Appian Asset Management

Monthly Monitor

July 2018

Appian Value Fund: Preserving Capital Amid Market Stress

The first half of 2018 highlighted the resilience of the Appian Value Fund amid a period of stress across global equity markets and global bond markets.

Performance of Cautiously Managed Funds YTD

Zurich Life Cautiously Managed	0.70%
Appian Value Fund	0.20%
BNY Mellon Global Real Return	-0.60%
Standard Life Cautiously Managed	-0.90%
Friends First Compass Cautious	-1.20%
Irish Life Multi Asset Portfolio 3	-1.20%
Acorn Life Cautiously Managed S2	-2.50%
New Ireland Elements	-2.60%
Standard Life GARS	-4.90%

Source: Financial Express, YTD 29th June 2018

- **European Equity Markets have Struggled this Year**

Whilst equity markets enjoyed a strong start to the year, this quickly evaporated as softer economic data in Europe, an Italian political crisis and fears of a global trade war dragged markets lower. The majority of global equities finished the half way mark of the year in negative territory. European markets finished the period broadly negative and the pain wasn't confined to the periphery with core European markets also suffering, the German stock market was down 5% and the Swiss market off 8.5%.

- **Cracks are Appearing in Emerging Markets**

The second quarter brought the vulnerabilities of emerging markets to the fore. These markets have benefited greatly from the low interest world we have been in for the last decade and as interest rates start to rise, the cracks are starting to emerge. Financial crises erupted in Turkey and Argentina but the pain was more widespread than this with the Chinese and Brazilian stock markets both down over 15% this year.

- **Safety in US Markets may be an Illusion**

The US stock market has been held up as a beacon of safety amid the equity sell-off but close examination reveals reasons for caution, with the market leadership getting worryingly narrow. The S&P index would have finished the period in negative territory were it not for the performance of 10 growth stocks. This was driven by the so called FAANG stocks (Facebook, Amazon, Apple, Netflix and Google) which have continued to rise in value. The average FAANG stock now trades on a price earnings multiple of 54x and offers a dividend yield of just 0.3%.

- **The Bond Market isn't Providing Safety**

Conventional wisdom holds that if equities struggle, bonds should prosper. The first half of this year disproved this theory as seen by the performance of the Barclays Global Aggregate Bond Index, which finished the period down 1.7%. The Appian Value Fund moved to a 0% weighting in bonds early this year based on our view that the asset class was irrationally expensive. Whilst there has not been a dramatic repricing of sovereign debt yet, the volatility of Italian debt post the creation of a new government and a rise in credit spreads in the US are signs that the period of mispricing of credit may be coming to an end. A sensible repricing of credit risk coupled with a repricing of sovereign debt would bring more pain to global bond markets.

- **The Appian Value Fund Produced a Positive Return**

Against this backdrop the Appian Value Fund produced a positive return, out-performing most "cautiously managed" funds – even "Absolute Return" strategies are struggling in this market environment. We continue to struggle to see how expensive assets such as bonds or "FAANG" type stocks offer any likelihood of protection from market declines. In contrast to this, we seek to generate positive risk adjusted returns by focusing on owning quality cash generative assets across different asset classes at reasonable valuations. We are holding to our negative view on bonds and the equity portion of the Fund continues to exhibit the same conservative characteristics our investors expect. Our equities have an average dividend yield of 3.7% and a price earnings multiple of 13.3x, whilst generating earnings growth of 9% and dividend growth of 8% this year. We continue to believe positive returns are possible in the equity market without chasing the current euphoria in growth stocks. We are also confident that the alternative assets in the portfolio will continue to generate positive returns. So, whilst we are confident in the ability to make positive returns, the first half of the year highlights that some caution is required and the days of all parts of the financial markets moving up together are over. This is likely to become more apparent as quantitative easing comes to an end and more normal financial conditions exert themselves.

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Appian Unit Fund Prices

6 July 2018

Appian Value Fund	**143.86**
Appian Equity Fund	**189.92**
Appian SCOF	**203.05**
Appian Liquidity Fund	**105.32**
Appian Ethical Value Fund	**102.16**
Appian Burlington Property Fund	**110.25**

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

Investment Team

Patrick J Lawless
Chief Executive Officer

Eugene Kiernan
Head of Investment Strategy

John Mattimoe
Senior Fund Manager

Pat Kilduff
Senior Fund Manager

Niall Dineen
Senior Fund Manager

Click here for more information about our Investment Team

Contact our **Client Relationship** Team

Kevin Menton
Director
Tel: (01) 662 3989 *direct*
Click here to email Kevin

John Flavin
Senior Relationship Manager
Tel: (01) 662 4053 *direct*
Click here to email John

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