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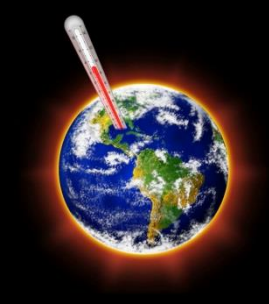
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Please note that unless otherwise stated, the share prices used in this presentation is taken at the close of business for the most recent practical day.

Very recently in financial galaxies not
so far away....

MONETARY

WARS





-% RATES

LIGHT
BLUE TOUCH PAPER
AND RETIRE

MONETARY POLICY

**MAKE AMERICA
GREAT AGAIN**





Interest Rates Back to Babylonian Times

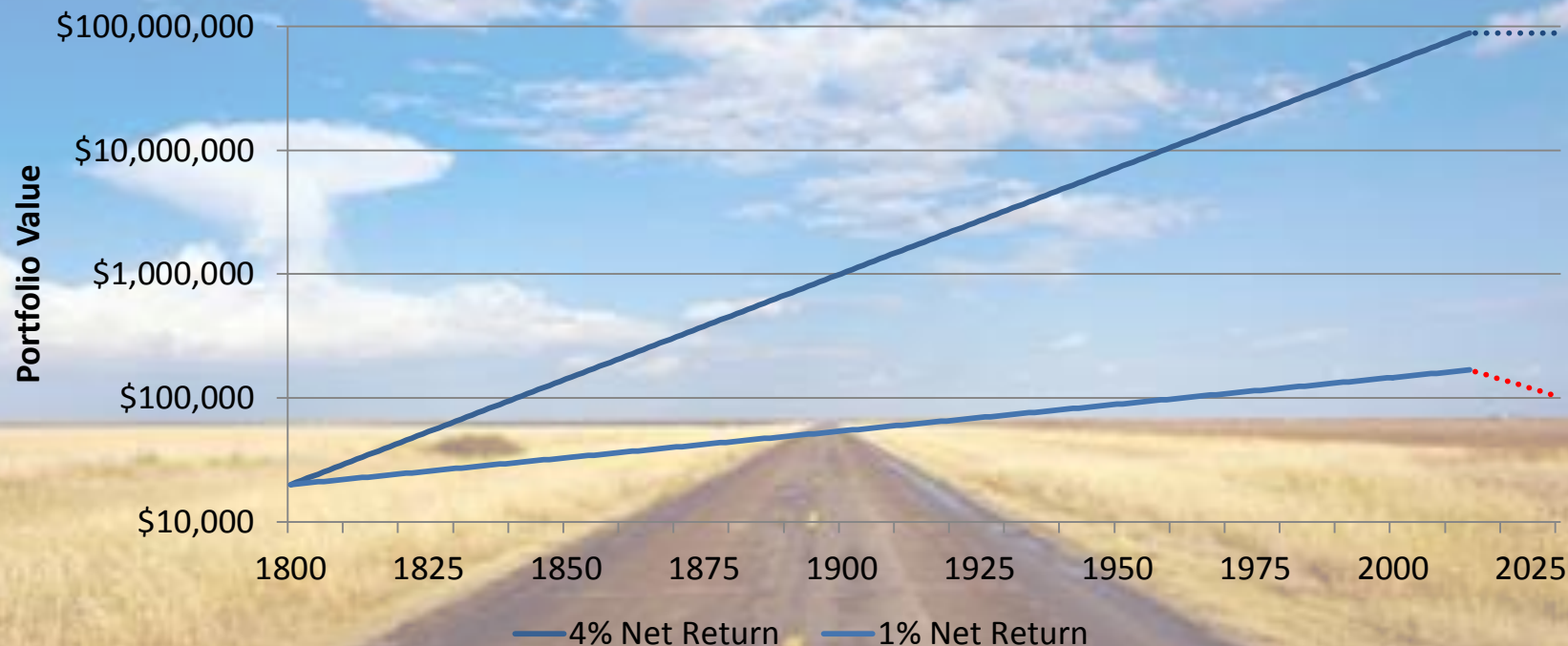


Source: Sources: Homer and Sylla (1991); Heim and Mirowski (1987); Weiller and Mirowski (1990); Hills, Thomas and Dimsdale (2015); Bank of England; Historical Statistics of the United States Millennial Edition, Volume 3; Federal Reserve Economic Database.

Notes: the intervals on the x-axis change through time up to 1715. From 1715 onwards, the intervals are every twenty years. Prior to the C18th, the rates reflect the country with the lowest rate reported for each type of credit: 3000BC to 6th century BC – Babylonian empire; 6th century BC to 2nd century BC – Greece; 2nd century BC to 5th century AD – Roman Empire; 6th century BC to 10th Century AD – Byzantium (legal limit); 12th century AD to 13th century AD – Netherlands; 13th century AD to 16th century AD – Italian states. From the C18th, the interest rates are of an annual frequency and reflect those of the most dominant money market: 1694 to 1918, this is assumed to be the UK; from 1919-2015, this is assumed to be the US. Rates used are as follows: Short rates: 1694-1717 – Bank of England Discount rate; 1717-1823 rate on 6 month East India bonds; 1824-1919 rate on 3 month prime or first class bills; 1919-1996 rate on 4-6 month prime US commercial paper; 1997-2014 rate on 3 month AA US commercial paper to non-financials. Long rates: 1712-1919 - rate on long-term government UK annuities and consols; 1919-1953, yield on long-term US government bond yields; 1954-2014 yield on 10 year US treasuries.

Long Term Returns 1

\$20,000 invested in 1800 at 4% p.a. vs 1% p.a.



Long Term Returns 2

When long term returns are constrained there are three key behaviours:

1. Eat into savings and deplete capital
2. End up saving more for retirement/future consumption
3. Move into riskier assets chasing higher returns

Zhou
Xiaochuan



Mario
Draghi



Janet
Yellen



Haruhiko
Kuroda



Mark
Carney



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Alphabet Soup!



AAA+	CDS	ECB	ERM	FDI	ISDA	OMT	SPE
ABS	CEBS	ECJ	ESA	FED	LIBOR	OSI	SPV
AMLF	CFS	ECOFIN	ESCB	FSP	LLR	PDCF	SRM
ANFA	CLO	EEA	ESFS	FST	LTRO	PIGS	SSM
ARM	CMBO	EFC	ESM	GDP	MBS	PPIP	TAF
ARRA	COSAC	EFSF	ESMA	GFC	NAMA	PSI	TALF
BBB+	CPFF	EFSM	ESRB	GNP	NCB	QE	TARGET
BOE	DSA	EFTAS	EU	GREXIT	NIIP	RMBS	TARP
BOJ	DSGE	EIOPA	EURODAD	IFO	NIRP	SDR	TLTRO
CAC	EBA	ELA	EURIBOR	IIF	NPM	SGP	TSLF
CDO	EBF	EMU	FATF	IMF	NTMA	SONIA	ZIRP

Capital Misallocation



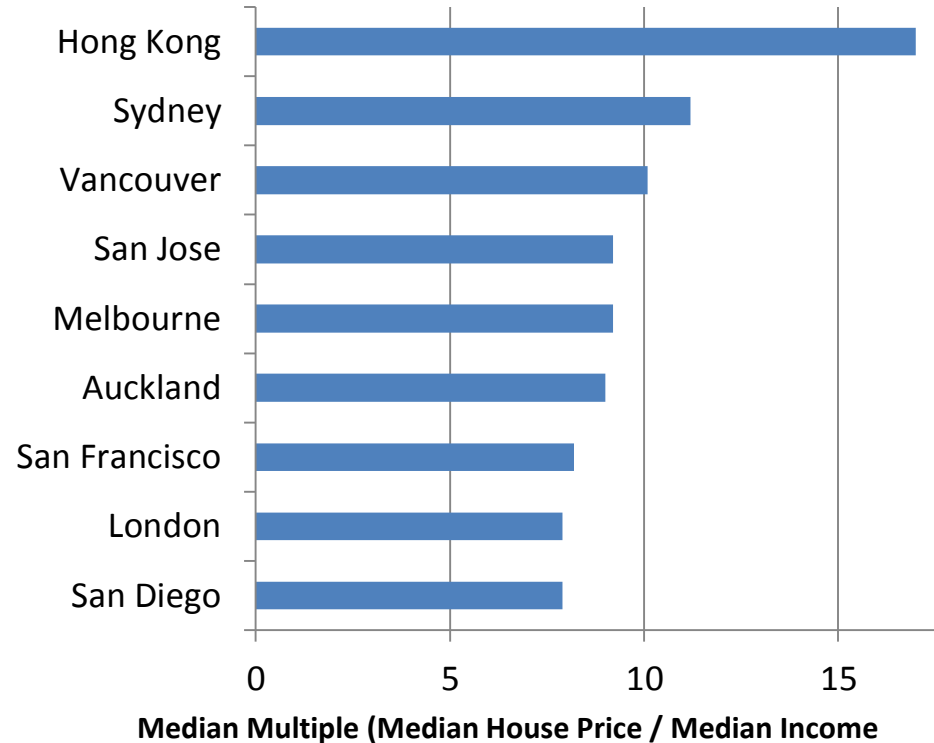
- Wicksell Rule – there is a natural upper interest rate that entrepreneurs are willing and able to bear
- Spread between return on capital and its cost of capital is shrinking
- Keynesian thinking has lead to massive asset bubbles
- Global debt has grown by more than USD 50 trillion since 2007
- GDP growth has not kept pace with debt formation

Negative Interest Rate Policy (NIRP)

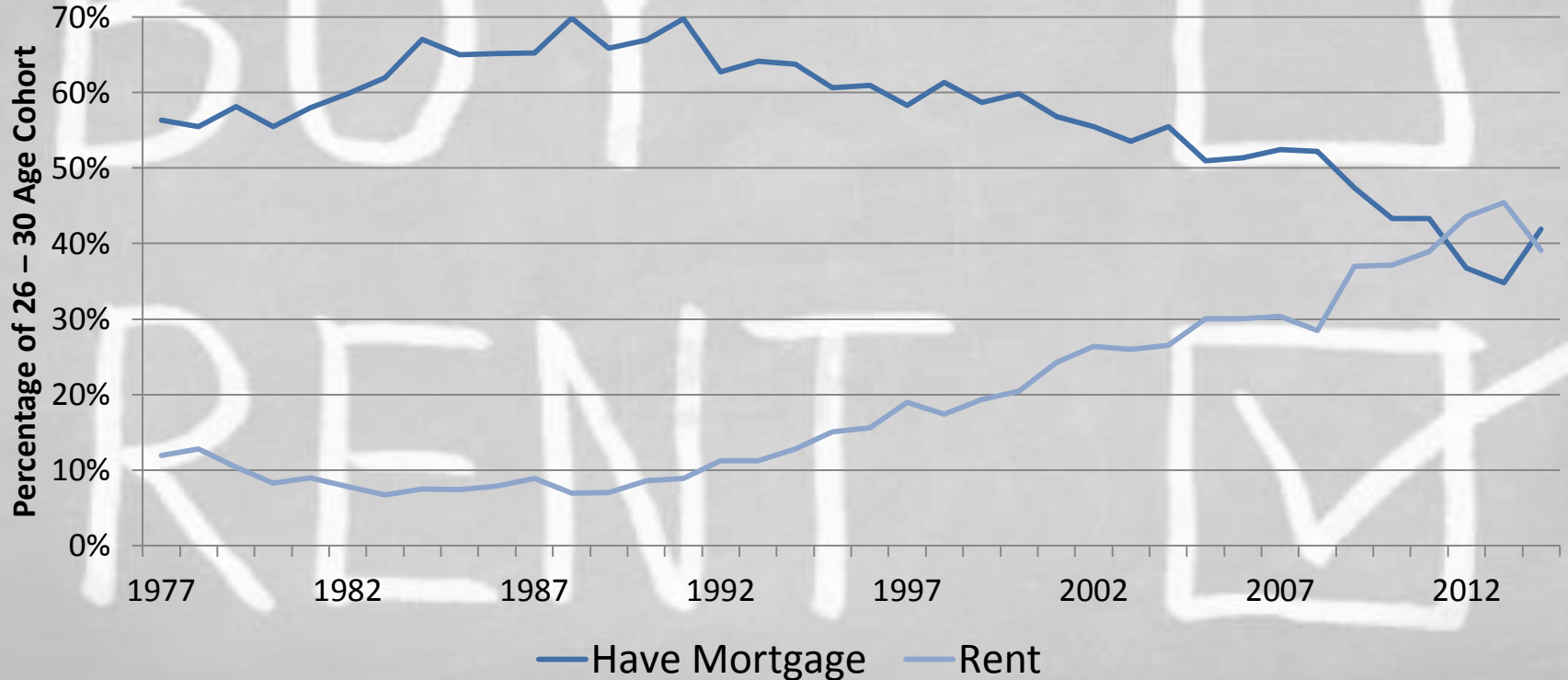


1. People can't generate a return
2. Banks don't make any money
3. Savings/insurance industry destroyed
4. Psychological impact / animal spirits

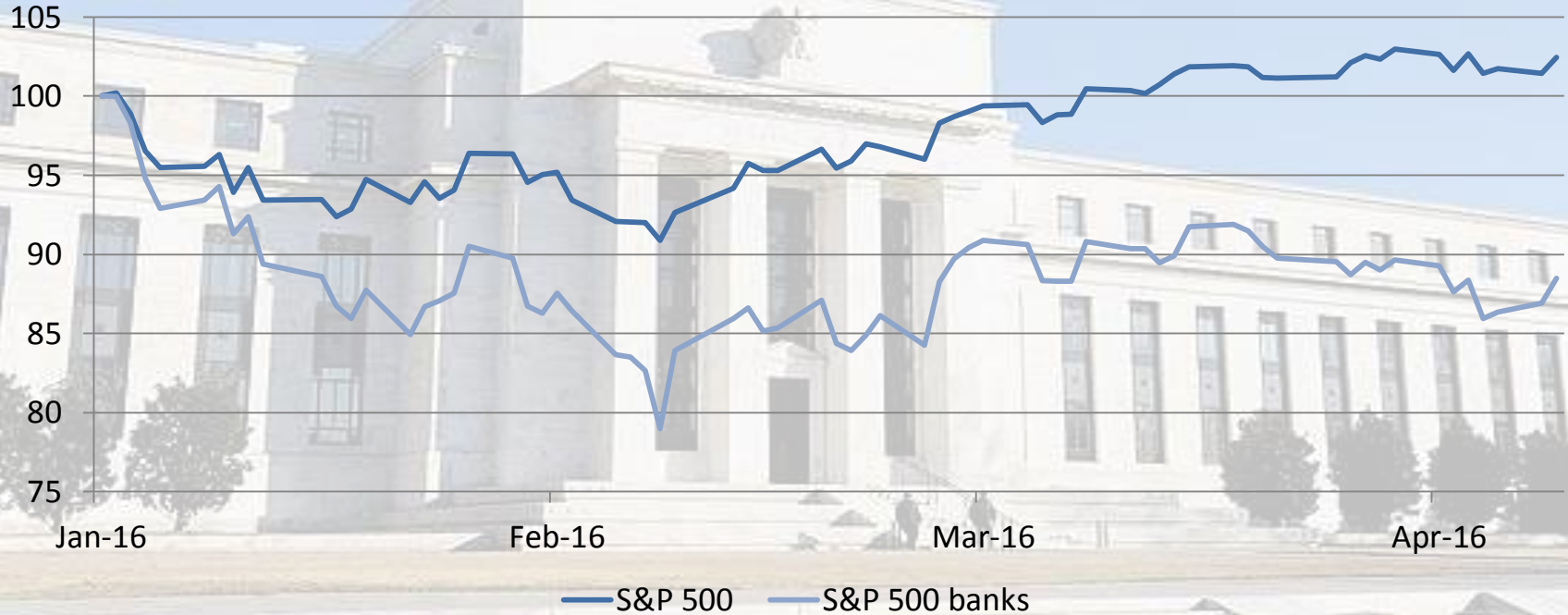
Market Distortions



Market Distortion

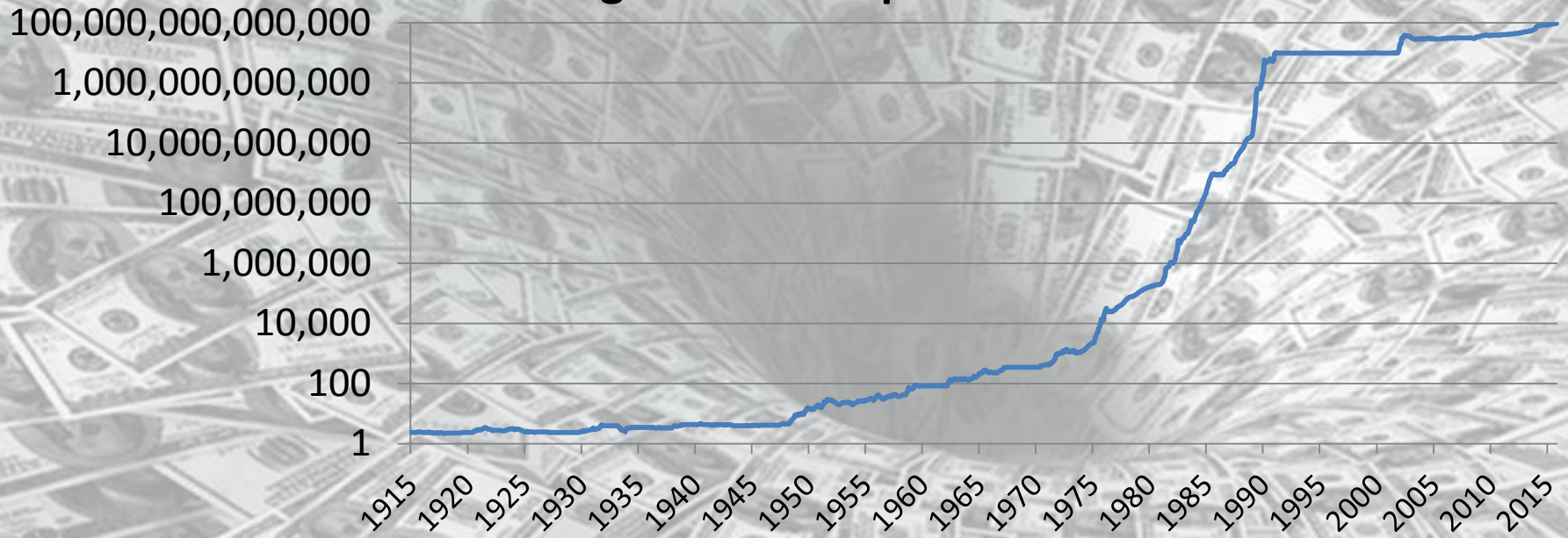


Banking on Failure



Market Distortions

Argentine Peso per USD



Venezuela Today



Zimbabwe 15 years ago



Unfortunate Guide to Future Pensions



Aged 55 - 65

You will retire in your 60s with a generous state pension that will allow you to enjoy a decent standard of living.



Aged 45 - 55

You will retire in your 70s with a reduced state pension that will allow you to enjoy years of worrying whether you can afford to turn the heating on.



Aged 35 - 45

You will retire in your 80s with a miserly state pension that will allow you to enjoy dog food and hypothermia.



Aged 25 - 35

You will retire in your 90s with a state pension so miniscule that it will allow you to make just the one phone call to Dignitas.

BAD ECONOMICS
DRIVES BAD POLITICS

The Rise of Populism

An ideology that considers society to be ultimately separated into two homogenous and antagonistic groups, 'the pure people' versus 'the corrupt elite', and which argues that politics should be an expression of the *volonté generale* (general will) of the people.



Unleashing the beast



McDonald's workers: "We want \$15 an hour!"

McDonald's response depicted

Luxury Communism

- Distortions are leading to populist movements:
 - Marine Le Pen, France
 - Donald Trump, US
 - Bernie Sanders, US
 - António Costa, Portugal
 - No majority govt., Spain





I took half of
your sign because
you had one and I
didn't. I'm sure
you understand.

So what should
investors do?



Forecasting Isn't Easy

Forecaster	Forecast	Date	Reality
Goldman Sachs	\$200 barrel oil	Jun-08	Oil plummeted from 144 to 48 in 6 months
Peter Schiff, EuroPacific Capital	Gold to reach \$5,000 per oz. from \$1,300	Apr-14	Gold bottomed around \$1,050
Bank of Canada	2.5% GDP Growth	Jun-14	Economy shrank 0.6%
PIMCO	Oil prices to stabilise and move higher	Jan-15	Oil dropped 30%
PIMCO	Base metal prices to stabilise	Jan-15	General sell off in commodities of around 30%
Goldman Sachs	EURUSD @ 1.4 in 12 months	Apr-14	EURUSD missed target by 30 big figures
Morgan Stanley	Overweight commodities for 2015	May-15	Broad based commodity sell off

Change is coming...



Global Tour



U.S.

- Equities were buoyed by the Fed put and low yield debt
- Record stock buybacks fuelled by cheap debt
- Low CAPEX
- Lower growth trajectory

Greenback in Retreat



Source: Bloomberg, January 1997 = 100

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China

- More of the same
- Credit growing rapidly
- GDP growth of 5.6% achievable at expense of future bust
- For every 1 yuan in GDP growth 5 yuan of debt required
- New debt created in first two months of 2016 was \$1 trillion
- Home prices rose at fastest pace in almost two years Mar-16, up +4.9% YoY – faster in tier 1 and 2 cities

Japan

- May introduce helicopter money
- Hugely wealthy nation
- Robotics and innovation to drive productivity growth
- Yen likely to rise
- Nikkei 225 our favourite index
- Japan Post privatisation is a good sign

Emerging Markets

- India promising but expensive
- Turkey a favourite
- Brazil has moved up too much
- Russia looks cheap but severe political issues and overdependence on fossil fuels

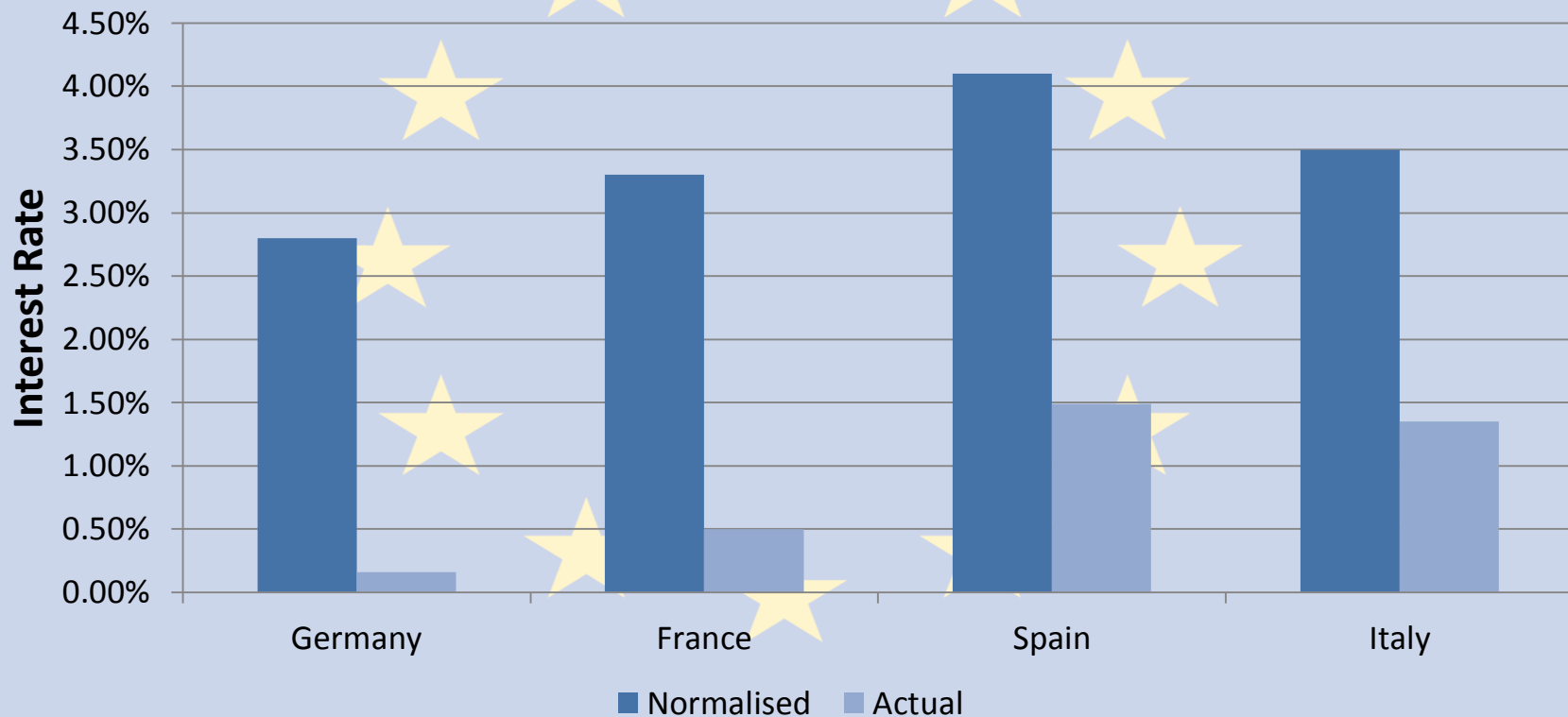




Eurozone

- As at Dec '15, 1/3 (more than €2 trillion) of all government bonds in Euro area now have negative yields
- Italy and France classic debt traps
- ECB may have to relax eligibility for debt acquisitions
- This will create a false equivalency of German debt to other euro countries
- Reduction in liquidity and yield a big issue for pension funds and the increased risk they need to take

Euro 10 Year Government Bond Yields

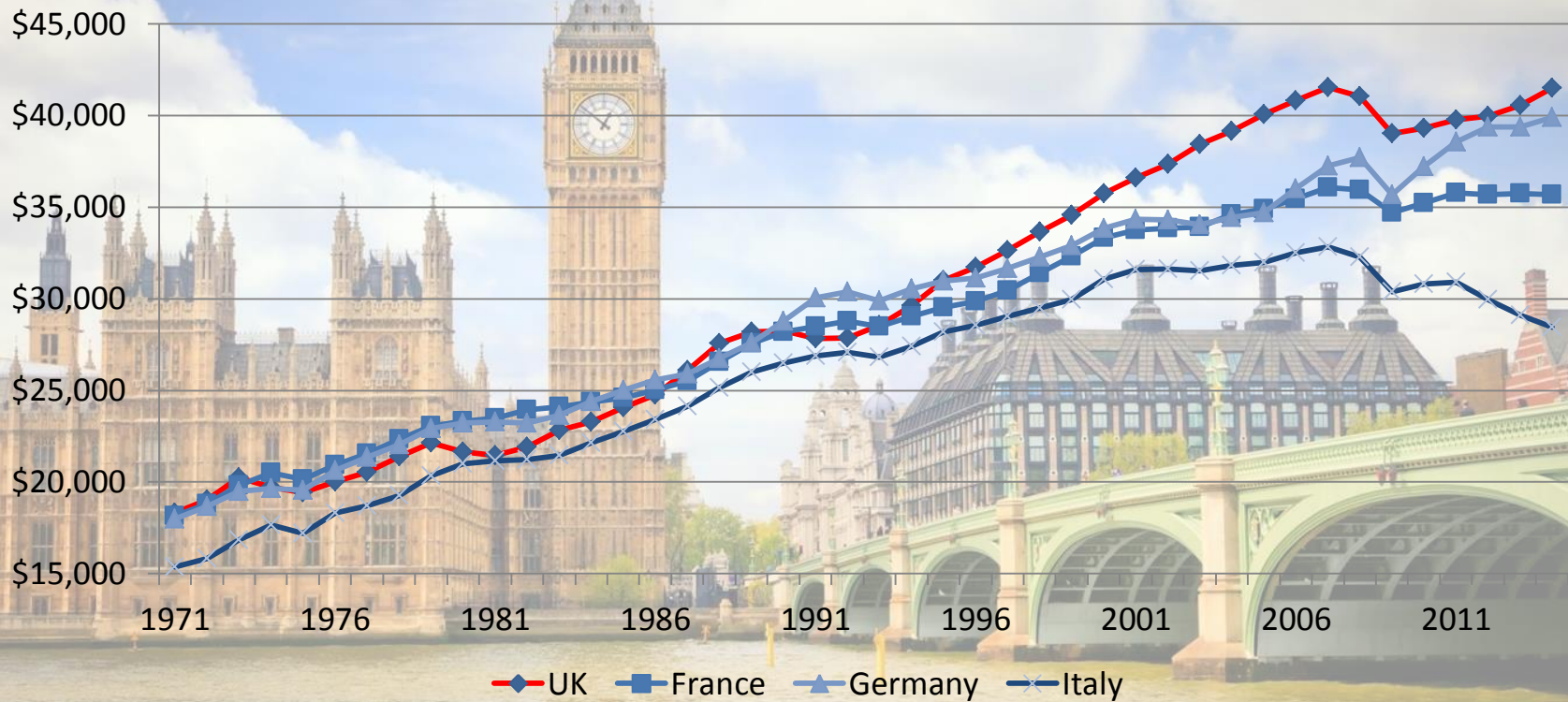


United Kingdom

- Current account and fiscal deficit are concerning
- Sterling under short term pressure
- FTSE fairly valued
- Brexit not a financial issue
- London prime real estate soft
- Could do better outside EU



GDP per capita (USD 2016 prices)



Meanwhile in the Real World



"We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run."

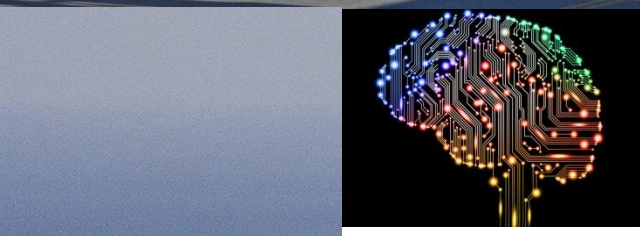
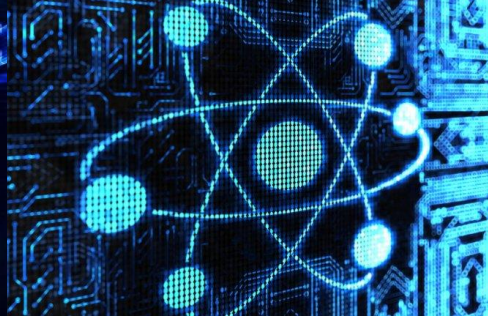
-Roy Amara, President of the Institute for the Future



Top 10 Tech Updates

1. Quantum computing and Dennard Scaling
2. Virtual / augmented reality & AI
3. CRISPR gene editing and microbiome
4. Sequencing machines universal clinical practices
5. Truck platooning & self driving robots

Nearby



Top 10 Tech Updates

6. Li-Fi
7. Payment technology
8. Reusable rocket - SpaceX
9. Improvement in battery technology – Tesla Model 3
10. Voice recognition



N E W

R U L E S

of the

G A M E

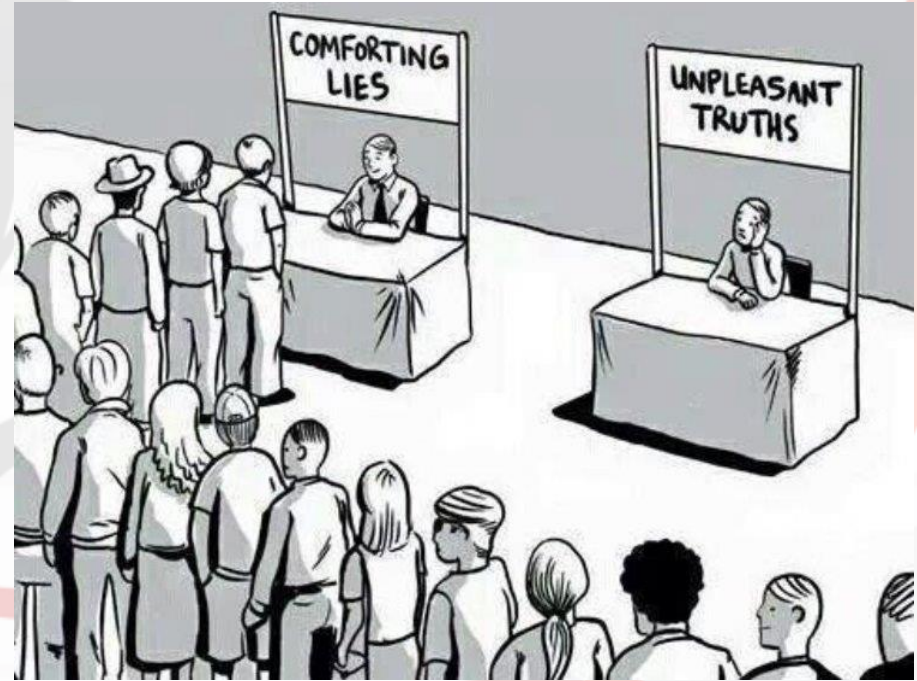


"The most important attribute for success in value investing is patience, patience and more patience. The majority of investors do not possess this characteristic."

-Peter Cundill

Rules for the Current World 1

1. Patience, patience, patience
2. Proforma is Latin for bulls%^&
3. Look at quality of management
4. Look at ROE of businesses and sustainability
5. Look at dividend policy and likely sustainability of dividends



Rules for the Current World 2

6. Read widely, think long, act quickly
7. Don't have a foolish consistency – flexibility and don't over concentrate
8. Rent don't own cyclical stocks
9. Be very careful of valuations
10. Don't get info from @rant @ rooms, homes of mental defectives and losers



Conviction Ideas

1. Gold
2. Short negative yielding bonds
3. Sony Corporation
4. FANUC Corporation
5. Gilead Sciences Inc
6. Critical Elements Corporation
7. Fidelity China Special Sits Fund
8. Syrah Resources
9. Galapagos NV
10. Silver

Long Recommendations

Company	Dividend Yield	USD Market Cap	P/E Ratio	Debt to Equity
Allergan plc	0.00%	89,168	12.80	55.79
Arrowhead Pharmaceuticals Inc	0.00%	373	N/A	0.69
Avation PLC	1.40%	102	3.88	333.92
CAR Inc	0.00%	2,729	11.50	119.92
China International Travel Ser	1.00%	6,941	21.89	0.65
Condor Gold PLC	0.00%	34	N/A	0.00
Critical Elements Corp	0.00%	35	N/A	0.00
FANUC Corp	4.18%	34,857	25.39	0.00
Fidelity China Special Situati	1.03%	1,114	N/A	N/A
Gilead Sciences Inc	1.73%	134,706	8.00	116.05

Long Recommendations

Company	Dividend Yield	USD Market Cap	P/E Ratio	Debt to Equity
Glencore PLC	0.00%	35,244	28.47	106.55
Medivation Inc	0.00%	8,565	26.81	11.15
Moscow Exchange MICEX-RTS PJSC	6.52%	3,773	11.56	985.41
Synergy Pharmaceuticals Inc	0.00%	545	N/A	N/A
Teranga Gold Corp	0.00%	278	8.87	2.81
Turkiye Garanti Bankasi AS	1.52%	13,299	6.90	202.05
Veolia Environnement SA	3.43%	13,631	16.67	129.86
Gold				
Silver				

Short Recommendations

- Negative yielding bonds
- Alphabet
- Amazon
- Tesla Motors Inc
- Lyxor UCITS Daily Double Short Bund ETF
- Lyxor UCITS Daily Double Short JGB ETF



Summary

- All about the central banks and monetary wars
- Unorthodox monetary -> huge distortions
- Inflation is coming with initial signs already showing





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