MARKET UPDATE

August 2017

MARKETS APPEARING TO IGNORE GEOPOLITICS

August was another very strong month for risk assets in general, which were again led by Emerging Markets and Asia. The current overweight positions to Asia and Emerging Markets across our higher risk models certainly continue to be a key driver of performance year to date, with August being no exception.

ESCALATION IN NORTH KOREA

Despite the apparent escalation of the situation in the Korean peninsula, equity markets have seemed to just push on regardless. The latest actions have included missile launches and, most recently, the testing of a hydrogen bomb. Many experts suggest this continued sabre rattling will not result in a military conflict. However, President Trump has shown that he is certainly not averse to making inflammatory statements, which have definitely not served to cool tensions between North Korea and the US. Ultimately it is impossible to invest on a 'what if' basis when it comes to armed conflict and therefore we will continue to focus on data and tangible evidence to drive our investment decision making.

US STILL LOOKING ROBUST

The US did see a cooling in their jobs data in August as they printed lower than expected job growth along with a slight tick up in the unemployment rate. However, put into context with the rest of the data from the US and it still appears to be a robust, albeit later cycle, economy with few signs thus far of overheating. The pictures of the impact of Hurricane Harvey on Houston certainly were shocking and our thoughts are with all those effected by this historic storm.

FULL STEAM AHEAD IN EUROPE

The European economy continues to go from strength to strength at the moment with Italy now seeming to join the party after printing strong PMI manufacturing numbers in August. Inflation has continued to tick up in the region, albeit from a low base, and despite talk of QE tapering, monetary policy remains very accommodative. Along with a string of positive industrial numbers, European consumer confidence has how reached a new pre-crisis high and ratings agencies are upgrading forecasts for the region. The only fly in the ointment is potentially the strength of the Euro, which has continued on its path of significant strength against both the US Dollar and Sterling. However, our views on Europe are more predicated on a recovery of domestic demand than on exports and therefore are less concerned about the impact of a strong currency on our portfolio holdings. It is also worth noting that the vast majority of our European equity exposure is not hedged back to Sterling and therefore as the Euro appreciates, the portfolios continue to benefit from holding Euro denominated assets.

UK ECONOMY DETERIORATING

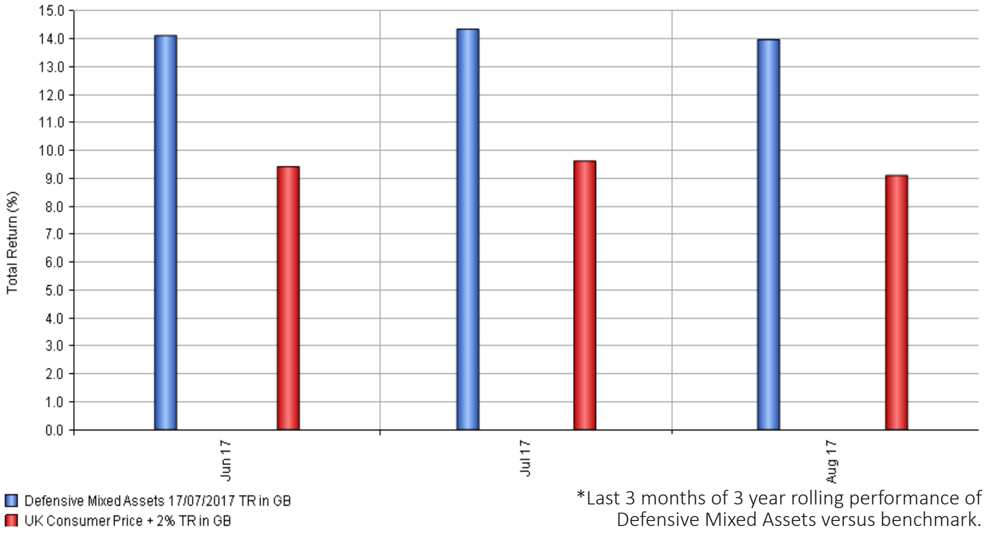
Some of the Brexit fears appear to be beginning to manifest in some corners of UK economic data with UK retailers posting the worst month since the Brexit vote according to the CBI survey. Official data also showed a decline in household consumption which was worse than expected. The CBI commented that retail sales cooled due to higher inflation beginning to bite, and that sentiment continued to worsen. They also highlighted that firms do expect sales to recover over time, but the pressure on household budgets will continue. In addition to this, GDP growth for Q2 was confirmed at 0.3%, which was a marked slowdown from last year, along with productivity falling for the second quarter running. With the Brexit negotiations appearing to make little progress thus far, inflation continuing to pressure the consumer, and deteriorating economic data, the UK economy remains firmly on our worry list. As we have noted in previous market updates, we reduced our exposure to UK equities last year by a significant amount in favour of other regions. We remain poised to make further changes should the situation warrant action.

SOCIAL IMPACT MODEL

PERFORMANCE SINCE INCEPTION IN 2016

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL



*Last 3 months of 3 year rolling performance of Defensive Mixed Assets versus benchmark.

DEFENSIVE BALANCED MIXED ASSETS MODEL

BALANCED MIXED ASSETS MODEL

FOCUSED GROWTH MIXED ASSETS MODEL

BAM figures take into account normal dealing costs but not Beckett fees. Source: FE Analytics – Total Return. IA: Investment Association