momentum

Momentum Global & Sterling Balanced Fund Report

quarter ended 30 June 2017

Q2

global investment management

Contents

1. Fund and index performance

	Performance to 30 June 2017								
Fund returns (USD)	3 months	2016	2015	2014	2013	2012	2011	2010	2009
Momentum Global Balanced	3.8%	4.7%	-3.4%	-0.5%	16.5%	12.7%	-4.9%	7.4%	23.9%
Composite benchmark[1]	3.7%	5.6%	-2.5%	2.9%	12.3%	11.4%	-0.6%	8.5%	20.4%
Global equity[2]	4.3%	7.9%	-2.4%	4.2%	22.8%	16.1%	-5.8%	11.4%	30.3%
Citigroup WorldBIG TR USD	2.9%	1.9%	-3.2%	0.8%	-2.0%	4.1%	7.0%	3.1%	5.8%

	Performance to 30 June 2017								
Fund returns (GBP)	3 months	2016	2015	2014	2013	2012	2011	2010	2009
Momentum Sterling Balanced	0.3%	15.3%	0.7%	3.8%	16.8%	9.3%	-3.2%	10.5%	16.3%
Composite benchmark[3]	0.0%	19.3%	0.8%	8.7%	10.1%	8.5%	2.7%	12.4%	13.5%
Global equity[4]	0.4%	28.7%	3.3%	10.6%	20.5%	11.4%	-6.8%	15.8%	15.9%
Citigroup UK Sterling WorldBIG	-0.9%	11.1%	0.3%	14.5%	-2.9%	5.3%	16.2%	6.7%	2.0%
Citigroup WorldBIG GBP	-0.9%	21.6%	2.4%	7.1%	-3.8%	-0.5%	6.1%	7.1%	-5.0%
MSCI UK GBP	0.8%	19.2%	-2.2%	0.5%	18.4%	10.2%	-3.4%	14.3%	27.2%

[1]60% MSCI AC World index, 40% Citigroup World Broad Investment Grade (BIG) index

[2]The equity component of the fund benchmark changed from the MSCI World index to the MSCI AC World index on 1 October 2011

[3]30% MSCI AC World Index ex UK, 35% Citigroup Sterling WorldBIG, 5% Citigroup WorldBIG and 30% FTSE All Share

[4]The equity component of the fund benchmark changed from the MSCI AC World ex UK index to the MSCI AC World index on 1 April 2012

Source:Bloomberg; Morningstar, June 2017. Past performance is not indicative of future returns.

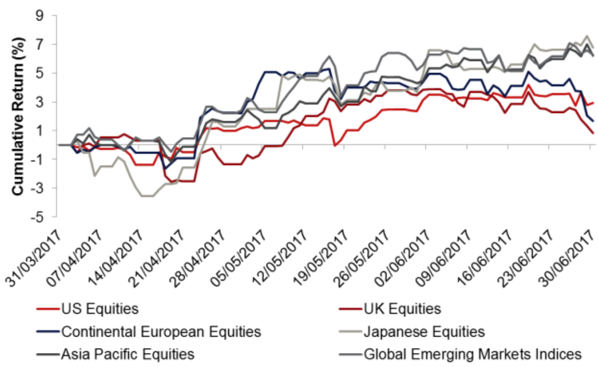
2. Market commentary

The benign market conditions witnessed in the first quarter of 2017 followed into the second quarter whilst most risk asset continued solid upward progress. Volatility remained low, during which equities and credit materially outperformed bonds.
The key fundamental factor underpinning markets has been the rise in global economic growth, forming the first synchronised recovery since the financial crisis. Prospects for the Eurozone appear more positive with GDP growth up to 2% this year, having previously struggled to sustain positive growth. The US has continued to grow, with an annual GDP growth rate of around 2%, whilst the UK has continued to outperform post-Brexit expectations, albeit with signs of a slowdown ahead. Emerging markets have benefitted from loose global monetary policy conditions and accelerating growth. In turn this has benefitted corporate profits, with earnings rising above the stagnant conditions of the past 2 years, up over 10% year to date in the US, and beyond this in Europe and Japan.

Inflation has remained markedly subdued during the period, facilitating loose monetary policy without fears of an inflationary surge. The economic recovery in Europe remains at an early stage with ample slack, whilst the US and UK are at a more advanced stage, with unemployment at historic lows. Despite this, wage growth has continued to fall and core inflation in the US has recently dipped below the central bank's target of 2%.

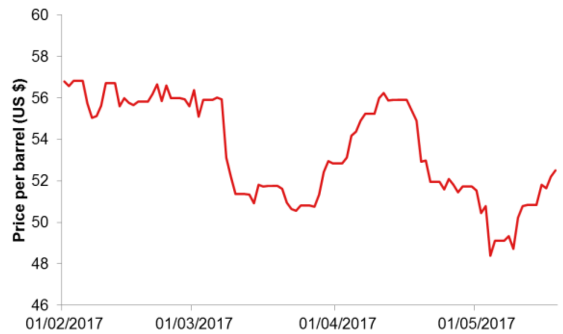
With inflation low, debt levels high and confidence in the sustainability of recovery fragile, central banks maintained exceptionally loose monetary policy. This, combined with accelerating growth and little signs of credit fuelled booms, proved highly favourable for risk assets. The MSCI World index of developed equities returned 4% in the quarter, led by Japan and Asia-Pacific, whilst emerging markets returned 6%, also driven by Asia. Bond market returns were mostly positive during the period with US Treasuries posting a gain of 1% and corporate bonds mostly in the range of 2% to 2.5%.

Figure 1: Major equity indices returns



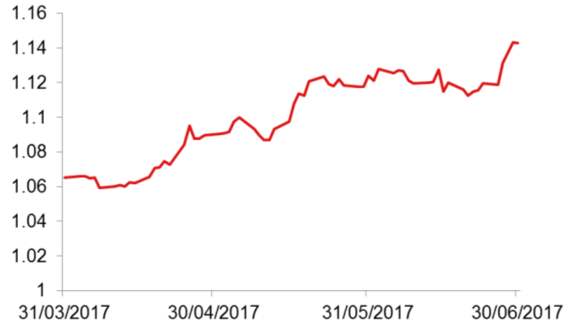
The most notable moves during the quarter were in currencies and commodity markets. Brent Crude oil fell 9.3% in Q2, taking its fall to over 20% from its peak earlier in the year. Large efficiency gains in US shale oil production have cut breakeven costs to below $50 per barrel, leading to a surge in production. At the same time OPEC members exempt from cuts have been increasing production. During this quarter it became clear OPEC production cuts in November 2016 have been unsuccessful in rebalancing supply and demand. A 9 month extension to the cuts has been agreed by OPEC and some non-OPEC members, notably Russia, but the effects so far have been muted.

Figure 2: Brent crude price per barrel



The weakness in US Dollar during Q1 continued into Q2 and on a trade weighted basis the USD has fallen over 7% since its peak in late 2016, taking it back to early 2015 trading ranges. Conversely, the Euro has surged by 7% following a combination of rising growth, a more favourable political backdrop and the first move by the European Central Bank to taper its asset purchase programme.

Figure 3: EUR/USD



Politics continued to play a contrasting role in driving markets. In the US the Trump reflation trade continued to unwind as it became clearer Trump's big policy initiatives, tax cuts, infrastructure spending and regulatory reform were becoming more distant and facing substantial political hurdles in Washington. Any fiscal boost to growth now seems very unlikely this year and will be considerably smaller than expected in the years ahead.

In contrast, the rising fears of an EU and Euro bloc break-up, exacerbated by the UK's Brexit decision and by the rise of anti-EU political factions in major EU states, were quashed as elections in the Netherlands and France rejected the anti-EU parties and returned pro-EU leaders. Most notably President Macron, leader of the newly formed pro-EU party 'En Marche!', was elected in France with a substantial majority. In addition, risks of adverse political developments in Italy receded. It appears any risks of a slow EU break-up have been pushed aside for the foreseeable future.

Conversely the UK was plunged into political turmoil when Theresa May's attempt to secure a larger parliamentary majority by calling a snap election resulted in a hung parliament following an unsuccessful and unappealing Conservative campaign. The consequent failure to achieve a parliamentary majority has served to weaken the authority of the government, created further uncertainty in Brexit negotiations, casted doubt around Fiscal management and raised the risk of a socialist government led by Jeremy Corbyn within the next few years. Following this, it comes as no surprise UK assets performed poorly in the recent weeks.

With global economic growth improving, central banks have entertained the process of monetary policy normalisation following almost a decade of ultra-loose policy. The US Federal Reserve has been at the forefront of this process, increasing target rates by 25 basis points in June; the fourth rise in this cycle. The Federal Reserve also gave a clear outline for its balance sheet normalisation plans, posing a critical test of markets as liquidity is gradually and progressively withdrawn. Elsewhere, the European Central Bank and the Bank of England are also signalling the potential for gradual withdrawal of stimulus, depending on the robustness and sustainability of the recovery. The impending phase of policy normalisation creates new challenges for central banks with policy missteps posing grave threats to markets, at least on a short-term basis.

Despite excessive credit issues, the Chinese economy has performed well this year expanding 1.3% in Q1, 6.9% year on year, and is on target for growth of around 6.5% in 2017. However, the authorities have been taking action to rein in credit and some slowdown appears inevitable as the year progresses and the debt bubble unwinds.

Markets have continued to perform well this year; by mid-year global equities have returned 10% and emerging markets 17%, whilst bond markets have delivered returns typically in the 1-2% range, aided by credit and favourable currency moves for dollar based investors. The broad global environment remains favourable for risk assets; the synchronised expansion at present appears sustainable with few signs of excess credit, whilst deflationary forces are being replaced by subdued reflationary forces. The 20% fall in oil prices during Q2 will help to sustain this non-inflationary expansion.

However, there are risks ahead. Global debt levels remain high, and are some 40% higher than before the crisis. China faces the particular challenge of reining in a credit boom while sustaining growth at socially and politically acceptable levels. The forces of populism and nationalism, which have become increasingly evident as inequality has risen, risk a collapse in global, political, and economic order. Finally, for the first time since the crisis, we are at the beginning stage of monetary policy normalisation. The US Federal Reserve has tightened policy whilst the European Central Bank followed suit with an initial reduction in monthly asset purchases. Other central banks are likely to follow the normalisation trend with further monetary easing off the agenda. This process is likely to be a key determinant of short-term market moves; too much tightening would cut short the expansion and damage markets, too little could incite an inflationary problem that excess liquidity in previous cycles has triggered. At the same time valuations of most assets are at historically high levels, leaving markets vulnerable to a correction and testing the long period of subdued volatility realised as of late.

Despite this, the fundamentals for the global economy are good and the economic recovery is broadening on a sustainable basis. In addition, the tightening of monetary policy from the very loose levels of present will be gradual. The tightening moves to date have not been a hurdle for markets and central banks are adopting an extremely cautious, gradualist approach to policy changes. We therefore expect this cycle to be sustained for some considerable time ahead. Opportunities for returns outweigh the risks and we expect equities to continue to outperform bonds as the cycle progresses, hence periodic bouts of weakness in markets will present buying opportunities for risk assets.

Source: Bloomberg, June 2017. Returns in US dollars unless otherwise stated.

3. Market performance

Asset class/region	Index	Currency	Month	Year to date
		To 30 June 2017		
Developed markets equities				
United States	S&P 500 NR	USD	0.6%	9.0%
United Kingdom	MSCI UK NR	GBP	-2.5%	4.6%
Continental Europe	MSCI Europe ex UK NR	EUR	-2.2%	8.7%
Japan	Topix TR	JPY	3.0%	7.4%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	1.8%	19.8%
Global	MSCI World NR	USD	0.4%	10.7%
Emerging markets equities				
Emerging Europe	MSCI EM Europe NR	USD	-0.5%	3.8%
Emerging Asia	MSCI EM Asia NR	USD	1.7%	23.2%
Emerging Latin America	MSCI EM Latin America NR	USD	0.7%	10.1%
BRICs	MSCI BRIC NR	USD	0.7%	16.8%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	1.0%	18.4%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.1%	2.0%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-1.0%	0.9%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.3%	3.8%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.1%	4.9%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-2.0%	0.2%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-1.1%	2.3%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.5%	-1.0%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.6%	0.6%
Euro High Yield	Barclays European HY 3% Issuer Constraint Total Return Index Value	EUR	0.3%	4.2%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.3%	-0.4%
Australian Government	JP Morgan Australia GBI TR	AUD	-1.1%	2.4%
Global Government Bonds	JP Morgan Global GBI	USD	-0.2%	4.1%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.0%	4.3%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-0.4%	6.9%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-0.4%	6.3%

Source: Bloomberg. June 2017.

		To 30 June 2017		
Asset class/region	Index	Currency	Month	Year to date
Property				
US Property Securities	MSCI US REIT NR	USD	2.0%	2.0%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-6.3%	-6.0%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-0.4%	15.8%
Global Property Securities	S&P Global Property USD TR	USD	1.0%	8.0%
Currencies				
Euro		USD	1.6%	8.5%
UK Pound Sterling		USD	0.9%	5.3%
Japanese Yen		USD	-1.5%	4.1%
Australian Dollar		USD	3.3%	6.7%
South African Rand		USD	0.7%	4.8%
Commodities				
Oil	Brent Crude	USD	-4.8%	-15.7%
Gold	Gold Spot	USD	-2.2%	7.8%

Source: Bloomberg. June 2017.

4. Portfolio commentary

Momentum Global Balanced Fund

The benign conditions that we saw during the first quarter of the year continued through the second quarter and most risk assets again made good upward progress. Volatility remained low, and equities and credit materially outperformed government bonds. Since the post Brexit referendum lows of mid 2016 equity markets have returned around 20%, taking a number of developed equity markets, including the US, to all-time highs.

The key fundamental factor underpinning markets has been the pick-up in growth globally, the first synchronised recovery since the financial crisis. While the US has continued to grow at around 2-2.5%, the Eurozone has picked up to 2% this year, Japan has also expanded modestly and emerging markets have generally benefitted from easy monetary conditions globally and the acceleration in global growth. This in turn has been good for corporate profits, with earnings lifting out of the sluggish conditions of the past 2 years.

At the same time, inflation has remained remarkably subdued enabling central banks to keep monetary policy extremely loose without fear of an inflationary surge. While headline inflation rates have moved up somewhat as the impact of the collapse in oil prices fades, underlying core inflation has fallen recently and generally remains well below central bank targets of around 2%, even in the US.

With inflation low, debt levels high and confidence in the sustainability of the recovery still fragile, central banks maintained exceptionally loose policy. This combination of factors – accelerating growth, low inflation, few if any signs of excess or credit fuelled booms, and loose monetary policy – proved favourable for risk assets. Developed equities, measured by the MSCI World index, returned 4% over the quarter, led this time by Japan and Asia, and emerging markets returned 6%, driven by Asia. Bond markets were also mostly in positive territory, US Treasuries returning 1% and corporate bonds 2-2.5%.

Our preference for equities and credit over government bonds was therefore positive for performance over the quarter. Within equity, emerging markets outperformed developed markets and hence our current bias towards the latter was also positive, as was our positioning in the UK, Europe and Japan, all of which outperformed the US market. With bonds in general delivering reasonable returns, we would have done better to have owned more bonds over the period, whereas our allocation to gold detracted from performance with the gold price falling by 0.6%. Finally, looking at the underlying managers we have selected in the Fund, manager selection was positive overall and the majority of our equity managers outperformed their reference benchmarks over the period, with Crux, our European equity manager, returning +13.6% in US dollar terms compared to +8.4% for the European equity market.

We reduced equity slightly at the end of the quarter in mind of the progress made by equity markets over the period and their slight rerating – investors are now paying 17 times next year's expected earnings for US equities compared to 16 times 3 months ago. We also switched our position in gold to a cheaper provider in June – while we continue to own gold bars physically stored in London there is an ongoing cost advantage of 14 basis points (0.14%) a year which we are happy to take advantage of.

The broad global environment remains favourable for risk assets: the synchronised expansion we are seeing appears sustainable with few signs of excess credit, and while deflationary forces are being replaced by reflationary ones, inflation still remains very subdued, hence our preference for a diversified blend of growth assets (equities, convertibles, high yield, dollar emerging market debt) alongside some diversifying asset classes (liquid alternatives, credit, inflation-linked bonds and gold) that do not appear as richly valued to us as government bonds.

There are risks ahead: high global debt levels, China's credit bubble, forces of populism and nationalism – all of which we have discussed over the past 12 months. For the first time since the crisis however, we are now at the stage of the cycle where an unwinding of ultra loose monetary policy is no longer speculation but reality. The Fed is already tightening and the ECB has made its first move with a reduction in monthly asset purchases, with more certain to follow. This process is likely to be a key determinant of short term market moves; too much tightening would cut short the expansion and damage markets, too little could let in the inflationary problem that excess liquidity in previous cycles has triggered. At the same time valuations of most assets are at historically high levels, leaving markets vulnerable to a correction in the short term.

However the fundamentals for the global economy are good, the economic recovery generally is broadening on what appears to be a sustainable basis, and tightening of monetary policy from current very loose levels will be gradual. We therefore expect this cycle to be sustained for some considerable time ahead, supporting equities over bonds.

Source: Bloomberg /Morningstar. Returns in US dollars unless otherwise stated, June 2017. Past performance is not indicative of future returns.

Momentum Sterling Balanced Fund

The pound appreciated by 3.8% against the US dollar over the period and therefore acted as a headwind to investments outside of the Fund's base currency. UK equities peaked at the start of June before drifting off to finish the quarter up by 0.8%, while Gilts fell by 1.3% and sterling investment grade bonds posted modest gains of 0.5%. Year to date most risk assets have made good upward progress however and since the post Brexit referendum lows of mid 2016 equity markets have returned around 20% in sterling terms, taking a number of developed equity markets, including the US, to all-time highs.

The key fundamental factor underpinning markets has been the pick-up in growth globally, the first synchronised recovery since the financial crisis. While the US has continued to grow at around 2-2.5%, the Eurozone has picked up to 2% this year, Japan has also expanded modestly and emerging markets have generally benefitted from easy monetary conditions globally and the acceleration in global growth. This in turn has been good for corporate profits, with earnings lifting out of the sluggish conditions of the past 2 years.

At the same time, inflation has remained remarkably subdued enabling central banks to keep monetary policy extremely loose without fear of an inflationary surge. This combination of factors – accelerating growth, low inflation, few if any signs of excess or credit fuelled booms, and loose monetary policy – has supported risk assets year to date, with developed equities, measured by the MSCI World index, returning 5% in sterling terms, led Asia and Europe, and emerging markets up by over 12%.

Our preference for equities and credit over government bonds was positive for performance over the quarter. Within equity, emerging markets outperformed developed markets and hence our current bias towards the latter was also positive, as was our positioning in the UK, Europe and Japan, all of which outperformed the US market.

We purchased equity put options at the end of the quarter in mind of the progress made by equity markets over the past 12 months and their slight rerating – investors are now paying 17 times next year's expected earnings for US equities compared to 16 times a year ago – as well as the extraordinary low cost of these options which has been a phenomenon of markets so far this year. We also switched our position in gold to a cheaper provider in June – while we continue to own gold bars physically stored in London there is an ongoing cost advantage of 14 basis points (0.14%) a year which we are happy to take advantage of.

The broad global environment remains favourable for risk assets: the synchronised expansion we are seeing appears sustainable with few signs of excess credit, and while deflationary forces are being replaced by reflationary ones, inflation still remains very subdued, hence our preference for a diversified blend of growth assets (equities, convertibles, high yield, emerging market bonds) alongside some diversifying asset classes (liquid alternatives, credit, inflation-linked bonds and gold) that do not appear as richly valued to us as government bonds.

There are risks ahead: high global debt levels, China's credit bubble, forces of populism and nationalism – all of which we have discussed over the past 12 months. For the first time since the crisis however, we are now at the stage of the cycle where an unwinding of ultra loose monetary policy is no longer speculation but reality. The Fed is already tightening and the ECB has made its first move with a reduction in monthly asset purchases, with more certain to follow. This process is likely to be a key determinant of short term market moves; too much tightening would cut short the expansion and damage markets, too little could let in the inflationary problem that excess liquidity in previous cycles has triggered. At the same time valuations of most assets are at historically high levels, leaving markets vulnerable to a correction in the short term.

However the fundamentals for the global economy are good, the economic recovery generally is broadening on what appears to be a sustainable basis, and tightening of monetary policy from current very loose levels will be gradual. We therefore expect this cycle to be sustained for some considerable time ahead, supporting equities over bonds.

Source: Bloomberg /Morningstar. Returns in US dollars unless otherwise stated, June 2017. Past performance is not indicative of future returns.

5. Top ten holdings

Global Balanced positions June 2017		
Security	Asset class	Weight
[1] BlackRock US Corporate Bond Index	Fixed Income	11.9%
[2] Artisan	Equity	5.5%
[2] Jennison	Equity	5.3%
[1] iShares JP Morgan Emerging Markets Bond	Fixed Income	4.9%
[1] RWC Asia Convertibles (USD hedged)	Fixed Income	4.3%
[1] AXA US Short Duration High Yield	Fixed Income	4.0%
[2] Hotchkis & Wiley	Equity	3.7%
[1] iShares MSCI Emerging Markets	Equity	3.7%
[2] Lapides	Equity	3.5%
[1] iShares $ TIPS	Fixed Income	3.5%
Total		**50.3%**

[1] Direct holding
[2] Indirectly held in the Momentum IF Global Equity Fund

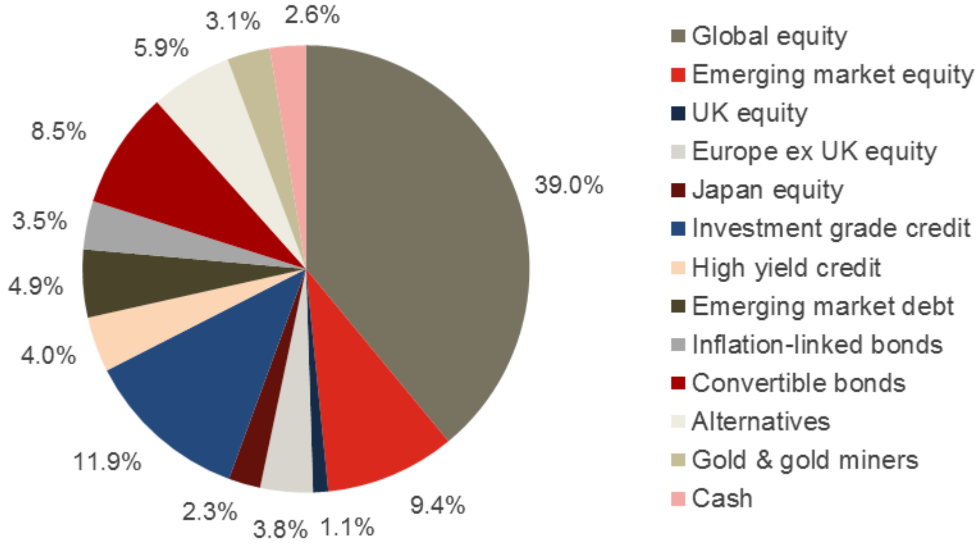
Sterling Balanced positions June 2017		
Security	Asset class	Weight
[2] Schroder UK Recovery	Equity	9.1%
[2] iShares FTSE 100	Equity	8.1%
[2] Evenlode Income	Equity	7.5%
[2] RWC Income Opportunities (GBP hedged)	Equity	7.0%
[2] CF Lindsell Train UK Equity	Equity	5.5%
[2] AXA US Short Duration High Yield	Fixed Income	5.0%
[2] Cash	Cash	4.6%
[2] iShares Markit iBoxx GBP Corporate Bond	Fixed Income	3.4%
[2] RWC Asia Convertibles Bond (GBP hedged)	Fixed Income	3.1%
[2] iShares Physical Gold ETC GBP	Commodity	2.9%
Total		**56.2%**

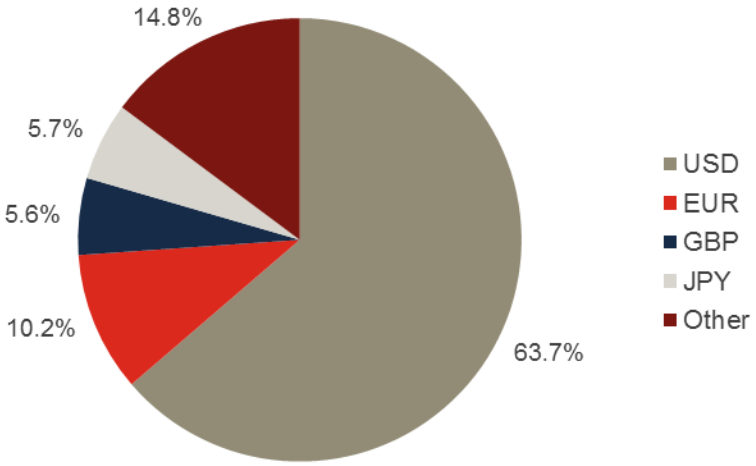
[1] Direct holding
[2] Indirectly held in a combination of either the Momentum IF Global Equity Fund, MI Momentum Factor 4 Fund or MI Momentum Factor 5 Fund

Source: Momentum Global Investment Management, June 2017.

6. Fund exposures

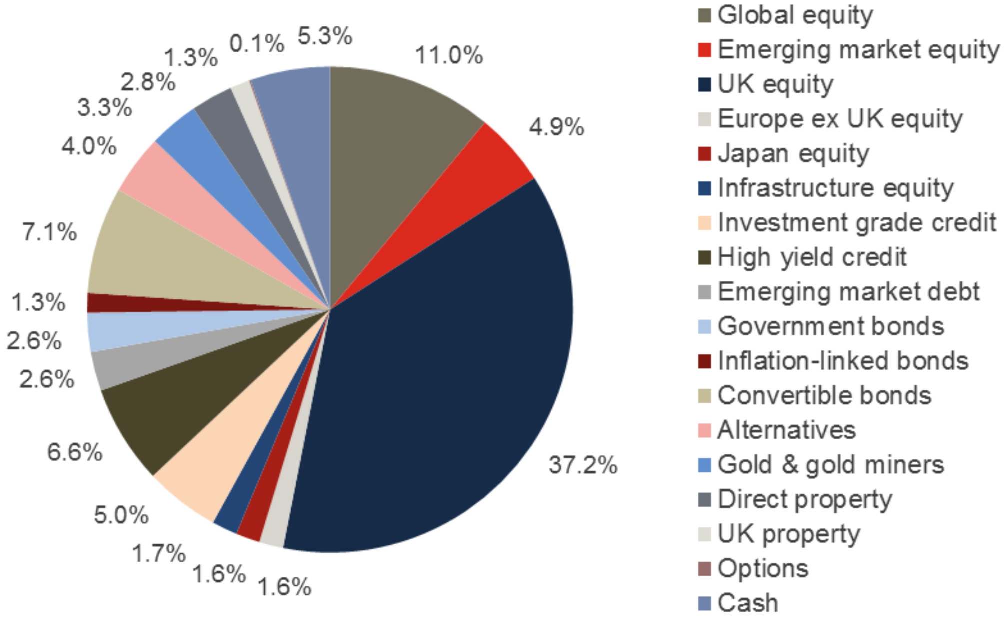
Global Balanced

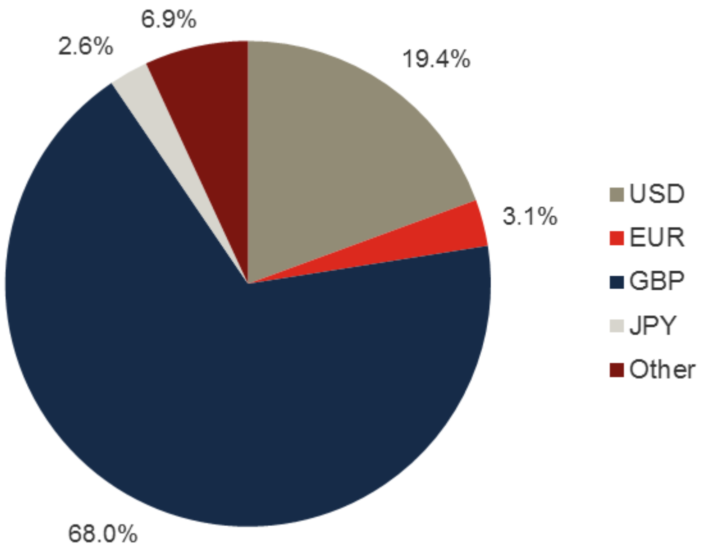




Source: Momentum Global Investment Management, June 2017.

Sterling Balanced





Source: Momentum Global Investment Management, June 2017.

For more information, please contact:

David Hansen
Distribution Services
david.hansen@momentum.co.uk
Tel: +44 (0)207 618 1806

Important notes

This document is only intended for use by the original recipient, either a Momentum GIM client or prospective client, and does not constitute investment advice or an offer or solicitation to buy or sell. This document is not intended for use or distribution by any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London, EC4R 1EB.

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.