Momentum Global Funds

Société d'Investissement à Capital Variable

# Harmony Europe Diversified Fund

(Formerly known as the Harmony Euro Balanced Fund)

momentum

*month ended 31 May 2016*

## Fund details

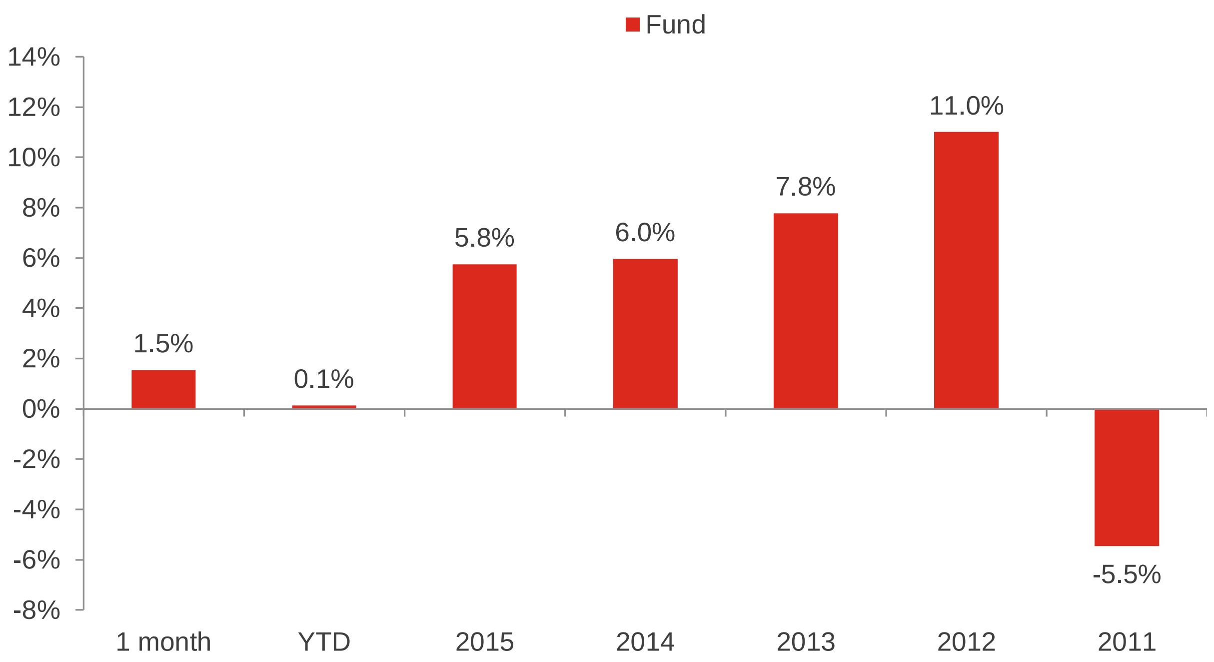
| | | |
|---|---|---|
| Investment manager: **Momentum Global Investment Management** | ISIN A Class: **LU0651984873** | Price per share A Class: **EUR 1.1886** |
| Currency: **EUR** | ISIN B Class: **LU0651984956** | Price per share B Class: **EUR 1.1201** |
| Inception date (fund): **12 August 2011** | ISIN C Class: **LU0651985094** | Price per share C Class: **EUR 1.2595** |
| Structure: **SICAV - Part 1 Luxembourg 2002 Law (UCITS)** | ISIN D Class: **LU0651985177** | Price per share D Class: **EUR 1.2839** |
| Minimum investment: **Share classes A, B, C & D: USD 7,500 (EUR equivalent)** | Subscriptions / redemptions: **daily** | Investment timeframe: **3 years +** |

## Investment objective

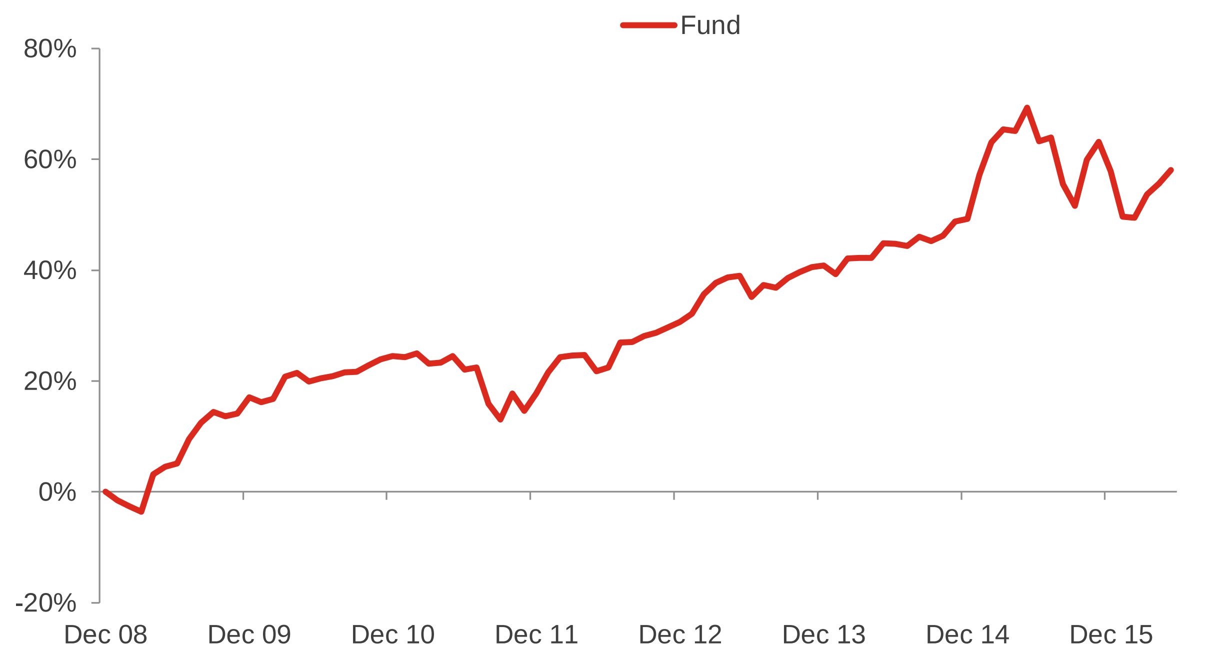
The portfolio will be biased to investments in Europe, but could also hold investments outside this region. The portfolio aims to provide a balance between capital preservation and capital growth in euros with a reduced level of volatility, via strategic exposures to a wide range of asset classes.

Please refer to the Prospectus for full details of the fund, its charges, the investment objective and investment policy.

## Fund performance




## Cumulative returns



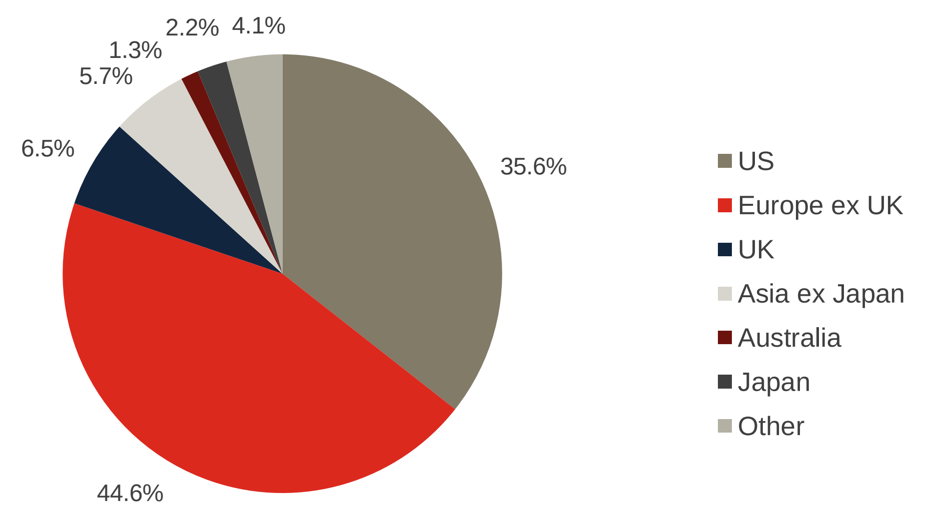

## Holdings

| Holdings | Asset type | Weight |
|---|---|---|
| Jupiter European Special Situations | Equity | 18.8% |
| FP Crux European Special Situations | Equity | 17.1% |
| Third Avenue Real Estate Value | Property | 5.8% |
| Muzinich EnhancedYield Short-Term (EUR hedged) | Fixed Income | 4.9% |
| MI Twentyfour Dynamic Bond | Fixed Income | 4.8% |
| Schroder UK Recovery | Equity | 4.6% |
| Artisan Global Value | Equity | 4.6% |
| BlackRock US Corporate Bond Index | Fixed Income | 4.1% |
| AXA US Short Duration High Yield (EUR hedged) | Fixed Income | 4.0% |
| Cash | Cash | 3.4% |
| First State Global Listed Infrastructure | Equity | 3.3% |
| American Century Concentrated Global Growth | Equity | 3.1% |
| RWC Global Convertibles (EUR hedged) | Fixed Income | 3.0% |
| RWC Asia Convertibles | Fixed Income | 3.0% |
| iShares JP Morgan Emerging Markets Bond | Fixed Income | 2.9% |
| Dimensional Emerging Markets Value | Equity | 2.3% |
| Heptagon Kopernik Global All-Cap Equity | Equity | 2.1% |
| AXA US High Yield (EUR hedged) | Fixed Income | 2.0% |
| Goldman Sachs EFI Long Short Risk Premia (EUR hedged) | Equity | 1.9% |
| Westwood Strategic Global Convertibles (EUR hedged) | Fixed Income | 1.5% |
| Morgan Stanley Global Brands | Equity | 1.5% |
| BlackRock Developed Real Estate | Property | 1.0% |
| iShares Gold Producers | Commodities | 0.3% |

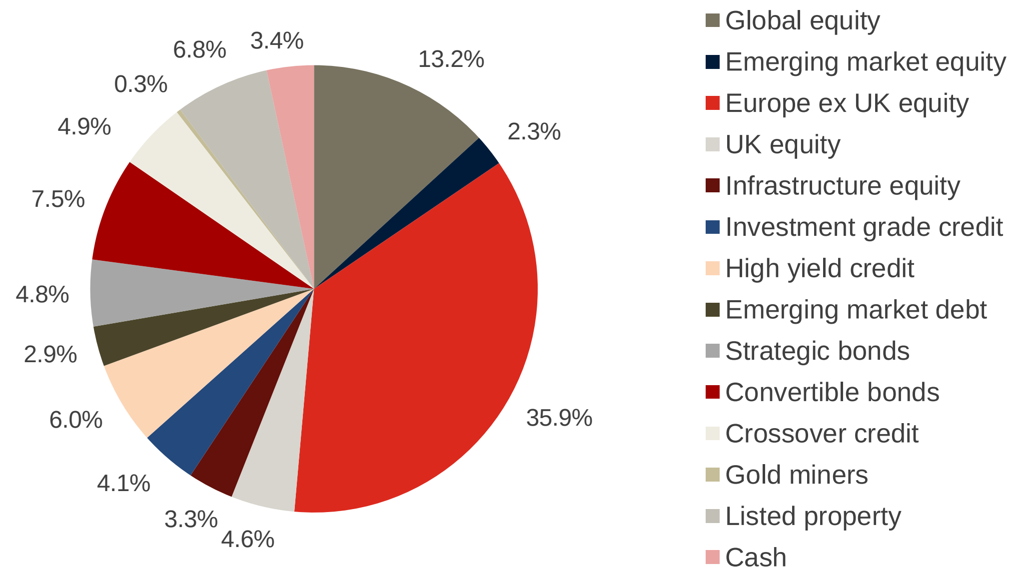
## Investment statistics (since 1 January 2009)

| | |
|---|---|
| Current month return: | 1.5% |
| Cumulative return: | 58.1% |
| Annualised return: | 6.4% |
| Annualised volatility: | 7.5% |

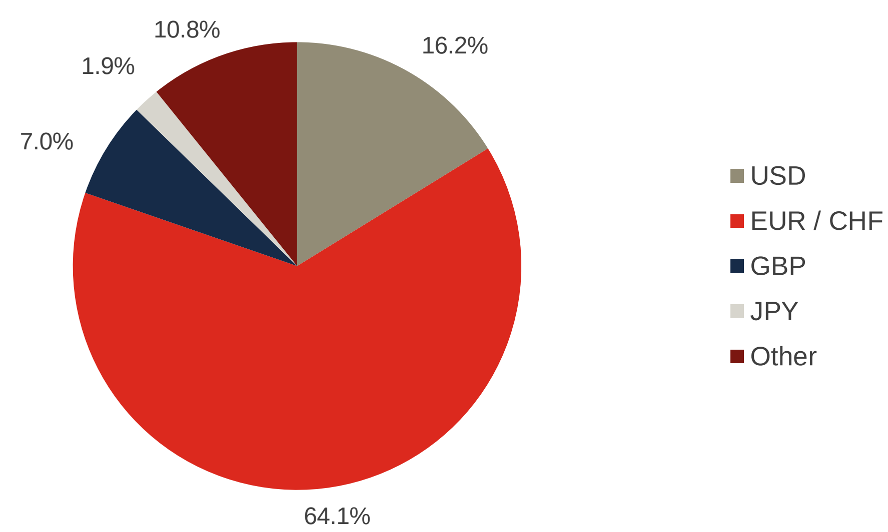
## Regional allocation




## Strategy allocation




## Currency allocation




Sources: Momentum Global Investment Management, JP Morgan Bank (Luxembourg) S.A., Bloomberg.

## Manager commentary

By far the most significant development in the month was the change in expectations for a US Federal Reserve (Fed) interest rate hike in 2016. During May the probability of a rate rise for the June and July meetings increased from 12.0% and 26.1% at the start of the month to 24.0% and 52.9% at month end. Markets reacted fairly predictably to this development. The US dollar rallied sharply, reversing some of its weakness earlier in the year: the greenback was up by 2.9% against the euro and 4.0% versus the yen, as well as rallying against many emerging market currencies. The gold price fell by 6.0% over the month in US dollar terms, giving back some of the sharp gains from early in the year. Industrial metal prices also reversed direction, notably iron ore which fell by 28.3%. Emerging market (EM) equities fell by 3.7% and EM debt declined by 0.2%, although both these falls came after sharp rallies in previous months. Despite a flat return from US Treasuries, global government bonds gained 0.6% in local currency terms, driven by falling European bond yields. Perhaps surprisingly, developed market equities predominantly reacted with equanimity to a less dovish Fed and the increased likelihood of an early interest rate rise, with the MSCI World index returning 1.8% in local currency terms. Gains were driven by the US returning 1.7% for the month, Europe adding 2.2% and Japan rising by 2.6% in local currency terms; the UK lagged somewhat with a return of 0.2%.

The Harmony Europe Diversified Fund returned 1.5% in euro terms in May net of fees, slightly behind the MSCI Europe ex UK equity index which gained 2.2%. Over three months the Fund has performed in line with European equity markets having gained 5.8%. Most holdings contributed to performance in May, reflecting decent gains from European equities and European bonds, as well as local currency weakness versus the US dollar and sterling, which provided a tailwind for the performance of investments in those areas in euro terms. Manager selection did not have a significant impact on performance: within the equity portion of the portfolio, outperformance from strategies managing with a growth or quality style bias was offset by underperformance from those managers with more of a value style bias. The fixed income portion of the portfolio performed well, only slightly lagging the 1.7% return from European government bonds. However, this was achieved with a diverse range of US and European corporate bond holdings, rather than European government bonds which we continue to have no exposure to on valuation grounds.

A new holding was added to the portfolio during May: the Goldman Sachs EFI Long Short Risk Premia fund. This strategy provides market neutral equity exposure to specific style factors; value, quality, low beta, size and momentum, all of which have been rigorously researched and proven to outperform over time. The portfolio is systematically constructed using a quantitative approach and is well diversified across around 800 stocks in order to minimise stock specific risk. The equity market exposure arising from these holdings is hedged away using futures so that fund returns are driven by the performance of these style factors relative to the MSCI World index. This results in a return stream that is uncorrelated with other holdings in the portfolio, thereby increasing diversification and the potential for downside protection when equity markets are falling.

Having recovered strongly after the sharp falls in January and early February, markets have now consolidated in the past few weeks. On top of continuing uncertainty in the global economy, there is increased risk of another interest rate rise in the US this summer: a risk that had been all but eliminated in investors' minds earlier this year. On balance a June rate rise is very unlikely in our view, as the economy continues to show a mixed picture and, importantly, market expectations for inflation remain very subdued. Longer term inflation expectations remain anchored around 1.5% and the Fed will want to see this move higher before tightening further. All eyes will be on the data and the Fed as the year progresses. On a positive note, economies continue to grow, albeit modestly; emerging markets are five years through the down cycle and offer recovery prospects from these levels; and a damaging surge in inflation seems a distant prospect. With competing forces influencing markets it is likely that the volatility we have witnessed in the first quarter of this year will be a feature in the months if not years ahead. Against this background, in the shorter term a period of consolidation and drift in markets is likely, but further upward progress is expected over the next 12-18 months.

Source: Bloomberg, Momentum Global Investment Management.

## Important Information