SHINING A LIGHT ON THE……
Newton Global Income Fund

AT A GLANCE

Investment Objective
The fund aims to increase income and capital growth over the long term by investing in shares (i.e. equities) and similar investments of companies listed or located throughout the world.

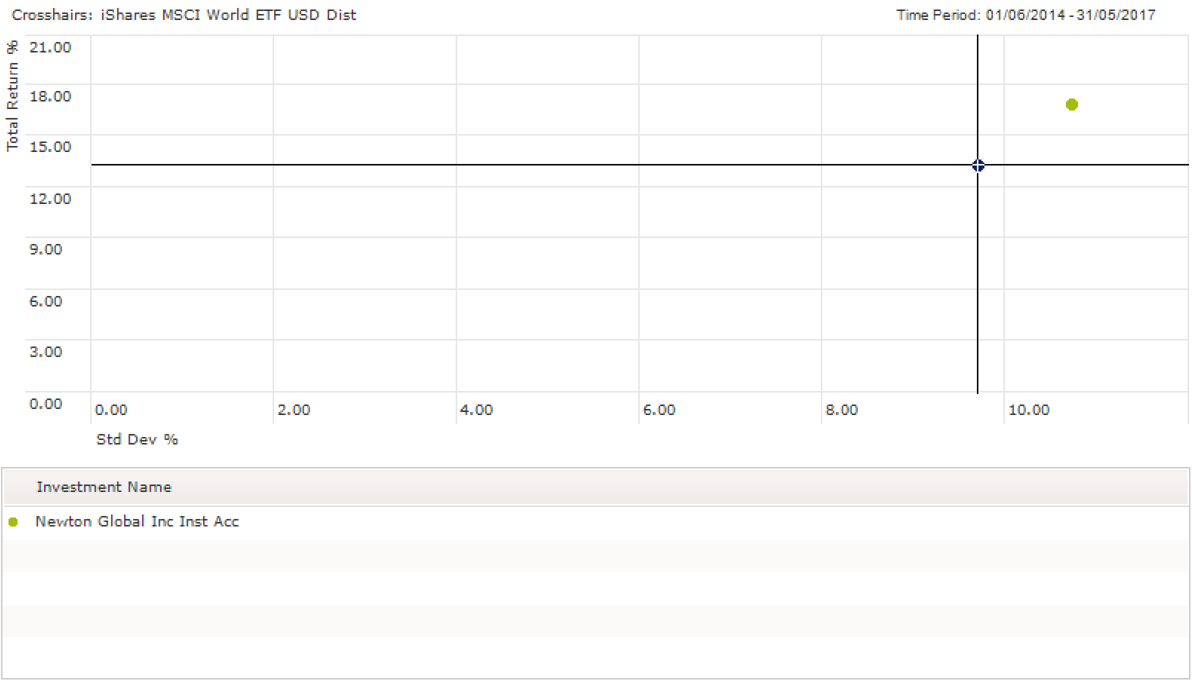
Inception Date	30/11/2005
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR069TG

Management	
Manager Name	**Start Date**
Nick Clay	14 December 2015
Ian Clark	20 March 2017

Investment Style Details	
Equity Style	
Market Capitalisation	**% of Equity**
Giant	60.17%
Large	19.61%
Medium	20.22%
Small	0.00%
Micro	0.00%

Top 10 Holdings		
Total number of holdings	51	
Assets in Top 10 Holdings	32.58%	
Name	**Sector**	**% of Assets**
Microsoft Corp	Technology	5.75%
Reynolds American Inc	Consumer Defensive	3.61%
Philip Morris International Inc	Consumer Defensive	3.20%
Unilver PLC	Consumer Defensive	3.02%
Diageo PLC	Consumer Defensive	2.95%
Cisco Systems Ince	Technology	2.94%
Novartis AG	Healthcare	2.93%
CA Inc	Technology	2.83%
RELX NV	Consumer Cyclical	2.70%
McDonald's Corp	Consumer Cyclical	2.66%

Volatility Measurements	
3-Yr Std Dev (volatility)	10.70%
3-Yr Mean Return (average)	16.54%



FUND PERFORMANCE

Performance 1 January 2012 – 31 May 2017

	2012	2013	2014	2015	2016	2017
Newton Global Income Fund	11.37%	15.39%	9.32%	10.18%	29.33%	7.13%
iShares MSCI World	7.46%	21.87%	10.53%	1.85%	26.82%	4.17%

Performance over 12 months, 3 years, 5 years and since launch:

	1 year	3 years	5 years	Since new manager (14 December 2015)	Since launch
Newton Global Income Fund	28.32%	59.65%	110.00%	44.89%	267.97%
iShares MSCI World	28.62%	45.51%	95.60%	38.17%	106.34%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE….

This is the first time we have met the manager; our initial view is that this fund is all about whether you agree with his macro thesis. Ultimately this will determine the potential returns; essentially this fund will do well in underperforming markets and lag in rising markets.

His view is that QE is a failed experiment which has inflated asset prices with no foundation behind them. People are being hoodwinked into thinking that central banks know what they are doing and are in control. He believes he can see the danger of this approach playing out with investors migrating from 'risk free' assets to risk assets.

This provides comfort to investors when risk assets are going up, but as Nick explained comfort will turn to panic when the tide turns. He feels we are already seeing this with some Italian Banks overvalued last year now being worthless, as are some Spanish Banks. He believes the next asset to fall will be EM debt.

He believes the world is being fed doughnuts; central banks feeding us more sugar to bail us out (Brexit, Trump, Italian Banks etc). Nick went on to explain that the world is not a machine, there is a need for a capital cycle and by not allowing this to play out it is making the economy more fragile; all we are doing is creating a bubble for the future.

Debt is being added at a far greater rate than ever before, this in turn means companies which should be dead are being kept artificially alive and new companies like Tesla should not exist (they are surviving on debt with no real growth). In the US, consumer debt is rising but this is not being fed into the economy it is just being used to keep people's heads above the water line. Defaults on student debt has risen to 11%, and this will grow.

Like the US, the UK has a problem with rising debt especially car finance, where 86% of all new cars are purchased on credit. The second-hand car market will collapse leaving people with worthless cars. The aim was to make the industry more robust but it is riskier than ever.

Markets are at the same levels as 2000 and 2008; the market can only be fed for so long and his view is that we are late cycle and it will end. This is not a free experiment and he believes the US will provide zero returns over the next 10 years.

In terms of inflation he believes we are in a disinflationary environment with no signs of wage inflation (and no reason to do this), with companies like Uber, Amazon etc dragging down prices. Many countries also have aging populations paying less tax, and are spending less, combined with anti-immigration policies stopping young people coming to the country, who would naturally pay more tax and spend more!

We touched on Brexit and he doesn't know how this will play out. He thinks corporations will ultimately push politicians into a soft Brexit; you can see this in the US with Trump having to listen to corporations. The uncertainty will likely bring down the value of sterling.

One final comment was on Greece where he believes they will default, it is just a question of when.

In the fund itself he is selling down tobacco because he feels it is overvalued. Interestingly when challenged why he hasn't fully sold out, he seemed to contradict himself by saying he is staying because there is nothing else out there, so better to hold until opportunities come up. This almost implied he still likes the sector. He is buying into old technology like Microsoft and Cisco where he sees value.

The fund has no banks, mining or direct exposure to emerging markets. It is underweight US but overweight UK, where the focus is on companies that benefit from the weakness in sterling. We discussed Gilead as a holding and he explained that 40% of its margins come from an HIV drug which controls the disease rather than cures it, which means the income stream is fairly stable. If the company value falls to zero, investors would still get their money back.

In summary, if an investor buys into this thesis then Nick believes now is a perfect time to invest in his fund. However, if he is wrong then as he freely admits the fund will underperform. The current number of holdings is 52 (he has held between 49 and 65) and his view is that there are few opportunities out there. As an observation Nick has only been running the fund since 2015 and we are not aware of his previous track record so it is something to consider. The fund also fishes in the large cap space which may reflect why there are fewer opportunities. For a conviction fund however it doesn't feel like there is conviction in terms of the top ten holdings, and he seems to be holding stocks he would prefer to be selling which seems a little odd!

Our opinion as we stated at the beginning is that the fund is all about his world view; this is contrarian and at some point, he will be right to a greater or lesser extent. The challenge is that if he is wrong, or the longer the markets react in opposition to his view the more the fund will underperform. The fund may therefore act well as a blend, almost like an insurance policy against an event happening.