BIAS Global Navigator
INVESTMENT MANAGERS SECURITIES ANALYSTS SEPTEMBER 2015

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US Housing Back on Track

Owning a house has significant importance in American culture – a rite of passage which, on average, accounts for 20 percent of an individual's net worth. The housing sector is also a major part of the US economy, contributing to manufacturing, employment, as well as, personal wealth and income.

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The housing industry witnessed a significant setback in 2008 but conditions have been improving with most fundamentals now trending upwards and particularly accelerating over the last 24 months. We highlight four broad market indicators that support strength in the US housing sector and the reason why we hold a positive outlook of the industry moving forward. We also positively view the home improvement industry, which is also closely tied to the same fundamental factors.

1 / PENT-UP DEMAND

As per analysis from Credit Suisse, the percentage of young adults living at home has been steadily increasing since 2008 and currently stands at a record high of 31 percent – significantly higher than the long-term average of 28 percent. Analysts estimate that as employment prospects improve, roughly two million individuals could become potential first-time buyers.

2 / US EMPLOYMENT

The favorable back drop of employment in the US is a big tailwind for housing. Improved job prospects, particularly amongst the millennials, has given potential buyers the confidence to commit to long term investments and make big ticket purchases. The University of Michigan consumer confidence survey has consistently shown that consumers are upbeat about employment and data released by the department of labor also confirms an uptrend.

3 / HOUSEHOLD FORMATION

The 2008 crisis did not just have a financial impact but also a social impact as uncertainty in the employment market put a pause on household formation. As per research by the Federal Reserve, households established in the US plummeted by 800,000 a year over the five years during and after the 2007-09 recession, compared to the previous seven years. In 2015, household formation has again jumped above 1.7 mn as the anecdotal underemployed college graduate moves out of his parents' basement and gets an apartment.

4 / US RENT PRICES RELATIVE TO US HOUSE PRICES

Uncertainty from the recession also translated to household preferring to rent homes rather than making a long term commitment to a mortgage. As a result, average asking rents have climbed to all-time highs while house prices remain off their peak. This should bring buyers back into the housing market as mortgage rates become competitive with household rental expense.

HOME SALES – EXISTING, NEW, PENDING, AND ADVANCED

The above fundamentals all indicate a recovery in the US housing market and positively trending home sales confirm this improvement. New and existing home sales hit a trough in 2010 and have continued to gain since. Forward looking indicators such as, 'pending home sales' (sales in progress) and 'homes sold but not yet built' (advanced sales) are also rising which indicate that the trend has legs. Healthy home sales also have a resultant impact for home improvement companies. As per Home Depot's management, an existing or new home sale is followed by an 18 month cycle to home improvements and durable goods purchases. BIAS holds positions in the **Home Construction ETF**, **Home Depot**, **Lowes**, and **Leggett and Platt** in the funds.

WHAT RATTLED THE MARKET THIS SUMMER?

	CHINA 	FED 
WHAT?	The Chinese economy has been decelerating in recent years with economic data, such as, exports, manufacturing, and official GDP growth confirming the slow down. The Chinese government played an active role to support the economy by intervening in the capital markets and employing an accommodative monetary policy.	Since the start of the year, the US had witnessed a gradual improvement in the overall economy. Key economic figures were on track to meet the desired levels of monetary policy officials and the markets expected a rate hike to be delivered by the Federal Reserve in 2015.
AND THEN...	In an effort to further stimulate the economy, Chinese monetary officials moved to devalue the yuan. This surprised markets around the globe as countries became wary of losing their competitiveness to China and speculated that the world's second-largest economy may be slowing more than expected.	The release of weak manufacturing figures from China raised concerns of an ensuing demand slowdown and risk of further deterioration of the global economy. Focus shifted on whether the US and global markets can withstand a rate hike by the Fed.
THUS	Equity markets across the globe declined. Chinese stocks saw their worst performance since the global financial crisis in 2007 and wiped out what was left of 2015's gains. Emerging markets saw their stock markets and currencies suffer as investors sold off risky assets.	Uncertainty heightened around the Fed's anticipated rate hike and its broader impact on the global economy. This left investors jittery as they flocked to safer government bonds. The dollar weakened against major currencies as the market speculated that the Fed may not proceed with the anticipated rate hike.
NOW	Added measures have been undertaken by China which has calmed the markets. Monetary officials cut interest rates (fifth time since November 2014) and also lowered the amount of cash banks must set aside.	The release of strong US economic figures along with comments coming from Federal Reserve officials maintaining their view of a strengthening economy quelled speculation and affirmed an economic recovery.

BIAS GLOBAL PORTFOLIOS SPC
BIAS ASSET MANAGEMENT LTD

PERFORMANCE
as at 30th September 2015

Short Duration Income Fund
RISK: LOW ■ □ □ □ □ HIGH

Benchmark: *Citigroup 1-3yr Treas Index*
Inception Date: *December 29, 2006*

Performance	Q3/15	1-Year	2-Year (Annualised)	3-Year (Annualised)	Since Incept. (Annualised)
Short Duration Fund	0.33%	0.15%	0.07%	-0.23%	1.27%
Benchmark	0.29%	1.13%	0.81%	0.66%	2.33%

Global Balanced Fund
RISK: LOW □ ■ □ □ □ HIGH

Benchmark: *Blended Composite†*
Inception Date: *December 29, 2006*

Performance	Q3/15	1-Year	2-Year (Annualised)	3-Year (Annualised)	Since Incept. (Annualised)
Balanced Fund	-8.94%	-7.17%	-1.25%	1.06%	1.10%
Benchmark	-4.79%	-2.02%	2.78%	5.64%	4.33%

Global Dividend Income Fund
RISK: LOW □ □ ■ □ □ HIGH

Benchmark: *S&P Global 1200 Index*
Inception Date: *September 28, 2012*

Performance	Q3/15	1-Year	2-Year (Annualised)	3-Year (Annualised)	Since Incept. (Annualised)
Dividend Fund	-8.61%	-10.05%	-4.20%	-2.03%	-2.03%
GDI Total Return	-8.05%	-7.68%	-1.79%	0.46%	0.46%
Benchmark	-8.62%	-5.14%	3.48%	8.72%	8.72%

Global Equities Fund
RISK: LOW □ □ □ ■ □ HIGH

Benchmark: **S&P Global 1200 Index*
Inception Date: *December 29, 2006*

Performance	Q3/15	1-Year	2-Year (Annualised)	3-Year (Annualised)	Since Incept. (Annualised)
Equities Fund	-12.01%	-9.04%	-1.33%	2.15%	-0.43%
Benchmark	-8.62%	-5.14%	3.48%	8.72%	4.82%

*Prior to April 1, 2012 benchmark was FTSE World Equity Index. † 60% S&P Global 1200 Index/ 20% Citigroup 1-3Yr Treas. Index/ 20% Citigroup 3-7 Yr Treas. Index

Past Performance is not indicative of future results. Please note that the investment return and principal value of an investment will fluctuate so that an invetor's shares, when redeemed, may be worth more or less than their original cost; and that current performance may be lower or higher than the performance data quoted.

MANAGEMENT COMMENTARY

Equities Q3 2015
Stocks retreated in the Third Quarter as a slowdown in the Chinese economy raised concerns over the pace of global growth. Emerging Markets suffered from record capital outflows on risk aversion as the Fed moved closer to raising interest rates. In the US, economic data improved but markets could not stay immune to volatility in the global markets. In Europe, exporters led stocks lower with sentiment further dented by the Volkswagen scandal. Japanese stocks also declined as capital flowed back home amidst global volatility, which strengthened the yen, partly offsetting the impact of monetary easing.

Currencies Q3 2015
The US dollar advanced against all major currencies, except the yen and the euro, on safe haven demand after China surprised the markets allowing the renminbi exchange rate to float more freely. The low-yielding yen and the euro saw the biggest inflows in the quarter as investors reversed carry trades and moved out of riskier assets in Emerging Markets. Commodity currencies weakened against the US dollar as commodity prices fell in the quarter. The Brazilian real weakened against all major currencies as the nation's sovereign credit rating was cut to junk by Standard & Poor's.

Fixed Income Q3 2015
Bond yields in the US and other developed markets fell in the Third Quarter on risk aversion as global equity markets declined, China's slowing economy raised concerns over global growth, and inflation remained low.
In the US, the Fed refrained from raising interest rates in September and lowered the predicted path of future interest rate hikes, pushing yields even lower.
In Europe, yields on German sovereign bonds fell less than those on Treasuries as demand for safe assets declined amid easing concerns of a Greek default.

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