Thursday, 16th November 2017

Morning Round Up

Self-Learning algorithm AI equity fund

A Finnish fund manager FIM is introducing the first investment fund in the Nordic region, where a self-learning algorithm gets to pick all the stocks. It is targeting returns of 3 percentage points above the MSCI World Index. The technology behind the fund is a product of more than two years of work by Acatis Investment GmbH and NNaisense SA, a Lugano, Switzerland-based developer of artificial intelligence. The fund has already attracted the interest of almost all Finnish pension insurers. The algorithm picks 50 stocks from a pre-screened universe of 4,000 liquid, developed-market equities, each with a market capitalization of 1 billion euros or more. Its database contains fundamental data on 700 variables going back to 1986. The allocation takes place every six months and the actual trading is done by a human, FIM said.

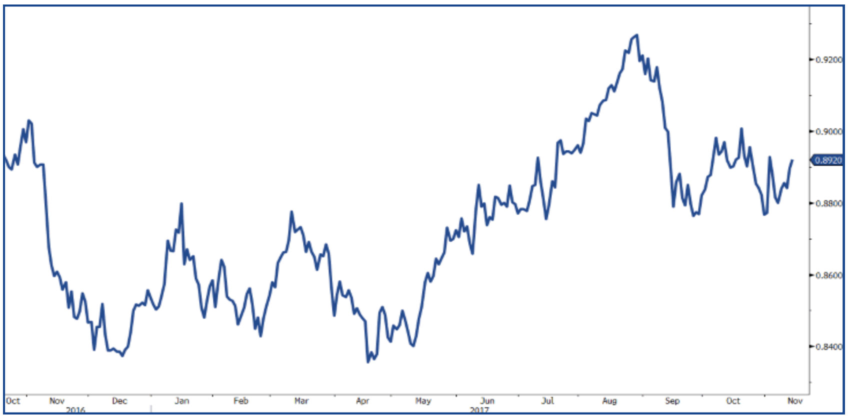
The Pound weakens on Brexit uncertainty

The Bank of England's rate hike on the 2nd November, is being viewed by the market as a one and done move, therefore the currency will no longer supported by expectations for immediate monetary tightening. That has left it vulnerable to underwhelming U.K. data and uncertainty surrounding Brexit. EURGBP once again touched 90p yesterday. Looking at the options market, risk reversals in sterling are now near the most bearish in more than a month. The next big event for the pound is the European Union summit on the 14th & 15th of December where the market is not hopeful the discussions on trade between the EU and the UK will begin. Trade talks could be pushed out until March, leaving just one year to negotiate a trade agreement before its official exit date from the EU in March 2019. There is ongoing uncertainty over Prime Minister Theresa May's political future which is adding further pressure on the pound.

Oil weakens as US stockpiles build and production increases

Oil prices traded lower yesterday, as US crude stockpiles unexpectedly rose and production extended its record run. Oil prices were 2.5% lower of the previous two sessions. US oil stockpiles rose for a second consecutive week, while US oil output climbed for a fourth time to 9.65 million barrels a day, the highest in more than three decades, according to the Energy Information Administration. OPEC and Russia are due to meet towards the end of the month in Vienna, and will likely extend output curbs past the end of March. There is speculation this production freeze might extend into 2019.

EURGBP - price chart



Source: Bloomberg, CF Research November 2017

Key Upcoming Events

30/11/2017 OPEC meeting

Market View

Asian equities stabilised overnight, after 6 straight days in the red. Results from Chinese tech giant, Tencent supported sentiment in the region. European equities have recovered this morning, opening 30bps higher. The US Dollar remains under pressure as investors are wary once again on the likelihood of Trump's tax bill being approved. Oil prices moved lower yesterday as EIA data is the US showed a build in US oil inventories for the previous week. Key market focus today is Eurozone CPI data, French unemployment, UK retail sales data, and speeches from ECB's Praet.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	23440	17.49	0.07%	18.61%
S&P	2585	2.54	0.10%	15.45%
Nasdaq	6758	6.66	0.10%	25.53%
Nikkei	22,380	-0.98	0.00%	17.08%
Hang Seng	29,153	-29.45	-0.10%	32.51%
Brent Oil	62.84	-0.32	-0.51%	10.59%
WTI Oil	56.62	-0.14	-0.25%	5.40%
Gold	1272	-6.30	-0.49%	10.85%
€/$	1.1689	0.0022	0.19%	11.14%
€/£	0.8917	0.0021	0.24%	4.48%
£/$	1.3108	-0.0008	-0.06%	6.22%

	Yield	Change
German 10 Year	0.43%	0.009%
UK 10 Year	1.34%	0.012%
US 10 Year	2.41%	0.004%
Irish 10 Year	0.66%	0.007%
Spain 10 Year	1.54%	0.005%
Italy 10 Year	1.84%	0.002%

Source: Bloomberg, CF Research November 2017

Hibernian REIT - Stamp duty impact bigger than expected

Closing Price - €5.66

News

Hibernia released half year results for the period up to Sept 30th 2017 that were generally in line with expectations. EPRA NAV came in at €1.55, up 6.2% since March 2017. Net rental income was €21.9m, up 31% YoY. Overall property return was 7.2% vs a benchmark return of 4.8%. Profit before tax came in €70.6m, driven in large part by unexpected revaluation gains. Interim dividend was up 46.7% to 1.1c per share. The value of the overall portfolio ticked up €1,265m, an increase of 5.2%. Developments' value rose by 8.4%. Annual contracted rental roll now stands €49.5m, up 7.1% year-on-year. Portfolio management also improved with average WAULT now up to 6.9 years, an increase of 16.9%. The balance sheet remains strong. Net debt is €181m with cash and undrawn facilities of €263.2m

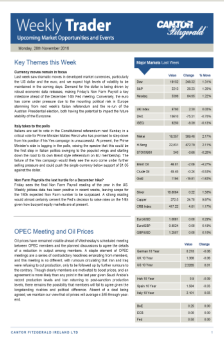
Comment

Overall these results were solid. Management also noted the first tranche of Brexit related activity. Overall take-up rates remain high and vacancy rates remain very low. From an operational perspective, Hibernia continues to impress. All developments remain on schedule with 1WML recently completed in August.

However, the major point to note from this release was management's guidance around the impact of recent increase in commercial stamp duty from 2% to 6% which came into effect on 11th October. Management states that it would have reduced profit before tax by €53.7m. EPRA NAV would have dropped to €1.475, a reduction of 5%. Hibernia is currently trading at €1.42, implying a discount to stamp duty adjusted NAV of just 3%. FY18 expected NAV is currently at €1.55 so these discounts are still applicable to full year expectations. FY19 NAV is at €1.588, FY20 NAV is at €1.604 and FY21 NAV is at €1.585. If you reduce all by 5%, this implies Hibernia is currently pricing at 5.9%, 8.6% and 5.9% discount to each NAV in its respective year. It should be noted that we believe that the guidance management is giving in the release is based on their expectations of development value at completion i.e. it is taking the hit upfront. This means that it may not be appropriate to extrapolate out a 5% reduction across the whole timeframe. Revaluation gains of €66m were also ahead of our expectations. Further yield compression along those lines may offset negative impact from the stamp duty increase in coming years. But in general, this was a bigger impact from the stamp duty increase than we had expected. That would indicate limited potential for rerating higher in the immediate term. We are moving Hibernia from Outperform to Under Review while we assess the impact of the stamp duty increase on future earnings.

Will Heffernan | Investment Analyst

Cantor Publications & Resources



Weekly Trader

On Mondays, we release our weekly note in which we provide a view on equity markets for the coming days, and highlight a number of equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meets on a weekly basis to craft this strategy, thereby allowing clients to dynamically position portfolios to take advantage of the most up to date market developments.

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Monthly Investment Journal

Each month our Private Client and Research departments collaborate to issue a publication which highlights the performance of our flagship products, funds and our Core Portfolio, including the Green Effects fund, most recent private equity deals and structured product investment opportunities.

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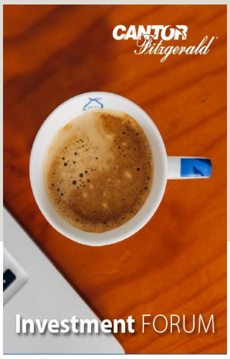

Investment Forum

Through our investment Forum we bring you the latest market news, investment insights and a series of informative articles from our experts.

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Hibernia REIT: Hibernia REIT plc operates as a real estate investment trust. The Company invests in commercial properties including offices, industrial properties, retail stores, warehousing and distribution centers, and other related property assets

Historical Recommendation:

Hibernia REIT: We moved Hibernia from Outperform to Under Review as of 16/11/2017

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