

North View's – This is the time to stay the course

The traditionally quiet summer season has been anything but this year. The correction in equity markets and general risk assets over the past weeks has been brutal but it is the speed and size of the downward move, particularly in the last two days, that has taken the markets by surprise. This sell off has been prompted by a sharp increase in investor concerns in response to the ongoing delays and debate over a solution to the Eurozone Sovereign debt issue and the US debt ceiling against the backdrop of slowing global growth. Whilst this is clearly very worrying to investors and has caused considerable pain, it is important to keep in mind that this is more about Politics and Macro Economic issues than it is about Micro Economics - the fundamental health of the companies that we invest in. On this front there are more than just a few reasons to remain positive and to stay invested.

In the US, of the companies that have so far reported second quarter earnings we have seen roughly 75% beat expectations. Many companies, especially those that have a presence in the emerging nations of the world, have never had it so good. One only needs to look at Apple's storming results to see the power of a brand name that Asian consumer's desire.

Given current debt levels and the already overstrained consumer, we do not expect Europe or the US to drive global growth over the next few years, instead it is likely to be the emerging nations will deliver the higher economic growth rates despite recent steps to slow down their economies. Overall we still believe that we are unlikely to see global growth stall in the coming years.

Whilst we face the prospect of several years of rather anaemic global growth and periods of volatility in global stock markets like the one we are experiencing now, it is important that Investors remember that stockmarkets and individual companies can still deliver strong returns in such conditions. Evidence of this can be found from looking deeper into underlying company fundamentals. Compared to 2008, companies are in exceptional health. Many sit with significant cash surpluses on their balance sheets and having learnt the hard way, debt has been dramatically reduced. It was the latter that caused much of the pain in 2008/09 as debt markets froze and companies found they were unable to re-finance. Valuations also remain compelling, both relative to their own history and also to other asset classes. With cash yielding zero and government bonds offering pitiful yields, the attraction of a 4-5% dividend yield from a multi-national company with a solid balance sheet is extremely compelling and we can find a number of such opportunities in the market at present.

To a large extent our choice of fund managers has helped mitigate some of the pain that exposure to equity markets has caused over the last month or so. Within the UK our bias toward equity income managers has stood us in good stead. These managers focus on the larger quality companies with strong balance sheets able to deliver a relatively attractive dividend yield. Other managers we have favoured because their investment approach enables us to afford our investors a degree of protection in these volatile times. Funds such as Schroder Asian Total Return which has recently moved to reduce the net equity exposure down to circa 60%.

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We have contacted a large number of our managers over the course of the past few weeks and have been encouraged that the majority of them share our view on where markets will go from here. Many are using this market weakness to deploy cash and build up positions in their favourite companies. As your manager, we will also look to take advantage of the opportunity to build our positions with our favoured managers. Our current strategy remains to allocate capital to experienced fund managers who have seen this all before and are familiar with how to navigate these waters. These managers tend to focus on selecting quality companies with strong balance sheets which provide a degree of defence against the ongoing volatility in the markets.

In six to twelve months, we believe we shall look back on this as a good opportunity to gain exposure to equities, which we consider an attractive asset class, at even lower prices. Of course there are always risks and at present these are largely Political and Macro Economic risks. Europe has serious issues that it needs to address and the UK and US face similar problems. However, nothing is for free in this world and without risk there is no return. We would like to leave you with a quote from legendary investor Warren Buffet which we hope provides some comfort "Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well". For our part we will be staying the course, seeking new opportunities to invest as we go.

North
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