Cautious Multi Asset Fund (GBP)

Formerly International Reserve Fund (GBP)

Q3 2016 Fact Sheet

PETERHOUSE

Fund Manager

Peterhouse Multi Asset Team

Market Background

Market Review

Global asset markets enjoyed broadly positive returns in Q3 2016 spurred on by further easing of monetary policy in Europe and Asia and forecasts for improving GDP growth into 2017.

The JPMorgan global bond index returned 0.3% while MSCI World equity returned 5% in the quarter. Global property performed well, FTSE Nareits property index rising 3.1%.

Emerging markets performed strongly rising 9% in the quarter and corporate bonds performed well in fixed income with high yield returning 5.6% according to the high yield index. The only asset class that retreated was commodities, the CRB declining 4% in the quarter led down by softs which slumped (wheat down 14%) on favourable planting conditions in the US and Russia.

The US$ finished the quarter virtually unchanged as the US Federal Reserve once again feigned to raise interest rates but then backed off from a previously anticipated interest rate rise.

Outlook

"Fluctuate dear boy fluctuate" was apparently the response given by John Pierpoint Morgan when asked what he thought stock prices would do in 1927. While maybe apocryphal, 2016 has been a volatile year already with a significant sell off in bond and stock prices in Q1 followed by a sharp bounce in bond and stock prices in Q2 and Q3.

The global economy does remain fragile however with the IMF recently cutting its forecasts for US and UK growth, while overall growth forecasts are unchanged at 3.1% projected for 2016 and 3.4% for 2017.

This is nevertheless an improvement on the situation in early 2016 when it looked as though a slowdown in China would lead the global economy into a significant overall economic slowdown.

Led by emerging markets and a reasonable recovery in the US we expect this improving trend to continue.

However interest rates we believe will rise into 2017 and with valuations extended on the upside in the US, we believe a diversified approach is warranted with a mixture of corporate bonds, blue chip equities, hard assets like commodities and quality infrastructure the core of any portfolio.

Portfolio Analysis

Fund Holdings (%)

Federated Prime Rate Sterling Cash PL-3	65.8
JPM Managed Reserves I GBP Hedged	23.3
NB Global C £ Red C Shares NPV	7.3
Blackstone/GSO Loan Financing Fund	4.7
Federated Prime Rate GBP Liquidity-3	0.3
Cash	-1.4
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
Benchmark	7 Day £ Libid
Sector	Lipper Global Money Market: Money Market GBP
Fund Size	£25.9m

Fund Price

GBP	76.94

Availability

Direct Investments
Wrap Platforms
Life Office Bonds

Cautious Multi Asset Fund (GBP)

Performance and Activity

The portfolio returned 0.76% in the quarter. Contributions from its holdings of corporate bond funds like Blackstone's GSO Loan fund and NB Floating rate income fund were of particular value.

Theme - how will the UK'S vote to leave the EU impact the rest of Europe

Both the US and the UK have been exhibiting increasing signs of protectionism with a vote to leave the European Union by the Brits on 23 June 2016 enjoined by US presidential nominee Donald Trump's nationalist "America first" cries in the campaign in the States.

In Ha Choon Jang's excellent book "Bad Samaritans, the Myth of Free trade and the secret history of capitalism" the writer exposes the myths of free trade and how nations like the US and UK have used the moniker as a cover to employ protectionist policy agendas in their economic development historically.

We believe the world is moving towards a multipolar period of economic development in which the notion that big business and global multi nationals make extraordinarily large returns on investment (Unilever even today enjoys a gross margin of 40% and Microsoft 35%), will be increasingly challenged at a time when the median household in the US and the UK is 20% worse off than a decade ago.

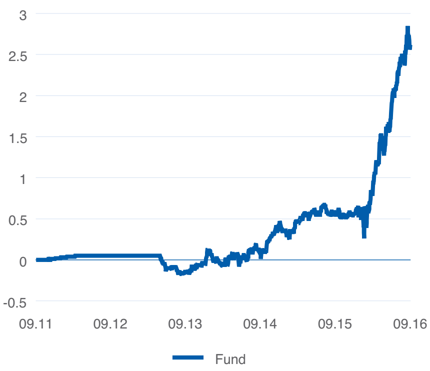
It is no surprise therefore that some of the greatest support for the Brexit cause in the case of the UK and Trump in the case of the US presidential election was and is the working class semi-skilled or unskilled members of the work force who themselves feel threatened by the forces of globalisation and believe themselves to be at risk of losing from it rather than benefiting from it.

French economist too Thomas Piketty in his recent book "Capital in the twenty first century" stated the case for the prosecution on behalf of this constituency and it is growing.

Not everyone can be a "Jeff Bezos" or "Mark Zuckerberg" wannabee and nationalist speeches by recent UK Prime Minister Theresa May or pledges to build a wall on the Mexican border by Trump both indicate limits to the "We are one" or "We're all in this together" soundbites of the cognoscenti.

Moves towards greater levels of protectionism, a rise in the costs of doing business and wage cost pressures especially at the lower end of the cost curve will all of this make for a tougher investment environment and we believe a return to more volatile market conditions is likely.

Five Year Performance (%)



Cumulative Performance (%)

	YTD	1m	3m	6m	1y	3y	5y
Fund	2.04	0.19	0.76	1.82	2.04	2.75	2.62

Discrete 12 Month Performance (%)

	30.09.15 30.09.16	30.09.14 30.09.15	30.09.13 30.09.14	28.09.12 30.09.13	30.09.11 28.09.12
Fund	2.04	0.45	0.24	-0.18	0.05

Important Information

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