Appian Asset Management

Monthly Monitor

August 2017

Currency Swings and Roundabouts

Currency moves have played a big role in shaping investor returns so far this year, and the principal trend has been the strength of the Euro against the US dollar and to a smaller extent against Sterling.

For a Euro-based investor a total return from the US stock market of close to 12% in US dollar terms is practically wiped out at just over 1% in Euros. Measured against its major trading partners, the Euro has strengthened by close to 8% in 2017 so far.

The immediate impact then of the strong Euro is to diminish returns from non–euro assets in the short term.

Why has the Euro performed as well this year? Part of the reason is that the Euro economy itself has surprised with a better recovery than many expected. Growth forecasts for 2017 of around 1.5% at the start of the year are now closer to 2%. The ECB and other forecasters have been revising up their numbers as we've come through the year, and forward-looking indicators continue to look positive. This has supported the currency as it means we are moving (slowly) to a phase when the Central Bank will "pump" less money into the system and at some point, (though in our view not for some time) increase interest rates.

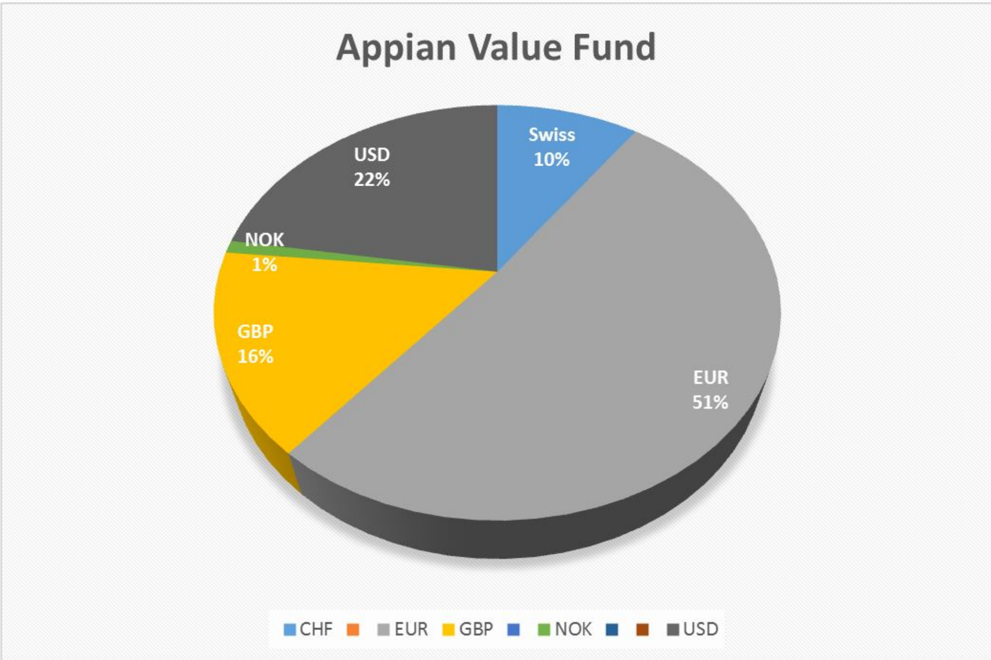
At the same time across the Atlantic there have been a number of factors which have weighed *against* the US dollar. The failure of inflation and wages to take off has perhaps lessened the pace of future interest rate hikes from the US Central Bank – though in our view we will see a further increases this year and thereafter. Neither has the political background been US Dollar friendly as failure to progress on any legislative agenda coupled with controversy around the Presidency, negatively impacted the currency. A weakening exchange rate is not all bad however.

that are coming from overseas and will serve to underpin the better profits growth that we have been seeing this year from US companies. This in turn supports asset values and investment returns from US stocks.

Similarly we can see how a stronger Euro tightens conditions in the Eurozone, makes exporters less competitive and can be a drag on overseas revenues. From the ECB's perspective this goes against their goal of sustainable growth and inflation pick-up. Could the move we have seen already be enough to sway the Central Bank off its course of gradually reducing support? Mario Draghi has said so far that it's not an issue, but if the strength persists it may well play a role. In the past it has taken a move of over 10% in the currency on trade weighted basis to warrant an ECB response. We're not there yet.

Currency moves, as we've seen this year, can be quite dramatic and indeed can reverse direction quite quickly. There are "leads and lags" from currency moves and as we've seen, a weak currency can ultimately be a boost towards growth despite the short term translation effect.

At Appian we do not look to second-guess what currencies may do but rather, we focus on the underlying quality and potential of our investments. Our funds will typically have well diversified exposure to the different currency blocks, as the Appian Value Fund below displays:



(As at July 2017)

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Appian Unit Fund Prices

2 August 2017

Appian Value Fund	**141.81**
Appian Equity Fund	**176.80**
Appian Small Companies Opportunities Fund	**200.69**
Appian Liquidity Fund	**106.11**
Appian Ethical Value Fund	**98.67**
Appian Burlington Property Fund	**105.93**

For more detailed information on each of our funds click **here**

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