Monthly Commentary 3rd April 2018

March followed February as a down month for global equities. Japan's Nikkei 225 led the way down with a 4.1% drop and markets in the US and Germany were also particularly weak with falls of about 2.7% each. World bonds were more stable and commodities were slightly up, with oil having a strong gain. For the year to date, all major equity markets are down, with Germany, Japan and the UK especially hard-hit, and most bond markets are also down, indicating there were not too many safe havens.

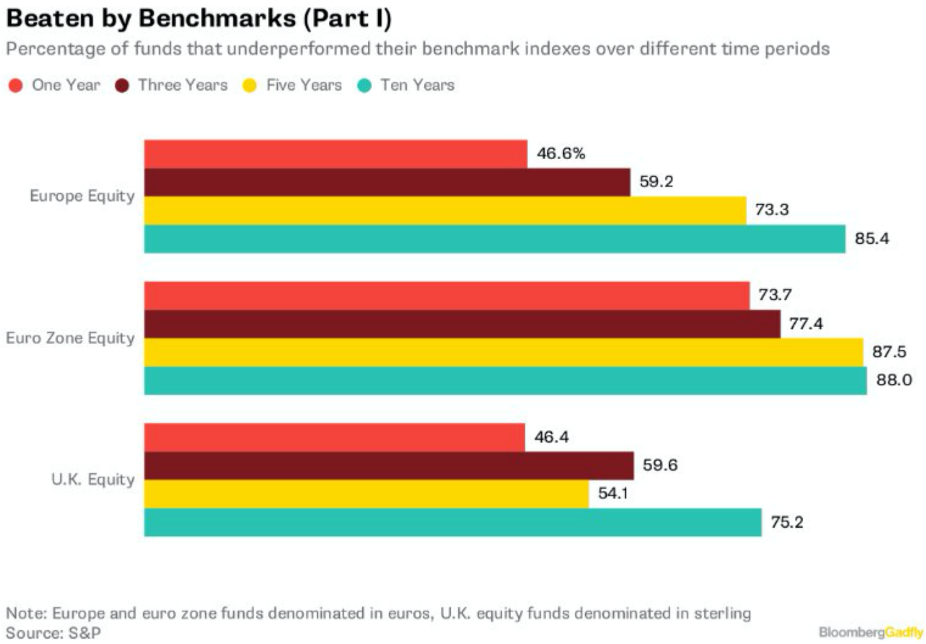
Are markets sensing that a large fall is on the horizon? There seems to be a tug-of-war. On one side, investors are worried about trade tariffs, rising interest rates, inflation and high valuations. On the other side, strong corporate earnings and a robust global economy argue that the bull market is not about to end. It seems that lately, investor fears are the more dominant force. As Joe Zilde, investment strategist at Blackstone Group (a big private equity company) recently noted: "*Investors have been unwilling to embrace this bull market, and now they want to know when it's going to end. The fact that so many people think it's about to end tells me it's going to keep going for a while yet*." While not dismissing the current bout of market weakness, we tend to agree.

Market timing and stock-picking vs fund-picking

Market timing is the practice of trying to anticipate what markets will do in the future and thus try to benefit from it. We have repeatedly stated that we are not market-timers as there is ample proof in the investment world that attempts to time the markets by both professional and retail investors are almost always in vain. That is, almost all market timers end up losing out. As Peter Lynch famously wrote: "*Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in the corrections themselves*."

In a similar vein, we try not to choose individual equities in anticipation of them performing better than the markets. Rather, we concentrate on choosing what we consider to be good managers in the belief that we ultimately add value to our clients' portfolios through funds that generally do better than their benchmarks.

Below is a Bloomberg graphic from S&P on European and UK funds that clearly shows that most managers do not beat their benchmarks. By and large, the longer the time horizon the less chance there is that a fund will beat its benchmark.



In looking at the funds we use (and have mainly been using for years), they have done substantially better than their benchmarks. Over the last five years, the returns of the funds we use versus their benchmarks:

Our European Fund choices have outperformed the Eurostoxx 600 by 4.05%, 8.31% and 1.41% **per year in the last 5 years**.

BAREUSE LN € NAV 45.1900 +0.060
On 20 Mar

BAREUSE LN Equity — Comparative Returns

Range 03/21/2013 - 03/16/2018 Period Daily No. of Period 1821 Day(s) Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	BAREUSE LN Equity	EUR	85.76%	92.90%	41.86%	14.08%
2)	SXXP Index	EUR	28.27%	51.04%	--	8.62%
3)	DORVMEI FP Equity	EUR	118.17%	118.17%	67.13%	16.93%
4)	GAMCIEA ID Equity	EUR	61.09%	61.09%	10.05%	10.03%
5)						
6)						

1M 3M 6M YTD 1Y 2Y 3Y 5Y 10Y

61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2018 Bloomberg Fi
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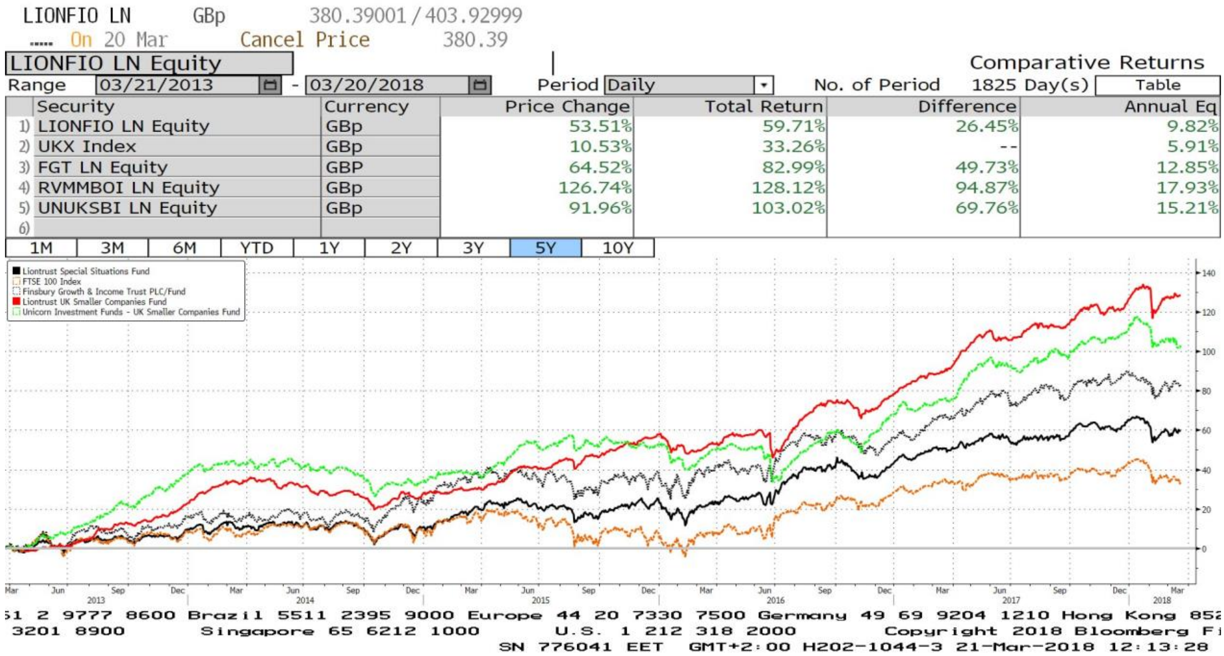
UK Funds have outperformed the FTSE 100 by 3.91%, 6.94%, 12.02% and 9.30% **per year in the last 5 years**.



LIONFIO LN GBp 380.39001 / 403.92999

On 20 Mar Cancel Price 380.39

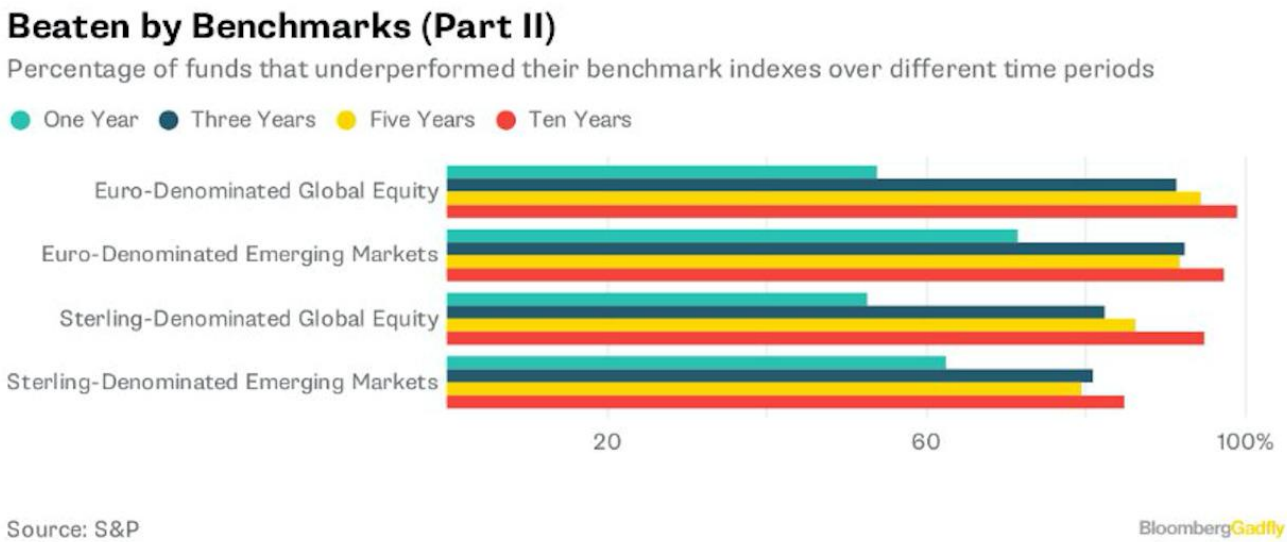
LIONFIO LN Equity Comparative Returns

Range 03/21/2013 - 03/20/2018 Period Daily No. of Period 1825 Day(s) Table

Security	Currency	Price Change	Total Return	Difference	Annual Eq
1) LIONFIO LN Equity	GBp	53.51%	59.71%	26.45%	9.82%
2) UKX Index	GBp	10.53%	33.26%	--	5.91%
3) FGT LN Equity	GBP	64.52%	82.99%	49.73%	12.85%
4) RVMMBOI LN Equity	GBp	126.74%	128.12%	94.87%	17.93%
5) UNUKSBI LN Equity	GBp	91.96%	103.02%	69.76%	15.21%
6)					

We also use low cost index funds that track the market, and in cases where our fund choices show signs of under-performance, we cut them.

Similarly, Global Equity and Emerging Market funds (in EUR and GBP) have also mostly done much worse than their benchmarks whereas the funds we use have done much better.



Our Global Funds have outperformed MSCI World in GBP by 6% and 12.57% **per year in the last 5 years**.

FSMEQIA LN GBp NAV 358.82 -3.06
On 20 Mar

FSMEQIA LN Equity

Range 03/21/2013 - 03/20/2018 Period Daily No. of Period 1825 Day(s) Comparative Returns Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	FSMEQIA LN Equity	GBp	135.94%	135.94%	53.90%	18.73%
2)	MXWO Index	GBp	60.26%	82.04%	--	12.73%
3)	SMT LN Equity	GBp	180.34%	196.72%	114.69%	24.30%
4)						
5)						
6)						

1M 3M 6M YTD 1Y 2Y 3Y 5Y 10Y

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Our EM Fund has outperformed MSCI EM in EUR by 5.19% **per year in the last 4 years**.

HGMEFEA ID € NAV 3.87 --
On 20 Mar

HGMEFEA ID Equity

Range 02/24/2014 - 03/20/2018 Period Daily No. of Period 1485 Day(s) Comparative Returns Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	HGMEFEA ID Equity	EUR	90.02%	90.02%	32.04%	17.09%
2)	MXEF Index	EUR	41.42%	57.98%	--	11.90%
3)						
4)						
5)						
6)						

1M 3M 6M YTD 1Y 2Y 3Y 5Y 10Y

51 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852
3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2018 Bloomberg Fi
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The bottom line is that allocating research resources to finding the best funds adds considerable value to client portfolios. Of course, when markets fall, as they have been doing lately, we cannot prevent losses, but only attempt to mitigate them. Each client's tolerance to risk also plays a vital role and it is not something that should change based on how the markets are performing.

The Elgin Analysts' Team

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