GLOBAL VIEWS

4th Quarter 2014

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It's Never Easy!

If you are currently invested, or are considering making your first foray into these muddy waters, you cannot have missed the raft of news which emerges virtually daily from the newsstands.

Ebola Fever threatens travel, especially from Africa. Whilst that does not affect many of us directly, with cases now being recorded within Europe and the US, it just may escalate and start to affect more of us.

ISIS jihadists with what we generally deem to be some strange views, making The Taliban appear quite reasonable. Oil production in Northern Iraq interrupted, and the impact upon the region becoming more and more concerning.

Germany, for years the centre of growth for Europe, appears about to enter recession.

The EU heading to recession.

China in a property bubble and seeing dramatic falls in GDP.

Russia and Ukraine standoff, although at the time of writing it appears a deal being done on the payment for gas.

Brazil, one of the top ten economies in the world, in recession.

Argentina close to default.

New stress tests on EU Banks reveal some shortcomings

All the above and we have not mentioned the potential for the Euro to fail, the US balance of payments, the fact that countries continue to accumulate debt, which can almost certainly never be paid back.

So is now a good time to invest, or should we all take our cash and put it under the bed? The answer is only time will tell, but history tells us, its time in the market, and not market timing which works for most. Thus on that basis, values have come back, and clearly we are always better buying when prices are depressed, as opposed to at highs.

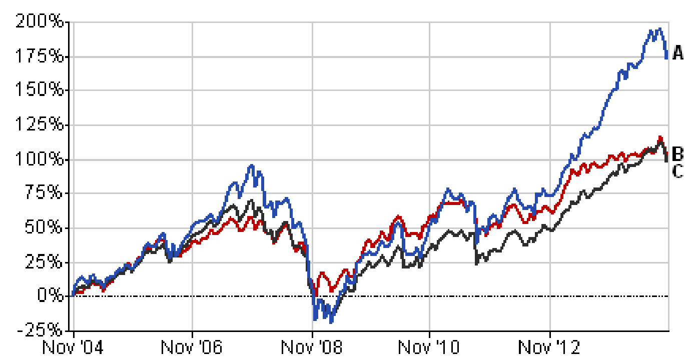
There are always reasons not to, and frequently few reasons to. Take advice consider options; understand the potential rewards, and equally the risks.

Best Performing US Fund Made Available

According to FE data, the $171m fund has returned 178.17 per cent over the past decade, compared to 102.52 per cent from the MSCI AC World index.

This puts it fourth in the 1,837-strong Offshore Mutual International sector, with no US-domiciled fund coming close to matching its return.

Performance of fund and index over 10yrs



Source: FE Analytics

The fund is second overall over five years with returns of 112.05 per cent and 13th over three years with 77.25 per cent.

Guinness Global Innovators will sit in the IMA Global sector. It's a top decile performer over all three periods, second only to the L&G Global Health & Pharmaceutical Index tracker over five years, for example.

It is a high conviction fund of only 30 stocks, which Mortimer says has an active share of over 95 per cent.

An FE Trustnet study recently showed that the vast majority of global funds have struggled to add value over the medium to long term, with experts saying too many are overly concentrated and quasi-trackers.

Having a high conviction portfolio, Mortimer says, is the only way to add consistent value.

As the fund's name suggests, the managers attempt to find innovative companies with an edge over their rivals.

These companies, the managers say, have a better chance of delivering a high return on capital, thus outperforming the market in share price terms.

Historically, the emphasis on innovative companies has led to a high tech weighting.

The fund continues to have an overweight position, at around 30 per cent; however since Mortimer and Page took over from Tim Guinness in 2010 the weighting has come down from a high of 50 per cent.

"This is certainly not a tech fund," said Mortimer. "It is not compared to a tech index and we don't look at other tech funds in comparison."

"To be innovative doesn't mean you have to be changing the world with technology. We're looking at all types of innovation. Some of that is tech-based, but it's also about companies with innovative products and business models."

For more information contact us without delay.

What's Behind Sub $100 Oil and What Lies Ahead?

Jonathan Waghorn, co-manager, Guinness Global Energy Fund

Recent weakness in oil prices comes after years of low volatility. Brent crude oil has averaged $108 since the start of 2011, and has traded in a range of $90 to $125.

What happens now?

Bears see recent price weakness as confirming their view that global oil demand will weaken further, that US oil supply growth will swamp the world and that political uncertainty in the Middle East is just a blip. Early indications show global oil demand in Q3 looking a lot more positive and that, fundamentally, there has been no significant impact on global oil supply and demand balances. We feel that the bears cannot see the wood from the trees; they miss the crucial point about world supply and demand – that world demand growth (mainly from emerging economies) has greatly exceeded supply from the world (ex Saudi Arabia, Kuwait and the UAE) for three years. The oil price is only as low as it is because those three Middle East producers have ramped up production temporarily by 2.9m barrels/day – significantly above their long-run average production – to satisfy global demand. Despite higher US oil production, we are still living in tight oil markets.

We believe Saudi, Kuwait and the UAE have tacitly determined to play the swing producer role in world oil markets, and that their objective is to keep Brent oil prices at or above $100 per barrel on average. We believe they will (quietly) cut back production by not just their 2.9m barrels/day oversupply but probably twice that to ensure near-term price stability. This dwarfs everything else. Further ahead, Saudi et al will ultimately use up this spare capacity to lower prices as global oil demand growth outstrips non-OPEC oil production growth into the end of the decade.

$100 per barrel appears to be the magic number for both supply and demand

Why does Saudi seek a price of $100? $100/barrel for Brent is an acceptable level for both producers and for consumers. It is sufficient to incentivise new production from the unconventional oil developments in the USA (witness their recent years of strong production growth) and it is not so high that it stifles global oil demand growth (viz the IEA expectation of 0.9 and 1.2 million barrels per day of oil demand growth in 2014 and 2015 respectively). It enables Saudi and the other swing OPEC producers to balance their budgets and set some cash flow aside for a rainy day; and it ensures that Iran (Saudi's enemy) is affected by sanctions and is not bailed out by a Brent price surge.

Limited implications from front month Brent oil weakness for the energy equity sector outlook

The price of Brent is unlikely to sit below $90 for any great length of time and any such price weakness will be followed by a recovery, in our opinion. We believe that the trading range will be managed as $90-110 for the great majority of the time.

Energy equities remain cheap. Recent company results continue to reaffirm that the larger cap oil and gas producers are progressing with their 'value over volume' strategies, and we believe this is positive for the sector as a whole. Energy equities have underperformed the S&P500 and the MSCI World Index in 2011, 2012 and 2013; and having staged a rebound since February in 2014, they have fallen back over the summer on the crude price weakness. At the start of 2014, we argued that energy equities were around 20-30% cheap, and this yo-yo performance in 2014 has not changed that one iota. We are more convinced than ever that the energy sector is still around 20-30% cheap and that investors, therefore, are being presented with a similar opportunity to the one that appeared at the start of 2014.

Kestrel Global Portfolio

Kestrel
Investment Partners

The Kestrel Global Portfolio shows 2.5 years of performance relying on 25 years of investment experience.

The Kestrel Global Portfolio A share class in GBP has returned +29.11% from launch on 1 June 2012 to 23th October 2014, giving a compound annual return after fees of 11.26% and an annual volatility of about 7.8%. Source: Bloomberg, Morningstar.

Although Kestrel Investment Partners launched its global portfolio 30 months ago, it was constructed using 25 years of expertise in global multi-asset investment techniques. The fund's investment approach relies heavily on Kestrel's macro-economic research technology and analysis, but the ultimate investment decisions are made by its managers John Ricciardi and Max Royde.

Targeted Return

The fund targets annualised returns of 8% after fees over a business cycle, with contained volatility. The targeted return is quite high, but it comes from two sources: one is long-term optimisation across world asset classes, which adds value to fund performance over the business cycle, and the other is Kestrel's dynamic asset allocation, which enhances return by adjusting the fund's holdings to match anticipated movements in market fundamentals over the forthcoming quarter.

Holdings

The Kestrel Global Portfolio is a long-only, daily dealing, Dublin UCITS fund that holds a globally diversified, multi-asset portfolio. It aims to achieve capital growth by investing across global markets in listed equities, debt securities, money market instruments, real estate, commodities, and cash. Allocation between asset classes is based on the dynamic level of risk that Kestrel has selected for the fund. The fund gets 85% of its market exposures through direct investment in securities with the only managed funds it holds being UCITS, daily-dealing, equity long/short or hedge funds. Shares in the fund may be subscribed and redeemed on a daily basis.

Technology

Kestrel Investment Partners is an asset management firm that creates its own investment technology. The fund's asset allocation decisions are made by Ricciardi and Royde, aided by the information they access through Kestrel's systems. Their proprietary technology generates millions of data point daily from economic financial time series across the world, and provides a powerful, forward-looking view of global markets through its projections. Their investment view is reinforced by analysis of projections, inflation analysis, debt, deflation, commodities, the economic cycle, investment styles, and market valuations.

Experience in Quantitative and Qualitative Research

Ricciardi and Royde bring their qualitative assessments to bear on the quantitative research. The two managers interpret Kestrel's forward-looking research as to the most likely effects for financial markets, and adjust the fund's risk and tactical allocations accordingly. The investment process is 100% discretionary, using quantitative research that is in no way a black box: the ultimate decisions are made by the managers who combine the output data with investment themes to identify likely market outcomes. Ricciardi and Royde have run the fund since its inception; and Ricciardi has a CV littered over six global cycles with institutional and retail multi asset roles, including head of global asset allocation at Alliance Bernstein and head of asset allocation at Iveagh.

Core Investment

The emphasis for the Kestrel Global Portfolio is to provide a core holding for clients. The fund, with its global diversification across all major asset classes, and risk-control through dynamic allocations, fits well in an investment universe comprising Ruffer, Troy Trojan, Newton and other higher profile propositions.

Disclaimer

Share prices and performance have been calculated after taking into account all charges paid by the fund including fees paid to Kestrel as well as the distributor and promoter of the fund. No account has been taken of any other fees or charges that may be payable by the investor such as tax or advisers fees. Past performance is not a guide to future performance. The value of investments may go down as well as up and you may not get back the full amount originally invested.

Buying a Property Abroad

Whilst the property market within UK has continued to be fairly buoyant, many countries within the Eurozone in particular have seen steep declines in both transactions, and values. The trend for falling prices appears to have abated in most countries, and prices becoming stable, and or rising.

For many people the dream of retirement or a holiday home abroad remains, and there remain many bargains to be picked up.

Below we show some basic terms of mortgage details across a number of countries. If you wish to explore the possibility of buying property within Eurozone, or indeed anywhere else feel free to contact us for more details.

France

2.20%	VARIABLE - 10YRS	80%	Repayment	€100,000	NONE AFTER 1YR
2.60%	VARIABLE - 25YRS	80%	Repayment	€100,000	NONE AFTER 1YR
2.90%	CAPPED	85%	Repayment	€100,000	NONE
2.95%	VARIABLE	85%	Repayment	€50,000	NONE
3.25%	FIXED 25YRS	80%	Repayment	€100,000	3%

Spain

4.00%	VARIABLE	60%	Repayment	€100,000	0.5% x 5yrs, then 0.25%
4.85%	VARIABLE	65%	Repayment	€50,000	0.5% x 5yrs, then 0.25%
4.95%	FIXED - 5YRS	60%	Repayment	€60,000	0.5% x 5yrs, then 0.25%
4.20%	FIXED - 15YRS	65%	Repayment	€50,000	0.5% x 5yrs, then 0.25%

Portugal

4.95%	VARIABLE	60%	Repayment	€50,000	0.5%
5.15%	VARIABLE	80%	Repayment	€50,000	0.5%
5.95%	FIXED - 5YRS	80%	Repayment	€50,000	2% x 5yrs, then 0.50%

Turkey

6.15%	VARIABLE	75%	Repayment	£25,000	£475 x 3 YRS
6.60%	FIXED	80%	Repayment	€25,000	2%
6.80%	FIXED	80%	Repayment	£25,000	2%

Italy

3.00%	CAPPED AT 5.00%	60%	Repayment	€250,000	NONE
3.20%	CAPPED AT 5.20%	80%	Repayment	€250,000	NONE