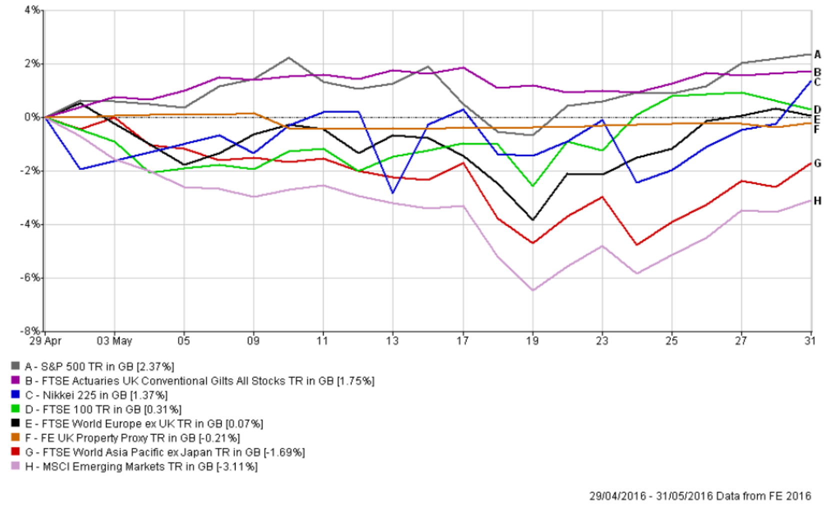
MARKET UPDATE

BECKETT ASSET MANAGEMENT

May 2016

May was another mixed month which continued the feeling of markets waiting for a catalyst to move one way or the other in any kind of consistent pattern. Events like the second US rate rise, Brexit and the US presidential election are all causing the markets to behave the way we saw over both April and May. Once everyone decided that earlier this year wasn't 2008 all over again, the markets rebounded from the lows and then have remained choppy ever since.

Brexit has been the word on everyone's lips for some time now and the depth of coverage and column inches dedicated to the topic is significant. With polls seeming to suggest the referendum is finely balanced, markets have not really known how to react. The bookmakers still seem to be more confident of a Remain result than the polls indicate but, as we saw from the General Election last year, polls aren't always to be relied upon! In terms of the portfolios, we are not positioning them strongly for one outcome or the other as we feel it is almost impossible to predict the will of the people in referenda or General Elections. The approach we have taken is to remain diversified at the asset class and the regional exposure level, which should provide some protection in the event of a negative market reaction to a Leave result. In addition to this, we have reviewed our market capitalisation split in our UK Equity holdings. This review was to ensure we had a skew towards large cap UK companies (FTSE 100), which should perform better relative to mid and small cap companies in the event of a Leave vote, but also had a reasonable allocation to mid and small cap companies to enable us to participate in any relief rally we see in markets if the Remain campaign win. It is important to remember that our investment portfolios are not immune from the movements of equity markets and will, to different degrees, be correlated with them. However, through diversification and the actions outlined above, we feel that the portfolios will be better insulated from the worst of any negative shocks in the event of a Leave vote but offer reasonable participation in any positive markets seen in the event of a Remain vote.

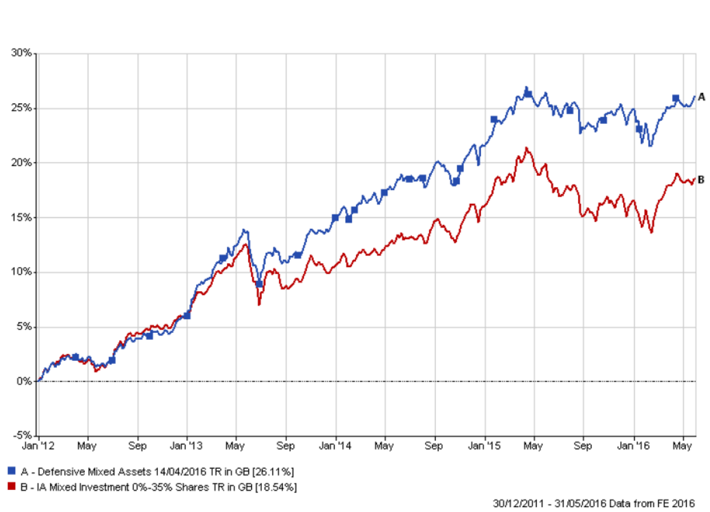


In the US we are fast approaching the June Federal Reserve (Fed) meeting, which has been prefaced by the members talking up prospects of a potential rate rise sooner rather than later. Driving this change in tone has been inflation in the US continuing its move towards the 2% target, the employment market remaining robust, wage growth coming through, the manufacturing sector moving into expansion after a period of contraction, a weakening of the US dollar and more stability from China and Emerging Markets over the last couple of months. This happy combination of factors has given the Fed a more positive outlook on the US economy and has led markets to now price in a higher chance of a June rate rise. The US is also only really at the start of a rather unusual and dramatic election cycle (despite feeling like it has been going on forever!). Donald Trump has become the Republican candidate and Hillary Clinton has now just been confirmed (as at 08.06.16) as the presumptive Democratic Presidential nominee. However, Bernie Sanders is yet to concede and has vowed to continue to battling for the blue side of the US political spectrum. Whilst at present markets have other things to focus on, this election will come into sharper focus as we get closer to voters heading to the ballot boxes, and particularly after the Brexit referendum is over.

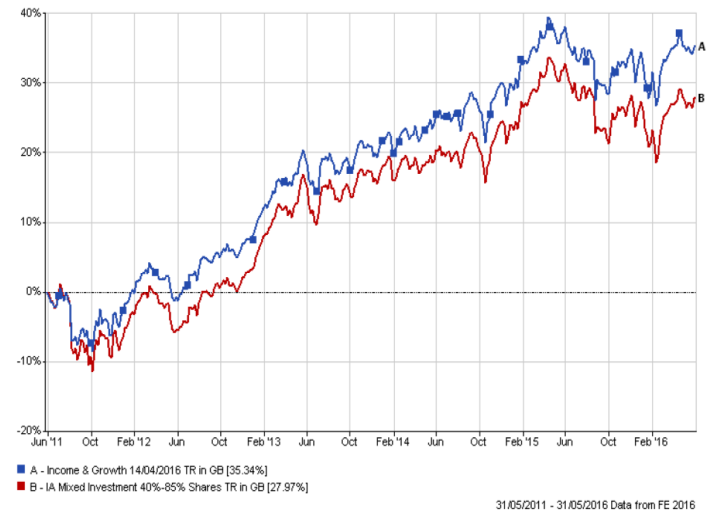
We expect more volatility ahead but feel that, after the Brexit referendum, the UK and European markets will likely be better able to sustain a directional trend. We would then look to make any necessary adjustments to portfolios based on any changes to our outlook. Although there are plenty of risks at present there is still opportunity. The global recovery is a plodding one rather than a rocket-propelled one, but it endures. We will continue to try and find the areas of opportunity and position the portfolios to try and best reflect them. Cautious optimism has been a familiar feeling over the last few months and it still seems the most appropriate way to sum up how we feel about the global outlook at present.

5 YEAR MODEL PERFORMANCE* VERSUS BENCHMARK

DEFENSIVE MIXED ASSETS MODEL

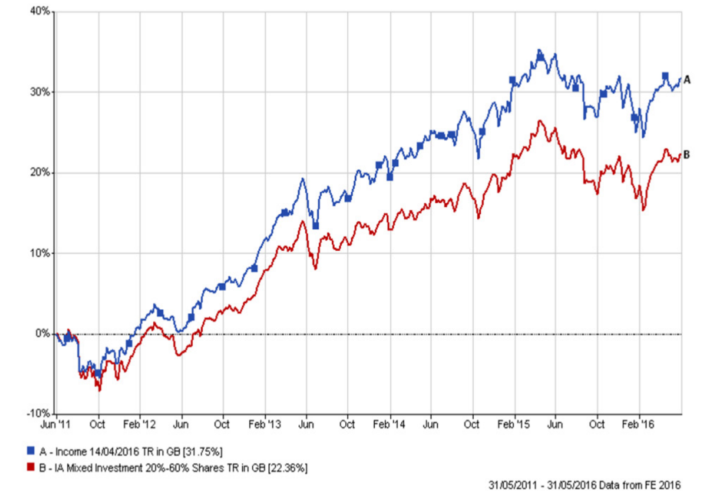


INCOME & GROWTH MODEL

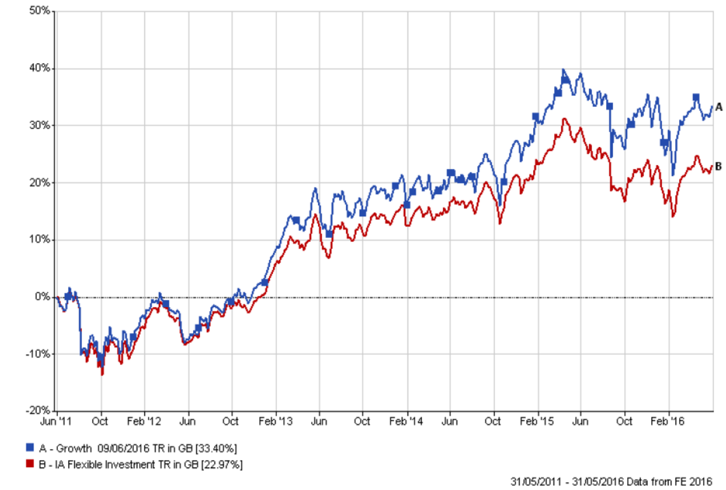


*DEFENSIVE MIXED ASSET MODEL PERFORMANCE SINCE INCEPTION AS NOT 5 YEARS OLD

INCOME MODEL



GROWTH MODEL



BAM figures take into account normal dealing costs BUT NOT BAM fees.

Source: FE Analytics – Total Return. IA: Investment Association