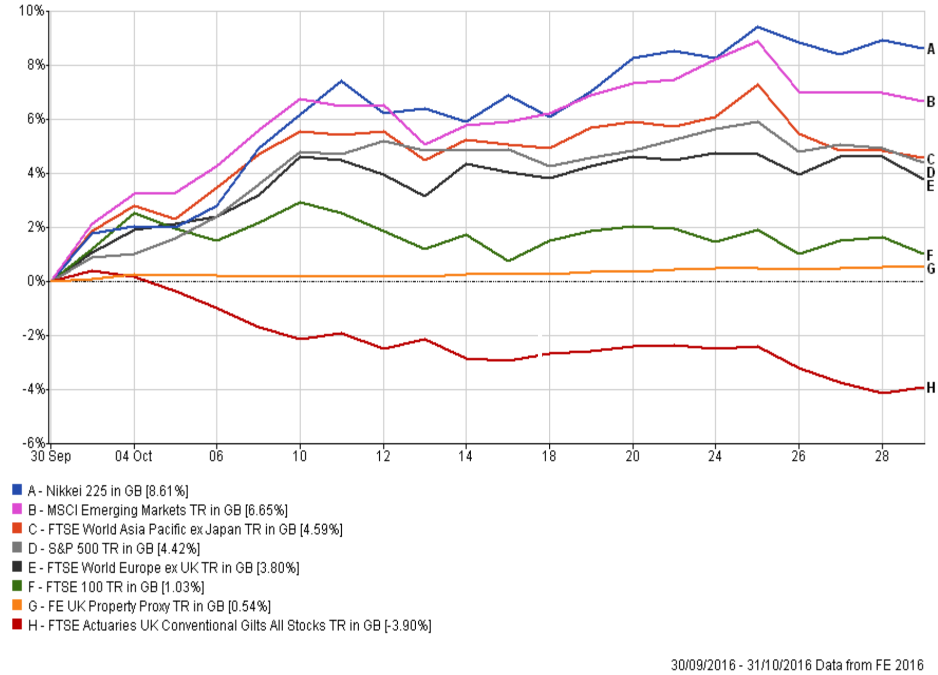
MARKET UPDATE

BECKETT ASSET MANAGEMENT

October 2016

Another eventful month draws to a close, which saw risk assets perform broadly positively but with a sell-off in global government bonds. Another period of sterling depreciation boosted the performance of overseas assets, as can be seen in the chart, but this did not follow through to the FTSE 100 as it has in past months, with the index suffering a rather lackluster month compared to what we have seen since the EU Referendum result. In Quarter 3 we trimmed back some of our UK equity exposure into market strength and repositioned more globally, which provided a tailwind to portfolio performance.

Property appears to have broadly gotten back on track again, with many of the open-ended property funds which closed due to liquidity concerns in the wake of the EU Referendum result either reopening or announcing a date they will reopen. This is a positive step for an asset class which has taken up many column inches in recent times. We remain broadly neutral on the asset class and believe that the implications of the EU referendum result will take some time to manifest fully. Our expectation is that London will be most impacted, likely hardest in the Office sector. However, we have been active in selecting managers whom we feel are positioned to avoid the worst of any Referendum impacts and benefit from the attractive yields still on offer in the right sectors and regions.



The sell-off in the bond market was due to a number of factors depending on the region. For example, in the UK the sell-off in Gilts coincided with Theresa May's announcement that she will trigger Article 50 early next year and the commentary coming from the Government which suggested that a so-called 'Hard Brexit' was becoming ever more likely. The market also did not seem to appreciate some of the speculation surrounding the future of the Bank of England Governor, Mark Carney. The market does not tend to appreciate uncertainty and I think it is fair to say that the last thing markets want at present is a change at the helm of the Bank of England. In the US, the increasing likelihood that the US Federal Reserve will look to raise rates in December this year has driven bond yields to rise. We have seen in recent years that central bankers are increasingly cognisant of what markets are doing and as such the US election result could alter the Fed's decision in December if we do see some market turmoil. One thing that all developed government bonds had in common before the sell-off, and even now in our view, is that they were expensive. This is why we maintained an underweight position to the asset class relative to peers, which provided a boost to portfolio performance.

CONTINUED OVERLEAF

As mentioned above, the US Election is drawing ever closer and it appears that every time Hillary Clinton looks like she has vanquished Donald Trump he appears to come back again. We saw at the end of October that the Clinton email scandal appears to be back, with the FBI announcing that they have found more emails they are reviewing. Although the popular vote appears close, the electoral college voting system may well save Mrs Clinton and see her take a seat in the Oval Office. However, we saw with the EU Referendum that polls can be wrong and we remain cautious as markets seem to have priced in an almost zero percent chance of Mr Trump winning the election. You can be certain that the theatre and drama will continue up until those final votes are counted but it is important to note that markets often overreact. Therefore, much like the period after the EU Referendum result, we will review the situation after the result and establish whether the outcome changes our medium to long-term outlook and take appropriate action – as usual, do not expect to see kneejerk reactions in the portfolios.

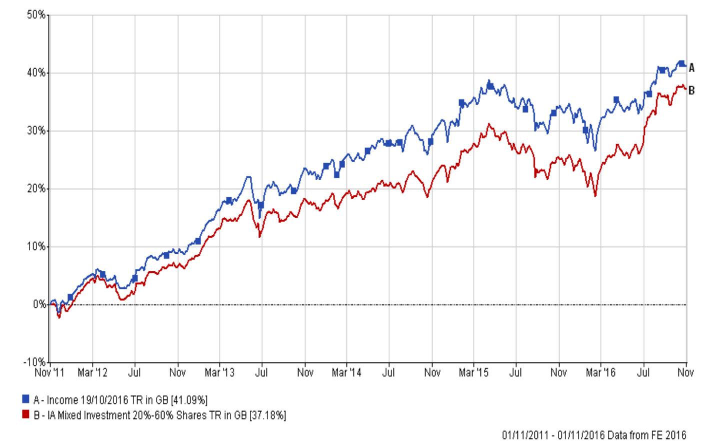
5 YEAR MODEL PERFORMANCE* VERSUS BENCHMARK

DEFENSIVE MIXED ASSETS MODEL

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

INCOME & GROWTH MODEL

INCOME MODEL



GROWTH MODEL

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

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