THE ACTIVE BANKING FUND

Annual Performance Report

August 2016

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Fund's Performance in last 12 months

Performance review period: August 1st 2015 – July 31st 2016	
Fund's gross performance (after trading commissions)	**-4.7%**
Gross performance breakdown by sub-portfolio • US banks • European banks • Total	 -1.8% -2.9% -4.7%
Charges • Investment management fee • Administration fee • USD/EUR hedging costs • Other charges	 1.00% 0.60% 0.05% 0.05%
Net Fund Return	**-6.4%**

A very difficult period for financial markets

- Global financial markets have experienced significant turmoil and huge volatility in the last 12 months:
  - Stock market mini crash in August/September 2015 driven by Chinese economic slowdown fears
  - Stock market pulled back again in January/February 2016 as oil price hit a decade low of $26
  - Brexit vote on June 23rd severely hit all sterling denominated assets and companies focused on the UK market, particularly UK banks and construction companies
  - Eurozone economic performance remains weak as the ECB's quantitative easing policies do not seem to have had the desired effect in terms of boosting economic growth and inflation; concerns about the contagion effects of weak peripheral Eurozone banks and their recapitalisation requirements have resurfaced, which further hit confidence in the Eurozone's economic prospects; terrorist attacks throughout Western Europe have also impacted sectors such as travel and leisure

- The only bright spot in this difficult environment was the US economy
  - Continues to grow at an annual rate of 1.5%-2%
  - Unemployment has dropped to 4.9% while labour force participation has increased
  - US stock market continues to outperform all other major stock markets worldwide

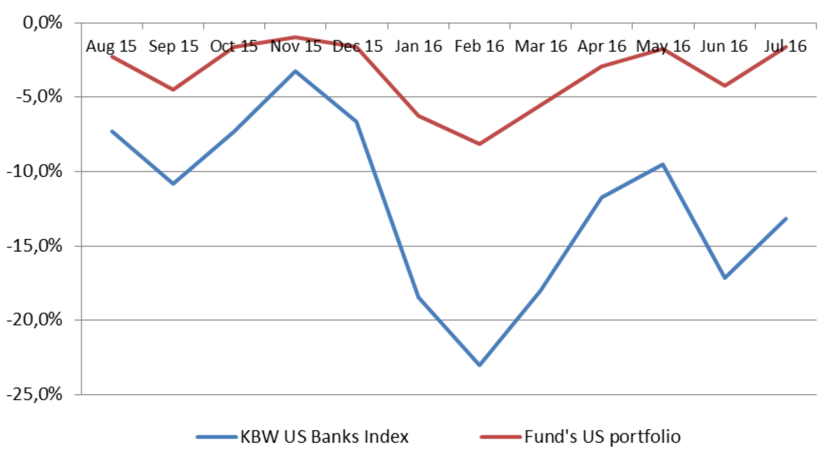
Benchmark	**Performance in last 12 months (Aug 15-Jul 16)**
S&P 500 *	3,3%
FTSE 100 (in euro terms)	-16,6%
FTSE 250 (in euro terms)	-19,3%
DAX	-8,6%
CAC 40	-12,8%
Nikkei 225	-19,6%
KBW US Banks Index	-13,2%
Eurozone Banks Index	-42,6%
Active Banking Fund	**-6,4%**
Sterling/euro exchange rate	-17,0%
Oil	-23,9%

*Excluding the top 6 performing stocks in the S&P 500 (predominantly very high multiple internet/technology stocks), the index is flat for the period

US banks portfolio performance

Underlying/benchmark	Performance Aug 15 – July 16
Fund's US banks portfolio	-2.2%
KBW US Banks Index*	-13.2%
MSCI World Banks Index	-15.5%

* Index comprises the 24 leading national and regional banks in the US



- The Fund's US banks portfolio significantly outperformed the KBW US Banks Index for the specific 12-month period
- It also significantly outperformed its benchmark on a volatility adjusted basis (ratio of return/standard deviation)
- Outperformance was due to 35% average cash holdings in periods of extreme volatility and market turmoil and policy of investing in higher quality bank stocks with stable profits
- US banks had a relatively weak performance in the last 12 months despite ongoing strong earnings, record dividend payouts and very strong credit quality metrics; relative weakness was almost exclusively because of lower expectations of future Federal Reserve interest rate hikes; two 0.25% rate hikes now expected over the next 12 months instead of four, due to a slowing global economy and Brexit implications; higher interest rates are positive for banks profitability due to a higher net interest margin
- Currently, US financial stocks are by far the cheapest sector out of the 10 sectors in the S&P 500 index; the most expensive sectors, based on historic valuation multiples, are technology/internet stocks and utilities which have benefited from very low interest rates

European banks portfolio performance

Underlying/benchmark	Performance Aug 15 – July 16
Fund's European banks portfolio impact on overall Fund performance	-2.9%
Eurozone Banks Index	-42.6%
UK banks* (in euro terms)	-59.3%
Greek Banks Index	-96.1%

*Arithmetic average of share price performance of Barclays, Lloyds and RBS

- The Fund's European banks portfolio was gradually shut down between October 2015 and April 2016
- The Eurozone Banks Index peaked in July 2015 when optimism was very high about the future outlook of the Eurozone and the profitability of Eurozone banks, partly driven by an expanding quantitative easing program by the ECB; sentiment changed abruptly over the next 6 months due to slow Eurozone growth, QE not having the expected impact, negative Eurozone bond yields, emerging market problems impacting certain Eurozone banks with presence in these markets and recapitalisation concerns for weaker peripheral banks (particularly Italian banks); post Brexit vote, UK and Eurozone banks share prices were further hit, particularly UK banks
- The Fund reduced its Eurozone/Nordic bank holdings from 15% of the Fund's NAV in August 2015 to 5% in October 2015 and completely shut down the portfolio in April 2016, hence largely insulating the Fund from the 43% drop in the Eurozone Banks Index during the 12-month period. The Fund retained a 1.5% position in Lloyds Bank, on the assumption (and expectation) that the UK would vote to stay in the EU. We exited the Lloyds position soon after the Brexit vote as uncertainty over the timing of the UK's EU exit will have a medium-term negative impact on UK banks loans credit quality and their net interest margin. The Bank of England has already cut the UK base rate to 0.25% and has a negative UK economy outlook for the next 12-18 months
- The impact of the Fund's European banks holdings on the overall performance of the Fund during the Aug 15-July 16 period is broken down as follows:
  - Eurozone/Nordic banks (completely exited in April 2016): -2.3%
  - Lloyds (exited in early July 2016): -0.6%
  - Total: -2.9%

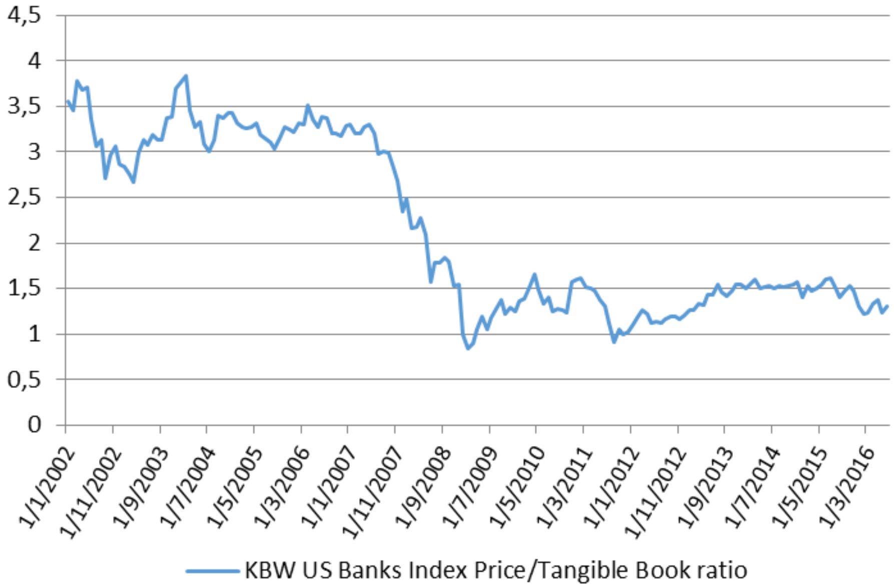
US banks – Fortress balance sheets, highly profitable, record dividends

Active Banking Fund

Bank	P/E	Price/Book	Price/Tangible Book	Dividend yield	Buyback yield (buybacks/ free float)	Core Tier 1 capital ratio	NPLs as a % of total loans	Cheap on a P/E basis	Cheap on a P/B basis	Fund's core holding	Investment rationale/risks
Bank of America	12,9	0,63	0,89	2,0%	3,2%	10,6%	1,0%		X	Yes	Very cheap on a P/B basis; profit very sensitive to US interest rate hikes, will benefit the most amongst US megabanks from interest rate increases
Citigroup	9,6	0,62	0,72	1,4%	6,3%	12.5%	N/A	X	X	No	Major exposure outside the US (Europe, Asia and Latin America) which is perceived as high risk; still a turnaround story; lowest dividend yield amonst US banks
JPMorgan Chase	11,1	1,04	1,30	2,9%	4,5%	11,9%	1,3%	X		Yes	Cheap on a P/E basis; 2nd highest dividend yield amongst US banks; very well managed with stable and diversified earnings
Wells Fargo	11,9	1,39	1,69	3,2%	Unknown	10,6%	1,3%	X		Yes	Highest dividend yield amonst US banks, extremely well managed, very good credit risk management
US Bancorp	13,4	1,76	2,24	2,4%	3,5%	9,5%	0,8%			Yes	The most cost efficient US bank (lowest cost/income ratio); high Price/Book ratio reflects very low earnings volatility and very good credit risk management
Goldman Sachs	15,5	0,88	0,98	1,6%	Unknown	12,2%	N/A		X	No	Very volatile earnings due to overreliance on trading operations; share price has underperformed other US banks recently; expensive on a P/E basis
Morgan Stanley	13,5	0,81	0,94	2,7%	5,9%	16,9%	N/A		X	Yes	Very cheap on a P/B basis; earnings volatility has dropped substantially due to stable wealth management earnings; has recently hiked its quarterly dividend by 33%
PNC	11,7	1,00	1,28	2,6%	4,8%	10.6%	1,1%	X		Yes	A very solid regional bank with low volatility earnings; has a reputation for being conservative with very good credit risk management
SunTrust Banks	11,4	0,91	1,24	2,5%	4,6%	9,8%	0,7%	X	X	Yes	Consistently beating analysts EPS estimates due to higher net interest margin and growing fee business; share price outperformance in last 12 months vs its peers
Discover Financial Services	10,9	2,18	2,27	2,1%	8,4%	13,9%	0,7%	X		Yes	Cheap on a P/E basis; profitability less sensitive to US interest rate hikes due to focus on credit cards lending and consumer finance
Capital One Financial Corp	9,6	0,77	1,17	2,4%	7,1%	10,9%	1,6%	X	X	No	Very cheap on a P/E basis; its loans portfolio is considered higher risk than that of its peers due to higher percentage of subprime loans on its books
KeyCorp	12,5	0,91	1,03	2,8%	2,7%	11,1%	1,0%		X	No	A smaller and well-run regional bank; profit very sensitive to US interest rate hikes, will benefit the most amongst smaller regional banks from interest rate increases
US Banks ETF				2,6%						Yes	

- US banks annual profits are now at or close to pre-financial crisis record levels; Citigroup and Bank of America 2015 net profit was their highest annual profit since 2006
- All major US banks have increased their dividends in the last 2 years, following Federal Reserve approval of their submitted dividend and share buyback capital plans; most US banks are currently paying the highest dividends in their history due to solid profitability and the ability to return surplus capital to shareholders
- Most US banks still trade at extremely attractive valuation multiples (see next slide)
- US banks non-performing loans average just 1% of total loans ; US banks have cleaned up their balance sheets and have applied very strict credit underwriting criteria after the 2008-9 financial crisis; NPL ratios of US banks are significantly lower than those of European banks (ranging from 5% to 10%) and Greek and Cyprus banks (ranging from 40% to 55%)

Why US banks remain very cheap



Ratio (for KBW US Banks Index)	Ratio as at end July 2016	Ratio monthly average since January 2002	Ratio monthly average pre financial crisis (2002-2008)
Price/Book	0.97	1.41	1.95
Price/Tangible Book	1.30	2.16	3.09
Price/Earnings (P/E)	12.2	14.3	14.6

- Many US banks still trade below their tangible book value per share, which is considered one of the key valuation metrics for banks and is calculated as:

  (Total Equity – Intangible Assets)/Number of Shares
- Price/Tangible Book ratio is calculated as:

  Share price/Tangible book value per share
- The lower the ratio for a bank, the cheaper the bank
- The same applies for the Price/Book ratio (which does not exclude intangible assets when calculating the bank's book value per share)
- After the 2008-9 financial crisis, banking analysts increasingly focus on the Price/Tangible Book value ratio as the preferred valuation metric for banks as intangible assets (such as goodwill) are frequently of questionable quality and difficult to value
- Current Price/Tangible Book ratio for US banks is 40% lower than its historic monthly average (since 2002) and 58% lower than the pre-2008 financial crisis monthly average
- US banks are also cheap on a P/E basis. Historically, the P/E of US commercial banks has been 13 to 15; high growth financial stocks with stable earnings can command a P/E greater than 15
- Current P/E ratio for US banks is 15% lower than its historic monthly average (since 2002)

Future outlook for US banks

- Expected to outperform as US GDP growth remains solid at around 2% and unemployment has dropped to a new multi-year low of 4.9% while monthly job creation in the last two months has exceeded 250,000
- US banks underperformance in last 12 months was mainly due to pressure on their net interest income and, to a lesser extend, due to higher oil loan losses. Currently, oil prices have stabilised around $45, which reduces pressure on banks oil loan portfolios. And after no interest rate hikes since December 2015 due to Brexit issues and global growth slowdown concerns, the Federal Reserve has now indicated it is ready to hike US interest rates again, possibly as soon as September 2016
- Bank of America, which is the most interest rate sensitive US megabank, has reported in its Q2 2016 earnings release that a 1% increase in US interest rates (a 1% parallel upward shift in the yield curve), will increase its pre-provisions profits by approximately 25%. Other US commercial banks may see pre-provisions profits increase by 15%-20% following a 1% increase in US interest rates
- With their valuations at extremely attractive levels, the only major downside risks for US banks are global geopolitical factors
- The Fund will continue to be overweight in US banks with zero or limited activities and revenues outside the US; we remain concerned about deflation and Brexit issues in the Eurozone and sluggishness in Asia and emerging markets

European banks – Not invested but on our watch list

- The Fund completely exited Eurozone banks in April 2016
- Do not intend to re-enter for as long as Brexit uncertainty persists and Eurozone interest rates remain in zero/negative territory
- The Fund may consider short-term positions in Eurozone banks after a sharp pullback (such as the Brexit vote induced 20% drop in the Eurozone banks index at the end of June)
- There are 3-4 highly profitable Eurozone banks that are now extremely cheap on a Price/Tangible book and a P/E basis and we will continue monitoring their earnings and share price performance; such banks could be attractive if sentiment towards Eurozone banks improves; currently the Price/Book ratio of European banks relative to US banks and other European sectors is at its lowest ever

UK banks – Classified as high risk post-Brexit vote

- The Brexit vote and the uncertainty regarding the timing of the UK's exit from the EU is very bad news for UK focused companies and UK banks as UK economic activity has slowed down substantially since the vote and is expected to remain subdued for quite some time
- UK banks remain high risk, even taking into account the sharp drop in their share prices after the Brexit vote:
    - Non-performing loans are expected to increase, particularly amongst mortgage loans as UK real estate prices drop
    - Net interest income will remain under a lot of pressure as expected UK base rate hikes earlier this year have now been replaced by rate cuts (after years of inaction, the Bank of England cut the UK base rate to 0.25% in July)
    - UK banks may face high costs in relocating UK staff abroad if they lose their EU financial services passporting rights post Brexit vote