

INTEREST

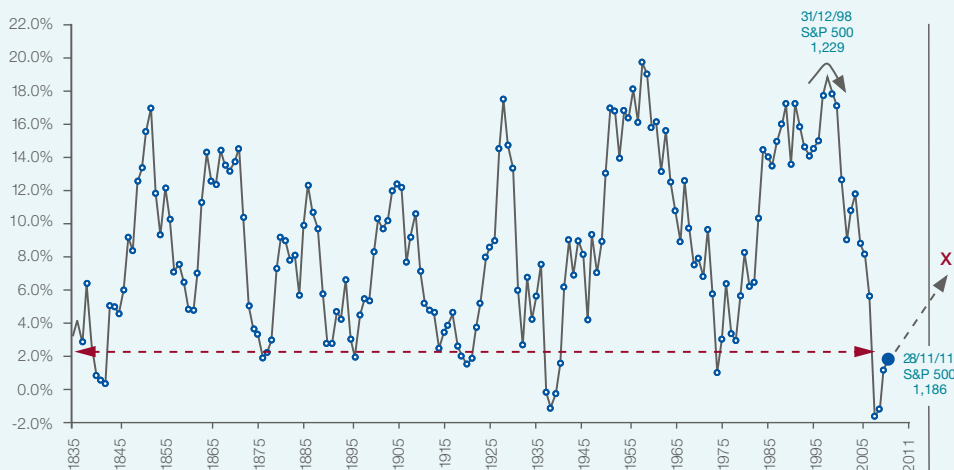
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“Playing it safe may not conserve your wealth”

See page 3 for our full 2012 Investment Outlook

S&P 500 Stock Market Composite Trailing 10-year Compound Annual Return 1825-2011



Source: Barry Bannister, Stifel Nicolaus

Historically, trailing 10-year equity returns have rarely been this poor. Reversion to the mean suggests investing in equities at this point in the cycle ought to be profitable.

This newsletter is a general commentary on markets and companies; it is not an invitation to make an investment nor is it intended as an offer or recommendation to buy or sell any financial instrument. Hume's views are at the time of writing and are subject to change.

INSIDE THIS ISSUE...

Equity rallies will be powerful

Developed market bonds are expensive...
But Income's cheap in Asia

Land is undervalued...
As are Farms

Burma and Korea are opening up

As is the Middle East and Africa

Beware safe havens

The Euro is dead; long live the Euro

Be highly selective in the US, prefer France and India

Western manufacturing is underpriced

Don't get too gloomy

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12 for 2012

Key themes for the coming year

1 It was the best of times, it was the worst of times. (Charles Dickens)

200 years after Charles Dickens's birth in Portsmouth in 1812, his quote on life in the 1790's rings as true today. Half the world is growing strongly, the other not.

2 Some people know the price of everything but the value of nothing. (Oscar Wilde)

2011 was good for developed market sovereign bonds. They are overvalued. We expect them to be volatile in 2012.

3 Old friends pass away, new friends appear. It is just like the days. The important thing is to make it meaningful. (Dalai Lama)

Family owned Asian businesses have spent decades growing - as they mature owners will increase dividends for the next generation.

4 Buy Land, they're not making it anymore. (Mark Twain)

Property is undervalued. Urbanisation is a key feature of a growing population - rental yields of 7-10% are widely available.

5 The power of population is indefinitely greater than the power in the earth to produce subsistence for man. (Thomas Malthus)

Global population rose to 7bn in 2011. Farmers are investing heavily. The price of peanuts, milk and oil rose in 2011. Selectively, commodities offer investors high returns.

6 A great country worthy of the name does not have any friends. (De Gaulle)

Avoid gloating over the coming French S&P downgrade, instead profit from it. The stocks of French companies are underpriced, French blue chips offering dividend yields of 5%.

7 The only real prison is fear, and the only real freedom is freedom from fear. (Aung San Suu Kyi)

Change is coming to Asia. Burma has 53m people, a unified Korea 70m. Also in Asia, Indian equities look extremely attractive.

8 Who will change old lamps for new... and new lamps for old. (Aladdin)

Change is coming to the Middle East and North Africa with democracy in Tunisia spreading to Libya, Egypt and Bahrain. MENA assets are underpriced.

9 ...it is a tale, Told by an idiot, Full of sound and fury, Signifying nothing... (Macbeth, Shakespeare)

A non-consensus view of the alleged demise of the Euro. How much of the current fracas is genuine, and how much is financial market hallucination? Only time will tell, but investors should keep a sense of perspective.

10 Panics do not destroy capital; they merely reveal the extent to which it has been destroyed by its betrayal into hopelessly unproductive works. (John Mills)

We would be wary of overpaying for safe havens that aren't. Tobacco and healthcare stocks, and gold, did well in 2011 but are highly valued.

11 History does not repeat itself, but it does rhyme. (Mark Twain)

Technological progress proceeds rapidly. Miniaturization of production, an explosion of social media and delivery of new technologies favour engineers who exude innovation.

12 In spite of the cost of living it's still popular. (Kathleen Norris)

Above all, don't get too gloomy, there will be trading opportunities a plenty in 2012. Large parts of Asia and the Middle East are opening up, and the Europeans are realising they have to do something about their ill-fated Euro. We aim to take advantage of this in our investment strategy.



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Nitin Parekh
Founder of Hume Capital

We wanted to build a firm whose principles were founded on top notch investment performance and outstanding customer service. I felt there was far too much 'me too' in our industry and fees are high for what are often mediocre returns. I had done it before (built up a successful fund management business) and wanted to do it again.

Why Hume?

Will the sun rise tomorrow? The most basic of questions cannot be answered with certainty, only a high probability. David Hume demonstrated this. The same is true for investing. We believe investing money is a balance of probabilities, where only objective analysis and experience can deliver long-term returns.

Disciplined Approach.

Since 1998, financial market volatility has been high. LTCM, dot-com bubble, 9/11, US housing bubble, Lehman and the current credit crunch. During all of these periods, the managers at Hume performed well. Since 2008 for example our Asian hedge fund has generated a positive return for investors. It is our discipline, our ability to question and above all our sense of fiduciary responsibility that differentiates us. We believe that a boutique manager performs better, and that if you own your business, you will treat your clients' money with the utmost respect.

The challenge?

To build a successful investment firm is a case of surrounding yourself with a team of experienced people, we are able to critically evaluate their areas of expertise. In our case at Hume, we have individuals who each have 20 years' plus experience in managing bond, credit and absolute return portfolios, while in equities we recruited the senior members of the Northern Trust Global Equity team who had a very successful track record there.

People like to make it sound like they have a magic formula or possess a secret recipe. The key thing is to be organized, intellectual honesty, to share communication and to make sure you have an investment discipline. Keep it simple. We've got a bunch of guys who've done it several times before. Back them up with a tight and professional approach to risk management and a decent infrastructure and there's no reason you can't attract and keep satisfied customers.

Hume Investment Outlook 2012

1 Equities are cheaply valued versus both bonds and commodities.

The average stock yields more income than the average bond - 3.3% versus 3.1% - a buy signal for equities even in the recessions of the 1930's and 1970's. With central banks keen to keep unlimited funding available we see scope for trading rallies in equities and are overweight with a 50% allocation to them in the model versus 50% alternatives, cash and corporate bonds.

Key examples of world class companies underpriced are Royal Dutch Shell, Keppel and Cisco Systems.

2 Sovereign bonds are expensive – prefer corporate and emerging market debt.

We are wary of developed market sovereign bonds. US and UK government bond yields are at historical lows. They are fully valued in our view.

Corporate bonds appear underpriced to us - as do Asian and several emerging market bond markets.

Examples are sovereigns of the UAE, Mexican oil giant PEMEX and Italian telecom group Wind, sporting attractive yields of 4.5% to 16%.

3 Asian equity and bond income emerges as a major secular investment theme.

In much the same way as income funds became the investment of choice in western markets in the 1980's and 1990's, a similar trend is underway in Asia. Owners of businesses in Japan, China, Korea, India and Australia are seeing their family businesses mature. Dividend payout ratios are likely to rise and income investors will see the benefits as dividend streams rise.

We particularly like the Invesco Asian Income Fund to back this theme.

4 Land is cheap.

The shares of Sun Hung Kai, Asia's premier property company, are trading at the same level they were when Chris Patten handed the key to Hong Kong to Jiang Zemin in June 1997. No debt and a dividend yield of 5% has appeal.

For the less cautious, student flats in any UK university town yield 10%, while for the really adventurous, 15% is available in Detroit - secure a six year tenancy and you get your money back by 2018.

5 Agriculture is in a bull market.

Global population rose to 7bn in 2011. Farm incomes are allowing farmers to invest. Peanuts, milk, sugar and oil rose in 2011. Selectively, commodities offer investors high returns. Deere, GEA and Kubota are seeing profits boom.

6 Not to be a socialist at twenty is proof of want of heart; to be one at thirty is proof of want of head. (Georges Clemenceau)

France is one of those fascinating countries, possibly, along with Japan, one of the few countries to have proven socialism can work. Now the French are facing one of their periodic existential crises...best thing is to sigh...

...and then buy shares in France's world leading companies - they discovered vaccines and churn out engineers like we turn out bankers - so buy shares in Sanofi, Lvmh and Vivendi all at bargain basement prices.

7 Change is coming to Korea and Burma, while Indian equities look extremely attractive.

Change is coming to Asia, driven as ever by self-interest and economics. Burma has the resources China craves, while a unified Korea may be in the making.

With young and hard-working populations of 53m and 70m respectively, change in these countries will have a significant impact.

8 Because things are the way they are, things will not stay the way they are. (Bertolt Brecht)

Change is coming too to the Middle East and North Africa with unrest in Tunisia in 2011 spreading to include Libya, Egypt and Bahrain. MENA assets are underpriced.

For the more conservative, ENI, Impregilo and Italcementil are all prime beneficiaries and we are invested in the former two.

9 We place absolute confidence in the Titanic. We believe the boat is unsinkable. (P.A.S. Franklin, VP White Star Line)

The centenary of the sinking of the Titanic is this year and many morbid souls are comparing the Euro project to it. It doesn't matter. Europeans will have to become like Germans. Italian equities are back down to 1992 levels and yield 5.5%, French the same, while German companies, already the world's biggest exporter, will become more competitive as the Euro slides. European banks like UBS, BNP and UniCredit have been roundly thrashed and we would selectively buy into what are still defensible franchises.

10 Playing it safe may not conserve your wealth.

We would be wary of overpaying for so called safe havens. They might not be as safe as you think.

Tobacco stocks, food retailers, gold, silver and pharmaceuticals did well in 2011 but are very highly valued by the market.

The violent reaction to the profit warning from Tesco in the first few trading sessions of 2012 is a classic example.

11 Technology and innovation is driving growth investment spending in the US and UK as a percentage of GDP we believe will rise strongly over the coming years.

We are positive on UK manufacturers in particular as the UK capital investment increases - we particularly like GKN, Rolls-Royce and Smiths Group.

12 The policy of being too cautious is the greatest risk of all. (J.Nehru)

Above all, don't get too gloomy, there will be trading opportunities a plenty in 2012.

The opening up to democracy of countries like Burma, potentially Korea and many countries in the Middle East have hugely positive implications. At the same time volatility will be an ongoing feature of investment markets.

Opinions

Portfolio Specialists outline current thinking



Charlie Kerr

Bonds

Q. Charlie, bonds had a great year in 2011? Can 2012 be a repeat?

Well, first of all, it's not quite true to say bonds had a great year last year, certainly not all of them. Government bonds in the US, Japan, Germany and the UK did have fantastic year, with prices rising all year and yields down to below 2% across the board. But it's important to understand that this was a result of tremendous strains on the system caused by such a huge build-up of debt around the world - it was hardly an endorsement of government policies.

Q. And of course, Italian and Spanish bonds suffered quite badly in the Eurozone crisis of 2011

That's right. It's quite unusual to see a G7 member see the value of its government bonds fall by 15% to 85 cents in the Euro, but that's what happened in 2011 following the collapse of the IMF package and effective default by Greece.

Q. So it's tin hats on and another move to safe havens in 2012 then?

Not exactly. While there are some safe havens that still look good, we still like Canada and Germany, we are more interested in bargain hunting on an opportunistic basis. There is good value in Middle East sovereigns and great value in several European corporate bonds, with buyers having disappeared and many corporate balance sheets in good shape. 6% yields are widely available here.



Josh Finnes

European Equities

Q. Josh, how's the outlook for equities in Europe, pretty grim I'd expect if the media headlines are anything to go by?

You shouldn't believe everything you read in the papers! They've had a nasty correction in 2011, courtesy of the Euro crisis, so valuation is attractive down here. The average p/e multiple is 9x, below 30 year averages. Also many European companies are very profitable. Names like LVMH, Siemens and Rolls Royce are trading strongly. Dividend yield is supportive too. Stocks like Sanofi and Royal Dutch yield 5% or so, which looks high against bond yields of 2.5%.

Q. One of your best performers in 2011 was Autonomy, which was taken over by Hewlett Packard. What stocks are you looking to buy in 2012?

It would be nice to have a few more holdings taken over but we can't legislate for it! European banks may do better this year along with certain cyclicals. However the core of the portfolio will remain focused on companies with market leadership in growth industries.

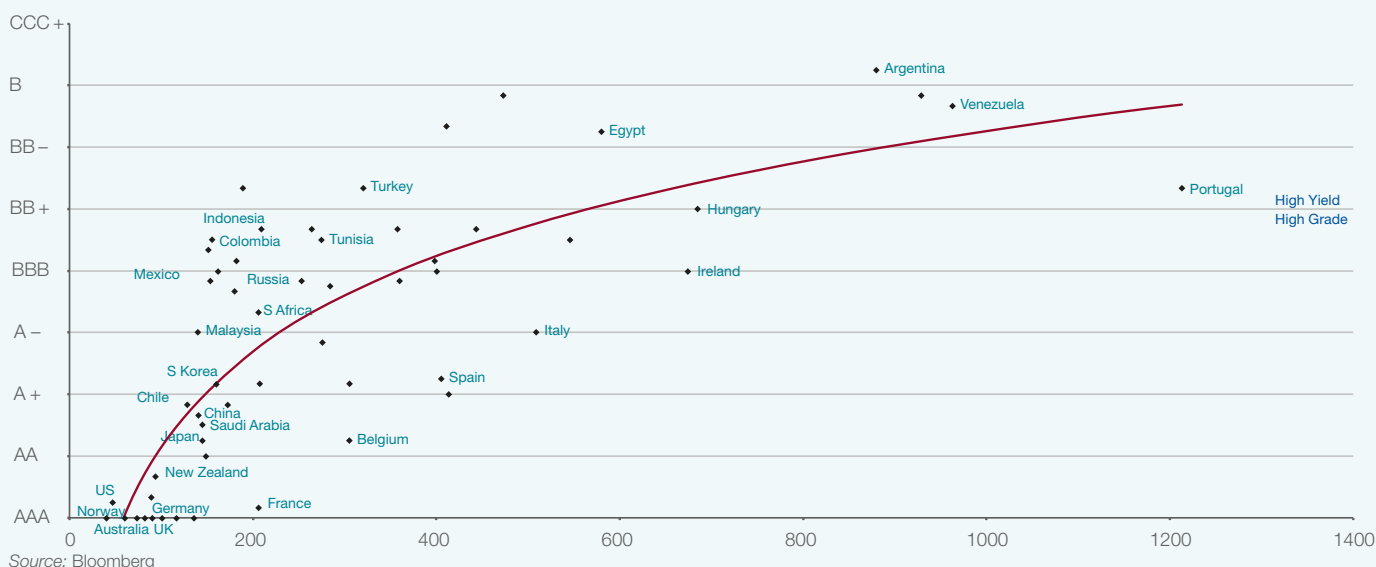
Q. You had a great track record in European equities at Northern Trust, outperforming every year 2003-2009 consecutively and by nearly 20% versus the MSCI Europe benchmarks in that time. Can you do the same at Hume?

Hopefully, we can do even better. We've got a great product, a highly experienced team and a tried and tested approach that has done well before, so we are confident we can.

'You hum it, I'll sing it' – who calls the tune?

Whilst ratings agencies (particularly Standard & Poor's) have come under heavy political fire for downgrading the US and a number of European sovereign issuers, it is important to note that market perceptions of sovereign default risk generally far exceeds that of the agencies. Will 2012 see this tension resolved by further downgrades or by a compression in sovereign yields?

Sovereign Debt - Market Perception v Rating Agencies' Perception



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