CORE CAPITAL

MARKET OPPORTUNITIES

January 2018

- Important factors to consider as we enter 2018.
- We think not putting all the eggs in one basket make sense.

Can investors just keep the investments they have had and expect the returns of the last five years to be repeated in the next five? Clearly, starting points in the economy and in markets matter; it becomes more difficult to generate high returns when starting from higher levels. Moreover, markets may be supported by current growth and inflation levels but the global economy is not static and many factors can complicate the environment. There is always a degree of uncertainty as we start a new year. We think the below points are the extra important ones to consider during 2018.

- We look for positive, although somewhat subdued, returns in 2018. With central banks taking away the notorious stimulus, the equity markets at record highs, credit spreads tight, and yes, things like bitcoin has the ingredients of a speculative bubble – the power of diversification can play an important role in reducing risk while still getting good long-term returns. In addition, tactical asset allocation can quickly take advantage of market movements to improve returns and lower risk in portfolios.

- To the extent easy money, negative rates, and central bank balance sheets have aided the bullish behaviour in risk assets, then the follow through is that the slowing of such activities from central banks would have a dragging effect. One could make the same case for higher rates, of course, but that influence seems more related to curve flattening in the form of rising short-term yields, at least in the US. We are positioned for rising bond yields by our holdings in senior secured loans with floating rate coupons.

- The growth in exchange-traded funds creates a concern for us in the event of a bear market. ETFs are liquid but their assets are not, so if there is a panic then the selling pressure can worsen price deterioration. We are especially thinking about the less liquid areas like high yield bonds and emerging market equities.

- Demographics are such a big topic that a mere bullet point does not do the theme justice. The population is growing older, which has implications for more conservative overall spending and changed investment habits. Our holding in BB Biotech is a clear play on this theme and has been a growth story (fundamentals of healthcare spending, aging population and providing of treatment to unmet needs).

- As indicated by a range of robust official and survey data, 2018 will probably be another year with a strong global GDP growth. The Republican tax plan might help further in the US, but we are just not sure if that is 2018 or 2019. The expansion has been a long one, and there are some late-cycle elements that make us more cautions. However, a solid growth in global GDP and corporate earnings in combination with a modest inflation should imply that risk of a global recession in 2018 is low.

With this in mind, we look forward to the various investment opportunities of the new year. We would also like to thank you for the past year and wishing everybody a prosperous 2018.

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Markets – December 2017

Equity indices	Dec-17	2017
MSCI ACWI	+1.50%	+21.62%
MSCI World	+1.10%	+18.48%
S&P 500	+0.98%	+19.42%
Euro Stoxx 50	-1.85%	+6.49%
DAX	-0.82%	+12.51%
FTSE 100	+4.93%	+7.63%
NIKKEI 225	+0.18%	+19.10%
OMX 30	-2.06%	+3.94%
OMXC 20	+1.84%	+15.87%

Bond indices	Dec-17	2017
Global Treasuries	+0.11%	+7.29%
Global High Yield	+0.46%	+10.43%

Currencies	Price	Dec-17
EUR/USD	1.2005	+0.85%
EUR/SEK	9.8342	-1.38%
USD/SEK	8.1833	-2.31%
USD/DKK	6.2069	-0.72%

Interests	Dec-17
US T-Bill 3M	+1.3588%
Euribor FIX 3M	-0.3300%
Libor FIX 3M	+0.5200%
Stibor FIX 3M	-0.4700%
Cibor FIX 3M	-0.3100%

Other	Dec-17	2017
Gold	+2.18%	+13.53%
Oil crude. Brent	+5.19%	+17.69%
HFRX Index	+0.73%	+5.99%

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Portfolio update

There were two changes made in the portfolio during the month.

Firstly, we bought the BGF Emerging Markets Corporate Bond Fund. The Fund aims to maximise the return through a combination of capital growth and income on the Fund's assets. At least 70% of the fixed income securities will be issued by companies whether domiciled in, or the main business of which is in, emerging market countries. Emerging markets benefit from continuing global growth, and the fund is attractive as a diversifier to our other credit holdings.

Secondly, we bought the BL European Family Businesses. The fund is described, more in detail, in the right column on this page.

To finance both of these purchases, we have reduced our positions in Invesco US Senior Loan Fund and the iShares STOXX Europe 600 ETF.

Market outlook

- Fixed income

Pension fund buying and quantitative easing have pushed global yields to low levels. While we expect the Fed to continue to gradually raise interest rates, we expect the Fed Funds rate to peak at a lower level in this cycle. European government/corporate bonds remain an underweight, given the low level of yields and the likelihood of rising interest rates. We think it is clearly best to have a limited duration exposure, and are positioned for rising bond yields by our holdings in senior secured loans with floating rate coupons.

- Equities

Growth is steady and inflation is rather low; this makes stocks look attractive despite rising valuations. There are few signs of the excessive growth or excessive financial leverage that usually signal the approach of a bear market. With interest rates below the rate of inflation, it's not surprising that money continues to flow into equities.

- Currencies

Tax cuts and repatriation supports the USD near term. Positive growth momentum keeps the EUR supported and the currency is still below long-term fair value. Yield curve control means JPY weakens as global yields rise. Weak UK economy and Brexit are clear downside risks for the GBP.

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Holding of the Month
BL European Family Business

The fund's objective is capital appreciation over the long term by investing its assets in European stocks partly controlled by a family or family group.

We like the long-term approach by the portfolio manager and currently prefer European equities, since they are less expensive than US equities and supported by solid economic momentum..

The return in 2017 was 23.2% for the BL European Family Businesses Fund.

BLI BANQUE DE LUXEMBOURG INVESTMENTS