FP FINANCIAL PARTNERS

momentum

Weekly Digest

Week ending **14 June 2015**

Outcomes-based investing is something we hear about a lot these days and something we at Momentum fully subscribe too, but how does the target outcome of a portfolio align with the all-important risk profile? We believe that risk is not a number. As a result, there is no single metric, measure or calculation that will, in isolation, inform us of the riskiness of a particular manager or asset class.

Of course, we do look at the risk that each position in our portfolio brings to the overall picture, in both a quantitative and qualitative sense, but no element of a portfolio sits in isolation and as a result the key consideration for us will always be the efficacy of the overall combination of assets and managers in the portfolio rather than the particular, idiosyncratic risks provided by a single holding. This is because intelligent diversification is the closest we get to a free lunch in investing. Well matched asset classes or managers that have offsetting, complementary characteristics are able to knock off each other's rough edges and provide us with a portfolio that is, from a risk adjusted perspective, greater than a sum of its parts. As a result, it is imperative to us that the underlying managers that we use do not deviate from the sort of portfolio characteristics that we have chosen them for. This 'style drift' would make it very difficult for us to remain confident in the overall risk picture of our portfolios.

As an outcomes-based investor the key consideration for us when constructing a portfolio is having confidence that any additional position will improve the probability of providing the outcome that our clients require whilst also improving the experience along the way; that is delivering the outcome more reliably. Rather than focus on the short term discomfort posed to investors by volatility based measures, to Momentum the main risk is not meeting your goal, such as failing to prevent the slow, chronic destruction of purchasing power through inflation. To that end we build our funds using a combination of managers, strategies and asset classes that we believe, in aggregate, will deliver on these outcomes whilst avoiding the adoption of unnecessary levels of conventional risk, that is, volatility.

The **Marketplace**

- Global equity markets subdued
- US retail sales suggest recovery from Q1 slump
- Collapse of Greek bailout talks dominate markets
- Greek government bond yields spike
- MSCI decides not to include China A-shares in its indices

Market Focus & Data overleaf

Market **Focus**

Global

- Global equities added 0.6% last week, with Europe flat in euro terms, and the UK losing 0.2% in sterling terms. The US equity market added 0.1%. Emerging markets fell by 0.2% last week.
- Global bonds added 0.8%, with government bonds adding 1.0%. High Yield bonds fell by 0.2% in the US, while in Europe the asset class declined by 0.5% in euro terms.

US

- In the US, retail sales numbers posted a healthy 1.2% increase in May compared to April which equates to a 2.7% year-on-year change, in a sign that the US economy is recovering from a sluggish start to the year.
- The US dollar rallied at the start of the week, but declined against a basket of major currencies on Friday to end the week lower by 1.4%. This followed reports that President Obama had addressed dollar strength at the latest G7 meeting of global leaders.

Europe

- The latest talks between Greece and one of its main creditors came to abrupt end on Sunday. A spokesperson for the European Commission lamented that a 'significant gap' remains between reforms proposed by the Commission, and those that the Greeks are willing to take on. Focus now shifts to the Eurogroup of Finance Ministers, who are due to meet on Thursday.
- Earlier in the week the International Monetary Fund walked out on discussions with Greece, claiming that "there are major differences between us [and] there has been no progress in narrowing these differences". As markets open this week, 10-year Greek government bonds have spiked to 12.4% (up from 11.3% at the start of last week). For comparison, the German 10-year bund is currently yielding 0.8%.

China

- MSCI decided against including China A-shares in it benchmark indices last week. It cited concerns around liquidity, quota systems and regulations around ownership for this decision. It has now proposed May 2017 as the likely inclusion date, but has left open the possibility of an earlier move, if the aforementioned issues can be resolved sooner.
- Chinese inflation numbers came in below expectations, with CPI printing +1.2% year-on-year (versus expectations of 1.3%) and down from 1.5% in April. PPI also disappointed at -4.6% year-on-year (versus expectations of -4.5%).

Commodities

- Brent crude added 0.9% as agricultural commodities fell by 1.2% and gold added 0.8%.

James Klempster, CFA & Scott Gordon

Source: Bloomberg. Returns in US dollars unless otherwise stated.

Asset Class/Region	Currency	Currency returns			
		Week ending 12 June 2015	Month to date	YTD 2015	12 months
Developed Market Equities					
United States	USD	0.1%	-0.6%	2.4%	10.1%
United Kingdom	GBP	-0.2%	-2.6%	5.2%	2.4%
Continental Europe	EUR	0.0%	-2.2%	16.3%	14.3%
Japan	JPY	-0.9%	-1.2%	18.4%	35.9%
Asia Pacific (ex Japan)	USD	-0.2%	-2.7%	4.7%	0.8%
Australia	AUD	0.9%	-4.0%	4.5%	6.8%
Global	USD	0.6%	-0.4%	4.6%	4.5%
Emerging Market Equities					
Emerging Europe	USD	0.9%	-2.9%	5.9%	-27.3%
Emerging Asia	USD	-1.1%	-3.1%	6.1%	4.7%
Emerging Latin America	USD	2.1%	1.5%	-5.9%	-23.9%
BRICs	USD	-0.1%	-1.2%	10.1%	1.6%
MENA countries	USD	-1.1%	-0.6%	6.6%	-6.3%
South Africa	USD	2.4%	-2.1%	-2.4%	-5.7%
India	USD	-1.6%	-5.7%	-4.4%	-2.4%
Global emerging markets	USD	-0.2%	-2.3%	3.2%	-5.0%
Bonds					
US Treasuries	USD	0.1%	-1.4%	-0.5%	2.6%
US Treasuries (inflation protected)	USD	0.0%	-1.8%	-0.6%	-1.2%
US Corporate (investment grade)	USD	0.0%	-1.8%	-0.9%	1.4%
US High Yield	USD	-0.2%	-0.9%	3.1%	0.5%
UK Gilts	GBP	0.7%	-1.5%	-0.4%	10.2%
UK Corporate (investment grade)	GBP	0.5%	-1.4%	0.3%	8.0%
Euro Government Bonds	EUR	-0.4%	-2.7%	-1.4%	5.1%
Euro Corporate (investment grade)	EUR	-0.3%	-1.5%	-1.1%	2.5%
Euro High Yield	EUR	-0.5%	-1.1%	2.2%	2.4%
Japanese Government	JPY	0.0%	-0.6%	-1.3%	2.1%
Australian Government	AUD	0.2%	-1.5%	0.1%	7.7%
Global Government Bonds	USD	1.0%	-0.5%	-3.6%	-6.6%
Global Bonds	USD	0.8%	-0.4%	-3.3%	-6.0%
Global Convertible Bonds	USD	0.0%	-0.4%	2.7%	-3.2%
Emerging Market Bonds	USD	-0.5%	-2.1%	0.8%	-1.5%

* Estimate

Source: Bloomberg

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Asset Class/Region	Currency	Currency returns			
		Week ending 12 June 2015	Month to date	YTD 2015	12 months
Property					
US Property Securities	USD	0.3%	-2.2%	-4.2%	7.3%
Australian Property Securities	AUD	0.7%	-3.8%	6.2%	16.9%
Asia Property Securities	USD	0.1%	-0.7%	12.5%	10.6%
Global Property Securities	USD	0.6%	-1.8%	1.4%	4.8%
Currencies					
Euro	USD	1.4%	2.5%	-6.9%	-16.8%
UK Pound Sterling	USD	1.9%	1.8%	-0.1%	-7.4%
Japanese Yen	USD	1.8%	0.6%	-3.0%	-16.5%
Australian Dollar	USD	1.5%	1.2%	-5.4%	-17.6%
South African Rand	USD	1.6%	-1.8%	-6.5%	-13.0%
Swiss Franc	USD	1.1%	1.3%	7.1%	-3.3%
Chinese Yuan	USD	-0.1%	-0.1%	0.0%	0.3%
Commodities & Alternatives					
Commodities	USD	0.2%	-0.1%	-2.7%	-28.1%
Agricultural Commodities	USD	-1.2%	1.7%	-8.8%	-19.2%
Oil	USD	0.9%	-2.6%	11.4%	-43.5%
Gold	USD	0.8%	-0.7%	-0.3%	-6.3%
Hedge funds	USD	0.0%	-0.1%	2.5%	0.4%

* Estimate

Source: Bloomberg

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