

**By Tristan Hanson, Head of Asset Allocation**

**In recent months, we have held long-dated UK and German government bond exposure as a hedge to holdings in risky assets.** Our view was that these assets would do well in a negative growth shock or a worsening financial crisis. This has proven the case and these assets have provided a useful offset to losses on equity holdings. However, at current yields UK and German bonds are likely to deliver poor medium-term returns and we have closed out exposure as a result. The proceeds will be held in short-dated treasury bills in the US, UK and Germany for the time being.

**We reiterate that we hold no direct exposure to GIIPS sovereign debt (Greece, Ireland, Italy, Portugal or Spain).** In terms of corporate bond strategy, exposure remains very much US or Emerging Market focused. We hold very limited direct exposure to European corporate bonds (including financials), as has been the case for many months.

**We have reduced risk from currency exposure** and will maintain 'stop-loss' triggers on existing positions in case of further weakness. Dollar exposure in the euro- and sterling-based funds has provided some diversification recently. We continue to believe that many emerging Asian currencies will appreciate over the medium-term but we will proactively manage such positions to limit short-term risk.

**Equity exposure is at what we would describe as roughly 'neutral' levels.** Based on current valuations, we believe global equities offer among the best medium-term return opportunities compared to other asset classes. Central to any valuation-led strategy are the Buffett maxim - "be greedy when others are fearful" - and the belief that the market's perception of future fundamentals is frequently wrong.

**In our view, global equities are currently priced to deliver adequate returns** even if global economic conditions remain subdued for some time. Of course, there is a risk that policy continues to disappoint even today's diminished expectations and financial conditions deteriorate further. But at the same time, there is also scope for positive surprise since to all observers the global situation appears bleak. We note, for example, that recent US economic data has surprised to the upside.

**On a regional basis, equity exposure is skewed towards the US and Asia ex-Japan.** In our view, US equities are fundamentally less risky than elsewhere in the current environment: the Fed is proactive, corporate balance sheets are strong and we see limited downside risk from housing at this stage. In Asia, Hong-Kong and Chinese equities are trading on low valuations and reflect concern over a hard landing. While we expect weaker economic data from China, we believe market sentiment may rebound on the prospect of looser monetary policy.

The current market environment is extremely challenging for investors given policy uncertainty and the level of volatility. While returns have been disappointing this year, **we believe more than ever that remaining true to a robust process is essential. The current crisis will present investment opportunities for future gain. Not losing sight of those opportunities, while at the same time managing capital risk remains central to our approach.**

# Strategy Update

24 November 2011

---

ASHBURTON

Ashburton (Jersey) Limited and Ashburton Fund Managers Limited are regulated by the Jersey Financial Services Commission. Ashburton Global Funds is a Protected Cell Company and a recognised fund in the UK under Article 270 of the Financial Services and Markets Act 2000. The prospectus of the fund can be viewed at Momentum Global Investment Management Limited, 5th Floor, 20 Gracechurch Street London, EC3V 0BG. The value of Investments and the income from them can go down as well as up, and you may not recover the amount of your original investment. Past performance is not necessarily a guide to future performance. Where investments involve exposure to a currency other than that in which the fund is denominated, changes in rates of exchange may cause the value of the investments to go up or down. The United Kingdom Financial Services Compensation Scheme does not apply for investors in the fund. Nevertheless, in certain circumstances, the Collective Investment Funds (Recognised Funds) (Compensation for Investors)(Jersey)Regulations 1988 (as amended) may provide compensation for investors.

Ashburton (Jersey) Limited has its registered office at 17 Hilary Street, St Helier, Jersey JE4 8SJ. Ashburton (Jersey) Limited is registered as a Foreign Investment Services Provider in South Africa in accordance with Section 8 of the Financial Advisory & Intermediary Services Act 2002