INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 1 2018

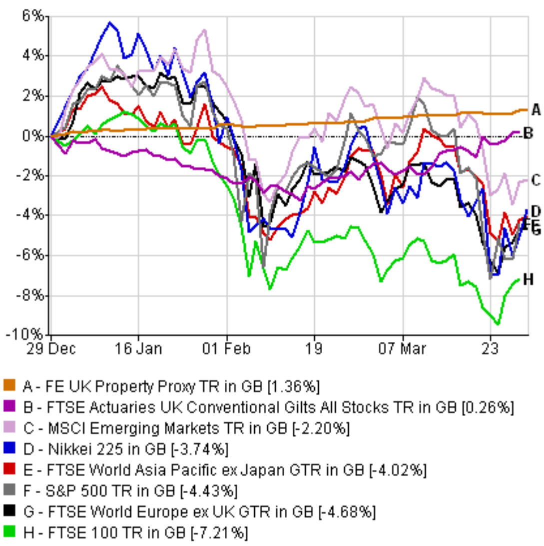
The sanguine environment we saw for risk assets in 2017, with very low volatility, appears to have come to an abrupt end. The first quarter of 2018 has seen a marked uptick in volatility in equity markets across the globe. The quarter began in much the same fashion as 2017 ended but concerns about inflation in the US, and the path of monetary policy normalisation, created concerns which led to a spike in volatility at the end of January and into February. This was exacerbated by the high profile collapse of some of the short (benefitting from the fall of an asset price) volatility instruments that some investors had used for years to generate returns from their expectations that volatility would continue to fall. These investors were burned severely as volatility picked up. One interesting factor in this bout of volatility was that it was not the market leaders of the last few years, such as the Technology stocks, that fell sharpest as one may expect, but some of the more traditionally 'defensive' sectors like Utilities. This nuance reflects that this first bout of volatility was sparked by concerns over monetary policy and how these 'defensive' sectors can be more sensitive to rate moves.

The market found a footing in February and it appeared for a short time like we were heading for more of the same as last year as Growth and Momentum names, such as the famous FANGS (Facebook, Amazon, Netflix and Google (Alphabet)), continued to push on higher. However, the Facebook/Cambridge Analytica controversy, and Donald Trump's tweets targeting Amazon, sparked further bouts of volatility. The latest drawdown in markets saw many Technology names most impacted as the concerns about the use of customer data and privacy have given investors something to worry about along with Donald Trump's very clear misgivings about Amazon.

THE RETURN OF VOLATILITY

TRUMP'S TRADE WARS

GOLDILOCKS ON THE MENU FOR THE THREE BEARS?



Figures shown are for a sterling denominated investor, for the 3 month period to 31/03/2018.
Source: Financial Express Analytics

We also saw later in the quarter Donald Trump's announcements of punitive tariffs on Steel and Aluminium and then on a number of Chinese products. Donald Trump's announcement of punitive trade tariffs had been one of the central concerns the market had when he won the US Election in 2016. During his campaign, he was very vocal about China and much of his rhetoric was protectionist in nature. However, in his first year in office, much of his focus appeared to be dedicated to other areas, such as Healthcare and Tax reform, which was positive for markets. His first announcements on Steel and Aluminium were therefore met with shock, particularly given that the countries most impacted would have been allies like Canada and Europe. President Trump then provided more detail that these allies would be excluded but that other tariffs, with a more specific focus on China, would be imposed. Ultimately, no one really wins in a trade war and it would be detrimental to global economic growth. With President Trump appearing to refocus on this topic again, we feel that this will be a source of ongoing volatility as the situation progresses and retaliatory tariffs are considered. We continue to watch these developments closely and hope that, for the good of the global economy and global markets, saner heads prevail and we avoid a fully-fledged trade war.

Closer to home, it is difficult to know "what's in the price" for UK assets which is why we still prefer a more global positioning across the portfolio strategies and this helped performance in Q1. A slew of Retailers, such as Carpetright and Card Factory, have already felt the pain, although we have seen some overseas companies making bids for UK listed firms including Sky and Shire.

Barring an outright trade war, the global economy remains robust and "Goldilocks" in nature with few signs of an imminent recession. However, we are likely to continue to see increased levels of volatility as the cycle matures. In this kind of environment, it does not mean that one should avoid risk altogether as equity markets should exhibit volatility - 2017 was a very abnormal year - but it does mean that selectivity and diversification is key. We believe that this kind of market is appropriate for active managers who can focus on areas where they see opportunity and avoid those areas they believe are more challenged. We remain focused on delivering attractive risk-adjusted returns but investors should expect to see more ups and downs in equity markets going forward from here - Goldilocks may be on the menu for the three bears!

BAM Portfolio Models' Investment Performance

	31/03/2013-31/03/2014	31/03/2014-31/03/2015	31/03/2015 -31/03/2016	31/03/2016 -31/03/2017	31/03/2017-31/03/2018
Defensive Mixed Assets	+5.82%	+7.23%	-1.70%	+9.27%	+1.52%
UK CONSUMER PRICE INDEX + 2%*	+3.77%	+1.99%	+2.32%	+4.35%	+4.80%
Defensive Balanced Mixed Assets	+ 6.45%	+ 8.75%	- 1.57%	+ 7.93%	+ 0.53%
Social Impact Portfolio	n/a	n/a	n/a	+ 11.37%	+ 5.01%
IA MIXED ASSETS 20-60% SHARES	+ 3.64%	+ 8.58%	- 2.46%	+ 12.90%	+ 0.83%
Balanced Mixed Assets	+ 6.34%	+ 11.33%	- 0.49%	+ 14.43%	+ 1.52%
IA MIXED ASSETS 40-85% SHARES	+ 5.63%	+ 10.63%	- 2.94%	+ 17.11%	+ 1.54%
Focused Growth Mixed Assets	+ 5.71%	+ 13.28%	- 2.22%	+ 20.02%	+ 9.11%
IA FLEXIBLE	+ 4.61%	+ 11.58%	- 4.28%	+ 19.06%	+ 2.36%

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. *DMA and CPI+2 data 12 months to the last available inflation print.

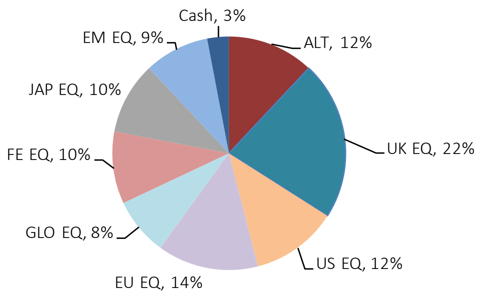
IA: Investment Association

OVERSEAS EQUITY RETURNS FOR A STERLING DENOMINATED INVESTOR

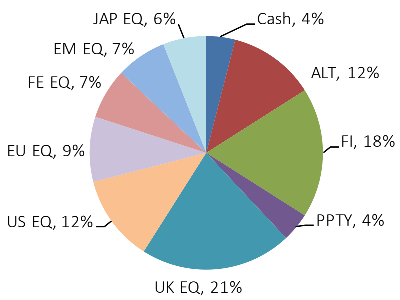
PAST PERFORMANCE IS NO INDICATOR OF FUTURE PERFORMANCE

Target Model Portfolio Structures

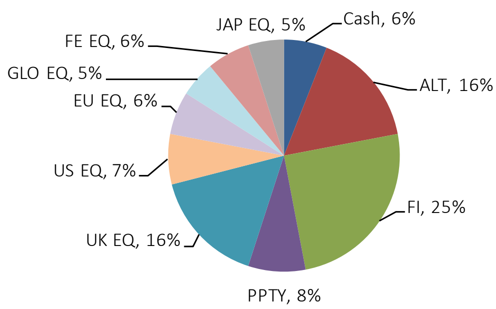
Focused Growth Mixed Assets



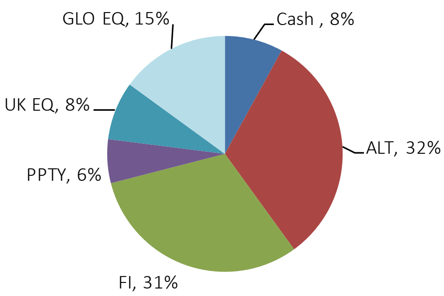
Balanced Mixed Assets



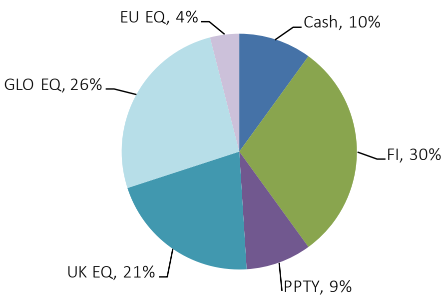
Defensive Balanced Mixed Assets



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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