Cohesion
Connecting Investment Excellence

KBI Developed (Global) Equity Strategy

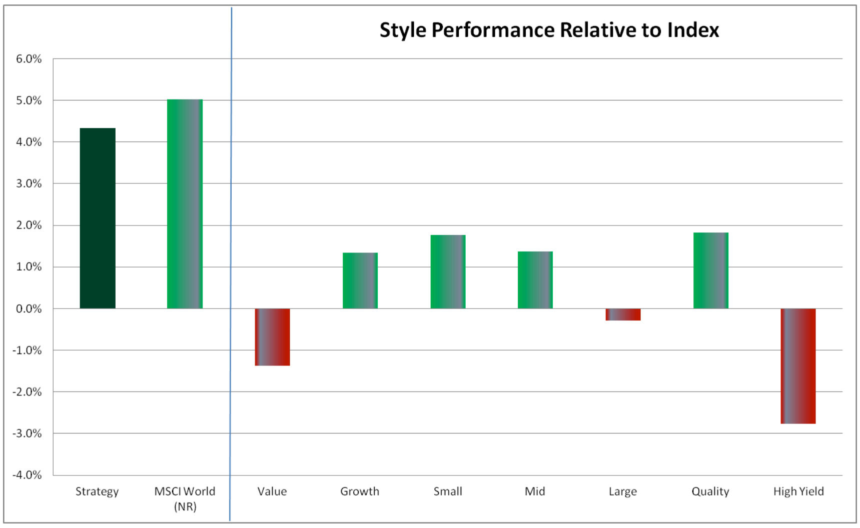
January 2015

Developed equity markets had another strong quarter registering a rise of 5.0% in sterling terms. The US was the best performing market supported by robust economic activity and by excellent earnings management. Europe had a difficult end to the year as the failure of the Greek parliament to elect a new President forced the government to call early elections. Markets are once more faced with speculation that Greece may leave the eurozone. Portugal, Italy and Spain were particularly weak as investors considered the implications of Greece exiting the eurozone. Japan and Australia underperformed the benchmark during the quarter while Hong Kong and New Zealand generated strong returns.

STYLE ANALYSIS

Growth outperformed value in each and every region during the fourth quarter and was particularly strong in Europe as investors anticipated the potential introduction of sovereign bond buying by the European Central Bank during the first half of 2015. This anticipation was confirmed by the ECB on 22 January 2015 when they announced their decision to embark on a QE programme.

Disappointing fourth quarter economic data merely heightened the potential for these additional easing measures and gave a further boost to growth dependent stocks. At an overall level small cap stocks outperformed their mid and large cap counterparts however this was primarily driven by small cap performance in North America. Mid cap stocks performed best in Japan, Europe and the Pacific Basin. Large cap stocks struggled in all regions. Quality was rewarded by investors in all regions and was particularly strong in Europe. High return on equity and low issuance of common equity were rewarded by investors. Dividend yield struggled in most regions with the notable exception of eurozone.



Source: KBI, three months data to 31 December 2014

Source: Kleinwort Benson Investors, 31 December 2014, returns are stated in GBP

For legal and regulatory information please refer to the disclaimers / risk section

INDUSTRY GROUP ANALYSIS

The growth bias of investors was not as evident in terms of industry group performance. The main feature of the quarter was the sharp fall in the oil price following the failure of OPEC to deliver a production cut. Energy and materials were consequently the weakest industry groups during the period under review. Capital goods also struggled as capital investment is likely to be adversely impacted by reduced investment activity in the energy sector. However the declining oil price will provide a welcome boost to the consumer and this was reflected in strong performance from food and staples retailers and from general retailers. Media and semiconductors also performed strongly during the quarter.

Relative stock selection was positive in retailers, software and services and in technology hardware and equipment. In retailers Staples registered a rise of 56.7% after it was announced that the largest stakeholder in Office Depot had acquired a stake in Staples. While a tie up may be blocked by the regulator Staples self help strategy has been reaping rewards in recent months particularly in the contract segment of their business while they are yet to benefit from the capacity coming out of the industry.

In technology hardware and equipment Seagate recorded a rise of 21.2% as corporate demand for PC's in emerging markets recovered. While the PC market has struggled since 2012 under the assault of the tablet finally it appeared that cannibalisation from tablets had reduced significantly.

COUNTRY ANALYSIS

Relative stock selection contributed positively to performance in France and the UK. In France Bouygues registered a rise of 16.0% as mobile revenues are improving due to its superior 4G network although the outlook for the construction segment remains challenging. Despite several attempts at in market consolidation during 2014 there are still four mobile operators and Bouygues Telecom remains a potential consolidation target.
In the UK ICAP registered a rise of 15.9% on the back of increased demand for post trade services and due to the increased importance of hybrid and electronic trading. The company continues to make progress on cost reduction and regulatory risk remains the key headwind facing the company. The underweight position in BG Group also benefited the fund as it registered a decline of 23.8% in line with other major oil and gas players.

CHANGES OVER THE QUARTER

The most significant move made on a country basis was in North America. KBI moved some money out of the US while increasing their exposure to Canada. This was primarily driven by the relative dividend yield. As Canada underperformed the US, the dividend yields on offer became that bit more attractive. This move detracted from performance over the quarter. Over the longer term, KBI feel this positioning change will benefit the portfolio as other investors are attracted to the dividend yields and dividend growth available in Canadian stocks.

Another large move within the portfolio was in the European section of the portfolio. Here KBI increased their exposure to UK and Germany. This move was at the expense of France and Italy where the team saw more limited opportunities for reliable and growing dividends.

KBI's largest trades in the quarter came from the energy industry group. Chevron, ConocoPhillips, ENI and Total were removed from the portfolio. These stocks began to fail some of their dividend sustainability criteria and in particular free cash flow cover. They found most of these stocks were increasing their capital expenditure in recent years and were not able to fund the dividend being paid from free cash flow generation.
The proceeds from these sales were used to increase exposure to Exxon Mobil and the team added National Oilwell Varco, Cenovous Energy, Statoil and Helmerich & Payne.

PORTFOLIO CHARACTERISTICS

On an overall level the portfolio's characteristics remained stable over the quarter. KBI's core themes of dividend yield and dividend growth remained constant.

One area where the team applied less emphasis was in buybacks. This was especially true in the North American region where markets continued to reach new highs. Their concern here is that buybacks are being done at price levels which are delivering less value add to shareholders. Therefore KBI are being more selective in their approach to this characteristic.

Quality was another area the team targeted. Factors like return on equity and return on invested capital increased in the fund versus the benchmark and they did not sacrifice on valuation measures to do so.

KBI target a portfolio that is on average **growing faster than the market**, **cheaper than the market** and having **greater quality characteristics than the market**.

These characteristics don't win every day, week or quarter but indeed no strategy offers such a promise. By sticking to a consistent, repeatable and common sense approach to investing, we believe that despite days when the market wants expensive and low quality there will be more days when the market wants what KBI already has.

Key Risks:

- Past performance is not an indicator of future performance and the value of investments may fall as well as rise. Any investment in the funds carries the risks generally associated with investing in equities. Prior to investing please refer to the risk section in the subscription documents and prospectus.
- According to the key investor information the Fund is categorised as "HIGHER RISK" based on the value of stockmarket investments and the income derived will fluctuate. Investors may lose all capital invested. Other risks are considered to be liquidity, currency, operational, counterparty and interest rate risks (non-exhaustive).