

Levantine & Co Balanced Portfolio (GBP)

As of 31 Dec 2018

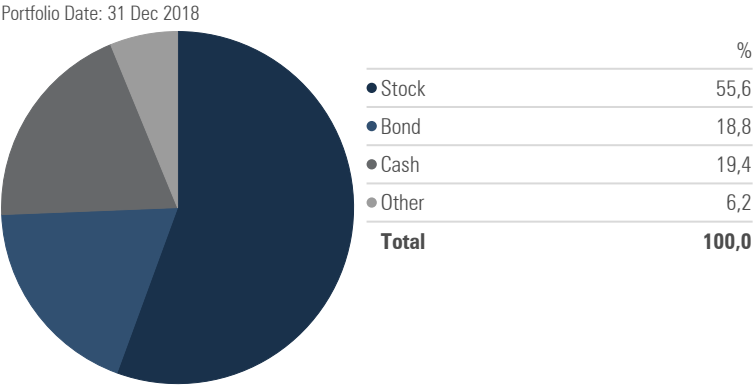
Levantine & Co Balanced - Top Holdings

Portfolio Date: 31 Dec 2018	
	Portfolio Weighting %
Currency - GBP	10,90
Fundsmith Equity T Acc	7,00
Marlborough Special Situations P Acc	7,00
BlackRock Cash D Acc	6,60
Vanguard US Govt Bd Idx GBPH Acc	6,40
Fidelity Index Japan P Acc	6,00
ETFS Physical Gold	5,00
Merian Global Equity Abs Ret R GBP H Acc	5,00
Schroder ISF EURO Equity A Acc EUR	5,00
Fidelity Index Emerging Markets P Acc	4,80

Levantine & Co Balanced - Equity Sectors

Basic Materials %	6,67
Consumer Cyclical %	11,45
Financial Services %	15,76
Real Estate %	3,00
Consumer Defensive %	10,36
Healthcare %	15,98
Utilities %	1,85
Communication Services %	2,19
Energy %	6,82
Industrials %	11,60
Technology %	14,34

ASSET ALLOCATION



MONTHLY RETURNS *

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2018	-0,06	-0,74	-2,50	1,83	1,43	-0,37	1,31	0,10	0,26	-3,64	0,39	-2,64	-4,68
2017	0,79	2,55	0,42	-0,88	2,07	-0,76	0,99	2,69	-2,77	2,10	-0,82	1,24	7,72
2016	-0,56	2,45	2,48	-0,37	-0,02	6,36	4,94	1,99	0,97	4,23	-2,84	2,61	24,21
2015	2,67	0,57	2,11	-0,48	0,87	-4,47	0,94	-2,85	-1,33	3,40	1,17	0,44	2,79
2014	-2,88	2,54	-0,08	-0,49	2,39	-0,32	0,26	2,33	-1,12	1,68	2,60	-0,90	6,00

*Monies invested into portfolio from October 2015. Performance is net of fees.

ADDITIONAL INFORMATION

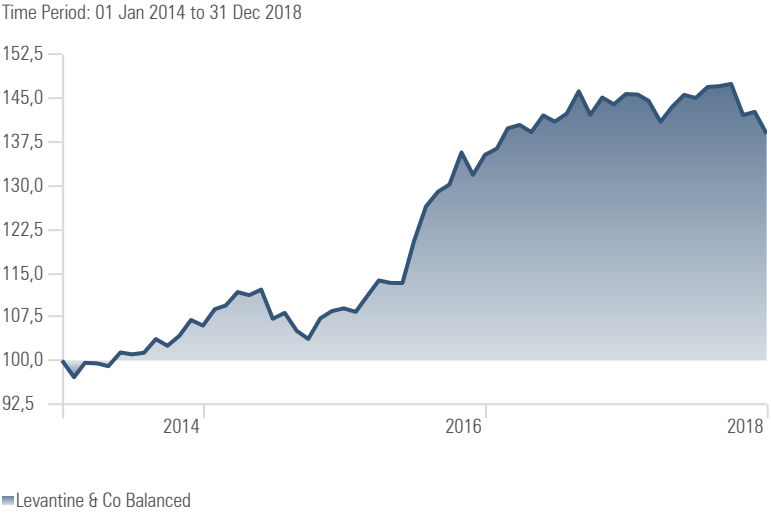
Firm Name:	Levantine & Co (Pty) Ltd
Inception Date:	5/1/2012
Currency:	Pound Sterling
AUM:	GBP 40 Million



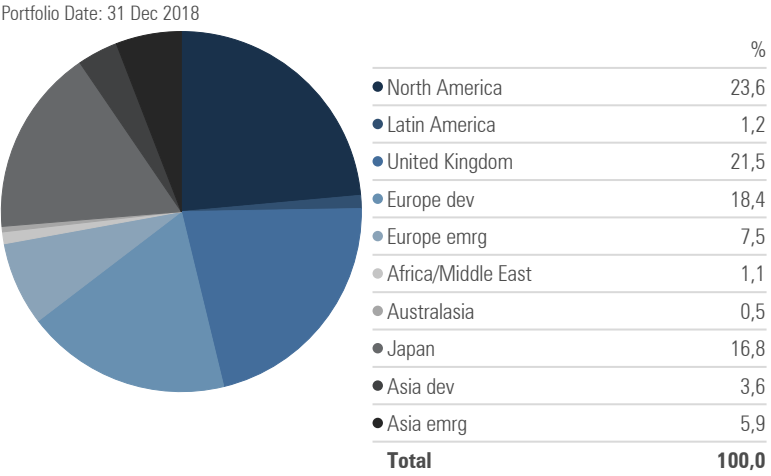
TRAILING RETURNS (annualised)

	YTD	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years
Levantine & Co Balanced	-4,68	-2,64	-5,81	-4,23	-4,68	8,44	6,80

INVESTMENT GROWTH



EQUITY GEOGRAPHICAL ALLOCATION



RISK STATISTICS

	Return	Std Dev	Sharpe Ratio	Max Drawdown	# of Periods
Levantine & Co Balanced	6,80	7,27	0,62	-7,56	4,00

December 2018 Market Commentary

Overview

2018 was unexpectedly challenging for financial markets, despite a backdrop of above-trend growth and below target inflation. It began with markets in euphoric mood as leading indicators suggested growth momentum would lead to another year of double-digit corporate profit increases. However, following a strong rally in January, concerns about accelerating US wages sparked the first of three corrections during a year of tightening financial conditions, heightened volatility, and losses across most major equity markets. After some relief mid-year, confidence was shaken when the Chairman of the Federal Reserve said US interest rates were still some way below neutral, tension over US/China trade tariffs escalated, a ‘no deal’ Brexit became a distinct possibility, and budget proposals from new ‘populist’ Italian government breached EU limits.

The final quarter of 2018 was not good for equity markets. Investors have had to contend with rising US central bank interest rates, a sharp slowdown in Eurozone business confidence, weaker Chinese growth and rising geopolitical concerns. We have seen pockets of volatility throughout the year with February’s VIX led selloff, August’s Turkish scare and the strong risk off environment in October and December. The selloff in the final quarter has been far deeper and more protracted than the others and this is because consensus has now firmly shifted to markets being in the later stages of the economic cycle.

Over the quarter as a whole, government bonds were able to function in their traditional role as the defensive part of a well balanced portfolio. With US data still firmly in expansion territory, the Fed raised rates in December and re-iterated that it was not dramatically changing its policy path in 2019. The prediction of two rate hikes in 2019 (reduced from three) and a cutting of the long-run neutral interest rate, was not enough to support risk assets as Powell’s determination to press ahead with the current balance sheet reduction strategy weighed on markets and catalysed a selloff.

OPEC production constraints helped the price of Brent crude rise to \$86 in October before ending the year down 18% at \$54 reflecting the waiving of sanctions on Iran and over-supply by Saudi, Russia and the US.

At the end of 2018, Deutsche Bank looked at the percentage of global assets that have produced a negative total return, on a dollar adjusted basis, for each year since 1901. 2018 has been the worst year on record with 93% of assets being down, showing that diversification away from risk has been exceptionally difficult.

Equities

Although emerging markets peaked in January and the Eurozone in May, the US and Japan did not falter until late September/early October. Capital investment and stable consumption helped global GDP grow 3.2% in 2018 – similar to 2017 and above the 2.7% long-term average. The gap between industrialised economies (GDP 2.3%) and emerging economies (4.6%) narrowed marginally as the US (2.9%) surprised on the upside boosted by a combination of corporate and personal tax cuts, rising employment, deregulation and repatriation of overseas cash. Growth in Japan (0.8%) and the Eurozone (1.9%) was below expectations with both impacted by slowing global trade.

Markets have started to worry that the US is late in its economic cycle. Tax cuts helped boost growth and corporate earnings in 2018 but investors are aware that the fiscal stimulus will fade beyond the first half of 2019. During Q4, major equity markets fell more than 10%, hitting 2018 lows before Christmas when President Trump tweeted criticism of the Federal Reserve for overly aggressive rate increases and Congress’ failure to agree a budget that included funding for a border wall with Mexico resulted in a partial federal government shutdown. The S&P 500 was down 9.9% in December, in local currency.

In Europe, business surveys have been weakening all year but this quarter moved closer towards the level that has historically been consistent with not just a slowdown in the pace of growth but an outright contraction. Part of the reason for the slowdown in Europe has been a sharp decline in the manufacturing sector’s new export orders, which appears attributable – at least in part – to a slowdown in demand from China. Domestic political factors have also been a drag, with the latest issues being the Italian government’s confrontation with the European Union and in France, protests surrounding the cost of petrol which led to widespread unrest in key cities. President Macron has since announced fuel duty cuts and other stimulus measures to ease the tensions. The Eurostoxx 50 was down 5.9% in December, in local currency.

In the UK, wage growth has also been accelerating, rising at the fastest pace since the financial crisis. However, the ongoing uncertainty surrounding the Brexit negotiations has weighed on business and consumer confidence. In our view, the ability of the UK parliament to revoke Article 50, combined with the fact that a no-deal Brexit would lead to a hard border in Ireland and significant repercussions for the UK economy, means a no-deal scenario remains unlikely. The FTSE 100 was down 3.5% in December, in local currency.

In China, growth has also slowed, explaining part of the weakness in global exports, with Chinese imports having slowed from 37% year-on-year growth in January to 3% in November. Following a clampdown on lending from the shadow banking sector, Chinese money supply growth has slowed, coinciding with a slowdown in the pace of retail sales growth and industrial production. In response to this slowdown, China is seeking to stimulate the economy with a combination of monetary and fiscal measures, particularly in the face of external headwinds emanating from the ongoing trade dispute with the US. The EM Local index was down 3.0% and the Nikkei 225 was down 10.5% in December, in local currency.

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Fixed Income

Volatility also impacted global bond markets with US yields – particularly at the short end as the curve flattened – rising across the maturity spectrum for most of 2018. In the final weeks, 10 year yields fell sharply from 3.2% to 2.7% leaving them up 25bp over the year. UK gilt yields peaked at 1.3% and also fell during Q4 to close near their 2018 low but, unlike the US, there was little change to the inverted yield curve. Interest rate and growth differentials boosted the dollar against major currencies: over the year it gained 4% against the euro (€1.15) and 5% against sterling (\$1.28).

Central banks have made no secret of their intention to ‘normalise’ monetary policy and the Federal Reserve continued with the process started three years ago and has steadily raised interest rates – most recently to 2.5% in December, the fourth increase for the year. It has also been shrinking its balance sheet as a percentage of GDP through quantitative tightening. While there is a disparity between the Fed’s ‘dot plot’ guidance of a 3% neutral rate and market pricing, policy overall is not yet restrictive. As the European Central Bank and Bank of Japan have been slower to follow suit, monetary policy for the G10 economies has remained highly accommodative and helped to sustain a longer than average, albeit sub-par, economic expansion. Low global inflation has been a contributory factor and, despite increased employment, remains within most central bank targets. Despite the slowdown in growth, the European Central Bank ended its quantitative easing programme in December, noting the broad-based nature of the firming in wage growth across the region.

Looking ahead

There are always risks, but at the moment the risks seem greater than usual. Although there are risks in both directions, at the late stage of the economic cycle, they are currently probably more skewed to the downside. Heading into 2019, a balanced portfolio that avoids big asset allocation bets relative to benchmarks, in either direction, seems prudent.

The consensus view, is that global economic growth is likely to be around 3% in 2019. The main contributors will be the consumer in the US and China with Japan and Europe likely to lag. The lingering impact of US tax cuts will help support activity in the first half of the year, and to a lesser extent, Europe, where austerity is being eased in France, Italy and the UK. Employment and wages have been increasing modestly – which we see as ‘good’ growth – and lower oil prices will provide short term relief for headline inflation. Other things that could potentially help the global economy in 2019 include Chinese stimulus, avoidance of a no-deal Brexit and a potential trade deal between the US and China

On the downside, Europe could have a recession, potentially restarting concerns about the sustainability of European sovereign debt. US growth is likely to slow and a recession in late 2019 or 2020 can’t be ruled out. Trade tensions could escalate and British politicians may fail to provide a near-term Brexit solution. Lower oil prices, higher US interest rates and slowing growth could also cause trouble in some of the emerging markets. High leverage in credit markets is a risk, particularly with central banks reducing global liquidity.

Portfolio feedback & conclusion

Over the month of December, the Levantine Global Balanced Portfolio decreased by 2.64% in GBP terms.

Positive performers for the month were the passive & active allocations to fixed income and alternative assets. The PHAU Gold ETF and Merian Global Equity Absolute Return Fund returned 4.33% & 2.38% respectively for the month, due to market instability in December. With the threat of another large downturn, Gold was seen as a safe hedge option, while alternative funds were also seen as a good hedge due to low correlations to traditional assets. The Fixed Income exposure of the portfolio also provided protection, with the Vanguard US Government Bond and L&G Emerging Markets Fund, returning 2.02% and 1.42% for the month.

The largest disappointment over the month was the performance of the Man GLG Japan CoreAlpha Equity Fund. The fund is a long term conviction of the portfolio. The fund takes very concentrated positions in Value, Large Cap Japanese companies, and is not trying to stick to a benchmark. Although the fund had a very poor December, it is already the leading performer in the portfolio in January so far for 2019.

Source: Morningstar Direct, JP Morgan Asset Management, Brooks MacDonald, Quilter Cheviot, Levantine & Co

Richard Minnaar & Laurent Joly, CFA