



OAM Global Income 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 Income investment style
- All performance figures include income and are net of fees and expenses

Investment Objective

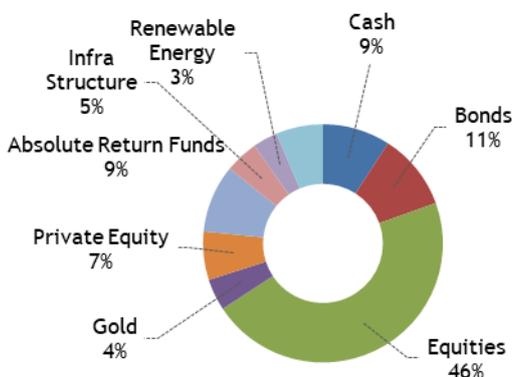
- Conservative growth using medium risk strategy
- Consistent annual returns
- Low volatility

March 2018

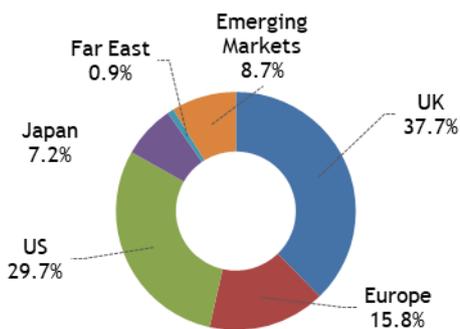
Annualised Growth (%)	OAM	FTSE 100
Inception 2003	7.34	3.89
10 years	7.60	2.15
7 years	8.02	2.57
5 years	6.31	1.94
3 years	6.33	1.38
2018 YTD not annualised	-3.49	-8.21

Annualised Income Yield	1.70
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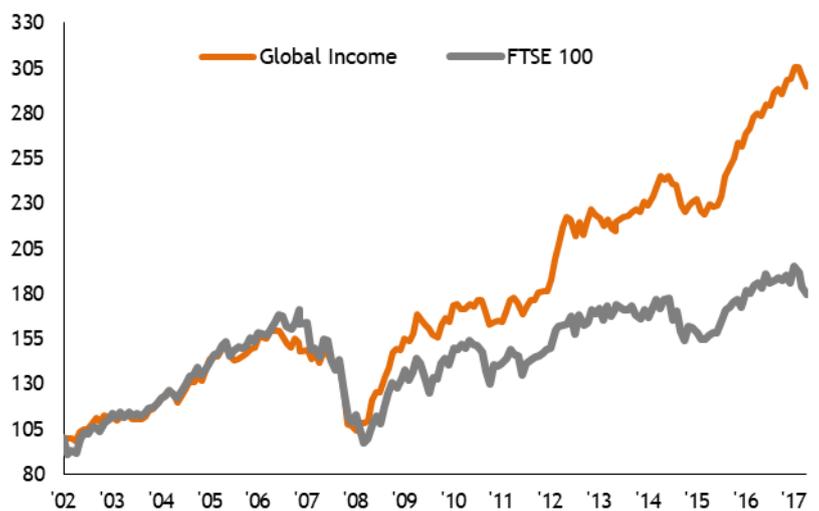
ASSET ALLOCATION (see through basis)



GLOBAL ALLOCATION (see through basis)



Top 5 Holdings	
Cash	
Ruffer Investment Company Ord	
Rit Capital Partners	
European Investment Trust	
Finsbury Growth & Income Trust	
Total number of holdings	21





Market Review

After a strong start to the year equity markets were undermined in February by a sudden spike in US Treasury bond yields, raising concerns that inflation and interest rates would increase faster than previously anticipated. To compound the negative outlook, the Trump administration initiated the first of its trade tariffs raising concerns over protectionism. The FTSE All-World (\$) index fell in the first quarter (Q1) by -1.3%. The decline was accentuated in sterling terms due to the dollar's weakness versus the pound, causing the FTSE All-World (£) index to fall -5.0% in Q1. Emerging markets maintained their outperformance. The FTSE All-World Emerging (\$) index suffered a more modest decline of -0.7%. In Q1 the four best performing indices worldwide were all emerging markets, including Brazil, Russia, Malaysia and Taiwan with gains of +11.7%, +8.2%, +3.7% and +2.5%, respectively. China's Shanghai index fared less well with a loss of -4.2% while the main developed market indices, including the US S&P 500, Japan's Nikkei 225, German Dax, and UK FTSE 100, suffered losses of -1.2%, -5.8%, -6.4% and -8.2%, respectively.

Global equity markets suffered severe selling pressure in February due to a spike in US Treasury bond yields. The 10-year US Treasury bond yield jumped to a four-year high raising fears that inflation would accelerate faster than expected. Despite some panic selling among retail investors, institutional investors remained positive. Importantly, the spread between short-dated 1-year bond yields and the 10-year bond yield widened, indicating an acceleration in economic growth and company earnings. Furthermore, the yield spread between corporate and government bonds narrowed despite the rise in Treasury yields. The steadiness in corporate bond spreads indicates robust corporate credit fundamentals and the ability for the corporate sector to accommodate higher interest rates.

President Trump imposed new tariffs of 25% on steel and 10% on aluminium imports. The measure attracted widespread criticism both internationally and domestically, prompting the resignation of Gary Cohn, Director of the National Economic Council and chief economic advisor to President Trump. The US subsequently threatened additional bilateral tariffs on China to pressure the country to accelerate financial liberalisation, reduce subsidies to state-owned enterprises, reduce tariffs on vehicles, and ease pressure on foreign companies to transfer technology and other intellectual property. Fortunately, China's response to US demands has so far been constructive indicating concessions to US demands.

While cautioning that "trade protectionism remains a key risk that would negatively affect confidence, investment and jobs" the Organisation for Economic Cooperation and Development (OECD), raised its forecast for global economic growth for 2018 from 3.7% to 3.9%. The OECD noted improvements in almost every country and "significant" accelerations in the US, Germany, France, Mexico, Turkey and South Africa. The OECD cited a broad-based increase in business investment spending, which created the foundation for a more sustained economic upswing. The report made specific reference to US fiscal stimulus and the new German coalition government's proposal to increase public spending.

US economic sentiment indicators remain upbeat. The Conference Board Leading Economic Index (LEI), which signals growth and economic momentum 6-9 months ahead, increased in February for a third straight month suggesting the current rapid pace of economic expansion is likely to persist at least until year-end. The Business Roundtable CEO Economic Outlook Index, a composite of CEO projections for revenues and plans for capital spending and hiring over the next six months, hit its highest level since the data series began in 2002. The National Federation of Independent



Businesses (NFIB) Small Business Optimism Index increased in February to its second-highest level since the survey began in 1973, second only to a reading in 1983. The University of Michigan US consumer sentiment index climbed in March to its highest level since 2004. Meanwhile, durable goods orders jumped in February by 3.1% month-on-month beating the 1.6% consensus forecast by a wide margin. Non-defence capital goods orders excluding aircraft, a closely watched barometer for business investment, increased a solid 1.8% on the month to \$67.8 billion, its highest level since 2014. The cut in corporate tax from 35% to 21% should lead to an upturn in business investment, which in turn would increase productivity and boost the economy's potential growth rate. Recently appointed Federal Reserve Vice Chairman Randal Quarles said: "It might be early, but it is possible that the investment drought that has afflicted the US economy for the past five years may finally be breaking." Consumer price inflation (CPI) fell back in February providing relief from the previous month's inflation spike. CPI fell from 0.5% month-on-month in January to 0.2% in February. Core CPI, excluding food and energy prices, fell from 0.3% to 0.2%. The softer inflation data ease fears which emerged last month of rising inflation. For now, the US economy remains in a sweet spot of rising employment, strong consumer sentiment and moderate inflation. As anticipated the Federal Reserve, now chaired by Jerome Powell, raised its benchmark fed funds interest rate by 25 basis-points to a range of 1.50-1.75% although the accompanying policy statement was more "dovish" than expected. The Fed now expects inflation to rise above its 2% target in 2019 and stay there in 2020 indicating it will tolerate inflation that is slightly above target.

China's economy expanded at a faster rate than expected in the first two months of the year. Industrial production grew 7.2% year-on-year up from 6.2% in December marking the fastest growth since June 2017. Urban fixed investment increased 7.9% up from 7.2%. Retail sales growth improved from 9.4% to 9.7% boosted by a 35.6% increase in online sales. Despite government policy aimed at cooling the property market, property investment increased 9.9% the fastest pace since January/February 2015 well above the 7% pace achieved in 2017. While the level of economic activity is encouraging, the effect of slowing credit growth and tighter fiscal policy may undermine growth momentum in the remainder of 2018. The Peoples' Bank of China (PBOC) hiked its key lending rate, the reserve repo rate, from 2.50% to 2.55% in order to maintain the China-US yield spread and prevent potential capital outflows. The move indicates a continuation of monetary policy tightening under new PBOC Governor Yi Gang. The appointment of Yi Gang bodes well for continued financial market liberalization. China's Communist Party amended a constitutional provision that bars the head of state from serving more than two five-year terms. The change in the constitution allows President Xi Jinping to rule indefinitely, well beyond 2023 as currently mandated. While clearly raising the risk of authoritarian tendencies the change will give Xi Jinping greater freedom to adopt pro-market reforms.

Japan's Q4 GDP growth rate was revised upwards from an initial estimate of 0.1% quarter-on-quarter to 0.4%, marking the eighth consecutive quarter of expansion, the longest period of uninterrupted growth in 28 years. Encouragingly, a resurgence in domestic demand makes the economic recovery more sustainable than Japan's typical short-lived economic cycles which tend to be driven by exports. Nonetheless, strong global demand is expected to continue supporting Japanese manufacturing activity and exports over the medium-term. Core machinery orders, a reliable indicator of capital spending six to nine months ahead, increased in January by 8.2% month-on-month the fastest pace in two years. Firms are facing the most severe capacity and staff shortages since the early 1990s which suggests that capital spending will continue to expand at a solid pace this year. Consumer price inflation increased to 1.5% year-on-year in February up from 1.4% in January while core CPI, excluding food and energy but including alcoholic beverages, gained from 0.2% to 0.3% on the year. Although far below the Bank of Japan's 2% target, core CPI is at multi-year highs. There are finally signs of sustained upward inflation pressure helped by stronger than expected economic growth, the emergence of modest wage increases and increased consumer spending. Confidence is gaining



that Japan has exited its decades-long deflationary spiral. Haruhiko Kuroda was reappointed as governor of the Bank of Japan (BOJ), making him the first governor to serve a second term since 1961. The BOJ appointment signals a strong commitment to the continuation of massive monetary stimulus.

Eurozone GDP expanded in Q4 by 0.6% quarter-on-quarter in line with expectations. While marking a slight slowdown from the 0.7% growth achieved in Q3, Eurozone GDP grew in 2017 by 2.5% the fastest pace of growth since 2007. Eurozone economic growth is broad-based across the entire region and across all sectors of the economy. The Eurozone's solid pace of economic growth is expected to spill-over into 2018 despite the effect of a strengthening euro on export competitiveness or political risk in Italy. Political stability was restored in Germany. Following four months of stalemate Chancellor Angela Merkel's centre-right Christian Democrat party (CDU) formed a grand coalition with the conservative Christian Social Union party (CSU) and the left-leaning Social Democrats (SPD), although made considerable concessions. The SPD party's control of the finance ministry signals increased fiscal spending in Germany and greater fiscal stimulus across the Eurozone. Although inconclusive, Italy's general election on 4th March resulted in substantial gains by the two populist parties, the anti-establishment Five Star and the anti-immigration League parties. A coalition comprising these parties would undermine Italy's commitment to EU control and fiscal rules. Coalition talks are expected to last months with no easy solution on the horizon. The ECB surprised financial markets by dropping the so-called "easing bias" from its policy statement under which it declared itself ready to increase its asset purchase programme "in terms of size and/or duration" in the event of downturn in the economic outlook. The ECB's more hawkish policy statement suggests current monthly asset purchases of €30 billion per month may come to an end as soon as the originally envisaged expiry date of September 2018. The ECB may start to hike interest rates in 2019. The benchmark refinancing rate is currently at zero and the deposit rate at -0.4%.

UK GDP grew in 2017 by 1.7% its weakest growth rate since 2012 and the lowest growth among the G7 group of most advanced economies. GDP growth is being undermined by uncertainty over Brexit, causing the UK to miss out on the full benefits of synchronised global expansion. Encouragingly, there was a breakthrough in Brexit negotiations as the UK and the EU agreed terms for a transition period of 21 months from 29th March 2019 until the end of 2020. The extension of the UK's effective participation in the EU single market provides businesses with an extra 21 months to prepare for a complete departure from the trading bloc, removing the risk of a "cliff-edge" exit next year. Consumer price inflation (CPI) eased more than expected from 3.0% year-on-year in January to 2.7% in February below the 2.8% consensus forecast and its lowest reading since July 2017. The inflationary effect of the pound's post-Brexit depreciation is starting to fall away. While CPI appears to have peaked it remains significantly above the Bank of England's (BOE) 2% target. The BOE kept its benchmark interest rate at 0.5%, unchanged since November when it hiked the rate by 25 basis points, although it signaled gradual rate hikes over the next two years. Financial markets forecast a 25 basis-point rate hike in May and a further rate hike before year-end followed by two rate hikes in 2019, lifting the benchmark interest rate to 1.5% by end 2019. However, this would still indicate a negative real rate, after taking inflation into account, suggesting the BOE will maintain accommodative monetary policy well into the medium-term. While inflation has subsided faster than expected wage growth has surprised on the upside in recent months. Regular wages increased in the three months to end January by 2.6% year-on-year the fastest growth in almost two-and-a-half years. Rising wages bode well for consumer expenditure, which contributes around two-thirds of UK GDP.

Emerging market equities continued to outperform in Q1. Jeremy Grantham, the renowned 79-year-old investor who correctly predicted in 2000 that US stocks would lose ground over the following decade said: "What I would own is as much emerging-market equity as your career or business can tolerate." He recommended that his own children



invest more than half their retirement money in the asset class. Grantham's bullish view on emerging market equities, is echoed by other asset management firms. Peter Oppenheimer, chief global equity strategist at Goldman Sachs, said stocks should rally this year led by emerging markets. Emerging markets are expected to grow GDP by double the rate of developed economies over the next two years and yet equity valuations are trading at a discount of around 30%. The IMF forecasts India's GDP will grow 6.7% in 2018, rising to 7.4% in 2019 and 7.8% in 2020 making it the world's fastest growing economy over the forecast period. Brazil's central bank cut its benchmark Selic interest rate by 25 basis-points to 6.50% an all-time low capping a 775 basis-point decline since October 2016. Furthermore, the bank's monetary policy committee unexpectedly guided for a further rate cut confounding market expectations that the latest rate cut could be the last. Russia's sovereign credit rating was upgraded by S&P Global ratings for the first time since 2006 restoring the sovereign's investment grade rating. Russia now has an investment grade credit rating from two rating agencies, S&P Global and Fitch, which may prompt inflows from funds that track emerging-market bond indices. S&P Global cited Russia's economic policy and its commitment to fiscal restraint, while highlighting the recovery in private sector credit growth. In the past year the economy has emerged from recession helped by a rapid decline in inflation and interest rates.

Following the uninterrupted global equity market gains and absence of volatility throughout 2017, it comes as little surprise that there would be a period of consolidation. Fortunately clients' portfolios are shielded from excess volatility through diversification across different currencies and different asset classes including infrastructure, renewable energy, absolute return strategies, gold and bonds. Currency and asset class diversification lends stability to an equity-based portfolio. Nonetheless, our outlook towards global equity markets remains positive, unerpinned by healthy economic growth and strong earnings prospects. The consolidation in Q1 has reduced valuations to more attractive levels. For instance, the 12-month forward price-earnings multiple of the US S&P 500 index has reduced from 18.5x three months ago to 16x, back to its level in 2016. While trade protectionism is probably the single greatest threat to the world's current benign inflation outlook one should not over-react to fears of a trade war. The Trump administration is known to favour a carrot and stick approach, and China is responding with urgency in making concessions.