Momentum Global Funds

Société d'Investissement à Capital Variable

Harmony US Dollar Balanced Fund

momentum

month ended 28 August 2015

Fund details

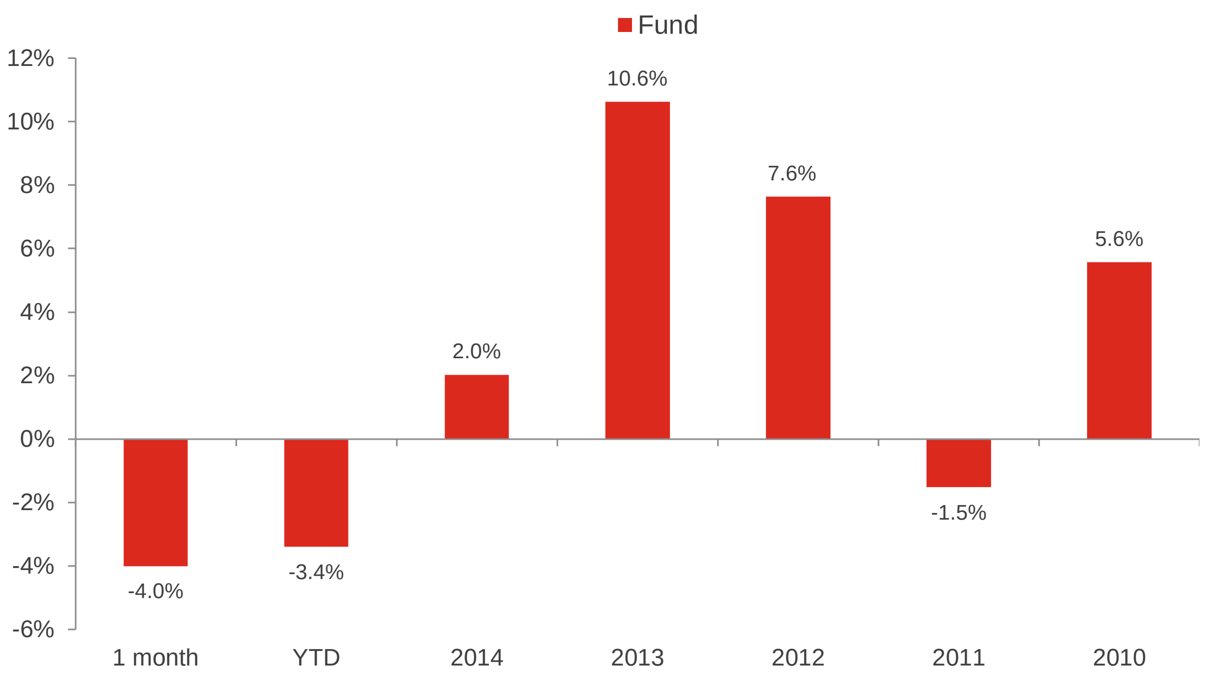
Investment manager: **Momentum Global Investment Management**	ISIN A Class: **LU0651986068**	Price per share A Class: **USD 1.0750**
Currency: **USD**	ISIN B Class: **LU0651986142**	Price per share B Class: **USD 1.0882**
Inception date (fund): **12 August 2011**	ISIN C Class: **LU0651986225**	Price per share C Class: **USD 1.1922**
Structure: **SICAV - Part 1 Luxembourg 2002 Law (UCITS)**	ISIN D Class: **LU0651986498**	Price per share D Class: **USD 1.1229**
Minimum investment: **Share classes A, B, C & D: USD 7,500**	Subscriptions / redemptions: **daily**	Investment timeframe: **3 years +**

Investment objective

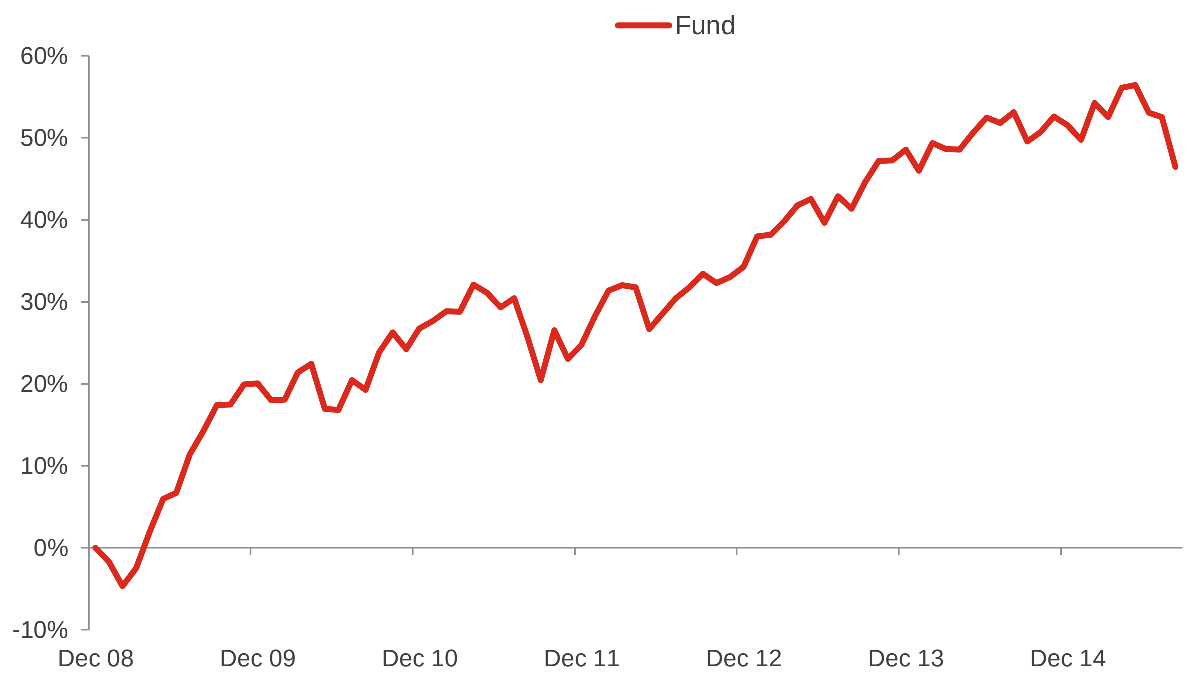
The portfolio will be biased to investments in the United States, but could also hold investments outside this country. The portfolio aims to provide a balance between capital preservation and capital growth in US dollars with a reduced level of volatility, via strategic exposures to a wide range of 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



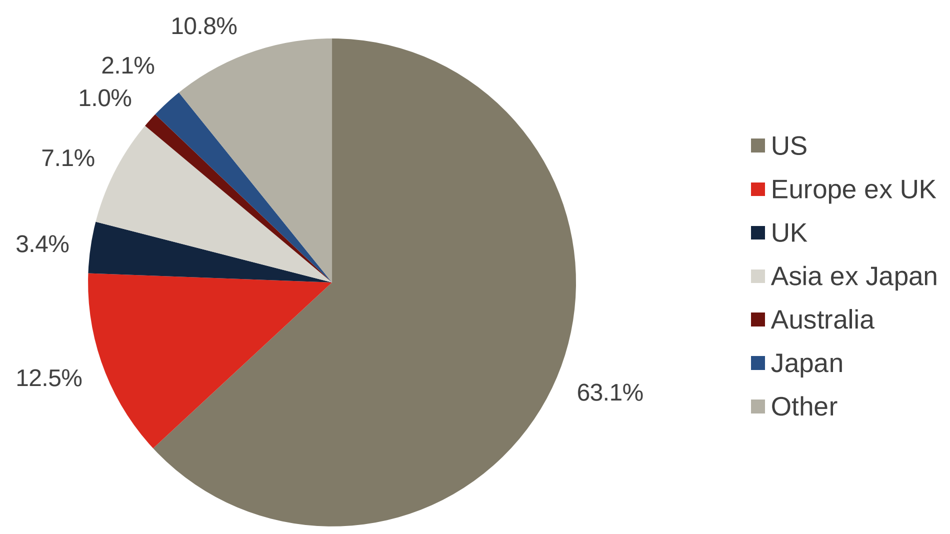
Holdings

Holdings	Asset type	Weight
Harris Associates Concentrated US Equity	Equity	12.9%
Wells Fargo US All Cap Growth	Equity	11.1%
Vulcan Value Equity	Equity	8.8%
Yacktman US Equity	Equity	8.7%
Artisan Global Value	Equity	7.7%
Third Avenue Real Estate Value	Property	5.6%
Cash	Cash	5.2%
Dimensional Emerging Markets Value	Equity	4.2%
American Century Concentrated Global Growth	Equity	3.5%
Muzinich EM Short Duration (USD hedged)	Fixed Income	3.1%
AXA US Short Duration High Yield	Fixed Income	3.0%
RWC Asia Convertibles	Fixed Income	2.9%
RWC Global Convertibles	Fixed Income	2.9%
AXA US High Yield	Fixed Income	2.8%
Morgan Stanley Global Brands	Equity	2.6%
iShares JP Morgan Emerging Markets Bond	Fixed Income	2.4%
Heptagon Kopernik Global All-Cap Equity	Equity	2.3%
Granahan US Focused Growth	Equity	2.1%
First State Global Listed Infrastructure	Equity	2.1%
FP Crux European Special Situations	Equity	2.0%
Schroder UK Recovery	Equity	2.0%
Morgan Stanley UK Global Brands	Equity	1.4%
iShares Gold Producers	Commodities	0.4%
Westwood Strategic Global Convertibles (USD hedged)	Fixed Income	0.3%

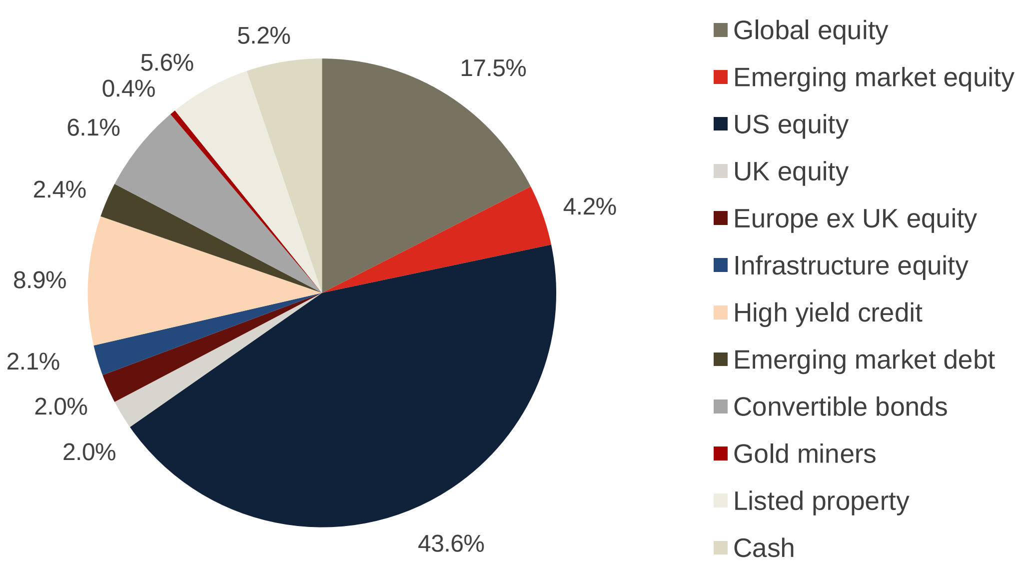
Investment statistics (since 1 January 2009)

Current month return:	-4.0%
Cumulative return:	46.4%
Annualised return:	5.9%
Annualised volatility:	7.2%

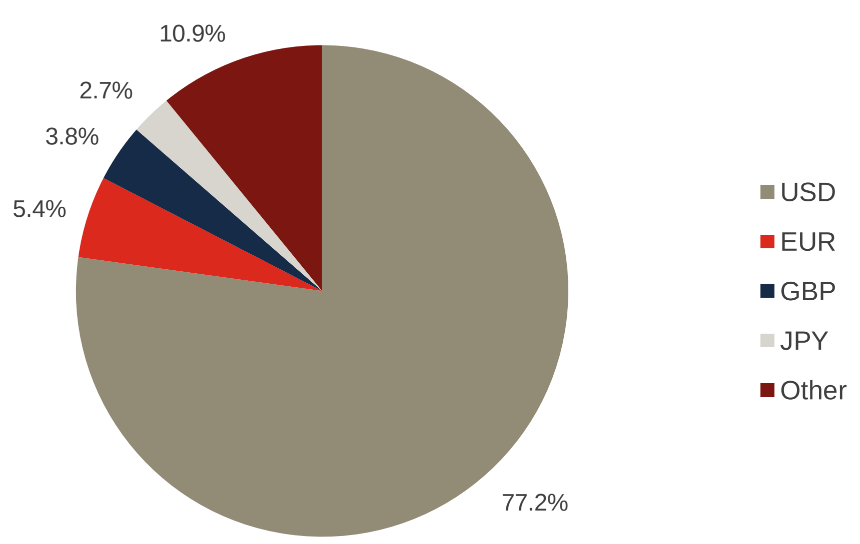
Regional allocation



Strategy allocation



Currency allocation



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

Manager commentary

Equity markets posted sharp falls in August and year-to-date most indices have now moved into negative territory, having erased decent gains made earlier in the year. Volatility rose significantly and many markets saw their largest daily moves in over six years. Having come on the back of smaller declines since May, this fall now represents one of the biggest setbacks that markets have seen since the current global equity bull market started. There are a number of factors that have contributed to the market weakness, but the main drivers have been developments in China and the prospect of the first interest rate rise in the US for nearly a decade. Markets are adjusting to the sharp slowdown in Chinese growth, which was further highlighted during August by the devaluation of the Chinese yuan. Given the size of the Chinese economy this has profound implications globally, not least for commodity prices, while the unwinding of the speculative bubble in onshore Chinese equities has also dented sentiment towards other equity markets, particularly in Asia. Over in the US, market expectations that the Federal Reserve (Fed) would increase rates as soon as September was another contributing factor to the sell-off, with anticipated monetary tightening affecting emerging markets in particular through capital outflows and currency weakness. However, question-marks over the resilience of Western economies to the slowdown in emerging markets, along with heightened market volatility, has cast significant doubt over the likelihood of the Fed increasing rates this year.

The sell-off was initially concentrated in the commodities complex and emerging market assets (stocks, currencies and ultimately bond markets), but spread more broadly across developed market equities later in August. Despite rallying in the last few days of the month the MSCI World index ended August down by 6.7% in local currency terms. The US equity market outperformed, although the S&P 500 still fell 5.3%, while the UK, Japan and Australia fell by between 6 and 7% in local currency terms. Continental European equities lagged with an 8.0% decline in euro terms, but the Asia Pacific ex Japan region fell most, by 9.6% in US dollar terms. Japan and Europe both saw their currencies strengthen by 1.8% versus the US dollar, but most other currencies depreciated versus the greenback. Emerging market currencies were particularly weak, resulting in the MSCI Emerging Markets equity index underperforming by over 2% versus global developed markets when measured in common currency terms, despite outperforming slightly in local currency terms. Bonds provided minimal protection to investors in August; although UK Gilts appreciated marginally. US Treasuries were flat whilst European government bonds fell, along with most investment grade and high yield credit indices. The one area that did provide reasonable positive returns for the month was gold, which is traditionally seen as a safe haven investment, with a gain of over 3%, which supported equity prices for gold mining companies. Otherwise, commodity prices continued to fall with many hitting six year lows and with the broad index falling 3.3%. Oil also hit new lows for the year before rallying just prior to month end.

Against this backdrop, the Harmony US Dollar Balanced Fund fell 4.0% in US dollar terms, reducing the year-to-date return to -3.4% net of fees. Given the extent of the monthly index declines outlined above, it was a month where capital protection proved difficult as the sell-off became increasingly indiscriminate, but it was disappointing to see that the Fund did not provide more protection relative to the falling US equity market. This is partly explained by the Fund’s diversification into global equities, which had benefited performance for most of the year but detracted in August. However, a significant additional factor was the aggregate underperformance of our selected US equity managers. This is a continuation of a difficult period for active managers in the US, but this is not unusual during periods when the market becomes narrower, as it has done recently, with a relatively small number of stocks (particularly higher growth/more expensive stocks) driving most of the gains. This has benefited our growth orientated managers, but has caused our value orientated managers to lag the market. In the long run, we expect all of these managers to deliver outperformance versus the US market, but they should each achieve this in different market environments, and there will inevitably be periods of aggregate underperformance from time to time. Furthermore, during August, the Fund’s various credit-orientated fixed income holdings also posted declines, mostly in the range of 0.8%-2.8%. We anticipate better returns from these holdings (compared to sovereign bonds in particular) going forward, although government bonds have provided a degree of protection in the short term.

We believe that valuations across most equity markets and particular areas of fixed income markets are attractive at current levels, in a variety of possible economic scenarios. Moreover, we see the developed world as being on a steadily improving trend, despite the challenging market conditions witnessed in August. Corporations are in good shape, generating solid profits and holding large cash reserves, and consumers are also feeling reasonably positive once more. Slack in developed world labour markets also looks to have all but disappeared, which is a positive sign for wage negotiation. Meanwhile, the falls in energy prices have kept a lid on inflation, which is benefitting consumers and (most) corporations alike, while the banking sector, an important source of liquidity in the real economy, is better capitalised now than it has been for many years. Finally, despite nerves around when interest rates may start rising in the US (and to a lesser extent the UK), the monetary policy backdrop remains highly supportive for markets and we believe the ‘lower for longer’ mantra will remain true for some time to come.

The Fund remains well positioned for this environment, investing in the best managers we can find globally, in those asset classes which offer the best risk to reward prospects. We have maintained broadly the same asset allocation throughout this recent period of volatility, topping up underperforming holdings as necessary, and we are looking to take advantage of additional opportunities that arise. The Fund retains a high level of diversification; including by asset class, geography, manager and investment style, whilst avoiding over-concentration to particular portfolio risks.

Source: Bloomberg, Momentum Global Investment Management.

Important Information