OAM Global Income Portfolio[1]

October 2016

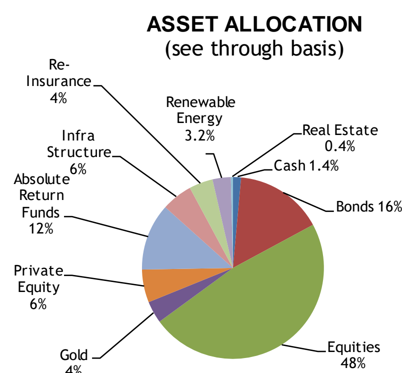
Technical Details

- Base currency: GB Pounds
- Benchmark: FTSE Global 100 and FTSE 100
- Asset Allocation: Flexible mix of closed-end funds, bonds and cash

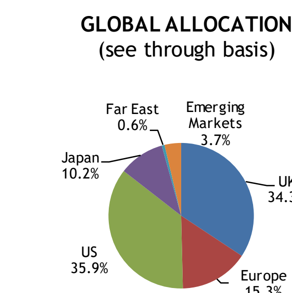
Investment Objective

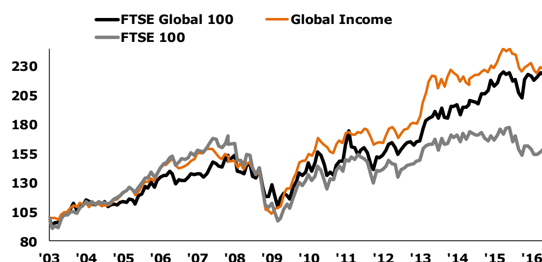
- conservative growth using medium risk strategy
- consistent annual returns
- low volatility

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





	Global Growth %	FTSE Global 100 %	FTSE 100 %
Annualised Total Return	7.24	7.55	4.19
2003	11.89	15.13	13.62
2004	8.64	-0.98	7.54
2005	18.00	18.22	16.71
2006	8.49	2.21	10.71
2007	-4.40	11.35	3.80
2008	-30.30	-16.24	-31.33
2009	49.11	14.76	22.07
2010	11.92	9.92	9.00
2011	-4.96	-5.00	-5.55
2012	14.00	7.62	5.84
2013	18.20	19.01	14.43
2014	3.19	7.95	-2.71
2015	1.66	4.22	-4.93
2016 YTD	13.24	23.34	11.40

*Since March 2005: All performance figures include income and are net of fees and expenses

Growth 2016	Global Growth %	FTSE Global 100 %	FTSE 100 %
January	-2.73	-1.84	-2.54
February	-0.99	1.40	0.22
March	2.30	1.80	1.28
April	-0.58	-0.71	1.09
May	0.33	1.28	-0.18
June	2.24	9.24	4.39
July	4.75	3.79	3.38
August	1.74	1.06	0.85
September	2.32	1.21	1.74
October	3.34	4.39	0.80
November			
December			

Annualised Income Yield	1.77%		
Best 3 Months	10.40	6.78	6.54
Worst 3 Months	-15.41	-8.73	-4.79

1) Individual portfolio representing Global Income investment style

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Disclosure: There is a risk associated with investing in our financial products. The value of the investments and income may rise as well as fall, and there is a risk that the client may suffer financial losses. Returns are dependent on the performance of the underlying assets and other variable market factors. Past performance is not necessarily indicative of future performances.

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asset management

Market Review

Global equities delivered good returns during the third quarter (Q3) in spite of the absence of any meaningful acceleration in economic growth. Equity returns were driven by an expansion in price-earnings multiples amid a continuation of highly accommodative global monetary policy. Low inflation encouraged leading central banks to keep interest rates at record lows. Emerging market equities outperformed, helped by the search for yield in a negative interest rate environment. The FTSE All-World Emerging Market ($) index gained +8.3% in Q3 compared with a gain of +4.8% in the FTSE All-World index. Brazil's Bovespa index was the top performer during the quarter with a gain of +14.0% followed by Hong Kong's Hang Seng index, which increased +12.0%. Among the major developed equity markets, Germany's Dax rallied +8.6% despite the woes of Deutsche Bank and Commerzbank, and the UK FTSE 100 increased a solid +6.8% despite uncertainty over the country's EU exit. The US S&P 500 index advanced by a more modest +4.0% and Japan's Nikkei 225 by +5.6% although still down by -13.6% for the year-to-date.

The S&P 500 index hit a record high in mid-August, helped by a decline in Treasury bond yields. The 10-year bond yield has fallen steadily from 2.2% at the start of the year to a low of 1.37% in July before rising slightly to its current rate of around 1.65%. At the same time corporate results were better than expected. Although companies comprising the S&P 500 index suffered a fourth consecutive quarterly decline in earnings, the -2.9% drop was less than the expected -5.0%. Although GDP grew by just +1.4% annualised in Q2 and retail sales growth slowed to less than 2% in July and August, wage growth is gaining traction and inflation accelerated to 2.3% in September, above the Federal Reserve's (Fed) 2% target ceiling. In September, jobless benefit claims remained below the key 300,000 mark for the 82nd straight week, the longest spell below this level since 1970, indicating a tight labour market. The Fed is moving closer to hiking interest rates, stating at its September policy meeting that: "The case for an increase in the federal funds rate has strengthened as the economy nears the Fed's statutory goals of maximum employment and price stability." The S&P 500 index is trading on an estimated 18.9x forward price-earnings multiple, up from 17.2x at the end of Q2, which may be prone to de-rating if the Fed does hike interest rates before year-end or early January, or if the anticipated earnings recovery fails to materialise.

UK equity and bond markets made unexpectedly strong recoveries following the historic vote to leave the EU on 23rd June. The rally was assisted by the Bank of England (BOE), which launched its biggest monetary stimulus since 2009. The BOE cut its benchmark lending rate from 0.5% to 0.25% and announced a £60 billion gilt buying programme in conjunction with plans to buy £10 billion of sterling denominated corporate bonds. The stimulus package also included a new £100 billion funding scheme for banks. Economic activity recovered sharply following the initial knee-jerk reaction to the EU vote. Consumer confidence bounced back and retail sales grew in August by a solid 6.2% year-on-year. Both manufacturing and services purchasing managers' indices rebounded dramatically in August, regaining the crucial 50-level which separates expansion from contraction. In conjunction with easier monetary policy, the new Chancellor of the Exchequer has indicated that the 2020 budget surplus target has been abandoned and has hinted at fiscal easing, likely to be announced at the 23rd November Autumn budget statement. With low public funding costs, the government will be tempted to stimulate the economy through infrastructure and public spending. While UK equities have become more expensive, with the FTSE 100 estimated forward price-earnings multiple rising to 17.3x, up from 15.5x at the end of Q2, the outlook is supported by monetary stimulus, the prospect of fiscal stimulus and the competitive boost of a weakening pound. The pound has suffered five straight quarters of decline, its worst quarterly run since the early 1980s.

The FTSE Europe (excluding UK) dollar index gained +5.6% in Q3 despite sluggish economic growth, an attempted coup in Turkey and rising political risks. The UK's vote to leave the EU has hardened the resolve of anti-establishment lobbies across Europe, ahead of key general elections in Germany and France in 2017. Meanwhile, Spain is in a political vacuum with a government yet to be formed and Italy is facing a constitutional crisis with a pending referendum on constitutional reform. Equities were bolstered by the European Central Bank's (ECB) accommodative monetary policy.

Although the ECB left policy unchanged, leaving the benchmark interest rate at 0%, the deposit rate at -0.4% and asset purchases at €80 billion a month, the central bank hinted that asset purchases would continue beyond the March 2017 expiry date until inflation adjusts upward. Inflation remains at 0.2% well below the ECB's 2% target. The ECB forecasts inflation will accelerate to 1.6% but only in 2018. It forecasts GDP growth of 1.6% in 2016 rising slightly to 1.7% in 2017. Negative interest rates remain prevalent throughout Europe with Switzerland's National Bank keeping its benchmark rate at -0.75% and Sweden's Riksbank holding its interest rate at -0.5%. European corporate bond yields have also entered negative territory. During Q3, two major European companies issued debt at negative interest rates. Henkel, the consumer goods company issued €500 million 2-year bonds at -0.05% and Sanofi, the French pharma group issued €1 billion 3-year bonds at -0.05%. European equities have re-rated to an estimated forward price-earnings multiple of 16.2x up from 14.3x at the end of Q2. Although more expensive, the allure of positive dividend yields in a negative bond yield environment should maintain demand for equities.

Despite unprecedented monetary stimulus from the Bank of Japan (BOJ) the yen has continued to appreciate against the US dollar to a current level of ¥/$ 103. Yen strength is frustrating the central bank's attempts to pull Japan out of its deflationary spiral. Economic activity has also suffered with retail sales declining on a year-on-year basis. The manufacturing purchasing managers' index remained below the contractionary 50-level for five straight months, although it moved into expansionary territory in September. Remaining undeterred, the BOJ introduced a new policy initiative in September, officially named "Quantitative and Qualitative Monetary Easing with Yield Curve Control". The new framework has two elements. The first is yield curve control, which focusses asset purchases at the short-end of the interest rate curve to encourage the yield curve to steepen, in turn stimulating risk taking and bank profitability. The second is an "inflation-overshooting commitment", in which the BOJ vows to not just meet its 2% inflation target but to overshoot it. Through this policy the BOJ hopes to raise inflation expectations. BOJ Governor, Haruhiko Kuroda, also stressed that the central bank would not hesitate to ease policy further. A return to positive inflation is largely dependent on wage growth, which encouragingly has firmed to 1% amid a tightening labour market with unemployment at just 3%, its lowest level since 1995. The estimated forward price-earnings multiple of the Nikkei 225 index has increased to 14x from 13.1x at the end of Q2 but remains cheap relative to other developed markets.

During Q3 the FTSE Emerging Market ($) index increased by a solid +8.3%. A weak US dollar, stemming from sluggish US economic activity and an accommodative Fed, helped sentiment towards emerging markets. During September, Indonesia, Kenya, Russia and the Ukraine cut their benchmark interest rate. Brazil's Bovespa index climbed +14.0% in Q3 and is up +35.5% for the year-to-date despite the economy being in recession and the official interest rate at 14.25%. India's economy grew by 7.1% in Q2 and is expected to accelerate during the second half of the year in response to government-led infrastructure spending and an improved outlook for the agriculture sector. China's equity market is down -15.1% since the start of the year, weighed down by concerns over excessive corporate indebtedness. However, China's economy is maintaining a 6.7% GDP growth rate, helped by a strong property sector, a rebound in fixed asset investment, and solid retail sales growth. Emerging market equities trade on an estimated forward price-earnings multiple of 12.2x, which appears cheap relative to developed equity markets especially in the context of stronger economic growth.

While global equity markets have racked up solid gains over the past quarter we are aware that they have not been backed by earnings growth. Earnings are still in retreat due to the anaemic state of global economic growth. Despite the absence of earnings growth equity markets are becoming steadily more expensive due to the search for yield in a zero interest rate environment. Some analysts believe equities remain attractive due to the positive gap between share dividends and the negligible yield on bonds. The portfolios are structured to benefit from high dividend yields but also mindful of the risks to equity markets from a sharp upward move in bond yields. Portfolios are well diversified across currencies and asset classes with substantial US dollar weightings and meaningful exposure to gold, and floating rate bonds which will perform in the event of rising interest rates.