

INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 3 2016

September marks the end of the third quarter of 2016 and as you can see from the chart, after the Brexit shock at the end of June, markets have generally recovered strongly, but with some ups and downs along the way. The chart on this page shows returns in Sterling and highlights how the weakness of the currency has been a considerable tailwind for overseas assets and Large Cap UK equities with a majority of their revenues from overseas. The strongest returns in the quarter came from Emerging Market equities, closely followed by Asia Ex Japan. The portfolios all have varying degrees of exposure to global risk assets so all benefitted from this risk rally which has pulled up the YTD figures after a lacklustre first half.

One exception in this strong quarter has been Property. The asset class recovered some ground as the quarter progressed and there were signs that, in the main, transactions were proceeding at pre-Brexit levels or only marginally lower as the shock waves receded. However, Property still ended the quarter negative at an index level. One of the funds held in the BAM portfolios is still suspended but we have seen evidence in the property market which leads us to believe that this will change in the next quarter or so. Income from the sector remains attractive but capital gains are unlikely in the immediate period ahead. Yield is still hard to come by in Fixed Income assets, although towards the end of the quarter we began to see signs of yields creeping up from, in many cases, all-time lows.

In response to the Brexit vote we saw a UK interest rate cut and a change in government leadership. The debate has now shifted to whether it will be a 'hard' or 'soft' Brexit. We thought that Theresa May would wait until after the European elections in France and Germany in 2017 to trigger Article 50 but that has now been quashed, with the commitment that it will be triggered by the end of Q1 2017. It's increasingly looking like this government may deliver a hard Brexit as the

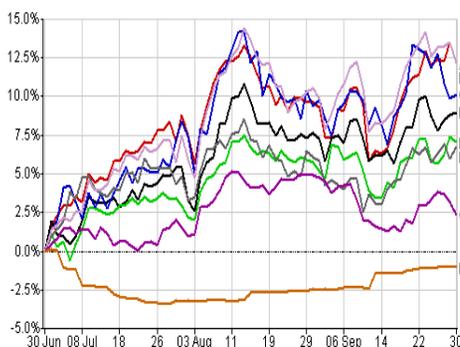
focus appears to have been on controlling freedom of movement at the expense of trade. However, it will be a while before we have all the details and therefore be able to factor in the investment implications. Despite August and September data showing a strong recovery in UK economic surveys, particularly those related to the consumer, the Bank of England maintained its forecast that growth rates will slow significantly over the next 12 months or so. A number of developed market countries are still grappling with finding growth and the central banks of Japan and Europe are also still keeping monetary policy accommodative. The UK Autumn statement from our new Chancellor is due in November and we may see some form of government spending to further support growth.



WEAK STERLING PUSHES UP OVERSEAS ASSETS

UK INTEREST RATE CUT

THE US ELECTION IN FOCUS



- A - MSCI Emerging Markets TR in GB [12.20%]
- B - FTSE World Asia Pacific ex Japan TR in GB [12.18%]
- C - Nikkei 225 in GB [10.11%]
- D - FTSE World Europe ex UK TR in GB [8.97%]
- E - FTSE 100 TR in GB [7.06%]
- F - S&P 500 TR in GB [6.71%]
- G - FTSE Actuaries UK Conventional Gilts All Stocks TR in GB [2.34%]

Figures shown are for a sterling denominated investor, for the 3 month period to 30/09/2016.
Source: Financial Express Analytics

The weak Oil price this year has been partly to blame for weak headline earnings numbers and worries of High Yield Bond defaults because of the amount of Energy companies who are suffering. However, Oil prices rose at the end of the quarter as OPEC announced an unexpected preliminary deal to limit production. Previously negotiations had made no progress because of Saudi insistence that any production cuts should apply to all OPEC members while Iran claimed exemption whilst it recovers from sanctions. Details of the new agreement will be announced in November. However many Economic strategists are expecting \$50 Oil to be a ceiling price rather than a floor, which drives our managers' cautious positioning in this sector.

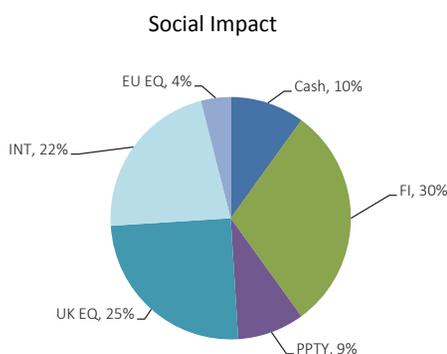
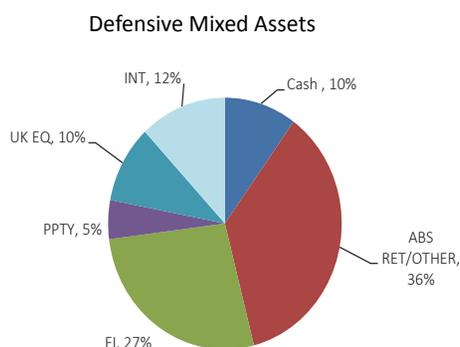
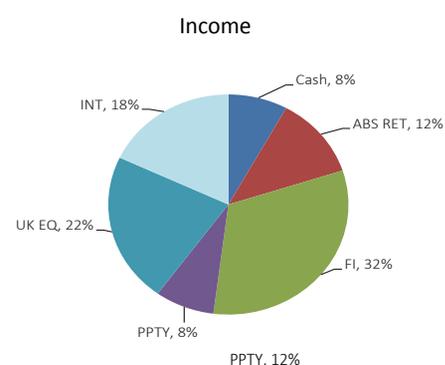
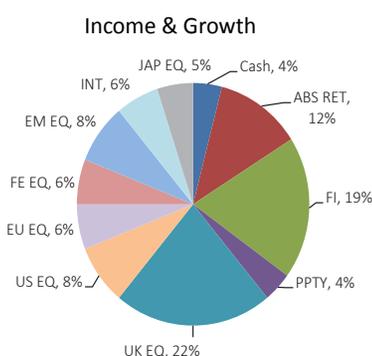
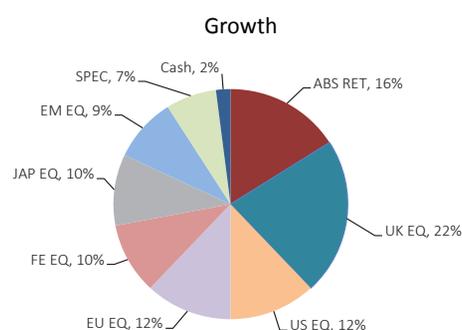
We expect that Q4 will be all about the US election – as Q1 was about China and Q2 about the UK and Europe. US polls continue to suggest that the race will be close. Both Clinton and Trump have promised large stimulus packages and it is therefore likely that the US equity market will be well supported in the medium term. It is expected that the Fed will raise rates after the Election in the December meeting as economic data has been robust, but a lot could happen in the meantime. There is also the Italian constitutional reform referendum in early December, which could both give rise to an increase in market volatility.

We expect that the final quarter of 2016 will be turbulent and will likely follow the pattern of the year so far; periods of calm punctuated by pockets of increased volatility. The BAM investment strategies are positioned more cautiously (in context of their risk profile) than they were at the start of the year, but they retain a sufficient level of risk as there is a chance these potential financial hurricanes may pass us by.

BAM Portfolio Models' Investment Performance

	30/09/2011 -30/09/2012	29/09/2012 -28/09/2013	30/09/2013 -30/09/2014	30/09/2014 -30/09/2015	30/09/2015 -30/09/2016
Defensive Mixed Assets Strategy	n/a	+ 7.15%	+ 6.94%	+ 2.95%	+5.93%
IA MIXED ASSETS 0-35% SHARES	+ 7.96%	+ 4.38%	+ 4.11%	+ 0.81%	+10.25%
Income Portfolio Strategy	+ 11.15%	+ 10.33%	+ 7.40%	+ 1.16%	+7.91%
IA MIXED ASSETS 20-60% SHARES	+9.20%	+8.57%	+ 5.10%	+ 0.32%	+12.11%
Income & Growth Portfolio Strategy	+ 13.43%	+ 11.84%	+ 7.44%	+ 1.64%	+13.35%
IA MIXED ASSETS 40-85% SHARES	+11.57%	+ 13.40%	+ 5.63%	+ 0.58%	+15.40%
Growth Portfolio Strategy	+10.89%	+ 15.58%	+ 6.21%	+ 3.31%	+16.15%
IA FLEXIBLE	+10.87%	+ 13.40%	+ 5.67%	-0.66%	+16.45%

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



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.