GLOBAL PERFORMANCE FACTSHEET

OAM Global Growth Portfolio

Technical Details

- Base currency: GB Pounds
- Benchmark: FTSE 100
- Asset Allocation: Flexible mix of closed-end funds, bonds and cash
- Individual portfolio representing Global Growth investment style
- All performance figures include income and are net of fees and expenses

Investment Objective

- Conservative growth using medium risk strategy
- Consistent annual returns
- Low volatility

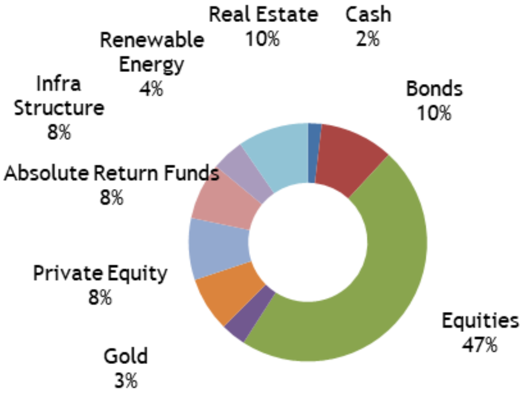
Dec 2018

Annualised Growth (%)	OAM	FTSE 100
Inception 2003	**6.86**	**3.40**
10 years	9.51	4.26
7 years	8.33	2.73
5 years	5.68	-0.06
3 years	8.74	2.53
2018	-2.89	-12.48

Annualised Income Yield	1.08		
	$	€	R
2018 YTD return in (%)	-8.37	-3.84	6.41

Top 5 Holdings	
3I Infrastructure	
RIT Capital Partners	
BH Macro GBP	
Polar Capital Global Financial Trust	
Finsbury Growth & Income Ord	
Total number of holdings	21

ASSET ALLOCATION
(see through basis)



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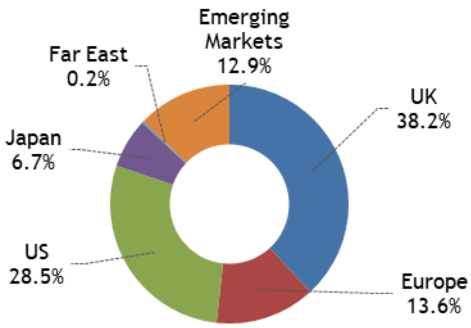

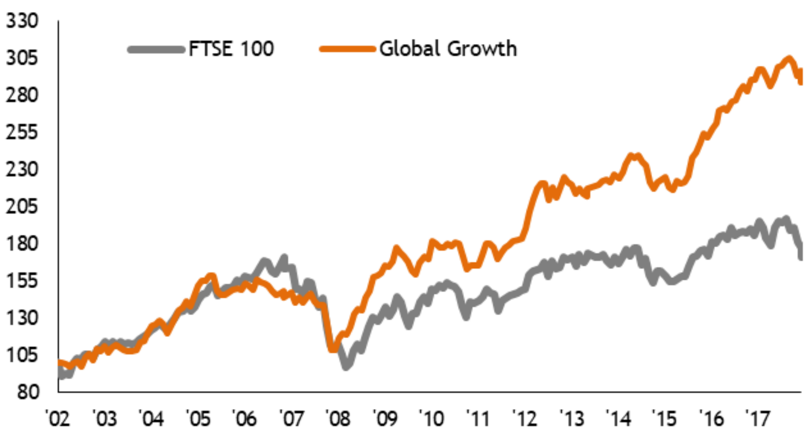

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Market Review

The de-rating in global equity markets continued into the fourth quarter (Q4) amid signs that the pace of global economic growth may have peaked as a result of the escalation in trade tensions between the US and China and the effect of rising US interest rates. Among the major developed equity markets, the Nikkei 225 suffered the most severe decline in Q4 with a loss of -9.58% taking its losses for 2018 to -13.86%. The S&P 500, Dax and FTSE 100, lost -5.26%, -5.60% and -1.43% over Q4, and for 2018 incurred losses of -5.92%, -18.51% and -10.26%, respectively. The MS World Index lost -4.60% over Q4 and -9.59% for the year as a whole. While the MS Emerging Market Index suffered a greater loss of -17.60% in 2018, its gain of +4.60% in Q4 stands out and may be a harbinger of outperformance for the asset class in 2019. The Brent oil price slumped by a massive -23.61% in Q4 while its losses for 2018 were milder at -9.73%. Growing global financial risk aversion buoyed the gold price by +7.07% in Q4 although for the year it still lost -2.55%.

The IMF lowered its global economic growth forecast for 2018 and 2019 to 3.7% in both years down from its July forecast of 3.9%, citing an escalation in trade tensions and protectionism. The downgrade was mirrored by the OECD observing that global economic growth remains strong but has passed its peak amid rising trade tensions, political uncertainty, higher interest rates and an appreciating US dollar. The OECD reduced its global GDP growth forecast for 2019 from 3.7% to 3.5% while leaving its forecast for 2020 unchanged at 3.5%. However, OECD Chief Economist Laurence Boone offered reassurance, observing that “There are few indications at present that the slowdown will be more severe than projected.”

Prevailing market sentiment is of the view that the trade conflict between the US and China can only get worse. This may be excessively pessimistic. The annual IMF gathering of central bankers and finance ministers was characterised by a softening in attitude towards US trade tactics. In the past three months the US, although raising the stakes in its trade relations with China, has successfully concluded the United States-Mexico-Canada Agreement (USMCA), put Eurozone auto tariffs on hold, finalised a free-trade deal with South Korea and agreed to hold bilateral trade talks with Japan. Moreover, at the G-20 Summit in Buenos Aires, President Trump and President Xi Jinping agreed that in return for Chinese concessions the US would postpone by 90 days the threatened tariff increase from 10% to 25% on $200 billion of Chinese goods.

The oil price is officially in a “bear market” defined by a fall of 20% or more from its recent peak. The price decline is attributed to a combination of rising supply, slowing demand and a waiver on certain US oil sanctions against Iran. US production has increased to a record high prompting the US Energy Information Administration to lift its forecast for production in 2019. At the same time, the European-based International Energy Agency (IEA) has cut its forecast for global oil consumption in 2019 citing higher oil prices and threats to global growth.

US GDP growth slowed from 4.2% quarter-on-quarter annualised in Q2 to 3.5% in Q3. The biggest positive surprise was growth in personal consumption expenditure, which improved from 3.8% to 4.0%. Growth in government expenditure also gained, from 2.5% to 3.3%. However, business investment, after growing in Q1 by 11.5% and in Q2 by 8.7%, grew in Q3 by just 0.8%. The Trump administration had been counting on an investment boom to sustain the economy’s above trend growth rate. GDP growth is expected to slow in 2019 amid fading fiscal stimulus and the delayed impact of rising interest rates. However, fears of a US recession in 2020 may be misplaced. The Business Roundtable CEO Economic Outlook Index remains at historically high levels. JPMorgan CEO Jamie Dimon, who chairs the Business Roundtable said the impact of the competitive US corporate tax rate would be more than once-off, providing cumulative benefits over the next decade. Moreover, strong wage growth, personal income growth and record high consumer confidence suggest consumer spending, which accounts for over two-thirds of US GDP, will continue to be a strong driver of US economic growth over coming quarters. In November, wages grew by a solid 3.1% year-on-year for the second month running, marking the strongest wage growth since 2009. At the same time, inflation appears to be moderating, allowing the Fed to reassess its monetary policy. Core personal consumption expenditure (PCE) inflation, closely watched by the Fed, dipped from 2.1% in Q2 to 1.6% in Q3, indicating that inflation poses little threat despite the tightening labour market. With the fed funds rate now "just below" estimates of the neutral rate, the Fed has signaled that the predetermined course of steady quarterly 25 basis-point interest rate hikes may shift to a more data dependent trajectory. Market expectations have even shifted towards expecting rate cuts by end 2019. As widely anticipated the Democrats gained control of the House of Representatives in the midterm elections, for the first time since 2010, while the Republicans remained in control of the Senate. A split Congress means President Trump and the Republicans will require Democrat approval before making any legislative changes. The US equity market traditionally celebrates congressional gridlock with strong gains normally occurring in the 12-month period after the president's party suffers a loss of congressional control.

UK GDP growth accelerated in Q3 to 0.6% quarter-on-quarter up from 0.4% in Q2, its fastest pace since 2016. Household spending grew 0.5% on the quarter up from 0.4% in Q2, helped by unusually hot summer weather, the football World Cup and a royal wedding. Construction activity rebounded by 2.1% on the quarter as contractors made up for lost time earlier in the year when unseasonably cold weather halted activity. Trade also contributed strongly, amid strong export growth. However, business investment spending fell for a third straight quarter due to continued Brexit uncertainty, falling in Q3 by a further 1.2% on the quarter. The outlook for 2019 depends on ratifying a negotiated Brexit deal. In December, an amendment was passed in parliament giving parliament the final "say" on any Brexit decision taken by government. The main options open to the UK now include the UK leaving on terms similar to the existing withdrawal agreement but with a slight variation, a Norway-style membership of the European Free Trade Association, leaving the EU without a trade agreement, or not leaving the EU at all either with or without a second referendum. According to analysts at JPMorgan, the probability of "no Brexit" lies at 40% and the probability of "no-deal" lies at 10%. The Bank of England (BOE) left its policy unchanged at its December meeting, with the benchmark interest rate held at 0.75%. No change had been expected ahead of the finalisation of key Brexit negotiations. However, the BOE while reducing its GDP growth forecasts for 2018 and 2019 from 1.4% to 1.3% and from 1.8% to 1.7%, delivered an increasingly "hawkish" statement, signaling a total interest rate increase of 150 basis points over the next three years. On the other hand, the Chancellor of the Exchequer Philip Hammond announced an unexpectedly generous fiscal stimulus at the Autumn Budget, pledging £100 billion of extra spending over the next five years, equivalent to around 1% of GDP per year, the UK's first fiscal stimulus in ten years, which should provide a solid tailwind for GDP growth. The fiscal stimulus is consistent with a boost of around 0.25 percentage points to annual GDP growth over the next two years.

Eurozone GDP growth slowed sharply in Q3 to 0.2% quarter-on-quarter its slowest in four years down from 0.4% in both Q2 and Q1. Year-on-year growth slowed from 2.2% in Q2 to 1.7% in Q3. However, the slowdown in Eurozone GDP growth is attributed to the impact of new emissions standards in the vehicle manufacturing industry. Normalisation in vehicle production should restore Eurozone GDP growth to its quarterly trend of around 0.4%. Survey data, including purchasing managers' indices and the European Commission Business and Consumer Confidence Survey, are consistent with annualised GDP growth of around 2% annualised, helped by a steady rise in household income growth. Encouragingly, the leaders of Italy's populist coalition government indicated a willingness to compromise their budget plan to avoid being sanctioned by the European Commission. While the appearance of a more flexible approach from Italy has helped the 10-year government bond yield lower to 3.07% compared with 3.70% in October it remains far above its level of around 1.7% before the national elections. Eurozone consumer price inflation (CPI) moderated in November from 2.2% year-on-year to 2.0% helped by a slowdown in energy price inflation from 10.7% to 9.1% while core CPI, excluding energy and food declined from 1.1% to 1.0%, well below the ECB's target of just below 2%. The benign inflation data, while not deterring the ECB from halting its asset purchase programme at the end of December should prompt it to retain accommodative interest rates for the foreseeable future. The ECB observed that "the underlying strength of the economy continued to support confidence".

China's GDP growth fell in Q3 to 6.5% year-on-year its slowest since Q1 2009 when it registered 6.2%. Growth has slowed steadily since the start of the year from 6.8% in Q1 and 6.7% in Q2. Trade and economic survey data indicate a continued slowdown. Growth in China's imports fell in November to just 3.0% year-on-year from 21.4% the previous month while export growth slowed from 15.6% to 5.4% the slowest growth rate since February. The official manufacturing purchasing managers' index (PMI) remained unchanged in November at 50.0 at the dividing line between expansion and contraction. While the independent Caixin survey, which focuses on smaller and private sector companies, lifted slightly in November from 50.1 to 50.2, the survey nonetheless confirms the ongoing weakness in the economy. With credit growth still on a downward trajectory and the overall inflation outlook benign, the People's Bank of China is positioned to pursue more aggressive easing in monetary policy. Having reduced the banks' reserve ratio requirement from 17.0% at the end of 2017 to 14.5% currently, the PBOC has so far resisted actual interest rate cuts due to the competing policy goals of deleveraging the economy and maintaining exchange rate stability. However, a series of mild interest rate cuts are likely and more aggressive fiscal stimulus are expected over the next 6-9 months to help shore up China's economy, leading to an expected turnaround in economic growth towards mid-2019.

Japan's cabinet left its assessment of the economy unchanged in November for the 11th straight month, stating that "the Japanese economy is recovering at a moderate pace." While acknowledging a flat exports market the economic assessment described business investment as "increasing" and private consumption as "picking up". Following the 0.3% quarter-on-quarter contraction in GDP growth in Q3 the cabinet is expecting a return to positive growth in Q4 as economic activity normalises following the heightened incidence of natural disasters. The Nikkei-Markit services sector purchasing managers' index (PMI) eased slightly in November from 52.5 to 52.4 but remained close to the six-month high posted in October, confirming that the economy has rebounded sustainably from the soft patch in Q3. Moreover, survey respondents indicated that domestic demand was sufficiently strong to warrant pricing increases, which bodes well for the Bank of Japan's attempts to raise the country's inflation level. Tokyo consumer price inflation (CPI), a leading indicator of nationwide inflation data, increased in October from 1.2% to 1.5% year-on-year, its highest since July 2008. CPI is likely to accelerate further over coming months as domestic demand builds up ahead of the consumption tax increase tabled for October. As expected the Bank of Japan (BOJ) left its policy settings unchanged, keeping its benchmark interest rate at -0.1% and its target for the 10-year government bond yield at 0%, while committing to bond asset purchases of ¥80 trillion per year. The BOJ kept its GDP growth forecasts for the next two financial years at 0.8%. However, the BOJ is becoming increasingly wary of the risks to financial stability of prolonged monetary easing, giving its strongest indication yet that massive monetary stimulus may be coming to an end.

With the MSCI Emerging Market Index declining by 17.60% in 2018 the price-to-book multiple of emerging market equities has dropped to just 1.5x. This compares with a price-to-book multiple of 2.3x for developed market equities. By this measure, emerging market equities are trading at a discount of around 35%, approaching its widest discount since the 2008/09 global financial crisis. The size of the discount indicates extreme under-valuation, from which point emerging market equities tend to enjoy strong outperformance in the following five-year period. Moreover, there are signs of a turnaround in emerging market economic fundamentals. Purchasing managers' survey data suggests the downtrend may be coming to an end with improvements noted in India, Brazil and Russia. At current levels the survey data is consistent with respectable growth in emerging market industrial production of around 3.5% annualised. India's GDP growth slowed in Q3 to 7.1% year-on-year, down from 8.2% in Q2. Despite the slowdown, India remains the world's fastest growing large economy. Furthermore, the outlook for its GDP growth has brightened over the past two months with the oil price retreating almost 30% from its peak levels. India imports the bulk of its oil. Over the same period, the rupee has strengthened by around 5% versus the US dollar which combined with the falling oil price should reduce inflation and lower the need for the Reserve Bank of India to implement further interest rate hikes. Brazil's GDP grew in Q3 by 0.8% quarter-on-quarter its fastest growth since Q1 2017. Year-on-year growth was also positive at 1.3%, confirming the country's exit from a severe two-year recession. Newly elected President Jair Bolsonaro has pledged to cut the deficit by reducing the size of government and by reforming the country's pension system, which should place the economic recovery on a more sustainable footing.

While global equity markets have suffered one of their worst 6-month periods in years, global corporate insiders have increased the purchase of their companies' shares. This is a bullish signal for equity markets as corporate insiders should have a better knowledge than the broader market of their own companies' prospects. According to 2iQ Research the global ratio of share purchases versus sales by company managers and directors has increased to 3x, the highest in at least ten years. Periods of maximum pessimism often herald the best buying opportunities. Citigroup chief global equity strategist, Robert Buckland, advises investors should buy the dip in global equity markets. While global equity markets have dropped by around 10% over the past 6 months, there are not a sufficient number of red flags to indicate the recent dip is the start of a protracted bear market. He confirms that only four of the 18 factors that his team monitor, are sending an alert. There is little sign of excess in investor exuberance, in corporate activity, or in new equity listings. Capital raising appears limited while credit spreads remain well below critical levels despite having increased over recent weeks. A peak in US interest rates and a weakening in the dollar are likely to be catalysts for a re-rating in global equity markets in 2019. At the same time the pessimism surrounding the US-China trade conflict is probably overdone. Any positive news in this regard should provide an added boost to investor sentiment.

Having steadily reduced equity exposure in our clients' global portfolios over the past 18 months we are looking to partly reverse this position over the next quarter, taking advantage of beaten down share prices among favoured investment opportunities.