# INVESTMENT REVIEW

## BECKETT ASSET MANAGEMENT LTD

## Quarter 3 2017

The third quarter of 2017 was a positive one for risk assets, but saw dispersion in performance across regions with currency fluctuations again playing a part in the returns experienced by sterling based investors.

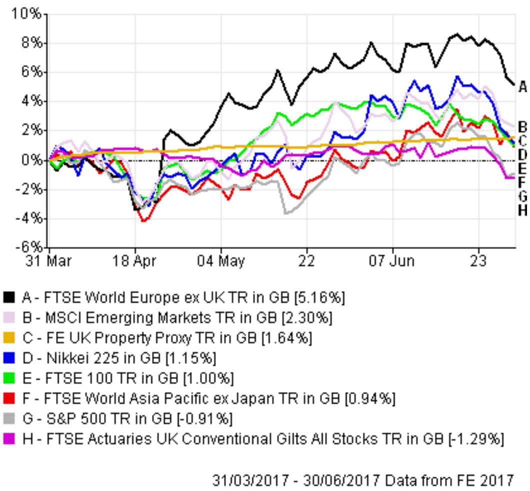
The quarter certainly saw some political posturing in the UK, with Boris Johnson appearing to distance himself from the cabinet with his views on Brexit. This rift within the Conservative Party is certainly not a welcome one at present, with PM May suffering a particularly challenging time given the difficulty in making progress in Brexit negotiations, along with surging Labour support. The Labour Party outlined their positon on a number of areas, including Private Finance Initiatives (PFIs), where they suggested they would extricate themselves from a wide range of these contracts and the government would take control. This had an immediate impact on some infrastructure asset markets along with equites of some companies which are heavily involved in these PFIs. However, our consultations with sector experts have given us comfort that our exposure in this area is well diversified, and that the likelihood of this happening broadly across the whole PFI market, and within a short time period, is limited.

Europe saw another election pass, this time in Germany, and broadly go the way of the established order. The far right AfD party managed to achieve third place, winning 93 seats in the process, which is the first seats the party has won in the Bundestag, but this is still some way behind Angela Merkel's alliance. Although Ms Merkel won comfortably, the spectre of so many seats in the Bundestag now occupied by a far right party has left a slightly bitter taste in the mouth for some. The markets again appeared to take this result in their stride and push on higher.

### BREXIT BATTLE IN THE CABINET

### EUROPEAN RECOVERY PUSHES ON

### FEDERAL RESERVE BEGINS THE BIG UNWIND




Figures shown are for a sterling denominated investor, for the 3 month period to 30/6/2017. Source: Financial Express Analytics

Our positive view on Europe, as represented by larger weights in our model strategies, has continued to be rewarded and the economic data in the region continues to improve. Most recently we have seen Eurozone manufacturing conditions surge to a six and a half year high, economic confidence in the region hit a ten year high, and Eurozone unemployment remaining at its lowest since 2009. This all continues to paint a picture of a robust and well-entrenched recovery which, we believe, sets the scene for attractive returns from risk assets in the region. However, we still believe it is important to be selective when investing in Europe as there are certainly still some areas of concern.

The Federal Reserve in the US left interest rates on hold in September but did state they would begin the process of unwinding monetary stimulus in October by $10bn per month. This is only a small amount given that the balance sheet of The Federal Reserve stands at $4.5 trillion, but it certainly further signals the intent of the US Central Bank to continue a path to monetary policy normalisation. In a rather candid speech, Ms Yellen stated that the Federal Reserve was not clear on the reasons why inflation in the US had not returned to target. An immediate reaction was seen in the markets with the US Dollar moving higher after a sustained period of weakness. The probability of a further rise in US interest rates in December increased and many commentators now suggest this is the most likely outcome from the December meeting.

Aside from monetary policy, the US narrowly avoided a government shutdown in September as Donald Trump reached a deal with the Democrats to pass an extension of the US debt limit until 15th December. This certainly did not please the Republican Party with House Speaker, Paul Ryan, suggesting that the three month extension would only lead to playing politics with the debt ceiling. This deal is clearly more 'kicking the can down the road' than it is rectifying the issue for the longer-term so we expect there to be more fraught negotiations and potential volatility as we approach this next deadline.

We continue to be mindful that risk assets have performed very well so far this year and, although we do not see a significant catalyst for a full reversal in this trend, we would not be surprised to see a bout of volatility between now and the end of the year. Valuations look full in some areas of the market but we still see significant opportunity in our favoured regions of Europe, Asia, and Emerging Markets. We believe that the current benign monetary policy environment and moderate level of global growth offers a landscape to achieve attractive returns from risk assets.

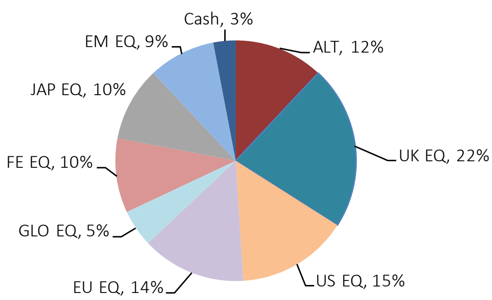
# BAM Portfolio Models' Investment Performance

| | 30/09/2012-30/09/2013 | 30/09/2013-30/09/2014 | 30/09/2014-30/09/2015 | 30/09/2015-30/09/2016 | 30/09/2016-30/09/2017 |
|---|---|---|---|---|---|
| Defensive Mixed Assets | + 7.34% | + 6.70% | + 2.92% | + 6.62% | + 3.72% |
| UK CONSUMER PRICE INDEX + 2% | + 4.74% | + 3.25% | + 1.90% | + 2.92% | + 4.55% |
| Defensive Balanced Mixed Assets | + 10.70% | + 7.14% | + 0.92% | + 9.16% | + 4.13% |
| Social Impact Portfolio | n/a | n/a | n/a | n/a | + 9.19% |
| IA MIXED ASSETS 20-60% SHARES | + 8.84% | + 4.85% | + 0.40% | + 12.08% | + 6.09% |
| Balanced Mixed Assets | + 12.44% | + 7.20% | + 1.69% | + 14.80% | + 8.35% |
| IA MIXED ASSETS 40-85% SHARES | + 13.94% | + 5.14% | + 0.53% | + 15.70% | + 8.86% |
| Focused Growth Mixed Assets | + 16.65% | + 5.35% | + 2.55% | + 18.07% | + 15.12% |
| IA FLEXIBLE | + 14.06% | + 5.15% | - 0.55% | + 16.34% | + 10.41% |

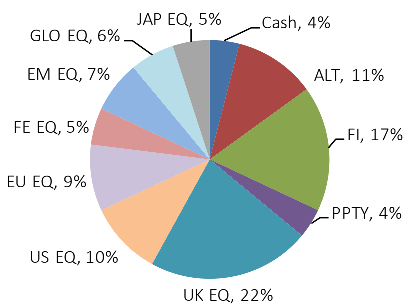
Notes: BAM figures take into account normal dealing costs but not Beckett fees.
Please note that the Defensive Mixed Assets model aims to outperform the stated benchmark over 36 month rolling periods.
Source: BAM portfolio performance figures: Beckett Asset Management.
Indices: FE Analytics- Total Return; IA: Investment Association
Overseas equity returns are for a sterling denominated investor.
PAST PERFORMANCE IS NO INDICATOR OF FUTURE PERFORMANCE

# Target Model Portfolio Structures

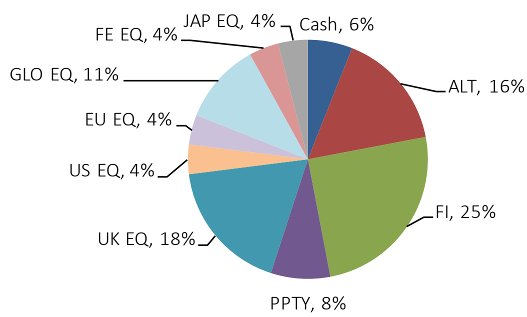
Focused Growth Mixed Assets



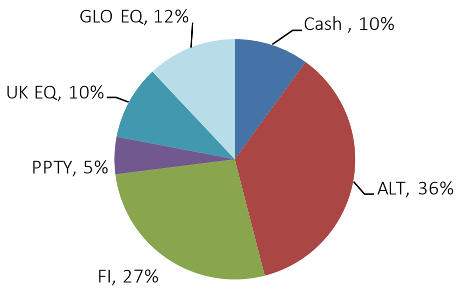

Balanced Mixed Assets



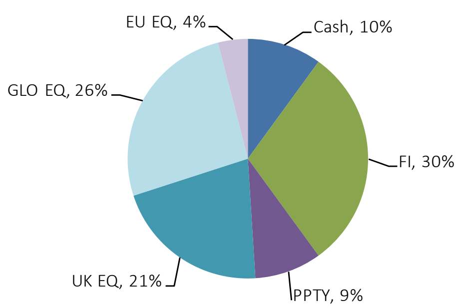

Defensive Balanced Mixed Assets




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 |
| US EQ | US Equities |
| GLO | Global Equities |
| ALT | Alternatives |

PLEASE NOTE THAT ASSET ALLOCATIONS MAY CHANGE OVER TIME

As is the very nature of investing, there are inherent risks and the value of your investment will both rise and fall over time. Please do not assume that past performance will repeat itself and you must be comfortable in the knowledge that you may receive less than you originally invested. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment. The opinions stated are those of Beckett Asset Management Ltd, which is authorised and regulated by the Financial Conduct Authority.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