LF BENTLEY
GLOBAL GROWTH FUND

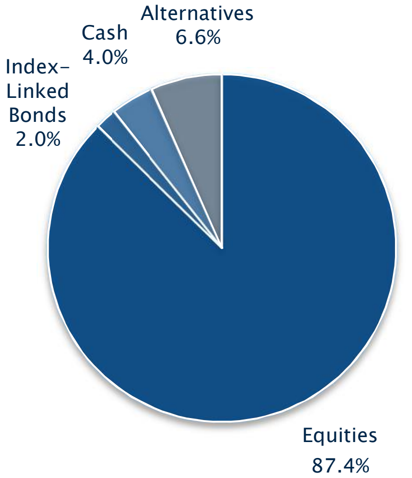
30TH SEPTEMBER 2018

BENTLEY REID

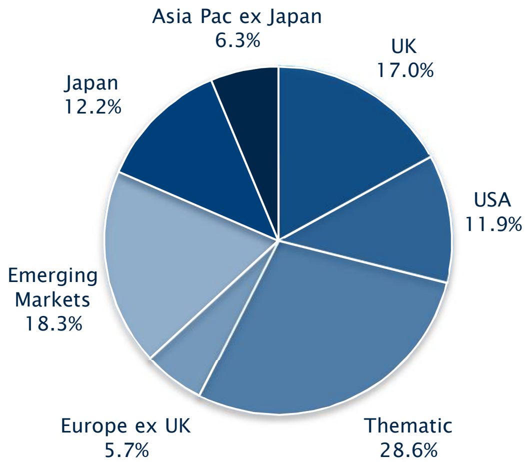
INVESTMENT OBJECTIVE

The fund seeks to achieve an average annual return of CPI + 4% over any 5-year period, after all fees. The mandate follows a risk tolerant approach that will be pre-disposed to remain fully invested in equities; it will accept short-term volatility and periods of value decline in the pursuit of its long-term return goals.

ASSET ALLOCATION



EQUITY BREAKDOWN



QUARTERLY INVESTMENT REPORT

US stocks have rebounded to all-time highs, but troubles are brewing elsewhere. The MSCI World ex-US index has fallen 12% in dollar terms from its January peak and many emerging markets experienced 20%+ losses over the summer. Global bond markets are drifting lower too, whilst commodity prices (bar oil) have seen renewed weakness.

There have also been major moves in currencies with the strengthening dollar impacting the fund's performance; it hurt some of the underlying "risk on" positions (particularly the emerging markets), but it limited the downside for non-dollar investors. The fund price was little changed in sterling terms and down 1% in dollars over the quarter, but it lagged the MSCI World index's modest gain.

The marked outperformance of US stocks remains a drag on the fund's relative performance, but it has still produced a 7.4% p.a. average gain (in £ terms) over the past 3 years and a 5.4% p.a. gain for the past 5 years.

Our aversion to US stocks has proved costly (in a relative sense) and last quarter was another period when it would have been more profitable to have owned US listings and go short most other assets.

continued overleaf

EQUITIES	87.4%
UK	14.9%
LF Odey Absolute Ret $ Hdg	2.5%
LF Woodford Income Focus	2.3%
City Financial Absolute Equity	2.6%
GVQ UK Focus	2.5%
Jupiter UK Special Situations	5.0%
United States	10.4%
iShares Core S&P 500	6.4%
iShares S&P 500 Financials	4.0%
Europe ex UK	5.0%
Invesco Perpetual European	5.0%
Japan	10.7%
GLG Japan Core Alpha	5.2%
Vanguard FTSE Japan	5.5%
Asia Pac ex Japan	5.5%
First State HK Asian Growth	3.1%
Hermes Asia ex Japan	2.4%
Emerging Markets	16.0%
Stewart Latin America	5.0%
Kotak India Growth	2.7%
iShares MSCI EM	4.4%
Schroder EM Debt Abs Ret	3.9%
Thematic	24.9%
Fundsmith Equity	5.0%
Guinness Global Equity Inc	1.9%
Jupiter Global Abs Ret $ Hdg	2.5%
Kennox Strategic Value	5.5%
Old Mutual Gold and Silver	2.1%
VanEck Gold Miners ETF	2.2%
Wellington Global Healthcare Long/Short	5.7%
BONDS	2.0%
UK Index-Linked Gilt 2068	2.0%
ALTERNATIVES	6.6%
iShares Physical Gold	6.6%
CASH	4.0%

PERFORMANCE (NET OF FEES)*

CUMULATIVE	3 MONTHS	YTD	1 YEAR	3 YEAR (ANN.)	5 YEAR (ANN.)
Fund	-0.2%	-1.7%	0.0%	7.4%	5.4%
Inflation (UK CPI)*	n/a	n/a	2.6%	2.0%	1.5%

12 MONTHS TO	30 SEP 18	30 SEP 17	30 SEP 16	30 SEP 15	30 SEP 14
Fund	0.0%	5.6%	17.3%	0.6%	4.5%

** the CPI figure is the actual inflation figure and is not adjusted to show the fund's target return. The 3 and 5-yr figures are annualised averages.*

However, we are consciously taking the other side of this trade as we must remain disciplined about valuation. With a host of US valuation metrics trading at multi-decade highs, real (inflation-adjusted) returns are forecast to be negative over the coming years. As such, we see no reason to buy US listings at these speculative levels, particularly with the Federal Reserve finally removing the cheap money that has bid many assets to extreme levels. The fund is running an historically low aggregate exposure of just 20% to the US market, but this is biased towards the financial and healthcare sectors, which produced solid gains last quarter. The US Financials ETF rallied by 6%, buoyed by the Fed's rate hikes (which boost the profit potential of the commercial banks) and the Wellington Healthcare fund also added 6% on the back of a solid earnings season and a wave of short-covering.

We are constantly re-assessing our bearish outlook on US stocks and there is a (slim) chance that we revert to a more constructive view without a major market fracture. Any signs that the Federal Reserve (and the other Central Banks) are resorting to much looser monetary policies could prompt change, but for now stretched valuations, economic growth concerns and less supportive liquidity conditions all argue for caution.

The bulk of the fund's holdings should benefit from the Central Banks ultimately reverting to low rate/QE type policies; a scenario we expect to unfold once the current tightening of liquidity has sparked an economic and market downturn (or fears thereof). Over time this speaks to a weaker US dollar and we believe the most profitable strategy over the next few years will be to own the cheaper, albeit more volatile, emerging market (EM) assets and gold bullion. EM's had a banner 2017 with the likes of Hermes Asia rallying by more than 30%, but this year has been a struggle with the stronger dollar causing weakness. It is pleasing to see good stock-picking protecting the fund's dedicated EM positions last quarter; Hermes Asia and First State Latin America posted modest gains in £ terms, whilst the Schroder EM Debt fund fell by only 2%. With shades of panic-selling driving valuations to cheaper levels, we are keen to retain the 24% EM allocation and may look to add further if the sell-off intensifies.

Gold fell by 4% in £ terms last quarter and is down 7% from its May peak. The recent moves are uncomfortable given the fund's 7% exposure to the physically-backed bullion ETF and an additional 5% allocation to the gold mining stocks; the latter are amongst the cheapest equities on offer and have become cheaper after last quarter's falls. We believe gold and gold miners remain a compelling long-term hold and they should be one of the principal beneficiaries if (more likely when) the Central Banks return to easing. Much of the recent selling of gold has been caused by technical factors with speculators moving to a net-short position (betting on further price falls) for the first time since 2001. Historically this has been a good contrarian signal. With the Central Banks adding to their reserves at a healthy pace, the gold price risks appear skewed to the upside, particularly over the fund's 5-year investment horizon. Over the same timeframe we expect US stocks to materially underperform their EM counterparts. The fund remains positioned to take advantage of this.

PORTFOLIO ACTIVITY

INCREASE BOND EXPOSURE (0.7% to 2.1%):
Buy UK Index-Linked Gilt 0.125% 2068 (+1.4%)

INCREASE EQUITY EXPOSURE (84.0% to 86.5%):
Buy Jupiter Global Abs Ret $ Hdg (+2.5%)

FUND SWITCHES:
Sell BlackRock World Gold (-2.5%)
Buy VanEck Vectors Gold Miners ETF (+2.5%)
Sell Fundsmith Equity (-2.0%)
Buy Guinness Global Equity Income (+2.0%)

KEY FACTS

Price	£1.5100	NISA	Yes
Fund Size	£17.4m	Launch Date	13/09/2010
Benchmark	UK CPI + 4%	Bloomberg Code	LFBUGGA LN
Initial Fee	0%	ISIN	GB00B5513D67
Fees	1.5% AMC	ACD	Link Funds Solutions Limited
Ongoing Charge Figure	2.38%	Depositary	BNY Mellon Trust & Depositary (UK) Ltd
Minimum Investment	£5,000	Prices Published	www.bentleyreid.com

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