INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 2 2018

The second quarter of 2018 was a better one for risk assets than the first quarter. We saw most equity markets make positive progress during the quarter after the volatility we saw at the beginning of the year calmed, but was certainly still present. Indeed, the positive moves we saw in equities in quarter two pushed year to date returns (in GBP) into positive territory for all developed equity markets aside from Europe, which has continued to struggle somewhat.

The US equity market, and many of those Growth and Momentum stocks such as Amazon, Netflix and Facebook, have continued to power ahead. However, just three stocks (Amazon, Microsoft and Apple) have accounted for around 70% of the 2018 returns from the S&P 500 index. This kind of environment can make it hard for active managers as, if the stocks are not owned, it can become almost impossible to outperform the benchmark. In our models, we tend to operate a core and satellite approach to US equities. Given this, we will have some exposure to Growth stocks and benefit from their rise in the core component of the model. However, in the US satellite part of the models we tend to prefer a Value approach as, with a three-year view, we continue to believe that many of the Growth stocks are more richly valued, and the historic underperformance of Value vs Growth should begin to normalise over that time horizon.

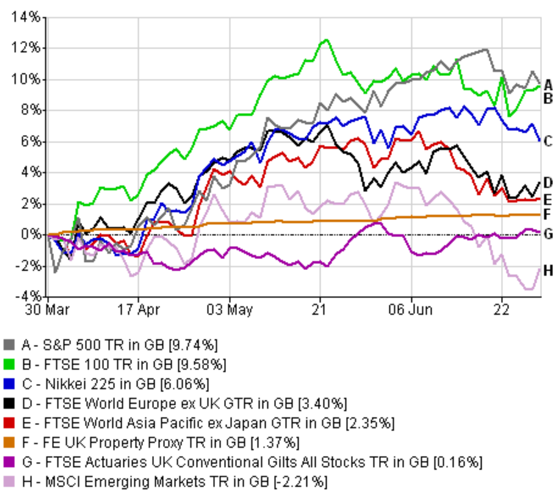
The trade war rhetoric calmed and then ramped up again during the course of the second quarter of 2018. It appeared that trade relations had calmed a little as attentions diverted to the historic summit between Donald Trump and Kim Jong Un. However, after the summit was over and the obligatory self-congratulatory tweets posted, Donald Trump's trade tariff gaze fell upon the EU who he labelled as "possibly as bad as China" and threatened a 20% tariff on EU car imports. The steel and aluminium tariffs continue to be a source of many of the current disagreements with the US, who initially made this move to target China, unwilling to provide any exemptions to ally nations, such as Mexico, Canada and the EU. This unwillingness to exempt these traditional allies has led to retaliatory tariffs from the EU, on items like motorcycles and bourbon. These tariffs have already begun to have an impact and not necessarily the kind of impact Donald Trump would have wanted, with Harley Davidson announcing that the tariffs means that they will be moving some production to outside of the US. This move prompted scorn from the President in his typical fast thumbed fashion on Twitter. These trade moves continue to be a source of volatility for markets and leave investors unsure of whether the landscape is shifting beneath us. We have stated before that a full-blown trade war is good for no one and this is a significant risk to both markets and the global economy. We continue to watch the situation closely and hope that de-escalation will ensue over the coming weeks and months.

Emerging Markets have been one of our highest conviction regions for equity exposure since early 2016. This view resulted in a material overweight in our portfolios, which has served us well over this period. However, the Emerging Market exposure has proved to be more of a headwind to performance so far this year as investors have withdrawn from the region due to the impact of the strengthening US Dollar, rising US rates, and the increased trade tensions. This is not a pleasant cocktail for Emerging Market investors and we have seen this in the returns of Emerging Market equities so far this year but, in particular, many Emerging Market currencies. However, we would stress that not all Emerging Market countries are alike and that, despite some of the aforementioned headwinds, there are countries that will fare better than others in this environment. Selectivity clearly remains key, but it is also important to note that valuations remain attractive relative to Developed Markets, and corporate earnings appear to be robust still. Our confidence in the region has been dented a little, but we continue to have enough conviction in the region to leave portfolio exposure to Emerging Markets unchanged. However, we continue to monitor developments closely.

FANGS BITE MANY ACTIVE MANAGERS

TRADE STILL A SOURCE OF VOLATILITY

EMERGING MARKETS FEEL THE PAIN



Figures shown are for a sterling denominated investor, for the 3 month period to 30/06/2018. Source: Financial Express Analytics

BAM Portfolio Models' Investment Performance

	30/06/2013-30/06/2014	30/06/2014-30/06/2015	30/06/2015-30/06/2016	30/06/2016-30/06/2017	30/06/2017-30/06/2018
Defensive Mixed Assets	+ 7.81%	+ 4.86%	+ 0.95%	+ 7.81%	+ 2.25%
UK CONSUMER PRICE INDEX + 2%	+ 3.97%	+ 2.01%	+ 2.41%	+ 4.73%	+ 4.29%
Defensive Balanced Mixed Assets	+ 9.17%	+ 4.73%	+ 1.33%	+ 8.17%	+ 2.61%
Social Impact Portfolio	n/a	n/a	n/a	+ 15.52%	+ 6.12%
IA MIXED ASSETS 20-60% SHARES	+ 7.06%	+ 4.72%	+ 1.87%	+ 11.86%	+ 2.44%
Balanced Mixed Assets	+ 8.83%	+ 6.82%	+ 3.39%	+ 14.13%	+ 3.84%
IA MIXED ASSETS 40-85% SHARES	+ 8.17%	+ 6.82%	+ 1.89%	+ 16.14%	+ 4.85%
Focused Growth Mixed Assets	+ 7.18%	+ 10.71%	+ 0.95%	+ 21.99%	+ 11.21%
IA FLEXIBLE	+ 7.83%	+ 7.00%	+ 1.23%	+ 17.91%	+ 5.04%

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.

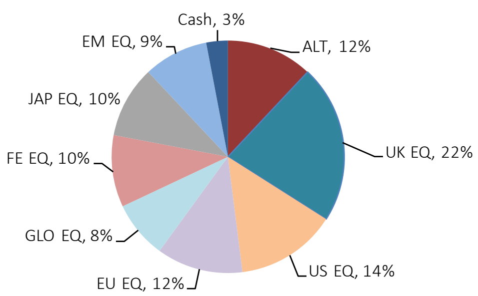
IA: Investment Association

OVERSEAS EQUITY RETURNS FOR A STERLING DENOMINATED INVESTOR

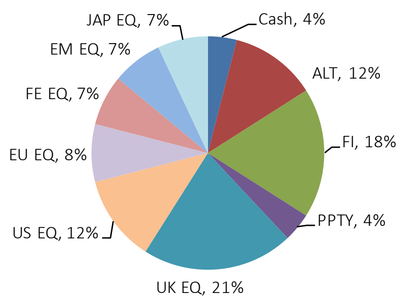
PAST PERFORMANCE IS NO INDICATOR OF FUTURE PERFORMANCE

Target Model Portfolio Structures

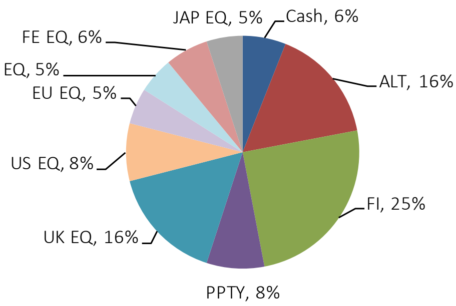
Focused Growth Mixed Assets



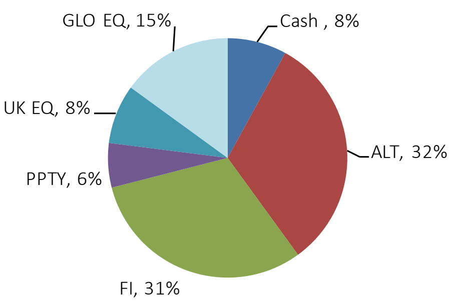
Balanced Mixed Assets



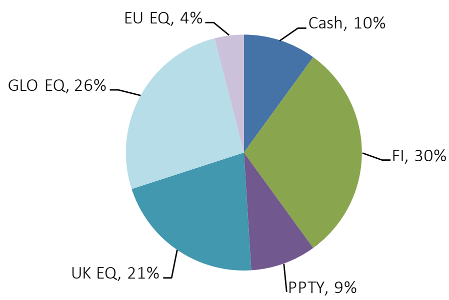
Defensive Balanced Mixed Assets



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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