20

YEARS

CREDO
INTERNATIONAL
CONFERENCE

Agenda

Roy Ettlinger - Business overview

Alan Noik - Investment update

Ainsley To - The illusion of knowledge

Jarrod Cahn - A fistful of dollars

Deon Gouws - Much ado about nothing

BUSINESS OVERVIEW

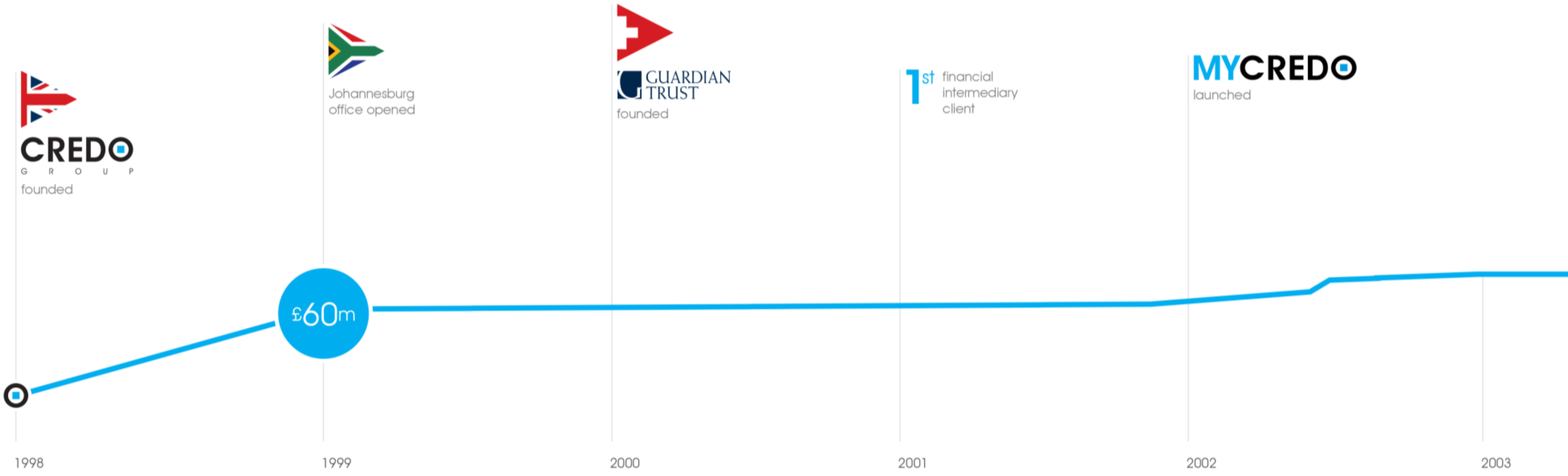
ROY ETTLINGER

Some of our numbers

- Independent group founded in 1998
- Around 70% of equity owned by team
- 3bn assets under custody
- Over 7000 clients

Few highlights since Credo was founded

and how the firm’s assets under administration have grown over the period



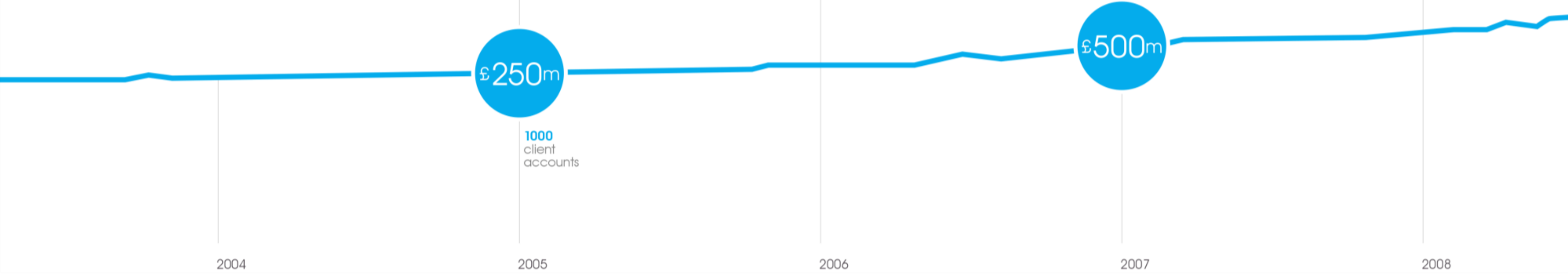
Roy Ettlinger
appointed
CEO

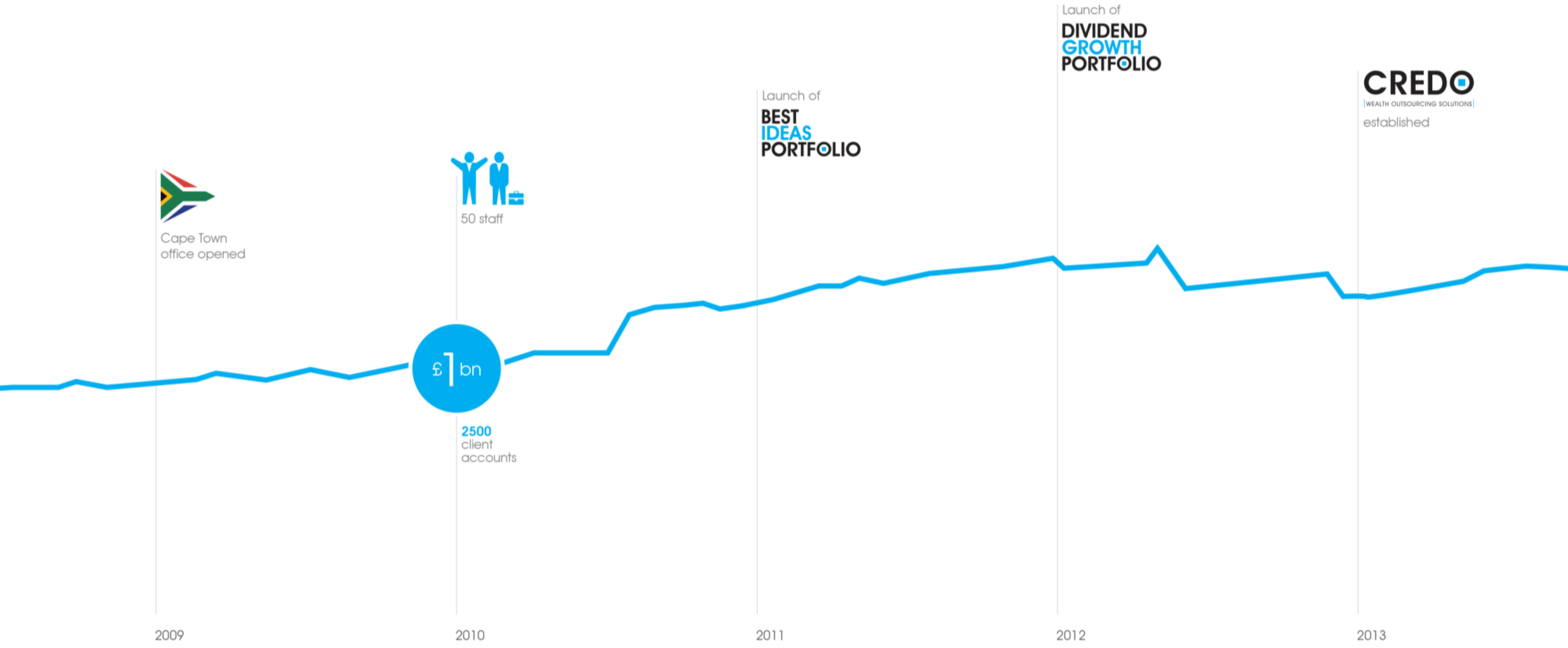
Kirsh Family Office
becomes a
shareholder

1000
client
accounts

CREDONEWS
1st issue released

Move to
Pall Mall





Cape Town
office opened

50 staff

£1bn

2500
client
accounts

Launch of
BEST IDEAS PORTFOLIO

Launch of
DIVIDEND GROWTH PORTFOLIO

CREDO
WEALTH OUTSOURCING SOLUTIONS
established

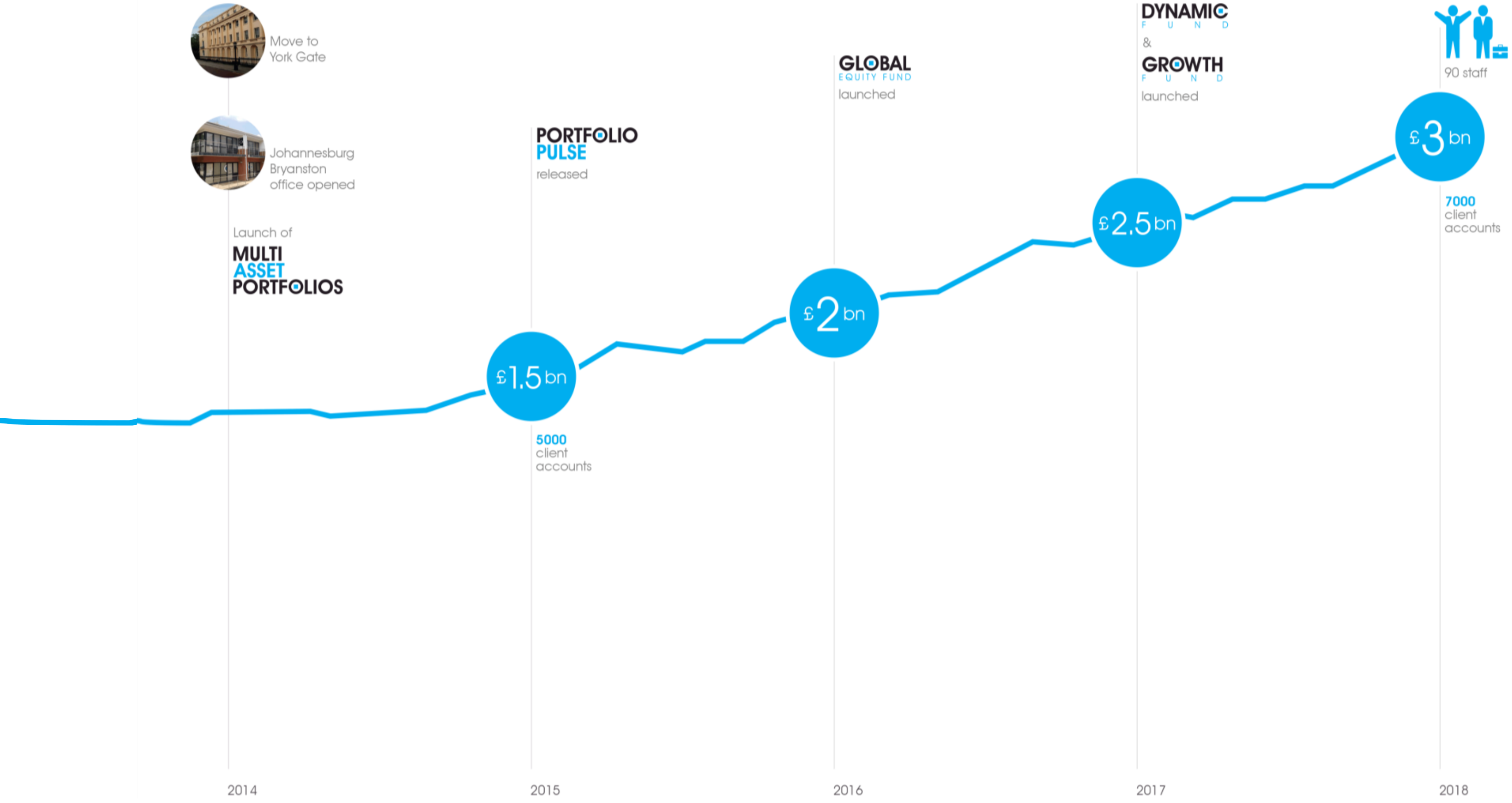
2009

2010

2011

2012

2013



Move to York Gate

Johannesburg Bryanston office opened

Launch of **MULTI ASSET PORTFOLIOS**

PORTFOLIO PULSE released

5000 client accounts

GLOBAL EQUITY FUND launched

DYNAMIC FUND & **GROWTH FUND** launched

90 staff

7000 client accounts

Philosophy

- Build relationships based on trust
- Focus on long-term success
- Provide clients with personal service

Business offering

Personalised Wealth Management	Wealth Outsourcing Solutions
Over 2000 investors, assets under administration of £1.5b	28 Financial Intermediaries, assets under custody of £1.5b

INVESTMENT UPDATE

ALAN NOIK

Credo team royal affairs

Credo team royal affairs

Credo team royal affairs

Investment solutions

Equities

Fixed Income

Multi-Asset

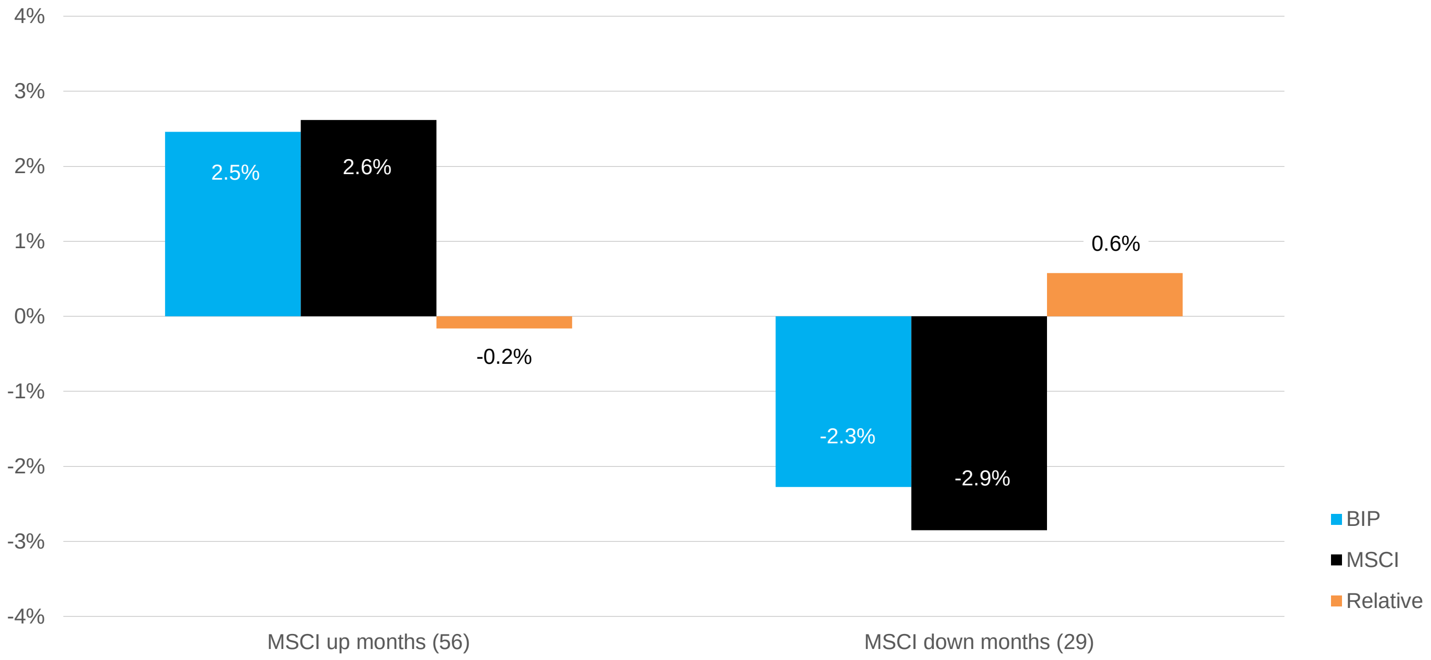
BESTIDEASPORTFOLIO

Overview

- 20 stocks
- Value
- Long only
- No hedging
- Large cap
- Low portfolio turnover

BESTIDEASPORTFOLIO

Performance to 30 April 2018 (USD)



BESTIDEASPORTFOLIO

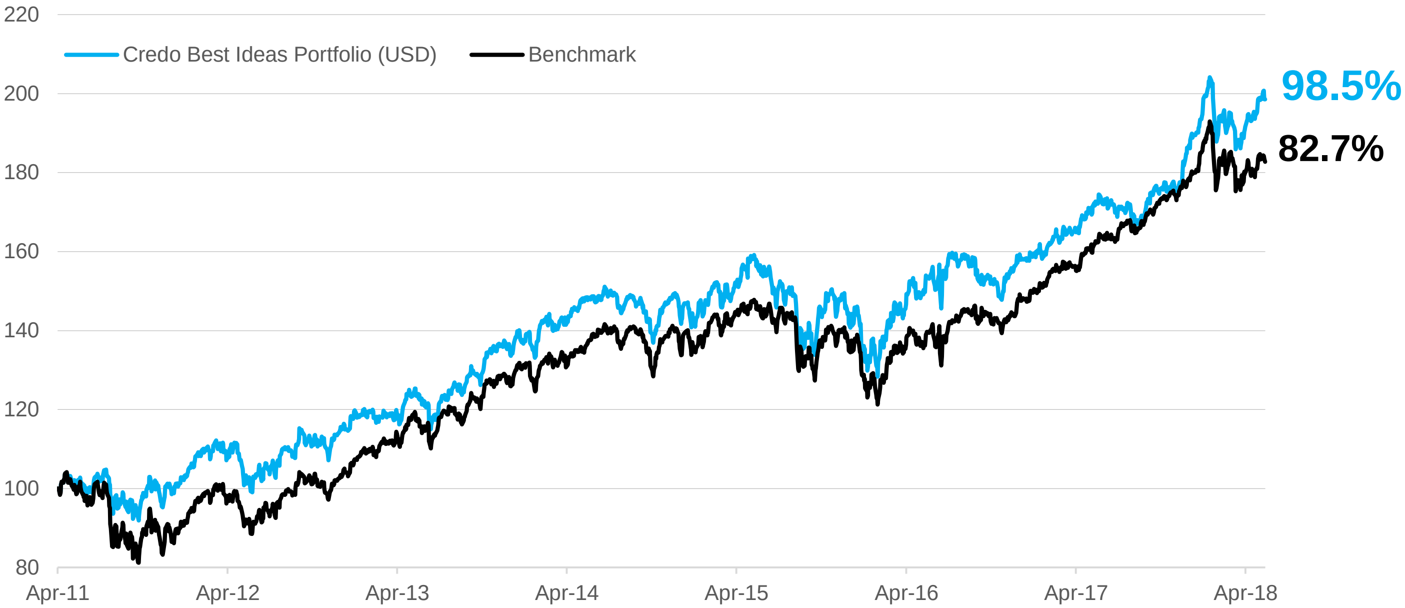
Performance to 25 May 2018 (USD)

Annualised total returns	1 Year	3 Years	*Since Inception
Best Ideas Portfolio	**15.0%**	**7.9%**	**10.1%**
MSCI World	12.3%	7.4%	8.8%

(*) BIP inception: 14 April 2011

BESTIDEASPORTFOLIO

Performance since inception* to 25 May 2018 (USD)



(*) BIP inception: 14 April 2011

DIVIDENDGROWTHPORTFOLIO

Overview

20 stocks

Value

Long only

No hedging

Large cap

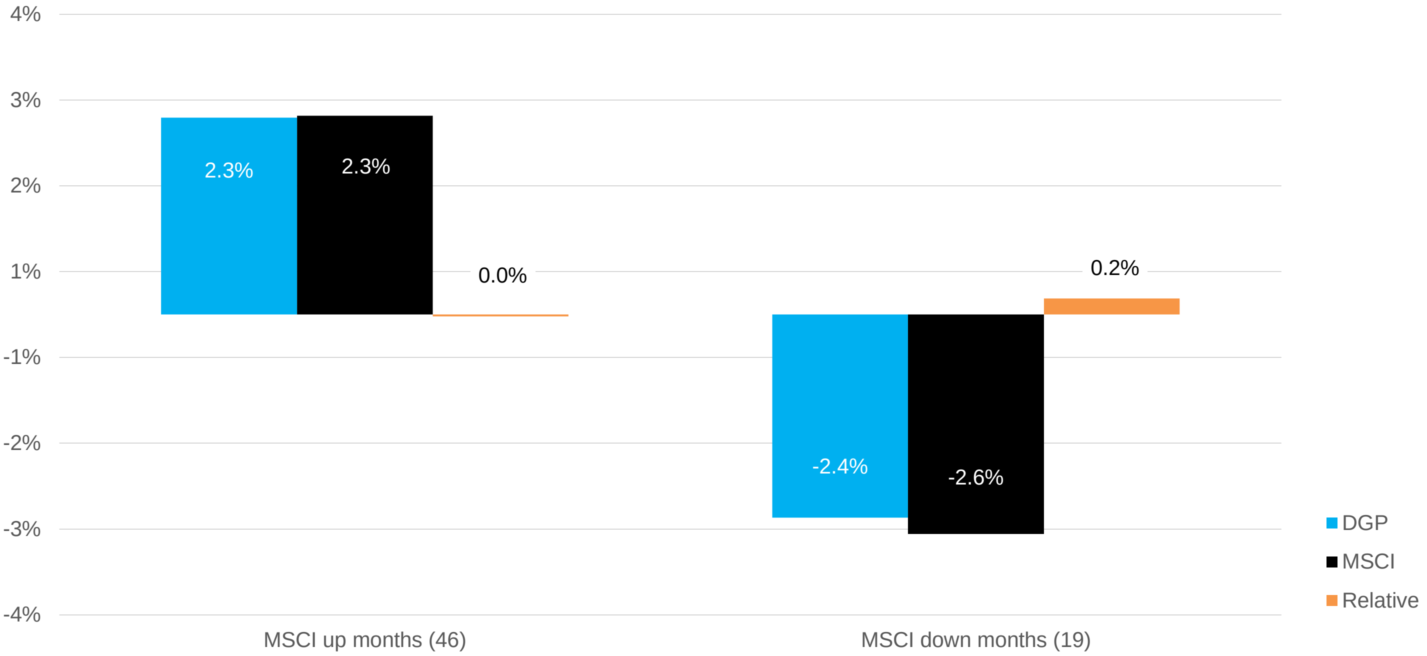
Low portfolio turnover

Sustainable Dividend

Growing Dividend

DIVIDENDGROWTHPORTFOLIO

Performance to 30 April 2018 (USD)



DIVIDENDGROWTHPORTFOLIO

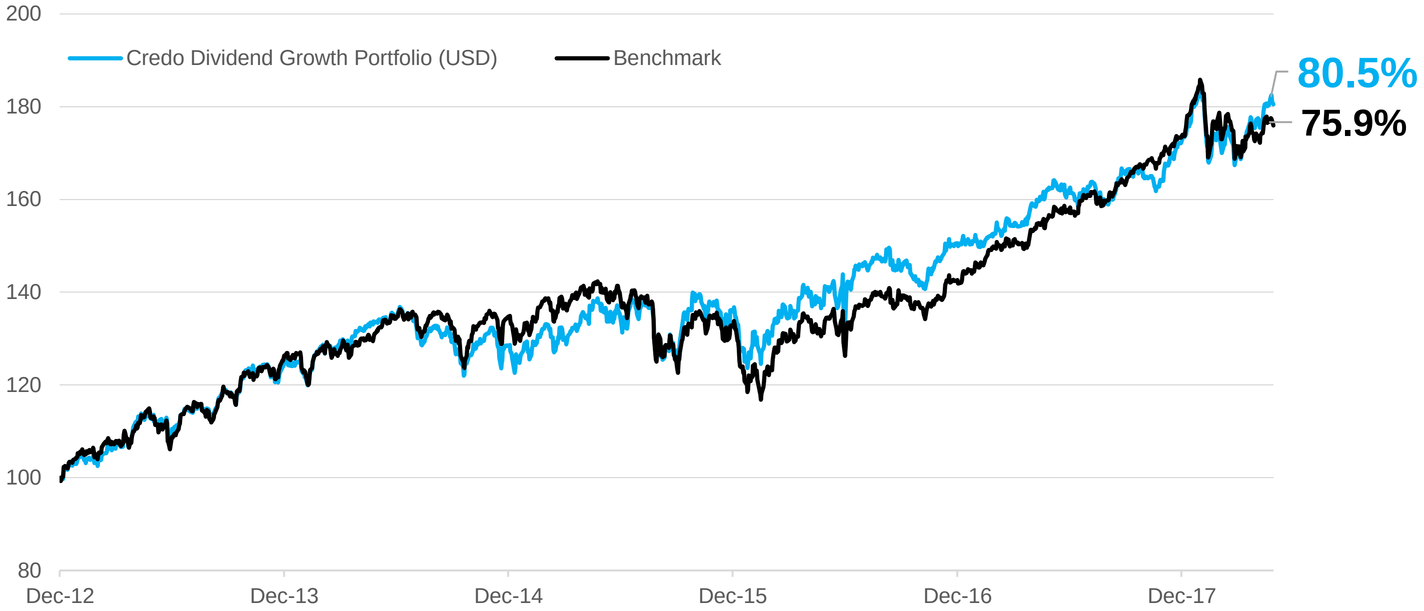
Performance to 25 May 2018 (USD)

Annualised total returns	1 Year	3 Years	*Since Inception
Dividend Growth Portfolio	**11.1%**	**9.5%**	**11.5%**
MSCI World	12.3%	7.4%	11.0%

(*) DGP inception: 28 December 2012

DIVIDENDGROWTHPORTFOLIO

Performance since inception* to 25 May 2018 (USD)



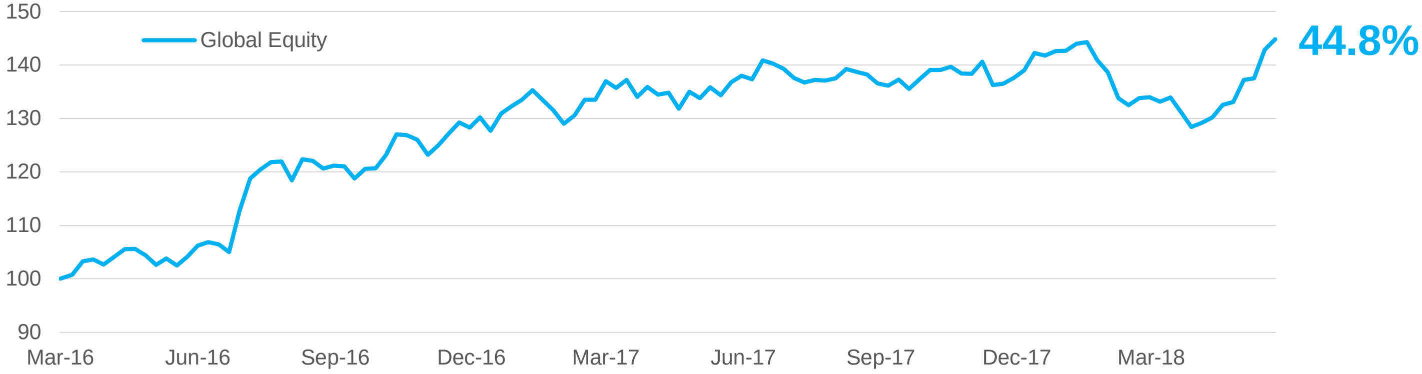
(*) DGP inception: 28 December 2012

GLOBAL

EQUITY FUND

GLOBAL
EQUITY FUND

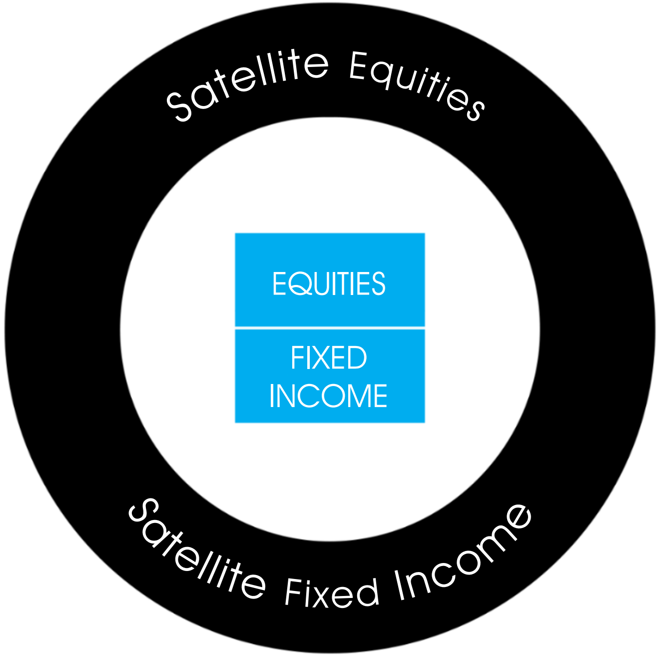
Performance since inception* to 25 May 2018 (GBP)



Total returns	3 Months	6 Months	1 Year	*Since Inception
Global Equity Fund	**8.3%**	**6.1%**	**5.8%**	**44.8%**
MSCI World	5.7%	4.3%	9.9%	47.6%

(*) Global Equity Fund inception: 01 March 2016

DYNAMIC
FUND



Satellite Equities

EQUITIES

FIXED INCOME

Satellite Fixed Income

- A combination of **equities** and **fixed income**
- A bias towards the **UK** markets and listed in GBP
- Look to **adapt** across market cycles through satellite holdings
- Provides a **differentiated** strategy

DYNAMIC
FUND

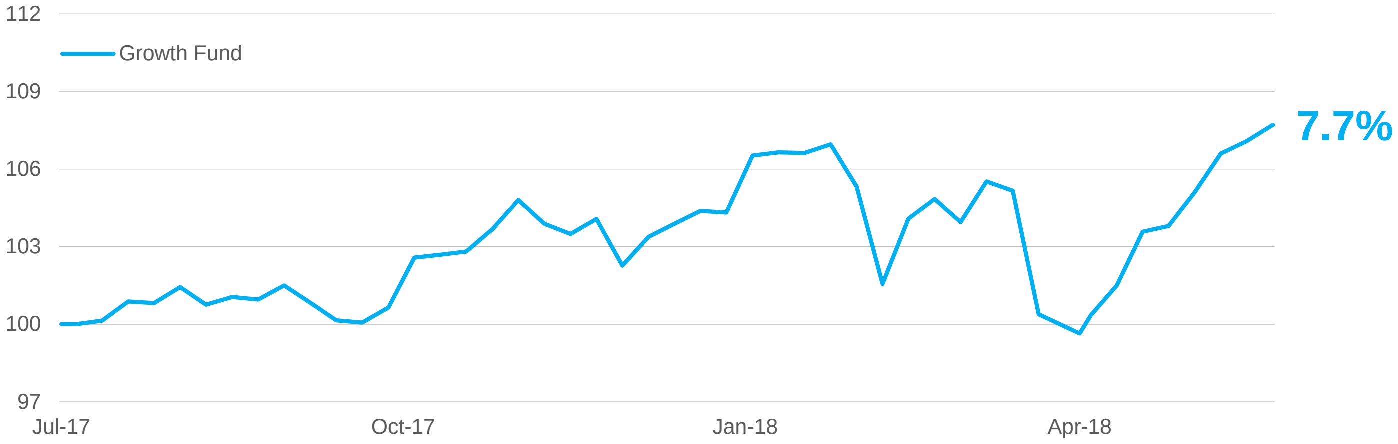
Performance since inception* to 25 May 2018 (GBP)

Total returns	3 Months	6 Months	*Since Inception
Dynamic Fund	**4.5%**	**5.9%**	**10.7%**
IA OE Flexible Investment	3.0%	2.0%	6.2%

(*) Dynamic Fund inception: 03 July 2017

GROWTH
FUND

Performance since inception* to 25 May 2018 (GBP)



Total returns	**3 Months**	**6 Months**	***Since Inception**
Growth Fund	**2.7%**	**3.5%**	**7.7%**
IA OE Flexible Investment	3.0%	2.0%	6.2%

(*) Growth Fund inception: 03 July 2017

- All 3 funds are now FSCA approved
- Daily dealing (CGEF, CDF), Weekly (CGF)
- Irish situs: IHT
- On Old Mutual platform, soon to be on Glacier
- Just surpassed £100m AUM

CREDO
FUNDS

Credo Global Equity Fund (UCITS)
April 2018

CREDO
WEALTH

Fund Details

Fund Structure	Irish Collective Asset-management Vehicle ("ICAV")
Fund Type	UCITS
Currency	GBP and USD Share Classes
Launch Date	03 July 2017
Dealing*	Daily, 10pm Valuation Point
Income Distribution	Accumulating
Investment Management Fee	Retail share class: 0.75% Institutional share class: 0.40%
Investment Manager	Credo Capital plc
Portfolio Managers	Jarrod Cahn Jason Spilkin
Fund Manager	Fund Partners Limited
Fund Administrator	Société Générale Securities Services (Ireland) Limited
Auditor	Deloitte

(*) See supplement for details (credogroup.com/credofunds/cgefucits.html)

Share Classes

Class	Minimum Investment	ISIN	NAV per Share*
A Retail (GBP)	£5,000	IE00BDFZR877	0.9849
A Inst. (GBP)	£10,000,000	IE00BDFZR984	0.9879
B Retail (USD)	£5,000	IE00BDFZRB04	1.0486
B Inst. (USD)	£10,000,000	IE00BDFZRC11	1.0525

Source: Bloomberg
(*) As at 30/04/2018

Top 10 Holdings (%)

Chubb Ltd	4.6
Spire Healthcare Group plc	4.5
British American Tobacco plc	4.5
Prudential plc	4.5
Oracle Corp	4.5
HCA Healthcare Inc	4.4
Wells Fargo & Co	4.4
GVC Holdings plc	4.4
AIA Group Ltd	4.0
Imperial Brands plc	3.7
Total	43.5

Investment Objective

The investment objective of the Credo Global Equity Fund is to generate sustainable excess returns versus global equity market indices through an actively managed portfolio of equities from issuers across global markets.

Cumulative Simulated Past Performance (%)*

Return	1 Month	3 Month	1 Year	S. Inception
Retail GBP	3.6	-4.0	-1.4	33.0
Benchmark**	2.8	-4.0	3.5	37.8
Retail USD	2.4	-6.0	6.9	33.2
Benchmark**	1.6	-5.6	12.4	37.6

Source: Bloomberg, performance of retail shares
(*) As at 25/04/2018, see Important Notice
(**) MSCI World Index Net Total Return

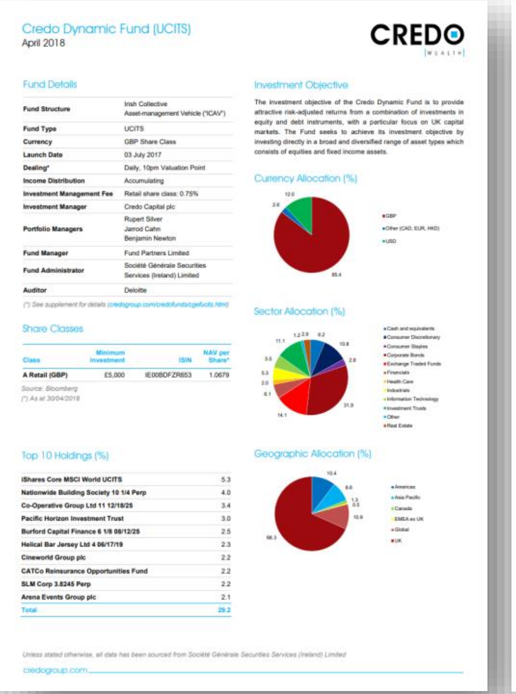
Currency Allocation (%)

Sector Allocation (%)

Geographic Allocation (%)

Unless specified otherwise, all data has been sourced from Société Générale Securities Services (Ireland) Limited

credogroup.com



Credo Dynamic Fund (UCITS)
April 2018

CREDO
WEALTH

Fund Details

Fund Structure	Irish Collective Asset-management Vehicle ("ICAV")
Fund Type	UCITS
Currency	GBP Share Class
Launch Date	03 July 2017
Dealing*	Daily, 10pm Valuation Point
Income Distribution	Accumulating
Investment Management Fee	Retail share class: 0.75%
Investment Manager	Credo Capital plc
Portfolio Managers	Rupert Silver Jarrod Cahn Benjamin Newton
Fund Manager	Fund Partners Limited
Fund Administrator	Société Générale Securities Services (Ireland) Limited
Auditor	Deloitte

(*) See supplement for details (credogroup.com/credofunds/cgefucits.html)

Share Classes

Class	Minimum Investment	ISIN	NAV per Share*
A Retail (GBP)	£5,000	IE00BDFZR653	1.0679

Source: Bloomberg
(*) As at 30/04/2018

Top 10 Holdings (%)

iShares Core MSCI World UCITS	5.3
Nationwide Building Society 10 1/4 Perp	4.0
Co-Operative Group Ltd 11 12/18/25	3.4
Pacific Horizon Investment Trust	3.0
Burford Capital Finance 6 1/8 08/12/25	2.5
Helical Bar Jersey Ltd 4 06/17/19	2.3
Cineworld Group plc	2.2
CATCo Reinsurance Opportunities Fund	2.2
SLM Corp 3.8245 Perp	2.2
Arena Events Group plc	2.1
Total	29.2

Investment Objective

The investment objective of the Credo Dynamic Fund is to provide attractive risk-adjusted returns from a combination of investments in equity and debt instruments, with a particular focus on UK capital markets. The Fund seeks to achieve its investment objective by investing directly in a broad and diversified range of asset types which consists of equities and fixed income assets.

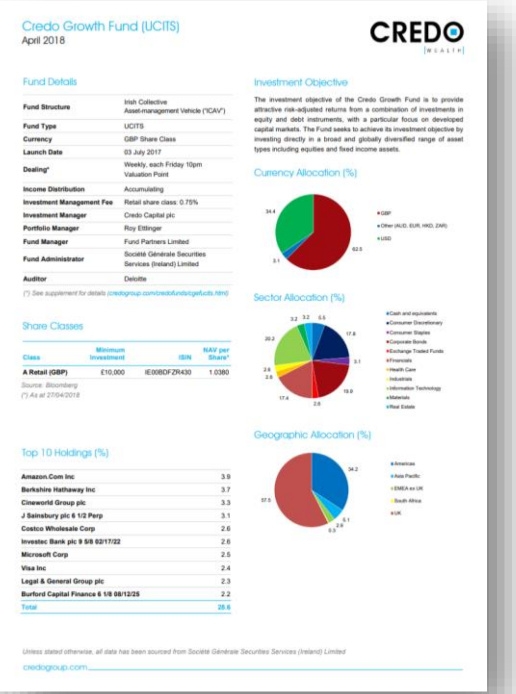
Currency Allocation (%)

Sector Allocation (%)

Geographic Allocation (%)

Unless stated otherwise, all data has been sourced from Société Générale Securities Services (Ireland) Limited

credogroup.com



Credo Growth Fund (UCITS)
April 2018

CREDO
WEALTH

Fund Details

Fund Structure	Irish Collective Asset-management Vehicle ("ICAV")
Fund Type	UCITS
Currency	GBP Share Class
Launch Date	03 July 2017
Dealing*	Weekly, each Friday 10pm Valuation Point
Income Distribution	Accumulating
Investment Management Fee	Retail share class: 0.75%
Investment Manager	Credo Capital plc
Portfolio Manager	Roy Ettinger
Fund Manager	Fund Partners Limited
Fund Administrator	Société Générale Securities Services (Ireland) Limited
Auditor	Deloitte

(*) See supplement for details (credogroup.com/credofunds/cgefucits.html)

Share Classes

Class	Minimum Investment	ISIN	NAV per Share*
A Retail (GBP)	£10,000	IE00BDFZR430	1.0380

Source: Bloomberg
(*) As at 27/04/2018

Top 10 Holdings (%)

Amazon.Com Inc	3.9
Berkshire Hathaway Inc	3.7
Cineworld Group plc	3.3
J Sainsbury plc 6 1/2 Perp	3.1
Costco Wholesale Corp	2.6
Investec Bank plc 9 5/8 02/17/22	2.6
Microsoft Corp	2.5
Visa Inc	2.4
Legal & General Group plc	2.3
Burford Capital Finance 6 1/8 08/12/25	2.2
Total	28.6

Investment Objective

The investment objective of the Credo Growth Fund is to provide attractive risk-adjusted returns from a combination of investments in equity and debt instruments, with a particular focus on developed capital markets. The Fund seeks to achieve its investment objective by investing directly in a broad and globally diversified range of asset types including equities and fixed income assets.

Currency Allocation (%)

Sector Allocation (%)

Geographic Allocation (%)

Unless stated otherwise, all data has been sourced from Société Générale Securities Services (Ireland) Limited

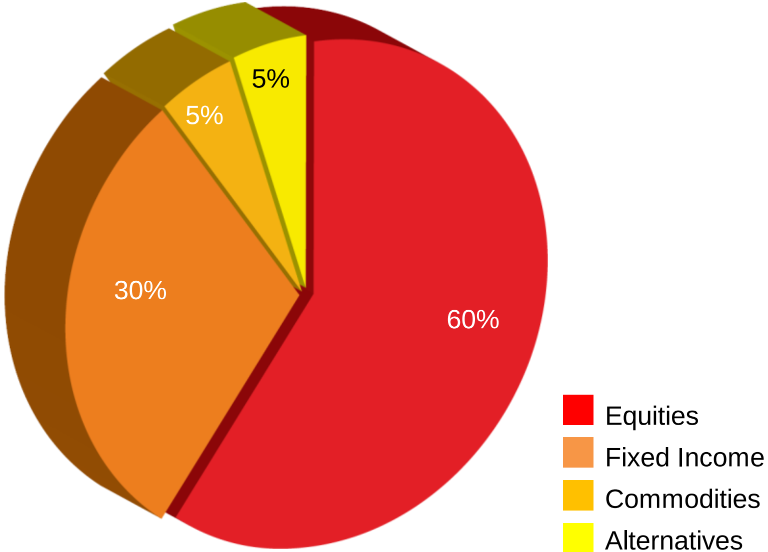
credogroup.com

- Globally diversified across liquid asset classes
- Four levels of equity risk
- Primarily passive underlying instruments driven by long term data
- Low costs

MULTIASSETPORTFOLIOS

MULTIASSETPORTFOLIOS

Credo MAP 60/40 strategic asset allocation



MULTIASSETPORTFOLIOS

Credo MAP 60/40 vs 60/40 composite (USD)

MULTIASSETPORTFOLIOS

Performance to 25 May 2018 (USD)

Annualised total returns	1 Year	3 Years	*Since Inception
Multi-Asset Portfolio 60/40	**8.2%**	**5.1%**	**4.6%**
Benchmark	7.8%	5.0%	4.4%

(*) MAP inception: 02 July 2014

Product Suite

Equities

- **Best Ideas Portfolio**
- **Dividend Growth Portfolio**
- **Special Opportunities Portfolio**
- **Global Equity Fund**

Fixed Income

- **Income Plus Portfolios**
  - Low Volatility
  - Medium Volatility
  - High Volatility

Multi-Asset

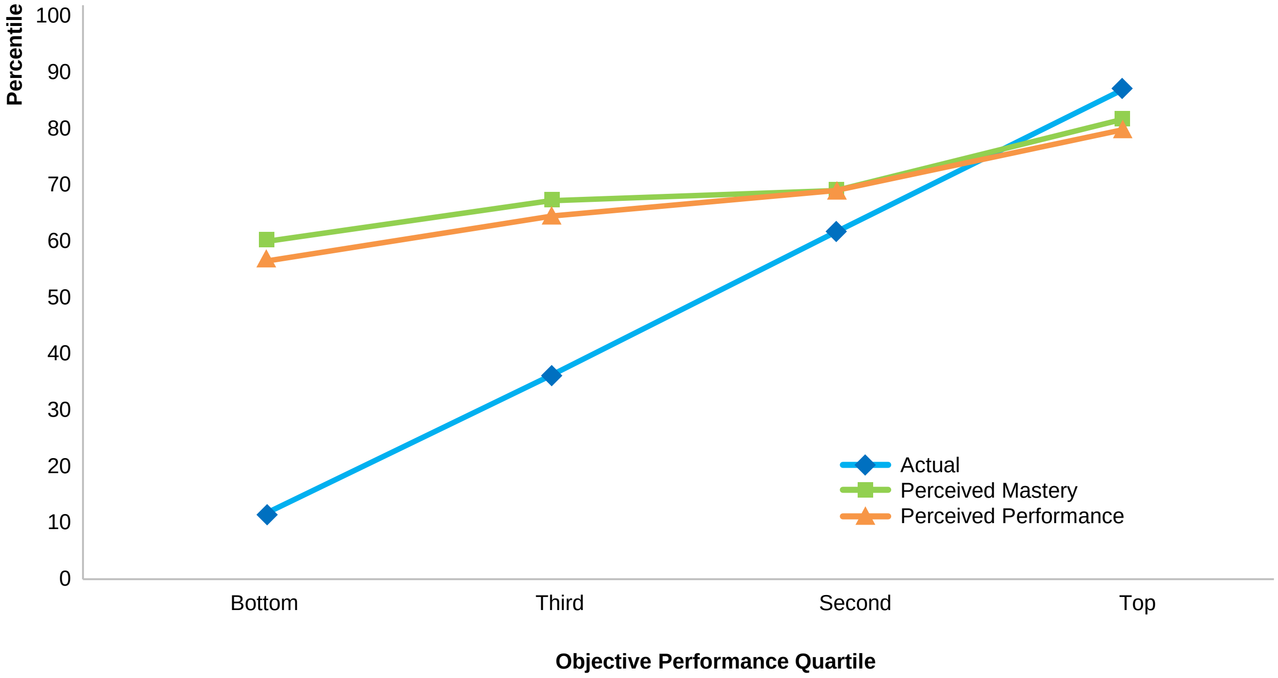
- **Multi-Asset Portfolios**
  - MAP 20/80
  - MAP 45/55
  - MAP 60/40
  - MAP 70/30
- **Dynamic Fund**
- **Growth Fund**

THE ILLUSION OF KNOWLEDGE:

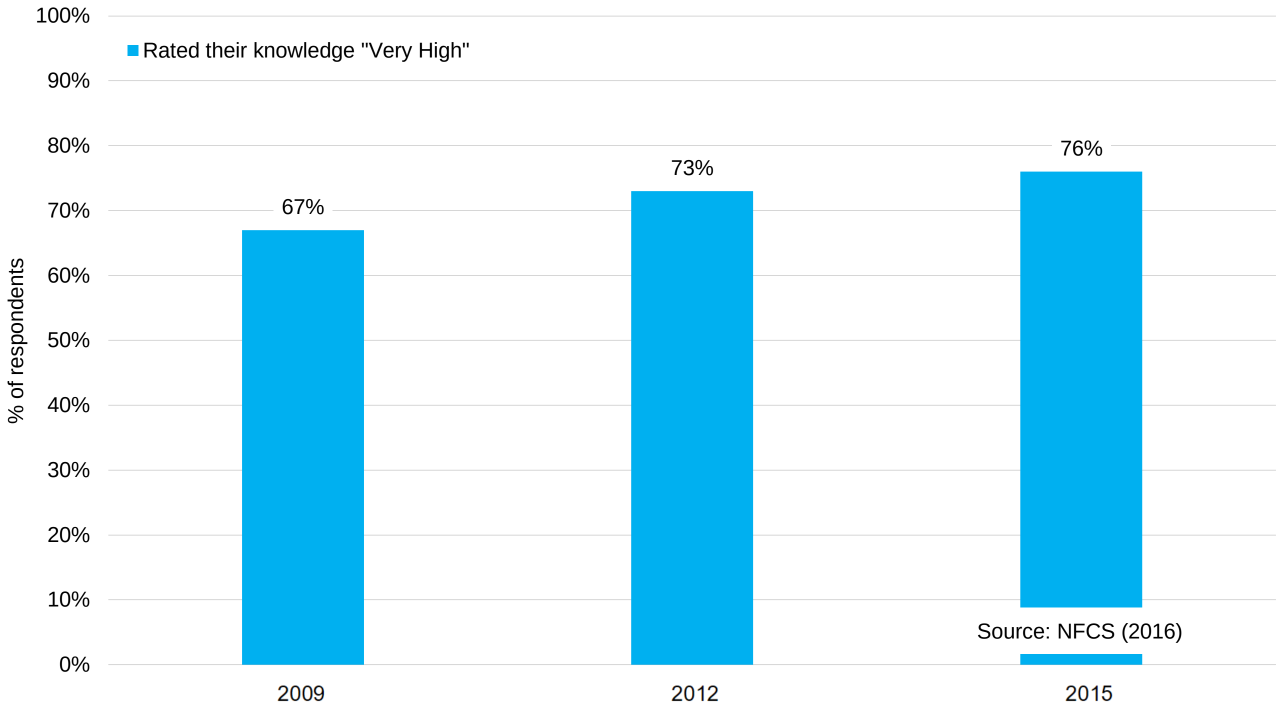
HISTORY, DATA, AND OVERCONFIDENCE

AINSLEY TO

Inaccurate self-assessment

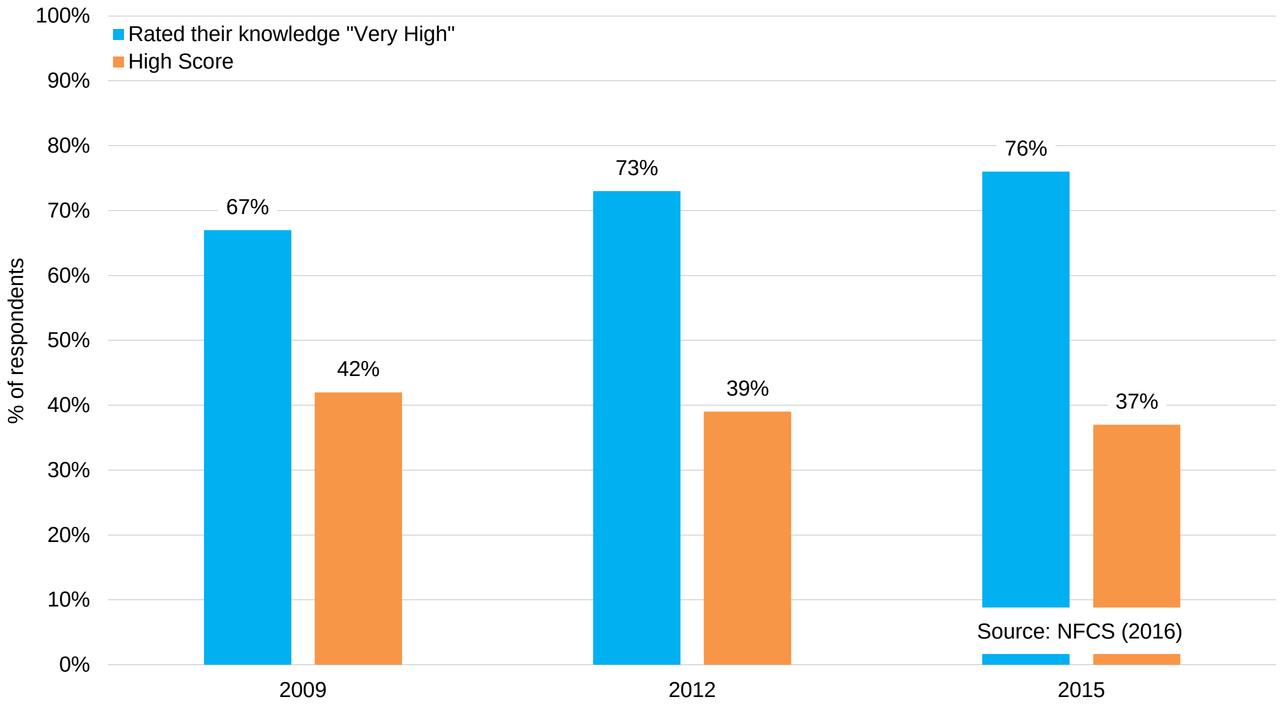


Financial Knowledge - Competence vs Confidence



Source: NFCS (2016)

Financial Knowledge - Competence vs Confidence

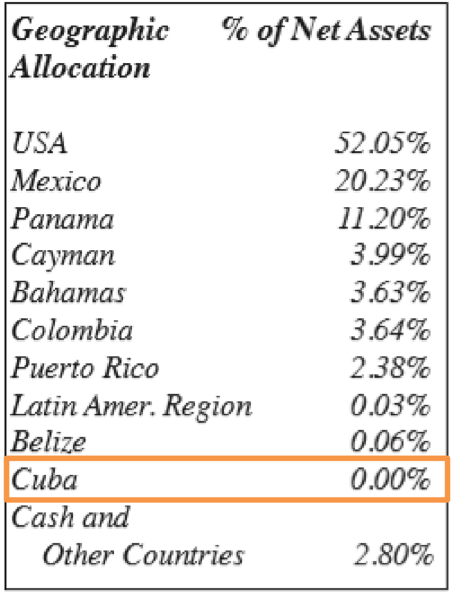


Source: NFCS (2016)

The Herzfeld Caribbean Basin Fund

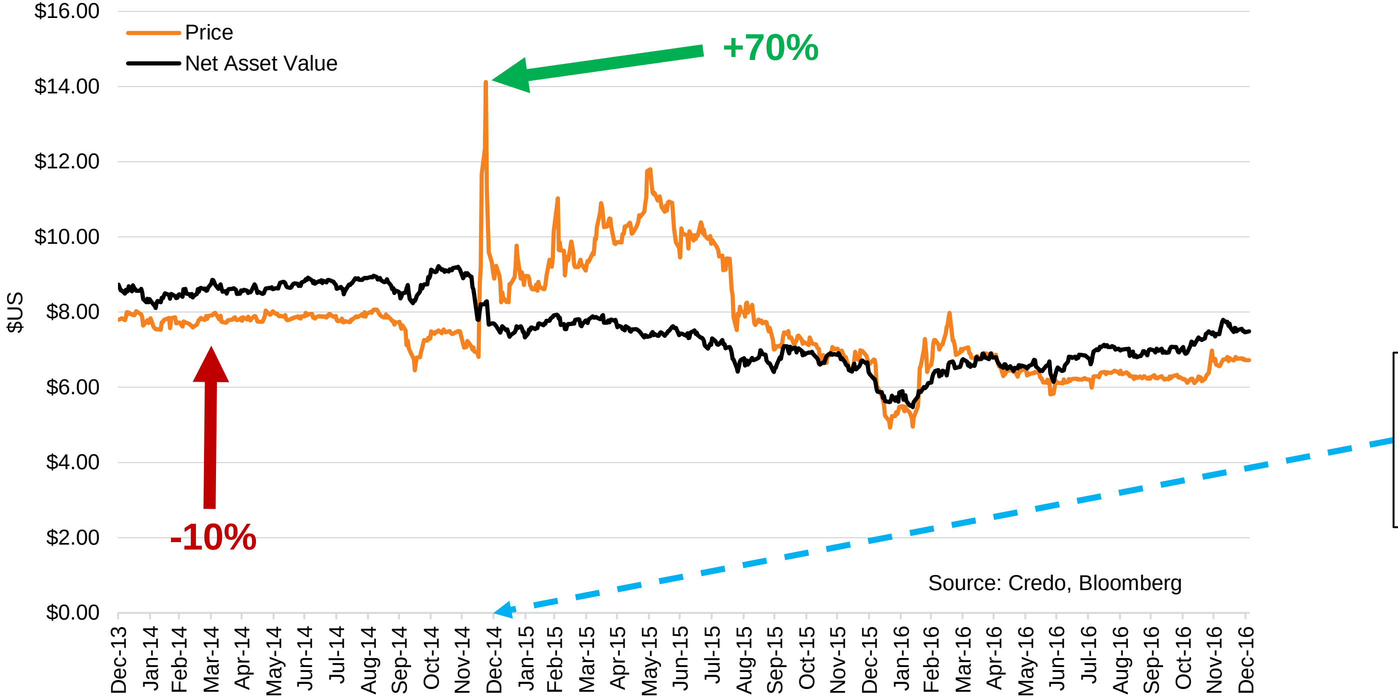
- Closed-end fund
- ~50% in US stocks, ~20% Mexican stocks
- Historically traded 10% to 15% below net asset value

June 2014



Geographic Allocation	*% of Net Assets*
USA	*52.05%*
Mexico	*20.23%*
Panama	*11.20%*
Cayman	*3.99%*
Bahamas	*3.63%*
Colombia	*3.64%*
Puerto Rico	*2.38%*
Latin Amer. Region	*0.03%*
Belize	*0.06%*
Cuba	*0.00%*
Cash and Other Countries	*2.80%*

The Smart Money?

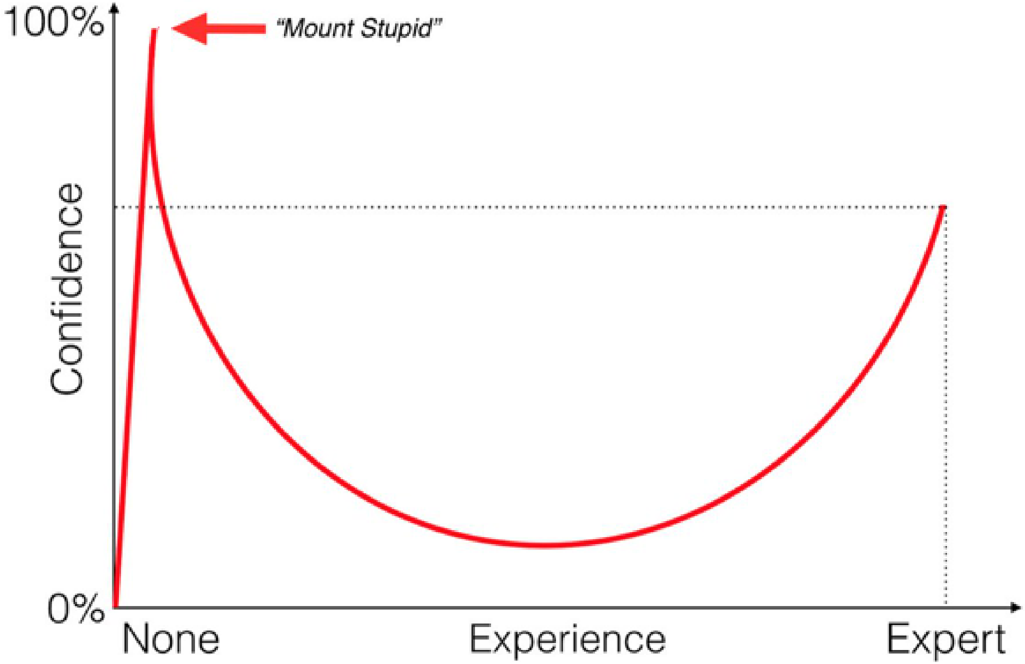


Source: Credo, Bloomberg

Symbol**: CUBA**

17 Dec. 2014
Obama lifts
restrictions
against Cuba

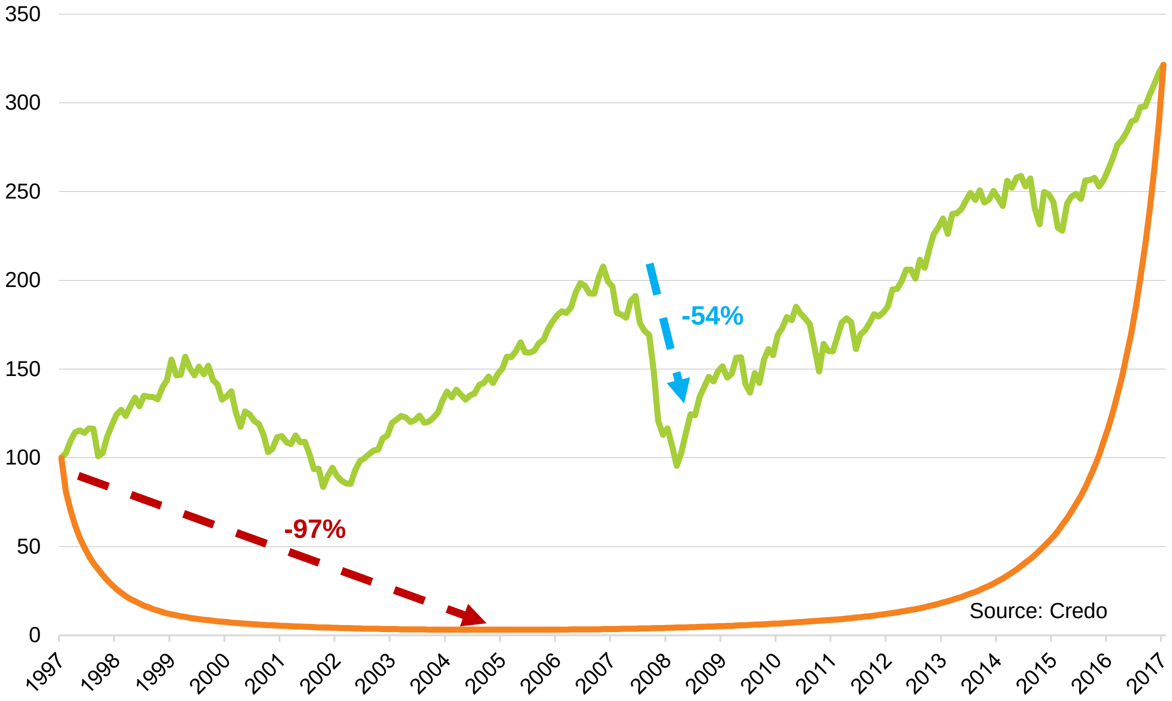
The Dunning-Kruger Effect



Two identical investments?

	Investment 1	**Investment 2**
Return	6%	6%
Volatility	15%	15%

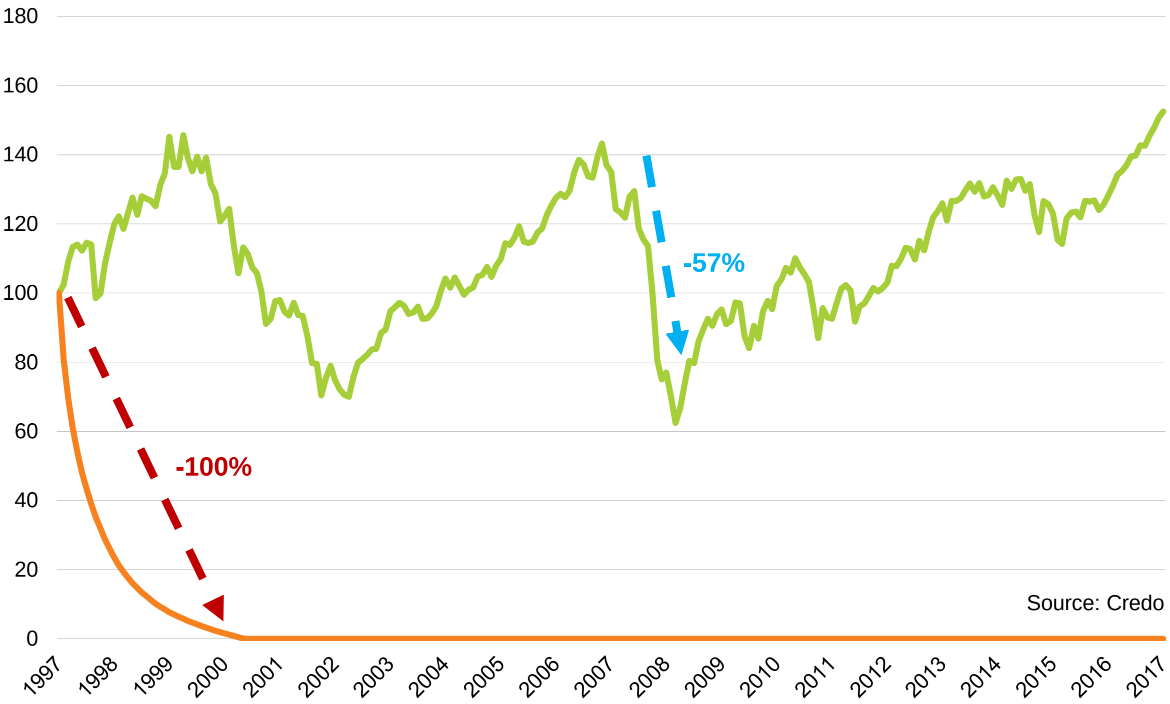
Two identical investments?



Source: Credo

	Global Equities	Reordered
Return	6%	6%
Volatility	15%	15%
Max Drawdown	-54%	-97%

Data that shows the destination can miss the journey



Source: Credo

Withdrawing $4 Annual Income

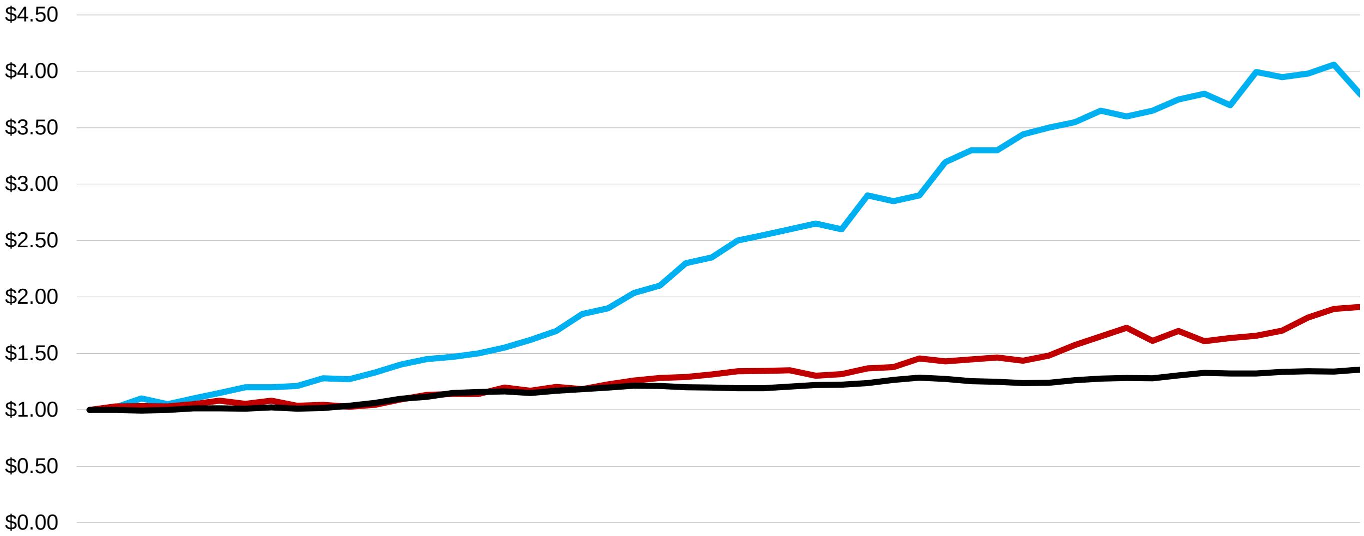
	Global Equities	Reordered
Max Drawdown	-57%	-100%
Years Survived	20	4

All the stats you want…

	Portfolio 1	**Portfolio 2**	**Portfolio 3**
Ann Return	38.67%	17.20%	7.75%
Volatility	12.54%	10.25%	3.94%
Sharpe Ratio	**2.68**	1.18	0.67
Maximum Drawdown	**-6.40%**	-6.84%	-3.66%

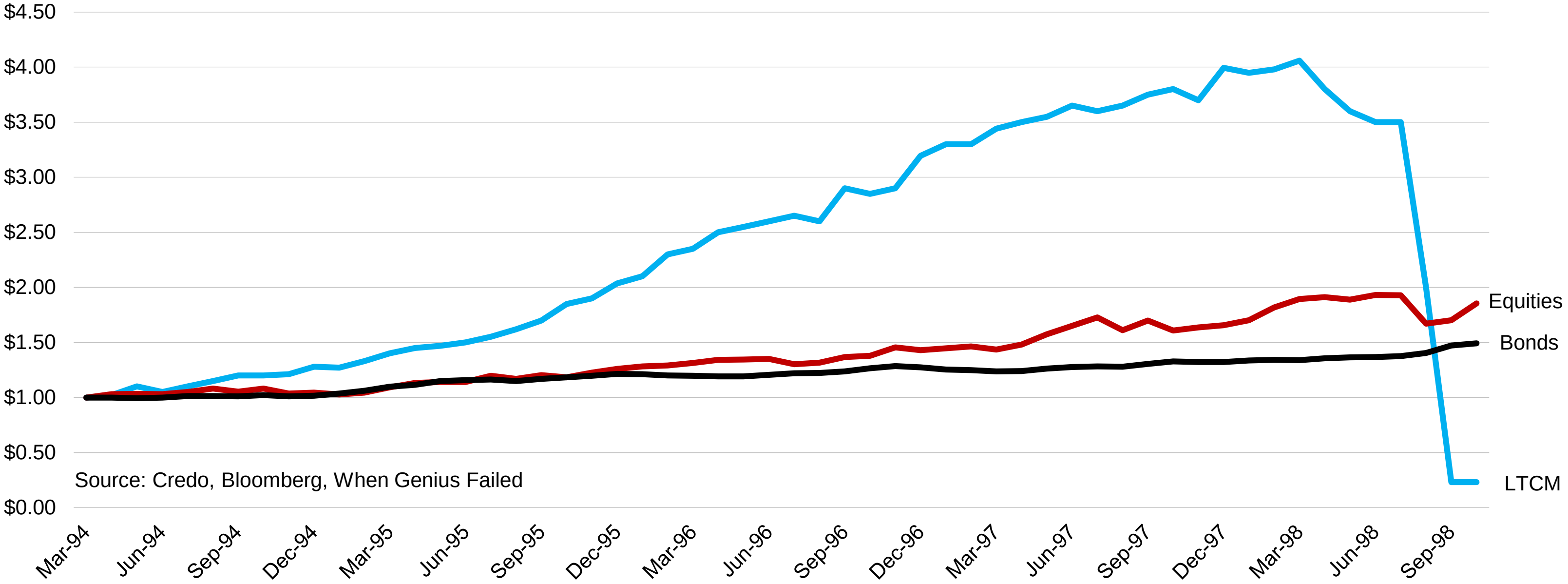
Plus the chart…

	Portfolio 1	Portfolio 2	Portfolio 3
Ann Return	38.67%	17.20%	7.75%
Volatility	12.54%	10.25%	3.94%
Sharpe Ratio	**2.68**	1.18	0.67
Maximum Drawdown	**-6.40%**	-6.84%	-3.66%



Even Nobel Prize winners can be overconfident

- 6 months later



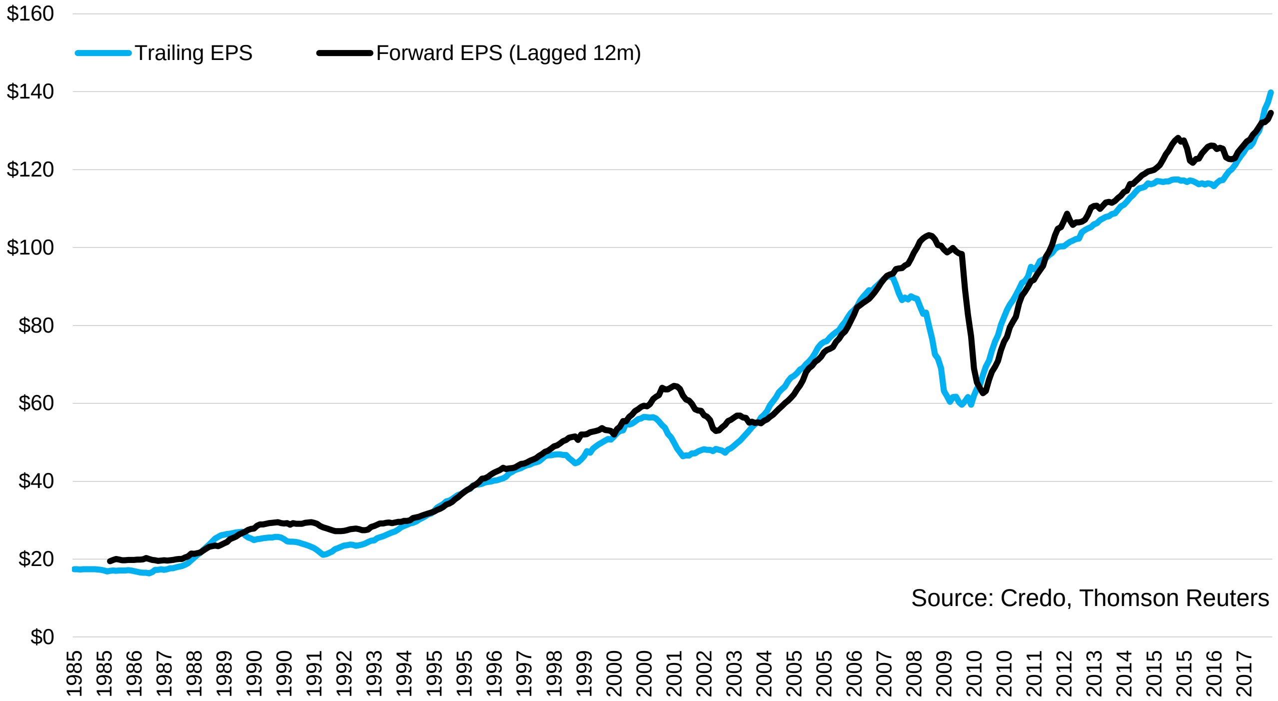
Source: Credo, Bloomberg, When Genius Failed

Mar 94 to Mar 98	**Portfolio 1**	**Portfolio 2**	**Portfolio 3**
Return	38.7%	17.2%	7.7%
Volatility	12.5%	10.2%	3.9%
Sharpe Ratio	**2.7**	1.2	0.7
Maximum Drawdown	**-6.4%**	-6.8%	-3.7%

+ 6 months

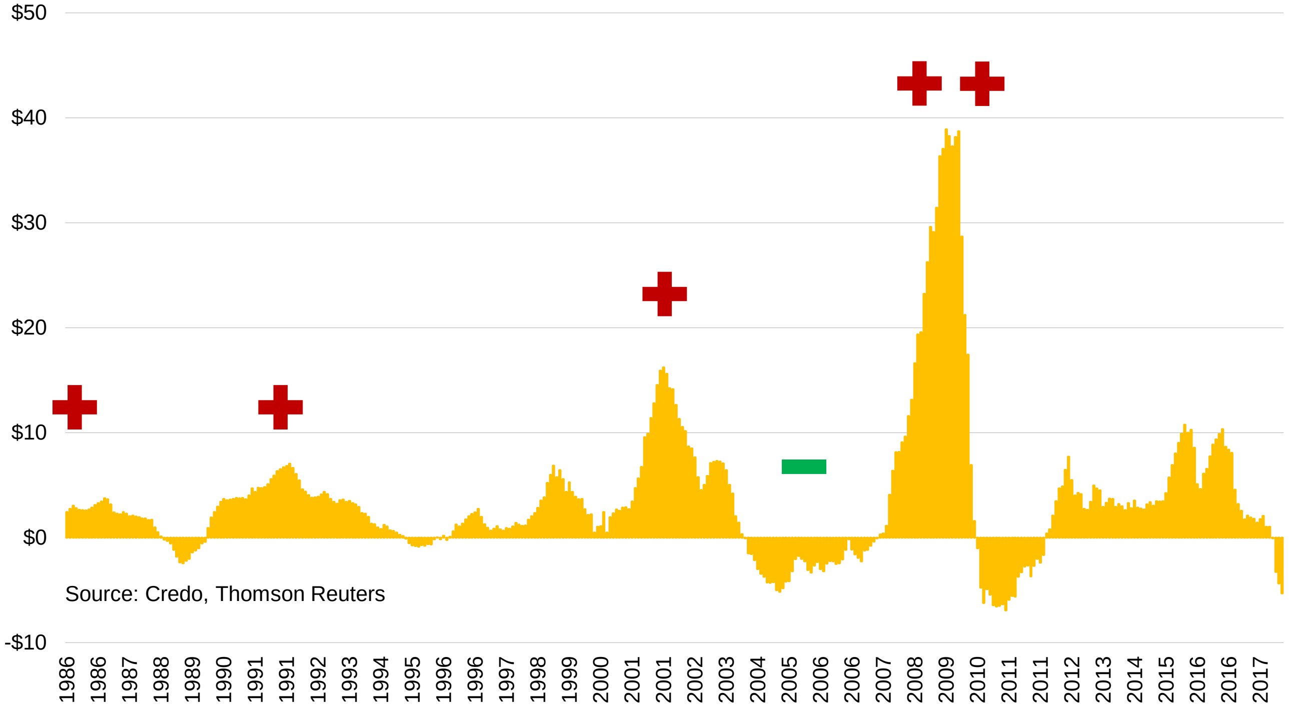
Mar 94 to Oct 98	**LTCM**	**Equities**	**Bonds**
Return	-27.4%	14.4%	9.1%
Volatility	48.8%	12.5%	4.2%
Sharpe Ratio	**-0.7**	0.7	0.9
Maximum Drawdown	**-94.3%**	-13.5%	-3.7%

Forecasts fail when we most need them



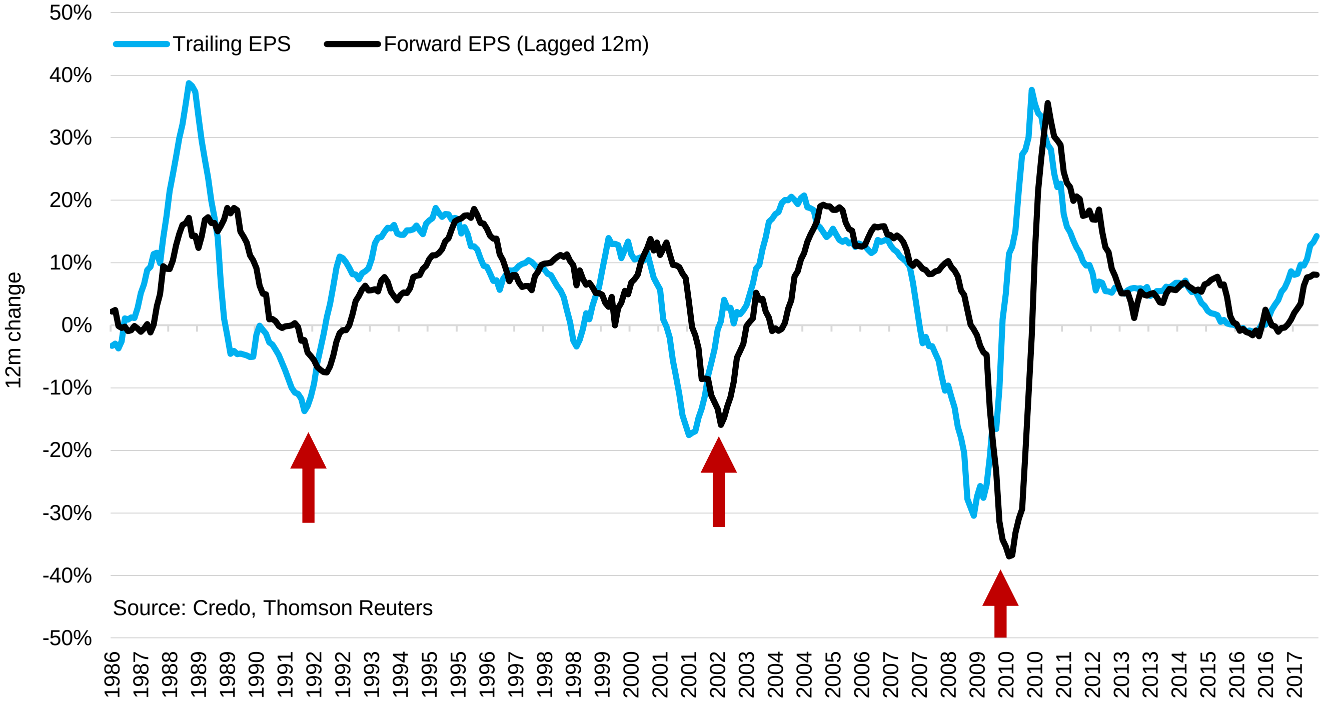
Source: Credo, Thomson Reuters

Forecast error



Source: Credo, Thomson Reuters

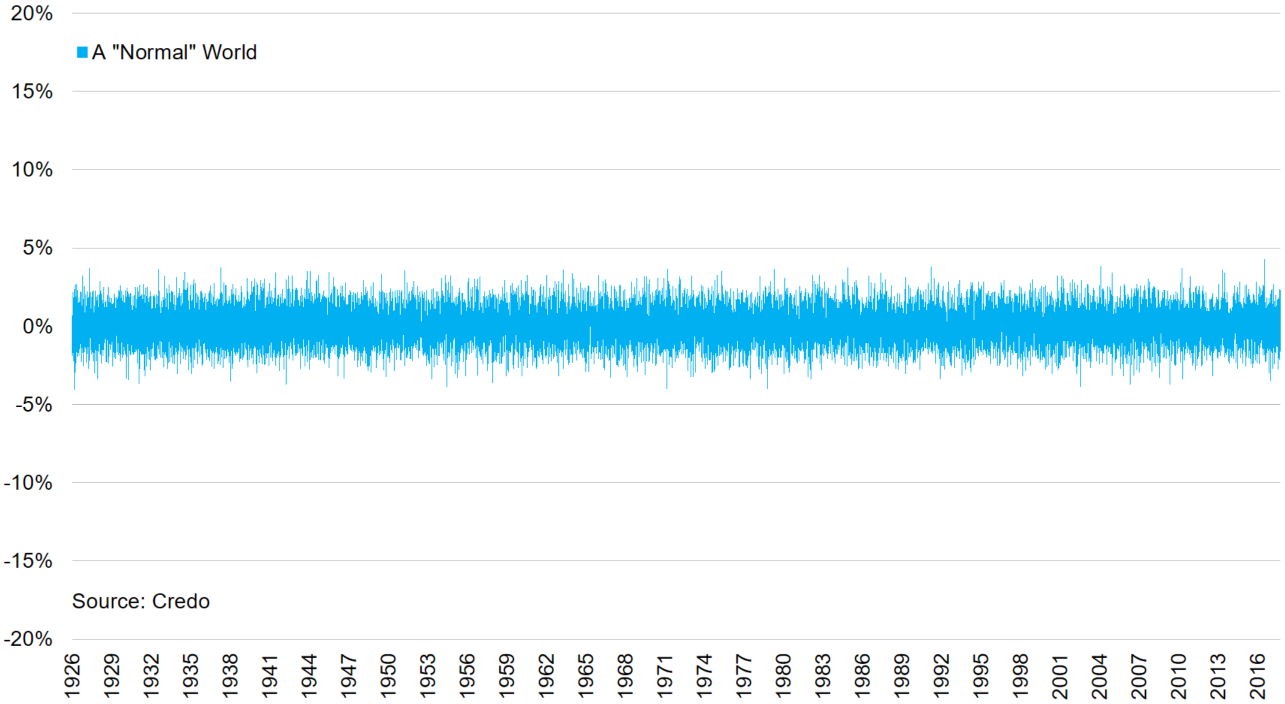
Driving using the rear view mirror



Source: Credo, Thomson Reuters

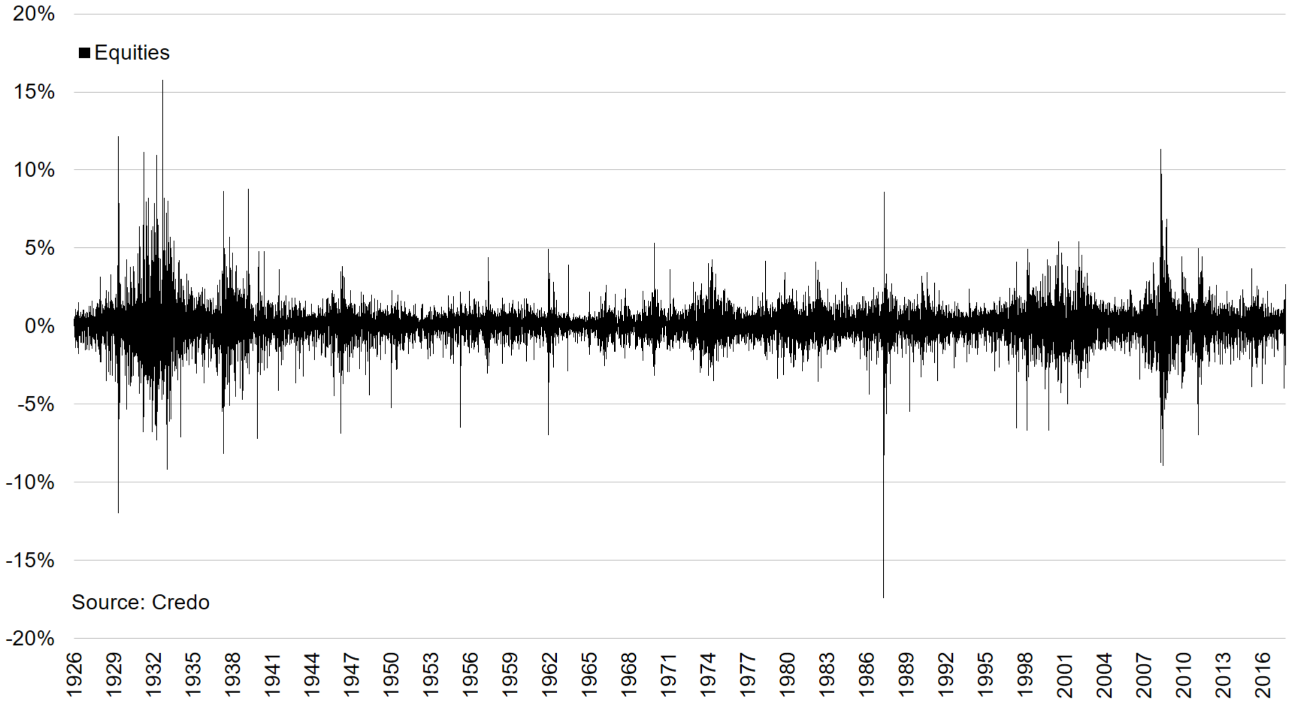
The wrong map is worse than no map

A world in which mean and volatility are all you need



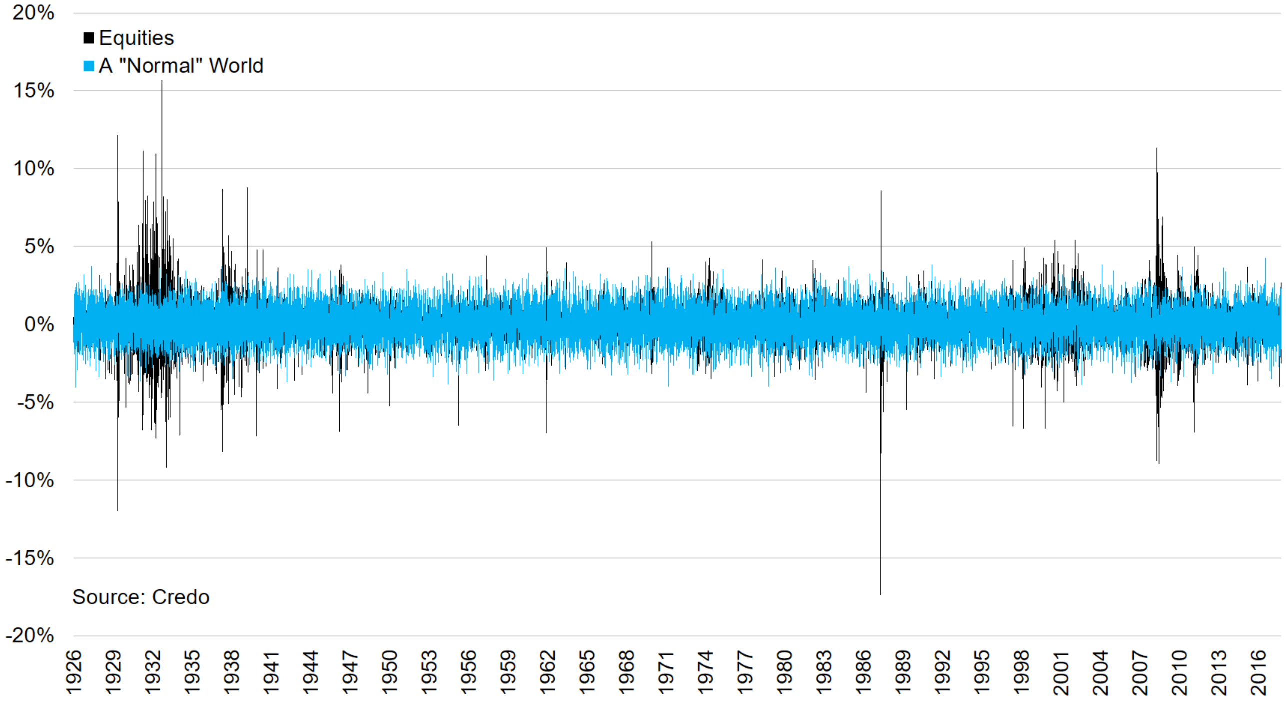
Source: Credo

The Real World



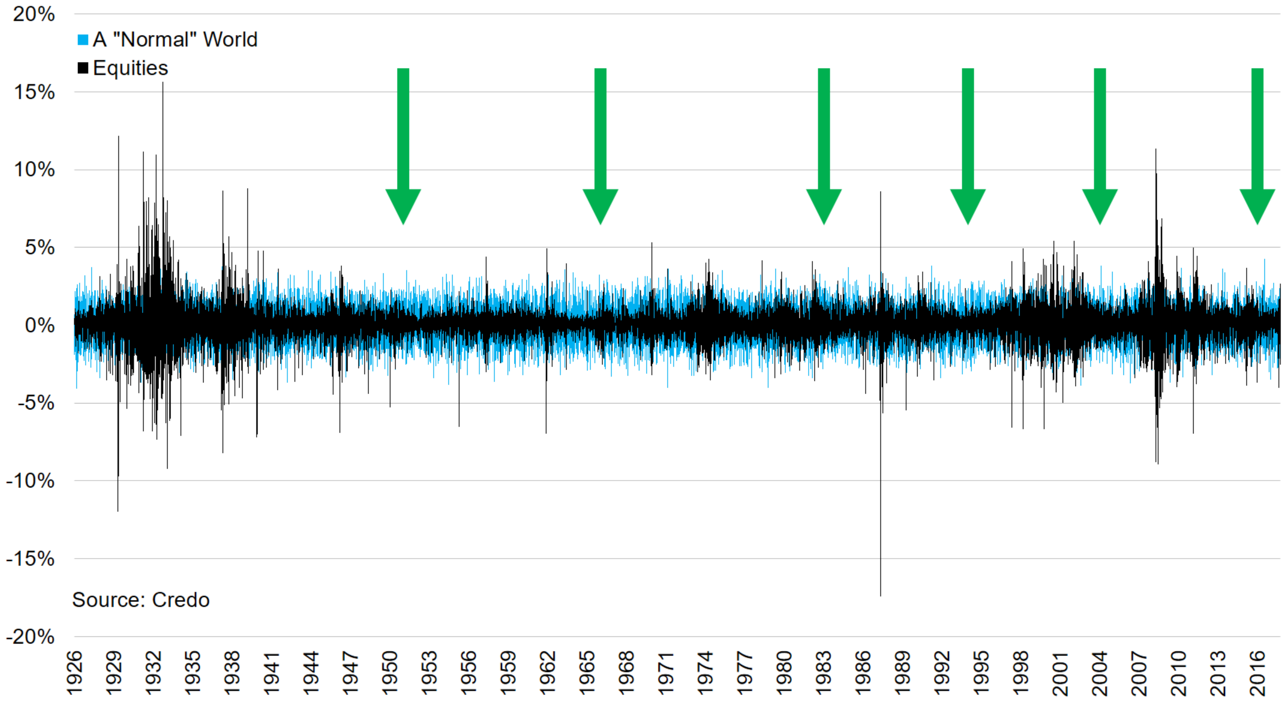
Source: Credo

99.2% of days are within this range



Source: Credo

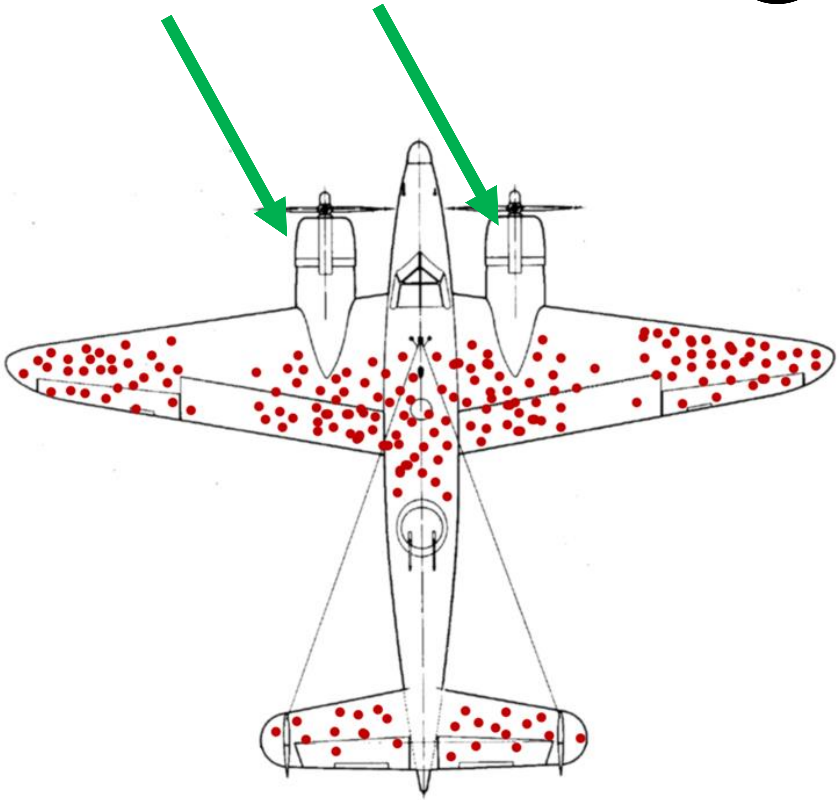
In reality, it's more complicated



Source: Credo

Analysis ≠ Counting bullet holes

Section of plane	Bullet holes per square foot
Engine	1.11
Fuselage	1.73
Fuel system	1.55
Rest of the plane	1.8



Humility in the face of uncertainty

“It is human nature to believe that what you see is all there is…

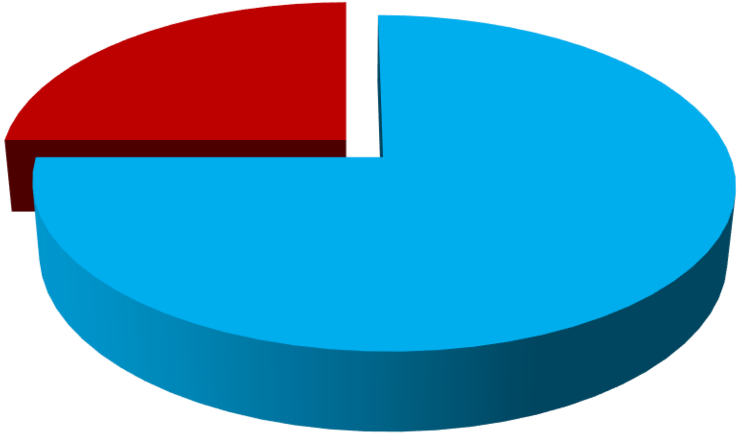
but often what you don’t see can refute everything that you believe”

Just before we break…

SHOULD I BE A CREDO CLIENT?

SJ DU PREEZ

Should I be a Credo client?

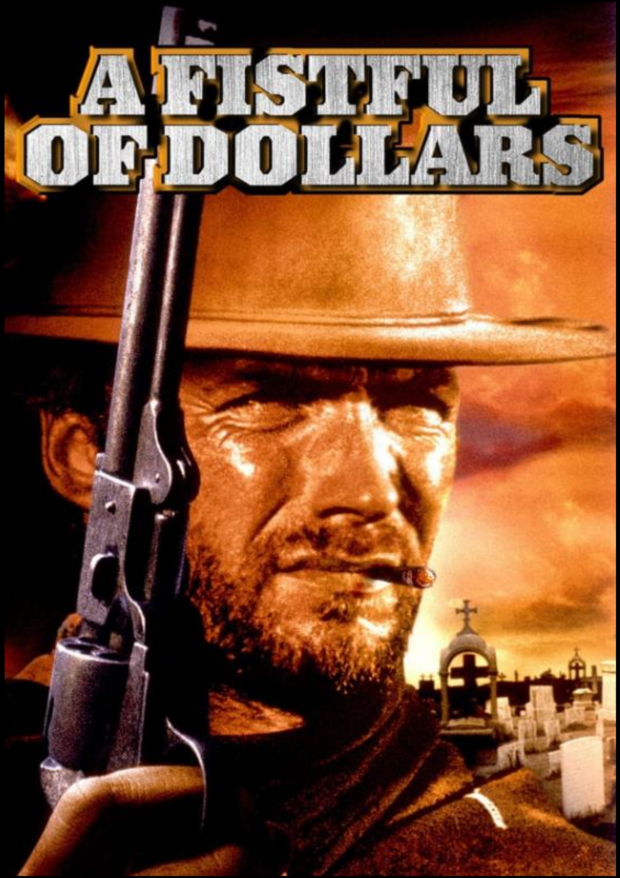


🟦 Yes 🟥 Yes, but in red

A FISTFUL OF DOLLARS

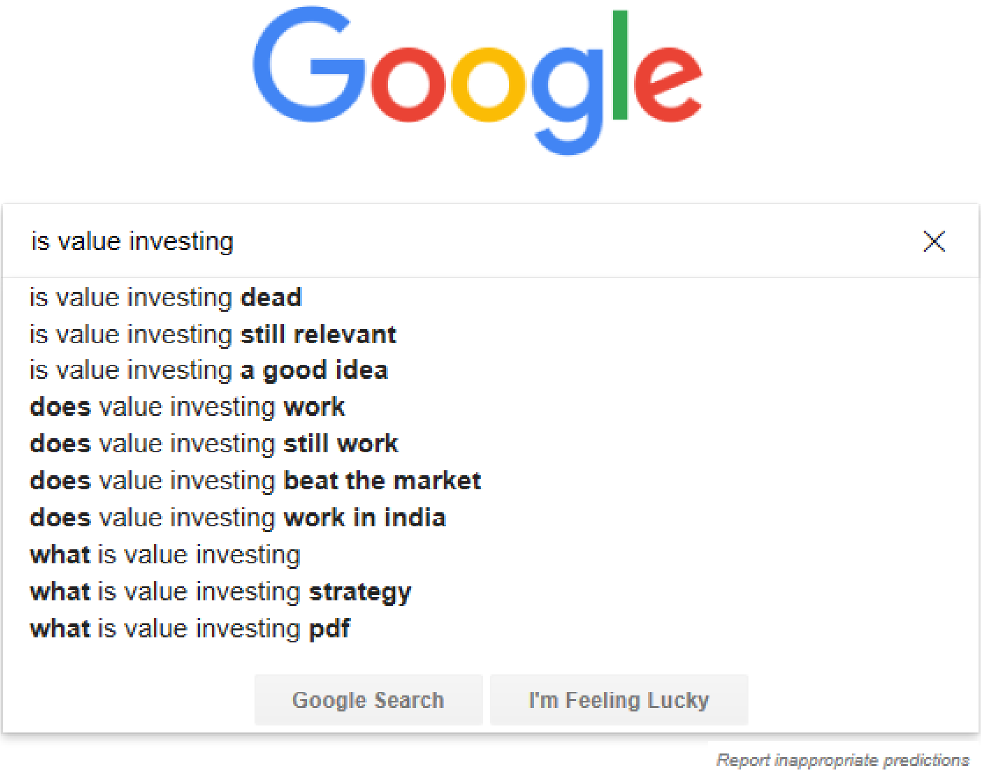
JARROD CAHN


THE GOOD
THE BAD
AND THE UGLY


A FISTFUL OF DOLLARS

Credo investment philosophy

- We believe wealth is created and preserved by following a patient and disciplined investment strategy that is focused on the **long-term**
- We follow a **value-based** approach to investing
- We aim to identify matters of **strategic** importance and focus on methodologies that have proven to be robust through a variety of market cycles, rather than fixating on short-term news-flow and forecasts
- We strive to minimise turnover in our portfolios and apply our minds when considering transaction size in an attempt to **limit transaction costs**
- We view **risk** as permanent losses of capital and not in terms of short-term volatility



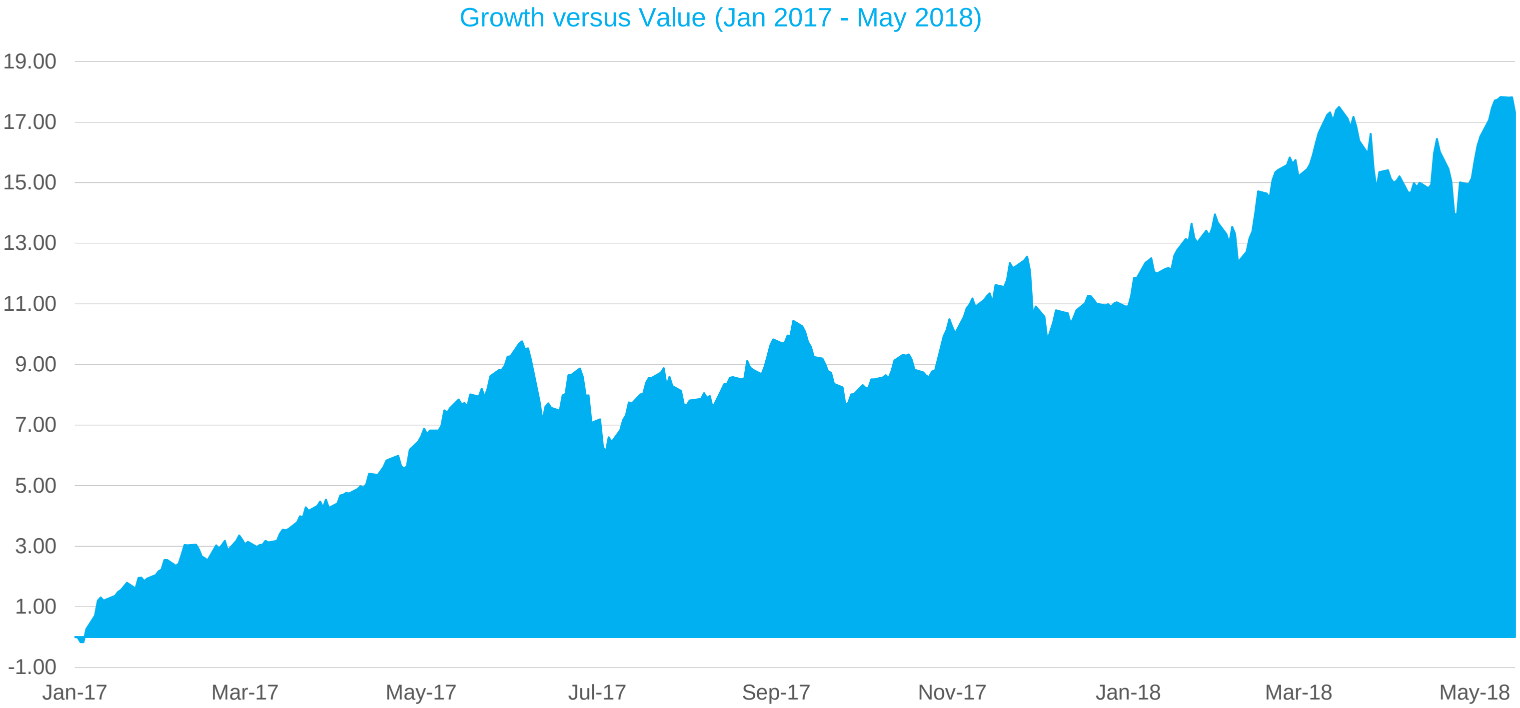
is value investing

is value investing **dead**
is value investing **still relevant**
is value investing **a good idea**
does value investing **work**
does value investing **still work**
does value investing **beat the market**
does value investing **work in india**
what is value investing
what is value investing **strategy**
what is value investing **pdf**

Fama French: Value minus Growth (10 year rolling returns)

Source: M Batnick

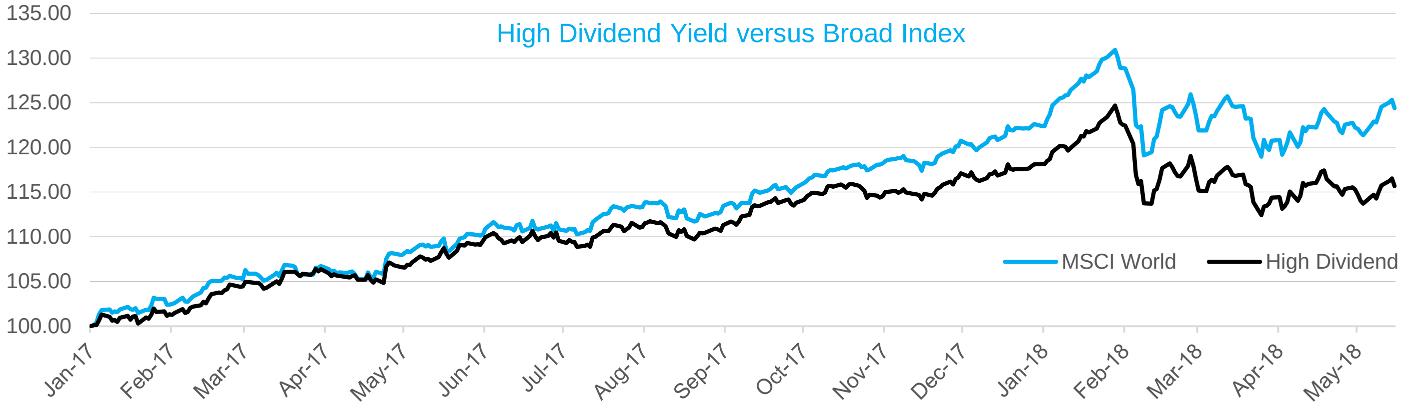
Growth vs Value

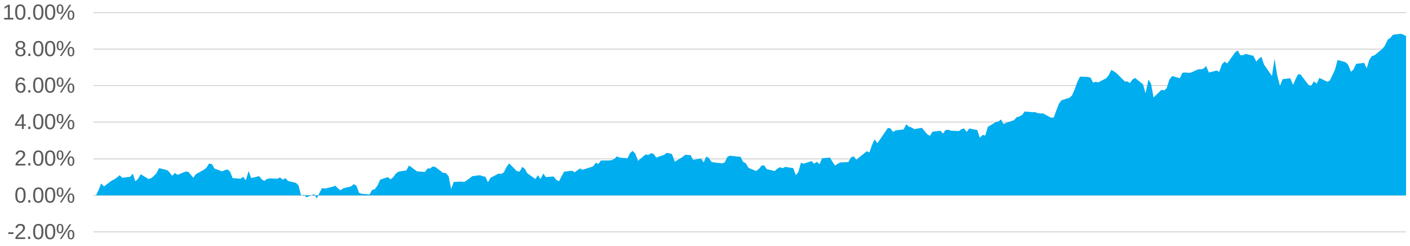


Tech fund flows

Source: BoFA ML, EPFR Global

High dividend yield underperformance





High dividend yield underperformance

Equity Spotlight
January 2017

CREDO WEALTH

Trees do not grow to the sky

Deon Gouws - CIO, Credo Wealth

Investing in any single company is an inherently uncertain process, the outcome of which can be influenced by a wide range of factors - some relatively easily foreseeable and others less so. Add to that the fact that the most successful of investors will be wrong from time to time, and it's not surprising that a level of diversification in any portfolio of equities is always a prudent strategy.

Recognising this underlying uncertainty, our investment process at Credo revolves around identifying the key factors that are likely to drive the outcome for any potential investment, and we seek to invest only when we believe those factors to be biased in our favour on balance of probabilities. Sometimes these factors are company specific, whilst at other times they relate more to industry dynamics or the macro environment.

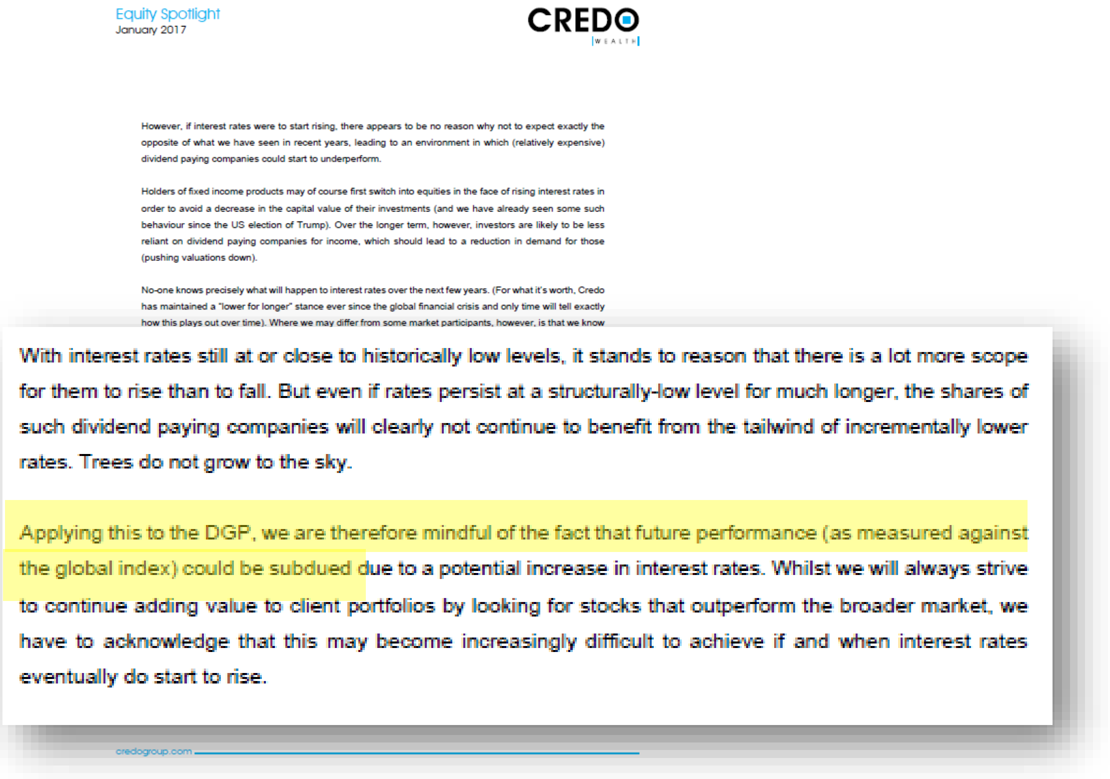
Crucial to being a successful investor is the ability to recognise one's own weaknesses. As fundamental bottom-up investors, we are generally cautious when we identify key factors of a top-down nature that could play a dominant role in the outcome of any potential investment. While our long-term investment horizon often provides us with the opportunity to take a constructive view on such factors, we always have to consider also: what if we are wrong?

This leads us to the Credo Dividend Growth Portfolio (DGP), consisting of companies that pay a sustainable and growing dividend. Whilst we are pleased to report that DGP has performed strongly since inception, we also have to acknowledge that at least a portion of this outperfomance can be linked to the structurally low interest rate environment which has prevailed over this period.

In general terms, investors who choose to invest in dividend paying companies specifically for their income are foregoing the opportunity to invest in alternative income producing products (such as bank accounts or bonds), the income of which is directionally linked to interest rates. All else being equal, the higher the level of interest rates, the greater the income available on such products, and thus the higher the dividend income required from a company in order for it to be considered as a similarly attractive alternative. The opposite is of course also true at lower interest rate levels, and it can therefore quite readily be accepted that interest rates and dividend yields are inversely correlated.

Interest rates around the world have been on a downward trajectory for the past three decades, and developed markets have seen levels at or near zero for a number of years now. As a consequence, investors faced with low yields on fixed income products have sought income elsewhere, in particular in dividend paying companies. This has driven valuations of many dividend paying companies upwards, at least in relative terms (i.e. as compared to the universe of companies which do not pay dividends). As a result, valuations of dividend paying companies in aggregate now appear to be extended by historical standards.

credogroup.com



Equity Spotlight
January 2017

CREDO WEALTH

However, if interest rates were to start rising, there appears to be no reason why not to expect exactly the opposite of what we have seen in recent years, leading to an environment in which (relatively expensive) dividend paying companies could start to underperform.

Holders of fixed income products may of course first switch into equities in the face of rising interest rates in order to avoid a decrease in the capital value of their investments (and we have already seen some such behaviour since the US election of Trump). Over the longer term, however, investors are likely to be less reliant on dividend paying companies for income, which should lead to a reduction in demand for those (pushing valuations down).

No-one knows precisely what will happen to interest rates over the next few years. (For what it's worth, Credo has maintained a "lower for longer" stance ever since the global financial crisis and only time will tell exactly how this plays out over time). Where we may differ from some market participants, however, is that we know

With interest rates still at or close to historically low levels, it stands to reason that there is a lot more scope for them to rise than to fall. But even if rates persist at a structurally-low level for much longer, the shares of such dividend paying companies will clearly not continue to benefit from the tailwind of incrementally lower rates. Trees do not grow to the sky.

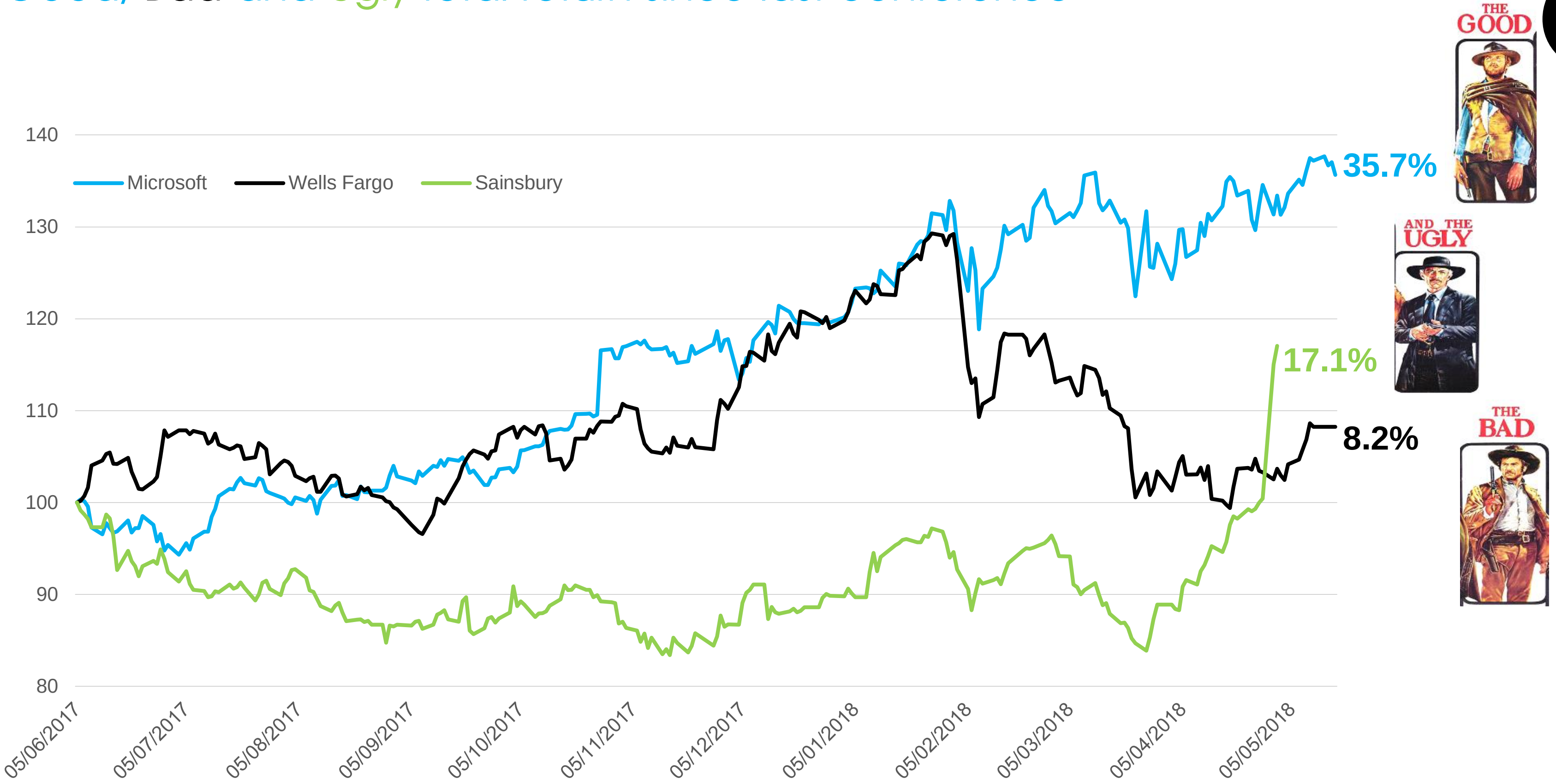
Applying this to the DGP, we are therefore mindful of the fact that future performance (as measured against the global index) could be subdued due to a potential increase in interest rates. Whilst we will always strive to continue adding value to client portfolios by looking for stocks that outperform the broader market, we have to acknowledge that this may become increasingly difficult to achieve if and when interest rates eventually do start to rise.

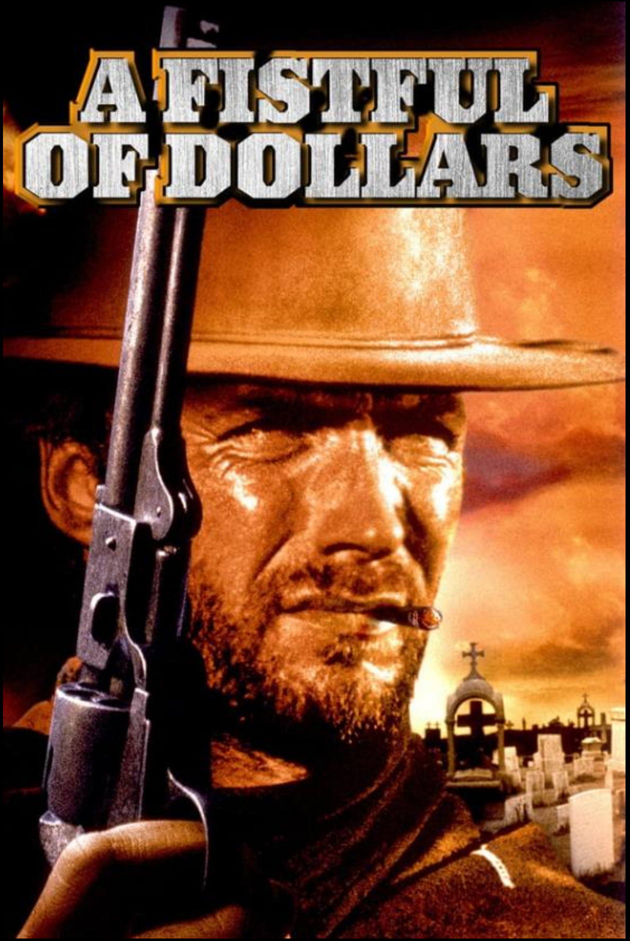
credogroup.com

Value investing can be a lonely place


THE GOOD
THE BAD
AND THE UGLY

Good, Bad and Ugly total return since last conference





A FISTFUL
OF DOLLARS

The Good

©Disney

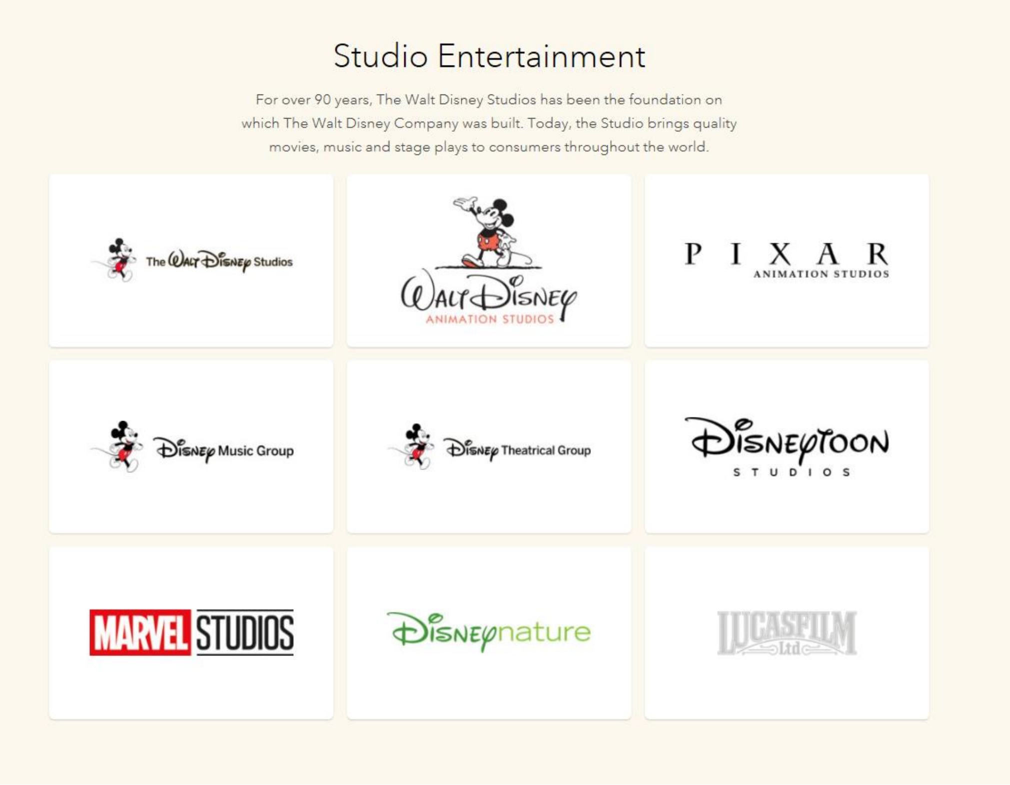
The Walt Disney Company

Disney

Bought 14/05/2018 for Best Ideas Portfolio

PE of 14.5x

Disney



Studio Entertainment

For over 90 years, The Walt Disney Studios has been the foundation on which The Walt Disney Company was built. Today, the Studio brings quality movies, music and stage plays to consumers throughout the world.

- 15% of total revenue
- 16% of total operating profit

Disney

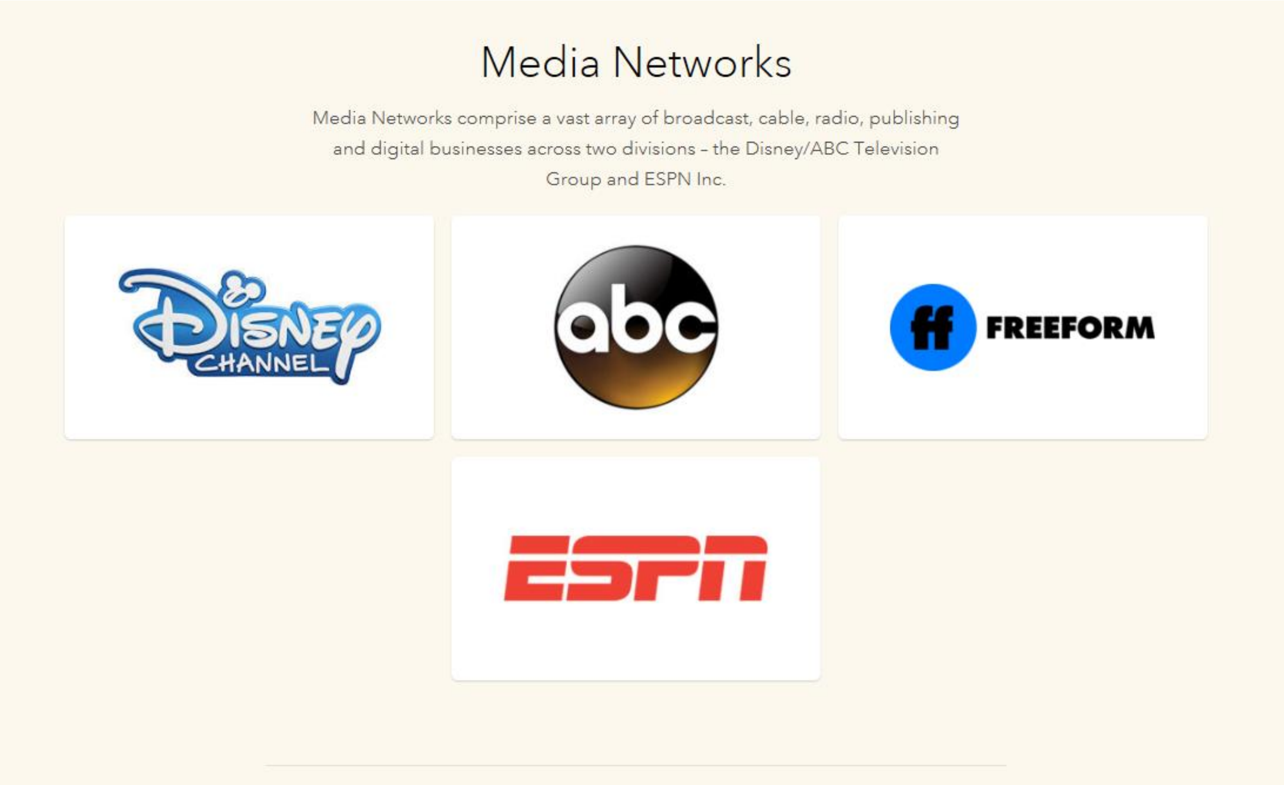
Parks, Experiences and Consumer Products

Parks, Experiences and Consumer Products brings Disney's stories, characters and franchises to life through Parks and Resorts, toys, apps, apparel, books and stores.

- 33% of total revenue from Theme Parks
- 26% of total operating profit
- 80% domestically / 20% internationally

- 9% of total revenue from Consumer Products
- 12% of total operating profit

Disney

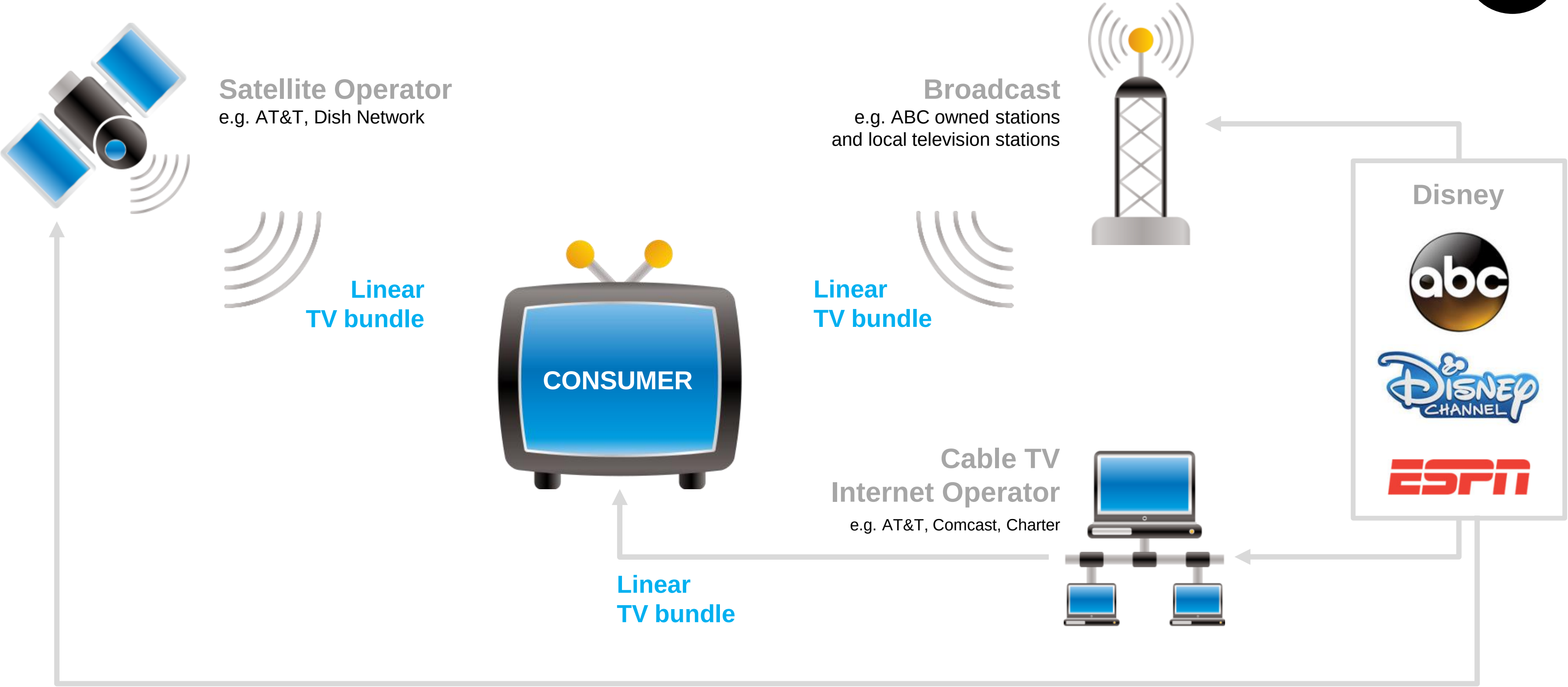


Media Networks

Media Networks comprise a vast array of broadcast, cable, radio, publishing and digital businesses across two divisions – the Disney/ABC Television Group and ESPN Inc.

- 43% of total revenue
- 46% of total operating profit from Media Networks

Legacy model



Satellite Operator
e.g. AT&T, Dish Network

Broadcast
e.g. ABC owned stations
and local television stations

Linear
TV bundle

CONSUMER

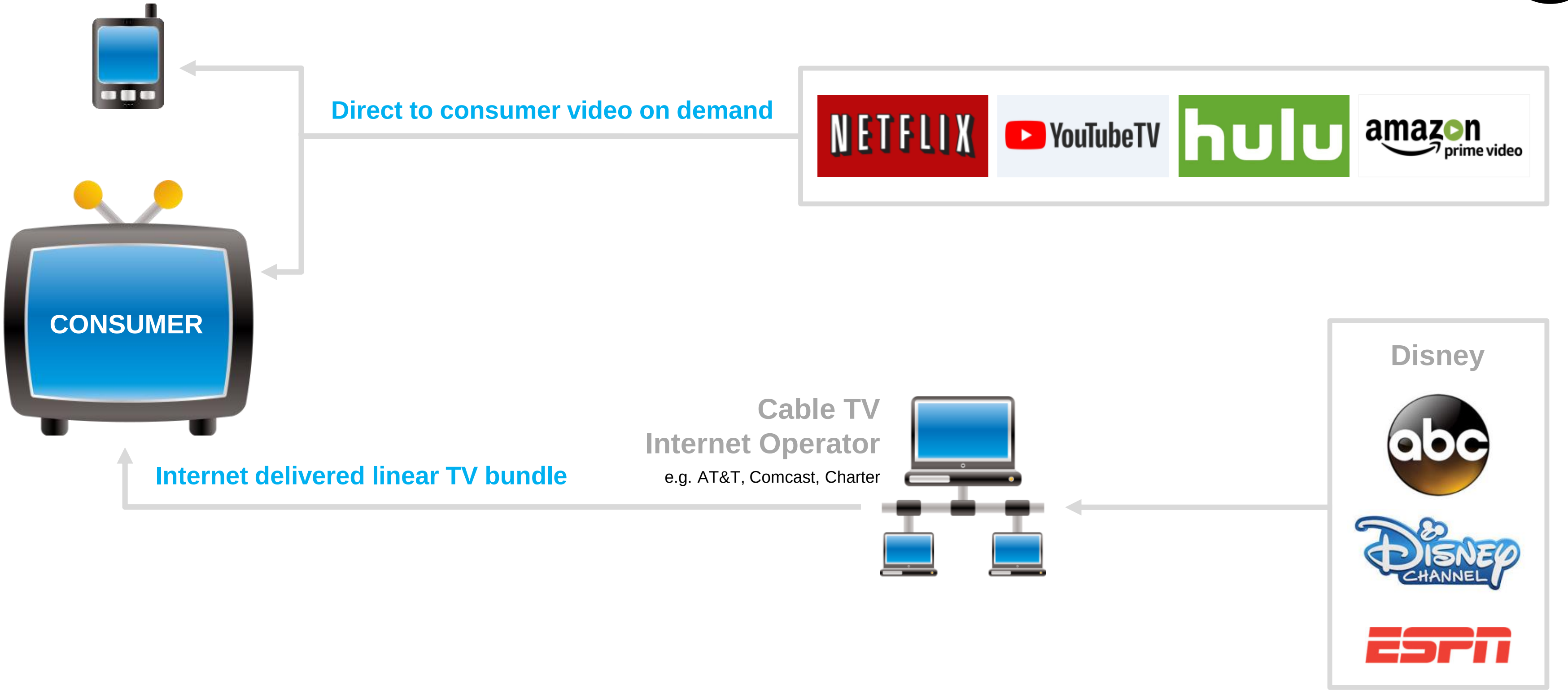
Linear
TV bundle

Disney

Cable TV
Internet Operator
e.g. AT&T, Comcast, Charter

Linear
TV bundle

Over the top model



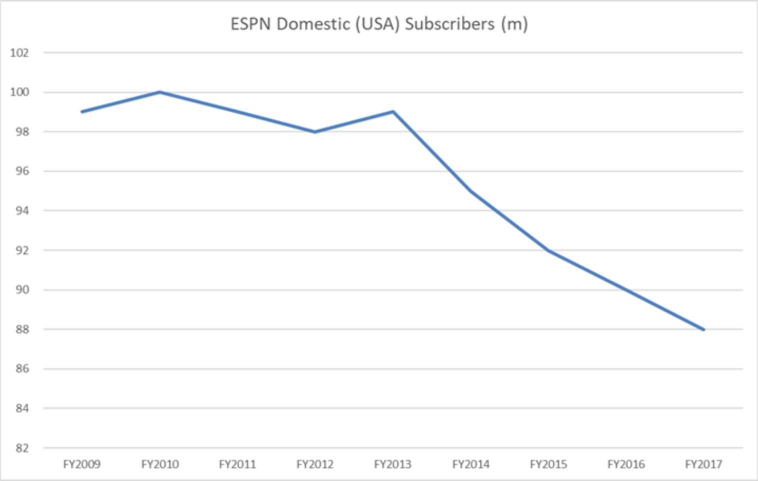
Direct to consumer video on demand

Cable TV
Internet Operator
e.g. AT&T, Comcast, Charter

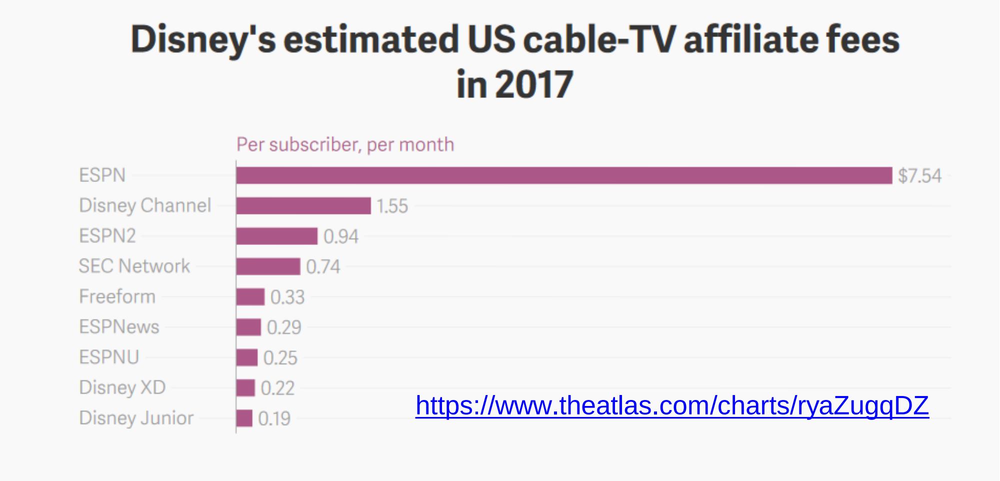
Internet delivered linear TV bundle

Disney

Cord cutting hurts Disney



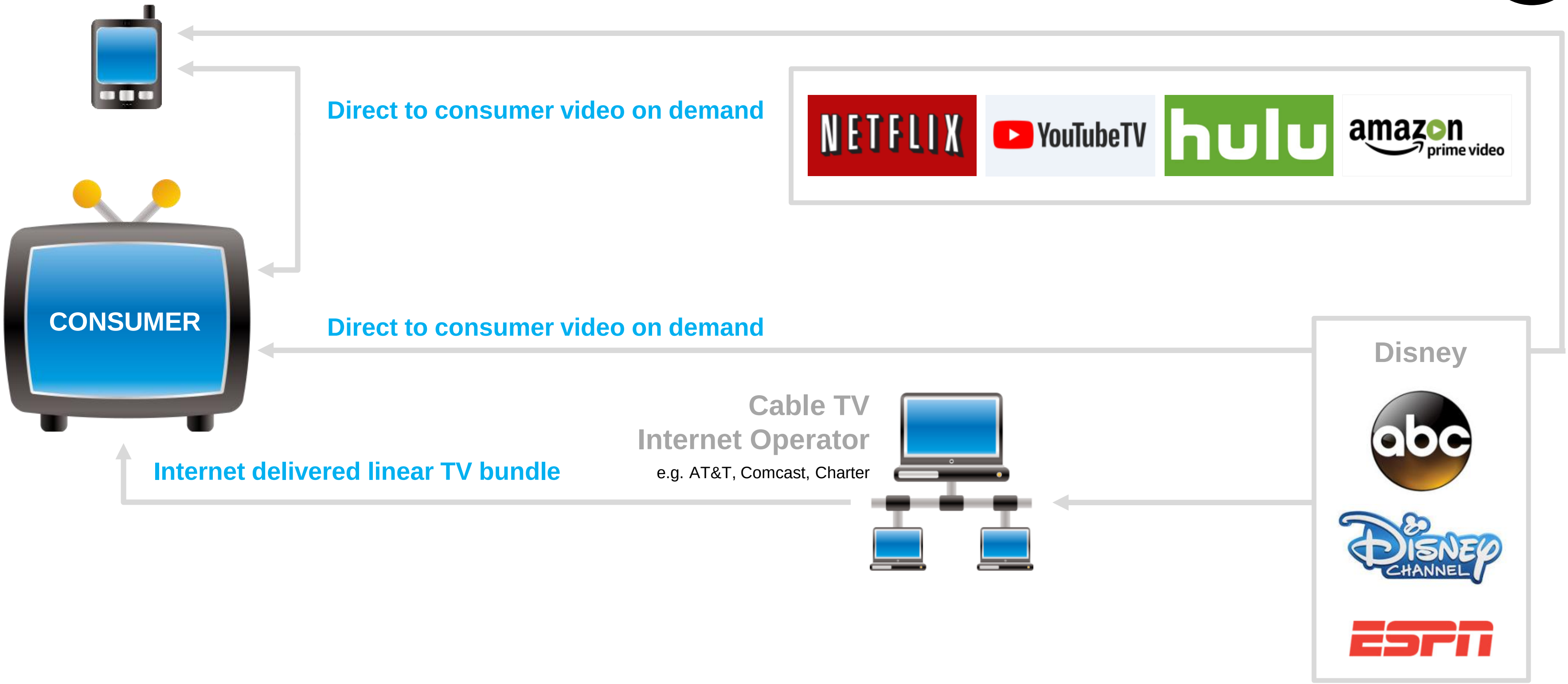
Source: *Credo*



https://www.theatlas.com/charts/ryaZugqDZ

Source: *qz.com*

Over the top model



CONSUMER

Direct to consumer video on demand

Direct to consumer video on demand

Disney

Cable TV
Internet Operator
e.g. AT&T, Comcast, Charter

Internet delivered linear TV bundle

Disney direct to consumer strategy

- Launched April 2018
- Screening exclusive material - 15 live UFC events via app
- Millennials still watching live sport, just not at home
- Sports Betting legalised in certain states

- Disney, Pixar, Lucas, Marvel studios platform
- Screening exclusive content
- Commitment to 4/5 original movies and original series
- Simultaneously withdrawing certain content from Netflix
- Pricing will be lower than Netflix

?

Disney / Fox transaction

Transaction enhances Disney's position as a premier, truly global entertainment company, and significantly enhances our ability to offer innovative direct-to-consumer offerings that consumers increasingly demand

	TELEVISION	FILM	DTC	
Disney	ESPN Disney Channel abc Freeform	Disney Marvel Lucasfilm Ltd Pixar Animation Studios	BAMTECH (75%) hulu (30%)	Walt Disney Parks and Resorts Disney Consumer Products and Interactive Media
21st Century Fox (1)	National Geographic 20th Century Fox Television Fox Sports Networks FX Fox Networks Group Star Endemol Shine Group	X-Men Fantastic Four Star Wars IV Deadpool Avatar	sky (39%) hulu (30%) hotstar Tata Sky (30%)	

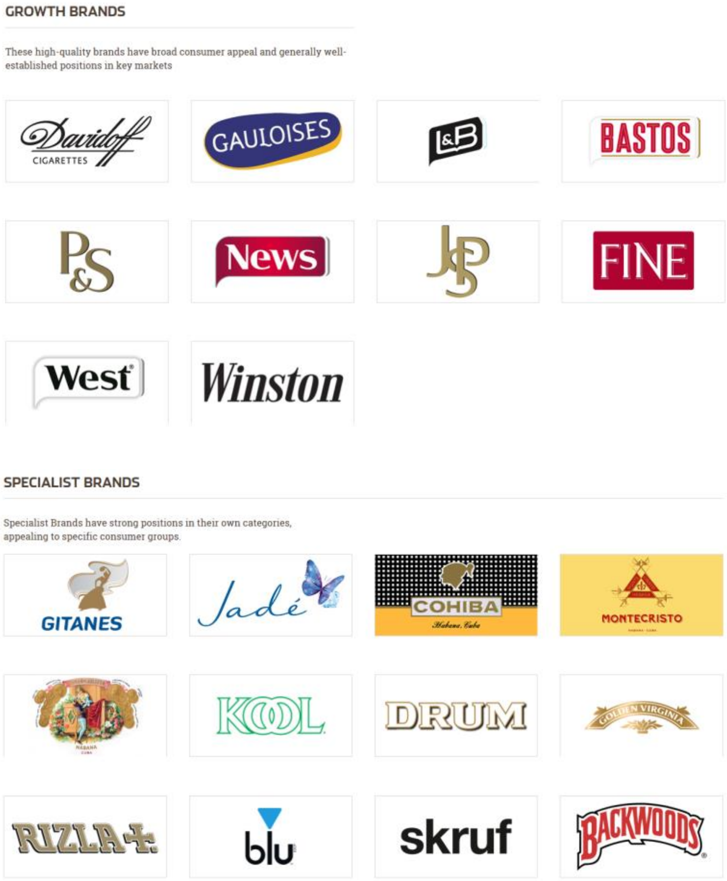
(1) Represents key assets being acquired

Investment rationale summary

- Movie and Parks/Consumer business remain robust
- Content providers are key - distributors are being disintermediated
- Purchase of Fox strategic, and likely could see Disney pay up
- Strong balance sheet, impressive cashflow, and ability to withstand significant deterioration
- Valuation looks depressed, and expectations are low

The Bad

IMPERIAL
BRANDS



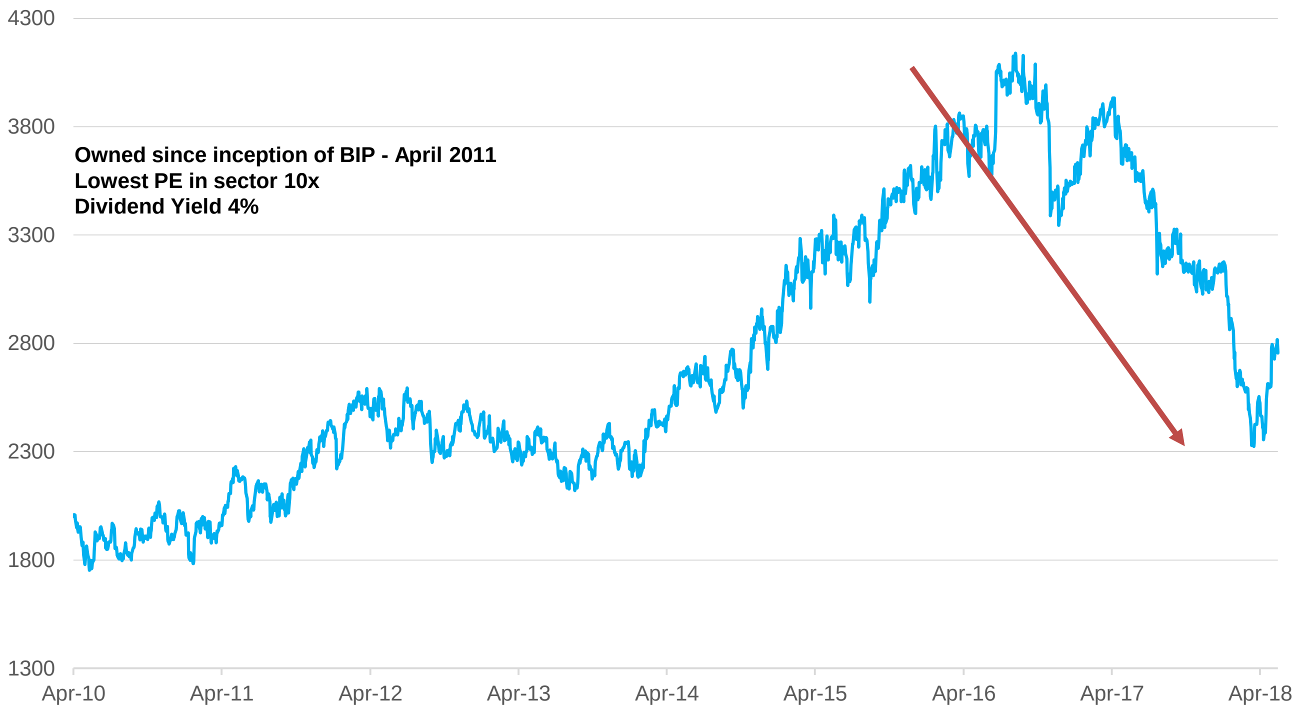
GROWTH BRANDS

These high-quality brands have broad consumer appeal and generally well-established positions in key markets

SPECIALIST BRANDS

Specialist Brands have strong positions in their own categories, appealing to specific consumer groups.

Imperial Brands



Owned since inception of BIP - April 2011
Lowest PE in sector 10x
Dividend Yield 4%

Structural issues in the tobacco sector

Combustible volumes are in decline

- Smoking bans in public places
- Advertising bans, mandatory warnings on packaging
- Increase in government excise duty
- Change in lifestyle habits as Millennials choose healthier lifestyles
- Volume decline - pricing power

Company specific and technical issues

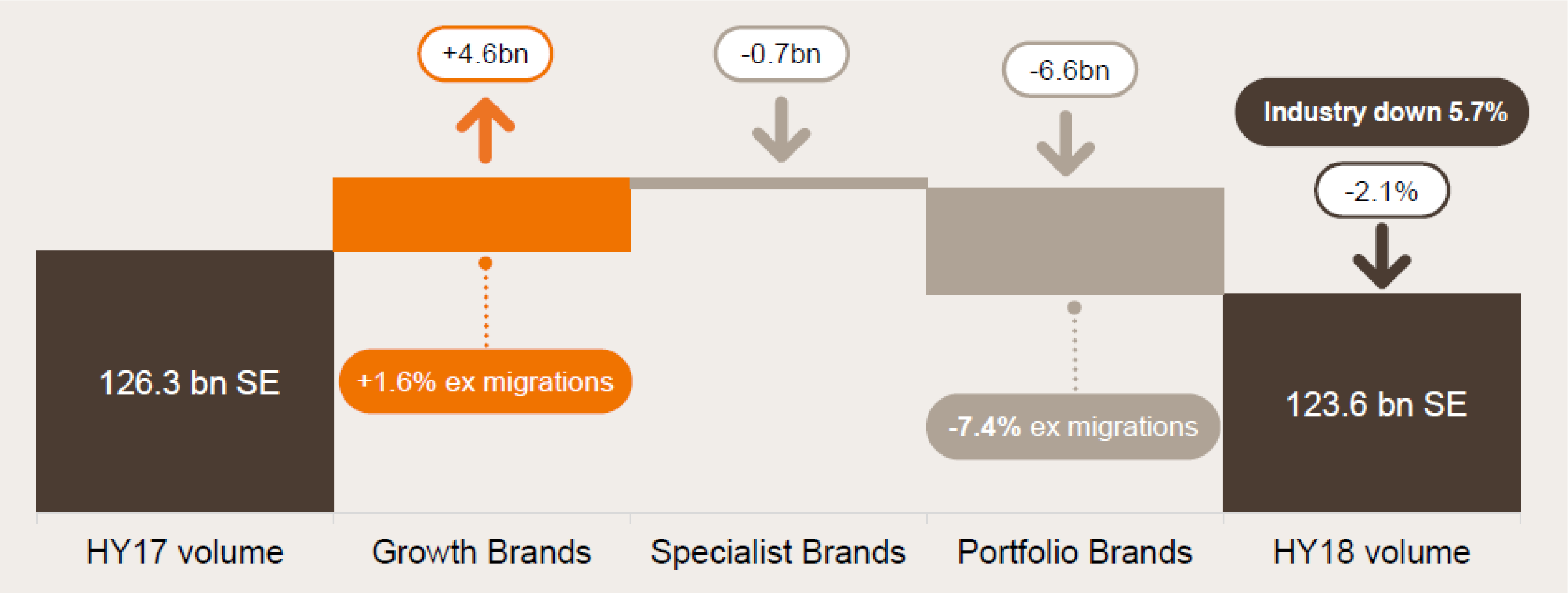
- Rising bond yields - rotation trade in the face of rising interest rates
- Increase in the cost of capital
- Currency headwinds - strong GBP v the basket
- Irrational pricing by competitors in key markets
- Palmer and Harvey administration - up to £160m write off

IMB self-help strategy

- Sell the **non-core assets**, including cigars and rolling papers
- Sell the **sub-scale** and/or **lower margin** tobacco markets
- Reduce the **Logista** holding (Spanish listed logistics business)
- **Re-organise the brands** into Priority Brands (West, JPS, Gauloises), which will be given a greater weight of investment, and Local Champions (Kool, Gitanes, Jadé), which will receive less support
- **Consolidate** the factory footprint
- Upgrade **communication** with investment community

HY18 Tobacco Volume

Growth Brands drive volume outperformance

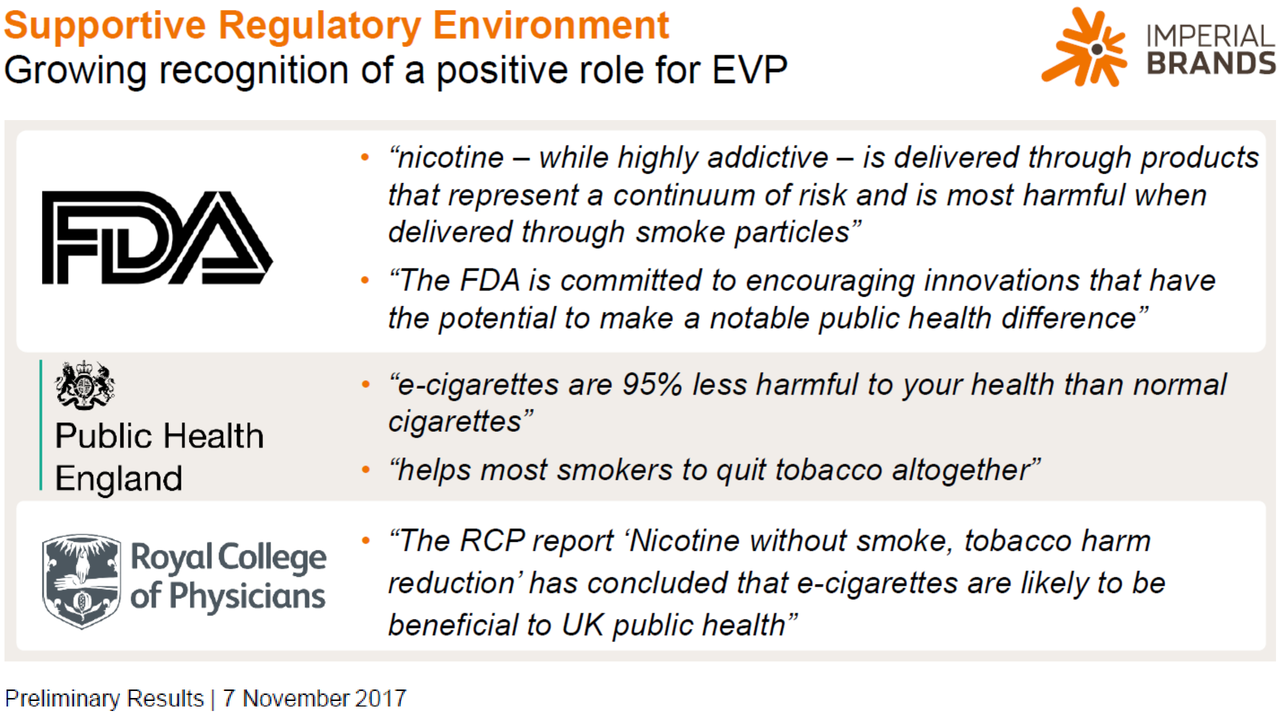


Tobacco industry - Next Generation Products (NGPs/RRPs)

"Today we are entering a dynamic period of change to our industry. An unprecedented confluence of technology, consumer demand, societal change and public health awareness has created a unique opportunity; the opportunity to make a substantial leap forward in our long-held ambition to provide consumers with ***less risky tobacco and nicotine choices****.*

Richard Burrows, Chairman, BAT - AGM Statement
25th April 2018

Tobacco industry - Next Generation Products (NGPs/RRPs)



Supportive Regulatory Environment

Growing recognition of a positive role for EVP

IMPERIAL BRANDS

FDA

- *“nicotine – while highly addictive – is delivered through products that represent a continuum of risk and is most harmful when delivered through smoke particles”*
- *“The FDA is committed to encouraging innovations that have the potential to make a notable public health difference”*

Public Health England

- *“e-cigarettes are 95% less harmful to your health than normal cigarettes”*
- *“helps most smokers to quit tobacco altogether”*

Royal College of Physicians

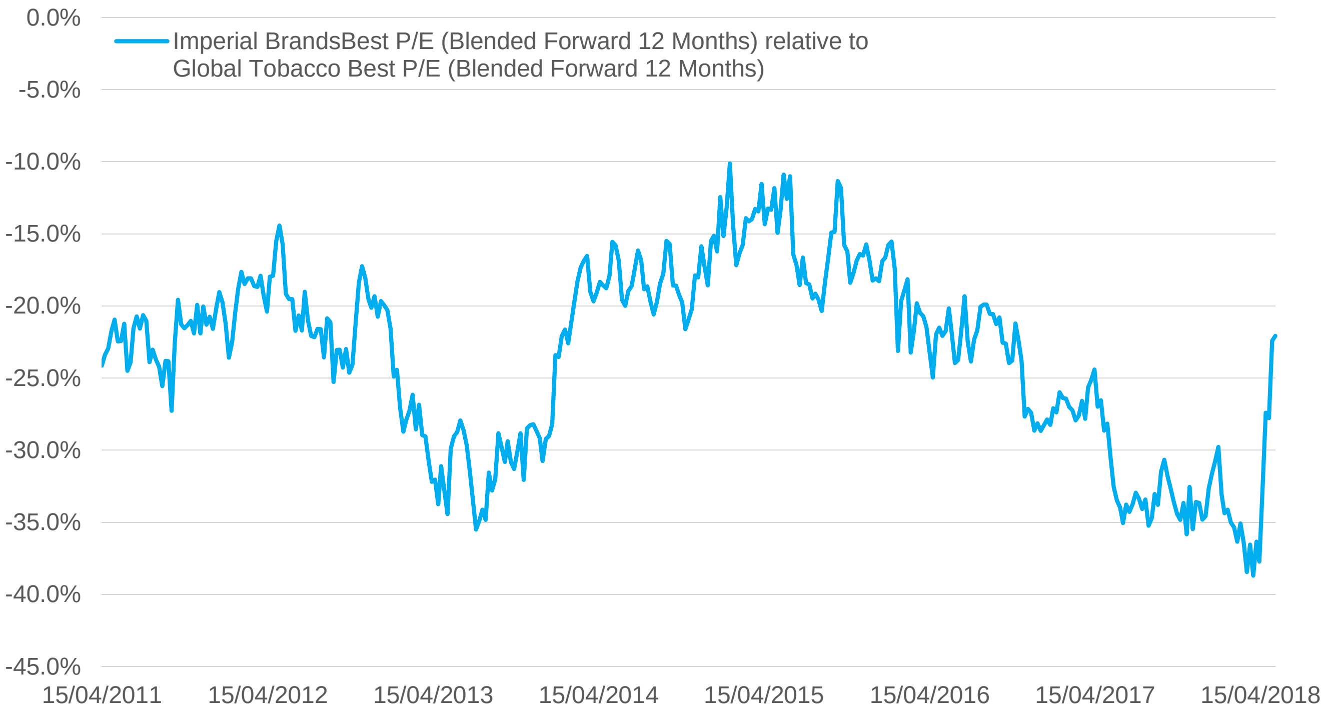
- *“The RCP report ‘Nicotine without smoke, tobacco harm reduction’ has concluded that e-cigarettes are likely to be beneficial to UK public health”*

Preliminary Results | 7 November 2017

Tobacco industry - Next Generation Products (NGPs/RRPs)

Company	Vaping	Heated Tobacco	Hybrid
BRITISH AMERICAN TOBACCO	VUSE vype CIRRO TEN MOTIVES VIP	glo™	iFUSE
PM PHILIP MORRIS INTERNATIONAL	VIVID MESH intelligent vaping NICOCIG™ the safer smoking alternative	IQOS	
JT	logic.		ploom
IMPERIAL BRANDS	nerudia blu		
Altria	Green smoke® it's electric™ MARKTEN *US Only*		

Imperial relative discount to global tobacco competitors



Investment rationale summary

- Market overly bearish on tobacco industry
- IMB has many levers to pull to streamline the core business
- Penalised for a uncompelling Next Generation Product suite
- Valuation on 10x PE and 7% dividend yield too cheap
- Last strategic asset in the industry

Take out target

JTI

JAPAN TOBACCO INTERNATIONAL

中国烟草

CHINA TOBACCO

The Ugly

ADTALEM
GLOBAL EDUCATION

Adtalem Global Education Group is a leading global education provider which owns a number of Universities, Colleges, and Graduate Schools in the US and Caribbean.

ACAMS

ADTALEM
EDUCACIONAL do BRASIL

American University of the Caribbean
School of Medicine

BECKER
PROFESSIONAL EDUCATION

CARRINGTON
COLLEGE

CHAMBERLAIN
UNIVERSITY

DeVry University
Keller Graduate School of Management

EDUPRISTINE
Empowering Professionals

ROSS UNIVERSITY
SCHOOL OF MEDICINE

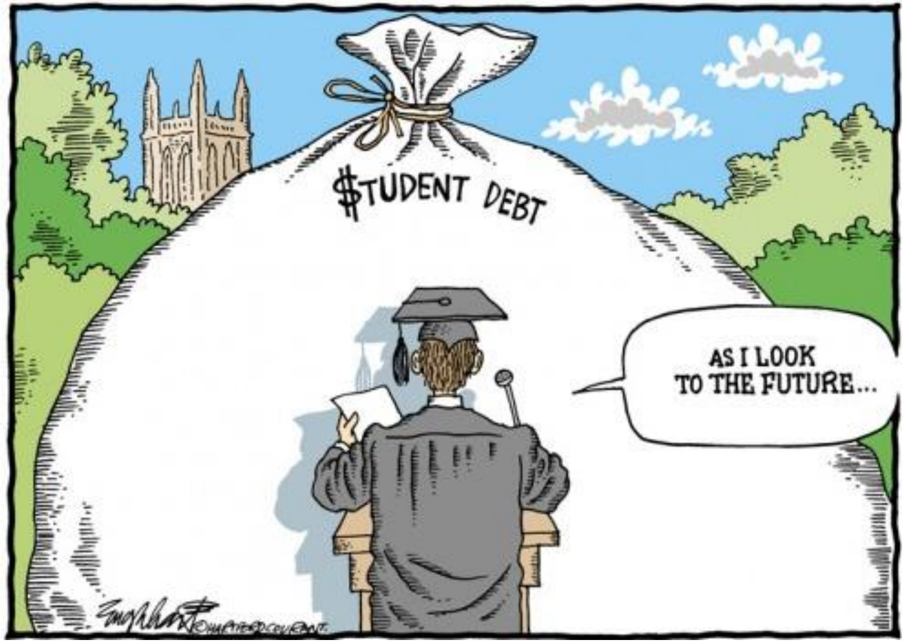
ROSS UNIVERSITY
SCHOOL OF VETERINARY MEDICINE

Adtalem Education

Bought 12/06/2015 for Special Opportunities Portfolio

PE of 14x

For-Profit Education fraudsters



Obama clamps down on For-Profit Education

- Borrower Defence rule
- Gainful Employment rule

Obama clamps down on For-Profit Education

Investment rationale summary

- Sector was in a state of disarray, all for-profit stocks were being sold off irrespective of fundamentals
- Adtalem business model tainted, but far from broken
- ~ 95% of profit (~65% of revenue) generated by businesses which fulfilled genuine need and which were differentiated by their very low cohort default rates
- ~75% of profit - Medical and Healthcare schools for nurses, vets and doctors
- ~20% of profit - Professional Education
- ~5% of profit (~35% of revenue) - The “dodgy” segments
- Company had $350m on balance sheet

Trump Bump

Less than 100 days into Trump's presidency, the Department of Education under Secretary Betsy DeVos has **delayed implementation of gainful employment rules**, **withdrawn key federal student loan servicing reforms**, and **signaled a less onerous regulatory environment** for the essentially taxpayer-financed career education sector.

- Deregulatory bent / supporting privatization
- Tax cuts benefit sector competing against tax exempt non-profits

DeVry University Pays $100 Million for Deceiving Students

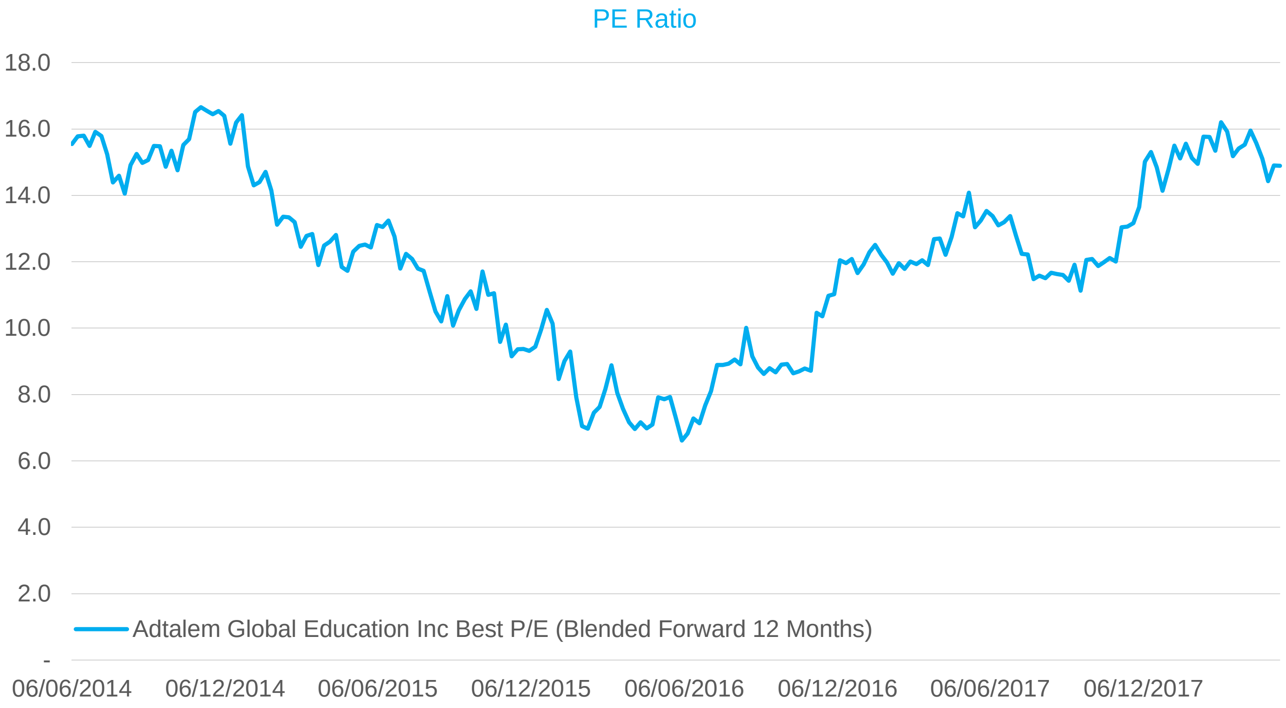
Michael Nunez
12/16/16 10:10am • Filed to: DEVRY

20.5K 49 10

Image: AP

DeVry University, and its parent company DeVry Education Group, have agreed to pay $100 million settlement following a Federal Trade Commission (FTC) crackdown on for-profit schools.

Adtalem


PE Ratio
18.0
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
-
06/06/2014
06/12/2014
06/06/2015
06/12/2015
06/06/2016
06/12/2016
06/06/2017
06/12/2017
Adtalem Global Education Inc Best P/E (Blended Forward 12 Months)

Value investing can be a lonely place

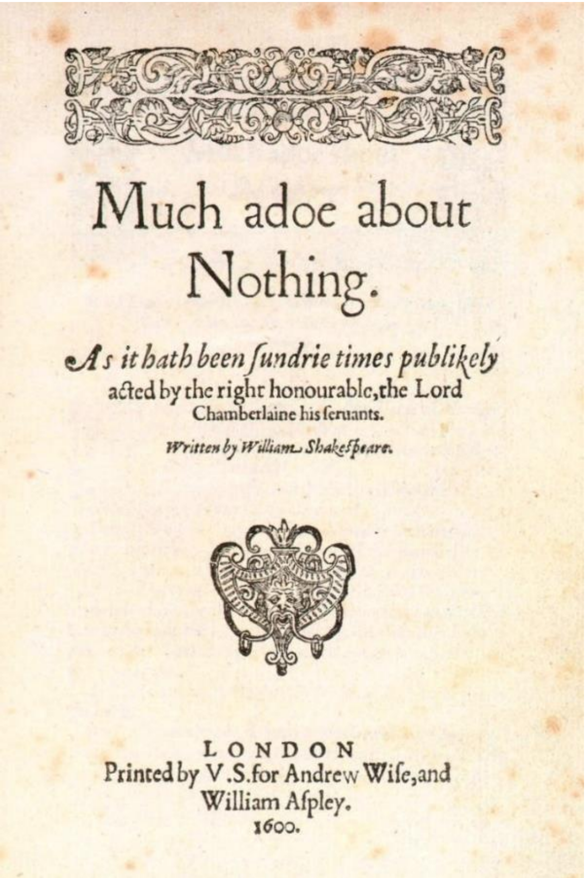
- **Out of vogue**
- **Not exciting**, in fact its rather dull
- Requires **independent thinking**, strong discipline
- **Patience**: time to work
- **Strong resolve**, stomach for short-term volatility
- Often you can be too early
- Unloved, under-owned stocks

Value investing can be a lonely place

The end

MUCH ADO ABOUT NOTHING

DEON GOUWS



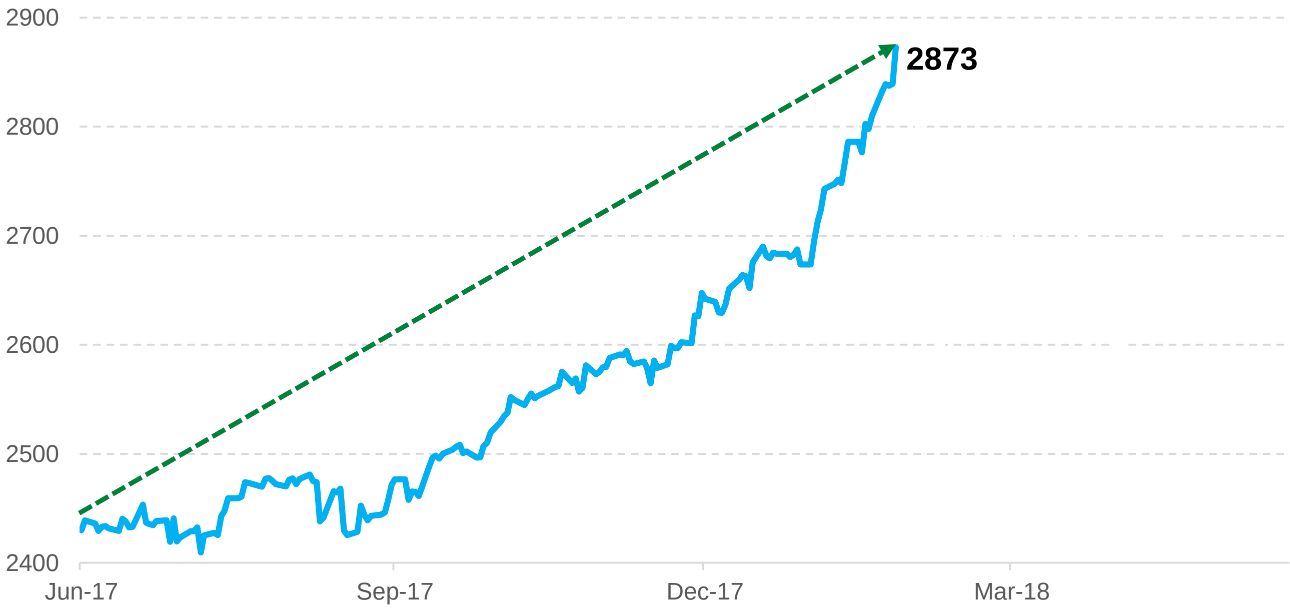
Much adoe about Nothing.

As it hath been ſundrie times publikely
acted by the right honourable, the Lord
Chamberlaine his ſeruants.

Written by William Shakeſpeare.

LONDON
Printed by V.S. for Andrew Wiſe, and
William Aſpley.
1600.

Since we last spoke…



S&P500 performance: 1 June 2017 to 26 January 2018 = +18.2%

Source: Credo, Bloomberg

Period ending January 2018…

S&P 500 Total return:

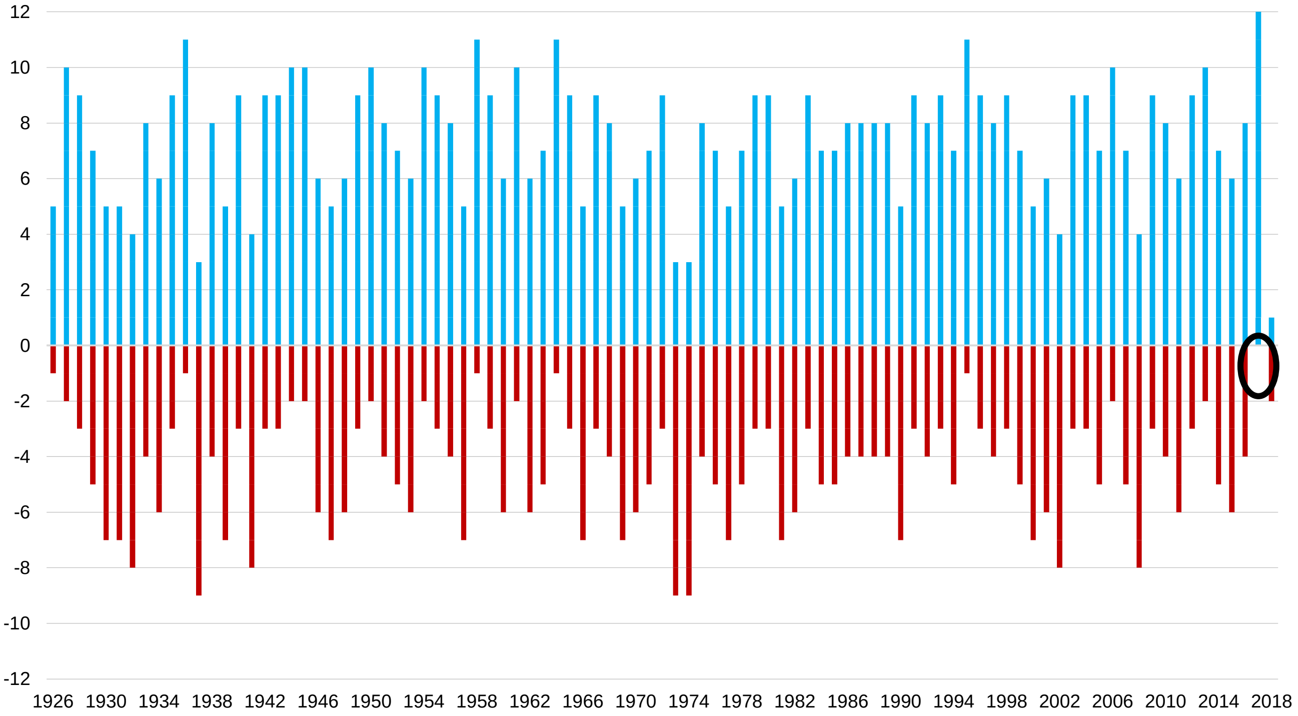
Longest monthly up streaks

(1926-2017)

Start Date	End Date	Streak
Nov-16	**Jan-18**	**15**
Apr-35	Mar-36	12
Jun-49	May-50	12
Sep-53	Jul-54	11
Mar-58	Jan-59	11
May-36	Feb-37	10
Dec-94	Sep-95	10
Aug-82	Apr-83	9
Dec-63	Jul-64	8
Sep-66	Apr-67	8
Apr-80	Nov-80	8
Nov-95	Jun-96	8
Jun-06	Jan-07	8
Sep-10	Apr-11	8

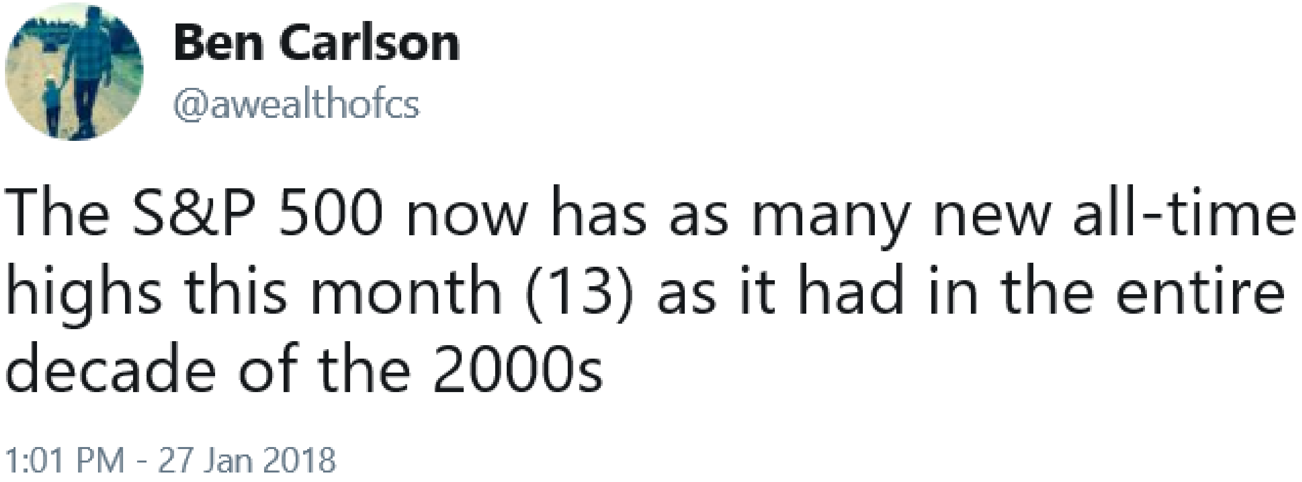
Source: Charlie Bilello

S&P 500: number of positive / negative months per annum



Source: Credo, Bloomberg

January 2018: strongest ever start to a calendar year

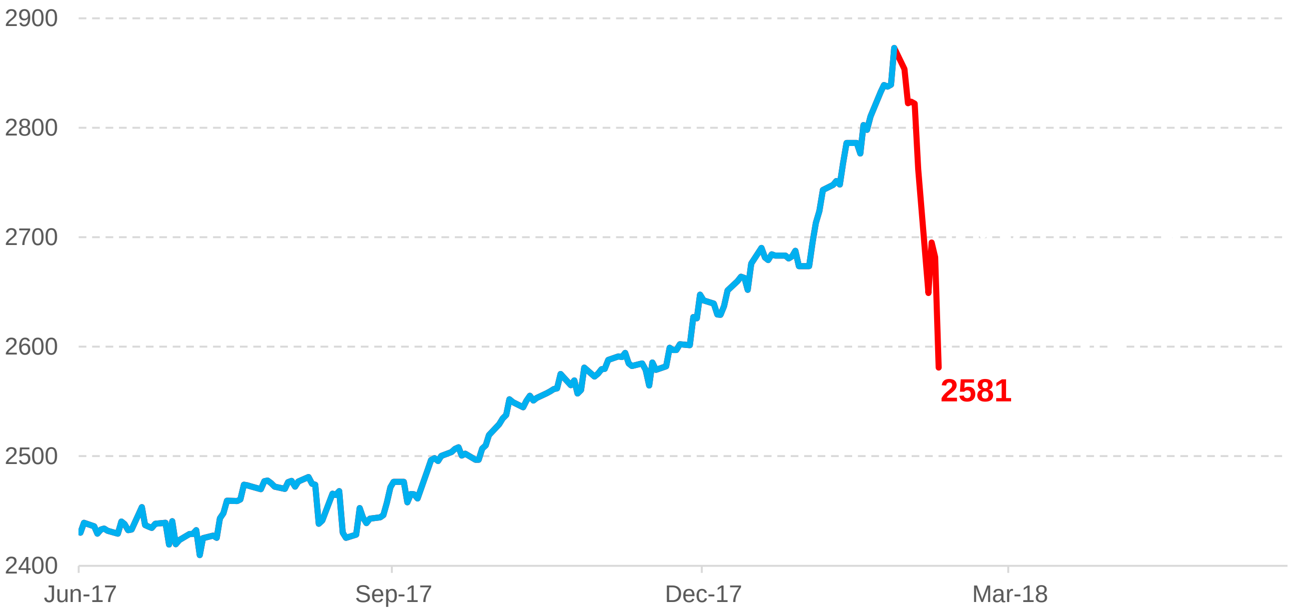


Ben Carlson
@awealthofcs

The S&P 500 now has as many new all-time highs this month (13) as it had in the entire decade of the 2000s

1:01 PM - 27 Jan 2018

Since we last spoke… (continued 1)



S&P500 performance: 26 January 2018 to 8 February 2018 = -10.1%

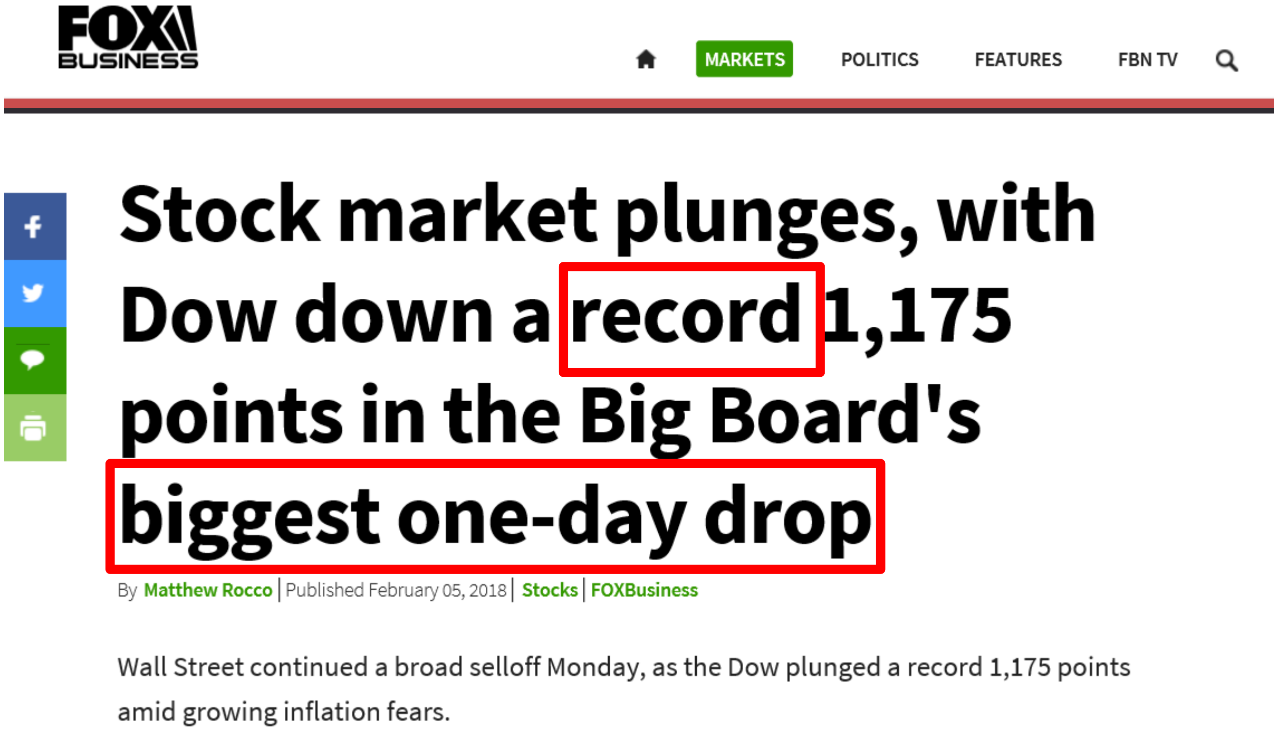
Source: Credo, Bloomberg


I TOLD
YOU SO!

S&P 500 heatmap (5 February 2018)

Source: Barbarian Capital

Biggest one-day drop ever?



Stock market plunges, with Dow down a record 1,175 points in the Big Board's biggest one-day drop

By **Matthew Rocco** | Published February 05, 2018 | **Stocks** | **FOXBusiness**

Wall Street continued a broad selloff Monday, as the Dow plunged a record 1,175 points amid growing inflation fears.

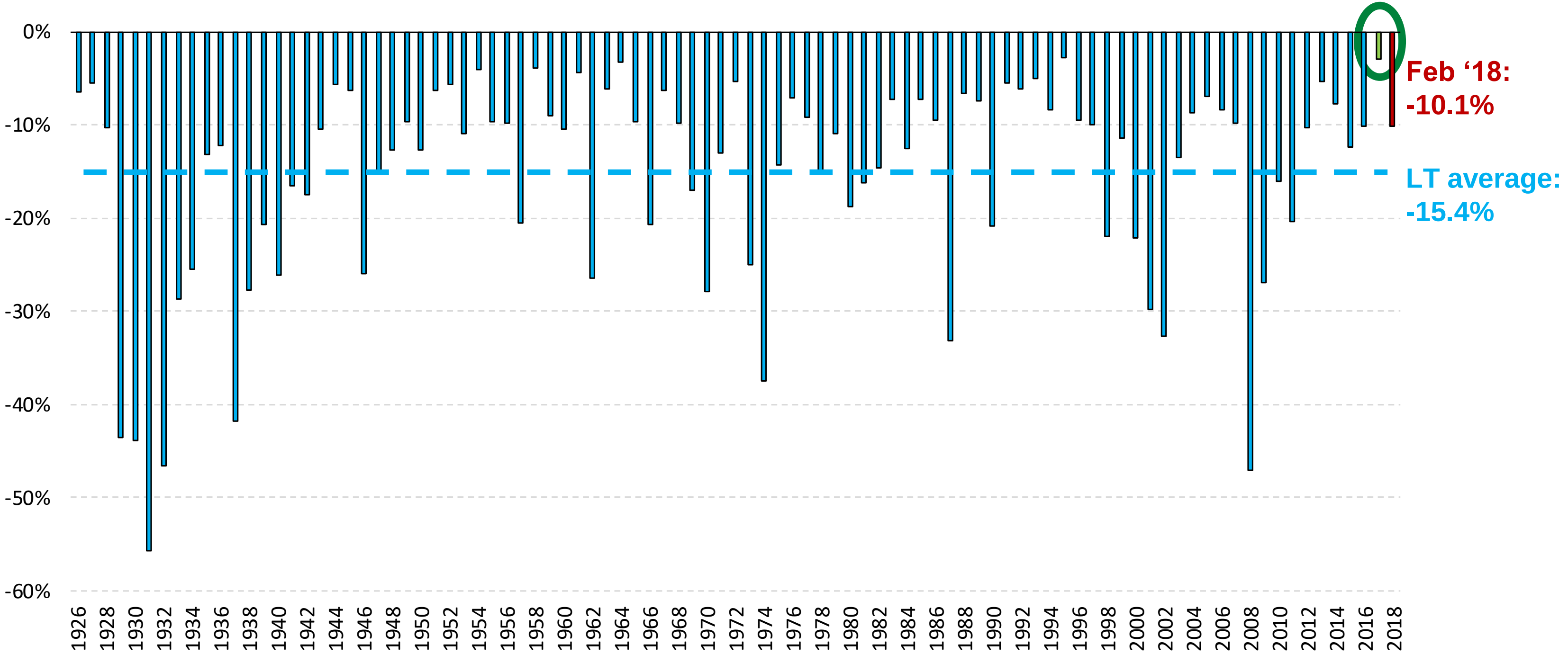
Not so quick…

Downtown Josh Brown ✓
@ReformedBroker

Today's 4.6% Dow Jones sell-off was only the 108th worst in history going back to 1900.

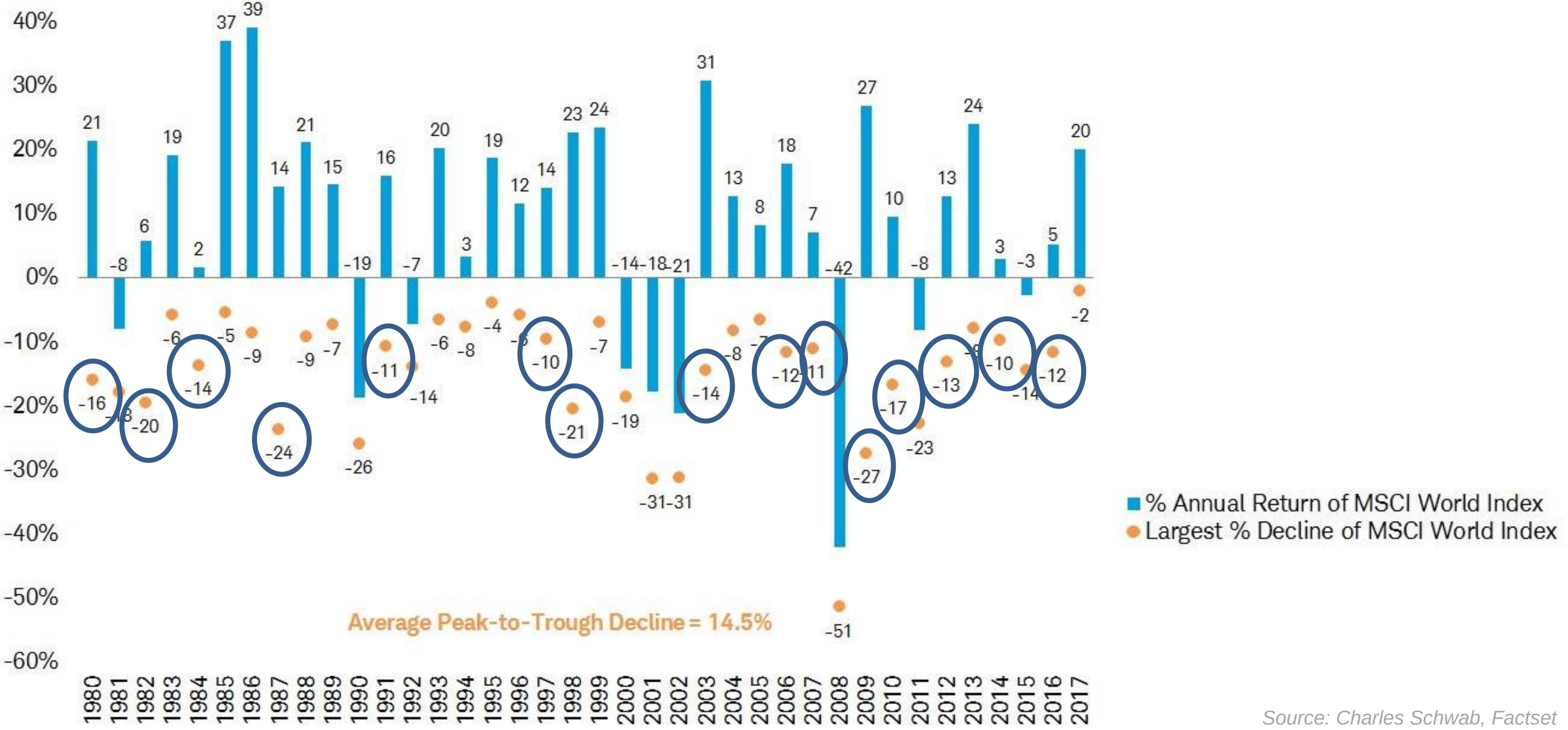
9:22 PM - 5 Feb 2018

S&P 500: maximum annual drawdown (peak-to-trough)



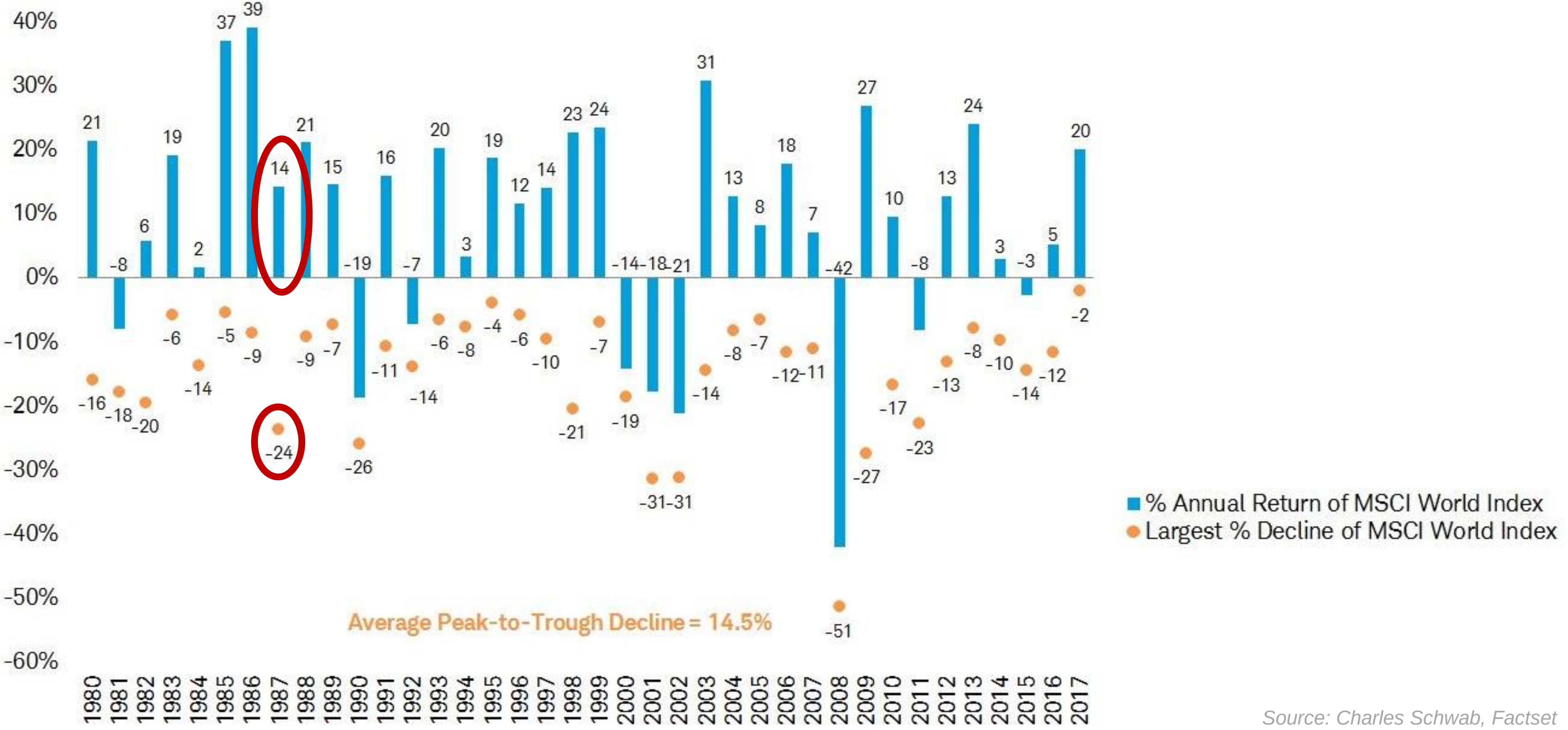
Source: Credo, Bloomberg

MSCI World Index: annual returns & declines



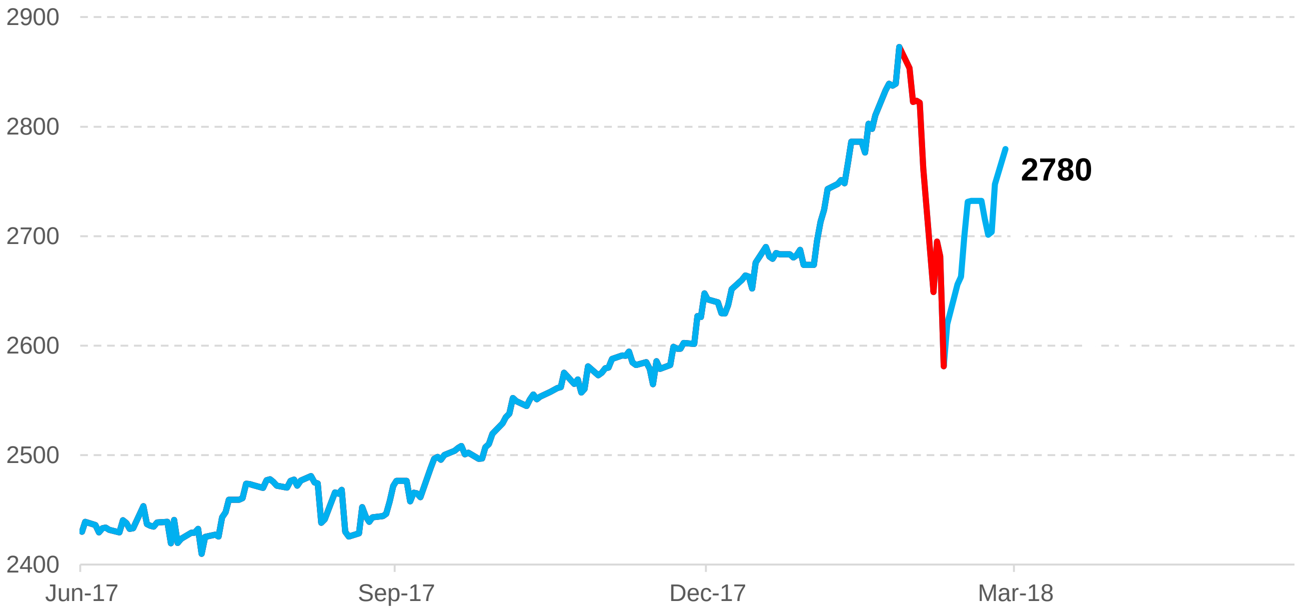
Source: Charles Schwab, Factset

MSCI World Index: annual returns & declines



Source: Charles Schwab, Factset

Since we last spoke… (continued 2)

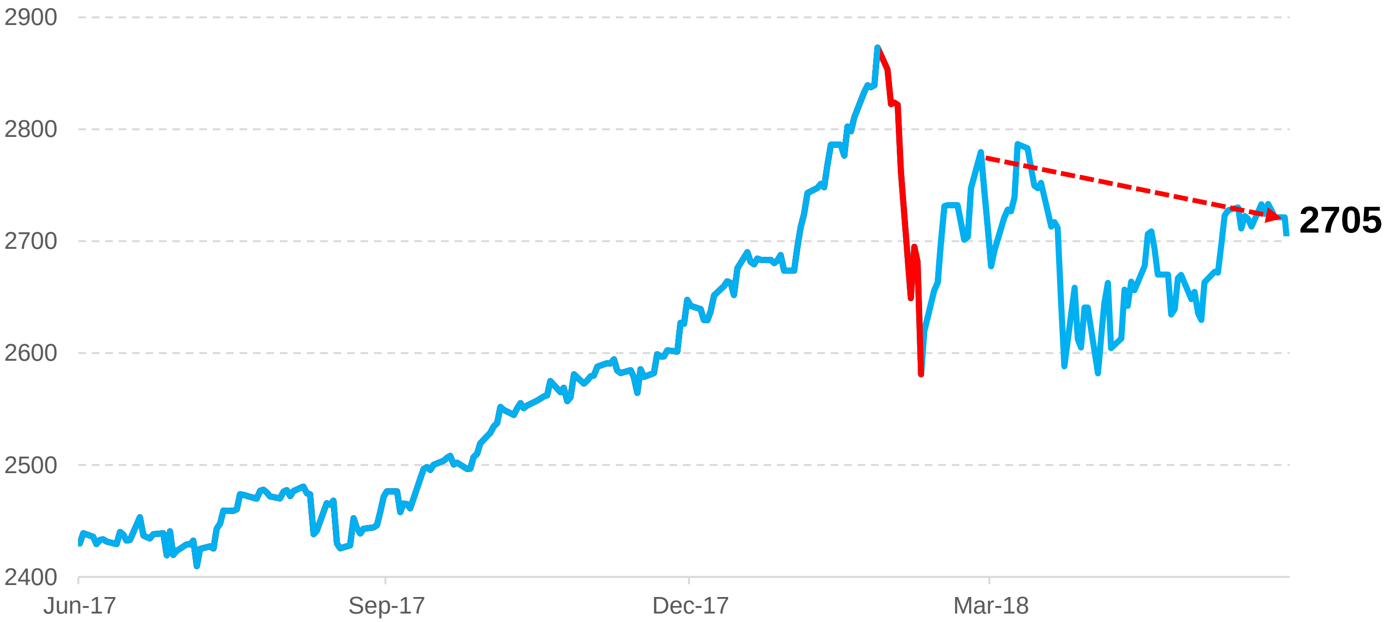


S&P500 performance: 8 February 2018 to 26 February 2018 = +7.7%

Source: Credo, Bloomberg

GOOSE ISLAND
INDIA PALE ALE

Since we last spoke… (continued 3)



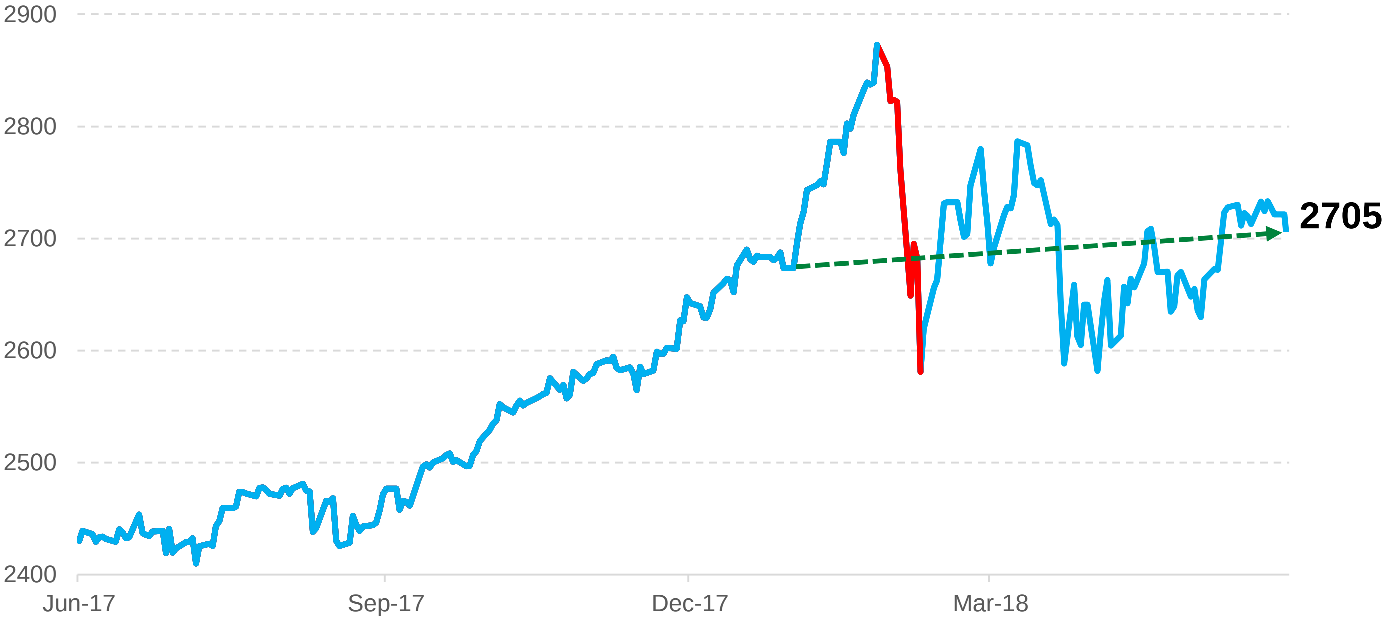
S&P500 performance: 26 February 2018 to 31 May 2018 = -2.7%

Source: Credo, Bloomberg

S&P 500: The Rom-Com

Source: Michael Santoli

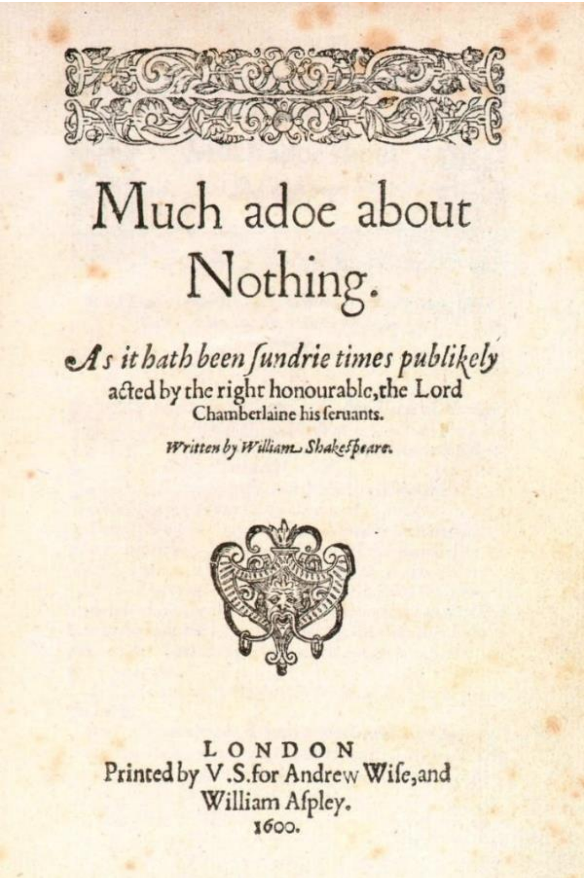
Since we last spoke… (continued 4)



S&P500 performance: 1 January 2018 to 31 May 2018 = +1.2%

Source: Credo, Bloomberg

Quo vadis?



Much adoe about
Nothing.

As it hath been ſundrie times publikely
acted by the right honourable, the Lord
Chamberlaine his ſeruants.

Written by William Shakeſpeare.

LONDON
Printed by V.S. for Andrew Wiſe, and
William Aſpley.
1600.

Gurus: 1

Robert Wiedemer 1/18/18 UPDATE! "the data is clear, 50% unemployment, a 90% stock market drop, and 100% annual inflation starting as soon as next yr.

Marc Faber 10/17/17 - A major stock market correction is coming

Ron Paul 8/10/17 - 50% stock market plunge conceivable, as soon as October

Harry Dent 6/14/17 - "'Once in a lifetime' crash coming in next 3 years"

Marc Faber 9/20/17 "something will happen"

Marc Faber 6/24/17 "epic decline ahead, stocks to plummet 40%"

Paul B. Farrell 9/5/15 - "100% risk of a 50% crash if Trump wins nomination"

Paul B. Farrell 3/1/15 - "the crash of 2016 really is coming. Dead ahead." "a crash is a sure bet, it's guaranteed certain"

Bill Gross 12/6/16 "Stocks are vulnerable, raise cash"

Paul Krugman 1/9/16 "very probably looking at a global recession, with no end in sight"

Marc Faber 8/9/16 "can easily give back 5yrs of gains to 1100"

Jeff Gundlach 7/30/16 "Sell everything"

RBS 1/11/16 "Sell everything, brace for cataclysmic year"

Robert Wiedemer predicts 50% unemployment, 90% stock market crash, 100% annual inflation starting 2016

Carl Icahn 9/30/15 "Danger ahead"

Robert Wiedemer predicts 50% unemployment, 90% stock market crash, 100% annual inflation starting 2014

Ron Paul 7/29/14 - stocks are in a bubble and will crash

Paul B. Farrell 2/24/14 - "Crash of 2014. Like 1929 you'll never see it coming"

Tom DeMark 10/15/13 - "1929 parallel warns of crash, it's preordained"

Robert Wiedemer predicts 50% unemployment, 90% stock market crash, 100% annual inflation as soon as 2013

Henry Blodget 9/24/13 - "decent chance stocks will crash 30% in next year or two"

Marc Faber 8/8/13 - "stocks to end the year 20% lower"

Paul B. Farrell 6/5/13 - "The next crash will happen by year-end"

Chris Martenson 3/13/13 - predicts 60% stock market collapse in next 3 months

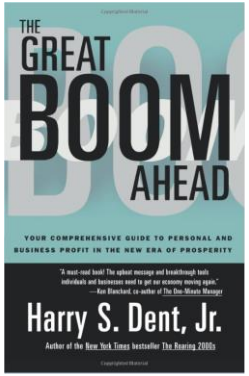
Harry Dent 1/10/13 - sees crash in Q3 2013 and continuing for year and a half

Marc Faber 11/13/12 - "Prepare for massive market meltdown"

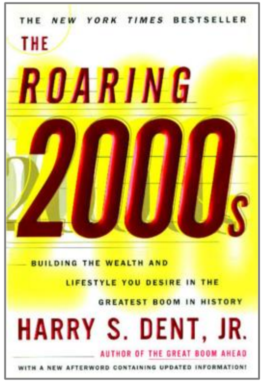
Paul B. Farrell 7/31/12 - "The real crash is dead ahead"

Bill Gross 7/31/12 "The cult of equity may be dying, but the cult of inflation may only have just begun"

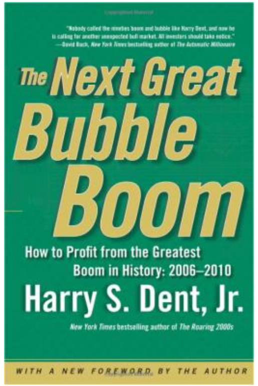
Source: Genesis FT



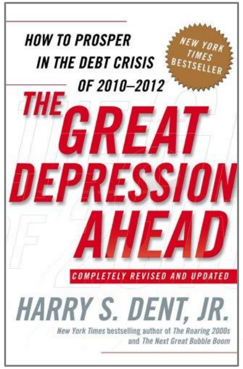
1993 ✓



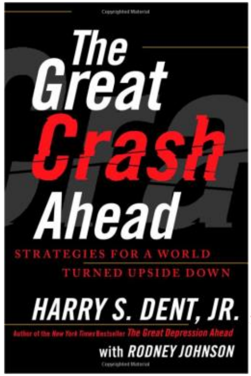
1999 ✗



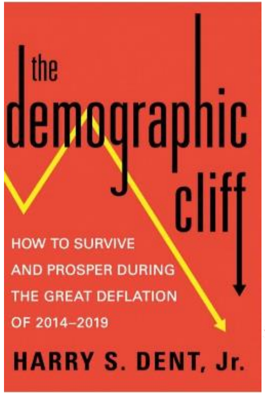
2006 ✗



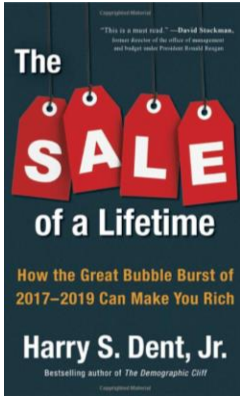
2009 ✗



2011 ✗

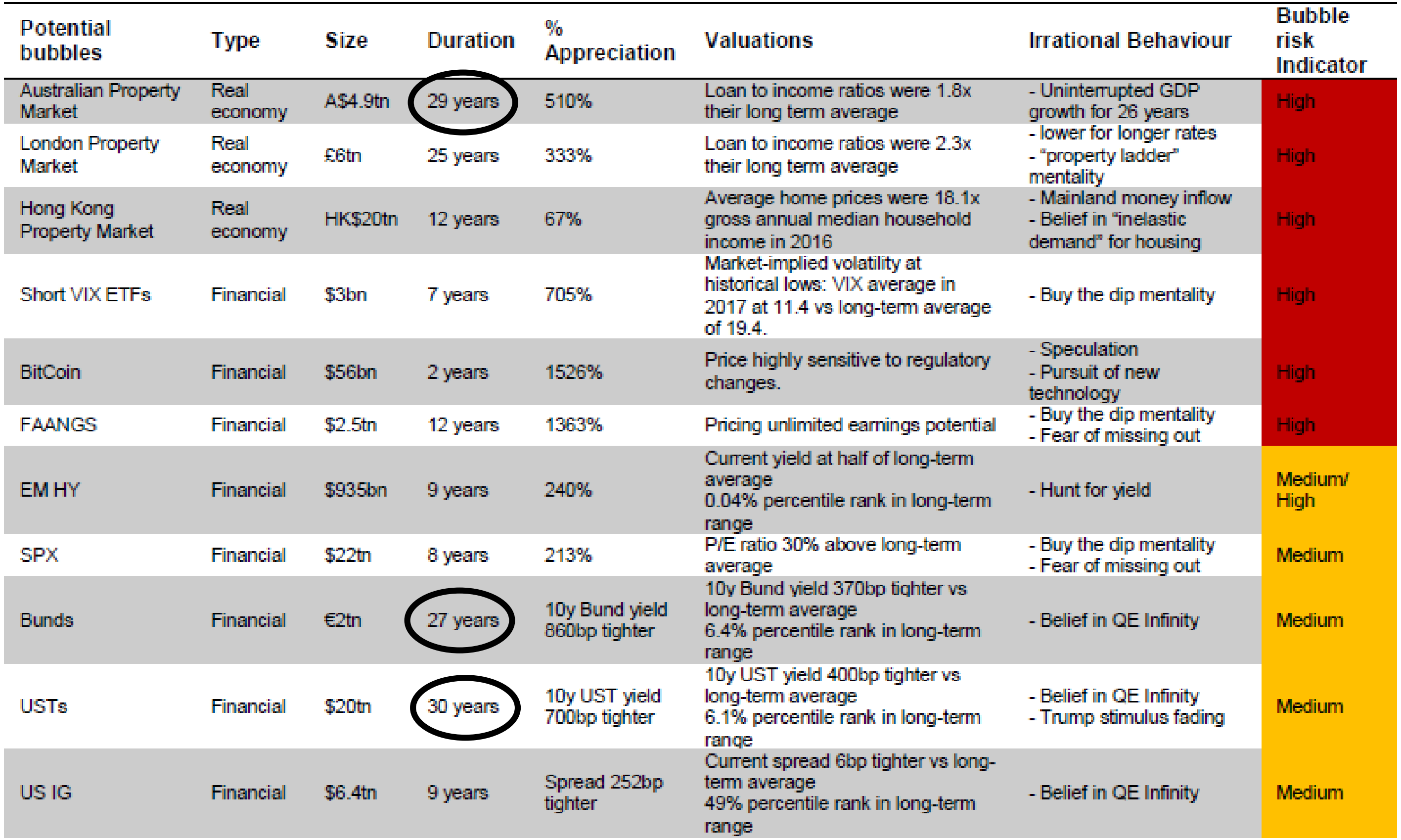


2014 ✗



2017 ?

Gurus: 2



Potential bubbles	Type	Size	Duration	% Appreciation	Valuations	Irrational Behaviour	Bubble risk Indicator
Australian Property Market	Real economy	A$4.9tn	29 years	510%	Loan to income ratios were 1.8x their long term average	- Uninterrupted GDP growth for 26 years	High
London Property Market	Real economy	£6tn	25 years	333%	Loan to income ratios were 2.3x their long term average	- lower for longer rates - "property ladder" mentality	High
Hong Kong Property Market	Real economy	HK$20tn	12 years	67%	Average home prices were 18.1x gross annual median household income in 2016	- Mainland money inflow - Belief in "inelastic demand" for housing	High
Short VIX ETFs	Financial	$3bn	7 years	705%	Market-implied volatility at historical lows: VIX average in 2017 at 11.4 vs long-term average of 19.4.	- Buy the dip mentality	High
BitCoin	Financial	$56bn	2 years	1526%	Price highly sensitive to regulatory changes.	- Speculation - Pursuit of new technology	High
FAANGS	Financial	$2.5tn	12 years	1363%	Pricing unlimited earnings potential	- Buy the dip mentality - Fear of missing out	High
EM HY	Financial	$935bn	9 years	240%	Current yield at half of long-term average 0.04% percentile rank in long-term range	- Hunt for yield	Medium/ High
SPX	Financial	$22tn	8 years	213%	P/E ratio 30% above long-term average	- Buy the dip mentality - Fear of missing out	Medium
Bunds	Financial	€2tn	27 years	10y Bund yield 860bp tighter	10y Bund yield 370bp tighter vs long-term average 6.4% percentile rank in long-term range	- Belief in QE Infinity	Medium
USTs	Financial	$20tn	30 years	10y UST yield 700bp tighter	10y UST yield 400bp tighter vs long-term average 6.1% percentile rank in long-term range	- Belief in QE Infinity - Trump stimulus fading	Medium
US IG	Financial	$6.4tn	9 years	Spread 252bp tighter	Current spread 6bp tighter vs long-term average 49% percentile rank in long-term range	- Belief in QE Infinity	Medium

Source:
Alberto Gallo, Algebris

…a stock market bubble?

January 11, 2010: US stocks surge back towards bubble territory (Business Insider)

May 3, 2011: Why this stock market looks like the tech bubble of 2000 all over again (Business Insider)

March 27, 2012: Robert Shiller eyes another tech bubble (Yahoo! Finance)

December 2, 2013: Nobel prize winner warns of US stock market bubble (CNBC)

May 6, 2014: Time to worry about stock market bubbles (New York Times)

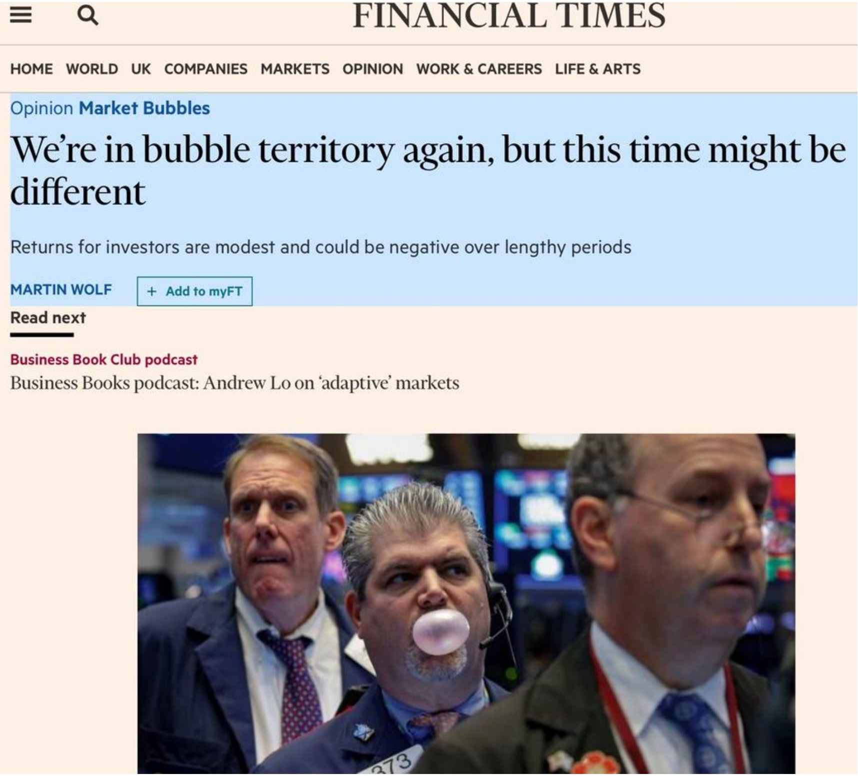
September 13, 2015: Fears grow over US stock market bubble (Financial Times)

June 23, 2016: Uh-oh. Is the stock market in a bubble again? (CNN Money)

August 9, 2017: Is the stock market a bubble? (USA Today)

Source: Ben Carlson

…a stock market bubble?



FINANCIAL TIMES

Opinion **Market Bubbles**

We're in bubble territory again, but this time might be different

Returns for investors are modest and could be negative over lengthy periods

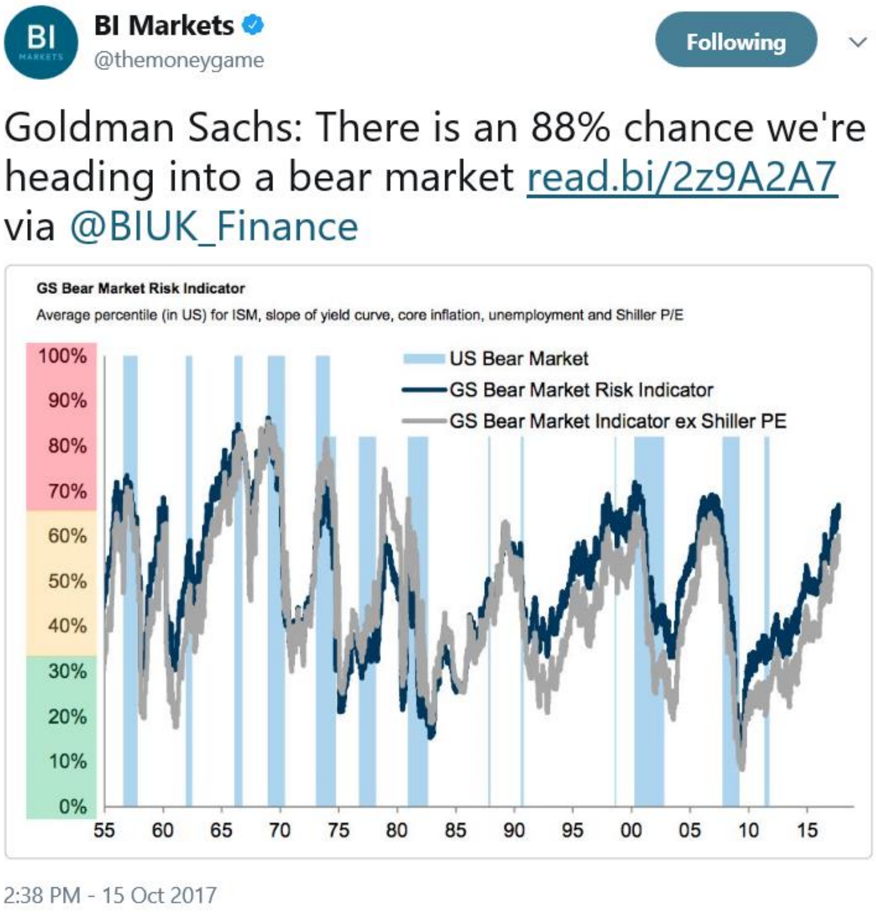
MARTIN WOLF

Read next

Business Book Club podcast

Business Books podcast: Andrew Lo on 'adaptive' markets

Gurus: 3



BI Markets
@themoneygame

Goldman Sachs: There is an 88% chance we're heading into a bear market read.bi/2z9A2A7 via @BIUK_Finance

GS Bear Market Risk Indicator

Average percentile (in US) for ISM, slope of yield curve, core inflation, unemployment and Shiller P/E

2:38 PM - 15 Oct 2017

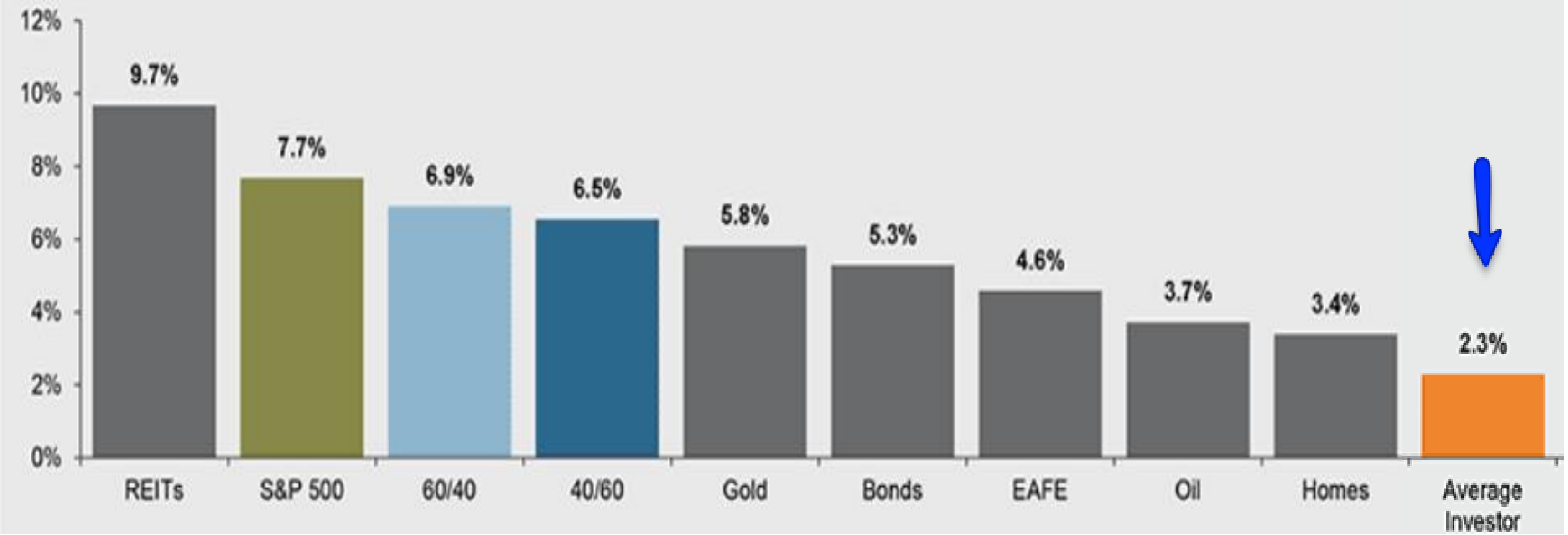
Downtown Josh Brown
@ReformedBroker

My job is to strap bundles of dynamite to forecasting nonsense and create big, demonstrative fireworks shows for our audience/ clientele.

4:18 PM - 27 Sep 2017

Behaviour gap

20-year annualized returns by asset class (1997-2016)



Source: JP Morgan

Far more money has been lost
by investors preparing for corrections,
or trying to anticipate corrections,
than has been lost in corrections themselves

(Peter Lynch)

We would never talk of a “permanently high plateau”…

FISHER SEES STOCKS PERMANENTLY HIGH

Yale Economist Tells Purchasing Agents Increased Earnings Justify Rise.

SAYS TRUSTS AID SALES

Finds Special Knowledge, Applied to Diversify Holdings, Shifts Risks for Clients.

Stock prices have reached “what looks like a permanently high plateau,” Irving Fisher, Yale economist, told members of the Purchasing Agents Association at its monthly dinner meeting at the Builders Exchange Club, 2 Park Avenue, last night. Professor Fisher spoke on the subject of investment trusts and presented a defense for them against recent attacks in which they have been charged with responsibility for many present evils.

New York Times
16 October 1929

…or suggest that “the bull market could continue forever”

MARKETS

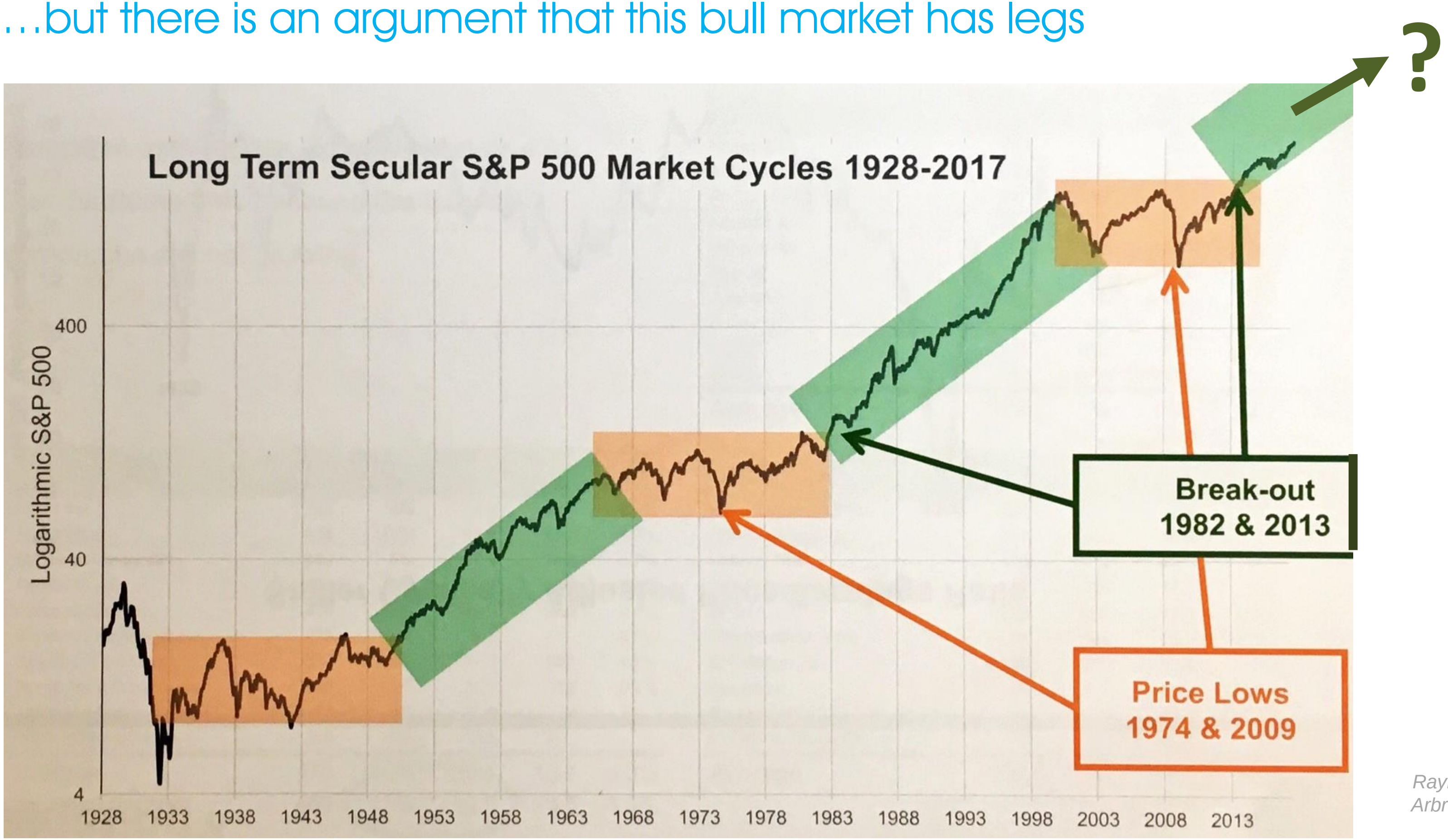
'The bull market could continue forever' — strategist Jim Paulsen outlines conditions

- The stock market "has an awful good gig going," Jim Paulsen, chief investment strategist at Leuthold, says.
- The Dow was coming off its seventh straight record high ahead of Friday's release of the government's July employment report.

Matthew J. Belvedere | @Matt_Belvedere

Published 8:01 AM ET Fri, 4 Aug 2017 | Updated 10:54 AM ET Fri, 4 Aug 2017

…but there is an argument that this bull market has legs



Source: FactSet, Raymond James, Arbrook Investors (July 2017)

The four most dangerous words in investing are:

This time it’s different

(Sir John Templeton)

FINANCIAL TIMES

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Opinion **Market Bubbles**

We’re in bubble territory again, but this time might be different

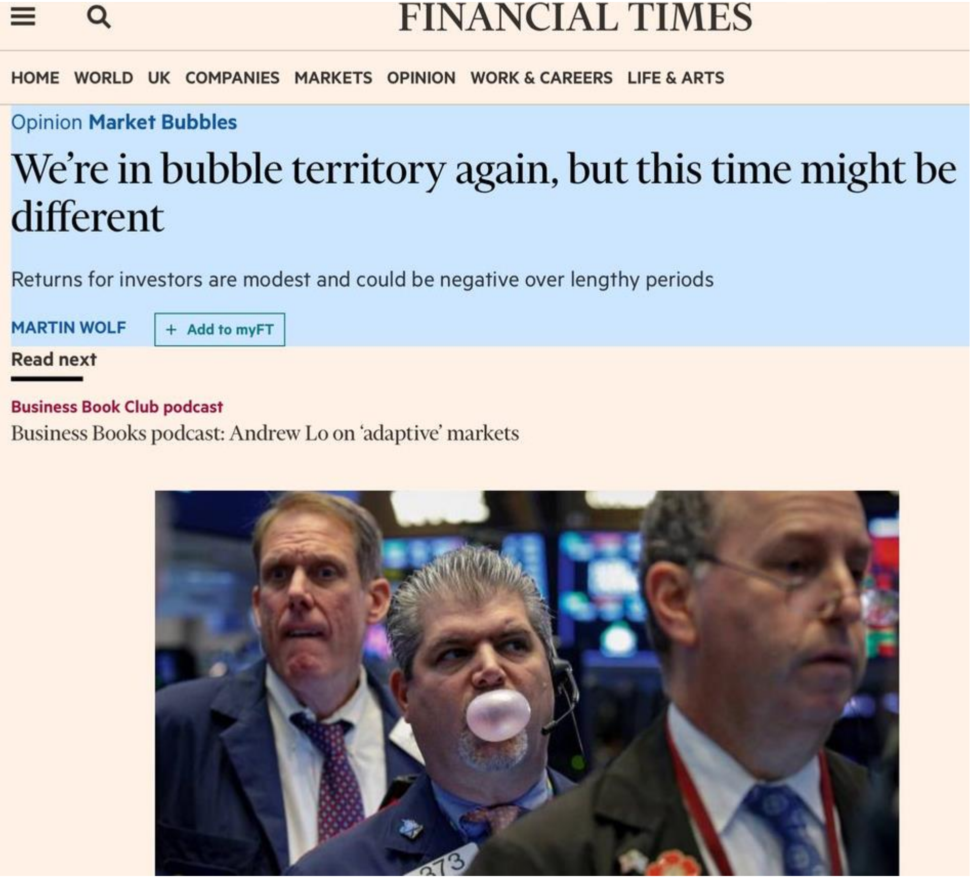
Returns for investors are modest and could be negative over lengthy periods

MARTIN WOLF + Add to myFT

Read next

Business Book Club podcast

Business Books podcast: Andrew Lo on ‘adaptive’ markets



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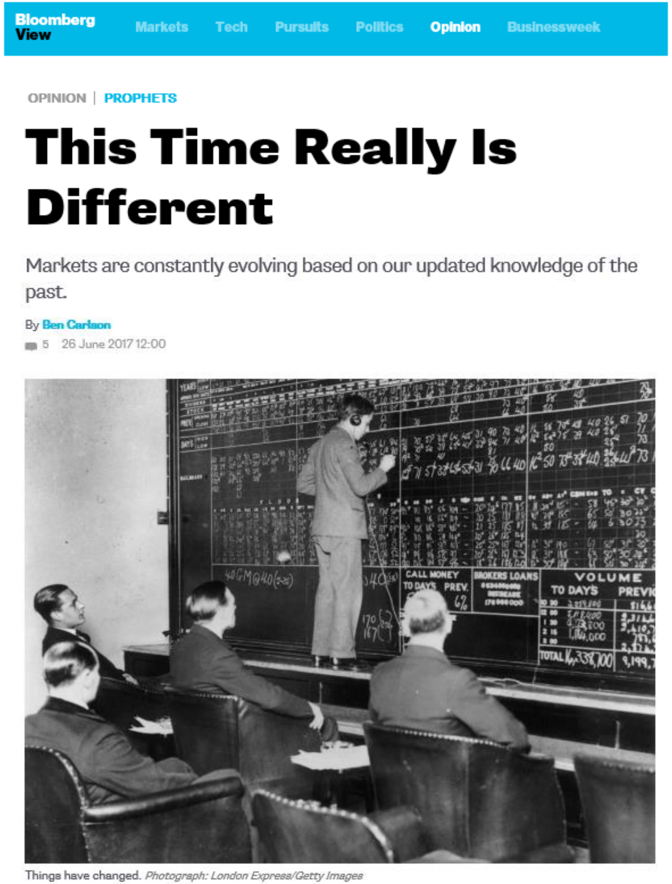


This Time Really Is Different

Markets are constantly evolving based on our updated knowledge of the past.

By Ben Carlson

5 26 June 2017 12:00

Things have changed. *Photograph: London Express/Getty Images*

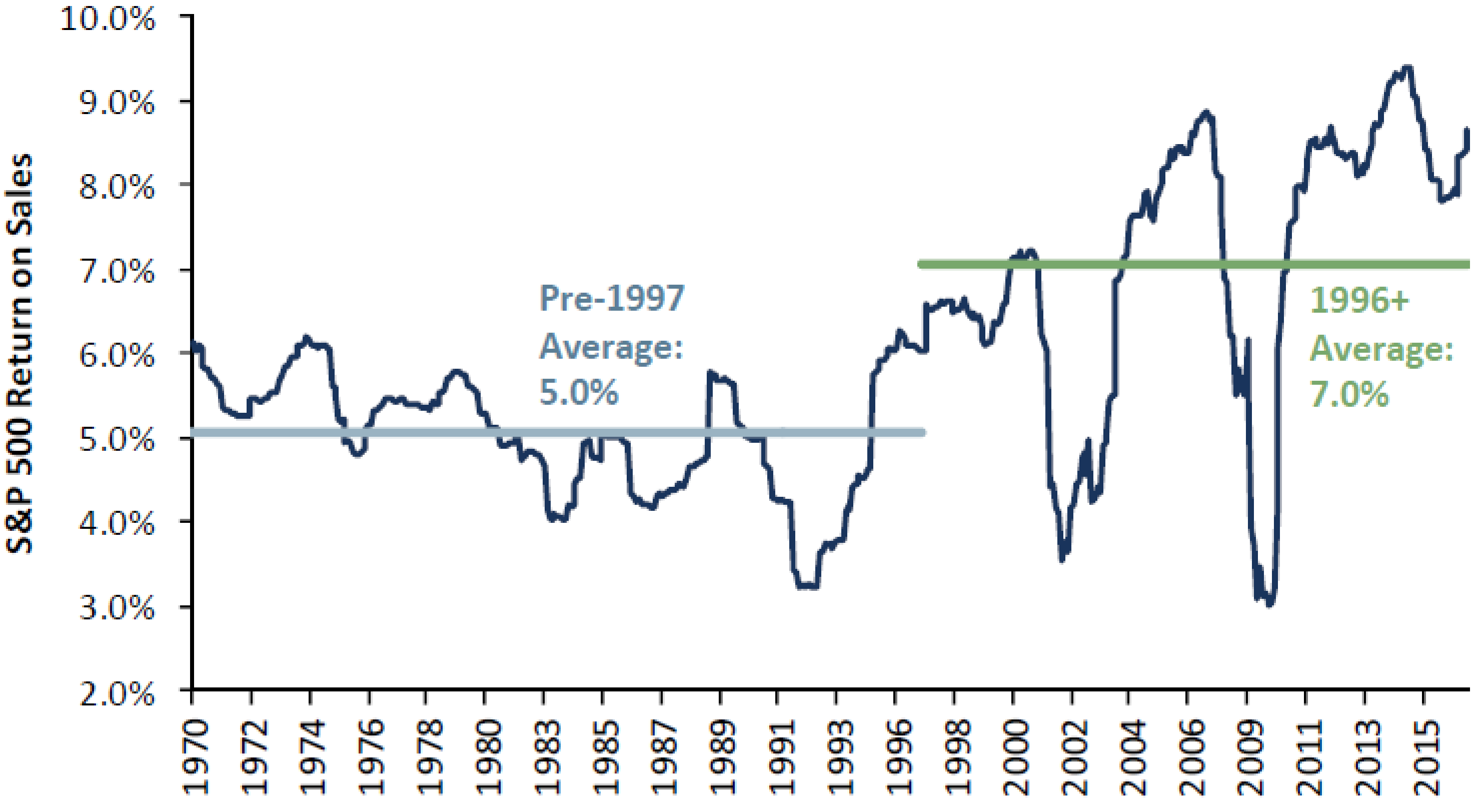
GMO Quarterly Letter

1Q 2017

This Time Seems Very, Very Different

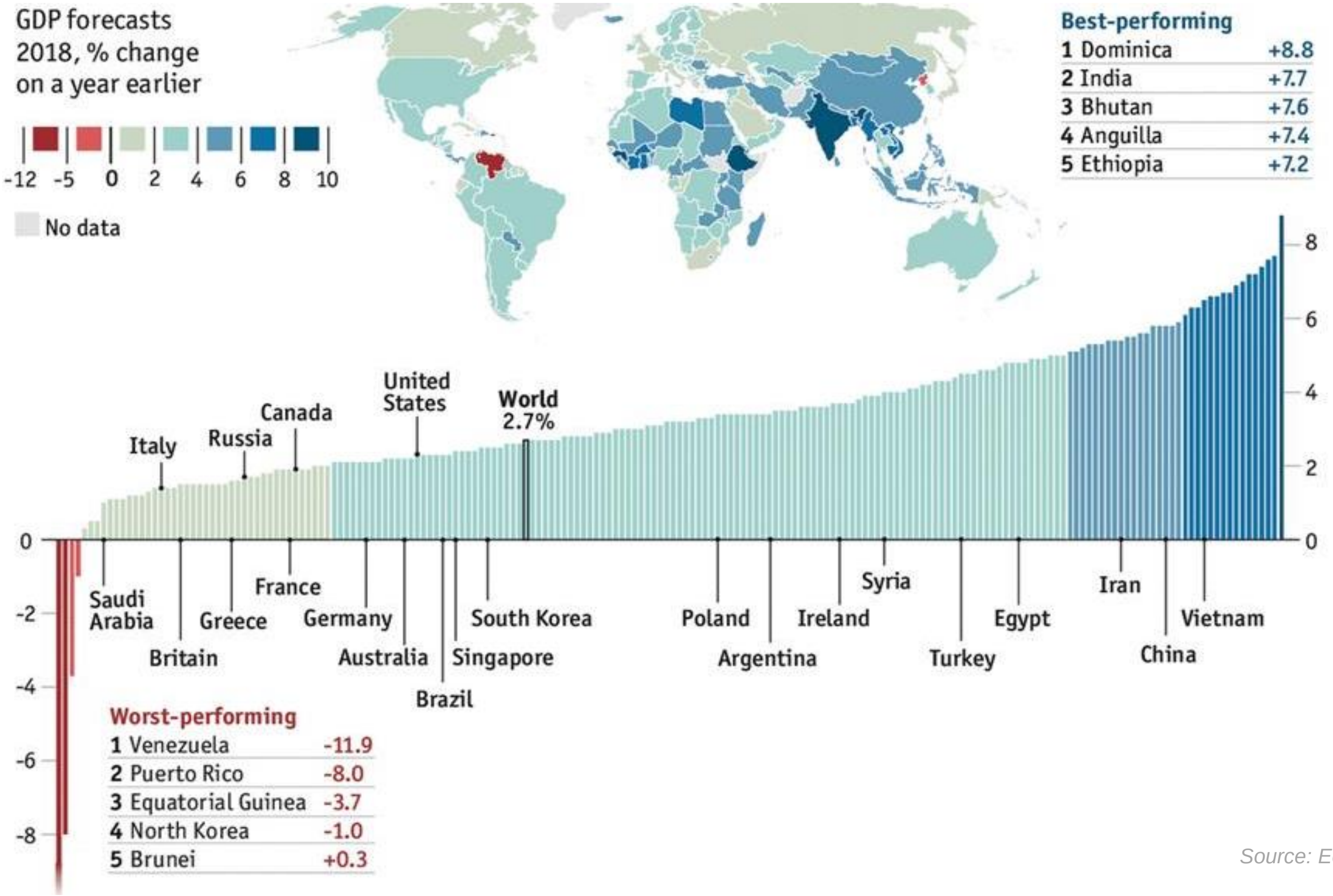
(Part 2 of Not with a Bang but a Whimper - A Thought Experiment)

Jeremy Grantham



(data to: 31/3/2017)

Source: GMO



GDP forecasts 2018, % change on a year earlier

Best-performing

1	Dominica	+8.8
2	India	+7.7
3	Bhutan	+7.6
4	Anguilla	+7.4
5	Ethiopia	+7.2

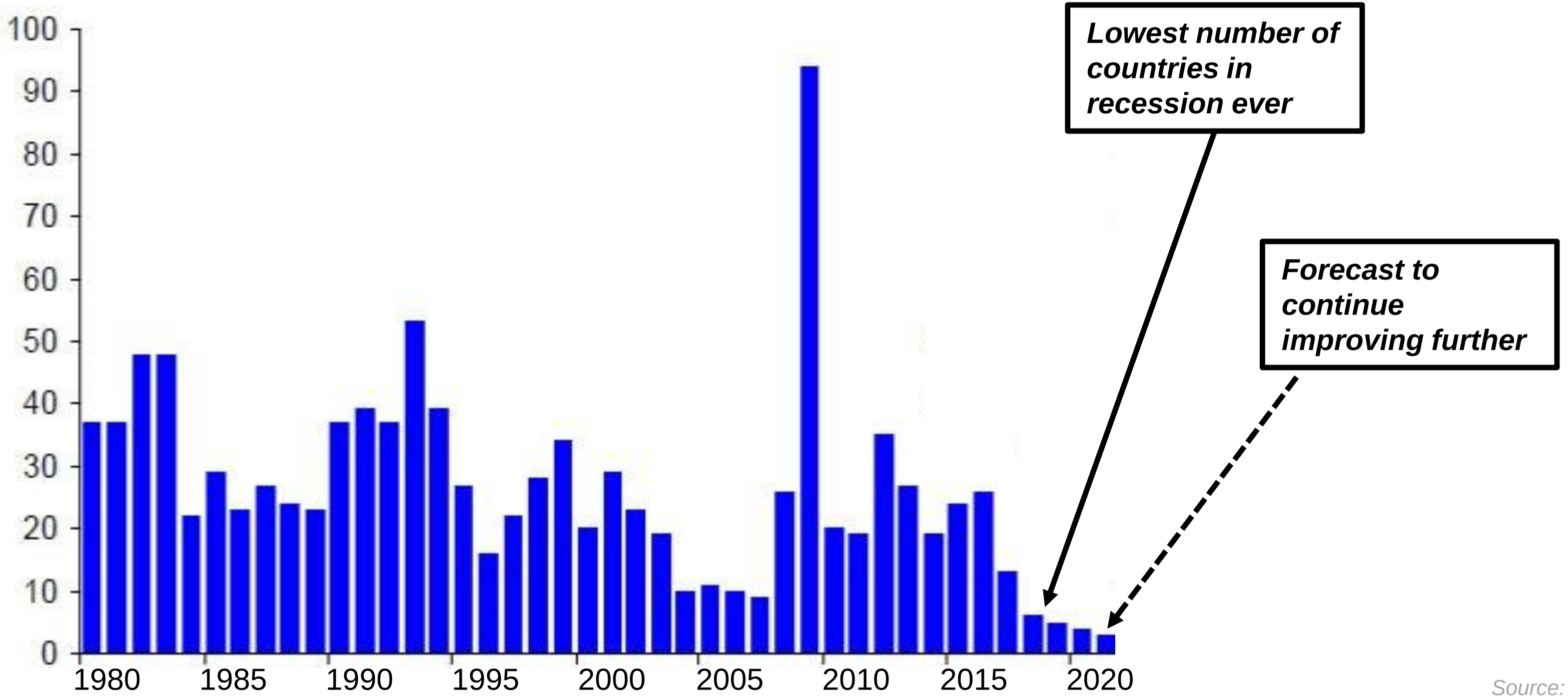
Worst-performing

1	Venezuela	-11.9
2	Puerto Rico	-8.0
3	Equatorial Guinea	-3.7
4	North Korea	-1.0
5	Brunei	+0.3

Source: Economist Intelligence Unit

World economy has never been in better shape

Number of countries in the world in a recession



Lowest number of countries in recession ever

Forecast to continue improving further

Source: Deutsche Bank

The Economist
@TheEconomist

A poll by Bank of America Merrill Lynch asked global fund managers what their expectations for the future are

Economic optimism drives stockmarket highs

Investors are getting convinced that the world can enjoy strong growth and low inflation

economist.com

5:52 PM - 17 Oct 2017

The Economist
@TheEconomist

A poll by Bank of America Merrill Lynch asked global fund managers what their expectations for the future are

Economic optimism drives stockmarket highs

Investors are getting convinced that the world can enjoy strong growth and low inflation

economist.com

5:52 PM - 17 Oct 2017

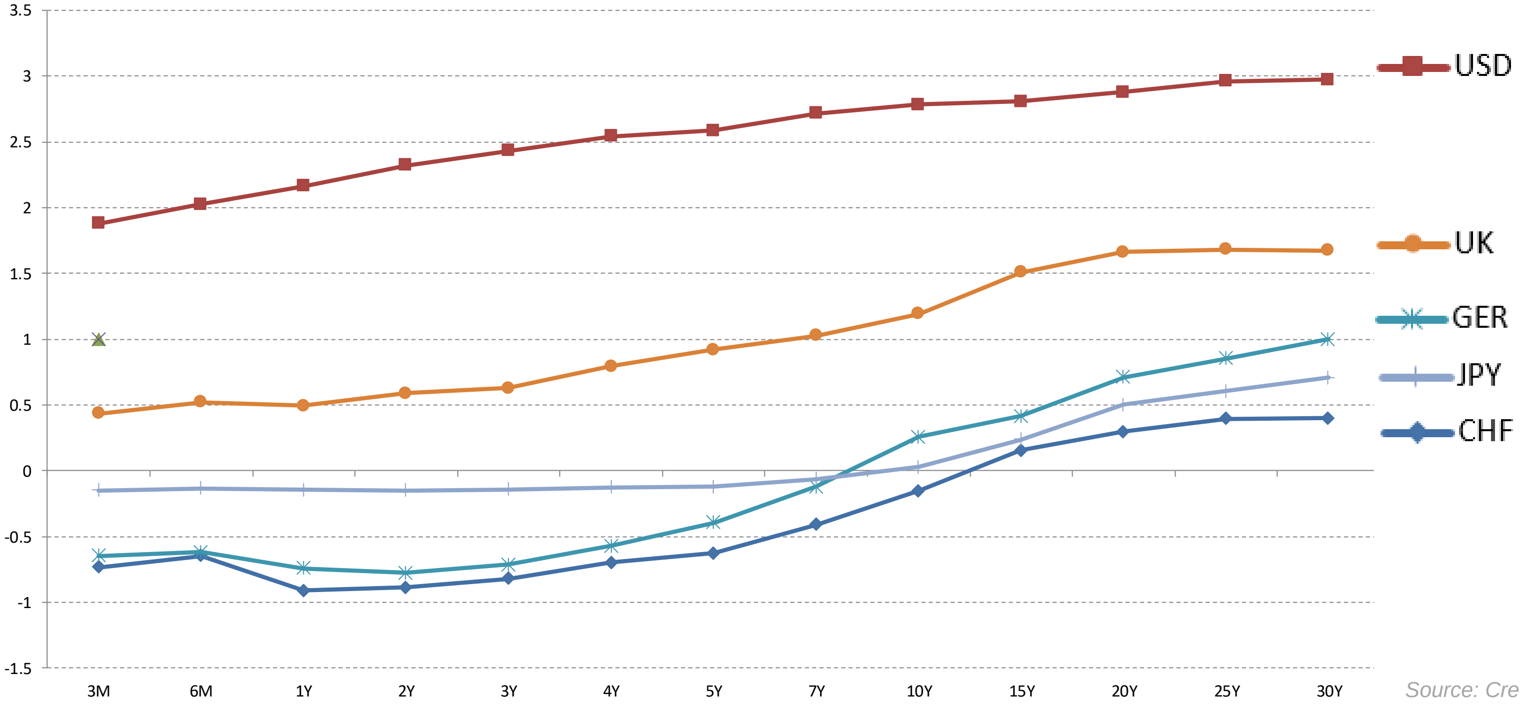
If you want to know why the market keeps rising, just look at the latest poll of global fund managers by Bank of America Merrill Lynch. Almost half of all the managers now expect above-trend growth and below-trend inflation, what is dubbed the Goldilocks economy (she wanted porridge that was not too hot, or too cold, but just right). That is the highest proportion recorded in the history of the survey. Indeed, for the last six years, a plurality of managers have taken the view that both inflation and growth would be below trend.

A Goldilocks economy

- Earnings: record high
- Profit margins: near highest levels in history
- Jobless claims: lowest level since 1973
- US economic expansion: 3rd longest in history (106 months & counting)
- Manufacturing sentiment (ISM): 13-year high
- Consumer confidence: 17-year high
- US housing prices: record highs (up 6% in past year)
- Average hourly earnings: highest level of cycle (up 2.9% in past year)
- Inflation: remains relatively low
- Fed rate: starting to rise, but still low in historic terms; other central banks dovish
- Trump effect: much still to follow? (Tax cuts / deregulation / infrastructure boom)

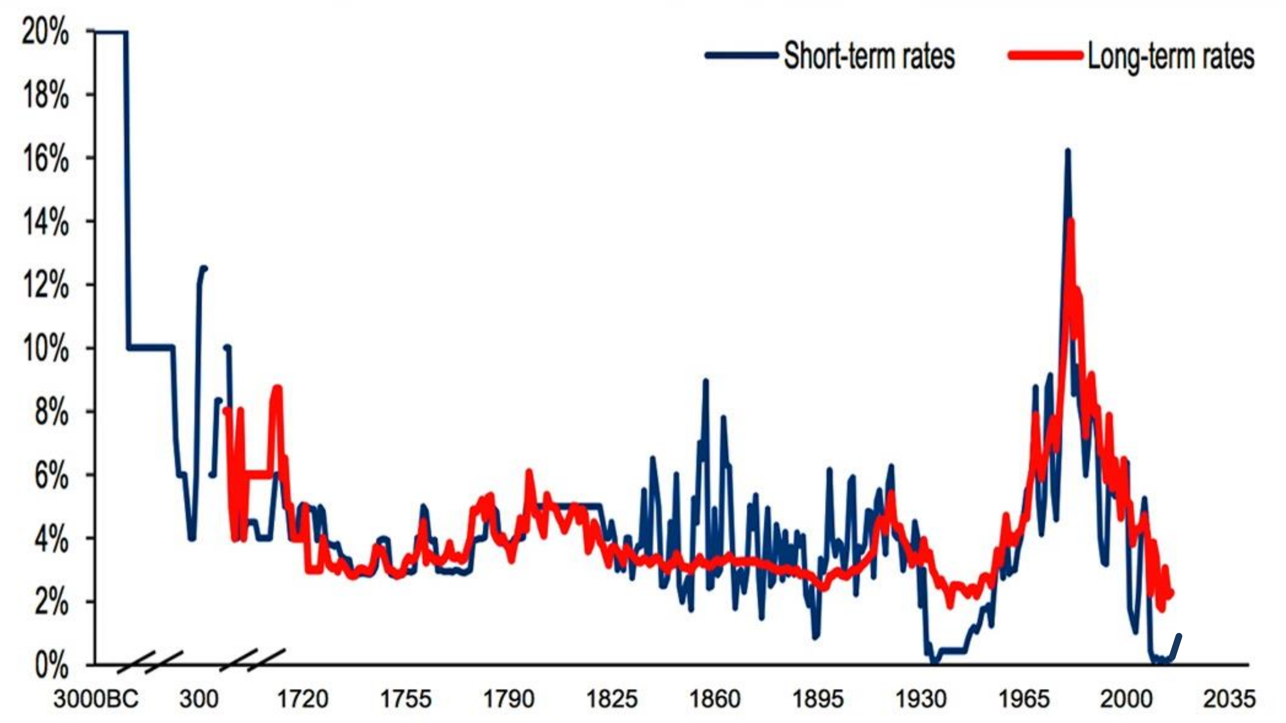
Source: Charlie Bilello

International yield curves (30/5/2018)



Source: Credo, Bloomberg

5,000 Years of Interest Rate History



Source: BoE, Homer & Sylla

Predicting the Fed rate?

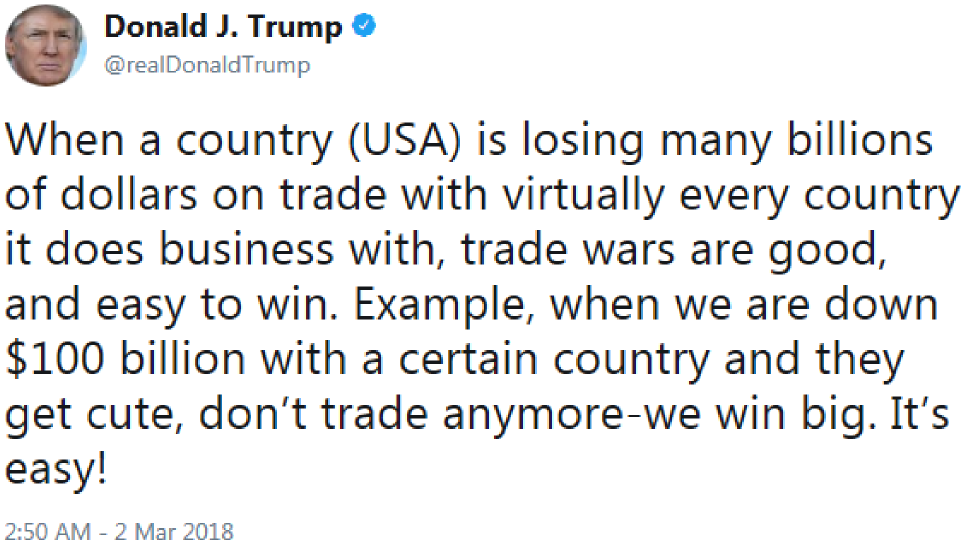
Source: LPL Research

Predicting the Fed rate?

Source: LPL Research

Don’t be blind to the risks though…

Trade war?

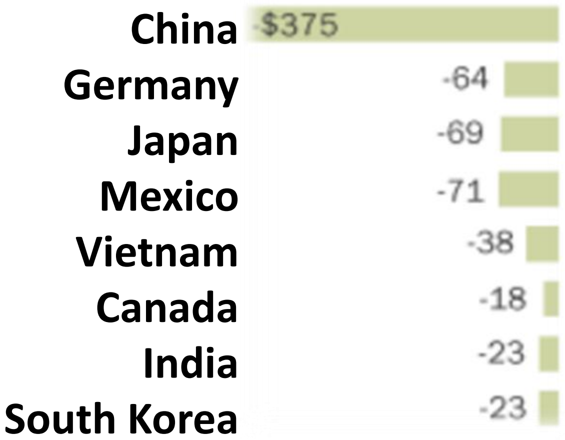


Donald J. Trump
@realDonaldTrump

When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down $100 billion with a certain country and they get cute, don't trade anymore-we win big. It's easy!

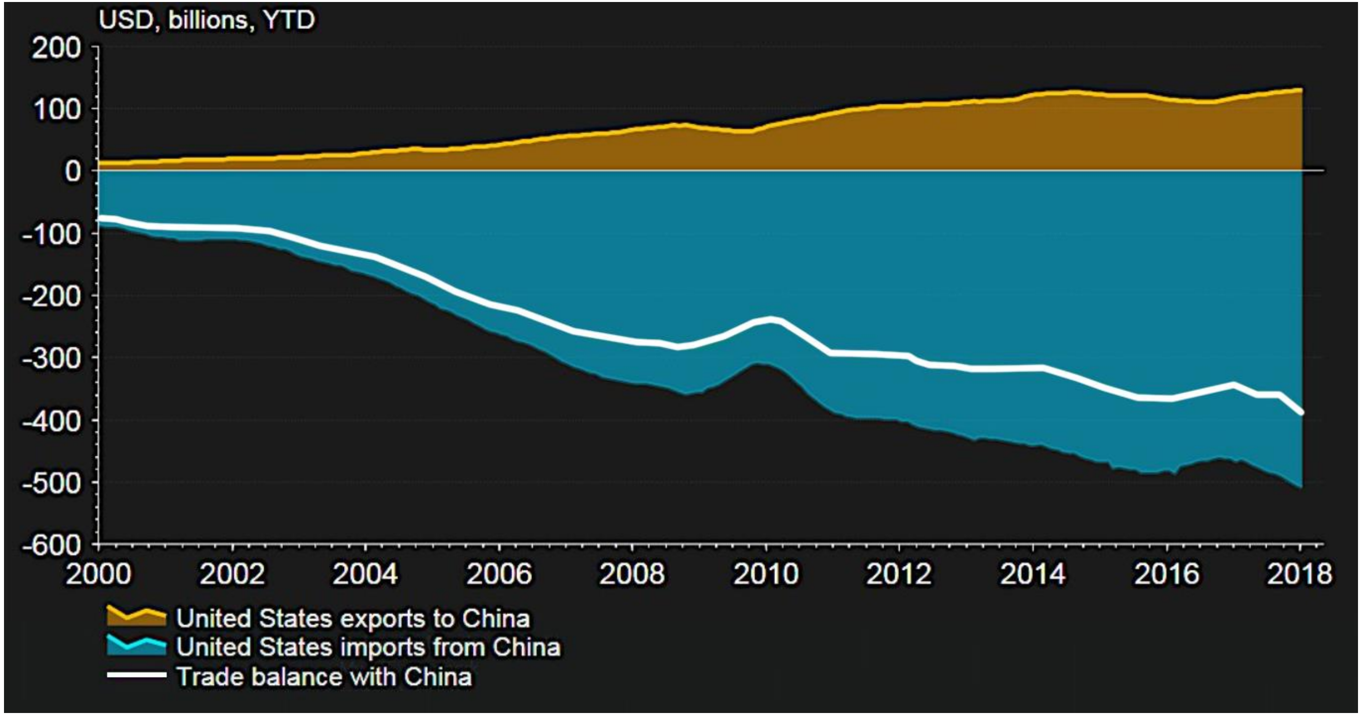
2:50 AM - 2 Mar 2018

US trade deficit
($bn)



Source: PEW Research Center

Trade war with China… lost a long time ago



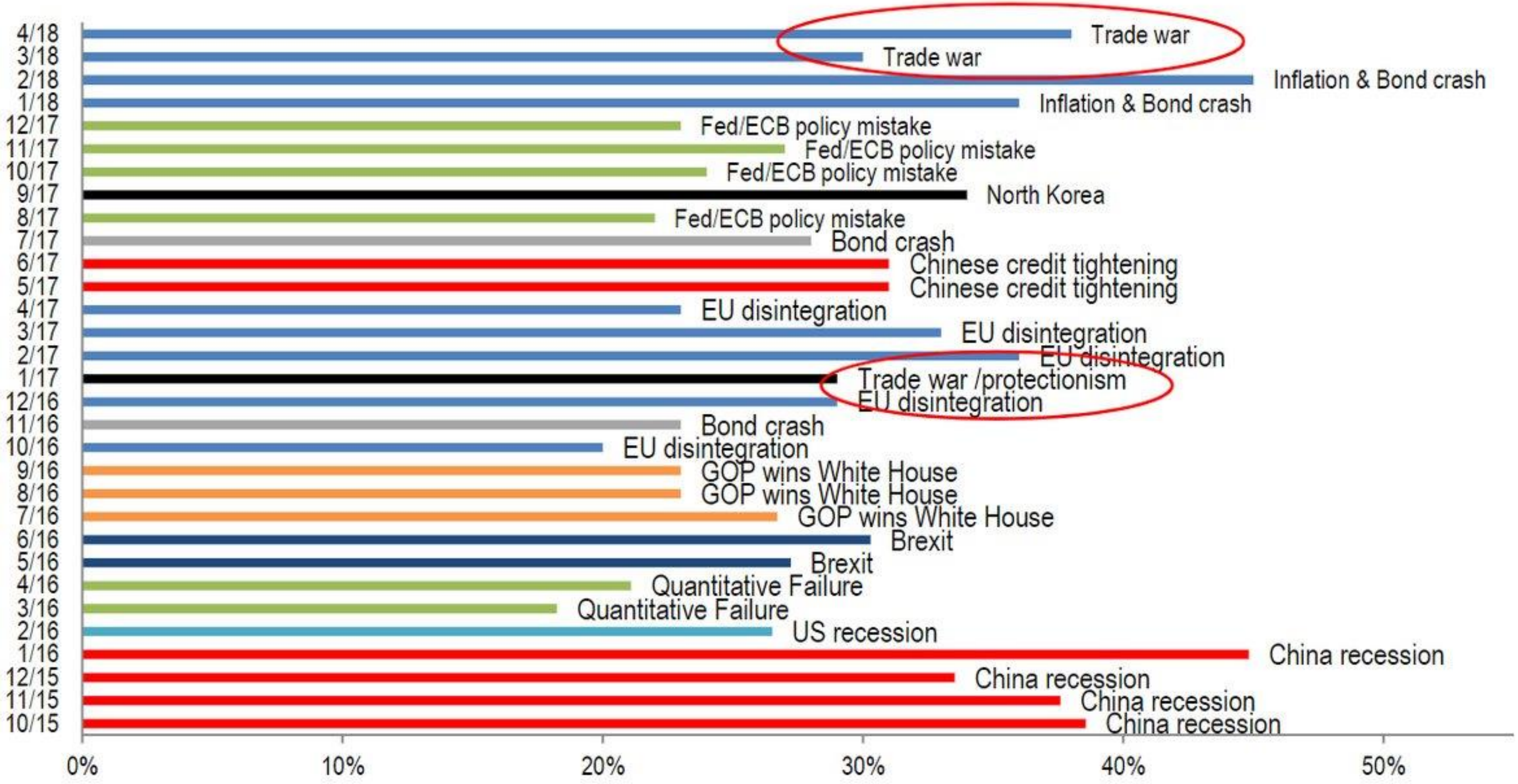
Source: Thomson Reuters Datastream, Fathom Consulting

The most iconic American consumer product today?

Anatomy of an iPhone:

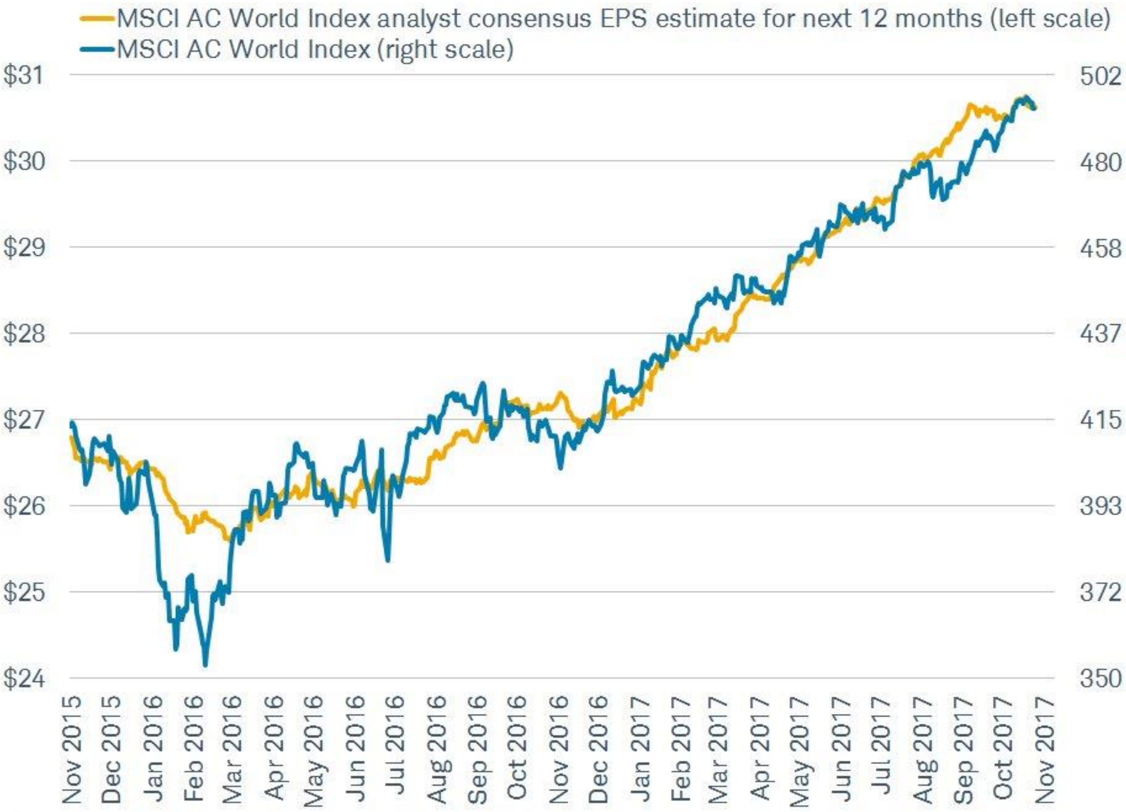
Source: Wall Street Journal

Trade war… Quo Vadis? **Global Fund Manager Survey: Top tail risk**



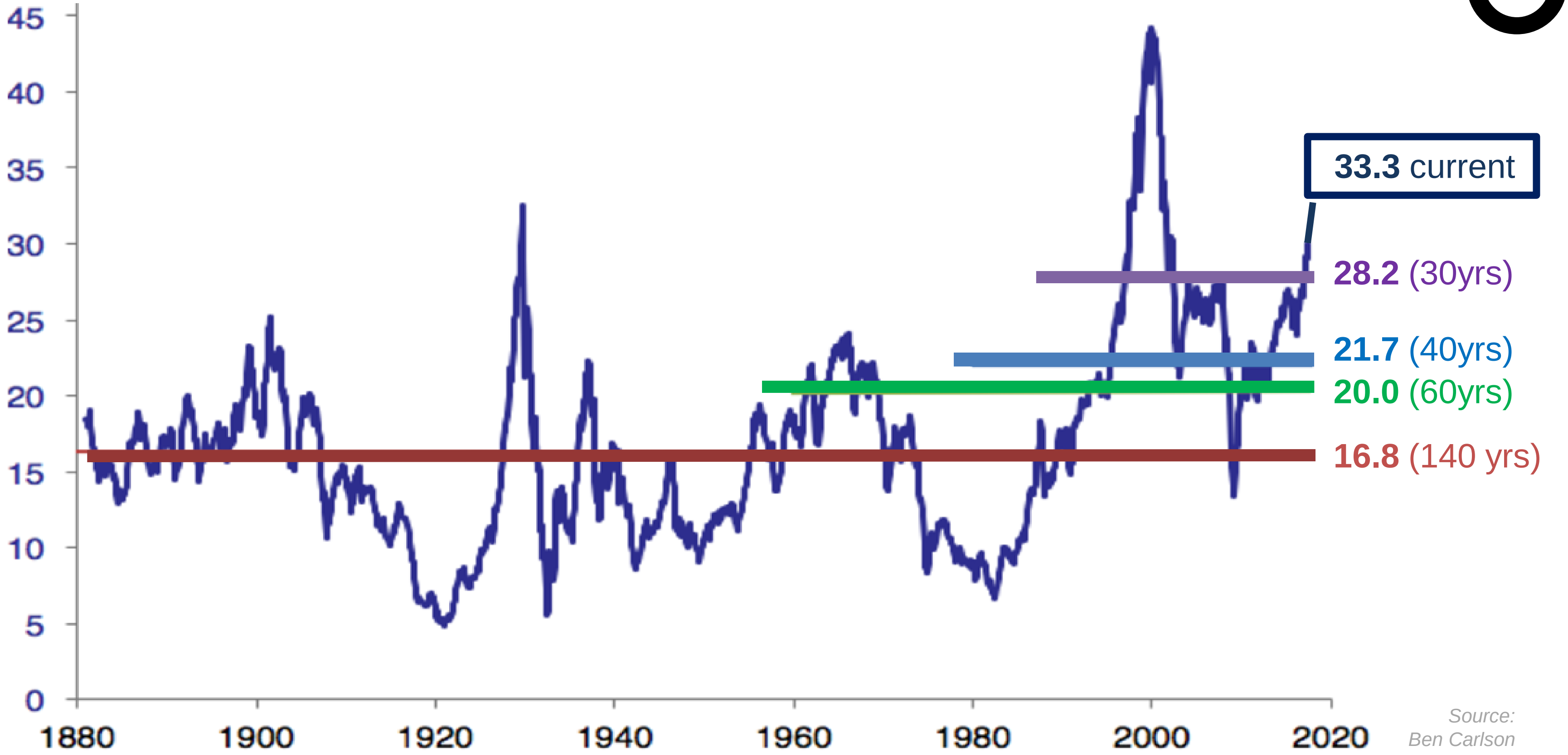
Source: BAML

Earnings Trump politics



Source:
Jeffrey Kleintop,
Charles Schwab & Co

Shiller CAPE ratio



Source: Ben Carlson

From last year’s conference presentation…

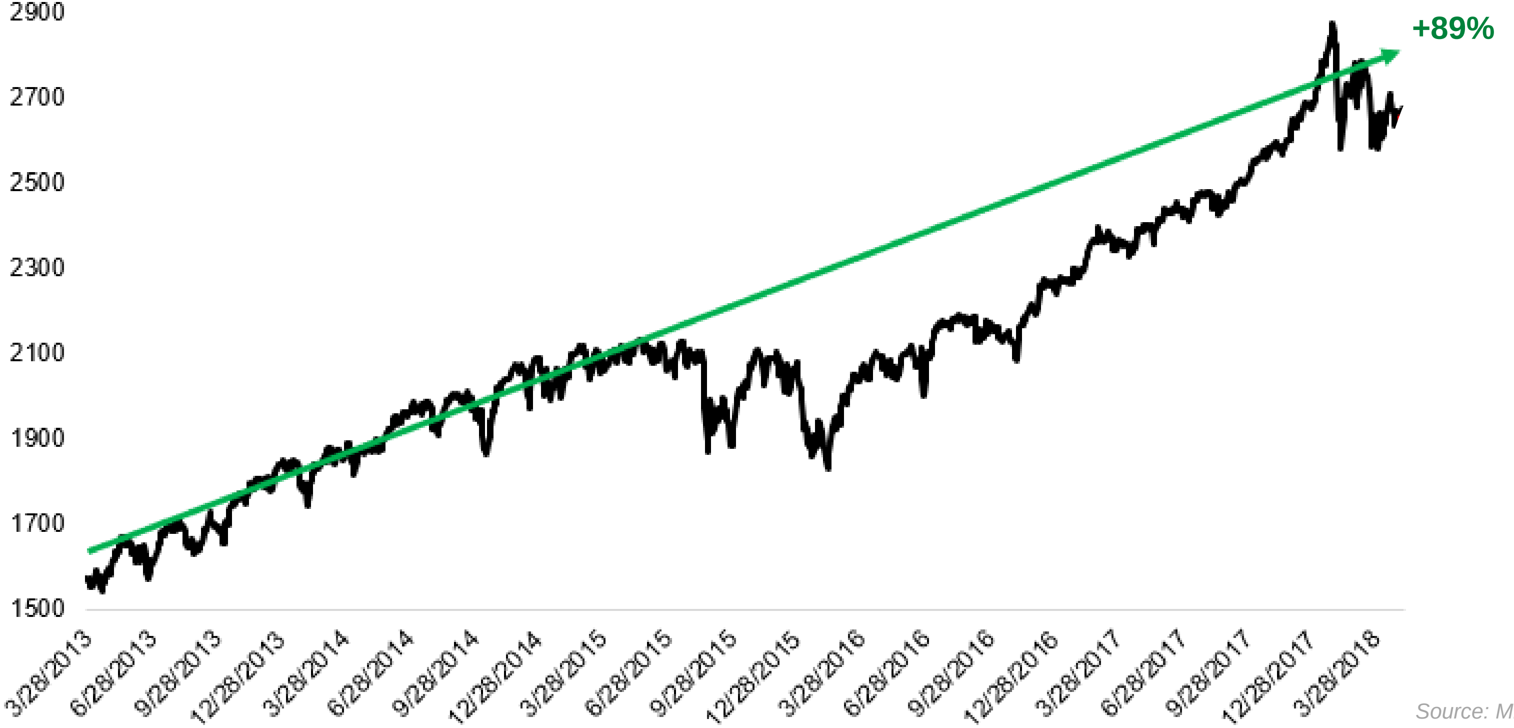
INVESTING

Nobel winner Robert Shiller: Stay in the market because it ‘could go up 50 percent from here’

Tae Kim | @firstadopter

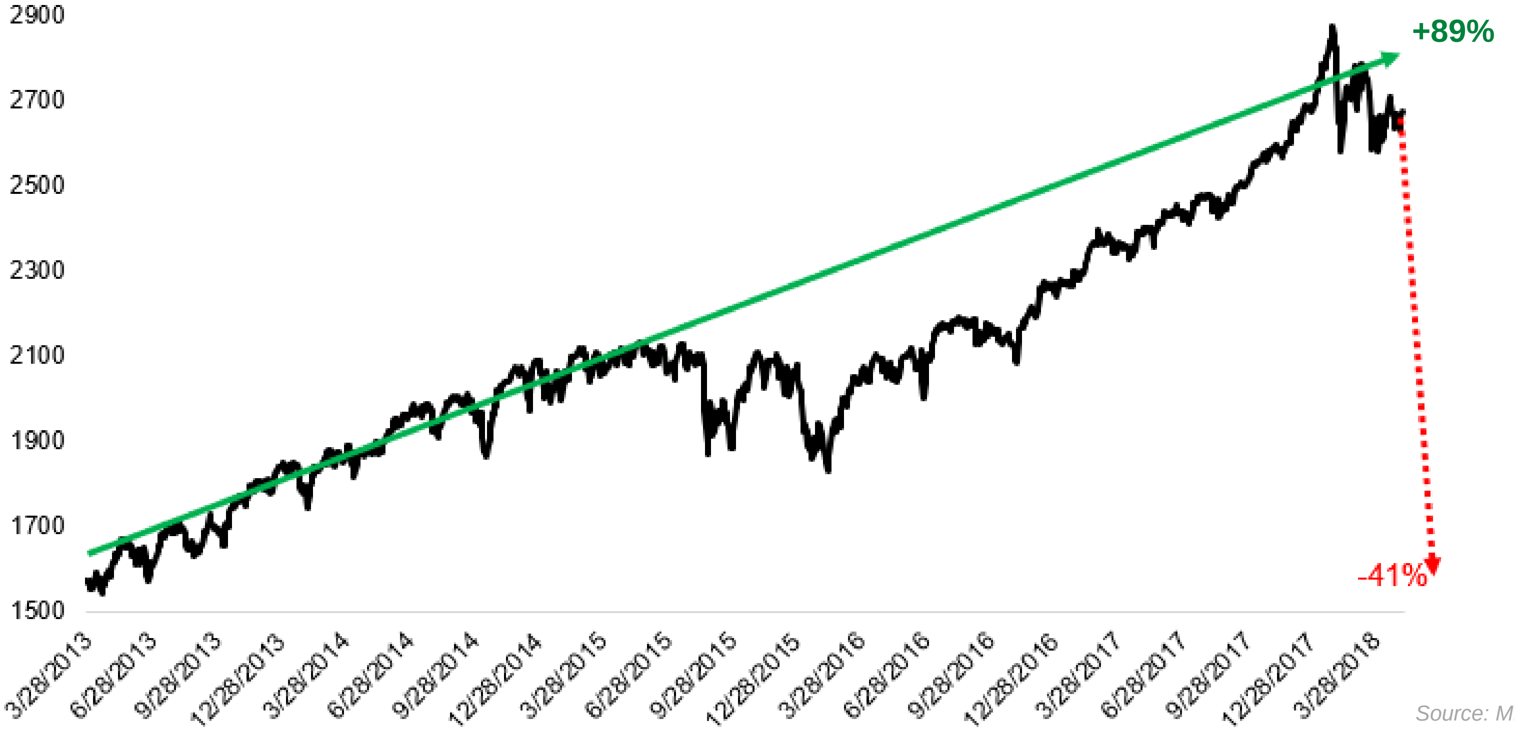
Tuesday, 23 May 2017 | 4:05 PM ET

March 2013: CAPE 22.5 (higher than 87% of all readings)



Source: Michael Batnick

March 2013: CAPE 22.5 (higher than 87% of all readings)



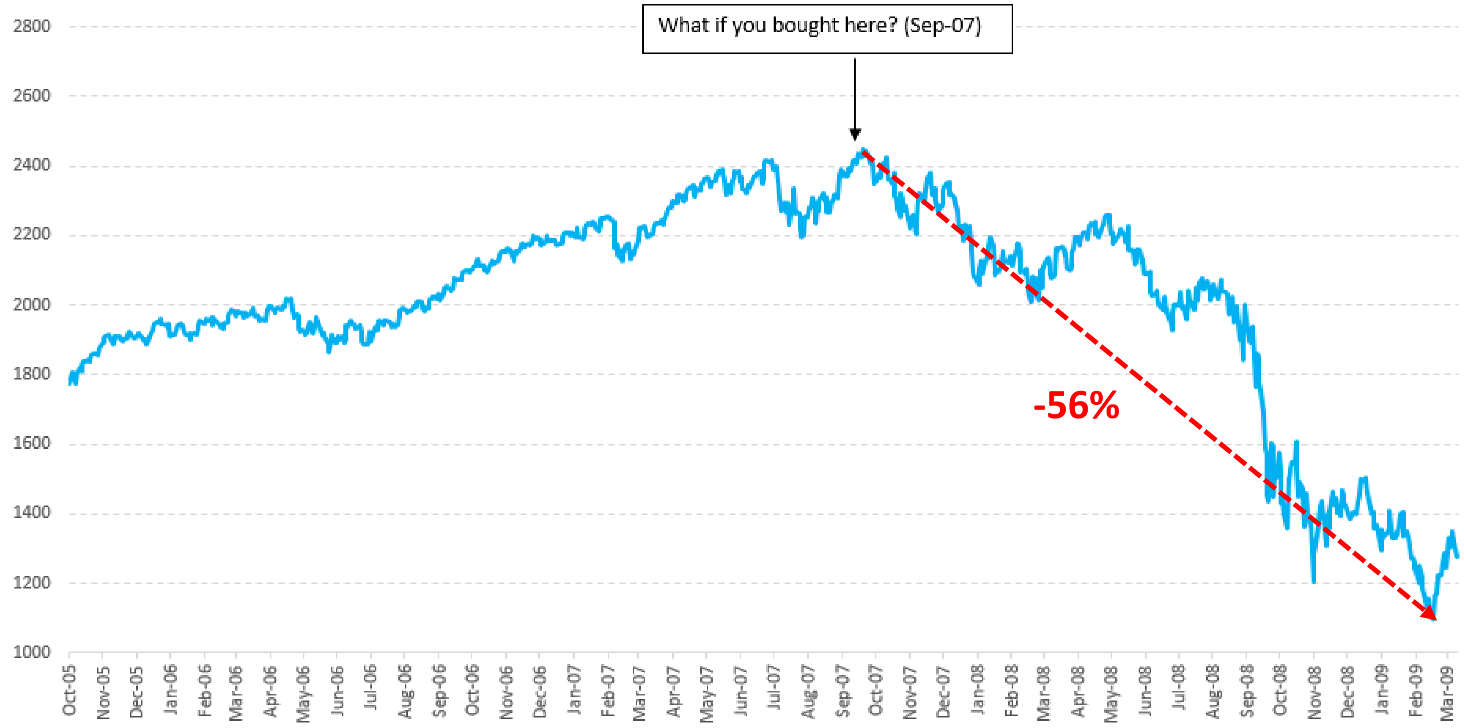
Source: Michael Batnick

Taking comfort from relative valuations… Growth versus Value

Source: Bloomberg, Credo

Growth versus Value

What if the next crash is just around the corner?



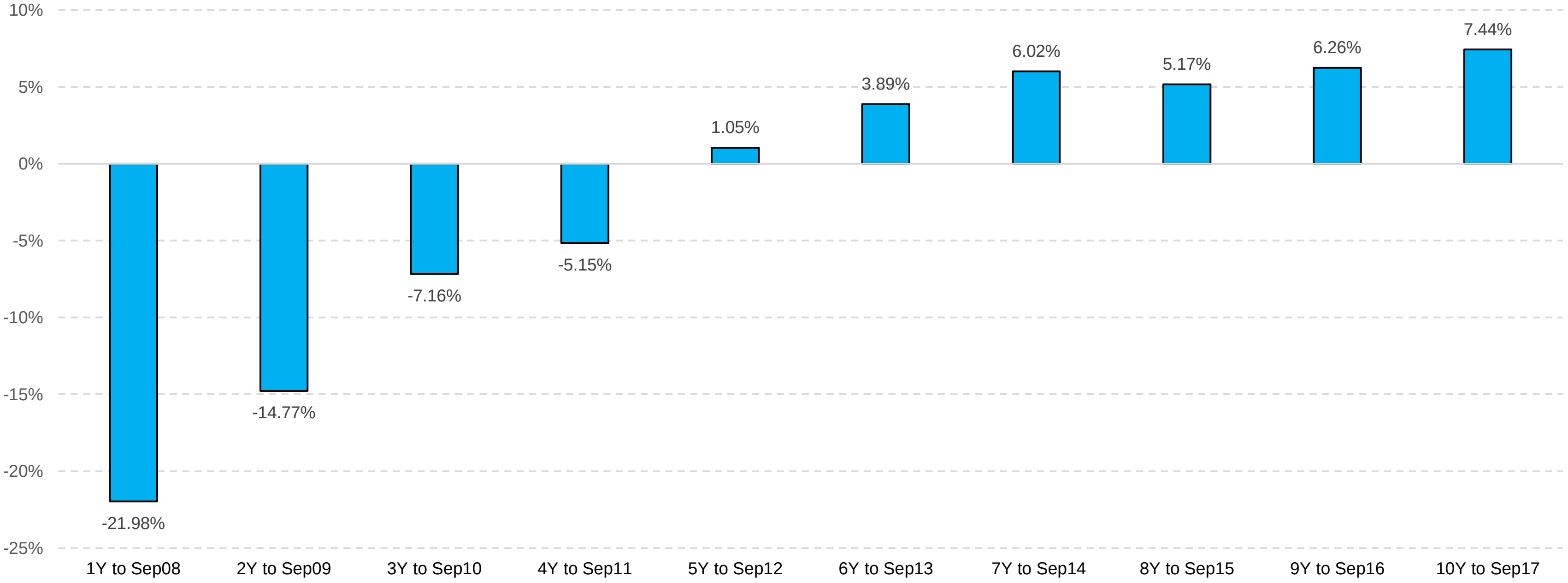
What if you bought here? (Sep-07)

-56%

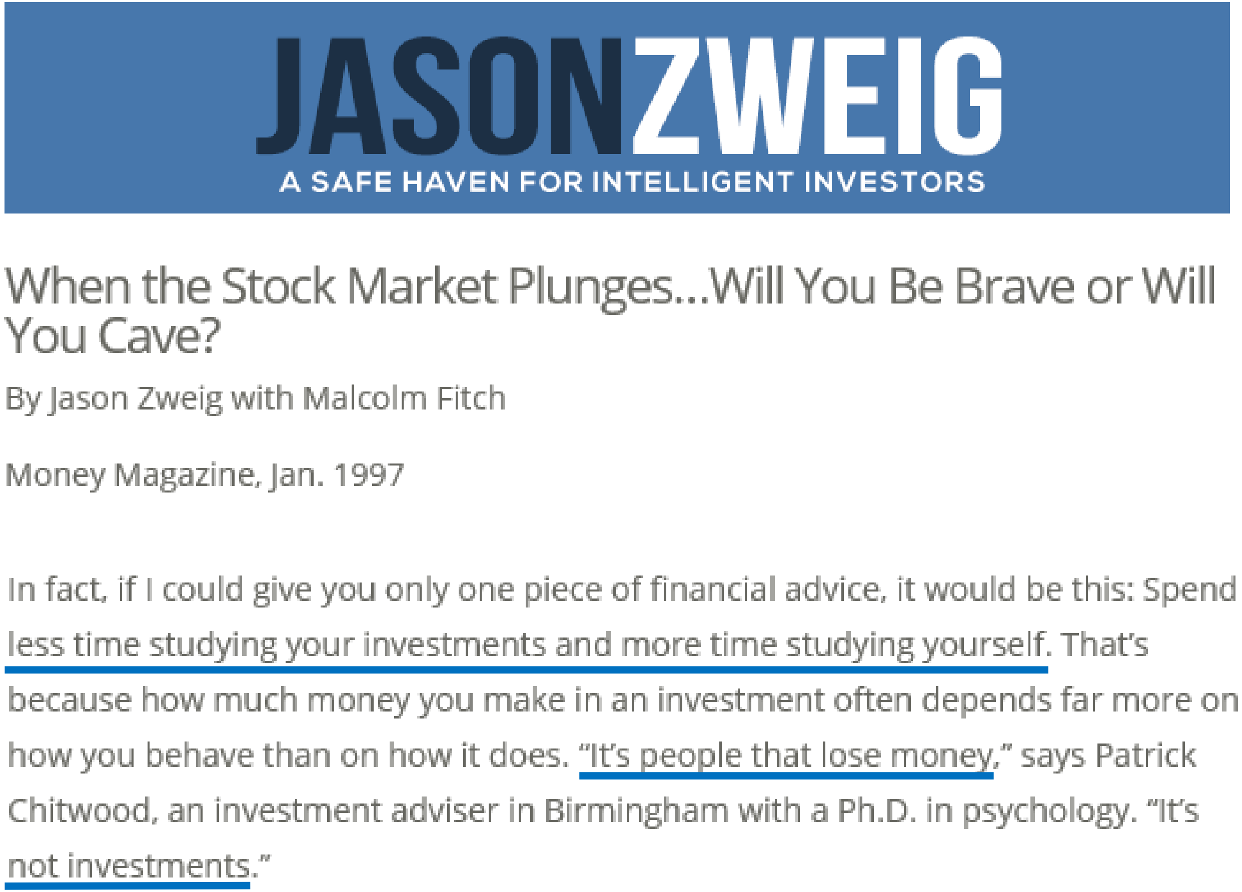
	S&P500
2006	15.79%
2007	5.49%
2008	-37.00%
2009	26.46%
2010	15.06%

What if the next crash is just around the corner?

Rolling Annualized Returns since market top in 2007



Source: Credo, Bloomberg



JASONZWEIG

A SAFE HAVEN FOR INTELLIGENT INVESTORS

When the Stock Market Plunges...Will You Be Brave or Will You Cave?

By Jason Zweig with Malcolm Fitch

Money Magazine, Jan. 1997

In fact, if I could give you only one piece of financial advice, it would be this: Spend less time studying your investments and more time studying yourself. That's because how much money you make in an investment often depends far more on how you behave than on how it does. "It's people that lose money," says Patrick Chitwood, an investment adviser in Birmingham with a Ph.D. in psychology. "It's not investments."

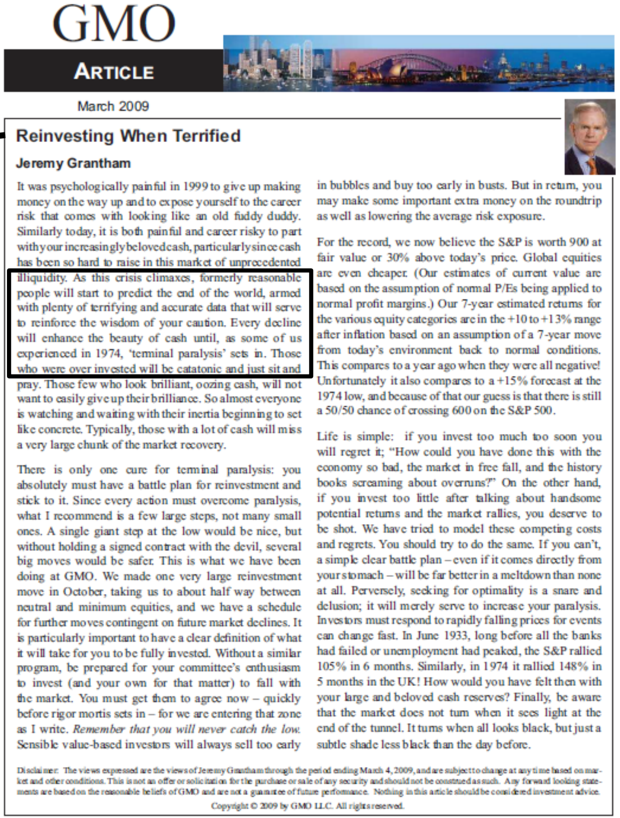
How did you feel in March 2009? How did you behave?

March 2009

Reinvesting When Terrified

Jeremy Grantham

As this crisis climaxes, formerly reasonable people will start to predict the end of the world, armed with plenty of terrifying and accurate data that will serve to reinforce the wisdom of your caution. Every decline will enhance the beauty of cash until, as some of us experienced in 1974, 'terminal paralysis' sets in.



GMO

ARTICLE

March 2009

Reinvesting When Terrified

Jeremy Grantham

It was psychologically painful in 1999 to give up making money on the way up and to expose yourself to the career risk that comes with looking like an old fuddy duddy. Similarly today, it is both painful and career risky to part with your increasingly beloved cash, particularly since cash has been so hard to raise in this market of unprecedented illiquidity. As this crisis climaxes, formerly reasonable people will start to predict the end of the world, armed with plenty of terrifying and accurate data that will serve to reinforce the wisdom of your caution. Every decline will enhance the beauty of cash until, as some of us experienced in 1974, 'terminal paralysis' sets in. Those who were over invested will be catatonic and just sit and pray. Those few who look brilliant, oozing cash, will not want to easily give up their brilliance. So almost everyone is watching and waiting with their inertia beginning to set like concrete. Typically, those with a lot of cash will miss a very large chunk of the market recovery.

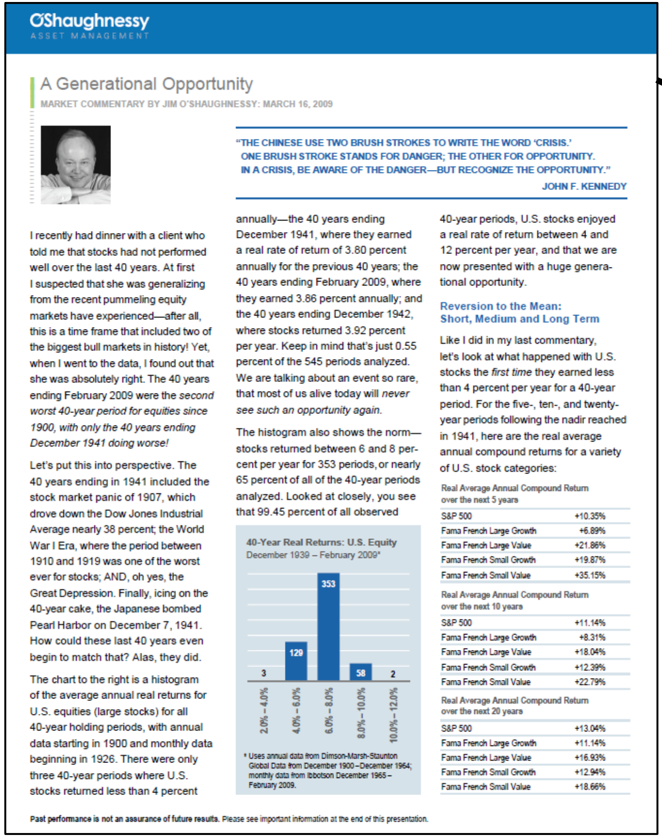
There is only one cure for terminal paralysis: you absolutely must have a battle plan for reinvestment and stick to it. Since every action must overcome paralysis, what I recommend is a few large steps, not many small ones. A single giant step at the low would be nice, but without holding a signed contract with the devil, several big moves would be safer. This is what we have been doing at GMO. We made one very large reinvestment move in October, taking us to about half way between neutral and minimum equities, and we have a schedule for further moves contingent on future market declines. It is particularly important to have a clear definition of what it will take for you to be fully invested. Without a similar program, be prepared for your committee's enthusiasm to invest (and your own for that matter) to fall with the market. You must get them to agree now – quickly before rigor mortis sets in – for we are entering that zone as I write. *Remember that you will never catch the low.* Sensible value-based investors will always sell too early in bubbles and buy too early in busts. But in return, you may make some important extra money on the roundtrip as well as lowering the average risk exposure.

For the record, we now believe the S&P is worth 900 at fair value or 30% above today's price. Global equities are even cheaper. (Our estimates of current value are based on the assumption of normal P/Es being applied to normal profit margins.) Our 7-year estimated returns for the various equity categories are in the +10 to +13% range after inflation based on an assumption of a 7-year move from today's environment back to normal conditions. This compares to a year ago when they were all negative! Unfortunately it also compares to a +15% forecast at the 1974 low, and because of that our guess is that there is still a 50/50 chance of crossing 600 on the S&P 500.

Life is simple: if you invest too much too soon you will regret it; "How could you have done this with the economy so bad, the market in free fall, and the history books screaming about overruns?" On the other hand, if you invest too little after talking about handsome potential returns and the market rallies, you deserve to be shot. We have tried to model these competing costs and regrets. You should try to do the same. If you can't, a simple clear battle plan – even if it comes directly from your stomach – will be far better in a meltdown than none at all. Perversely, seeking for optimality is a snare and delusion; it will merely serve to increase your paralysis. Investors must respond to rapidly falling prices for events can change fast. In June 1933, long before all the banks had failed or unemployment had peaked, the S&P rallied 105% in 6 months. Similarly, in 1974 it rallied 148% in 5 months in the UK! How would you have felt then with your large and beloved cash reserves? Finally, be aware that the market does not turn when it sees light at the end of the tunnel. It turns when all looks black, but just a subtle shade less black than the day before.

Disclaimer: The views expressed are the views of Jeremy Grantham through the period ending March 4, 2009, and are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. Any forward looking statements are based on the reasonable beliefs of GMO and are not a guarantee of future performance. Nothing in this article should be considered investment advice.

How did you feel in March 2009? How did you behave?



O'Shaughnessy
ASSET MANAGEMENT

A Generational Opportunity

MARKET COMMENTARY BY JIM O'SHAUGHNESSY: MARCH 16, 2009

> "THE CHINESE USE TWO BRUSH STROKES TO WRITE THE WORD 'CRISIS.' ONE BRUSH STROKE STANDS FOR DANGER; THE OTHER FOR OPPORTUNITY. IN A CRISIS, BE AWARE OF THE DANGER—BUT RECOGNIZE THE OPPORTUNITY."
>
> JOHN F. KENNEDY

I recently had dinner with a client who told me that stocks had not performed well over the last 40 years. At first I suspected that she was generalizing from the recent pummeling equity markets have experienced—after all, this is a time frame that included two of the biggest bull markets in history! Yet, when I went to the data, I found out that she was absolutely right. The 40 years ending February 2009 were the *second worst 40-year period for equities since 1900, with only the 40 years ending December 1941 doing worse!*

Let's put this into perspective. The 40 years ending in 1941 included the stock market panic of 1907, which drove down the Dow Jones Industrial Average nearly 38 percent; the World War I Era, where the period between 1910 and 1919 was one of the worst ever for stocks; AND, oh yes, the Great Depression. Finally, icing on the 40-year cake, the Japanese bombed Pearl Harbor on December 7, 1941. How could these last 40 years even begin to match that? Alas, they did.

The chart to the right is a histogram of the average annual real returns for U.S. equities (large stocks) for all 40-year holding periods, with annual data starting in 1900 and monthly data beginning in 1926. There were only three 40-year periods where U.S. stocks returned less than 4 percent annually—the 40 years ending December 1941, where they earned a real rate of return of 3.80 percent annually for the previous 40 years; the 40 years ending February 2009, where they earned 3.86 percent annually; and the 40 years ending December 1942, where stocks returned 3.92 percent per year. Keep in mind that's just 0.55 percent of the 545 periods analyzed. We are talking about an event so rare, that most of us alive today will *never see such an opportunity again.*

The histogram also shows the norm—stocks returned between 6 and 8 percent per year for 353 periods, or nearly 65 percent of all of the 40-year periods analyzed. Looked at closely, you see that 99.45 percent of all observed 40-year periods, U.S. stocks enjoyed a real rate of return between 4 and 12 percent per year, and that we are now presented with a huge generational opportunity.

40-Year Real Returns: U.S. Equity
December 1939 – February 2009*

* Uses annual data from Dimson-Marsh-Staunton Global Data from December 1900 – December 1964; monthly data from Ibbotson December 1965 – February 2009.

Reversion to the Mean: Short, Medium and Long Term

Like I did in my last commentary, let's look at what happened with U.S. stocks the *first time* they earned less than 4 percent per year for a 40-year period. For the five-, ten-, and twenty-year periods following the nadir reached in 1941, here are the real average annual compound returns for a variety of U.S. stock categories:

Real Average Annual Compound Return over the next 5 years	
S&P 500	+10.35%
Fama French Large Growth	+6.89%
Fama French Large Value	+21.86%
Fama French Small Growth	+19.87%
Fama French Small Value	+35.15%

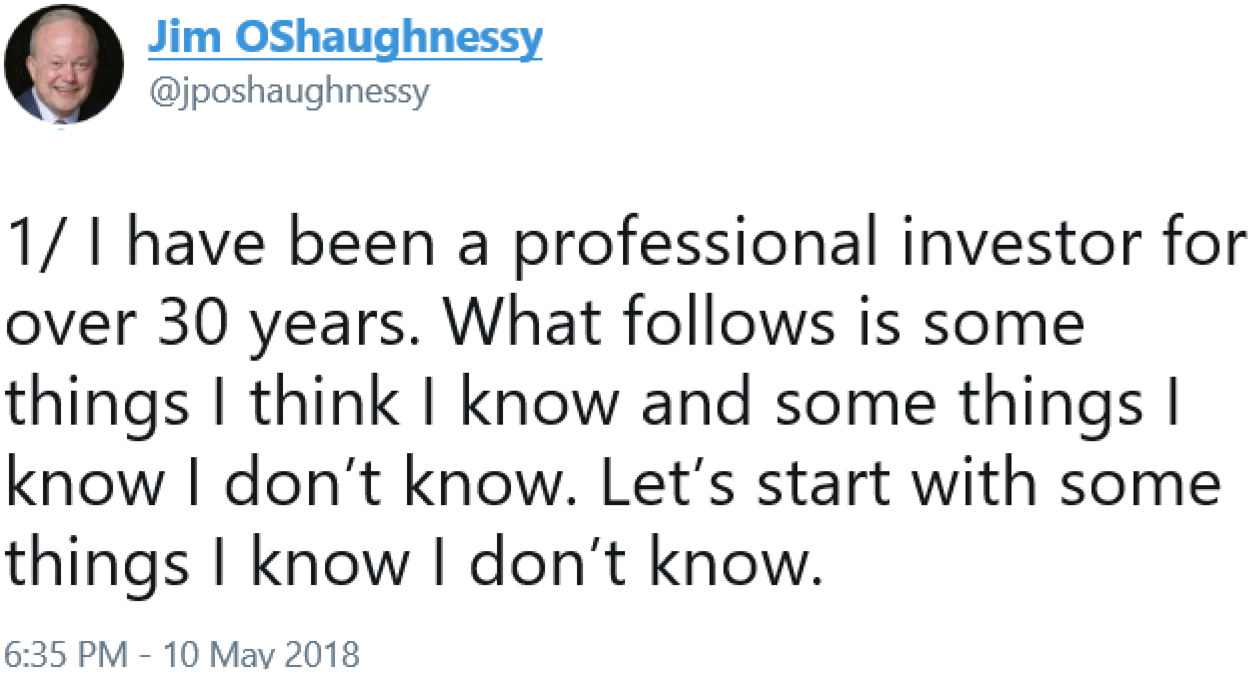
Real Average Annual Compound Return over the next 10 years	
S&P 500	+11.14%
Fama French Large Growth	+8.31%
Fama French Large Value	+18.04%
Fama French Small Growth	+12.39%
Fama French Small Value	+22.79%

Real Average Annual Compound Return over the next 20 years	
S&P 500	+13.04%
Fama French Large Growth	+11.14%
Fama French Large Value	+16.93%
Fama French Small Growth	+12.94%
Fama French Small Value	+18.66%

Past performance is not an assurance of future results. Please see important information at the end of this presentation.

A Generational Opportunity
MARKET COMMENTARY BY JIM O'SHAUGHNESSY: MARCH 16, 2009

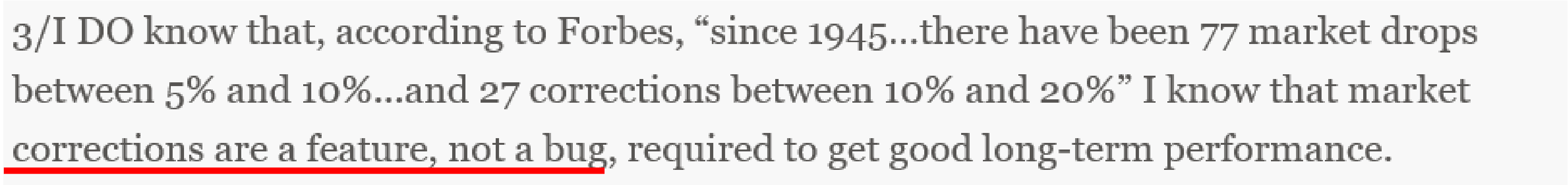
At times like these, the asset class that I believe will prove the least risky over the long-term appears to be the riskiest, and vice versa.



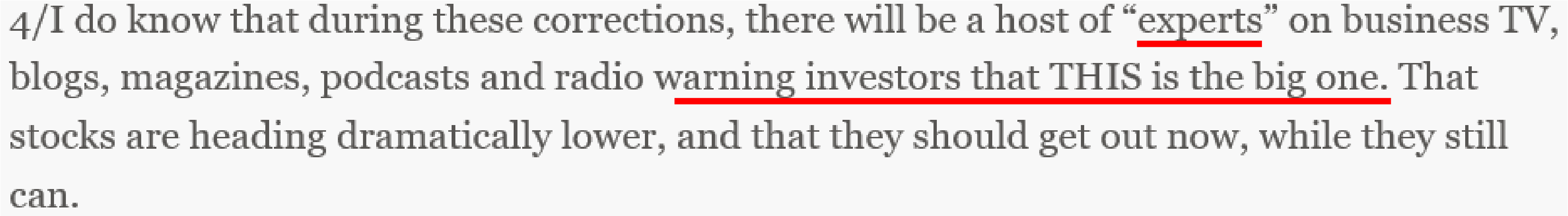
Jim OShaughnessy
@jposhaughnessy

1/ I have been a professional investor for over 30 years. What follows is some things I think I know and some things I know I don't know. Let's start with some things I know I don't know.

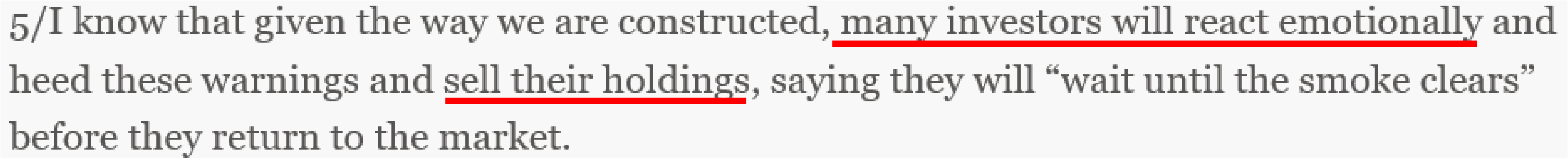
6:35 PM - 10 May 2018



3/I DO know that, according to Forbes, “since 1945…there have been 77 market drops between 5% and 10%…and 27 corrections between 10% and 20%” I know that market corrections are a feature, not a bug, required to get good long-term performance.

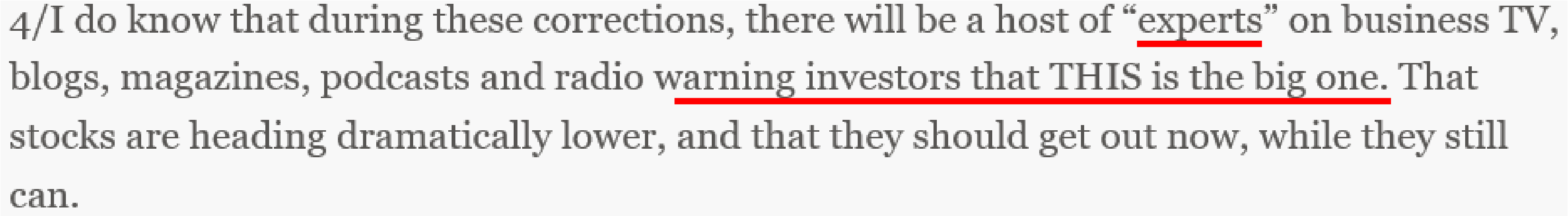


4/I do know that during these corrections, there will be a host of “experts” on business TV, blogs, magazines, podcasts and radio warning investors that THIS is the big one. That stocks are heading dramatically lower, and that they should get out now, while they still can.



5/I know that given the way we are constructed, many investors will react emotionally and heed these warnings and sell their holdings, saying they will “wait until the smoke clears” before they return to the market.

6/I know that over time, most of these investors will not return to the market until well after the bottom, usually when stocks have already dramatically increased in value.



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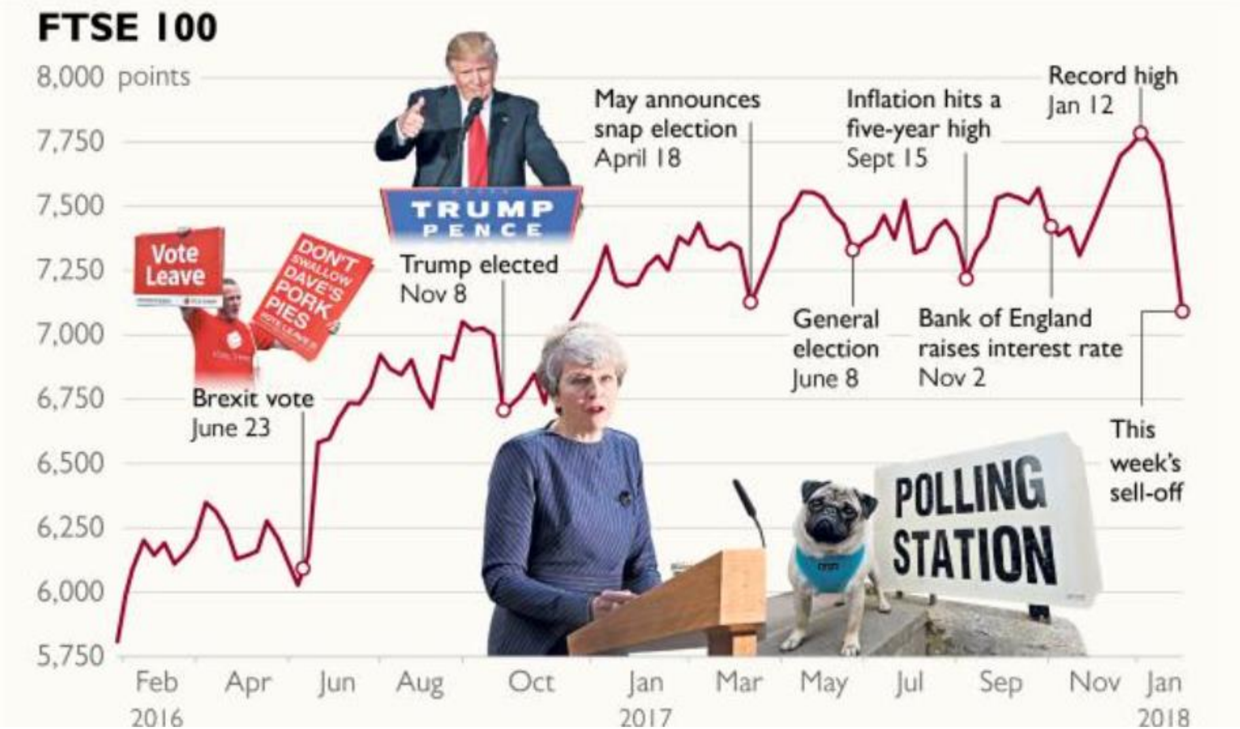
How market mayhem affects you

What sparked the tumble and whether you should be worried about your portfolio



Source: The Times, 10 February 2018

Newspaper headlines you'll never see…

FINANCIAL NEWS

MONDAY 04 JUNE 2018

WORLD BUSINESS NEWSPAPER

UK £0.00 Channel Islands £0.00; Republic of Ireland €0.00

Expected stock market returns rise following share declines

In another round of brilliant news from international stock exchanges, future returns continue to rise as share prices fall further and further. Commenting on the ever-improving prospects for stock market returns, a senior hedge fund manager said: "We're really happy to see this market weakness, as we know that it means one thing, and one thing only: future returns are on the up and up!"

Young investors rejoice as markets crash, providing much improved entry points

Investors celebrate as stocks go on sale

Traders on Wall Street returned to some of their favourite party venues last night, celebrating a third successive day of stock market weakness around the globe. As one market veteran remarked while hugging a magnum of champagne: "When fashion clothing and luxury brands go on sale, people get up early and queue outside shops from the early hours to take advantage… why should stocks be any different?"

Markets fall for reasons no one can be sure of

Pressed for reasons explaining another weak day in stock markets, a number of commentators have once again come up with exactly the same answer:

"We actually do not have a clue".

As one strategist at a buy-side firm pointed out: "Investors have different goals, opinions, strategies, time horizons and risk profiles, and what this all amounts to is that stock price movements on any given day will, on balance, simply reflect which of these many moving parts may be the dominant one for the time being."

Briefing

Economic forecasts for next year: the future is STILL unknowable

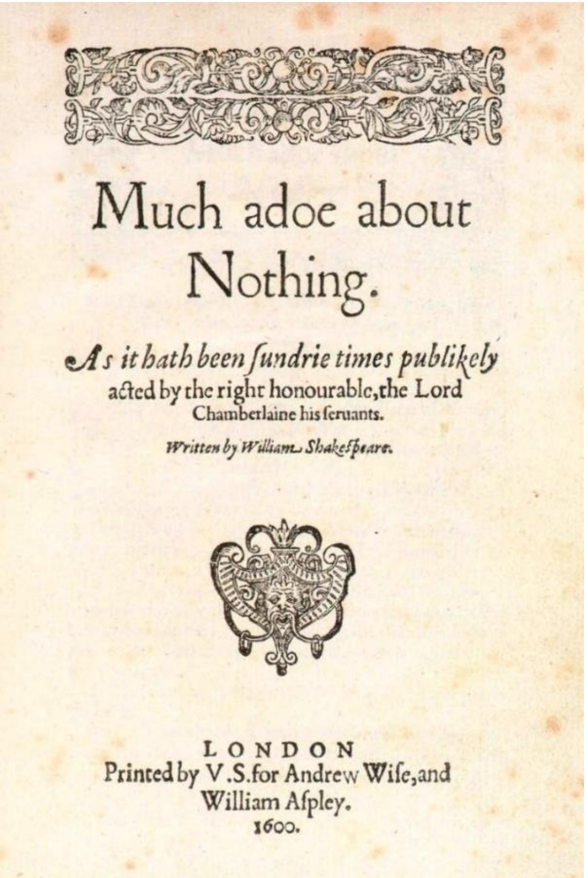
As far as our roundup of economic forecasts for the new year is concerned, we are pleased to report that – as was the case in previous years – it is still not possible to do so with any confidence. In the words of Anthony Alberts, senior economist at Pitt & Gillespie Financial Advisory: "I can extrapolate last year's numbers if you want, mix in my own biases and vested interests and give you a guess or two… but what value would there be in **that**?"

Source: Credo

In investing, ***losing means taking decisive action at the worst possible times*** *— being driven by your emotions precisely when you need to be the most rational.*

Trying too hard to win eventually means losing…

(Charles Ellis)



Much adoe about
Nothing.

As it hath been ſundrie times publikely
acted by the right honourable, the Lord
Chamberlaine his ſeruants.

Written by William Shakeſpeare.

LONDON
Printed by V.S. for Andrew Wiſe, and
William Aſpley.
1600.

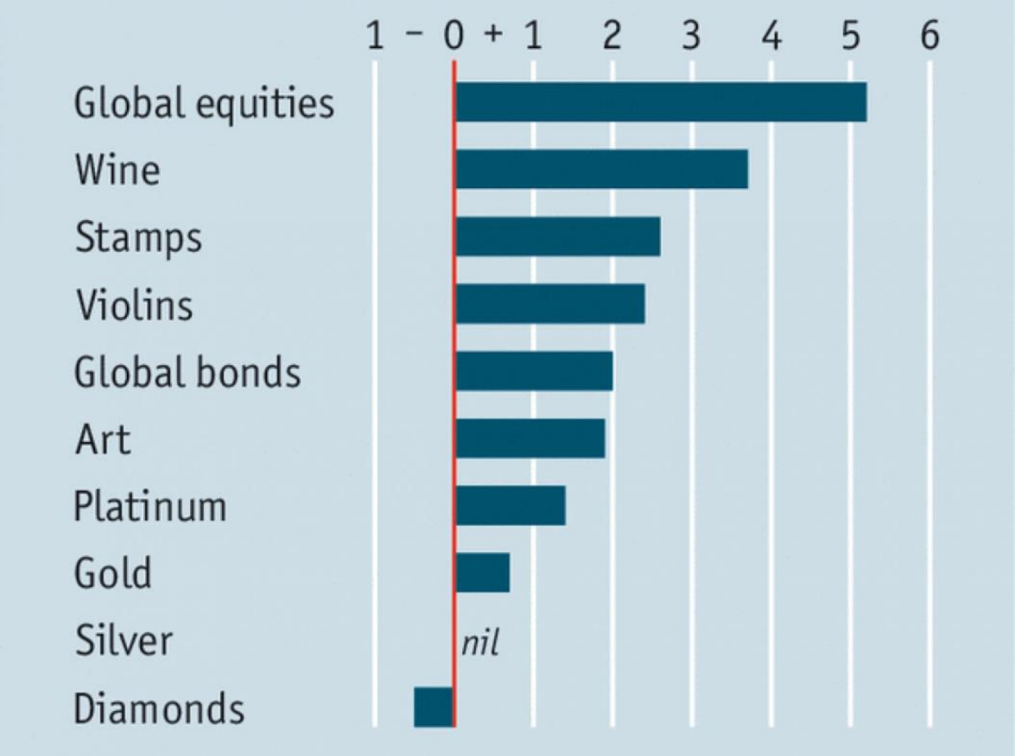
Italy: 29 May 2018

Source: The Economist

Italy: 30 May 2018

Source: The Economist

Average annual % real returns (1900-2017)



Source: Dimson, Marsh & Staunton / The Economist

Meet Alfie

Alfie: also pretty good at doing nothing…

…the day the Dow fell more than 1,000 points in February

Alfie: also pretty good at doing nothing…

…after Donald Trump declared a trade war in March

Alfie: also pretty good at doing nothing…

…when North Korea fired a missile over Japan last September

Alfie: also pretty good at doing nothing…

…following the resignation of Markus Jooste in December

So, until we meet again… **be more like Warren**

So, until we meet again… **be more like Warren (and Alfie)**

THANK YOU

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YEARS

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