Greencape Wholesale High Conviction Fund

Quarterly report - June 2014

Performance #	Quarter %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	Inception % p.a.
Fund return	1.83	18.38	11.22	12.62	5.40	9.80
Growth return	-4.62	8.48	5.65	8.06	0.87	4.16
Distribution return	6.45	9.90	5.57	4.56	4.53	5.64
S&P/ASX 200 Accumulation Index	0.93	17.43	10.38	11.20	2.34	5.43
Active return^	0.90	0.95	0.84	1.42	3.06	4.36

Past performance is not a reliable indicator of future performance.

Performance figures are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

^ Numbers may not add due to rounding

Investment objective

The Fund aims to outperform its benchmark over rolling three-year periods.

Responsible entity

Fidante Partners Limited

Investment manager

Greencape Capital Pty Ltd

Investment strategy

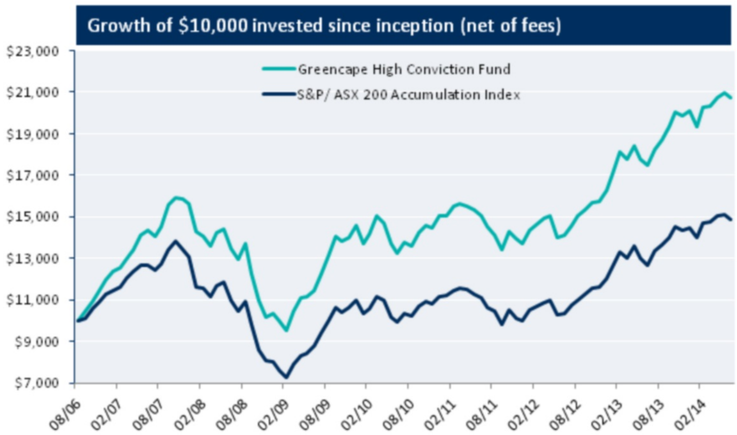
Greencape is an active, 'bottom-up' stock picker. Whilst Greencape does not target any specific investment style and will invest in stocks displaying 'value' and 'growth' characteristics, its focus on a company's qualitative attributes will generally lead to 'growth' oriented portfolios. This is an outcome of its bottom-up process. As such, Greencape's investment style may be classified as 'growth at a reasonable price'.

Distribution frequency

Quarterly

Suggested minimum investment timeframe

At least five years

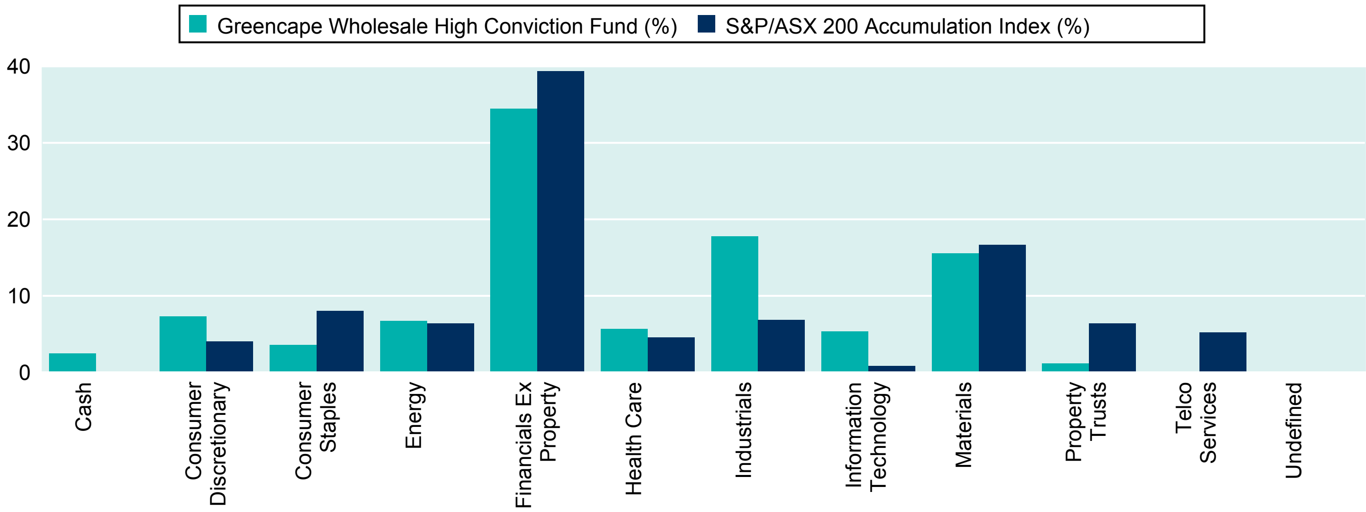


Asset allocation	As at 30 June 2014 (%)	Range (%)
Security	97.55	85-100
Cash	2.45	0-15

Fund facts	
Inception date	11 September 2006
APIR code	HOW0035AU

Fees	
Entry fee	Nil
2012-2013 ICR	0.90%
Management fee	0.90% p.a.
Performance fee	15% of the Fund's daily return (after fees and expenses and after adding back any distributions paid) above the Fund's Performance Benchmark (the daily return of S&P/ASX 200 Accumulation Index).
Buy/sell spread	+0.30% / -0.30%

Sector exposure as at 30 June 2014



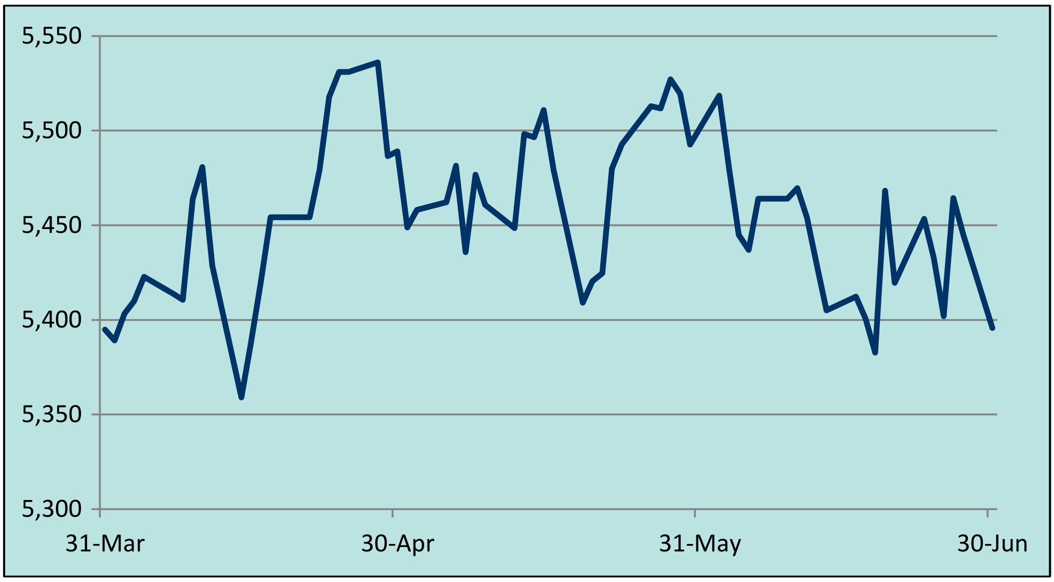
Fund performance summary

The S&P/ASX 200 Accumulation Index returned +0.93% for the quarter. The fund outperformed the market and delivered a +1.83% return over the quarter.

Market overview

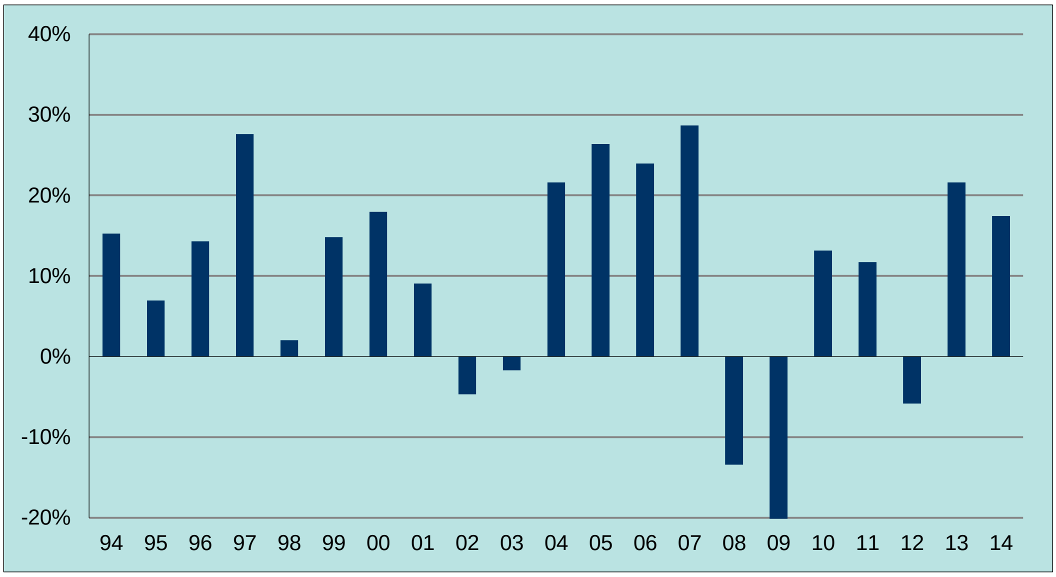
Despite falling in June, the market still managed to squeeze out a gain for the fourth consecutive quarter (after accounting for the reinvestment of dividends). Sector performance was divergent as profit taking hit some sectors harder than others. The local market underperformed the rest of the world by over 4% as the Federal government released a polarising budget, its first since taking office last year. Volatile commodity prices, in particular iron ore, also weighed on mining stocks during the period.

S&P/ASX 200 Index



The chart below shows FY14 was another strong financial year with the market delivering a 17.3% return for the year ended 30 June.

S&P/ASX 200 Financial year performance



As expected, the Reserve Bank of Australia (RBA) again chose to sit on the sidelines during the quarter, leaving the cash rate unchanged at a record low of 2.5%, with the board maintaining its outlook for a 'period of stability' in rates. In his most recent statement, Governor of the RBA, Glenn Stevens, again pointed to a significant decline in resource sector investment but noted tentative signs of improvement in other sectors of the economy which have emerged.

Importantly, the Governor also forecast inflation to be within the 2-3% target range for the next two years. Given these insights, it's not surprising to see consensus economist forecasts do not expect a rise in interest rates until the first quarter of 2015. Local economic data was mixed as GDP grew 1.1% quarter on quarter, beating market expectations of 0.9% growth. Only 5.5k jobs were added in April and May, compared to 70k added in the two months prior. After the budget announcement in May (which we will touch on in more detail later), the Westpac-Melbourne Institute Index of consumer confidence fell to a 3-year low of 93 before recovering slightly to 93.2 in June.

The market has managed to post losses in May of each year since 2010, hence the theory of 'Sell in May and Go Away'. In previous years, events that occurred in May included the peak of the Eurozone crisis, US tapering concerns and weak commodity prices. This year, despite the budget announcement the market managed to post a gain (however small) for the first time since 2009.

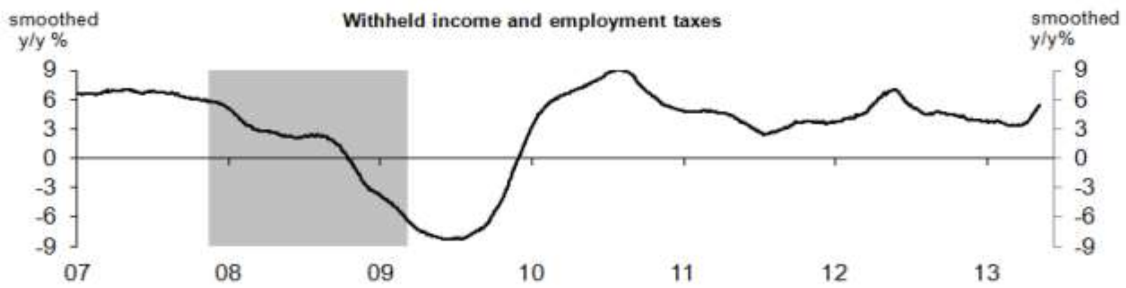
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average	0.2%	2.5%	0.6%	1.2%	**-4.5%**	-1.8%	2.5%	-0.5%	0.2%	4.0%	-2.0%	1.4%
2014	-3.0%	4.1%	-0.2%	1.8%	**0.1%**	-1.8%						
2013	4.9%	4.6%	-2.7%	4.5%	**-5.1%**	-2.5%	5.2%	1.6%	1.6%	4.0%	-1.9%	0.6%
2012	5.1%	0.8%	0.9%	1.4%	**-7.3%**	0.5%	4.3%	1.1%	1.6%	3.0%	-0.2%	3.2%
2011	0.2%	1.6%	0.1%	-0.3%	**-2.4%**	-2.1%	-4.0%	-2.9%	-6.7%	7.2%	-4.2%	-1.5%
2010	-6.2%	1.5%	5.1%	-1.4%	**-7.9%**	-2.9%	4.5%	-2.0%	4.1%	1.7%	-1.7%	3.5%

Source: Bloomberg

"A rolling loan gathers no loss." Kyle Bass, Hayman Capital, 26/05/2014

In the US, there was a widespread sell off of high P/E tech stocks, which had rallied substantially over the past year. Concerns that valuations did not justify earnings growth took hold of the sector as the S&P500 Internet Retail Index fell 7.4% in April, while the S&P500 Index rose 0.6%. US economic data was mixed as Q1 GDP was -2.9% (annualised rate) quarter on quarter (below expectations of -1.8%). This was the lowest print in four years; however the market largely ignored the figure and attributed it to bad weather. Housing starts once again ticked over at an annual rate of 1 million p.a. in April and May. As promised, the Federal Reserve reduced asset purchases by $10bn each month to a monthly rate of $35bn in June.

US Employee tax withholding receipts pointed to an improving US labour market and economy in light of the recent noise. Withholding receipts are up 5.5% year on year. The data tends to be an accurate forward indicator and also timely given figures are not revised and data is released daily.



Source: Treasury Dept., Haver Analytics & Deutsche Bank

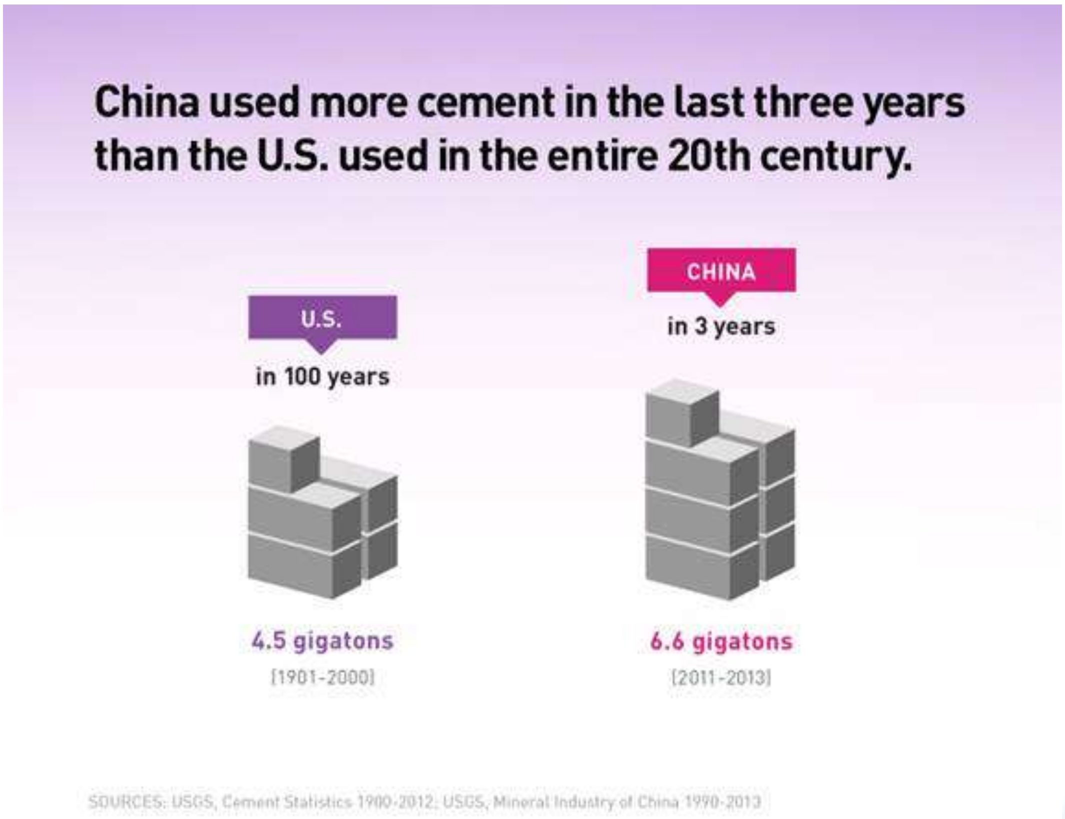
In Europe, the European Central Bank (ECB) announced a number of stimulus measures, including cutting refinancing rates to 0.15% and deposit rates to -0.1%. That is, if a bank wants to park money with the ECB overnight, they will have to pay for the privilege. The central bank also announced €400bn in new loans to banks at an interest rate of 0.25%. These measures came after inflation for April registered at only 0.7% (annualised), well below the ECB's target of 2.0%.

Market indices performance since the 2009 bottom

The NASDAQ has left all in its wake since the market bottomed in 2009. The Australian Small Ordinary Resources initially rallied hard on the back of China's post GFC stimulus program but has since gone from the best to worst performer.

In China, the State Council (the government's executive body) announced a stimulus program which included lower reserve requirements for banks which lend to the agricultural sector, additional spending on railways, targeted liquidity injections and tax relief for SME's. GDP growth in Q1 printed at 7.4% year on year which was slightly ahead of market expectations of 7.3% but below the previous quarter's reading of 7.7%.

We thought this was an interesting statistic which puts in context the materials used in the Chinese economic boom in recent years.



Source: USGS, Cement Statistics 1900-2012, USGS, Mineral Industry of China 1990-2013

"Too much capital availability makes money flow to the wrong places." Howard Marks, Oaktree Capital, 2013

Equity Capital Market activity was yet again a theme for the local market, however IPO's took a backseat to M&A activity. Takeovers offers of David Jones, Australand, Goodman Fielder, PanAust, Envestra and Aquilia Resources were announced, while a consortium led by Transurban acquired Queensland Motorways for $7bn. Market turnover was notably weak, at an average of $3.7bn per day compared to $4.5bn in the last quarter of 2013.

	Jun 2014 Quarter	Year
ASX200 Accumulation Index	0.9%	17.4%
Best performing sectors		
Property Trusts	9.3%	11.1%
Utilities	7.9%	18.2%
Energy	5.2%	18.3%
Worst performing sectors		
Materials	-3.1%	2.5%
Consumer Discretionary	-2.0%	16.9%
Healthcare	-1.4%	11.2%

Property Trusts were the best performing sector during the quarter. The proposed restructure of Westfield Retail Trust and Westfield Group was taken to a shareholder vote, which didn't go as smoothly as planned. 75% of votes were needed to approve the split, and only 74.1% of proxy votes were cast in favour. The vote fell short after a shareholder took issue with Westfield Chairman Frank Lowy's comment that the company would be split whether or not Westfield Retail Trust took on the properties. The vote was then delayed and eventually passed in late June. After the split, the companies formed were 'Scentre Group'; which holds the Australian properties and 'Westfield Corp'; which holds the international assets. Other news in the sector included Australand receiving an all-scrip takeover over from Stockland (who own 19.9% of the company). Stockland's bid was then trumped by an all cash offer at $4.48 per share from Frasers Centrepoint, a Thai property developer.

Utilities were the second best performing sector in the market. Envestra received a non-binding, indicative takeover offer of $1.32 per share from a Hong Kong based consortium. The offer represented a 17% premium to the company's last price. Duet Group also posted strong gains after it was announced that Spark Infrastructure had acquired a 14.1% stake in the company.

Energy stocks also had a good quarter. Spot Brent crude gained nearly 5% over the period as geopolitical risks in Ukraine and Iraq continued to raise supply risk concerns. Oilsearch yet again raised its production guidance during the quarter, with the company forecasting production of 17-20mmboe for 2014. This represents a 15% increase on previous guidance and a 28% increase on the guidance given at the start of the year, driven by an earlier start to production from Exxon's PNG LNG project. Woodside Petroleum opted out of the Leviathan JV after negotiations between the parties failed to reach 'a commercially acceptable outcome'. Also, Shell sold 9.5% in Woodside to institutional investors via an underwritten sell-down at $41.35 per share. Woodside also announced it intends to buy the same number of shares back from Shell at $36.49, with a capital component of US$7.95, with the balance being a full franked dividend.

Materials were the worst performing sector during the quarter. The main story again was the iron ore price, which fell 20% during the quarter. At one stage the reported spot price fell to a 2 year low of US$89 per tonne, before ending June at US$94. The sudden fall particularly wreaked havoc on smaller players including Arrium, BC Iron and Atlas Iron which all fell more than 30% over the quarter. Iluka fell after announcing it had made an approach to Kenmare, who operates an Ilmenite mine in Mozambique. Regis Resources was also punished after the mid-cap gold miner lowered production guidance and raised forecast cash costs due to lower tonnes and grade from its Garden Well mine. Other base metals fared better as Zinc, Aluminium and Copper gained 12%, 7% and 6% respectively during the quarter.

"When it comes to investing, you should always put your money where the profits are, not where your mouth is." Howard Gold, Journalist at MarketWatch, May 2014

"If there is not a willingness to fail you have no hope of success." Andrew Bassat, CEO of Seek, 09/05/2014

"If you've got a wonderful business of your own in Peoria, Illinois, why in the world would you sell it today because of what's happening in the Ukraine?... People react too much to short-term things in the stock market, whereas, they behave quite rationally when they get into other investments." Warren Buffett, Investor, 03/04/14

Consumer Discretionary was the second worst performer over the period as the sector was hit by a reduction in consumer sentiment following the austere budget announced by the Federal government. Internet retailers in the sector such as REA Group, Webjet and Wotif.com also underperformed due to the widespread global sell off of high PE internet names. Treasury Wine Estates, Goodman Fielder and David Jones all received takeover offers during the period.

Healthcare stocks also underperformed for the quarter. CSL (which makes up more than half of the index) was hurt by the appreciating Australian dollar, which rose over 6%. CSL generated over 85% of its revenue from offshore during the last financial year. Acrux tumbled over 40% after the company confirmed the ongoing investigation by the FDA in the US over safety concerns with the company's testosterone replacement product. Greencross gained after it announced the acquisition of City Farmers, its primary competitor in the speciality retail pet care market, for $205m.

"Nothing beats focus", Tim Power, CEO of 3P Learning, 09/04/14

Federal budget 2014/15

Due to a number of strategic leaks from the government, the market was expectant of a tough budget and the effect on the market as a whole was subdued. As to be expected, much post-budget rhetoric has revolved around the effect on households. Below we take a quick look at some of the direct and indirect effects on sectors and stocks in the share market.

Retail

Due to the leaks from government, consumer confidence, as measured by the ANZ/Roy Morgan survey, was down 9% in the two weeks preceding the budget, and then fell another 7% after the budget announcement. Retail sales for May fell 0.5%, against expectations of flat sales. Two retail stocks downgraded earnings citing the budget as a factor; Noni B and Super Retail Group, while a number of companies cited difficult trading conditions as a reflection in the recent drop in consumer confidence.

"If we do win the election and we immediately say: 'Oh, we got it all wrong, we've now got to do all these different things', we will instantly be just as bad as the current government has been and I just refuse to be like that." Tony Abbott, August 2013

The budget initiatives which affect retailers the most are those which affect future disposable income:

- Increase in fuel excise, costing households $270m in 2014/15.
- Deficit tax of 2% on incomes over $180,000, costing taxpayers $600m in 2014/15.
- Changes to Family Tax Benefit B, saving the government $400m.
- $7 co-payment for bulk-billed medical services.

According to Citi estimates, the budget should have an approximate effect on decreasing retail sales by 2%.

Stimulus from the budget and rate cuts

Key stats for Australian households:	FY11	FY12	FY13	FY14e	FY15e
Budget impact ($ billion)	5,041	3,956	2,595	-1,244	-5,543
Impact per household ($)	579	448	290	-137	-602
Potential impact on retail spending*	+2%	+2%	+1%	-0%	-2%

* Assumes all impact felt by retail

Source: Citi

Healthcare

This sector was perhaps the biggest negative surprise from the budget. The $7 co-payment for bulk-billed services was largely expected, however the government also announced a $5 reduction in Medicare Benefits Schedule rebates across GP visits, pathology and imaging services. This is negative for Primary Healthcare and Sonic Healthcare; however the magnitude is not clear. In theory the slightly higher co-payment has the potential to compensate for losses in volumes.

It should also be noted that the $7 co-payment is not mandatory; instead providers are 'allowed' to collect any amount between $0 and $7. This range could potentially be used by providers to capture market share.

Japara Healthcare, an operator of aged care facilities was also dealt a left field blow from the budget. It was announced that the government would achieve savings of over $650m over 4 years by ceasing Payroll Tax Supplement payments to currently eligible residential aged care providers from the 1st of January 2015. Shares in Japara fell 5% the day after the budget.

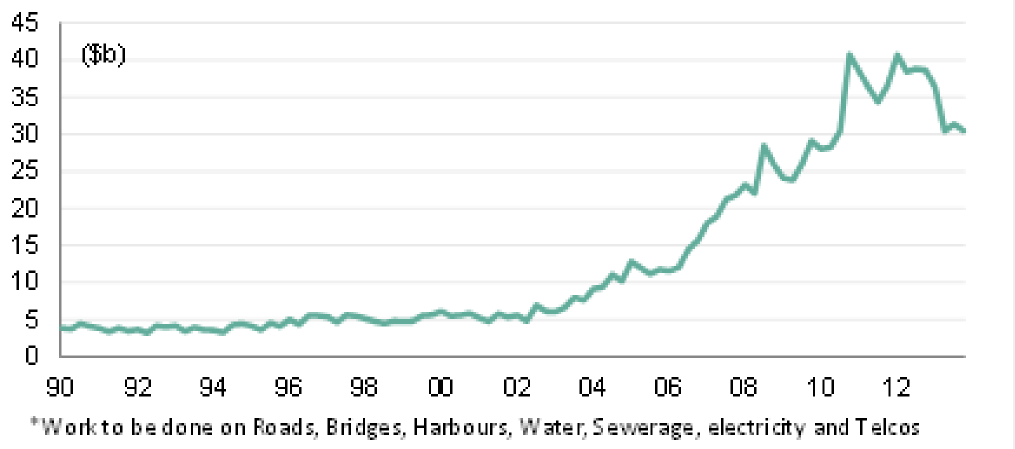
The government also announced it will establish a $20bn medical research fund. This should not directly affect any stocks in the near future, but may eventually benefit companies who conduct a large amount of R&D such as CSL.

Infrastructure

The government announced spending on a raft of projects; however this was well flagged before Budget night. The government committed an additional $11.6bn of spending, made up of $5bn from the Asset Recycling Initiative, $3.7bn to expedite infrastructure projects and $2.9bn for the Western Sydney Infrastructure Plan. As with any government infrastructure project, we can expect the lead time for the additional spending to be long. Ultimately contractors such as Downer EDI, Leightons, Lend Lease and UGL could stand to benefit from the spending, but not enough to move any share prices in the short term.

While the numbers above may seem large, when they are stacked up against prior investment, the growth rate is waning as we can see from the graph below.

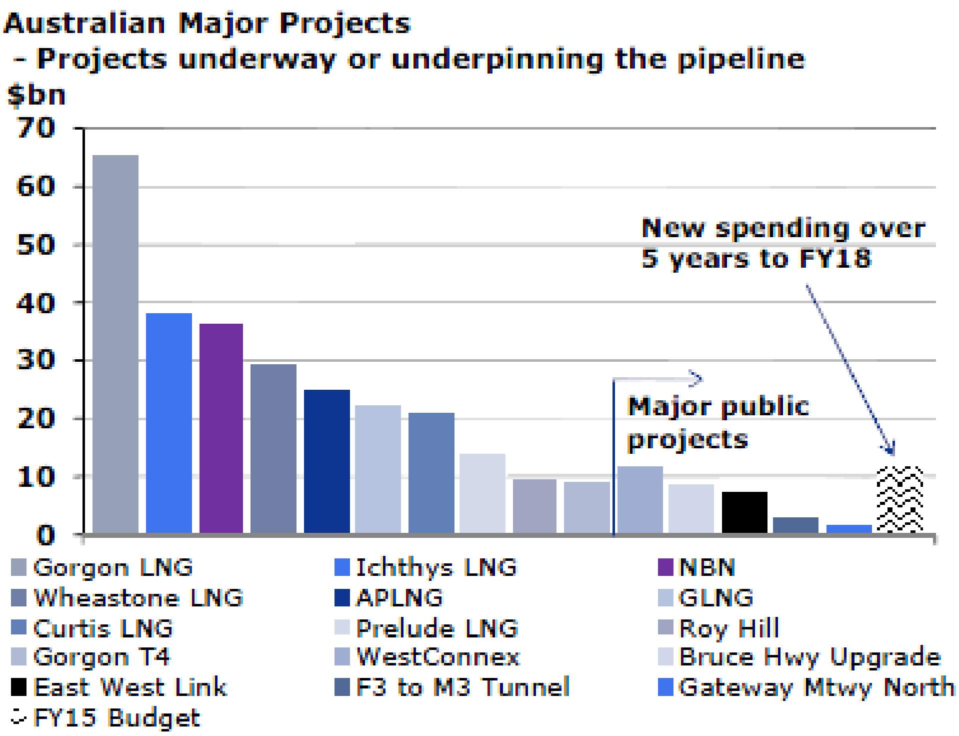
Infrastructure pipeline*



Source: CBA

The government projects announced also appear quite modest when stacked up against other major projects currently underway in Australia, most of which relate to mining and LNG projects which will roll off within the next few years.

"Monetary policy making both in the US and elsewhere has been dangerously asymmetric. Central banks have failed to lean against booms, while easing aggressively during busts. This has led to a downward bias in interest rates and an upward debt accumulation habit... Low rates then become self-reinforcing." John Plender, Journalist at the Financial Times, 26/06/2014



Source: Goldman Sachs

China Property

Chinese steel demand will continue to be a pertinent issue to Australian investors, as it is the key driver behind China's appetite for our resources, particularly Iron Ore. Last quarter we spoke about the difficulties some steel mills are facing since the government announced its crackdown on the hazardous pollution levels in industrial focused cities around the country. This quarter we highlight some interesting observations we have made around China's property sector.

In May, comments from a closed door meeting of the Vice Chairman of China's biggest residential property developer, Vanke, were leaked. Below we present some take outs from the meeting transcript;

- High-end property projects have been significantly affected by the anti-corruption crackdown from the government. Demand has fallen off and many owners are trying to get rid of high-priced houses as soon as possible, even at a deep discount;
- In the 27 key cities, transaction volumes fell 13%, 21% and 30% year-on-year in January, February and March respectively;
- Supply is rapidly increasing month-on-month, but prices are falling due to weak demand caused by banks tightening credit conditions and weak customer sentiment towards the economy;
- In 2011, on average 12.1 houses were built per 1,000 people. For most developed countries, the figure is less than 12, even in a hot market, and no country has had a figure greater than 14. When the Chinese figure is broken down however, the Tier 1 cities number appears reasonable at 10-15 but it's close to 30 for Tier 2 cities. A persistently high figure in Tier 2 cities should be cause for alarm;
- Overall, China has reached its capacity limit for new construction of residential projects. Only the coastal Tier 3 & 4 cities have the potential for capacity expansion;
- Total land value over US GDP is a useful measure for monitoring a potential property bubble. In the early 1990's at Tokyo's property peak the reading was 63%, Hong Kong reached 66% in 1997 prior to the Asian crisis and Beijing's current measurement is 62%, which is approaching a dangerous level;
- Vanke research shows by 2033, the population above 60 years of age will reach 400 million, as well as an additional 270 million people living on social welfare, bringing the total number of people on social/aged welfare to 670 million, or 50% of the total population. Based on Vanke assumptions, in 18 years' time, 50 million working people will need to feed 90 million people on social welfare. Currently it is the reverse with 90 million working people contributing to the living expenses of 50 million people on social welfare;

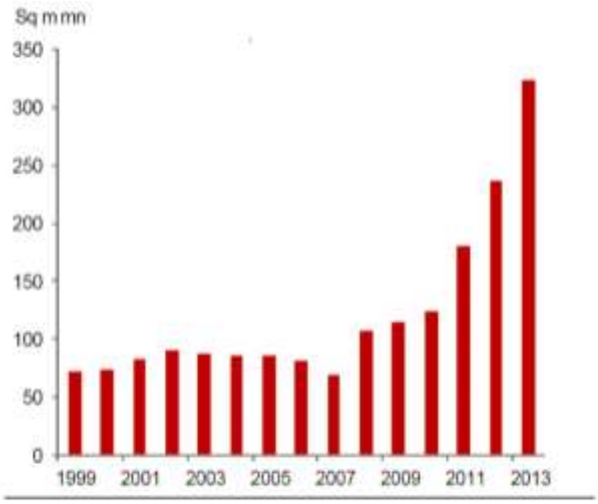
"We think the Yuan is 15 to 25% over-valued. The economic data has been getting weaker and the authorities must be realising that the only way to square the financial circle is to allow the currency to help them." Diana Choyleva, Lombard Street Research, March 2014

- Investment in infrastructure and fixed assets can only provide a temporary stimulation in economic activity; it cannot create value in the future. Without investment in R&D and the private sector, Chinese economic growth won't be sustainable.

Nomura also published an interesting piece on the property sector in May. According to their research, floor space per capita has reached 30 square metres, surpassing the level of Japan in 1988. The report went on to note that land sales and property taxes provided 39% of China's total government tax revenue last year. The International Monetary Fund has also recently come out and said China is running a budget deficit of 10% of GDP once land sales are stripped out. This suggests the government has less flexibility in managing its finances than most assume.

While house prices in Tier 1 cities such as Shanghai, Beijing and Shenzhen have defied property sceptics by remaining elevated, the greatest risk of oversupply remains in third and fourth tier cities where two-thirds of new housing stock is being constructed. Other sources have told us that the vacancy rate in China last year was 15% (5 percentage points higher than the US). First Tier Chinese cities recorded a vacancy rate of 10%, while second and third-tier cities as a group averaged 16%. The following charts indicate the rapid rise in housing stock in China over the last few years.

Housing Inventory



Source: CEIC and Nomura Global Economics

Newly completed urban residential floor space (flow)

Source: CEIC and Nomura Global Economics

Overseas trips

This quarter we went to the US twice, Canada, New Zealand, Japan, Europe and China.

China

As always for the Central government, there are multiple balls in the air that they are trying to juggle, namely the environment, corruption, economic growth and the risk of employment/social unrest. We noticed a discernable shift in the bias towards the first two this time around, highlighted by tangible action based initiatives. With a strong consensus that a pullback is in motion (a suggestion historically met with push back in our experience), and what's more that this is a necessary 'evil'. The air of optimism has dissipated somewhat.

Corruption:

- President Xi has sent a clear message regarding corruption and his lack of tolerance for it. The government has taken some very senior scalps, with more to come;
- These actions are being applauded by locals and so will be reinforcing for the administration;
- These measures are already impacting the real economy. Furthermore there was a strong consensus that the impact is a necessary bi-product of shoring up the longer term health of the broader economy;
- Along with a crackdown in corruption comes an aversion to hubris. One contact we spoke to said "golf courses are the biggest short in China!".

"Why did the Soviet Union disintegrate? Why did the Soviet Communist Party collapse? An important reason was that their ideals and beliefs had been shaken." Chinese President Xi Jingpin, January 2013

Environmental:

- The outcry regarding pollution rang louder than we have ever heard in our visits to China;
- First tangible signs that uneconomic (and un-environmentally friendly) steelmaking capacity has closed, with 60mt in Hebei and some smaller amounts closer to Beijing. We have heard about the prospect for this occurring on numerous trips in the past but this was the first time people could point to meaningful closures;
- Plans to close a further 100mt of steel-making capacity over the next 5 years;
- In signs of a further crackdown on environmental issues, the government is providing subsidies/financial incentives to close clinker grinding capacity;
- Contravening an environmental directive has gone from being a civil offence to a criminal one;
- Environmental specifications have been imposed across heavy polluting industries such as cement and steel;
- Corporate penalties can include VAT returns revoked for 3 years.

The two stated objectives of anti-corruption and environmental could be a powerful combination if used to full effect – all indications are that this is happening.

North America

One of our trips to North America was focused on Energy. Some of our observations were:

USA

- Current activity is very strong;
- The US energy boom is more widespread compared with past cycles, where it was mostly consigned to Texas, given the large shale plays are spread across the country;
- A couple of people said "we're in the 3rd innings" (out of 7!) and consensus appears to be that it has a long way left to play out;
- Explorers & producers balance operating cash flow with capital expenditure. Higher cash flow from high oil/gas prices mean more cash flow to reinvest back into projects at the moment;
- There's a wave of petro-chemical projects currently in their design/engineering phase. Contractors are already seeing terms and conditions, and pricing improving;
- One engineer noted the sector was "going wild, it will bring a lot of money into the US in the next 3 to 4 years."
- In Houston, a drilling rig operator we spoke to said there was "more optimism than a year ago but it's not crazy busy… not a boom mentality."
- It is still early days in the duration of the production ramp up, so the people we spoke to haven't seen much in way of well declines yet. As they do, it will require drilling of new wells to replace the ones in decline.

Exxon's new head office/town being built in Houston. They are clearly optimistic on the size and duration of the energy boom in the US!

Canada

- The Keystone pipeline was less of a topical issue compared to our trip in September last year;
- Sentiment is improving;
- Returns/economics from Oil Sands projects are solid, technology improvements continue to lower production costs.

Outlook

Whilst the US economic data and our recent company trips continue to point to a muted recovery, the latest data on US employee withholding tax receipts and our expectation of what the US shale energy sector will ultimately contribute to economic growth leaves us positively disposed to the region. Whilst the China slowdown is well known by the market, it continues to concern us, particularly the prospect that its steel production growth could turn negative as we progress through the year given the over-supply issues in the property sector. For Australia such an outcome would be challenging as it would coincide with a period of fiscal tightening and the roll off of the mega mining and energy construction projects.

Whilst our disciplines centres around bottom up stock picking, we do think it is pertinent to consider where we currently sit today in the economic, financial and market cycles when we make our bottom-up stock selection decisions. In that respect, in very broad terms we see the US, and to a lesser extent Europe, as still offering some improving economic trends, whilst we expect Australia and China's outlook to be more challenged. Loosening monetary policy globally has buoyed the global economy for several years now, contributing to rising asset prices and perceived 'wealth' effects in some consumers' minds, however we are moving closer towards a more neutral setting globally. New Zealand was the first developed country to raise its official cash rate this year (having now done so 3 times to 3.25%), the US is slowing its QE program and its unemployment rate target of 6.0% is close to being reached. Australia may perhaps be an exception with some room left to move rates down as Governor Stevens alluded to in his speech on the 3rd of July.

Market returns have been particularly strong over the past two years, primarily as a result of low bond yields which have driven returns well ahead of companies' earnings growth. Stock valuations in absolute terms are comfortably above long term market averages, looking cheap only against the miserly low bond yields.

"There is a widely-held belief in 'Canadian exceptionalism': Canada was one of the few countries that survived 2008 unscathed due to strong regulatory oversight of its housing and financial markets; a national Canadian housing bubble is impossible due to structural differences between the housing and financial markets in Canada and the US; and Canadian bankers, regulators, and consumers are more prudent than their counterparts anywhere else in the world." Seth Daniels, JKD Capital, March 2014

"Overall, it is hard to avoid the sense of a puzzling disconnect between the markets' buoyancy and underlying economic developments globally." Bank for International Settlements 29/06/14

Bulls argue central banks will forever be reluctant to raise interest rates off the zero bound and continue to kick the can of normalising interest rates further and further down the road given their obsession with not upsetting GDP growth. We have some sympathy for such a view, but acknowledge the risk of interest rates from this point being more skewed to the upside rather than down globally, at a time when market valuations are dependent on them being down for a long time to come.

Likewise, market sentiment has been surprisingly strong of late. We've witnessed a huge number of IPO's coming to market in the last 9 months, the Dow Jones reached is all time record high just after year end (17,068 on the 3rd of July), and the margin lending debt measured by the NY Stock Exchange reached its all-time peak in February. These are just a few of the sentiment measures which lead us to believe that the easier gains in markets are behind us, and investing with more caution ahead is a prudent route to take.

In light of the above, our cash weights have drifted up and we have trimmed some of our better performing stocks as their prices closed on our valuations. We've participated selectively in a number of IPO's that have come to market where we've seen above average franchises and management teams that we think can deliver value creation well beyond the prospectus forecast year which is focused on by the market during the sale process. Standout ideas remain hard to find but we continue to favour strong business franchises at relatively attractive valuations which should outperform the market over time.

"Everything moves in cycles… and that includes 'accepted wisdom'" Howard Marks, Oaktree Capital, 2013

"There are few things as risky as the widespread belief that there's no risk." Howard Marks, Oaktree Capital, 2013

More information

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