THOMAS MILLER INVESTMENT

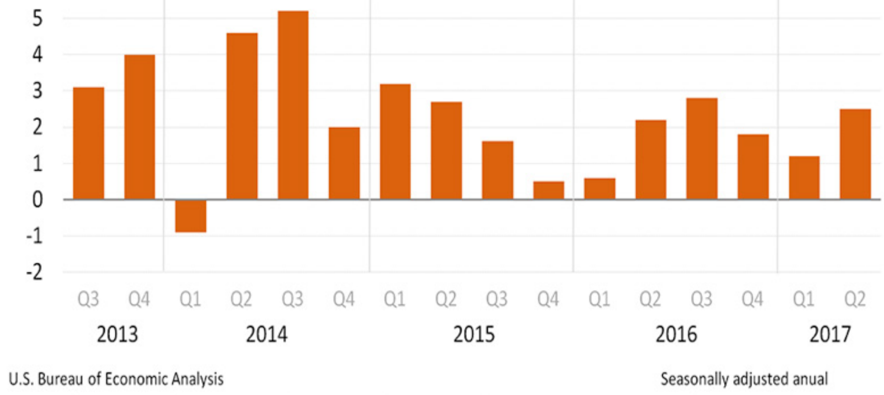
Investment Commentary

August 2017

Recent economic developments

Recent reports have confirmed that the global economic expansion continues at a reasonable pace overall albeit with notable regional variations. The Euro-zone and some of the major emerging market economies have led in recent months while growth has slowed in the US and, to a greater extent, in the UK over the past six months.

Real GDP: Percent change from preceding quarter



In the US, following a disappointing first quarter, the pace of economic activity picked up in the second quarter. The first estimate of Q2 real gross domestic product (GDP) showed an increase of 2.6% (at an annual rate). Underlining the weakness seen in Q1, the original estimate for real GDP growth over the first three months of 2017 was revised lower, from 1.4% to 1.2%.

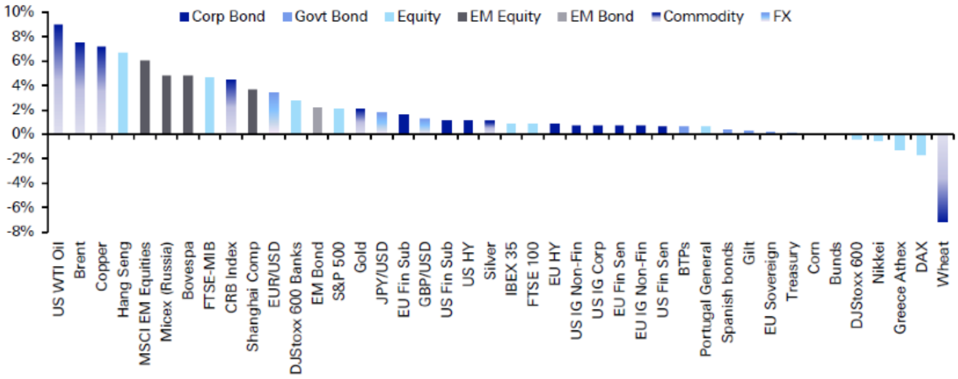
The GDP report showed that the Q2 increase reflected positive contributions from federal government spending, personal consumption expenditures, non-residential fixed investment and exports. These were partly offset by negative contributions from state and local government spending, private inventory investment and private residential fixed investment. An increase in imports also detracted from GDP growth.

Elsewhere, reports showed that the US labour market delivered a strong performance in July. Non-farm payrolls increased by 209,000 and the headline unemployment rate fell to a 16-year low of 4.3%.

In the UK, the pace of economic activity slowed markedly over the first six months of the year. While the Office for National Statistics estimates that the economy expanded by 0.3% in the second quarter (up from 0.2% in Q1) it is noteworthy that the average quarterly growth rate over the first half of 2017 was less than half the average quarterly pace over the preceding six months.

The services sector was the primary driver of growth over the quarter while the construction and manufacturing sectors contracted. Looking ahead to the rest of the year consumer spending looks set to remain under pressure due to weak wage growth and high level of indebtedness. In recognition of the fragility of the UK economic outlook, the Bank of England recently lowered its GDP growth forecasts for both 2018 and 2019. The Bank left interest rates unchanged and maintained its policy of reinvesting corporate bond cash flows as well as the proceeds of maturing gilts held as part of QE.

Total Return Performance of Major Global Financial Assets – July 2017 (local currency)



Source: Deutsche Bank, Bloomberg Finance LP, Markit

Financial markets & investment strategy

Overall, equity markets held up well over the past month with strong gains in emerging market equities in particular. For instance, over the month, the broad MSCI EM index delivered total returns of about 6% with particularly strong performance from countries including Brazil, India and Russia. US equities also performed well, with the S&P 500 index up about 2% for the month.

Across financial markets, the laggards tended to be agricultural commodities, such as wheat and corn, and European assets (both equities and bonds in local currency terms). The US Dollar was also a notable laggard in July, falling by almost 3% in trade-weighted terms. Across the major pairs, the Euro and sterling rallied about 3.4% and 1.3% respectively against the US Dollar over the month.

Bond markets were also well supported, with strong gains in EM bonds and positive but more muted total returns elsewhere. Overall, US Treasuries ended the month essentially flat while UK Gilts did somewhat better with a gain of about 0.3% in aggregate.

As we noted recently gains in risk assets have been driven by a combination of the broadly synchronised upswing in global economic growth and positive momentum in corporate earnings. Importantly, the pace of growth has not been sufficient to push inflation to levels that genuinely worry central banks. Consequently, monetary policy remains broadly accommodative even in the US where the Fed has been tightening at a gradual pace.

As noted in our last report, we entered the third quarter of 2017 with a cautious asset allocation stance. The data flow over the past month has not altered the narrative in this regard. In light of our assessment of the balance of risks, we remain inclined to err on the side of caution in asset allocation at this time. In broad terms, we continue to trade off underweight positions in equities for overweight positions in a selected range of alternative investments which exhibit lower volatility and modest correlation with mainstream asset classes. We remain neutrally positioned on fixed income investments across key developed markets.

Abi Oladimeji
Chief Investment Officer

ASSET ALLOCATION

TMI ASSET ALLOCATION SCORECARD (as at 3rd August 2017)

	United States	United Kingdom	Euro-Zone ex UK	Asia ex Japan	Japan	Emerging Markets
Equities (overall)	0/-					
Equity allocation by Region	0	–	+	0	0	0
Bonds (overall)	0					
Agency/Supra	0	0	0	0	0	0
Corporate bonds	0	0	0	0	0	0
High Yield bonds	0	0	0	0	0	0
Govt guaranteed bonds	+	+	0	0	0	0
Index-linked bonds	0	0	0	0	0	0
Alternatives	+					
Cash	0/-					

The scorecard above represents our current tactical asset allocation position relative to portfolio benchmark.
0 =neutral, + =overweight, - =underweight.

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