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ASSET

THE NEWSLETTER OF MURDOCH ASSET MANAGEMENT

Has gold lost its lustre?

The UK economy has enjoyed its strongest growth since 2010 adding 0.8% to GDP during the third quarter, 0.7% in the fourth and total growth for 2013 was 1.9%; its highest since before the recession hit.

Equity markets enjoyed another strong year, with the FTSE All Share Index returning 20.81% and the MSCI World Index increasing 24.32%*. The USA forms 48% of the World Index and its economic recovery appears well under way, although still quite fragile.

Returns continued strongly from 2012, until May, when Ben Bernanke suggested that the Federal Reserve could taper quantitative easing (QE) by the end of the year. Markets fell as investors, psychologically dependent on QE, shied away from risk assets. The Federal Reserve's June statement quelled investors' fears, saying it would not taper QE in the near future and the markets recommenced their recovery.

Developed markets out-performed emerging markets yet again, as investors continued to seek higher quality assets. Investors remained sceptical of emerging markets throughout the year, becoming more concerned about political instability and the over-pricing of the assets during the boom years of 2002-2008.

Mining companies saw their share prices fall, commodity prices wobbled and gold, one of the worst performing sectors (after Peru), ending the year down 29.59%.

(Continued on page 4)

IN THIS ISSUE

This month we look at how the West has out-performed the East, whilst gold and commodities have suffered. There is news on Neil Woodford's replacement and the fund manager universe. Preparing for loss of mental capacity is covered, as is seeking the right kind of income, 'clean' share classes and who to speak to if you have a problem.

MYSTERY MAN

Mark Barnett was a name familiar with few investors, until investment legend Neil Woodford announced his imminent departure from the Invesco Perpetual UK Equity team. Neil has successfully run their High Income and Income funds for many years, with a long-term track record almost without equal and he keeps control of the fund until April 2014.

We dispatched three members of the Murdoch investment committee to Invesco's Henley head office to meet Mark, as part of our due diligence process and to help decide our course of action.

Mark is a highly successful manager in his own right and a key member of the UK equity team at Invesco for the last 17 years; his first quartile track record over the last 1, 3 and 5 years is excellent. He has managed the Invesco Perpetual Income & Growth Investment Trust since 1999, the Keystone IT since 2003 and he took on the UK Strategic Income fund in 2006, which has out-performed Woodford's.

Mark's process is led by conviction, focussing on the underlying value of businesses, their earnings reliability, financial strength, growth potential of dividends and diversification through overseas earning exposure.

Mark takes over in April, with no influence on the fund until then. Our studied opinion of Mark is positive and we recommend our clients switch into his Strategic Income fund. This maintains the defensive, value basis of Neil's existing strategy and eliminates the potential problems of large-scale redemptions. You should receive our switch advice forthwith.

Fund manager news:

Fixed interest under-performed equities, as you would expect in a normal year and emerging market currencies fell against the West. In this 'perfect storm' the manager of the Investec Emerging Markets Local Currency Debt fund, Peter Eerdmans, was trapped as the asset prices of his investible universe were falling and the currencies he invests in were also depreciating, leading to losses of –12.80% for the year. However, his fund still yields more than 6% at that level, making it attractive for long-term income investors.

The UK high yield bond market fared reasonably well with the average fund delivering 6.22%, whereas UK gilts experienced losses of –3.94%; their first negative returns since 2009. The average investment grade, credit fund returned just 0.21% and the average strategic bond returned 2.59%, whereas our preferred funds, Invesco Perpetual Corporate Bond and Henderson Strategic Bond, returned 4.08% and 3.92% respectively.

Within developed markets, equity funds with a value or quality bias, or defensively positioned, under-performed those following a growth approach. Equity income funds tend to be more defensive as they invest in companies offering stable and growing dividends, thus they focus on quality businesses. The under-performance was still highly positive for investors.

The Henderson European Special Situations is a classic example of this: Richard Pease is a value investor and during 2013 his fund returned an impressive 24.34%, however the sector average returned 27.26%. By way of comparison our other preferred European equity fund, the FP Argonaut European Alpha fund, has a growth approach and returned 30.70%.

Whilst we are disappointed that some of our favoured funds under-performed during 2013, we are comfortable that this was primarily a result of the investment approach, rather than poor stock selection by their managers. We remain confident that our preferred managers can continue delivering above average returns over the long-term to the benefit of our clients.

The name of the Argonaut fund range has changed from IM Argonaut to FP Argonaut following a change of name by their funds' administrator. IFDS is now called Fund Partners, or FP for short, but this has not impacted Argonaut in any way and does not affect the management of any of their funds.

Source: Financial Express Analytics, Total Return, Bid to Bid, GBP, 1 January 2013 to 31 December 2013

The washing has begun. How will the

In response to the Retail Distribution Review, most fund management groups are launching new versions of their existing funds, with a lower annual management charge, referred to as 'clean' share classes.

Although the stated charges have reduced, it has little impact for our clients, who have been used to the lower charges for many years. This is because we have always given all commissions back to our clients and used them to offset our fee.

By way of example, Nigel Thomas' AXA Framlington UK Select Opportunities fund historically charged 1.50% per annum, with a rebate of 0.65%. The new clean share class has a fee of 0.85% per annum; a zero-sum game. An interesting side

Losing mental capacity and how to take control

It is human nature to want to be in control and when it comes to decision-making, we normally want to be in the driving seat, rather than someone else. If you lose mental capacity though, no-one has the automatic legal right to assume the role of decision-maker for you; spouses cannot do this on behalf of each other, nor children on behalf of a parent.

Without a Lasting or Enduring Power of Attorney declaration in place, an application must be made to the Court of Protection for someone, perhaps a family member, to be appointed as your 'deputy' to manage your financial affairs; a protracted and expensive process. Meanwhile no-one can pay your bills or manage your property and assets.

You can create a Lasting Power of Attorney (LPA) now for Property & Financial Affairs and/or Health & Welfare. These allow you to nominate someone you trust to make decisions or manage your affairs on your behalf, when you are no longer competent to do so.

Some cite loss of control as a reason that they do not want to create a Lasting Power of Attorney, whereas you are taking control, because in the worst case scenario, without one, these decisions could be taken by someone you do not even know.

It is significantly better to make an LPA when you are capable of choosing your attorney and you can talk to them about your future wishes. Your attorney would not act until you were unable to do so and would be under the strict guidance set out by the Court of Protection.

In my opinion, cost is the main reason people have not yet established a Lasting Power of Attorney, but the expense of instigating one through the courts after the fact and the trauma of that process, make it a small price to pay. If you wish to explore this now, we have local solicitors who will charge on a fixed, competitive price and then you can relax in the knowledge that your affairs are in order.

If you do decide to do-it-yourself online, be very, very careful.

For an introduction to a good solicitor, please email: **info@m-a-m.co.uk** or telephone 01420 83517 and we will do the rest.

> If you lose mental capacity though, no-one has the automatic legal right to assume the role of decision-maker for you...

new 'clean' share classes affect you?

effect of 'clean' share classes is that investors choosing investment trusts for their lower annual charges, should now be considering a much wider universe of funds.

We have long been advocates of selecting funds with a proven fund manager over just focussing on cost and our rebates made the cost differential negligible. Accordingly, our successful investment monitoring service can continue unaffected by the current wash.

We will be contacting you about converting all funds into the clean share classes as soon as possible, but will wait until we can do it without a transaction charge and with the minimum of administrative burden on you.

Annual Management Charge	Commission Rebate	Net Annual Management Charge MAM clients
1.50%	0.65%	0.85%

AXA Framlington UK Select Opportunities Fund (Retail)

Annual Management Charge	Commission Rebate	Net Annual Management Charge MAM clients
0.85%	0.00%	0.85%

AXA Framlington UK Select Opportunities Fund ('Clean' version)

(Gold prices undermined, continued) The commodities 'super-cycle' price bubble of recent years continued to unwind and miners are still undergoing a transition period, having destroyed shareholder capital over the past decade, erroneously over-investing on the expectation of an ever rising gold price.

Central banks have now been pumping money into their economies for six years, hoping their economic weaknesses will be addressed and a sustainable recovery secured. QE is only intended as a short-term policy measure and cannot continue indefinitely, but it certainly bought time and there are clear signs of economic stability returning. We feel there is still a long way to go and then the stimulus will ultimately still need to be repaid.

It remains to be seen how the recent reduction in QE will effect the markets, but the real issue for us is whether investors can switch their dependence of short-term liquidity to the long-term fundamental strength of individual companies.

(*Source: Financial Express Analytics, Total Return, Bid to Bid, GBP£, 1st January 2013 to 31st December 2013)

Not all equity income is the same

Meager interest rates on cash deposits have driven many investors to boost their income by investing in the stock market and particularly in companies paying dividends. These were often known as Blue Chip shares and inhabited the FTSE top 10, but these days good sources of equity income can be found much further down the listings.

Mature companies with robust balance sheets, stable operations, strong cash flow, earnings growth and an ability to control their costs are better placed to pay higher, sustainable dividends. They are more likely to deliver positive performance over the long term, but you cannot really tell much about the company from the outside.

A successful equity income strategy is not merely a matter of picking the company that pays the highest dividend, because not all dividends are equal. It is vital to look beyond the current stated dividend or yield, which is calculated by comparing last year's dividends to the current share price.

Dividends can be cut or cancelled during difficult periods, expansion or financial turbulence. A classic example of this was Lloyds Bank, which was paying an annual dividend of around 8% before the crisis hit. Five years later, the share price is still only 15% of its original value and the dividend pushed back to the end of 2014 at the earliest. Even good companies may favour cancelling payouts to shareholders in the short term, rather than risk falling into long-term disrepair.

We recommend mutual funds to our investors, as they diversify the risk of having all your money in the hands of one or two companies. These funds are chosen by our investment committee, from around the world, based on the skills and track record of the individual fund manager. Using a tried and tested investment process, they need to balance better-than-average yields, with the quality of the underlying businesses.

Equity Income funds are considered to provide protection against inflation, as markets and dividends tend to grow when prices rise. Other tools are at your disposal to boost your income, including Corporate Bonds, Gilts, Property and Infrastructure.

Equity markets are volatile, but taking a long-term view can be particularly rewarding, if you can tolerate the value of your shares falling in the short-term, with a regular dividend helping to make up for some of that uncertainty.

Who should you call?

Speak to your Financial Adviser:
– for all financial advice
(If your adviser is not available when you call, we can arrange a convenient time for him to telephone you back)

Speak to your designated administrator:
– to check the progress of a transaction, or to see if something has been received
– for help with completing forms
– to make an appointment with your adviser

To withdraw money:
– tell your administrator how much you need and when; your portfolio will be reviewed to identify the funds to be sold and the tax position checked

Speak to Mark:
– if you have a query about a switch
– for help with the Client Hub (website)

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