

Hume Cautious Multi Asset Fund (GBP)

Formerly International Reserve Fund (GBP)

Q2 2017 Fact Sheet



Fund Manager

Peterhouse Multi Asset Team

Amanda van Dyke
Richard Lockwood
Richard Stevens
Stephen Watson

Market Background

Market Review

Equity and bond markets performed well in Q2 2017. Positive influences were:

- Better than expected global GDP and earnings growth (MSCI World 2017 consensus earnings estimates raised to 10%). Chinese GDP in particular showed signs of stabilisation.
- Lower than expected inflation with US and European CPI under-shooting central bank targets and bond yields falling to 2.2% in the US and 1.2% in Europe.
- Social democratic parties gaining ground in French and UK elections, easing fears of economic nationalism.

Overall the MSCI World equity index rose 4.2% in the period while the JPMorgan global bond benchmark rose 0.6%.

Outlook

The outlook for global asset prices rests on the interplay between how markets react to higher interest rates as US rates turn and the durability of corporate profits.

While it is unquestionably the case so far global corporate earnings are proving resilient and have beaten expectations, three points mitigate against an over optimistic interpretation-one, the profits cycle is mature with return on equity at close to 15% globally and as high as 20% in the US close to historical highs, two, US rates have been going up consistently since December and three, the old stock market adage "Three steps and a stumble" may be tested as US rates continue to climb.

Portfolio Analysis

Top Ten Holdings (%)

Federated Prime Rate GBP PL-3	48.4
JPM Managed Reserves I Acc GBP	28.3
NB Global Floating Rate Income Fund Ltd GBP	8.3
Blackstone/GSO Loan Financing Fund	6.1
iShares USD Short Dur HY	3.4
STOXX Europe 600 Utilities	2.4
iShares US Preferred Stock ETF	1.8
British Land	0.9
Federated Prime Rate GBP Liquidity-3	0.4
Cash	0.2
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	19 June 1980
Sector	Lipper Global Money Market: Money Market GBP
Fund Size	£21.4m

Fund Price

GBP	77.42
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Availability

Direct Investments
Wrap Platforms
Life Office Bonds

Hume Cautious Multi Asset Fund (GBP)

Performance and Activity

Performance Review and Activity

The portfolio returned -0.17% in the quarter net of fees. Over 12 months the portfolio has returned 1.39% net of fees.

Our multi asset allocation consists of a diversified portfolio approach with a mix of bonds, blue chip equities, commodities and property. Our current weightings of circa 35% in high yielding blue chip corporate bonds, circa 20% in commodities/commodity stocks, around 10% in private equity and alternatives and approximately 20% in equities, while we have hiked US\$ cash to around 15% to raise exposure to rising US\$ interest rates.

Fund positions that form the core of our portfolios are invested in corporate loans (Blackstone GSO Loan fund, Neuberger Berman Floating Rate Income Fund) blue chip preferred shares via exchange traded funds (iShare US preferred ETF), utility and property ETFs and high yield short term government fixed income.

Our core satellite approach (80% collective investment schemes and 20% single securities) allows for a flexible approach to trading with the aim of taking advantage of trading opportunities in single securities. Hence we booked profits in Italian engineering group Leonardo-Finmeccanica and US silver mining major Hecla Mining, we sold Canadian gold major Kinross. We bought holdings in British Land to reflect our view that its assets are undervalued and bought a commodity exchange traded fund, Global X Uranium ETF, to gain exposure to the growth in nuclear power as a new generation of nuclear power plants comes on stream both in the west and in the developing world.

Portfolio Strategy

We focus heavily on quality income. In our view there remains especially attractive parts of the market in BBB investment grade corporate debt, as well as subordinated BB debt. We also favour emerging market income and the preferred shares of blue chip banks like Citigroup and HSBC that we invest in via the US iShares preferred ETFs.

In growth we are targeting investments that provide exposure to growth dynamics such as new technologies in transport like electric vehicle technology, the rapid move to urbanisation and new ways of consuming information and technologies.

The move from the slow growth west to the dynamic fast growing east remains a key driver of capital flows as western growth becomes structurally slower with US\$3 in very US\$4 now taken up with the servicing of debt.

By contrast the emerging economies of Asia in particular are high in savings and low in debt with buoyant economic growth is buoyant and we favour these markets.

Performance Since 31.03.2016 (%)



Cumulative Performance (%)

	YTD	1m	3m	6m	1y	3y	5y
Fund	0.32	-0.31	-0.17	0.32	1.39	3.23	3.21
Sector	0.04	-0.01	-0.01	0.05	0.16	0.58	0.86

Discrete 12 Month Performance (%)

	30.06.16	30.06.15	30.06.14	28.06.13	29.06.12
Fund	1.39	1.29	0.51	0.14	-0.16
Sector	0.16	0.28	0.16	0.14	0.16

Please note that as at 08 August 2016 a new "S" class was created as a result of the board deciding to declare the funds the Company held in Providence Investment Funds PCC Limited ("Providence") as Illiquid Investments in accordance with article 49 of the Company's articles of incorporation. Accordingly, the figures shown represent the underlying "Participating" shares. The S Shares are not redeemable at the S Shareholder's option but will be redeemed and replaced by Participating Shares as and when the directors decide that the investments in the S Share Portfolio become liquid. The directors subsequently wrote the value of the Providence investment held in the S Shares down to zero when it became apparent that early realisation was unlikely.

Source: Lipper, total return, mid to mid, excluding the effect of initial charge, income reinvested gross of UK tax, in GBP, to 30.06.17. Copyright 2017 © Lipper, a Thomson Reuters company. All rights reserved.

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Literature

www.peterhouseam.com

Dealing

+44 (0)1481 719742

Adviser Contacts

+44 (0)20 3198 2550
info@peterhouseam.com

Investor Services

+44 (0)1481 719742

Investment Adviser

Peterhouse Asset Management Ltd

Codes (GBP)

ISIN GG00B8333915

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Issued by

Peterhouse Asset Management Limited
Atlas House
1 King Street
London
EC2V 8AU

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