INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 2 2017

The second quarter of 2017 saw a number of geopolitical events come and go, monetary policy changes and a softening of some economic data. However, risk assets continued to broadly push on with volatility heading lower. Typically, one would expect some of the political and monetary policy changes to worry markets more than they have, but these resilient markets have carried on regardless.

Prime Minister May is likely ruing the day that she called the snap General Election with the goal of achieving a much bigger majority and a mandate to proceed with her Brexit plans. The resulting hung Parliament left the Prime Minister in a much weaker position in the House of Commons and within her own party. This has added another layer of uncertainty to the Brexit negotiations and, by extension, the outlook for the UK economy.

Inflation has continued to tick up in the UK with wage growth remaining tepid. The members of the Monetary Policy Committee at the Bank of England surprised the market at their most recent meeting by voting 5-3 against a rate rise, much closer than expected, reflecting inflation concerns. However, Mark Carney and the other members who voted no change were happy to look through this inflation as transitory and linked to the depreciation of Sterling, but would be watching business investment as a signal that inflation may become more entrenched. Negative real wage growth and the fact that credit card debt markedly increased after the Brexit vote, along with a fall in the savings rate could be a toxic mix for consumers who have been the bright spot and driving force keeping the UK economy stable in the face of waning business investment. We reduced our exposure to UK equities and Property at the end of last year and earlier this year across models. We remain watchful but believe we are appropriately positioned for now.

After the French Presidential Election came the French Legislative Election which saw Mr Macron's party gain a substantial majority, setting the scene for him to begin work on delivering his objectives and reviving the fortunes of France. These results have also gone a long way to quashing the thoughts of France leaving the Euro-zone for now. The German elections are ahead of us but Ms Merkel is the favourite based on the polls at present but the next closest opponent, Martin Schultz, is an even bigger Europhile than Ms Merkel. Therefore, the risk of a more populist anti-EU party gaining power and significant influence is very slim indeed. The Italian election is more of a concern given the continuing popularity of the anti-EU Five Star Movement. However, polls currently suggest they would fall short of an outright majority by some way, and any party with which they looked to form a coalition would be unlikely to support leaving the Eurozone. Europe is one of our favoured regions at present with the political backdrop having eased and the recovery looking entrenched but still in the earlier stages relative to other developed countries.

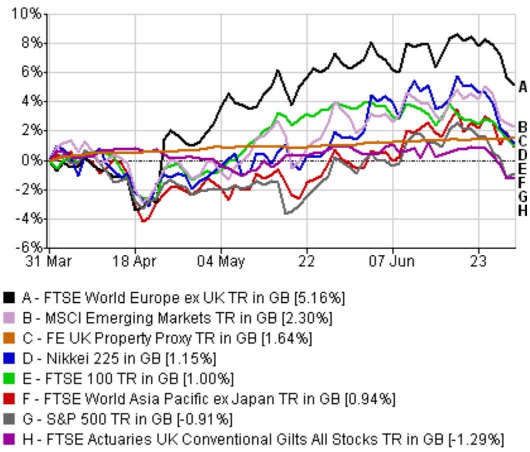
In June the Federal Reserve took the decision to increase interest rates in the US again, taking the Fed Funds Rate to between 1% and 1.25%. The decision was taken in the face of a string of weaker inflation figures and some generally softer economic data from the US. Janet Yellen stated that they would continue to watch the inflation numbers closely and suggested that they do expect inflation to return to target. The probability of another rate rise at the Fed's September meeting appears to be reasonably low at present. Our positivity for the US has waned a little in the face of softer economic data but also the concern that Trump is not able to deliver the expected reforms and deregulation ahead of the mid-term elections next year. If the Democrats won the House from the Republicans this would likely trigger political gridlock for the remainder of Donald Trump's presidency.

Overall we are cognisant that markets have increased meaningfully this year with very few signs of volatility. Valuations are looking richer but we are seeing reasonable earnings coming through which, in tandem with the continuation of low rates, work to offer some justification for current valuations. We would not be surprised to see volatility increase and a market correction at some point this year but believe that, in the absence of some fundamental change which alters our outlook for global growth, any increase in volatility and market correction would present us with attractive buying opportunities in certain areas.

UK ELECTION RESULT WEAKENS PM MAY

EUROPEAN POLITICAL RISK SUBSIDES

FEDERAL RESERVE HIKES US RATES AGAIN



31/03/2017 - 30/06/2017 Data from FE 2017

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

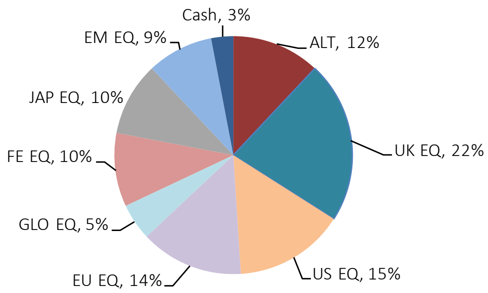
BAM Portfolio Models' Investment Performance

	30/06/2012-30/06/2013	30/06/2013-30/06/2014	30/06/2014-30/06/2015	30/06/2015-30/06/2016	30/06/2016-30/06/2017
Defensive Mixed Assets	+ 7.85%	+ 7.81%	+ 4.86%	+ 0.95%	+ 7.79%
UK CONSUMER PRICE INDEX + 2%	+ 4.98%	+ 3.97%	+ 2.01%	+ 2.41%	+ 4.56%
Defensive Balanced Mixed Assets	+ 11.96%	+ 9.17%	+ 4.73%	+ 1.33%	+ 8.14%
Social Impact Portfolio	n/a	n/a	n/a	n/a	+ 15.52%
IA MIXED ASSETS 20-60% SHARES	+ 10.06%	+ 7.06%	+ 4.72%	+ 1.87%	+ 11.86%
Balanced Mixed Assets	+ 14.03%	+ 8.83%	+ 6.82%	+ 3.39%	+ 14.16%
IA MIXED ASSETS 40-85% SHARES	+ 15.02%	+ 8.17%	+ 6.82%	+ 1.89%	+ 16.14%
Focused Growth Mixed Assets	+ 18.86%	+ 7.18%	+ 10.71%	+ 0.95%	+ 21.99%
IA FLEXIBLE	+ 15.27%	+ 7.83%	+ 7.00%	+ 1.23%	+ 17.91%

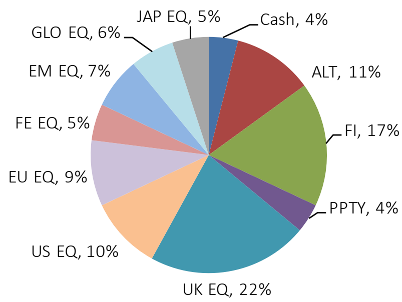
Notes: BAM figures take into account normal dealing costs but not Beckett fees.
Please note that the Defensive Mixed Assets model aims to outperform the stated benchmark over 36 month rolling periods.
Source: BAM portfolio performance figures: Beckett Asset Management.
Indices: FE Analytics- Total Return;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

Target Model Portfolio Structures

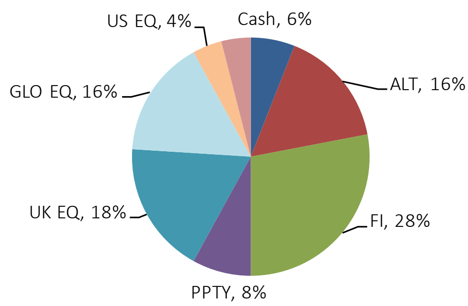
Focused Growth Mixed Assets



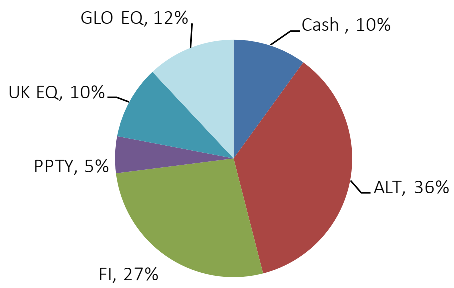
Balanced Mixed Assets



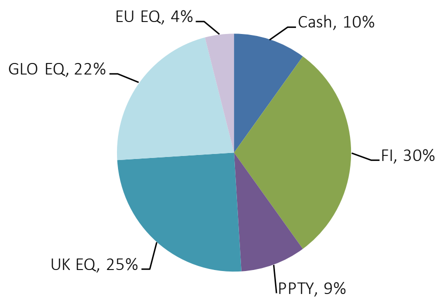
Defensive Balanced Mixed Assets



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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