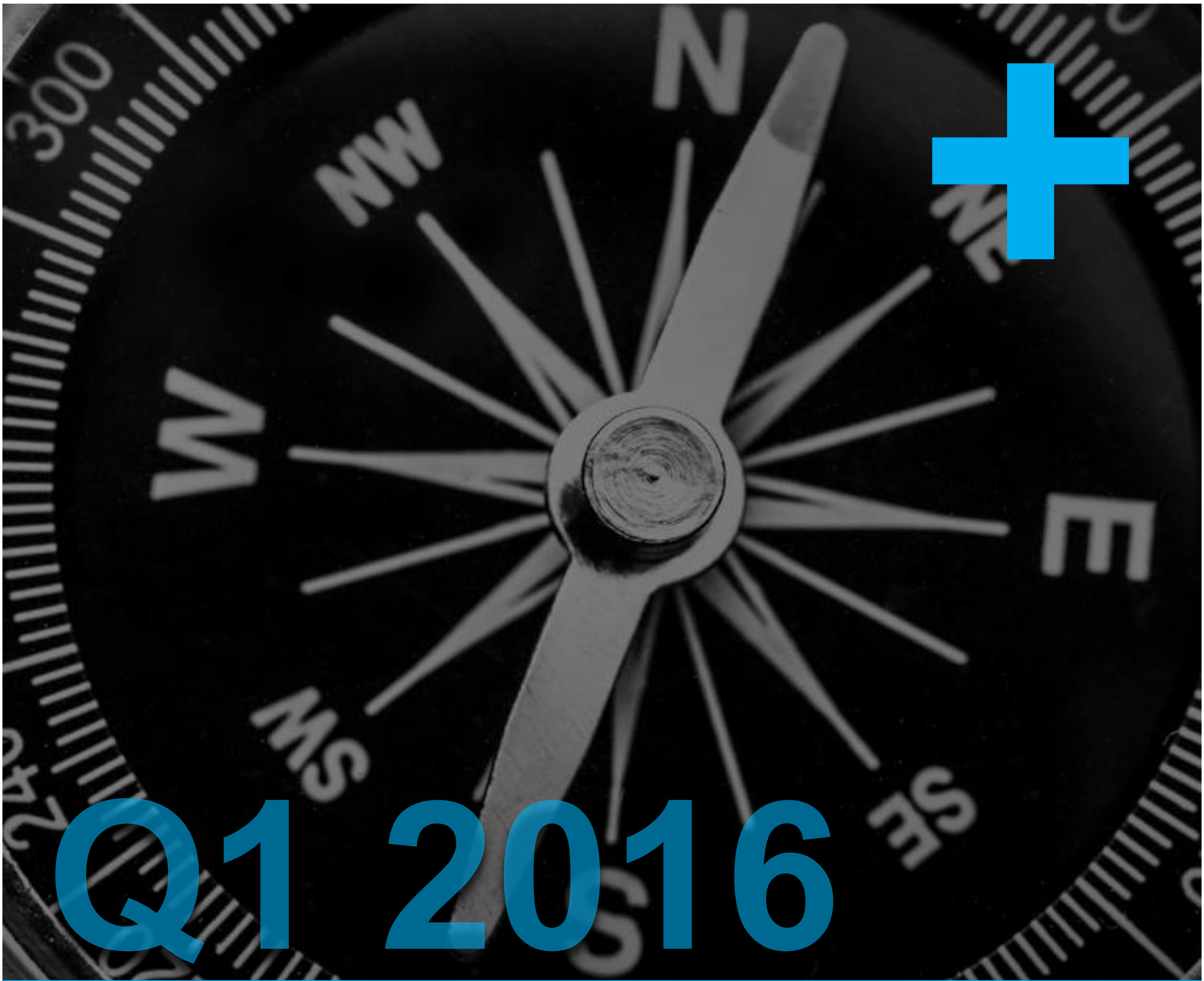

# Q1 2016

## Adviser Quarterly Market Report

MANSARD
CAPITAL MANAGEMENT

# Welcome

**Welcome to the first Quarterly Market Report provided by Mansard Capital Management.**

Our goal is to provide full transparency to our partners and underlined investors, a trait that we often find lacking within the industry.

We want to ensure that our market report is as useful as possible, so please provide us with your feedback and ideas for enhancement and improvement. The market report will be provided to you at the end of each quarter. Specifically, the report will be provided to you for the period ending March, June, September and December each year. We will continue to send to you Market Update reports and factsheets on e-mail as necessary between the issuance of these Quarterly Reports. The commentary is meant to be brief and to the point, touching on the most significant issues within any given asset class. All of the performance data quoted is sourced from Mansard Capital Management and Bloomberg.

We hope you find this interesting and beneficial. Please let us know if you have any questions. Thanks again for the opportunity to work with you.

**Yours Sincerely**

**Leon Diamond**

**Leon Diamond**
**Founder & CIO**

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# General Market Overview 1st Quarter 2016

Continued concerns over China's outlook and the trajectory of the global economy weighed on sentiment at the start of 2016. Risk assets plunged sharply in the first few weeks with Emerging Market equities leading the way down. Government bonds and gold benefited from the risk-off environment. Interest rates dropped sharply during the first quarter, resulting in the outperformance of long-duration bonds. Most credit spreads narrowed, but they remained somewhat above their historical averages for both corporate and emerging-market debt at quarter end. High-yield investors continue to price in a default rate that implies a significant deterioration in the fundamental outlook.

Yet, the tone reversed sharply mid-quarter amid the steady U.S. economy and easier global monetary policy, including the Federal Reserve (Fed) softening its rate-hiking stance. The worst performers in 2015 (Emerging Market equities, commodities, and non-U.S. currencies) rebounded to finish with Q1 gains.

Q2 will again prove to be a challenging environment with the global economy in a process of stabilization. The U.S. economy looks somewhat robust with a mix of mid and late cycle dynamics, Europe's cyclical trajectory is slow but steady with China the biggest risk. The low "base effect" may help lift commodity prices and EM growth, with the potential for upside inflation surprises not currently priced into markets. We maintain expectations of higher volatility due to unconventional monetary policies. At this point in the cycle, risks may be asymmetrical, with generally more limited upside for returns. We still believe that Europe has the most value to unlock with assets being deeply discounted on the back of further Greek bailout talks and a possible 'Brexit'.

| FX | Price | Month | Year to Date | 3 Years |
|---|---|---|---|---|
| **GBP Currency** | 1.4360 | 3.18% | -2.55% | -13.27% |
| **JPY Currency** | 0.0089 | 0.10% | 6.82% | -6.47% |
| **AUD Currency** | 0.7657 | 7.23% | 5.09% | -14.13% |
| **CHF Currency** | 1.0397 | 3.81% | 4.21% | -7.16% |

Source: Bloomberg 01.04.16

## Key Asset Class Mix

PAA invests across all five major assets classes and uses star alpha managers

**Cash** – The fund will hold cash in times of uncertainty as a safe haven. Equally we may take a currency view and hold cash positions in global FX.

**Equities** – We will adopt various equity strategies which may include buying a global indices, Options, Equity Managers, Long/Short positions and market sectors.

**Fixed Income** – Our fund invests across all major bond markets. We will take a view on Government bond, corporate bonds and high yield, which can be a global position, country or sector.

**Real Assets** – We assess the price of commodity and property markets, take either a short term holding as a safe haven or long term price strategy.

**Alternatives**– In order to reduce volatility and seek out absolute returns, we seek out managers in CTA, Systematic and Managed Futures to provide returns in both upward and downward market trends.

## Cash & Equivalents

We remain invested in short term UK Treasury Bills with a maturity of up to 3 months as this is the most liquid segment of the market and allows the fund to pick up yield near term whilst also remaining hedged as there is no currency risk. We believe that the current yield on these essentially risk-free securities is a much more compelling investment than sitting on the side-lines in cash.

| Fixed Income (Yield) | Price | Month | Year to Date | 3 Years |
|---|---|---|---|---|
| US 10YR Yield | 1.77 | 0.03% | -0.50% | -1.26% |
| UK 10YR Yield | 1.42 | 0.08% | -0.55% | -1.61% |
| Hong Kong 10YR Yield | 1.28 | -0.10% | -0.39% | -1.41% |
| Japan 10YR Yield | -0.03 | 0.03% | -0.29% | -0.77% |
| Switzerland 10YR Yield | -0.34 | 0.11% | -0.28% | -1.41% |

Source: Bloomberg 01.04.16

## Key Market Drivers in Q1

**China's economy expanded 1.1% in the first quarter of 2016,** analysts had expected quarterly growth of 1.5%. That is the slowest rate since 2009, but the pace applies to a much larger economy - around $10 trillion in 2015.

**US central bank** has said that rates will stay at 0.25% to 0.5% for at least another month as most economics predict a hike will be announced in June

**The ECB announced** another round of policy easing to address the region's economic challenges. The sweeping measures were in excess of market expectations, especially when compared to the central bank's modest move in December 2015.

**Oil producers,** including top exporters Saudi Arabia and Russia, met in Doha on Sunday to discuss "freezing output around current levels in an effort to contain a global supply glut that sees some 2 million barrels of crude produced every day in excess of demand.

## Fixed Income

It looks as though we are coming to the tail end of the current credit cycle. High Yield issuance has effectively dried up although the secondary market is still functioning. The issuance in Investment Grade debt is growing and is usually the case when we reach the latter stages of a cycle. In the US, widening credit spreads reflect fears that the Energy market weakness will not be contained. The oil-credit correlation remains strong and with the risk to oil prices increasingly to the downside, the tactical risk in credit will likely remain high until oil prices bottom.

The performance of stocks and Treasury's in Q1 looks very similar to what transpired during the first three months of 2015. The S&P 500 fell, bottomed and rebounded through the first quarters of each year, following roughly similar trajectories. Yet the comparisons are even more pronounced in the 10-year Treasury yield, which started each year just north of 2% amid expectations that interest rates would move higher. Instead, the opposite occurred. Rates fell at the beginning of both years, with the 10-year yield hitting a low in January 2015 at 1.64% and bottoming this February at 1.53%. With the risk on sentiment growing we did reach 2% mid-March but the unexpectedly dovish comments from the Fed Chair sent the 10yr yield (indeed all yields) lower. The entire US yield curve shifted lower.

Bunds headed back to last April's record low yield near 0.05% as the ECB announced an increase in their monthly asset purchases by €20B as widely anticipated. With a net negative issuance in Bunds this year they also widened their purchasing mandate to include corporate debt (incidentally creating chronic illiquidity in European bond markets). The marginal return on reach new stimulus package is definitely diminishing and we have initiated a tactical short position in Bunds to take advantage of any corrections as investors rotate further out into the credit spectrum looking to pick up yield.

Longer-dated Japanese government bond yields fell to new depths, with the 7, 10 and 30-year benchmark yields all setting new record lows. While new records for this red-hot market are not unusual after the Bank of Japan cut interest rates below zero, the scale of the rally for the 30-year bonds was quite something. The yield on 30-year Japanese government bonds fell by 22.2 bps in a single trading session. The shift came after revised data confirmed the persistent shrinking of the Japanese economy despite Abenomics best efforts. Should the time come when investors no longer believe that Abenomics can deliver, we are positioned to take capitalise on what would be a catastrophic collapse in the JGB market.

| Developed Market Equities | Price | Month | Year to Date | 3 Years |
|---|---|---|---|---|
| S&P 500 Index | 2060 | 6.60% | 0.77% | 11.44% |
| NASDAQ Composite Index | 4870 | 6.84% | -2.75% | 16.60% |
| DAX Index | 9966 | 4.95% | -7.24% | 4.33% |
| Euro Stoxx 50 Index | 3005 | 2.01% | -8.04% | -3.35% |
| Topix Index | 1347 | 3.80% | -12.93% | 3.45% |
| FTSE 100 Index | 6175 | 1.28% | -1.08% | -8.51% |
| Swiss Market Index | 7808 | -0.46% | -11.46% | -4.82% |
| Russell 2000 Index | 1114 | 7.75% | -1.92% | -4.26% |
| NIKKEI 225 | 16759 | 4.57% | -11.95% | 2.87% |
| IBEX 35 Index | 8723 | 3.09% | -8.60% | -12.04% |

| Emerging Market Equities | Price | Month | Year to Date | 3 Years |
|---|---|---|---|---|
| Nifty 50 | 7738 | 10.75% | -2.62% | 22.75% |
| Shanghai Composite | 3004 | 11.75% | -15.12% | 41.96% |
| SENSEX Index | 25342 | 10.17% | -2.97% | 19.70% |
| Ibovespa Index | 50055 | 16.97% | 15.47% | -2.82% |
| MSCI AC World Daily TR Gross Local | 872 | 5.63% | -1.37% | 10.35% |

Source: Bloomberg 01.04.16

## Equities

In March, equity markets continued where they left off In February as risk assets gained further momentum. The S&P 500 added 6.60% over the month outperforming the other developed markets as investors clearly saw Fed Chair Yellen's dovish comments supporting a much more gradual hike in rates. The rally from its mid-February low has been quite remarkable- never before had it recovered from a 10% Q1 decline. US equities were our top performance contributor in March adding over 0.80% to portfolio performance.

One important point to note is that yield is influencing stock buying. The S&P 500's top-performing sectors this year are telecoms, utilities and consumer staples. Those tend to consist of high-dividend paying companies that benefit most during slow-growth, low-rate environments, such as the current one. If the Federal Reserve continues on its slow-and-steady approach to rates, there is little reason to think the leadership would change.

In Europe, the picture is far less clear with the Euro Stoxx only recovering 2.01% in March with several political and financial risks still on the immediate horizon. The capital adequacy of the banking sector remains front and centre as shown with the European Bank Index remaining flat for the month. Earnings in Europe are growing by double digits and the bank selloff seems excessive- if anything Italian NPL's are peaking and provisions are improving. Greek Banks however had a fantastic month with Alpha Bank returning a stunning 24.84%. It is well known that Sovereign wealth funds are large investors in European financials and the selloff in banks earlier in the quarter was likely an indirect consequence of falling oil prices, rather than a sign of impeding bankruptcies.

The MSCI Emerging Markets Index recorded its strongest monthly gain since October 2011. A rebound in commodities and a more dovish stance by the Federal Reserve accelerated the momentum this quarter. Foreign inflows are returning to emerging markets and corporate earnings will be something to watch out for in the next few quarters to see if it is sustainable.

## Key Influences in Q2

+ **Negative Interest Rates:** Many central banks have recently entered the strange world of negative interest rates. We are sceptical as to the efficacy of this policy and the fact that central banks are still trying to find new and innovative monetary policy tools more than seven years after the global financial crisis illustrates the difficulty they face in reviving growth and inflation. Denmark, Sweden, Switzerland, The ECB, Japan and now Hungary have all used negative rates which have resulted in banking stocks, particularly in Europe, being discounted below fair value. Q2 could see a great opportunity to generate portfolio Alpha in this sector.

+ **Brexit:** UK Government announce the that 23rd June as the date Britain will vote on Europe. Boris Johnson side with camp exit. Whilst the presidential candidate heats up between Donald Trump and Hilary Clinton.

+ **Commodity prices:** An easing in fears about a China hard landing could give commodity prices a short-lived respite in Q2 but the dollar remains in a secular bull market, which has historically been bad news for commodities. In addition, the on-going EM deleveraging cycle will represent a headwind to commodity prices so global inflation concerns may well continue.

## UK

In the UK the Bank of England unanimously voted to keep its benchmark rate unchanged at 0.5% whilst holding its asset purchasing plan at £375bln. No surprises were expected as they continue to look to use the Federal Reserve in the US as a guide path. Inflation data remained depressed at 0.3%, with estimates at 0.4%. The lack of wage and inflation growth will continue to be a worry to Governor Carney as the economy remains vulnerable with any rate hikes now being priced into 2017 at the earliest.

## Europe

In Europe all eyes were on the ECB and they didn't fail to deliver. They implemented aggressive stimulus on a triple rate cut and an increase in QE monthly purchases which sent immediately sent asset prices higher. Yet by month end it seemed as though the bazooka backfired with them taking future rate cuts off the table.

A decent Swiss CPI reading managed to buy more time for the SNB not to follow the ECB in cutting rates further into negative territory, but we believe this is only delaying the inevitable.

Key economic indicators throughout the month continued to muddy the waters in Europe as the periphery once again began to lag the core member states. Germany recorded steady PMI, business and investor confidence numbers as inflation also ticked up ahead of estimates. With the upcoming Greek debt payment due in June as well as the outcome to the Brexit referendum, it seems for the time being at least that Europe will continue to operate in a stagflation environment.

## US

Jobs data in the US was very strong coming in at 242k vs. 195k expected with unemployment steady and wage growth stalling. Yet before the markets became too buoyed by the positive data, Fed Chair Janet Yellen gave a clear message that interest rates will be raised at a cautious pace. The FOMC left their target for the Federal Funds rate unchanged at 0.25% - 0.5%. In one of her most detailed policy discussions, Yellen declared that foreign economies and their financial markets need to stabilize. Her scepticism that the recent rise in core inflation (which strips out food and energy) will prove durable is likely to be the key factor in deciding on the next rate hike.

## Japan

In Japan, PM Abe reiterated the government would not consider new stimulus or an extra budget at this point, also defusing speculation of an early Parliament election this year. The risk-off mode after the BOJ statement was less the result of what they said but rather the function of what they didn't say - namely omitting the promise to take rates deeper into negative territory as they claimed in January.

However as the Q1 Tankan Large Manufacturing Index hit its lowest level since Jun 2013 along with the PMI manufacturing contracting for the first time in 11 months, Kuroda took it upon himself to suggest that it is theoretically possible to cut a short-term interest rate to around minus 0.5%- a comment that could add to uneasiness among the public over the policy experiment aimed at beating deflation.

## China

China continued to stimulate growth in March by injecting yet more cash into its banking system and cut the reserve requirements from 17.5% to 17% in an effort to spur bank lending. It seems as though one particular sector which is benefitting from the recent stimulus measures is manufacturing as the PMI recorded its first expansion in eight months.

| Commodities | Price | Month | Year to Date | 3 Years |
|---|---|---|---|---|
| WTI Crude (USD/bbl.) | 38.34 | 13.60% | 3.51% | -61.04% |
| Natural Gas *USD/MMBtu) | 1.96 | 14.49% | -16.17% | -53.69% |
| Soybean Oil (USd/lb.) | 34.22 | 11.68% | 12.01% | -11.85% |
| Soybean Meal (USD/T.) | 270.30 | 4.24% | 2.27% | -38.25% |
| Cotton No.2 (Usd/lb.) | 58.44 | 0.74% | -7.65% | -30.95% |

Source: Bloomberg 01.04.16

**Crude Oil dipped below $28 for the first time since 2003 in January, it has recovered since and closed in March at $38.34**

## Real Assets

With commodity prices somewhat settling down, the Fund sees an opportunistic position within the Agriculture space and has allocated accordingly. This further diversifies the portfolio and provides a hedge if the US Dollar sees more selling pressure. Our strategic position in oil has proven to be well timed and again contributed to overall performance in March adding 0.31%. It was the biggest monthly increase in Brent crude in almost a year, spurring rallies in currencies of oil producers such as Russia's Ruble and Malaysia's Ringgit. It was Janet Yellen's dovish speech during the month that drove down the US Dollar which in itself propels commodity prices further. Of course should this be a sustained push in commodity prices it will add to inflationary pressures meaning that she will have to hike rates sooner rather than later and ahead of the shallower dot-plot they've provided. Elsewhere Iran continue to be a thorn in the OPEC producing nations' side as their oil minister declared that they will raise daily output to 4 million barrels.

We have maintained our strategic allocation to gold as we see that the appetite for the precious metal as a safe haven has picked up again after a nearly 5 year decline in its value. With the unprecedented territory global central banks are now operating in, we see that it will provide far greater downside protection in market drawdowns than in recent years.

The London property market offers a unique and sustained opportunity for investment and growth. The planning environment continues to offer opportunities, particularly in the residential market and we see strong growth in the mixed use sector focusing on regeneration. With that in mind we are looking to gain exposure to the market in the coming months.

We see strong growth in the mixed use sector focusing on regeneration

| Property | Price | Month | Year to Date | 3 Years |
| --- | --- | --- | --- | --- |
| FTSE E/N All Eqty ReitTR | 15506 | 10.17% | 5.84% | 39.33% |
| S&P Global REIT USD | 506 | 9.63% | 7.22% | 32.45% |
| TERXUU Index | 1518 | 8.21% | 8.68% | 18.50% |
| NAREIT UK REITs GBP | 568 | 5.20% | -6.82% | 19.99% |

Source: Bloomberg 01.04.16

## Alternatives

Our FX positions were a mixed bag during the month as our US Dollar bias detracted from overall performance to the order of 0.37%. Our three strategic positions long of the US Dollar against the Australian Dollar, the Euro and the Swiss Franc of course suffered as USD sold-off post Yellen's comments. However we still maintain that all three pairs will move significantly in our favour, sooner if not later, as the Australian economy continues to suffer as China's growth slows, the ECB continue to accelerate their stimulus efforts and the SNB will be under pressure to weaken the already too strong Franc. Our hedge to these positions, the long Yen, has performed very well and continues to act as a safe haven. The Yen has strengthened over 6% this year against the US Dollar.

Our US yield curve steepener should begin to play out as fears over the Fed going back on their decision to hike dissipate leaving the long end of the curve vulnerable. As markets normalise, we should see inflation expectations grow (in line with any pickup in commodity prices) anchoring the near end of the curve.

| Alternatives | Price | Month | Year to Date | 3 Years |
| --- | --- | --- | --- | --- |
| SG CTA Index | 2331.89 | -3.18% | 3.86% | 20.16% |
| SG Trend Index | 2801.2 | -3.18% | 2.88% | 23.19% |
| VIX Index | 13.95 | -32.12% | -23.39% | 1.68% |

Source: Bloomberg 01.04.16

## Star Managers (Alpha)

| Fund Name | Sector | Current Weighting |
|---|---|---|
| **North MaxQ Macro UCITS Fund** | **Fixed income** | **3.75%** |

Source: Bloomberg 01.04.16

**North MaxQ managed to contribute 11bps of performance as they increased risk slightly and have been able to benefit from three main strategies.**

### Manager Review – North MaxQ Macro

In an increasingly more challenging environment for macro funds, North MaxQ managed to contribute 11bps of performance as they increased risk slightly and have been able to benefit from three main strategies.

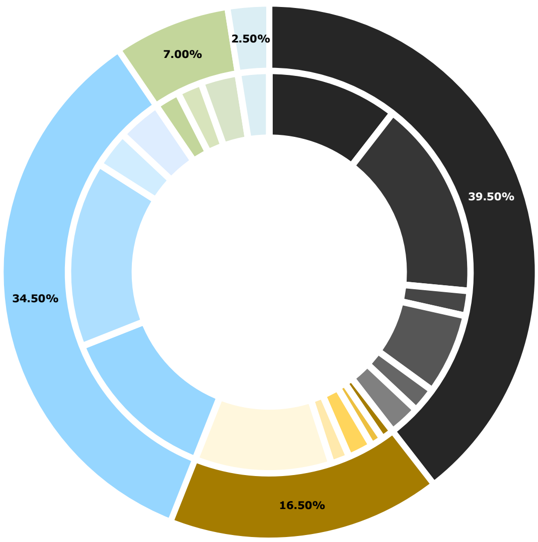
They are paying GBP long-end interest rates vs. JPY in what they see as a structural long term trade. This is a direct play on UK assets struggling leading into the "Brexit" referendum. They receive Yen rates in order to offset the beta to the rest of G3 and because the Bank of Japan is the only central bank that is actively buying the long end of the curve.

They profited from being long Mexican Peso and Russian Ruble against the South African Rand. South Africa is one of the only economies which has seen no reduction in the current account deficit along a depreciation in its currency. There has been a hollowing out of the manufacturing sector and difficulty to obtain import substitution, as well as a rise in short-term domestic political risk, so they expect further currency depreciation. On the other hand, there has been a substantial depreciation of non-resident investment stock in Mexico and Russia.

Finally, their strategic exposure to Japanese equity has been profitable with the rationale here that equity portfolios in Japan have suffered recently, not only due to the Nikkei underperformance over the previous quarter but also because the strengthening of the Yen was not properly offset by the Bank of Japan.

We continue to see value in allocating to North MaxQ to provide alpha to our portfolio in multiple market conditions. Knowing when to pay for alpha is what separates Principle Asset Allocation Fund from its peers.

**Current Asset Allocation**




Source: Mansard Capital LLP Totals are rounded from source data. This information is indicative as at end of March 2016 and is for information purposes only. Past performance is not a reliable indicator to future performance.

| | | | | |
|---|---|---|---|---|
| Equities | UK Equities | UK Equities 4.0% | 39.50% | 4.00% |
| Equities | Woodford Equity Fund | Woodford Equity Fund 3.0% | | 3.00% |
| Equities | Woodford Patient Trust | Woodford Patient Trust 3.5% | | 3.50% |
| Equities | European Equities | European Equities 16.0% | | 16.00% |
| Equities | Asian Equities | Asian Equities 2.0% | | 2.00% |
| Equities | US Equities | US Equities 6.5% | | 6.50% |
| Equities | US Small Cap Equities | US Small Cap Equities 2.0% | | 2.00% |
| Equities | Australian Smart Beta (β = 2.5%) | Australian Smart Beta (β = 2.5%) 2.5% | | 2.50% |
| Bonds | UK Long-Term Govt Bonds | UK Long-Term Govt Bonds 1.0% | 16.50% | 1.00% |
| Bonds | UK Short-Term Bills | UK Short-Term Bills 1.0% | | 1.00% |
| Bonds | US Govt Bonds | US Govt Bonds 2.0% | | 2.00% |
| Bonds | EUR Govt Bonds | EUR Govt Bonds 1.5% | | 1.50% |
| Bonds | Japanese Govt Bonds | Japanese Govt Bonds 11.0% | | 11.00% |
| Alternatives | Aspect CTA | Aspect CTA 6.5% | 34.50% | 6.50% |
| Alternatives | Dunn Capital CTA | Dunn Capital CTA 6.5% | | 6.50% |
| Alternatives | Brevan Howard Macro Fund | Brevan Howard Macro Fund 7.5% | | 7.50% |
| Alternatives | North MaxQ Macro Fund | North MaxQ Macro Fund 3.8% | | 3.75% |
| Alternatives | GAM STAR Global Rates | GAM STAR Global Rates 3.8% | | 3.75% |
| Alternatives | SL Global Focused Fund | SL Global Focused Fund 3.0% | | 3.00% |
| Alternatives | G10 FX Strategies | G10 FX Strategies 3.5% | | 3.50% |
| Real Assets | Gold | Gold 2.0% | 7.00% | 2.00% |
| Real Assets | Agriculture | Agriculture 3.0% | | 3.00% |
| Real Assets | Oil | Oil 2.0% | | 2.00% |
| Cash | Cash | Cash 2.5% | 2.50% | 2.50% |

**Conclusion:**

Our view is the Principal Asset Allocation Fund is right for an uptick in the next six months to outperform a number of asset allocation funds, while still protecting if there is a large unforeseen market collapse drawdown.

***Why do we say this?***

+ We have a strong allocation to European Equities with a focus on specific European Banks . European equities are undervalued to US equities, USD strength has hurt exports and international fund managers are hunting European companies and assets due to cheaper Euro. (yes political risks are here, but that is already priced in, outside a collapse of Europe – hard to see in a six month period)
+ PAA has exposure to Agriculture commodities; now bouncing off multi year lows and are benefiting from the exposure.
+ PAA Macro exposure looks right to make some profits as rates hit as all-time low in Europe and liquidity is drying up for “fixed income paper” – Macro managers typically profit in volatility, that’s where they make money and Fixed Income looks ripe.

***Where we can go wrong?***

+ Equities don’t rally – we have Managed Futures exposure that should make money in the next three to six months and protect us if equity markets fall. Currently long fixed income, short commodities, neutral on equities and long USD. In a market crash Managed Futures will make money to offset our losses in Equities and Agriculture.

# MANSARD
CAPITAL MANAGEMENT

## The pessimist complains about the wind; The optimist expects it to change; The realist adjusts the sails

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*The Performance data provided is based on back-tested trading until December 2014 and should be treated as simulated data for information purposes only. Performance from December 2014 is actual performance. Past Performance data provided is not a guide to, or a reliable indicator of, future performance. Please refer to the Fund's offering supplement for further information. The information detailed on this document is indicative and is for information purposes only. Past performance is not a reliable indicator to future performance.