



HANSON

Market Commentary June 2015

This market commentary has been produced by the Investment Management team at Hanson Asset Management.

June was dominated by two particular events, one on the economic and one on the geopolitical front, both of which could have far reaching implications. The first was the uncertainty in Greece over the country's debt repayments and the second was terrorist activity, which included an attack in Lyon and culminated in an atrocity in Tunisia where 30 people were killed. All of this against a background of ISIS atrocities across the Middle East, Russian tit-for-tat sanctions against the EU and a continuing refugee crisis in southern Europe spawned, to no small extent, by ISIS. In 2014 Greece took in 10,000 refugees, to date their island of Kos has taken in 6,000 alone, and has in total absorbed 68,000, more than Italy, a country nearly 9 times as rich. Italy has taken in 67,500 and there are thought to be over 40,000 more refugees trying to leave Syria alone, headed for southern Mediterranean shores. They will try to join the 137,000 already there according to UN figures.

Equity markets reflected this uncertainty by falling across the board, with two exceptions, Brazil and Russia, which have been two of the better performing markets so far this year. These two markets were up 0.81% and 2.0% respectively. Developed Markets had a disappointing month with the US down 1.94% as measured by the S&P500, Japan down 2.8% (FTSE Japan) Europe down 4.27% (MSCI Europe ex-UK) and the FTSE UK All-Share down 5.75%. Emerging Markets fared little better with Asia ex-Japan down 3.3% (MSCI) other Emerging Markets down 2.18% (MSCI).

In the UK a disappointing month saw all sectors in negative territory with the worst performing sector being Basic Materials, which fell 9.7%, primarily because Industrial Metals and Mining fell over 25% during the month. The two other worst performers were Healthcare (-8.5%) where all the major stocks such as Astra Zeneca, Glaxo, Shire, Hikma and

BTG were down between 7% - 11% and Utilities (-7.8%) where National Grid fell 12.5%, Drax fell 11.9% and United Utilities were down 10.4%. The few small positives were the relatively good performances from Consumer Services (-3.5%), Consumer Goods (-3.5%) and Industrials (-5.0%). The House Building sub-sector had a good month with Berkley Group returning 8.1% and a number of the smaller players in the sector adding 5.0% over the period, but the best performing stock in the market was bid target, Anite, the computer software company, which rose 27.96% for the month. The bid is from rival mobile phone parts supplier, Keysight Technologies, a US\$ 5.5bn company.

The US had a difficult month in terms of equity market performance, but the economic backdrop looks to be improving, following a lacklustre set of growth numbers in Q1. Many of the leading indicators appear to have turned positive, with rising house prices, increased housing starts, spending on the increase (+0.9% in May), mortgage approvals and overall consumer confidence improving on the back of some wage inflation, which should lead to a positive Q2 for GDP growth. Mrs Yellen has suggested that rate rises are not far off, but any increases will be gradual and we do not expect a return to the level of rates seen before the Global Financial Crisis. The consensus view is for a September rise, but some believe it will be early 2016 before it actually happens.

Europe was focussed entirely on Greece and a special report is at the end of this commentary. However, it is worth noting that, as France begins to claw its way back to economic growth some habits die hard, as French truckers went on strike in June blockading many roads and ports. The drivers wanted full pension at 55 (after 25 years' service), improved sick pay and allowances for overnight stops and meal breaks. This caused



a level of disruption, but the strike was hardly a success and lasted 12 days. It should also be pointed out that the MSCI Europe ex-UK Index having fallen 4.27% this month, now stands on a yield of 3.1%. European disinflationary fears appear to have disappeared as a result of the improving economic backdrop despite Greek concerns. The benefit of lower energy prices has been evident in positive retail sales growth, overall consumption and sentiment indicators still at multi-year highs. Adding to the good news was the Composite Manufacturing Purchasing Managers' Index (PMI) which reached a four-year high in June.

Japan remains something of a conundrum; weakening currency, plenty of QE, better growth than expected, wages beginning to rise on a real basis and a rising stock market, but the 2% inflation rate still remains over the horizon. Some concerns are also starting to emerge about growth in the second half, particularly if China is facing a slowdown. However, with QE still being applied the stock market will maintain its attractions.

In Emerging Markets most attention has been centred on China which has seen its stock market race away for most of this year amidst much talk of bubbles as the Shanghai Composite touched 5,200. However, the market has fallen by over 5% over the last month with 5% intraday swings becoming commonplace whilst 4,000 on the Shanghai Index, is fast approaching: but the market is still up 14.8% year to date! The Government continue to operate a very relaxed monetary policy with a form of QE, an easier Reserve Requirement Ratio (RRR) and a proposal that the loan to deposit ratio should be reduced for banks from the long held 75%, which could become law next year.

India has had a more difficult period after a major rise and re-rating last year. Mr Modi is still held in high regard, but the market is pausing for breath. It was flat over the month, but the good news for the economy

was that the Monsoon rains have been on time and plentiful which should mean food prices stay low and therefore inflation will remain under control.

In Fixed Income most investors are focussed on when the Federal Reserve will start to raise interest rates. The majority view is that it will be in September and consequently Bond Markets also had a difficult month. All fixed income markets provided negative returns for June. Index-linked Gilts were hurt the most with the 'over 5 year sector' falling 2.79% as did Sterling Corporate Bonds which were down 2.78% on a total return basis. Conventional Gilts slid 1.73% at the All Stocks level, but the short end gave up just 23 basis points. US Dollar Bonds, Global Corporate Bonds, US Treasuries and European Corporates all lost ground, with falls ranging from 0.88% for US Treasuries and European Corporates down 1.97%. Convertible Bonds were squeezed from both sides with falling bond and equity markets so it was no surprise to see them down by nearly 2%.

Alternatives also suffered over the month: the LPX Composite Private Equity Sterling Index was down 4.84%, Infrastructure dropped 4.51% and Hedge Funds slipped 31 basis points. Property, as measured by the FTSE All UK Property Index managed to add some value, climbing just 6 basis points over the month. However, there does appear to have been an uptick in activity within Private Equity as the proposed merger of Gala Coral and Ladbrokes, to form the largest betting franchise on the high street in the UK begins to formalise. Previous attempts to merge the businesses had been turned down by the Monopolies Commission (in 1998), but the internet has changed the way gambling is conducted so there is an air of confidence that the deal will go through.

Greece – a tragedy waiting to happen

As we move into what would appear to be the final denouement of this Greek tragedy, the weekend's developments have left markets in



a state of uncertainty, probably unparalleled since 2008 when the western world teetered on the edge of the financial abyss. We believe there are 3 possible outcomes for Greece; a new somewhat fudged deal which will keep Greece in the Euro with help in paying its debts; a carefully managed exit from the Euro with assistance from the ECB and IMF, a new currency established and some form of moratorium over existing debts; or a messy exit with no controls in place, bad blood between Greece and the ECB (rest of Europe) and a longer period until recovery.

The Greeks, without putting too fine a point on it, are staring economic ruin in the face. The banks are going to be closed all this week and maybe for longer, the stock market has been suspended and withdrawals from cash machines has been capped at €60 a day as the banks run out of money. The Euro continues to struggle on the foreign exchanges, savings could be wiped out and riot police stand-by to curb over enthusiastic protestors and demonstrators.

Against this background Monday saw the UK equity market down over 100 points (having been 140 points down on the opening), the Euro trading at a multi-year low of 1.4125 to the Pound and Greek 10 year bonds trading at 13.94% compared to the UK's 2.05% and Germany's 0.74%. However, worse still is the 2 year bond which is trading at 33.34% compared to Germany's negative 0.21%.

However, the demise of Greece has been predicted before and not come to pass, but this time it feels as though something dramatic is going to happen. €500m was withdrawn from the banks on Saturday alone, adding to the billions that have already been withdrawn and been used to buy property in London or to open accounts in other Eurozone countries. The black economy which was the only way for most Greeks to survive will be starved of its oxygen and the lack of certainty about anything will make it harder for the

tourist industry to cope. This in turn will only make matters worse for the economy.

The possibility of either side blinking first and agreeing a deal is still not entirely out of the question. Compromises will have to be made: the Greek people seem to be willing to take the proposed austerity measures, whereas the government are not and if the referendum votes 'yes' to austerity then Mr Tsipras and his Syriza Party is done for. What any sort of 'fudge' would mean is further uncertainty for markets as they wait for the same problem to occur again in a few months' time, and so it would go on. Any sort of recovery would be very slow in arriving with Greece becoming less and less of an issue for the rest of the world as time went by.

Any new currency would devalue very quickly, probably by 40% (or more) against the Euro and the debt situation would be exacerbated. However, international investors would be encouraged to invest as everything in Greece would be cheap to non-Greeks, GDP would be assumed to have troughed and the tourist industry would boom. Most important of all however, the Greek Government, with their own new central bank could start their own Quantitative Easing, thus creating further demand in Greece. This would, we believe, provide a sound buying opportunity for longer term investors in Europe in general and Greece in particular. With an uncontrolled exit there would be a sharp sell-off across the globe, but again we believe this would present a good buying opportunity for long term investors.

There is no doubt that there are some very good companies in Greece, which have the vast majority of their earnings outside the country, are earners of foreign exchange and are trading on very attractive multiples. However, the attractions of these companies has been overlooked as investors worry about the consequences for Greece as a whole and the potential changes to Greek corporation tax or windfall taxes that might be enforced



post any default or withdrawal from the Eurozone.

There is also no doubt that global markets would feel the chill of any upheavals in the financial markets stemming from Greece. However, it is important to remember that Greece is a small country in terms of population (circa 10m with 30% of the population living in Athens) making a small contribution to Eurozone GDP and is a net beneficiary of EU aid so the impact should not be excessively dramatic.

Bond markets will be the first to react and attention should be drawn to the other peripheral Euro states: Spain, Portugal and Italy. Yields will probably rise, but the underlying economies appear robust, especially Spain and Portugal, with good GDP growth forecast. Spain actually upgraded their forecast last week to +3.1% for 2015 and 2.7% for 2016. Unlike Greece these countries implemented fiscal reforms post crisis.

Furthermore, the Spanish Consumer Price Index has moved out of deflationary territory as it rose +0.2% month on month and is flat year on year. Investors should also watch for the usual 'flight to quality' with bond yields likely to fall in countries like Germany, the UK and US. Thus there could be an opportunity to sell some safe haven bonds and switch into Spanish or Italian bonds.

US investors have been strong buyers of European equities, particularly in the first quarter of the year. At one stage this year the Dax was up over 26%, but is now at the time of writing +15.5%. It raises the question as to whether this is a buying opportunity or a time to exit until things are more certain. One of the attractions to US investors is a weak currency and the prospect of continued QE in Europe contrasting with the Federal Reserve which will be raising interest rates within the next 6 months. It should also be remembered that European banks are in a far healthier position than 4 years ago and would now be

able to cope with a Greek default. Our view would be to add cautiously to European equities at current or lower levels.

It should also not be forgotten that Greece is important both to the 'West' in general and NATO in particular and stability is therefore much desired by those bodies. Greece has historically had strong links to the Balkans and Russia and this could be seen by Russia, as an opportunity to strengthen their ties with Greece. A new naval base for Russia in Greek waters is a possibility, as a 'quid pro quo' for bailing the Greek finances out – but that is our speculation. Mr Obama has emphasised that Europe needs a stable Greece and a sensible solution should be found, which really only highlighted US concerns over the geopolitical situation with Greece.

Whichever way Greece jumps over the ensuing week the country is in a 'no win' position. Engulfed by their debts and lack of ability to change their ways, suggests the country will be either headed for years of economic malaise or suffer enormous pain before the recovery. Their entry to the euro project was a calculated risk as the financial conditions for joining had not been met. Now it looks as though that political gamble has failed and has undone the country. None the less, from an investors' perspective we remain overweight European equities and would look to add to positions on any significant weakness.

As a post script, the referendum result in Greece was an emphatic and to some, a surprising, 'no' to austerity, which has opened up a brand new can of worms. Whatever happens in the short term, the unintended consequences of the EU elite's actions will have enormous ramifications. Default, departure and devaluation of a new currency look a far greater possibility than ever before. However, the political will, often ignoring the economic realities, is still running high in many of the European elite's perspectives and we would not write off the ability of the EU to



fudge some form of compromise to ensure the preservation of the 'EU Project,' however short lived. Markets will continue to be volatile, but any weakness remains a buying opportunity for long term investors.

Global Markets Index Explanation

UK Large Cap

FTSE 100	The index measures the performance of the 100 most highly capitalized blue chip companies listed on London Stock Exchange, which pass screening for size and liquidity. It is free float market-capitalization weighted.
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UK Mid Cap

FTSE 250	The index is a capitalisation-weighted index consisting of the 101st to the 350th largest companies on the London Stock Exchange.
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UK Small Cap

FTSE Small Cap	The index is an index of small market capitalisation companies consisting of the 351st to the 619th largest listed companies on the London Stock Exchange main market.
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UK All Share

FTSE All Share	The index represents 98-99% of the UK market capitalization and is an aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices.
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Europe

MSCI Europe Ex UK	The index measures the performance of the large and mid cap segments of developed Europe, excluding UK equity securities. It is free float-adjusted market-capitalization weighted.
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US Large Cap

NASDAQ Composite	The index measures the performance of all domestic and international based common type stocks listed on the NASDAQ Stock Market. It includes common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests and tracking stocks. The index is market capitalization-weighted.
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Dow Jones Industrial Average

The index measures the performance of stocks of 30 US blue-chip companies covering all industries with the exception of transportation and utilities. It is price-weighted.

S&P 500

The index measures the performance of 500 widely held stocks in US equity market. Standard and Poor's chooses member companies for the index based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. The index is market capitalization-weighted.

Canada

MSCI Canada	The index is designed to measure the performance of the large and mid cap segments of the Canada market. With 96 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Canada.
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Japan

FTSE Japan	The FTSE Japan Index is comprised of 459 large and mid cap Japanese companies that are constituents of the FTSE All-World Index.
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Asia (ex Japan)

MSCI All Country Asia Ex Japan	The index measures the performance of the large and mid cap segments of the Asia, excluding Japan equity securities, including developed and emerging market. It is free float-adjusted market-capitalization weighted.
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Hong Kong

Hang Seng HSI	The index measures the performance of the largest and most liquid companies in Hong Kong Stock Exchange. It is arithmetically calculated and market-capitalization weighted.
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China

MSCI China	The index measures the performance of 138 large and mid cap segments of emerging China equity securities. It is free float-adjusted market-capitalization weighted covering 85% of China's equity universe.
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Australia

S&P/ASX All Ordinaries	The index represents the 500 Largest Companies in the Australian equities Market.
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Emerging Markets

MSCI Emerging Markets	The index measures the performance of the large and mid cap segments of emerging market equity securities. It is free float-adjusted market-capitalization weighted.
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India

MSCI India	The index measures the performance of the large and mid cap segments of India equity securities. It is free float-adjusted market-capitalization weighted.
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Russia

MSCI Russia	The index is a free-float adjusted market capitalization weighted index that is designed to track the equity market performance of Russian securities listed on MICEX Stock Exchange. The MSCI Russia Total Return Index takes into account both price performance and income from dividend payments. The MSCI Russia Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.
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Brazil

FTSE Brazil	The FTSE Brazil is a market-capitalisation weighted index representing the performance of 81 large and mid cap Brazilian stocks.
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Global Equities

FTSE All World Ex UK	The index is the Large/Mid Cap aggregate of around 2,800 stocks from the FTSE Global Equity Index Series ex UK. It covers 90-95% of the investable market capitalisation.
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Private Equity

LPX Composite	The LPX Composite is a global equity index that covers all listed private equity companies which fulfill certain liquidity constraints.
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Property

FTSE All UK Property NAV	The index reflects the investment performance of retail, office and industrial property in the UK.
S&P Global Property	The index defines and measures the investable universe of publicly traded property companies. With more than 500 constituents from 36 countries. The S&P Global Property divides into two sub-indices: S&P Developed Property and S&P Emerging Property.

Infrastructure

S&P Global Infrastructure	The S&P Global Infrastructure Index provides liquid and tradable exposure to 75 companies from around the world that represent the listed infrastructure universe. To create diversified exposure, the index includes three distinct infrastructure clusters: utilities, transportation, and energy.
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Hedge Funds

FTSE APCIMS Hedge Investment Trust	The FTSE APCIMS Hedge (Investment Trust) Index is designed to reflect the portfolio of a client requiring exposure to multi-manager hedge funds. All index constituents are closed-ended UK quoted investment companies and they are classified under FTSE's Industry Classification Benchmark.
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Global Government Bonds

Barclays Global Treasury	The Global Treasury Index tracks fixed-rate local currency government debt of investment grade countries. The index represents the Treasury sector of the Global Aggregate Index and currently contains issues from 37 countries denominated in 23 currencies. The three major components of this index are the U.S. Treasury Index, the Pan-European Treasury Index, and the Asian Pacific Treasury Index, in addition to Canadian, Chilean, Mexican, and South-African government bonds.
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Index-Linked Gilts

FTSE Index Linked Over 5 Yr	The index Consists of securities with over 5-year maturity from the index-linked family of the FTSE Actuaries UK Gilts Index Series, which includes all British Government Securities quoted on the London Stock Exchange.
FTSE Index Linked All Stocks	Securities with all outstanding terms from the FTSE Actuaries UK Gilts Index Series which includes all British Government Securities quoted on the London Stock Exchange.

Conventional Gilts

FTSE Gilts Up to 5 Yr	Consisting of securities with up-to-5-year maturity from the Conventional index family of the FTSE Actuaries UK Gilts Index Series, which includes all British Government Securities quoted on the London Stock Exchange.
FTSE Gilts All Stocks	Securities with all outstanding terms from the Conventional index family of the FTSE Actuaries UK Gilts Index Series, which includes all British Government Securities quoted on the London Stock Exchange.

US Treasury

Barclays US Treasury	The index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices.
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Global Corporate Bonds

Barclays Global Aggregate Corporate	The index is comprised of Corporate Issues from three major components the U.S. Aggregate, Pan-European Aggregate and the Asian Pacific Aggregate index.
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Sterling Corporate Bond

IBOXX GBP Corporate	The index tracks sterling-denominated Corporate bonds across the world with the minimum amount outstanding of £250m. The index is calculated by volume and market value.
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USD Corporate Bonds

Barclays US Corp Investment Grade	U.S. Corporate Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.
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Euro Corporate Bond

IBOXX EUR Corporate	The index tracks euro-denominated Corporate bonds across the world with the minimum amount outstanding of £500m. The index is calculated by volume and market value.
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Convertible Bonds

TReuters Global Convertible Bonds	Thomas Reuters Convertible Indexes (previously UBS Convertible Indexes) measure the size and performance of the convertibles asset class, and are the most widely used convertible bond benchmark internationally. The indexes are independently managed by specialist convertible bond data provider MACE Advisers. The Indexes are market capitalisation-weighted, total-return indexes. They do not impose any currency, regional or sectoral weights, and do not have a fixed number of constituents.
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VIX

CBOE Market Volatility (VIX)

The CBOE Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. It is considered by many to be the world's premier barometer of investor sentiment and market volatility.

FTSE APCIMS

The FTSE APCIMS Private Investor Index Series provides investors with an objective benchmark against which to measure their investment portfolios, assuming they are UK domestic investors with Sterling denominated accounts. The index series represents the performance for growth-orientated, income, balanced and conservative investors, and incorporates returns from FTSE indices representing UK equities, foreign equities, fixed income, cash and investment trusts, according to variable percentage weightings set by committee and based upon average allocations across private client investment managers.

FTSE APCIMS Stock Market Balanced

FTSE APCIMS Stock Market Income

FTSE APCIMS Stock Market Growth

BBA Libor

BBA Libor 1 Week

The London Interbank Offered Rate is the average interest rate estimated by leading banks in London that they would be charged if borrowing from other banks.

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