

# INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 1 2016

March was a somewhat calmer month and a positive one for most risk assets which helped to settle investor nerves that had been tested in the mid February lows. Volatility can feel uncomfortable but it is part and parcel of equity based investing. We would not be surprised to see further bouts of volatility this year and the portfolios are being adjusted accordingly, incorporating more of either a defensive style of fund or asset class. Risk assets though are still more attractive than cash to deliver returns to investors over the longer term.

While Gold and Gilts benefitted as safe haven assets in quarter one, it was a tougher quarter for company related Fixed Income. Investors were concerned about contagion risk from the defaults in Energy related High Yields bonds. The sell-off during January and February was partially reversed in March with a tail wind supplied by the European Central Bank's commitment to buy corporate debt. Opportunities in Fixed Income assets are very specific and we utilise some of the best Fixed Income teams and managers to find them. Commercial Property remains attractive as a real asset offering a higher return against most Fixed Interest markets. Our managers though have been trimming back their London holdings after a good run.

US recession worries for 2016 have subsided for the time being. We did not share this recession concern ourselves given the data, but the Fed have now only signalled two rate rises this year, compared to the four pencilled-in previously. Hardly "euphoria" which, as the saying goes "bull markets die on".

The Chinese year of the Monkey, just like the animal, is proving to be mischievous. The Chinese currency and capital flows seem to have stabilised which has helped boost risk appetite, as has improvement in the supply and demand dynamics of Oil. Commodities generally though are not likely to see a sustained change in trend until the global economy shows more signs of life. Emerging and Asia Pacific markets staged a March rally, but will continue to be volatile, being affected by the US Dollar and interest rates and any Chinese economic weakness.

Japan has also been difficult place for investors as "Abenomics" (the term used for Prime Minister Abe and the Bank of Japans' policy stimulus) struggles. For all their activity in trying to weaken the Yen, it has been rising. We believe there is more action to come.

European markets seem to be in a state of flux. Logic tells us that European Central Bank Quantitative Easing should be beneficial for financial assets, but there are bumps in the road. Brexit is just one of a list of market worries that includes the refugee crisis. We are trying to appraise how much of these concerns are already priced into markets.

Brexit talk is building. There will be many column inches and news headlines to digest before we get to the 23rd June. In the meantime, Sterling has been weak, as have some smaller and mid-size companies. In the near-term, a vote to leave the EU would hit foreign and domestic investment, while some forecast UK consumers to cut spending as confidence is dented. If Sterling falls further, net trade may make a positive contribution to growth, but the overall impact would be lower growth and higher inflation. Longer term, most studies offer a range of scenarios concluding that the most likely outcome would be lower long-term growth compared to remaining in the EU. Markets are likely to tread water in the meantime and we have not positioned the portfolios strongly for one particular outcome, as that is risky in itself.

Ultra-loose monetary policy will create inflation eventually, but deflation concerns persist. Schroders' indicators point to steady, but not spectacular growth, a continuation of the pattern of recent years where the world economy struggles to get growth much above 2.5%. Both our optimism for 2016 and the portfolios have been tested, but there is merit in staying the course.

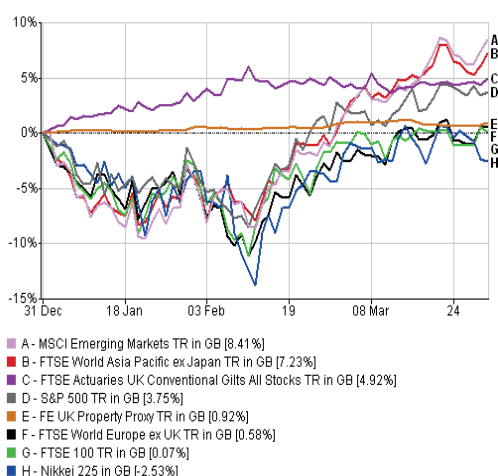


## A TURBULENT Q1

## US RECESSION WORRIES FADE

## JAPAN 'ABENOMICS' CONTINUES

## BREXIT WORRIES MARKETS



31/12/2015 - 31/03/2016 Data from FE 2016

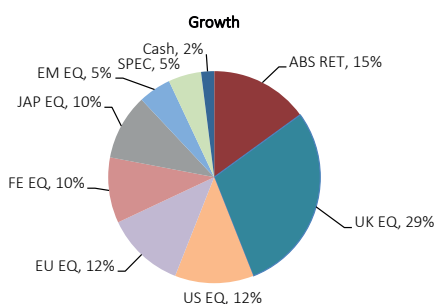
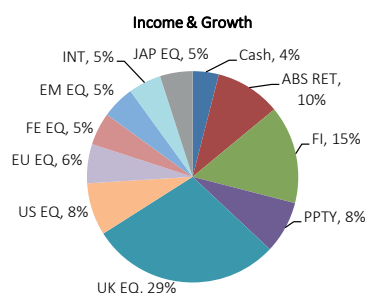
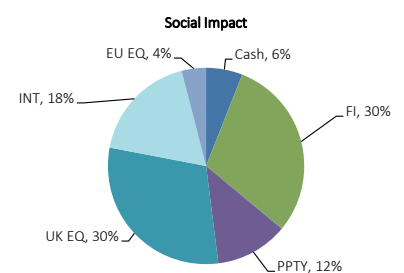
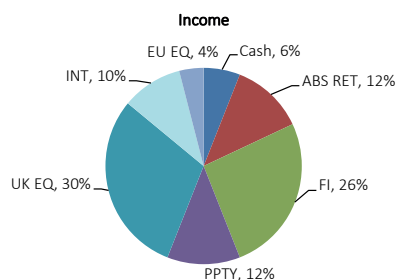
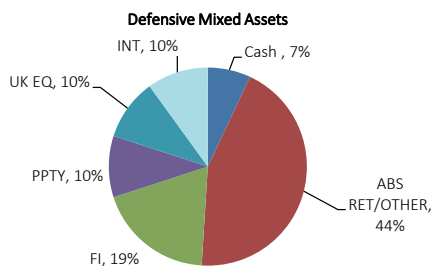
Figures shown are for a sterling denominated investor, for the 3 month period to 31/3/2016.  
Source: Financial Express Analytics

# BAM Portfolio Models' Investment Performance

	31/03/2011 -31/03/2012	31/03/2012 -31/03/2013	31/03/2013 -31/03/2014	31/03/2014 -31/03/2015	31/03/2015 -31/03/2016
<b>Defensive Mixed Assets Strategy</b>	n/a	+ 8.87%	+ 4.91%	+ 7.61%	- 0.44%
IA MIXED ASSETS 0-35% SHARES	+ 3.08%	+ 8.01%	+ 1.24%	+ 7.45%	- 1.74%
<b>Income Portfolio Strategy</b>	+ 4.17%	+ 12.13%	+ 6.41%	+ 8.53%	- 1.81%
IA MIXED ASSETS 20-60% SHARES	+ 1.58%	+ 10.20%	+ 3.64%	+ 8.58%	- 2.46%
<b>Income &amp; Growth Portfolio Strategy</b>	+ 4.16%	+ 12.73%	+ 6.24%	+ 10.80%	- 0.98%
IA MIXED ASSETS 40-85% SHARES	+ 0.07%	+ 12.67%	+ 5.63%	+ 10.63%	- 2.94%
<b>Growth Portfolio Strategy</b>	- 0.07%	+ 14.77%	+ 5.69%	+ 13.13%	- 2.37%
IA FLEXIBLE	- 2.04%	+ 12.27%	+ 4.61%	+ 11.58%	- 4.28%
<b>Key Indices</b>					
FTSE ALL SHARE	+ 1.39%	+ 16.77%	+ 8.81%	+ 6.57%	- 3.92%
FTSE UK CONVENTIONAL GILTS ALL STOCKS	+ 14.46%	+ 5.25%	- 2.56%	+ 13.91%	+ 3.25%
FTSE WORLD	+ 0.45%	+ 17.47%	+ 7.63%	+ 18.79%	+ 0.00%
FTSE WORLD EUROPE (EX UK)	- 11.38%	+ 17.98%	+ 17.26%	+ 7.48%	- 4.16%
FTSE WORLD ASIA PACIFIC (EX JAPAN)	- 4.63%	+ 18.13%	- 5.82%	+ 12.75%	- 5.40%
JAPAN NIKKEI 225	+ 4.44%	+ 13.24%	- 0.55%	+ 24.92%	- 3.84%
S&P 500	+ 8.19%	+ 19.10%	+ 10.29%	+ 25.83%	+ 4.45%

Notes: BAM figures take into account normal dealing costs but not BAM 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 2 2016



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.