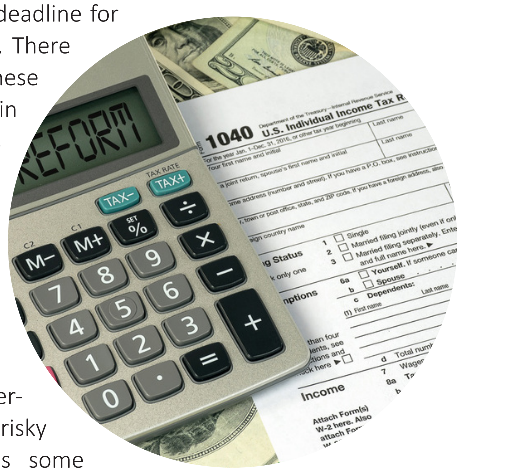
INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 4 2017

Despite all the political noise, 2017 will go down as a record breaker, with numerous equity indices achieving all-time highs. Investors who were prepared to take risk were rewarded as volatility was surprisingly low. Although political worries did not materialise in 2017 - Trump did not start a trade war on his first day in office, Brexit rumbled on and those looking to break up the EU failed to gain a mandate - there is no guarantee that this benign outcome will be repeated: Germany still needs to agree their coalition, there is serious nationalist tension in Catalonia, as well as Italian elections in March. As we look a bit further out to October, we have the deadline for the UK-EU agreement on the Brexit deal followed by mid-term elections in the US in November. There is a relationship between the popularity of the president and the performance of their party in these elections which will see 33 Senate and all 435 House seats contested. The Democrats need to win 24 seats to take control of the House which is plausible. The president's party nearly always loses seats in the mid-terms and, on President Trump's current ratings, the Republicans could take a beating. There is time for Trump's approval rating to rise, but if the Republicans lose control of the House we would likely be back to gridlock in Washington. Trump finally got one of his election wishes granted, though, as the Tax Reform Bill was passed by both houses and became law. The key provisions include a lower corporate tax rate of 21%, down from 35%, bringing the US broadly into line with the average rate in the developed world and lower rates on individuals.

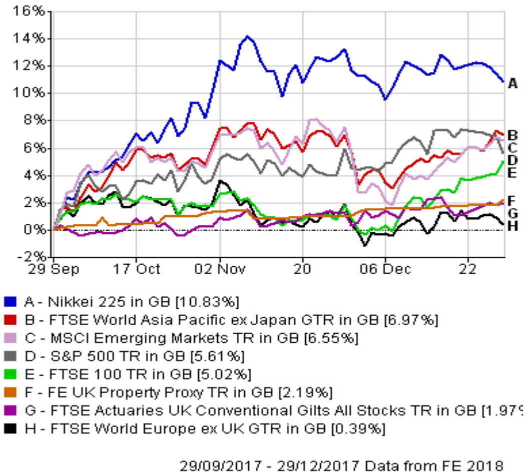


While it was a great year overall for emerging markets, as well as another strong quarter for sterling investors (which our more risky strategies benefited from), there was some considerable divergence between country indices. At one end of the scale, MSCI China had an incredible year, significantly outperforming MSCI World; while at the other, Russia has been one of the most disappointing. In 2018 the prospects for India should improve as the drag created by the goods and sales tax reform and the demonetisation programme fade.

RECORD BREAKING 2017

TRUMP TAX REFORM MADE LAW

A "GOLDILOCKS" START TO 2018



Figures shown are for a sterling denominated investor, for the 3 month period to 29/12/17 .
Source: Financial Express Analytics

Turning to Property, 2017 ended up being a decent year and capital flows certainly look set to remain positive with both international and UK investors (Pension Funds, Institutions, Corporate, Charities) seemingly keen to increase their exposure to real assets. With this in mind, there is potential for some yield compression, although forecasts are for a predominately income-driven return for 2018. BMO Real Estate Partner forecasts are for c5% total returns. However, there is wide variation between sectors and locations and this will determine the fortunes of individual assets over the coming years. Development activity is set to remain muted, largely as a result of Brexit-related uncertainty and borrowing remains low by historic standards.

2018 starts with a favourable investment environment and economic backdrop with steady growth and low inflation which is often called a "Goldilocks" scenario - not too hot or not too cold. Will this fairy-tale have a happy ending? We remain vigilant on recession triggers, especially as we expect overall levels of central bank liquidity to slow and then start to contract. Plus, if inflation does tick up, interest rates might move further than expected and the Fed could raise rates four times in 2018 - not the three times the market is expecting. The outcome is not certain but it is likely to be some modest upward pressure on bond yields and, therefore, the potential for asset repricing at a higher risk free rate, leading to more difficult and volatile markets. Despite this being a long and protracted cycle, the conditions for an imminent 'hard landing' have not been met. The consumer is becoming more indebted but financial conditions remain friendly, rates are still accommodative and the banking system is very well capitalised and diversified. The coordinated global recovery means markets are perhaps able to better withstand shocks and this cycle could end with a whimper rather than a bang with portfolios positioned, in the context of their risk profile, to be able to continue to make progress in the meantime.

BAM Portfolio Models' Investment Performance

	31/12/2012-31/12/2013	31/12/2013-31/12/2014	31/12/2014-31/12/2015	31/12/2015 – 31/12/2016	31/12/2016-31/12/2017
Defensive Mixed Assets	+7.57%	+5.90%	+2.80%	+5.58%	4.36%*
UK CONSUMER PRICE INDEX + 2%	+4.08%	+2.52%	+2.20%	+3.63%	4.53%*
Defensive Balanced Mixed Assets	+11.79%	+6.13%	+2.13%	+5.62%	+6.24%
Social Impact Portfolio	n/a	n/a	n/a	+7.12%	+11.61%
IA MIXED ASSETS 20-60% SHARES	+8.85%	+4.85%	+1.21%	+10.32%	+7.16%
Balanced Mixed Assets	+13.21%	+6.89%	+3.81%	+11.18%	+9.75%
IA MIXED ASSETS 40-85% SHARES	+14.47%	+4.87%	+2.66%	+12.87%	+9.98%
Focused Growth Mixed Assets	+16.52%	+6.20%	+6.23%	+12.43%	+18.64%
IA FLEXIBLE	+14.54%	+4.89%	+1.21%	+13.82%	+11.19%

Notes: BAM figures take into account normal dealing costs BUT NOT BAM fees. Source: BAM portfolio performance figures: Beckett Asset Management. Indices: FE Analytics - Total Return

Please note that the Defensive Mixed Assets model aims to outperform the stated benchmark over 36 month rolling periods. *2017 DMA and CPI+2 performance to November inflation print, other periods to 15/12.

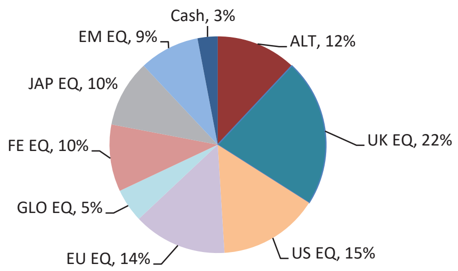
IA: Investment Association

OVERSEAS EQUITY RETURNS FOR A STERLING DENOMINATED INVESTOR

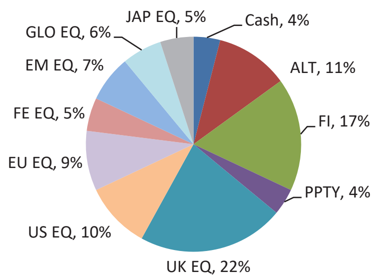
PAST PERFORMANCE IS NO INDICATOR OF FUTURE PERFORMANCE

Target Model Portfolio Structures

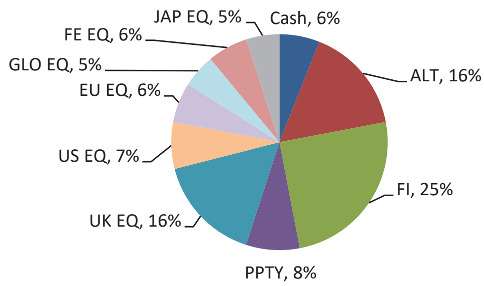
Focused Growth Mixed Assets



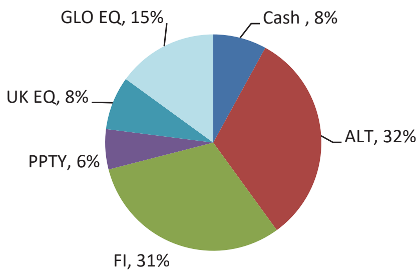
Balanced Mixed Assets



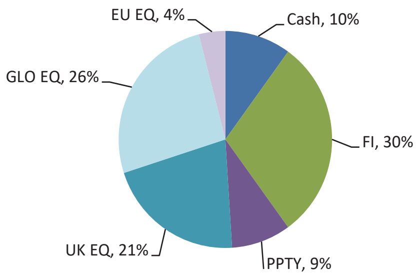
Defensive Balanced Mixed Assets



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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