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# ASG GLOBAL ALLOCATION FUND

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## PORTFOLIO MANAGER'S COMMENTARY – SEPTEMBER 2013

On September 18th, the Federal Reserve (Fed.) Chairman's presentation, just like the potential air strikes on Syria, ended up being a non-event. The Federal Reserve Board of Governors decided not to modify its 'Quantitative Easing or QE' monetary policy for the time being. Mr. El-Erian, CEO of PIMCO, one of the largest active global fixed income investment managers in the world, announced being perplexed by this decision. This policy move also raised some important issues.

The first is the concern of the Fed's credibility as an institution. It seems unusual that its Chairman should prepare the markets for a reduction in QE in May, then water down his comments in June and finally do nothing in September. The possible consequence of this tap dance will be felt in the financial markets the day when there is indeed a policy change. At that time, the market reaction is likely to be violent and volatile.

The second is a concern regarding the effects of a five year QE money printing exercise on the real economies of the World. The mature economies and their banks are steadily healing and improving, but general economic growth is still below trend despite all this stimulus. On the other hand, emerging market economies have benefited greatly from the carry trade on the back of QE up until May when the Fed.'s comments greatly unsettled their domestic equity exchanges and currencies.

The third is the concern of the ballooning balance sheet of the Fed. that has more than tripled in five years. This institution's holdings are so important that there is no exit strategy possible apart from keeping these assets on their books to maturity. In addition, its presence in the markets is now so vital that the financial world has become dependent on it. After the Federal Reserve Board of Governors, the Bank of Japan and the Bank of England, the European Central Bank (ECB) has now hinted, on the September 23rd, at the possibility of another 1 trillion Euro LRTO, thus joining the QE money printing party and expanding their balance sheet in the process.

As the effects of all this money printing wears off, the possibility that long term interest rates resume their rising trend will again be back on the radar.

ASG Capital continues its prudent investment strategy, the one of finding value and yield for its investors. The focus remains on diversification, modified duration management, as well as preparing the portfolio for a rising interest rates environment over the medium term. Bonds purchased in September (with an annual yield) : Reliance Industries at 7.53%, Telecom Italia 2019 at 6.05%, Vornado Realty Trust at 7.10%, Uniqa Insurance at 6.58% to the call in 2023, and Old Mutual at 7.51%.