INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 4 2016

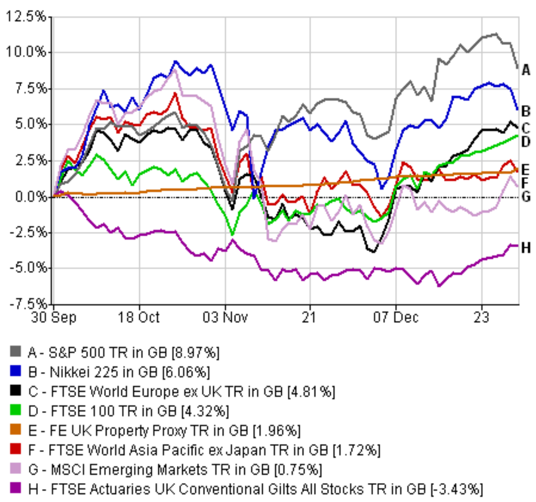
The final quarter of 2016 certainly kept up the theme of unexpected political results with the election of Donald Trump as the 45th President of the United States of America. The result caused a bout of panic in the markets in the early hours of the morning until Mr Trump's speech after Hillary Clinton conceded. Mr Trump's more conciliatory and, dare we say, mature tone compared to some of his campaign rhetoric, soothed market nerves with investors then pivoting to focus on expectations of significant fiscal stimuli. This expectation of tax cuts and infrastructure spend also worked to markedly increase inflation expectations in the US. Bond yields responded to this by rising sharply (prices falling) as high inflation is typically a negative for fixed income. The US Federal Reserve reacted to continued robust US economic data by increasing the Fed Funds rate (base rate) by another 0.25%. The Fed also increased the number of rate increases they expected to undertake in 2017 but we would caution that rate rise expectations notoriously fluctuate frequently – the Fed stated at the end of 2015 that they expected four rate hikes in 2016 but then only delivered one. The continued strengthening of the US Dollar could provide a headwind to the US economy, but small and mid-cap companies could see benefit from the potential fiscal stimulus without having as high a sensitivity to a strengthening of the US Dollar – this is an area we are currently looking at for portfolios.

In October, Theresa May announced that she would be looking to trigger Article 50 and begin the process of extricating the UK from the EU by the end of March 2017. It has been Sterling which has borne the brunt of the market reaction and nervousness since the referendum result and this latest news did not buck the trend as it was met by another bout of weakness in Sterling against most developed market currencies. Since the Prime Minister made this announcement we have seen a legal challenge which is now with the Supreme Court, along with a narrative which has oscillated between the newly coined terms of "hard" and "soft" Brexit, with MPs tussling in the Commons and campaign groups from each side continuing to push their agendas. We continue to have concerns that short and medium-term returns in UK assets may be volatile and hang on every word of progress in what will be a complicated negotiation process – property was patient zero for this but has since stabilised. For this reason we continue to favour more global exposure and have been trimming our UK equity allocations into market strength along with looking to reposition some into more specialised areas.

US ELECTION TRUMPS BREXIT SHOCK

CAUGHT BETWEEN A "HARD" AND "SOFT" BREXIT

EUROPEAN ELECTIONS NOW IN FOCUS



Figures shown are for a sterling denominated investor, for the 3 month period to 30/12/2016.
Source: Financial Express Analytics

The much anticipated Italian referendum also took place in early December with polls calling it right on this occasion, showing for some time that Mr Renzi would lose. Many commentators suggested that Mr Renzi's mistake was his commitment that he would resign if his proposal was voted down. The interesting part of the referendum was not the result itself but the fact that investors appeared to largely shrug the event off with little to no reaction seen in markets. For now, another technocrat will be in power but the long-term future for Italy remains unclear, with the sticking plaster of bank recapitalisation deals only able to last so long and the undercurrent of populism bubbling to the surface.

We are due to see elections in France, Germany and The Netherlands in 2017. German Chancellor, Angela Merkel, appears to have pivoted slightly on the issue of accepting refugees, which has gone some way to assuaging the dissenting voices of the right in the country. Therefore, the election most keenly in focus is the French election in the Spring. Marine Le Pen has garnered much support in the campaign thus far and is expected to reach the final run-off election, with her likely opponent being reformist and self-confessed Thatcherite, Francois Fillon, from the centre right. Although commentators suggest that the chances or Ms Le Pen winning are slim, we saw in 2016 that expectations do not always follow through to results. As such we will be keeping a close watch on developments in France as a Le Pen win could be the catalyst for significant change in the Eurozone.

For 2017 we are expecting more volatility driven by politics with Mr Trump's inauguration on the 20th January, the Brexit negotiations and European elections. However, there are still areas which provide attractive looking opportunities for investment, such as US small and midcap equities, infrastructure related investments, short-dated corporate bonds, and developed market value stocks. We are less confident about the prospects for government bonds, although retaining some exposure here is important to weather shorter-term bouts of equity volatility and provide risk mitigation for portfolios. We look at the year ahead with optimism but a healthy dose of caution.

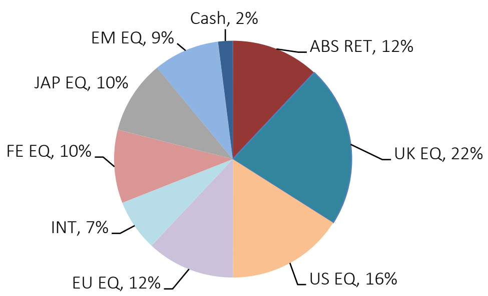
BAM Portfolio Models' Investment Performance

	31/12/2011 -31/12/2012	31/12/2012 -31/09/2013	31/12/2013 –31/12/2014	31/12/2014 -31/12/2015	31/12/2015 -31/12/2016
Defensive Mixed Assets Strategy	+6.00%	+ 8.53	+ 5.79%	+ 2.86%	+5.50%
IA MIXED ASSETS 0-35% SHARES	+ 6.22%	+ 4.20%	+ 4.84%	+ 0.38%	+8.47%
Income Portfolio Strategy	+9.41%	+11.79%	+6.13%	+2.13%	+5.62%
Social Impact Portfolio Strategy	n/a	n/a	n/a	n/a	+7.12%
IA MIXED ASSETS 20-60% SHARES	+8.35%	+8.85%	+4.85%	+1.21%	+10.32%
Income & Growth Portfolio Strategy	+10.39%	+13.21%	+6.89%	+1.64%	+11.17%
IA MIXED ASSETS 40-85% SHARES	+9.97%	+14.47%	+4.87%	+0.58%	+12.87%
Growth Portfolio Strategy	+10.19%	+16.52%	+6.20%	+3.81%	+12.53%
IA FLEXIBLE	+10.13%	+14.54%	+4.89%	+2.66%	+13.82%

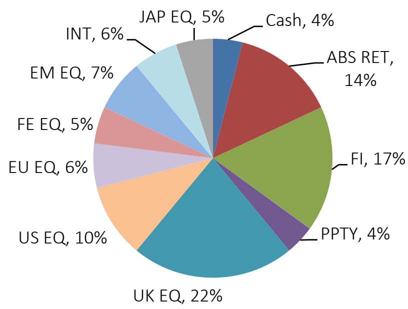
Notes: BAM figures take into account normal dealing costs but not Beckett fees.
Source: BAM portfolio performance figures: Beckett Asset Management.
Indices: FE Analytics- Total Return; IA: Investment Association
Overseas equity returns are for a sterling denominated investor.
PAST PERFORMANCE IS NO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

Target Model Portfolio Structures for Quarter 1 2017

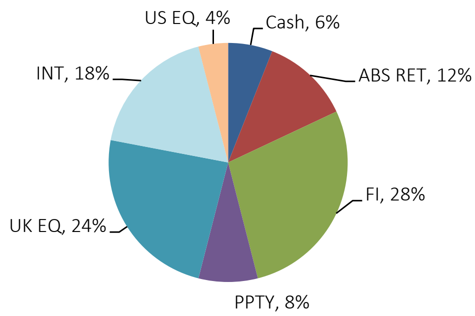
Growth



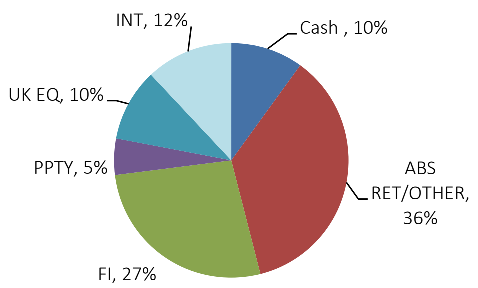
Income & Growth



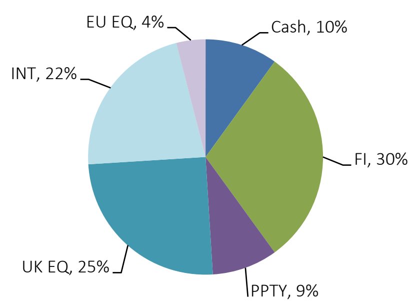
Income



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

BECKETT ASSET MANAGEMENT LIMITED
DETTINGEN HOUSE, DETTINGEN WAY, BURY ST EDMUNDS, SUFFOLK, IP33 3TU
T: 01284 754500 E: INFO@BECKETTINVEST.COM WWW.BECKETTINVEST.COM