INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 2 2016

The second quarter of 2016 was initially characterised by markets trading sideways as investors wrestled with the fluctuating probability of Brexit. However, the quarter was defined by the monumental decision made by the British public to leave the European Union. This decision came as a significant surprise to markets, which for the few days leading up to the referendum had seemed to be pricing in a 'remain' result.

The financial impacts of the referendum result were swift and severe with UK equities falling markedly and Sterling weakening to its lowest level for some 30 years. After a couple of days of market falls, we saw the FTSE 100 climb to its highest level since mid-2015, but the FTSE 250 and Small Cap indices continued to languish and suffered more in the wake of the referendum result. The reason for this divergence is down to the FTSE 100 being largely populated by multinational companies, which are less reliant upon the UK economy and will benefit from the weaker Sterling due to their overseas revenue or the fact they report in an overseas currency. The mid and small cap companies tend to be more domestically focused so suffer more over fears for the UK economy.

The result of the referendum has changed our outlook for the UK economy and financial markets over the short and medium-term. It is fair to say that there is lots of uncertainty ahead, both politically and economically, and the consensus amongst the economists and fund managers we speak to is that there will be a slowdown in the UK economy. This will likely start to show through in third quarter economic numbers as businesses postpone investment and hiring due to this uncertainty.

The Bank of England has been very proactive since the referendum result and has acted quickly to calm markets. Mr Carney has highlighted how the central bank stand ready to further ease monetary policy, if required, and also has changed the capital demand for banks in an attempt to stimulate lending. It is apparent that the Bank of England is willing to look through any short-term increases in inflation due to weaker Sterling, and focus on stimulating economic growth. Indeed, with the two major political parties lacking stability themselves, many have said that Mark Carney has been the sole voice of calm and reassurance over this time.

Whist we believe that Brexit by itself is unlikely to cause a global shock, it does pose risks to the future of the European Union. The elections and referenda in Europe over the next two years will be important indicators as to whether we are likely to see significant moves from other countries to hold their own vote on EU membership.

Other indirect effects of the referendum are that we believe it now less likely that the US Federal Reserve will continue on the same path of interest rate rises expected prior to 24th June, and there is a reasonable possibility that the European Central Bank and Bank of Japan look to ease monetary policy further. We have seen the nervousness and new monetary policy expectations play out in bond markets, where an even larger proportion of global sovereign bonds are now trading on negative yields.

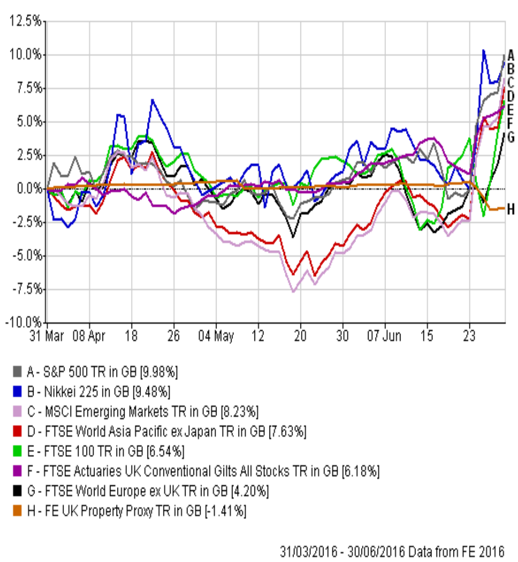
On a relative basis, we expect Global Developed Market and Global Emerging Market equities to perform better than UK equities during this period and, as such, we will be looking to position the portfolios more globally at the expense of the UK in the coming weeks and months. As we no longer expect the US Federal Reserve to raise rates as quickly as expected, we believe that Emerging Markets should receive a boost as they typically suffer in times of US Dollar strength. In our portfolios, our overseas exposure did help as, not only did many of these markets perform better than the UK over the referendum period, but also when returns are converted back to Sterling, they are even better due to the significant weakening of the currency.

Overall, we still believe that equities are more attractive than fixed income in most regions and that the slow and steady global recovery will continue. However, we would note that risks to the global outlook had been increasing even before the EU referendum result. We will stay vigilant, active and continue to position portfolios to find those pockets of opportunity but also to mitigate the volatility which we feel will continue to be present in markets.

OPPORTUNITES OVERSEAS

EU REFERENDUM RESULT SHOCKS MARKETS

MORE CENTRAL BANK STIMULUS AHEAD



Figures shown are for a sterling denominated investor, for the 3 month period to 30/06/2016.
Source: Financial Express Analytics

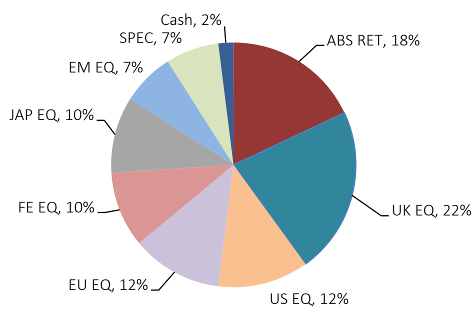
BAM Portfolio Models’ Investment Performance

	30/06/2011 -30/06/2012	29/06/2012 -28/06/2013	30/06/2013 –30/06/2014	30/06/2014 -30/06/2015	30/06/2015 -30/06/2016
Defensive Mixed Assets Strategy	n/a	+ 7.85%	+ 7.76%	+ 4.71%	+0.81%
IA MIXED ASSETS 0-35% SHARES	+ 2.07%	+ 5.86%	+ 4.78%	+ 3.40%	+3.34%
Income Portfolio Strategy	+ 2.61%	+ 11.96%	+ 9.08%	+ 4.51%	+1.12%
IA MIXED ASSETS 20-60% SHARES	-0.74%	+ 10.06%	+ 7.06%	+ 4.72%	+1.87%
Income & Growth Portfolio Strategy	+ 1.64%	+ 14.03%	+ 8.60%	+ 6.29%	+2.90%
IA MIXED ASSETS 40-85% SHARES	-3.53%	+ 15.02%	+ 8.17%	+ 6.82%	+1.89%
Growth Portfolio Strategy	- 5.44%	+ 18.86%	+ 7.14%	+ 10.54%	+0.79%
IA FLEXIBLE	- 6.23%	+ 15.27%	+ 7.83%	+ 7.00%	+1.23%

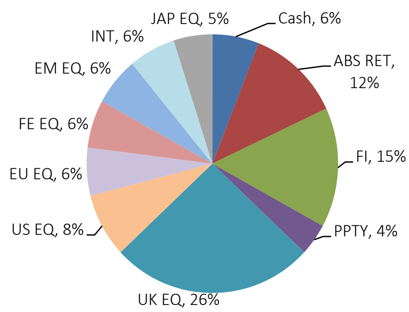
Notes: BAM figures take into account normal dealing costs but not BAM fees.
Source: BAM portfolio performance figures: Beckett Asset Management.
Indices: FE Analytics- Total Return; IA: Investment Association
Overseas equity returns are for a sterling denominated investor.
PAST PERFORMANCE IS NO INDICATOR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

Target Model Portfolio Structures for Quarter 3 2016

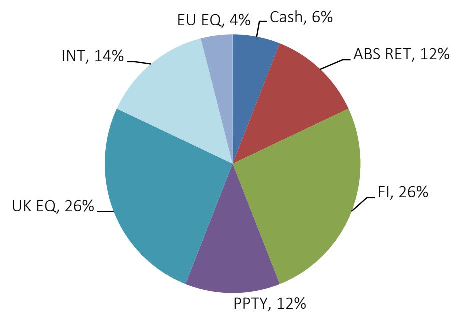
Growth



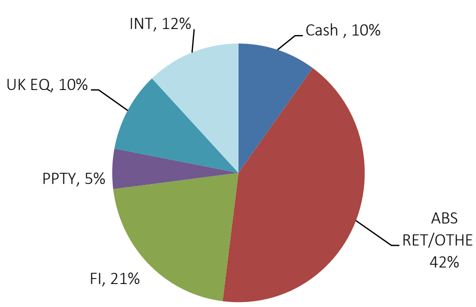
Income & Growth



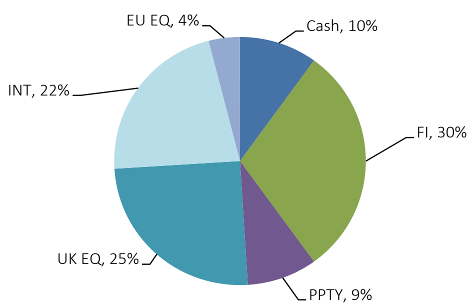
Income



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

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