INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 1 2017

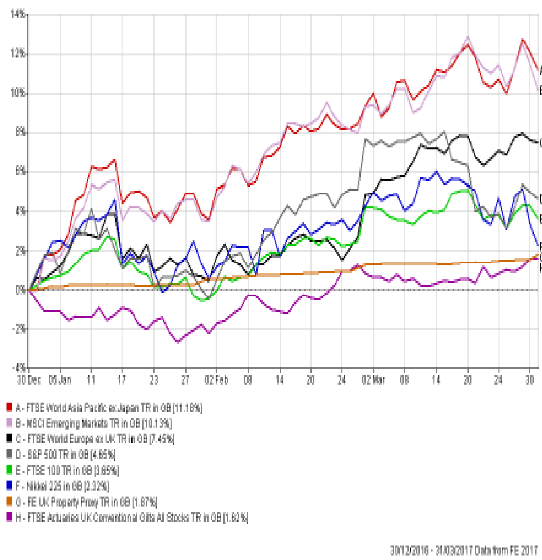
2017 has started with a spring in its step. Global equities continued to rally in March, completing a strong first quarter- led by European, Asian and Emerging Markets. Investors took the 0.25% US Fed rate rise in their stride but faltered when the Trump administration failed to replace Obamacare. We are closely watching events and economic data in the US – certainly sentiment and survey data from manufacturers and consumers is very strong and we need to see this positivity reflected in some of the factual data. Estimates suggest that growth slowed over Q1 but it is believed that the weakness in Q1 will represent a blip, rather than something more malign, and reflects temporary factors such as personal consumption being restrained by mild weather patterns and delays in tax refund issuance. We expect more rate rises from the Fed this year and we have also seen comments about the potential for the Fed to start the process of reducing the amount of fixed income assets on their balance sheet which they amassed during three rounds of "quantitative easing," with the aim of helping the economy following the financial crisis. The Fed had been reinvesting the proceeds from those assets previously. As long as these steps towards normalisation are justified by improving economic fundamentals, then investors have little to fear from this process.

Investors are often guilty of grouping Emerging Markets together as one entity but when analysing the probable impact of potential Trump administration polices, not all Emerging Markets will react in the same way. We have seen a softening on trade from members of the Trump administration, even from trade hawks like Navarro. There may be a realisation that producing goods in the US, which were previously made overseas, would result in much higher production costs which would push up prices too much. There remains the spectre of border adjustments but we look to EM managers who are not too exposed to countries like Mexico, which rely heavily on the US for exports. India, for example, is a more closed economy with an underdeveloped manufacturing sector that should be relatively immune to Trump's protectionist agenda and can benefit from a stable reformist government which provides a positive tailwind.

TRUMP TRADE STUTTERS

WAITING WITH BAITED BREATH FOR FRENCH ELECTION OUTCOME

UK DIVORCE PROCEEDINGS WITH THE EU BEGIN



Figures shown are for a sterling denominated investor, for the 3 month period to 31/03/2017.
Source: Financial Express Analytics

The first of a series of European elections in the Netherlands in Q1 saw a favourable outcome for the incumbent PM and a worse than expected result for the far right. France is next to the polls and, given the experience of 2016, we are careful not to let the fear of politics override economics. Politics is important, but it's difficult to know what the end game will be. We are therefore better served focusing on the facts and what is priced in today. Like the Fed, the ECB also discussed the exit strategy from quantitative easing at their March meeting. There were a wide range of views with the overall conclusion that "a discussion on normalisation would become warranted in the future". Perhaps post French election.

Article 50 of the Lisbon treaty has now been issued and, as Brexit negotiations progress, the landscape will constantly change- which could be positive or negative for individual companies - so an active stock selection approach will be key to finding investments with the strongest fundamentals. The nature of the new UK-EU relationship will be important for helping determine fair value for Sterling. If the new agreement (or no agreement) presents barriers to trade then the pound will need to depreciate further. The inflationary impact of the significant weakening of Sterling since the referendum is yet to be fully felt.

In this environment, we expect to see bond yields rise- albeit on a shallow trajectory - and for value and cyclical equities to outperform defensive quality and growth equities, which have been the leaders for a number of years. This change is not to be underestimated as it will drive significant change in markets and where the best opportunities are likely to be. It was this change that drove some of action we took in portfolios at the beginning of the year where we reduced the interest rate sensitivity of our Fixed Interest holdings and increased our exposure to value and cyclical areas of the equity markets.

We believe the BAM strategies are reasonably well positioned against any increased volatility and further swings in Sterling as a result of the Brexit negotiation process, along with the impact of higher inflation. Even Greece, which has seen its GDP fall by 25% from its peak, now has inflation running at 1.4%. We have some exposure linked to inflation in the form of Fixed Income, infrastructure and property assets. Any Property exposure in portfolios is not London centric and is in smaller funds. After a strong period for risk assets equity valuations are looking a touch rich so we will have to rely on earnings to drive share prices further on from here. We continue to aim for a approach that is best summarised as 'Heads we win, tails we don't lose too much'.

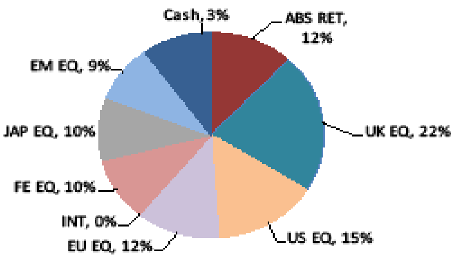
BAM Portfolio Models' Investment Performance

	31/03/2012 -31/03/2013	31/03/2013- 31/03/2014	31/03/2014- 31/03/2015	31/03/2015 -31/03/2016	31/03/2016- 31/03/2017
Defensive Mixed Assets Strategy	+12.55%	+ 4.97%	+ 7.71%	-0.28%	+7.17%
IA MIXED ASSETS 0-35% SHARES	+ 8.33%	+ 1.24%	+ 7.45%	-1.74%	+9.38%
Income Portfolio Strategy	+17.83%	+6.45%	+8.75%	-1.57%	+7.99
Social Impact Portfolio Strategy	n/a	n/a	n/a	n/a	+11.37
IA MIXED ASSETS 20-60% SHARES	+13.33%	+3.64%	+8.58%	-2.46%	+12.90%
Income & Growth Portfolio Strategy	+18.40%	+6.34%	+11.33%	-0.49%	+14.42%
IA MIXED ASSETS 40-85% SHARES	+18.68%	+5.63%	+10.63%	+-2.94%	+17.11
Growth Portfolio Strategy	+20.88%	+5.71%	+13.28%	+2.22%	+19.97%
IA FLEXIBLE	+17.55%	+4.61%	+11.58%	-4.28%	+19.05%

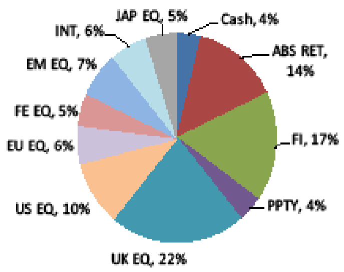
Notes: BAM figures take into account normal dealing costs but not Beckett fees.
Source: BAM portfolio performance figures: Beckett Asset Management.
Indices: FE Analytics- Total Return; IA: Investment Association
Overseas equity returns are for a sterling denominated investor.
PAST PERFORMANCE IS NO INDICATOR OF FUTURE PERFORMANCE

Target Model Portfolio Structures for Quarter 1 2017

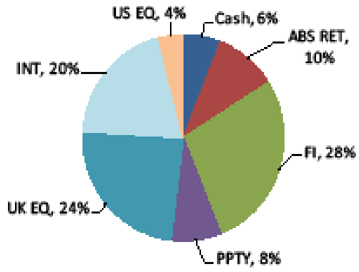
Growth



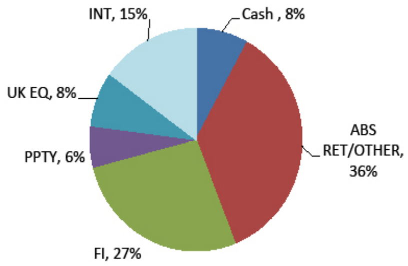
Income & Growth



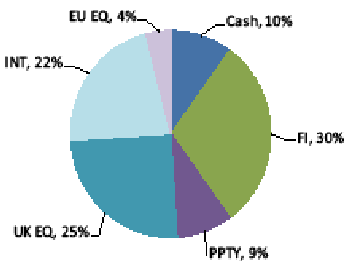
Income



Defensive Mixed Assets



Social Impact



FI	Fixed Interest
UK EQ	UK Equities
PPTY	Property
EU EQ	European Equities
EM EQ	Emerging Markets Equities
FE EQ	Far Eastern Equities
JAP EQ	Japanese Equities
SPEC	Specialist Equities
US EQ	US Equities
INT	International Equities
ABS RET	Absolute Return

PLEASE NOTE THAT ASSET ALLOCATIONS MAY CHANGE OVER TIME

The investments mentioned in this report are intended as long-term investments. Some of them may go down as well as up and you therefore may not get back the full amount invested. Where investments are denominated in foreign currencies, changes in the rate of exchange may have an adverse effect on the value or price of the investment in Sterling terms. Past performance is not necessarily a guide to future performance. This document should not be construed as an offer document or solicitation and is circulated because the contents may be of incidental interest. The opinions stated are those of Beckett Asset Management Ltd, which is authorised and regulated by the Financial Conduct Authority.

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