will move into a tightening cycle from mid-year onwards and this will drive bond yields higher starting in H2 2015 and cash rates start to rise globally. Our rate forecasts are below.

10 YEAR BOND	US %	JAPAN %	GERMANY %	FRANCE %	UK %
JUNE 2015	2.2	0.3	0.3	0.4	1.9
SEP 2015	2.4	0.5	0.3	0.4	2.1
DEC 2015	2.6	0.6	0.3	0.4	2.3
MAR 2016	2.8	0.7	0.4	0.6	2.5
JUNE 2016	2.9	0.8	0.6	0.8	2.6
SEP 2016	3.1	1.0	0.8	1.0	2.8
DEC 2016	3.3	1.2	1.0	1.3	3.0

(source Hume Capital)

CURRENCIES

A third key investment dynamic is the dramatic rise in the value of the US dollar versus the euro and the yen. So extreme has this become that the euro has depreciated against the US dollar by 15% over the last 12 months, that this is handing a one off and potentially significant advantage to European companies, many of whom are among the world's most profitable in their fields already.

By contrast the currencies of the dollar bloc have strengthened and profits will have the edge taken off them. So while in aggregate corporate earnings growth will be 6-7% in 2015 and in line with global nominal GDP, momentum will shift from US dollar based regions to Euro bloc and Japanese.

RELATIVE GROWTH

The US economy has outperformed in 2014 and underlying GDP growth has been recorded at 3% for the year. Europe and emerging markets by contrast have underperformed expectations.

2015 is likely to see a relative shift in growth expectations as European growth comes back on stream and Japan starts to improve. Furthermore the strength of the US dollar is likely to take the edge off corporate profits in America versus those in Europe and Asia. We will look to aim to exploit this in our investment strategy.

VOLATILITY

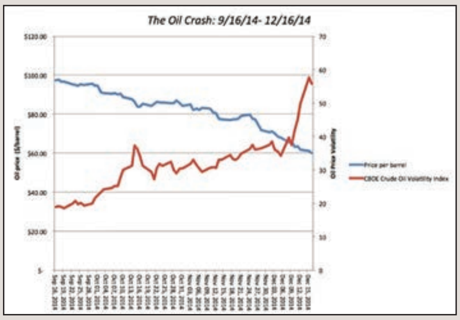
Volatility has intermittently spiked during the course of 2014. However, volatility at a global level has been low for some time now and with longer term bond yields so depressed it is almost inevitable that the year will see a sustained spike in volatility at some point. The funds will look to benefit from this with several ways of gaining exposure available.

Twice in the last thirty years oil prices have collapsed and stabilized at low levels. Both times led to a boom in the global economy. Will this be the third time?

Twice in the last thirty years the oil price has collapsed and remained at a materially lower level for a number of years afterwards. One was during the Saudi Arabian backed oil price drop of 1986 and the second was during the mid to late 1990s. Both times led to a global economic boom. Will history repeat itself?

The oil price has dropped 50% since June 2014. A recent study by Oxford Economics titled "Oilpedia" suggests that for each $20 drop in the price GDP growth adds by 0.4%. This accords broadly with IMF estimates and suggests that world GDP growth will at least be underpinned between 2015 and 2017. High energy costs are after all a tax on spending.

The winners and losers are at one level easy to identify. Clearly Venezuela is a loser and the Philippines is a winner. Clearly airlines are winners while oil producers are losers. However things are more subtle than this and what is interesting are the secondary effects. For example plastics and packaging manufacturers, trucking companies and mail providers will do well while coal producers as well as renewable and nuclear equipment makers may see business models challenged.



source: "Musing on Markets December 2014"

Hume Cautious Multi Asset Fund Strategy 2015

The Hume Cautious Multi Asset fund seeks to achieve an attractive rate of return subject to both a desire for capital preservation and the prevailing interest rate background. The Fund's strategy is designed to provide liquidity and principal preservation, but with an emphasis on seeking returns that are superior to those of traditional money market offerings.

Current Fund Positioning: Despite the end to the US Federal Reserve's QE programme, the economic background remains fragile, signs of recovery in the US and UK being offset by slower growth in China and a still sluggish Europe. Indeed, confidence in the Eurozone was further undermined by The Return of "Grexit", the sequel to the original 2012 saga, following the election of left wing party Syriza which was voted in as the new government with an anti-austerity agenda.

Meanwhile, at the European Central Bank, moves are afoot to launch a huge QE-like programme to breathe life into the moribund economy of the Eurozone. Though there are those, such as the Germans, who are voicing caution, markets expect it to provide a significant liquidity boost to the region and hope it will kick-start growth, particularly into the "core" economies of France and Germany.

Given the combination of anaemic growth and ultra-low interest rates, our strategy continues to be to avoid longer dated conventional government bonds which appear very expensive. Instead we hold core positions in defensive enhanced cash funds supplemented by a small number of higher yielding investments which have exposure to non-conventional instruments such as CLOs, bank loans and receivables financing.

Hume Diversified Multi Asset Fund Strategy 2015

The Hume Diversified Fund seeks to achieve a total return from a combination of income and capital growth via a strategy of diversified investment, both in the United Kingdom and overseas. The Fund will invest primarily in transferable securities offering exposure to a range of asset classes such as equities, property, bonds and commodities.

Current fund positioning: We believe the debt and equity of European companies is undervalued. US assets have performed well in 2014, however earnings growth is set to slow in 2015 while in Asia, China and India were the stand out markets in 2014 recording returns of 53% and 29%, but now look fairly valued. Emerging markets overall performed poorly in 2014 hurt by Brazil but more especially Russia. In the year ahead it is tempting to invest in commodities and commodity based markets like Brazil, South Africa and Russia. However, the adjustment in Chinese growth towards domestic consumption is having a negative impact. Infrastructure as a sector looks of interest. Demand remains high across Asia and America and it is likely governments will protect infrastructure programmes. We believe investing in infrastructure will remain a key theme in 2015 and we will be exploring opportunities in this sector.

Building a diversified portfolio of assets against this background takes us into these higher yielding and longer duration assets at the expense of short term bills and cash. While there is some value in pockets in America and Asia and value in emerging markets, the stand out in our view is the European high yielding assets category.

We hold 40% of the fund in this category.

A further 40% is invested in straight exposure to global equities. We believe global equities are good value versus global bonds. We are invested in vehicles such as I Share etf's to gain exposure to this dynamic.

A further 20% of the fund is allocated to private equity, infrastructure, and commodity related and opportunistic trading vehicles. Examples in 2014 included the China A shares position and exchange traded funds in Europe equity income and aluminium.

Hume Equity Strategy 2015

The Hume Equity Fund has an approach rooted in a simple, easy to understand framework - namely, fundamental factors drive share prices over the longer term and these are best analysed within a sector and industry framework. Understanding the dynamics driving competitive advantage identifies companies with superior growth potential within their peer group. The resulting change in relative valuation is a powerful driver of return. An unconstrained investment approach, and flexibility of time horizon, enables us to invest in companies representing the best opportunities.

Current fund positioning: We continue to see growth in corporate profits across a wide range of industries. Growth in sales, profits and, particularly, free cash flow is impressive. The last of these is allowing companies to grow dividends and this is helping many investors feel more comfortable with the expansion of valuations which took place as bond yields fell. It has become almost commonplace for investors to be able to find equities with decent growth prospects, a strong and improving balance sheet and a dividend yield greater than both their own corporate bonds and their respective government!

It is likely that at some point markets will have to reconcile the tension between the benefits of faster economic growth and the negative influence of tightening monetary policy, including the possibility of rising interest rates, most particularly in the US. Where market rises have been driven in substantial part by higher valuations (e.g. the US), this may well prove a significant headwind. Nonetheless, provided any tightening of monetary policy is seen as being done in a measured and managed way, without the fear that inflation may be picking up rapidly.

We continue to focus on companies whose competitive position is defendable and who can take advantage of the dynamics shaping their industry to produce rising returns to shareholders. In sectors like global technology for example, the fund is finding interesting opportunities in the growth of data storage. According to American company Cisco, compound annual growth in this sector is running at 23% per annum and data volume is expected to triple to reach 8.6 zettabytes by 2018. This traffic is equivalent to streaming all the movies and TV shows ever made 250,000 times. (source Cisco). Cloud is expected to represent two thirds of this data by 2016. For example, one of the funds' holdings, UK listed Telecity, has recently merged with Interxion and this has led to substantial gains in the share price.