ROSSIE HOUSE
INVESTMENT MANAGEMENT

February 2017

We are pleased to have put last year behind us. Although portfolios generally made reasonable gains (at least in Sterling) it was anything but smooth. It was easy to make mistakes. It is our hope that you might feel Rossie House has stewarded your assets reasonably satisfactorily through this difficult period. The first article explains our views and strategy for portfolios.

Many portfolios hold CG Real Return Fund which consists entirely of non UK, sovereign, index linked bonds. It had a great year in Sterling terms (+22%) largely because it has a very high percentage of its assets in US Dollar TIPS (1). The joint manager of the fund has very kindly penned a piece about it for us.

Our third article concerns benchmarks. Recent commentary on the subject indicates they have been very hard to match last year. The increasing trend for algorithmic, very high frequency trading as well as passive investing (2) means that fundamental analysis can prove relatively ineffective for extended periods of time. We shall continue to manage assets without regard to benchmarks and this attempts to explain why we do so.

The Winkelvoss twins are famous for rowing in the Olympics and featuring in the film, *The Social Network*. More recently they have become involved in the cryptocurrency Bitcoin by starting the Winklevoss Bitcoin Trust. We try to monitor disruptive technology as many industries are being changed upside down. Both the currency itself and the technology behind it, blockchain, may well change much in the financial world. We attempt to explain something about them.

A quick update on the Rossie House Portfolio Fund is presented. We set this up a few years ago to offer smaller, or indeed larger clients, a "one stop" portfolio. It mimics what we do in all portfolios that we manage here and, although still quite small, has nearly doubled in size since launch. The partners and employees of RHIM have considerable holdings in this fund and we believe it offers an interesting vehicle.

(1) Treasury Inflation Protected Securities. The US$ appreciated 16% against £ in 2016.
(2) Investing in line with a particular index. This is often most fashionable when indices have performed strongly.

Finally, we have many interesting clients; it is one of the attractions of our job. We guard our clients' information with great care but are delighted and very grateful to share the story of a particular client with you, South Northumberland Cricket Club. They are unusual in that they are: a) very, very good indeed at cricket and; b) are a CASC (Community Amateur Sports Club) which is not technically a charity though it has all the characteristics of one. In 2016 they won the Royal London Club Championship for the third time - a remarkable achievement. We asked them to write a little bit about their great club and they most generously agreed to do so.

We always strive to keep everything as simple as possible. This not only keeps costs down but also tends to make the business run smoothly. Some clients who hold securities in more exotic locations have been paying "International Custody Charges". They are typically small but we guess they may have been confusing and possibly annoying. We have therefore decided to stop charging for these and absorb them ourselves.

As always do please reflect any views you may have and contact your fund manager if these articles leave any questions unanswered.

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MARKET THOUGHTS

Every day we receive volumes of research giving advice on economies and markets. However packed with algorithms or learned the authors, we tend to view them with a healthy dose of scepticism. This is not because we are cynical; it is just that forecasting anything is very difficult and it feels especially so at present. Last year was momentous. A significant stock market fall in all major markets in the early part of the year turned abruptly upwards in mid February, then came the Brexit sell off, a recovery followed until the Trump surprise victory which caused another short term setback followed by a strong rally. This volatility has been extremely hard to call. It has made it difficult to manage your portfolios even if it was possible to accurately forecast all the political outcomes.

The turbulence we have experienced means there have been no persistent themes and it has therefore been easy to be whip-sawed in and out of markets or asset classes. We have been largely inactive. Change always incurs expense. In our defence, we have felt the sheer unpredictability of this volatility means it has been better to sit on our hands. The one insight that has been helpful is to have had large parts of the portfolios invested outside the UK. This meant that client assets were mostly protected from the significant fall in Sterling post Brexit. Any gains made in portfolios have really arisen from that currency weakness as our overseas clients will testify.

The list of current concerns is long. It starts with fundamental worries about how economies and markets will react as and when QE is withdrawn. Are debts manageable if interest rates start to rise, can China maintain economic growth, how will Trump's protectionist policies affect world growth? Then there are the geopolitical issues. We have a steady string of important elections in the Netherlands, France and Germany this year, all of which could have serious consequences for the EU holding together. Then there are continued tragic events afflicting the Middle East, the unpredictability of Putin, potential flare-ups from North Korea or Chinese disputes with neighbours in the South China Seas, or indeed the US.

It is difficult to know what to make of government bond markets offering negative yields. Admittedly, since the second half of last year, many bond markets have fallen quite sharply causing yields to turn positive. However, Japan, Switzerland, Germany and other EU countries continue to have some negative yielding bonds at the time of writing. It is hard to price other securities off so called "risk free" assets when they are so unattractive. Relative returns, as clients very reasonably point out, do not pay for the groceries. Our job is to manage portfolios through this fog of confusion. What can or should we do?

The most important factor is likely to be what happens in the US now that President Trump has taken over. Tax cuts, protectionism and infrastructure spend seem likely. Equity markets anticipate faster growth. Comparisons are made with the Reagan era of loose fiscal policy, tight monetary policy and Dollar strength. We think times are different, even if continued growth is the most likely outcome. Public debt at 105% of GDP is twice what it was after Reagan left office in 1989, interest rates are rock bottom and Trump enters power at a time when the economy has fairly full employment and, unlike in 1981, is not benefiting from a cyclical recovery from a recession (1). Interest rates are likely to rise further, inflation will pick up modestly and Trump trade policies are unlikely to be positive for growth. We shall be watching carefully to see whether the Dodd-Frank legislation is repealed and if Basel III / IV is rejected, both of which could cause a major increase in credit from banks. There are always opportunities for good stock pickers in the US equity market but valuations are relatively stretched and the currency has been so strong that it is not an area we wish to have excessive exposure to. That said, we think the Dollar is likely to remain a safe haven currency especially in times of stress and index linked bonds look passably good value, hence why we continue to hold CG Real Return Fund (see article).

Political issues will dominate Europe over the next twelve months. In Japan, Abenomics continues seemingly without the success everyone hoped for. However, in both Europe and Japan stock markets look reasonable value. We prefer Japan which has been in a bear market so long that on measures such as price to book value there are some very cheap companies. So far we have resisted having much direct exposure to Europe (preferring to hold global funds with European assets) because the risks, if politics go the wrong way, seem quite high.

In the UK, Brexit continues to dominate newspaper headlines. It is too early to tell what the long term effect will be. Sterling has taken a beating, probably deservedly so when one considers the current account deficit is larger today relative to GDP than when the UK had to borrow $3.9bn from the IMF in 1976. The performance of different parts of the UK market have been particularly marked. Large cap, international shares performed strongly (at least in £ terms) because of their overseas earnings (2) whilst oil / mining companies recovered sharply after previous years' falls as commodity prices rebounded. Meanwhile, smaller companies with more domestic exposure suffered badly and Rossie House portfolios had too much in that area.

Our basic thesis is that emerging markets (EM) will grow faster than developed markets (DM). Returns last year were good but follow a disappointing few years. Although the risks are undoubtedly higher we feel experienced managers can achieve superior returns over the long term. A strong US Dollar and rising US interest rates have historically been bad for EM especially, as now, when they have high levels of overseas indebtedness. The current year may be difficult but may also provide opportunities. For example, commodity price increases will help many EM countries and they remain relatively good value compared to DM. We are uncertain as to how China will evolve. The massive increase in borrowing since 2009 causes concern. The potential for capital misallocation has been huge, especially for a state run economy. Any persistent currency weakness and / or a growth shock could cause severe deflationary pressures around the world.

(1) It is noteworthy that money supply growth, which was running at mid single digit levels through much of last year, has started to decelerate. It appears that the Federal Reserve is operating quantitative tightening. This is where bond redemptions are not used to purchase other bonds. This needs to be closely watched.

(2) Many of these companies are also the consumer staple companies which have recently been valued as bond proxies; i.e. their reliable and growing dividend yields seemed very attractive relative to low yielding bonds. Many corporate bonds yield less than the equity dividend yield. As interest rate expectations have risen post Trump there have been some signs of a shift in preference away from these type of companies.

Trying to find so called "defensive assets" has been very hard in this environment. Fixed coupon bonds have unattractive yields. Index linked bonds are also expensive but are a sort of "least bad" asset class. If inflation turns up, which we consider a possibility at some stage, and if interest rates cannot rise because of over indebtedness, then index linked bonds may become very valuable [(3)]. Funds aiming to preserve capital (*Ruffer, Trojan, Personal Assets)* are sensible but not without risk. Holding cash yields nothing and property seems expensive as well as vulnerable to taxation. At a recent seminar we were warned to expect capital controls and financial repression; certainly food for thought.

In summary, we feel it is a very uncertain world. Equity valuations are reasonably high and from here we believe it likely that ten year equity returns will be below the long run average [(4)]. That demands client portfolios hold a weighting - normally at least 25% - in "defensive assets" in case equity markets tumble. We hope this portfolio insurance will not be needed. We consider our defensive holdings to be quality, liquid assets that should hold up better than equities and could be swapped into equities on potentially very attractive terms. Our equity funds are all managed by trusted, experienced managers with long term, successful track records. We think they offer wide diversification and the prospect of getting through what are likely to be continued turbulent times ahead.

[(3)] If interest rates are 0.25% in the UK and higher rate income tax rates are 45% the post-tax yield might only be 0.1375%. If inflation was to hit say 6% the *real* value of capital will be declining at 5.8625% per annum. Investors may accept a significant negative *real* yield on index linked gilts to attempt to preserve *real* after tax capital.

[(4)] Historically about 6% real (i.e. plus inflation).

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CG REAL RETURN FUND – THE MODERN VERSION OF GOLD?

Interestingly, the origin of the Dollar symbol $ remains unclear to this day. One theory links it to the Caduceus, a staff entwined by a serpent carried by the Roman god Mercury. Mercury was associated with commerce and negotiating and a simplified pictorial representation of the Caduceus was a symbol widely used by alchemists until the 18th century. There are some less classically inspired (and more probable) theories as to the origin of the $ symbol, however it is nice to think that alchemists' otherwise fruitless efforts to turn base metal into gold may have had some lasting impact on the monetary system.

It may sound ill-advised but we share some of the alchemists' aims, although none of their methods. The Real Return fund was launched in 2004 with the aim of creating a modern version of gold. Which raises the question why is a modern version needed? Historically gold was attractive because it was a currency and a store of wealth, whose value was not derived from a claim on a third party. A third party can always default, however a gold coin is money with its own imbedded collateral. In its purest form these attractions were manifestly true, for example a gold sovereign circulating during the classical gold standard of Victorian Britain.

Today gold is not money, it is a commodity. When Richard Nixon closed the gold window in 1971 the final tenuous link between gold and money was severed. Since that date the price of gold in Dollar terms has been every bit as volatile as any other commodity. Gold generates no yield so it cannot be valued based on future cash flows. It is often held out to protect against inflation but its own history strongly refutes that claim. Anyone who held gold between 1980 and 2000, a period of relatively high inflation, can painfully confirm this. Gold still has a modest role in a diversified portfolio, however it is a speculation on future commodity prices not a risk free store of wealth.

Sadly there is no risk free store of wealth, however in our opinion index linked bonds issued by the highest quality governments are as close to that description as can be achieved. The Real Return fund exists to hold such assets. Index linked bonds provide the holder inflation protected returns, with both the coupon and final maturity value of the bond increased by an inflation index, such as the consumer price index. Throughout the 1970's many governments, including the UK, effectively defaulted on their debt by pursuing policies that generated high inflation; bonds were widely known as certificates of confiscation. Index linked bonds go a long way towards protecting against this inflationary risk that hangs over all conventional debt and cash.

Financial theory predicts that relatively low risk assets will deliver relatively low returns, and that is true for high quality index linked bonds. However, every portfolio should contain a range of assets including some that will retain and increase their value even in the teeth of the worst financial crisis. High quality inflation linked bonds issued by the United States, Canada, Sweden, Australia, Denmark, Japan and Germany fulfil that role. With some money safely tucked away, an investor is free to pursue higher risk and higher return opportunities elsewhere in their portfolio.

CG Asset Management is a boutique asset manager founded in 2001 by Peter Spiller and David Brazier, both alumni of Cazenove Capital Management (boutique is a flattering euphemism for small). We run a limited range of funds with a strong wealth preservation bias, most of which, like the Real Return fund, are hard closed to new investors. The longest running of these funds, Capital Gearing Trust plc, has delivered a 15% compound annual return since 1982 with only one year of negative returns. Today Capital Gearing Trust plc has more than 30% of its assets in index linked bonds, as these instruments seem to us to be the best shelter from the storm we see coming when rising inflation causes long bond yields and equity prices to come under pressure. Great buying opportunities will present themselves in the future and it is important to have a little dry powder set aside to exploit them. What better way of doing that than holding a little of the modern version of gold?

BENCHMARKS

Benchmarks are one of those ostensibly dull subjects which produce fierce controversy. Why compare your portfolio performance to a benchmark? The simple answer is that a benchmark is a way of keeping the score to see how your fund manager is doing against the wider market.

A benchmark is usually an index or combination of indices designed to represent the constituents of a particular market – the S&P 500 index is composed of 500 large companies in the USA apportioned by their market value. For a benchmark to be useful it needs to represent the type of opportunity you might invest in. There would, for example, be little sense in comparing the return of a portfolio of an investment trust holding the shares of large US companies against a benchmark index composed of Brazilian mining shares. There is very little similarity in the industries represented and the different currency would also create an artificial comparison. It would make much more sense to use the returns from the S&P 500 index of the US's largest companies for comparative purposes for our fictional US large company investment trust comparison.

A benchmark also has a further function related to its use for measuring performance and that is as a measure to show how the manager is positioning their portfolio differently from the relevant index. After all, if your manager is simply positioning a portfolio in an identical way to the index (the S&P 500 index in the example in the paragraph above) you would probably be better off buying an index tracking fund, which would charge the lowest possible fee. This type of index-tracking fund would be an example of 'passive investing', or simply replicating an index of shares mechanically. A benchmark means that investors can see how active (i.e. different from the 'passive' index investment) their manager is being with their investments.

The world of benchmarks is the subject of a range of academic literature and studies and benchmarks are frequently used extensively by investment consultants, who work with large corporate pension funds, both to advise on setting investment policy and measure the performance of managers they appoint. There are many different kinds of benchmark, and many come with methodological quirks which make them unsuitable comparisons for 'real' portfolios. The famous US Dow Jones Industrial Average Index, which has been running since 1896, is sometimes criticised as it is weighted by the share price of the component companies rather than their market value. An example of the weakness of benchmarks, and the danger of following them slavishly, can be found in the case of Vodafone. The company accounted for 13% of the UK market by mid 2000. Fund managers crowded to increase their holdings to reduce the 'risk' of not matching benchmark returns. The perverse effect is that the more a stock within a benchmark's price rises, becoming more highly valued, the more investors want to own it to 'match' the benchmark. Those who bought the overvalued Vodafone at its peak have yet to see the share price reach the same level over 15 years later!

How are benchmarks relevant to Rossie House clients' portfolios? A benchmark may apply to a single asset class, such as in the case of the S&P 500 index and US large companies, or it may cover a wider range or combination of assets as with the FTSE WMA Indices which we use to benchmark your portfolio at Rossie House. These indices contain a proportion of UK equities (represented by the FTSE All Share Index), international equities, bonds, property and alternative assets. The proportions assigned to each category are decided on by survey information on private client investment managers' actual portfolios.

The FTSE WMA indices are designed to represent a typical private client portfolio following a particular mandate, with the three main ones being Balanced, Growth and Income. From 1st March 2017, they will become the MSCI WMA Private Investor Index series and the asset allocation for each is shown below:

MSCI WMA Index Asset Allocation %

Asset Category	Growth Index	Balanced Index	Income Index	Underlying Asset Index
UK Equities	40.0	32.5	32.5	MSCI United Kingdom IMI
International Equities	37.5	30.0	20.0	MSCI All Country World Index (ACWI) Ex-UK IMI (in GBP)
Bonds: UK Gilts	2.5	5.0	5.0	Markit iBoxx £ Gilts Index
Bonds: £ Corporates	5.0	10.0	17.5	Markit iBoxx £ Corporates Index
Bonds: £ Inflation-Linked	-	2.5	2.5	Markit iBoxx UK Gilt Inflation-Linked Index
Cash	2.5	5.0	5.0	Cash Equivalent (GBP Libor – 1% w/floor 0%)
Real Estate	5.0	5.0	5.0	MSCI UK IMI Liquid Real Estate
Alternatives	7.5	10.0	12.5	Custom Index 50% Cash + 50% MSCI World DMF Index
Total	100.0	100.0	100.0	

So what is our attitude to benchmarks at Rossie House? Well we certainly believe it is important to measure performance and to see how clients are doing and a benchmark is a useful comparison in many respects. But benchmarks can contain hidden risks (see the Vodafone example) and are somewhat arbitrary in nature, and this is a good reason why we always keep in mind that our overall goal is to produce long term returns which increase clients' asset value ahead of the rate of inflation. We will thus tend to construct portfolios which differ from their benchmark. We have typically held rather less in UK equities than the FTSE WMA Balanced Index because we think there are better opportunities internationally. We have also been wary of the UK Gilt market because the yields on offer are well below our long term expectations for inflation. We think that a benchmark is a useful comparator, longer term, but it is only one tool for analysing a portfolio. The long term growth of capital ahead of inflation, the achievement of a sensible income target (where appropriate) and the avoidance of permanent loss of capital are vital measures of long term success in managing your assets.

BLOCKCHAIN TECHNOLOGY

We are always on the lookout for new sectors or technologies that may prove to become more a part of everyday life than perhaps is first thought. These may have an effect on the way in which we run our business, our personal lives and certainly on the way that we view our investments. One such sector which has come to our attention more recently is the one that supports digital currencies, such as Bitcoin. This technology is called blockchain.

Traditionally, banks have been used by the public and companies for depositing assets, facilitating transactions and recording data. In performing these services, the banks are acting as "payment agents" and generate revenue (among other means) by charging transaction fees.

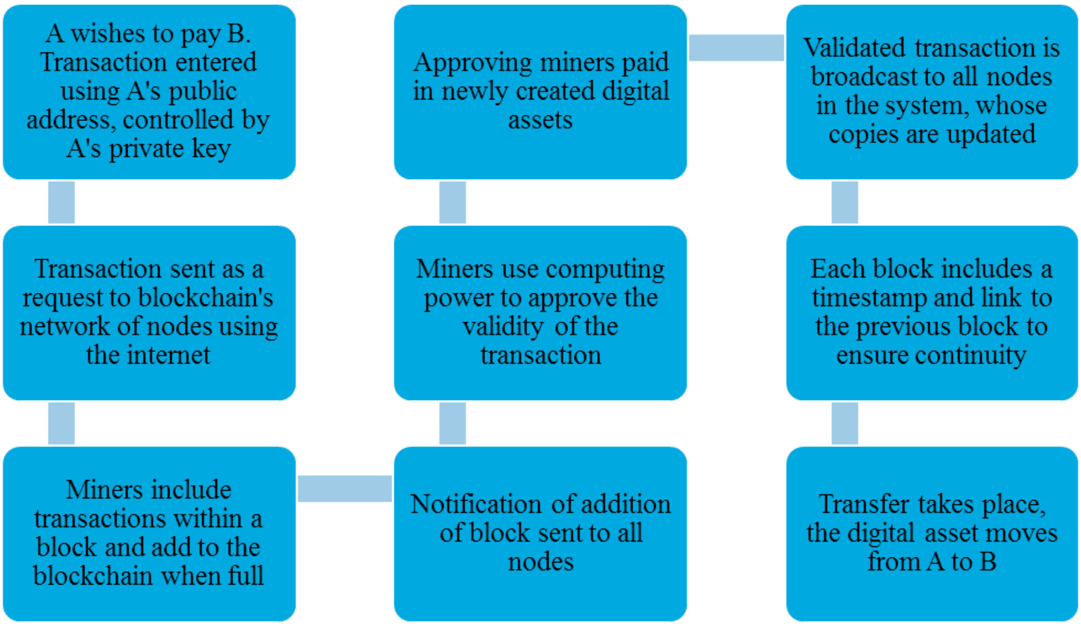
More frequently, questions have been raised as to whether it is essential to have a third party, such as a bank, involved with the dealing and recording of assets for individuals and companies. A result of this is the emergence of digital asset and payment systems. You may be aware of these digital assets and the technology behind them, blockchain.

Blockchain is an example of 'open source software' where, in theory, transactions can be made between individuals without the need for a centralised third party (such as a bank) and therefore without the need for high transaction fees.

However, there are services performed by banks which the new systems will need to perform. For example: verification of whether the person selling the asset actually owns it, whether the asset itself is genuine and whether the asset hasn't already been sold to someone else. Transactions also need to be recorded centrally and they need to be confirmed as valid transactions.

Solutions to these problems are traditionally where the banks have made their business, but blockchain technology is now allowing digital assets and payment systems the chance to become viable alternatives to traditional currencies.

All of the ownership records and transactions for a cryptocurrency are recorded in a public ledger called the blockchain. This public ledger is maintained by a network of 'nodes' (essentially a computer connected to the blockchain network) and every time a new transaction takes place, it is verified by a 'miner' (a worker within a node), added to the blockchain and then distributed to all other nodes. This is done in batches, approximately every ten minutes, and the miners are rewarded with transaction fees, for example newly created Bitcoins. Each person within the system has a public address and a private key, allowing transactions to be placed securely.



The main way in which this might transform our lives is the potential speed by which payments of all sorts will be made. A BACS transfer currently takes three working days but there is no reason why any transaction should take longer than a few minutes when this technology is in place.

A future use that could have a positive impact on developing economies is the use of open source software to create a digital wallet for those with no bank account. This would be suitable so long as they have access to the internet and a mobile phone - a cheaper alternative to introducing the infrastructure of banking. As a result of this, Ghana is seen by some as geographic leader in the technology.

It is widely recognised that there is considerable value in blockchain technology, supporting digital assets. Indeed four of the world's biggest banks have united to test the value of blockchain technology and are using it to develop a digital asset that could be used to instantly settle trades throughout the day without any transfer of value taking place. This would make a huge saving on administrative burden and resolve the unsettled trade issue in the city. According to a study by Accenture & McLagan consultancies, eight of the top ten biggest investment banks are expected to use blockchain to cut 30% of their costs ($8bn-$12bn). However, there would also need to be parallel systems in place to transfer cash payments for the assets.

This is where another development could be put into mainstream use. Sidechains would allow different digital currencies to be traded and settled against one another, giving the ability to move value from a Bitcoin blockchain, for example, to more traditional online bank accounts and then back again.

This is disrupting established payments companies such as American Express, MasterCard and Western Union, who may find it difficult to integrate the technology into their operations and it should reduce, if not dissipate, the cost to the public for transferring money.

Tyler and Cameron Winklevoss believe that Bitcoin is the future. They think it will dramatically change the way in which transactions take place and ultimately be used as an alternative to gold due to its finite nature. Their first venture into this space has been to launch one of the first regulated and licenced exchanges for Bitcoin and they are attempting to set up an ETF.

However, the technology itself is not fully mature and there are unresolved issues such as the regulation and industry standards that will need to be applied. There are also risks with the volatility and safety of assets. One such incident in 2016 saw $70m of a virtual currency stolen and another in 2014 saw hackers take $350m.

This article has merely scratched the surface of the different ways in which blockchain technologies will impact the world. There are many other distributed ledgers and the industries in which this technology can apply are numerous; financial services, music, property and identity to name but a few. Investment opportunities include trading cryptocurrencies, investing in blockchain start-ups, ownership of blockchain domain names and holding stocks in publicly traded blockchain companies. It is almost a certainty that this technology will be part of our future and we will be keeping an eye out for how it will affect our business and the opportunities that it will present.

ROSSIE HOUSE PORTFOLIO FUND

The Rossie House Portfolio Fund[1] rose 11% in the 2016 calendar year. It was a very volatile year and this decent absolute gain is very much better than we would have anticipated at the start of the year. That said, it was distinctly average in comparison to our benchmark, the WMA Balanced Index, which rose 17%.

Overall the Fund has made good progress over the past few years. It has grown 21% since inception, behind the WMA Balanced index rise of 27% but ahead of, for example, the UK equity market which rose 18%. There have been steady inflows into the Fund so that it is now nudging £10m, roughly double the original size. It is worth noting the partners and staff of Rossie House Investment Management (RHIM) own significant holdings in the Fund and tend to add to holdings after market setbacks.

Last year was about Brexit and Sterling depreciation. The Fund has over 40% of its equity assets in overseas or global funds. On the whole these performed satisfactorily, assisted by Sterling's weakness. The US market was one of the strongest, helping Findlay Park American Fund gain 30%. Asian and emerging markets rallied strongly after a period of weakness over recent years. The holdings of Edinburgh Dragon Trust (+25%) and Somerset Emerging Markets Smaller Companies Fund (+35%) are both examples. Value managers had a much better year as demonstrated by the outstanding returns from Kennox Strategic Value Fund (+33%) and Overstone Global Equity Fund (+42%). On the other hand, Caledonia Investments (+8%) and Law Debenture (+7%) both had a quiet period. We added to our position of Monks Investment Trust (+33%) during the year on a double digit discount and it rose very nicely.

Turning to the disappointments, we lost a lot of ground with our UK exposure. Resource stocks and the large, steady, dividend paying consumer staple companies which have lots of overseas earnings performed very well as Sterling depreciated. The trouble was that our large company funds owned neither in sufficient amounts. Commodity prices are hard to predict and the "bond proxy" consumer staple companies appear expensive due to being priced off bond yields which were incredibly low. It is notable that at the end of last year, as bond yields rose quite sharply, these type of companies underperformed. JO Hambro UK Opportunities Fund (+11%) managed modest gains whilst Keystone Investment Trust (-8%) suffered from poor asset performance and a widening discount. We added to both over the year. We prefer smaller company funds since that area of the market is generally overlooked and the companies are cheaper. These were hit badly after Brexit as a result of minimal overseas earnings and exposure to the UK economy which was expected to perform poorly. Aberforth UK Smaller Companies Trust (-8%) and Standard Life Smaller Companies Trust (-6%) both proved unhelpful. We think these funds all have good prospects to perform in the future.

We pay little attention to benchmarks as we prefer to allocate the assets to markets we view as better value, where we see attractive opportunities and can find funds that are managed by talented people. The UK market is a large part of our benchmark (32.5%). We only held 17% in UK investments and our exposure performed poorly. Similarly, although our limited

[1] B Income units with distributions added back

American exposure proved helpful we think it is an expensive market and therefore have a modest weighting in comparison to the benchmark weighting. Again, this proved unhelpful. We had one real howler. Odey European Inc., a hedge fund, got just about everything wrong and the position more or less halved before we sold it.

The defensive portion of the Fund acted as we expected and made satisfactory gains. CG Real Return Fund (+22%), as you heard in the previous article, has exposure to overseas (mainly US) index linked bonds. This was therefore a major beneficiary of the appreciation of the US Dollar. Similarly, Trojan Fund (+12%) and Ruffer investments (+11%) both held index linked bonds as well as gold, large capitalisation stocks that were rerated and, in the case of Ruffer, a heavy weighting to Japanese stocks.

It is worth pointing out that we now have less confidence that these defensive funds can truly protect the portfolio from general asset price falls. In 2008/09 these investments all performed marvellously well. However, in those days, fixed coupon bonds had decent positive yields, as did index linked bonds. At one point in 2016 it was said that one third of all government bonds had negative yields. That is to say people were guaranteed to lose money if the bond was held to redemption – a truly extraordinary situation. The unusual actions taken by governments and central banks over recent years have caused massive distortions in the markets. We do have exposure to index linked bonds which sometimes have negative "real" (relative to inflation) yields. The reason for holding these assets is that we think ultimately inflation will result from these unusual policies. This should help bonds linked to inflation especially if, as we think likely, interest rates cannot rise very much because of the general level of indebtedness. It is possible they will fall in value but, in those circumstances, we think they are likely to be the "least bad" asset to hold in that environment. The Fund also holds 6% in cash. It will produce no gain but is there as "dry powder" in case equities fall. It could be very valuable holding cash and we think it is a time when all portfolios need some cautionary assets.

It is worth finishing on an interesting part of the portfolio. We hold several investment trusts which stood on very large discounts at the end of the year. Caledonia Investments has a large family holding and is run (very well we think) for the long term. On a discount of nearly 20% throughout much of the year we added to the holding. Similarly, North Atlantic Smaller Companies Trust (+12%) stood on a 17% discount, the manager owns about a quarter of the fund and has an excellent track record. Herald Investment Trust (+18%) was valued at a 19% discount to assets and invests in smaller technology stocks with, perhaps surprisingly, a lot in the UK. The big US tech stocks have hogged the limelight but we think the underlying assets now look good value. Finally, Hansa Trust (+4%) stood on a 34% discount and furthermore has a big holding in Ocean Wilson Holdings Ltd., which itself is on a discount to assets. It owns port operations in Brazil which are cash generative and the difficult Brazilian economic situation is now well recognised. All of these trusts have good prospects for growth and, we think, for discounts to narrow.

We hope this gives you a flavour of what is in the Fund and why we believe it has excellent long term prospects. It is run with one eye on preserving capital whilst attempting to take advantage of markets when they are rising.

Source of figures: Valu-Trac, ACD to the Fund or JP Morgan Cazenove Investment Trust Statistics

SOUTH NORTHUMBERLAND CRICKET CLUB (SNCC)

In 2016, 250 teams entered the Royal London Club Championship, the most prestigious 45 over, one day, knock out competition for cricket clubs in England and Wales. Having defeated Driffield Town, Dunnington, York, Chester-Le-Street, Harrogate, Chester Boughton Hall and Ormskirk, SNCC eventually made it to the final at Northamptonshire's County Ground on Sunday 18th September. They played against Swardeston, Norfolk Premier League Champions, who had defeated SNCC in the national T20 final in 2010.

The SNCC team was led by ex Australian Test player, Marcus North. The team posted a below par 159 all out with one ball remaining. In reply Swardeston were rocked by an opening burst from bowlers Stephen Humble and Jonny Wightman, being 8 for 3 at the end of the second over. They never really recovered, stumbling to 84 all out in only 23.4 overs. 'Man of the Match' went to David Rutherford who claimed 4-17 in 6.3 overs of accurate medium pace with movement off the pitch. The Royal London Club Championship Trophy was presented by Mike Gatting. This was the third such national success, following victories against Bromley (Lord's 2006) and Ealing (Derby 2010) and is the third best record in a competition that began in 1969.

The South North story began in 1864, the year the first Wisden was published. Bulman villagers, a part of what became Gosforth, a suburb of Newcastle upon Tyne, decided to form a cricket club. Moving to its present Roseworth Terrace ground in the winter of 1864/5, renamed Gosforth Cricket Club, then SNCC, in 1882, the extended 6 acre playing area hosted a Northumberland X1 versus the touring Australians. The "Metropolitan cricket ground of the north" was recognised in the national press.

The club was renamed SNC&TC in 1905 when tennis became attractive and membership soared. The ground was known for its 'Open Tournament' that each June boasted 23 grass courts, as many as Wimbledon, and entrants of that quality.

The land was purchased from the Dunn Trustees in 1927 for the princely sum of £5,500, master-minded by one George Harbottle. A limited company was formed and over 120 debentures funded the purchase. Harbottle had been a member since 1910, was Captain for 11 years between 1924 & 1934, Chairman and then President from 1970. He died aged 104 in 1998.

The period 1947 to 1967 saw the club win 7 league titles, '47, '55, '56, '57, '61, '65 and '67. ChanduBorde, aged 20, and later to play 55 times for India, was professional in 1955 and 1956. In his first season he took 100 wickets bowling leg breaks.

Success thereafter took 20 years to materialise, SNCC claiming its first Northumberland County League title and cup success in 1988 with an all amateur team, the first club to do so. 1997 saw another league title but the Club's financial position was not good.

It took a transformation programme from 1997-2003 to give the club a much needed impetus. This included a rebranding as South North Bulls, the cessation of a dwindling tennis section and, most importantly, the sale of the hard court tennis land for housing. The proceeds from the latter were reinvested in a state of the art, five lane, Indoor Cricket Centre with the balance forming an endowed fund which allowed a strong focus on youth cricket and the coaching of Juniors within the region.

The formation of the North East Premier League in 2000 prompted a reappraisal of playing strengths and facilities. Judicious recruitment and development have meant that ten premier league titles have been won in the 17 years of the NEPL. In that period four national titles have also been won. The three referred to earlier and the inaugural Cockspur T20 against Stanmore at the SWALEC Stadium Cardiff in 2008.

During recent years, the ground has hosted many high profile matches including, two Durham v Warwickshire Royal London One Day Cup ties, Unicorns v Sri Lanka A, and the first One Day International between England & Australia U19 in 2015, which featured Haseeb Hameed, a current England Test debutant in India.

The Sporting Dinner each May, which began in 1995, is fundamental in generating funds towards junior cricket provision. It has attracted world class speakers such as David Lloyd, Michael Vaughan, Graeme Swann and Sean Fitzpatrick. In 2017, rugby world cup winner Will Greenwood and mountaineer, Rebecca Stephens, will entertain 500 people.

Over 300 boys and girls receive coaching, practice and match opportunity in the nine teams from ages under 11 to under 19. On summer Friday nights the ground is filled with active 7-9 year olds.

In all of this, the Club's endowed funds, which are overseen by an investment committee, have been crucial in supporting this provision. In recent times a sizeable amount of this fund has been successfully stewarded by Rossie House. To them and to all other sponsors and supporters we offer our most grateful thanks.

SNCC archivist & author "South Northumberland 150 Not Out 1864-2014". Copies of the book are available from the author: Duncan D. Stephen, 37 Davison Avenue, Whitley Bay, NE26 1SQ.

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