DART CAPITAL

Issued: September 2017

Market Commentary - August 2017

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Global equity markets were surprisingly resilient during August in the face of concerning geopolitical developments, as the continuation of reasonable global growth dynamics helped reassure investors.

The month saw a further heightening of geopolitical risk, as the leader of North Korea, Kim Jong-Un, continued to pursue an aggressive course of action, first threatening to attack US-territory Guam and then firing a ballistic missile over Japan. These moves saw investors increasingly favour safe haven assets, particularly gold and US Treasuries, with the former gaining 3.8% in US Dollar terms over the month whilst the yield on the 10 year Treasury fell 17 basis points. It is important to note that the market is very poor at pricing in the so-called "extinction risk" which faces much of South Asia should the North Korean situation escalate into a full-blown conflict and equity markets in particular are still priced such that they expect a resolution which avoids military conflict. Whilst the investment case for holding diversifying assets such as gold and Treasuries across our managed portfolios is not built solely around their safe haven status, we do take comfort in the positive performance these assets tend to generate during periods of market stress.

The UK labour market continues to demonstrate strength, with the unemployment rate falling to 4.4% in June - its lowest rate since 1975 – according to data collated by the Office of National Statistics (ONS). Whilst an impressive headline figure, wage growth remains weaker than the Bank of England would like, although the year-on-year pay growth was, at 2.1%, slightly better than economists had expected. Revised ONS figures reconfirmed that the UK grew 0.3% over the second quarter, with still reasonable household consumption growth failing to make up for weaker than expected business investment and manufacturing output. Domestic inflation has shown signs of abating somewhat over recent months with the Consumer Price Index (CPI) showing price levels 2.6% higher in July than a year ago, down from May's peak of 2.9%. Examination of the figures shows lower transport costs were the primary factor suppressing the metric whilst food, clothing and utilities all saw price increases compared to June's figures. The ongoing concerns regarding the UK's exit negotiations with the EU and the strength of the Eurozone economy have helped push the Euro close to a multi-year high against the Pound. Although this has led several sell-side houses to predict a move towards parity between the two currencies, we note that many of these same commentators were also

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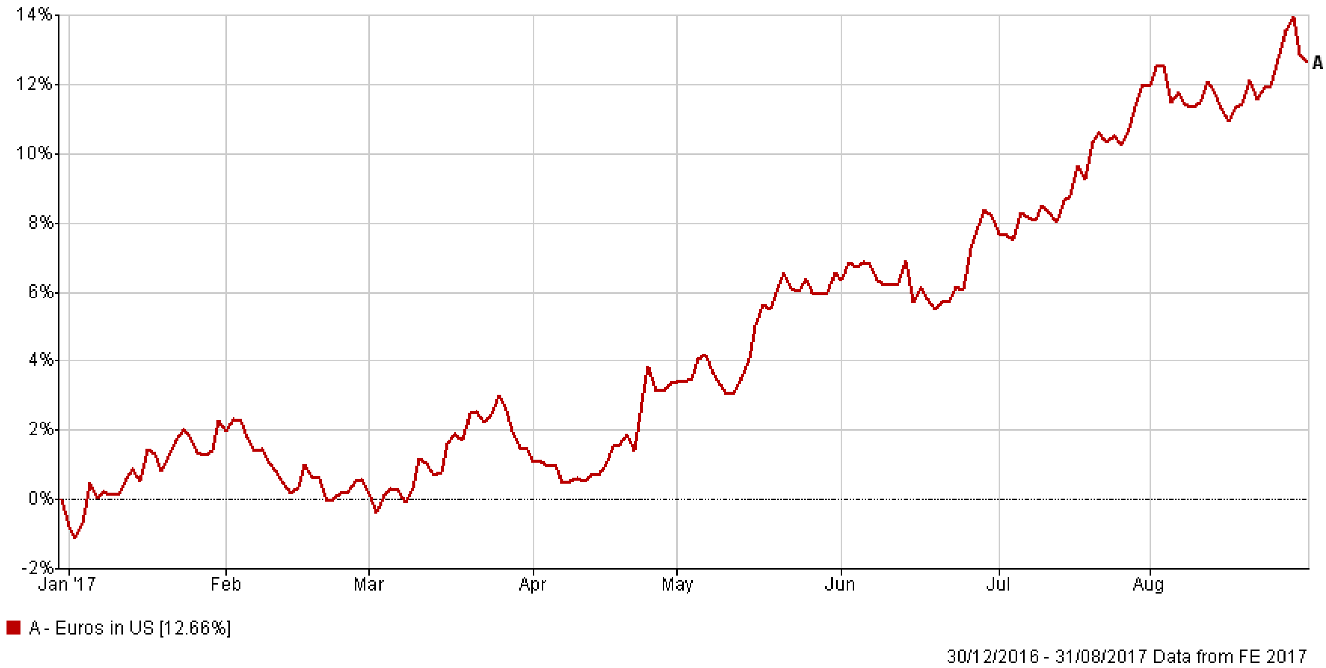
forecasting further Euro weakness when the rate (of Euros per £) went above 1.40 in 2015. MSCI UK All-Cap edged to a gain of 0.7% over the month.

The Eurozone economy continues to enjoy its strongest prolonged period of growth since the onset of the financial crisis, with the Gross Domestic Product (GDP) for the bloc growing 0.6% over the second quarter, whilst year-on-year growth was revised up to 2.2%. Although inflation, as measured by CPI, exceeded the consensus estimate for August - increasing 1.5% from its level a year earlier - there are reasons to believe that the European Central Bank (ECB) may well struggle in its attempts to push inflation back towards its 2% target. In particular, the flow of capital out of the US Dollar and into the Euro has been such that common currency has appreciated 12.7% against the Dollar so far this year, a fact which will push down the cost of imported goods for Eurozone households. In spite of this potential challenge, the market still expects the ECB to announce an imminent reduction in the size of their Quantitative Easing (QE) programme, whereby they have been buying €60 billion worth of bonds issued by Eurozone-area governments each month. A number of economists view any tapering of the ECB's QE programme to be the precursor to an interest rate rise by the end of 2018. MSCI Europe ex-UK lost 0.5% over the month in local currency terms.



The Euro has appreciated significantly against the US Dollar so far this year.

Second quarter US economic growth was revised up to an annualised pace of 3% over the period, an impressive acceleration from the first quarter figure of 1.4%. However, the survey figures released over the month indicate that this strength is unlikely to be maintained, with figures from the manufacturing sector showing lower than expected order book growth on the back of weaker exports. Whilst the US Federal Reserve remain keen to see inflation return back to their own 2% target - the CPI rate stood at 1.7% in the year to July - they have become increasingly aware of the need to continue to tighten monetary policy irrespective of benign inflationary pressures, with the Fed's monetary policy committee, known as the FOMC, still forecasting four rate increases of 25 basis points between now and the end of 2018. Whilst the US equity market has continued to push towards new highs, this has been driven by a small number of mega-cap stocks whilst, as shown overleaf, the more growth sensitive small and mid-cap area of the market has lagged. This lack of market breadth implies increasing investor aversion and has, at least historically, tended to be a precursor for a market pull-back. The S&P 500 index, which captures the returns of the 500 largest-listed stocks in the US market, ended the month up just 0.1% Dollar terms.

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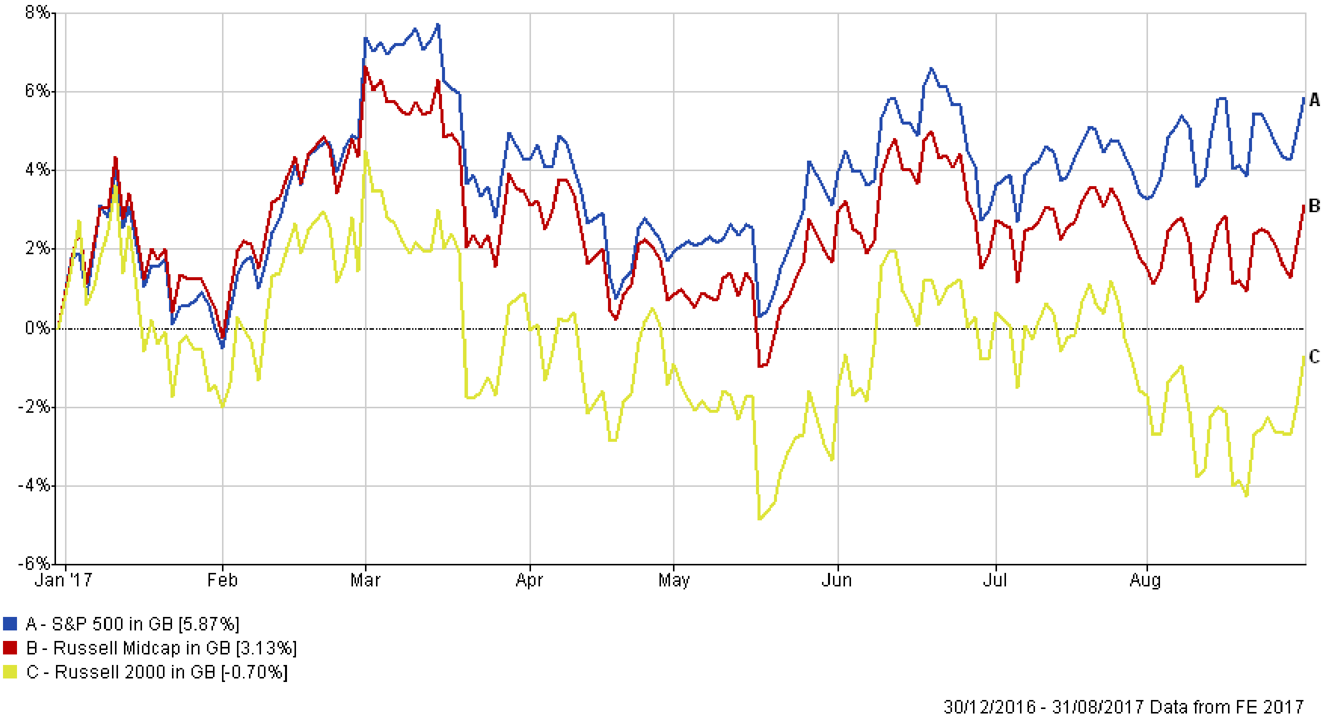

The market's perspective on the Chinese economy has come almost full circle over the last 18 months, with investors now sanguine that the government's continued stimulus package will help the world's second largest economy avoid a hard landing. This has particularly been the case within the manufacturing sector where infrastructure investment has helped drive production growth and push the economy's growth rate, based on official government statistics, to the 6.9% annualised pace it achieved over the first half of the year. MSCI China A gained 2.1% over the month in local currency terms. Emerging Markets more broadly have been the beneficiary of the weaker US Dollar so far this year, and MSCI Emerging Markets delivered a further gain of 2% in Dollar terms over the month.

Asset Class Performance – End August 2017 (in Sterling terms)

Asset Class	Dart Position	1 Month	3 Months	12 Months	Index
Cash		+0.02%	+0.06%	+0.25%	Bank Of England Base Rate in GBP
Fixed Interest		+2.04%	-0.56%	-6.13%	iBoxx Sterling Gilts All Maturities in GBP
Equities - UK		+0.71%	-0.99%	+10.17%	MSCI UK All Cap in GBP
Equities - International		+2.60%	+3.64%	+17.19%	MSCI All Country World Index ex UK in GBP
Property		+0.42%	+1.67%	+8.42%	FE UK Property Proxy in GBP
Alternatives		+0.02%	+0.06%	+0.25%	Bank of England Base Rate

Benchmarks are capital return which excludes income
Month to 31 August 2017
Treasury yields data supplied by Thomson Reuters
All other performance data supplied by Financial Express Analytics
Dart positions based on Dart mid risk strategy

Overweight
Neutral
Underweight