OAM Global Growth Portfolio

Sep 2017

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

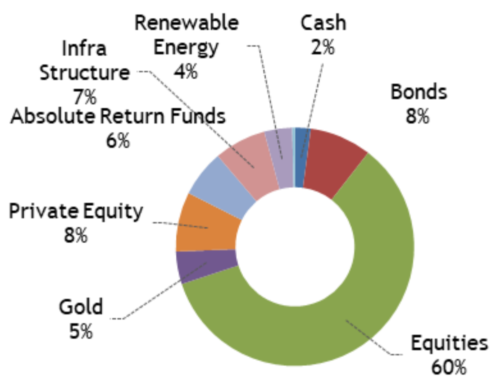
Investment Objective

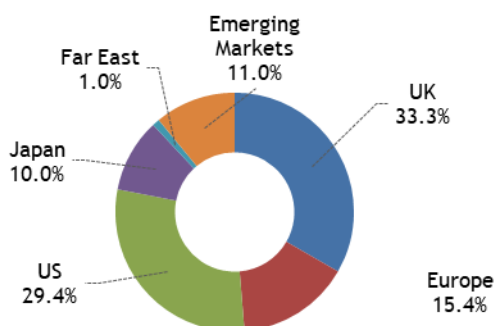
- Conservative growth using medium risk strategy
- Consistent annual returns
- Low volatility

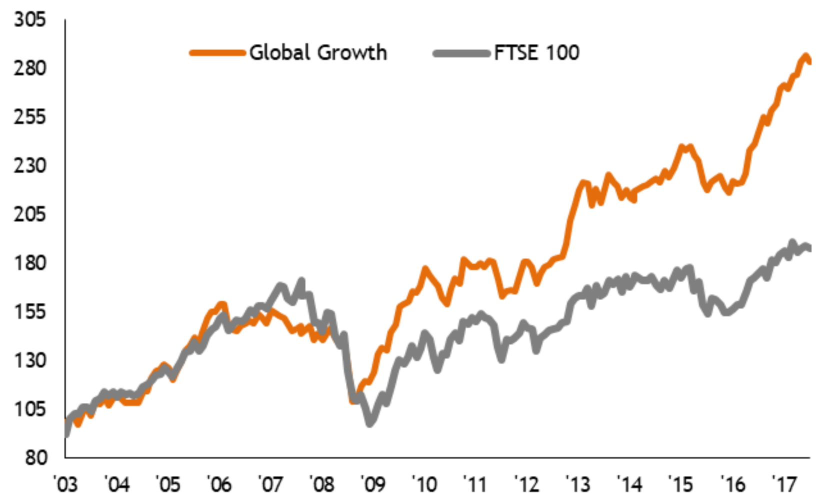
Annualised Growth (%)	OAM	FTSE 100
Inception 2003	**7.30**	**4.34**
10 years	6.83	1.32
7 years	7.82	4.14
5 years	9.24	5.13
3 years	8.22	3.64
2017 YTD not annualised	9.65	3.22

Annualised Income Yield	1.40		
	$	€	R
2017 YTD return in (%)	19.07	6.36	17.90

Top 5 Holdings	
Baillie Gifford Japan Trust Plc	
Rit Capital Partners	
3I Infrastructure	
Polar Capital Global Financial Trust	
Finsbury Growth & Income Ord	
Total number of holdings	20







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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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Market Review

Global equity markets made further progress during the third quarter (Q3) despite rising geopolitical risk emanating from North Korea and despite some central banks signalling an exit from their generous monetary accommodation. Nevertheless, low inflation means any normalisation in monetary policy will be extremely gradual, while improving economic growth momentum should continue to power equity markets higher. Rising commodity prices and strong earnings growth helped emerging markets outperform developed markets. Over Q3 and for the year-to-date (YTD) the FTSE All-World Emerging ($) Index gained +8.2% and +22.3%, respectively, versus equivalent gains for the FTSE All-World ($) Index of +4.6% and +15.3%. Brazil's Bovespa and Russia's RTS were the best performers over Q3 with returns of +18.1% and +13.6%. China's Shanghai Index and India's Sensex returned +4.9% and +7.9% over Q3 and +1.2% and +17.5% YTD. Among developed equity markets, in descending order of performance the German Dax, US S&P 500, Japan's Nikkei 225, and UK FTSE 100, gained +4.1%, +4.0%, +1.6% and +0.8% over Q3 and +11.7%, +12.5%, +6.5% and +3.2% YTD.

Although the hurricanes made an impact US economic activity remained robust in Q3. The Conference Board US consumer confidence index slipped from 120.4 in August to 119.8 in September. However, some pullback had been expected following three consecutive increases during the summer months. Consumers retain an upbeat outlook, supported by continued job creation and increasingly significant wealth effects as average house prices rose in July at a rate of close to 6% on the year. Industrial production fell in August by 0.9% on the month but most of the contraction is attributed to Hurricane Harvey, which the Federal Reserve had warned would subtract 0.75 percentage points from industrial output. The latest manufacturing purchasing managers' indices indicate solid underlying strength in US industrial activity. Non-defence capital goods orders excluding aircraft, a closely watched barometer for business investment spending, grew in July by a solid 0.4% on the month, signaling a pick-up in investment activity, which bodes well for much needed productivity improvements and sustainable economic expansion. US non-farm productivity, which measures the hourly output per worker, increased in Q2 by 0.9% quarter-on-quarter annualised up from 0.1% in Q1. With the economy at full employment an acceleration in GDP growth depends on a pick-up in productivity. The US Fed left its target for the federal funds rate unchanged at 1.0-1.25%, while indicating that a 25 basis point hike is still on the cards for December followed by possibly three more hikes in 2018. As expected the Fed announced that it will begin reducing its $4.5 trillion balance sheet in October at a rate of $10 billion per month, to be increased gradually until it reaches $50 billion per quarter. US equity markets surged to new record highs after President Trump unveiled the US's biggest tax reform proposal since the Reagan presidency. The proposals include lowering the top personal tax rate and numerous tax incentives for companies in addition to cutting the corporate tax rate from 35% to 20%. However, the framework contained little detail on how the $5.8 trillion tax proposal would be financed making its passage through Congress less than certain in its current form. The S&P 500 index trades on a price-earnings multiple of 19x. This is high by historic standards although valuation concerns are mitigated by the solid 10% earnings growth forecast.

The UK economy fared better in Q3. Retail sales growth picked up in August, as consumer confidence improved and the unemployment rate eased to 4.3% its lowest level since May 1975. The UK's GfK consumer sentiment index, although still in negative territory, unexpectedly climbed for a second straight month gaining from -9 in August to -10 in September, a five-month high. Defying expectations for a slowdown shoppers continued spending despite higher inflation and weak wage growth. Business confidence also strengthened as the slow recovery in industrial production continued in July and trading conditions improved further in August. Manufacturers experienced the steepest rise in output in over seven months. The manufacturing purchasing managers' index new export orders reading increased to its highest since April 2010 with strong demand emanating from Europe, North America and Asia-Pacific. As expected the Bank of England (BOE) kept both its base interest rate and asset purchase programme unchanged at 0.25% and £435 billion, respectively. However, the minutes from the BOE's latest policy meeting were far more assertive than in the past. Bank of England (BOE) chief economist Andy Haldene added to growing expectations of a rate hike before year-end although added that: "This would be a sign of the economy healing…. so rather than being a source of fear

or trepidation, this ought to be a good news story about the economy proving resilient." The BOE expects consumer price inflation to exceed 3% in October well above its 2% target, as spare capacity in the economy is being reduced faster than anticipated. The FTSE 100 trades on an estimated forward price-earnings multiple of 15x, which is slightly above the long-term average but appears cheap when factoring in the 17% earnings growth forecast.

The Eurozone gained further momentum, led by a resurgent industrial sector, with some support from consumer spending and services. Following a slight easing in recent months the Eurozone composite purchasing managers' index (PMI), measuring conditions in both manufacturing and services sectors, increased from 55.7 in July to 55.8 in August, well above the expansionary 50-level. The PMI indicates that the Eurozone's economic momentum remains intact, consistent with Q3 GDP growth of 0.5% quarter-on-quarter. The manufacturing PMI increased from 56.6 to 57.4 its highest level since April 2011, buoyed by strengthening export orders and robust readings from Germany and France, the region's two largest economies. Political risk reduced following Angela Merkel's re-election for a fourth term. Meanwhile, France's reformist President Emmanuel Macron is making rapid progress in implementing labour reforms aimed at boosting business confidence. In a recent speech in Paris, Macron outlined his vision for a "profound transformation" of the EU urging that "Europe needs to be an economic and monetary power to rival China and the US." The European Commission's Eurozone economic sentiment index climbed to its highest since July 2007 while its overall business climate indicator improved to its highest reading since April 2011. The upbeat economic and survey data raise the likelihood that the ECB will announce a tapering of its €60 billion a month asset purchase programme towards the end of the year. The Eurozone equity market trades on an estimated 15x forward price-earnings multiple, which is attractively priced relative to the solid 16% earnings growth forecast.

Japan's GDP growth surged in Q2 to 1.0% quarter-on-quarter and 4.0% annualised. This vastly exceeded expectations of 0.6% and 2.5% respectively and marked the first consecutive run of six quarters of growth since 2006. Encouragingly the growth drivers moved from exports to domestic demand making the economic expansion less dependent on the global economy and yen depreciation. Private consumption increased a solid 0.9% on the quarter and business spending by a substantial 2.4%. Positive momentum has continued into Q3. Industrial production growth increased in August from 4.7% to 5.4% year-on-year. The deflationary threat is also fading. Corporate goods price inflation accelerated from 2.6% year-on-year in July to 2.9% in August, the fastest pace since October 2008 while consumer price inflation accelerated from 0.4% to 0.7%, capping eight consecutive months of positive price growth. The unemployment rate remained at a 40-year low of 2.8% helping to keep the job-to-applicant ratio at 1.52 its highest since the mid-1970s. A tight labour market and rising wages are vital pre-requisites for inflation to rise towards the Bank of Japan's (BOJ) 2% target. Despite the economic upswing, the BOJ remained committed to its quantitative easing programme, comprising asset purchases of ¥80 trillion per year. Earnings are expected to rise by 15% over the next year valuing the Nikkei index on an estimated 13.5x forward price-earnings multiple. This offers compelling value. The index also trades on a low price-book ratio of just 1.4x less than half that of US markets and almost half the Eurozone.

The cyclical global economic recovery has been positive for emerging economies. Inflows into emerging equity and bond markets were maintained in Q3. China's economy remained resilient despite government policy to rebalance away from investment-led towards consumer-led growth. The official National Bureau of Statistics manufacturing purchasing managers' index, defied expectations of a decline rising from 51.7 in August to 52.4 in September, its highest since the start of the year. The People's Bank of China (PBOC) cut the reserve requirement ratio (RRR), the amount of cash that banks must hold as reserves, for the first time since February 2016. The measure was aimed at generating more lending to smaller firms and to revitalise the private sector. Growth in India appears to be regaining some lost ground, after five consecutive quarters of slowdown. The Reserve Bank of India (RBI) cut its benchmark repo interest rate by 25 basis points to 6.0% its lowest since November 2010. As expected the Bank of Brazil cut its benchmark Selic interest rate by a further 100 basis points to 9.25%. The rate cut is the seventh since last October facilitated by a sharp decline in the inflation rate. Inflation has dropped from above 10% in 2015 to just 2.78% its lowest in 18 years. Brazil's economic recovery quickened and broadened in July and August with retail sales rising for the fourth consecutive month. Global investors are still underweight emerging market equities, despite the

massive inflows since the start of the year. While emerging markets have rallied hard over the past year earnings growth has kept up so that valuations remain attractive, in line with the long-term average.

Global equity markets are expected to maintain their upward momentum over the coming quarter, boosted by accelerating economic growth and strong earnings. Meanwhile, structural factors and technological innovation are preventing tight labour markets from stoking inflation, which means any removal of monetary accommodation will be gradual. Clients' portfolios are positioned for continued equity market gains. There is significant weighting to Japanese and Eurozone equity markets which tend to outperform in global cyclical recoveries and a greater weighting towards more cyclical sectors such as emerging markets, banks, financials, materials and mining. There is also meaningful exposure to secular growth themes including information communications technology and biotech. Portfolios are protected against unexpected market setbacks through holdings in floating rate bonds, infrastructure and renewable energy assets, as well as gold bullion.