Investec
Wealth & Investment

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Investment Report

30th December 2016

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Overview

Investment Objective

The investment strategy is to provide a reasonable income, which is growing, whilst maintaining the capital value in real terms. This is to be achieved through investing in a diversified portfolio of equities and property with bonds included to lower the overall risk. Alternative assets are also permitted but direct investment in derivatives is not permitted.

Benchmark

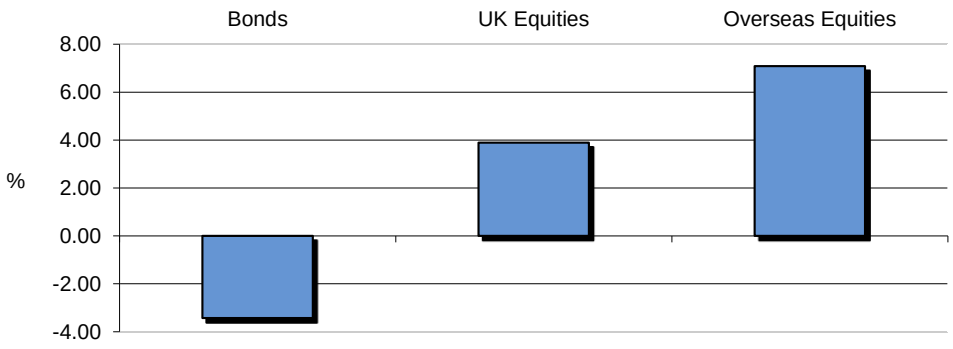
A customised benchmark is agreed of 23% Fixed Interest, 50% UK Equities, 20% Overseas, 5% Property and 2% Cash, whilst performance will also be measured against the underlying indices.

Valuation

Portfolio value as at:	**30th September 2016**	£815,961
Portfolio value as at:	**30th December 2016**	£836,188

	3 Months	12 Months
Time-Weighted Total Return	3.65%	13.88%
Benchmark Return	2.69%	16.84%

Market Returns



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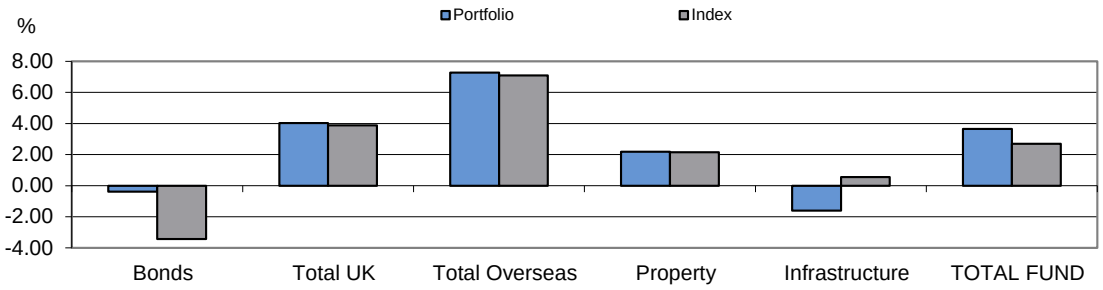
Quarterly Performance



- Somewhat surprisingly, given the Trump US election win, ongoing gyrations in the Brexit debate and the possible negative impact of rising US interest rates, equity markets were strong across the board last quarter. This benefited your portfolio which recorded a total return of 3.7% for the three months to 31st December 2016 which, in turn, contributed towards a total return for the year of 13.9% which was certainly better than expected.

- Overseas markets again led the pack although there was less of a tailwind from sterling weakness this time other than in the US where the prospect of, and then realisation of, rising interest rates supported the dollar. The laggard was Emerging Markets where this component was seen as negative both in terms of cost of debt and capital flows. Your overseas equities performed much in line with the World Index with slight underperformance in the Far Eastern holdings (defensive Schroder Asian Total Return) countered by a strong recovery in your two main Japanese funds.

- The UK market was driven higher along with other world markets in anticipation of Trump policies to focus decisively on economic growth, and was led by those sectors most benefitting and represented a switch from previous sector trends. In particular, the growth story propelled mining stocks still higher and financials were another major beneficiary. Against this, the more dependable growth stocks such as consumer staples, which had performed so strongly in previous years, witnessed profit-taking. Our chosen managers performed well amidst this rotation with M&G Recovery, Jupiter UK Special Situations and Old Mutual UK Alpha all outperforming strongly. Lindsell Train, which remains wedded to sectors such as consumer staples, and Invesco, to a lesser degree, lagged.

- Another notable impact of Mr Trump's growth expansion plans was the anticipation of rising global inflation. As well as underpinning the likelihood of steady increases in the US interest rate, in the UK this compounded expectations of price rises from sterling weakness. The result was another sharp fall in the price of UK bonds and, again, it is pleasing to report that you were largely immune from this because of our long-standing, short-dated bias and the inclusion of index-linked bonds.

- Commercial property made a small gain over the quarter as capital values increased marginally but the income then bolstered the overall return. Infrastructure was slightly weak, as the asset class witnessed profit-taking after several strong quarters, the premia upon which the sector has been trading having reduced over this period.

- In summary, 2016 resulted in a much higher than average overall return despite significant volatility in the months of January and June. Encouragingly since then relative returns have improved in each of the past two quarters.

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Performance: Period ending 30th December 2016

Asset Class	Value (£) 30-Sep-16	Money in/out	Value (£) 30-Dec-16	Weighting (%)	Total Return (%)	Index (%)
Conventional Gilts	31,766	0	31,333	3.75	-1.36	
Index-Linked Gilts	10,544	0	10,532	1.26	0.62	
Foreign Bonds	27,608	0	27,065	3.24	0.12	
Debentures	65,217	-5,000	58,816	7.03	-0.30	
Bonds	135,135	-5,000	127,746	15.28	-0.39	-3.43
Cash	21,946	4,044	25,990	3.11	-0.02	0.00
Total UK	392,361	-171	403,494	48.25	4.03	3.89
US	94,477	6,678	110,670	13.24	10.08	9.11
Europe	33,457	1	35,131	4.20	5.00	4.81
Japan	24,403	0	27,032	3.23	10.77	4.90
Far East	23,590	66	23,107	2.76	-1.17	1.72
Emerging Markets	13,128	-6,967	5,865	0.70	0.30	0.80
Total Overseas	189,055	-222	201,805	24.13	7.28	7.09
Property	47,815	0	48,217	5.77	2.18	2.16
Infrastructure	29,649	0	28,936	3.46	-1.60	0.56
TOTAL FUND	815,961	-1,349	836,188	100.00	3.65	2.69

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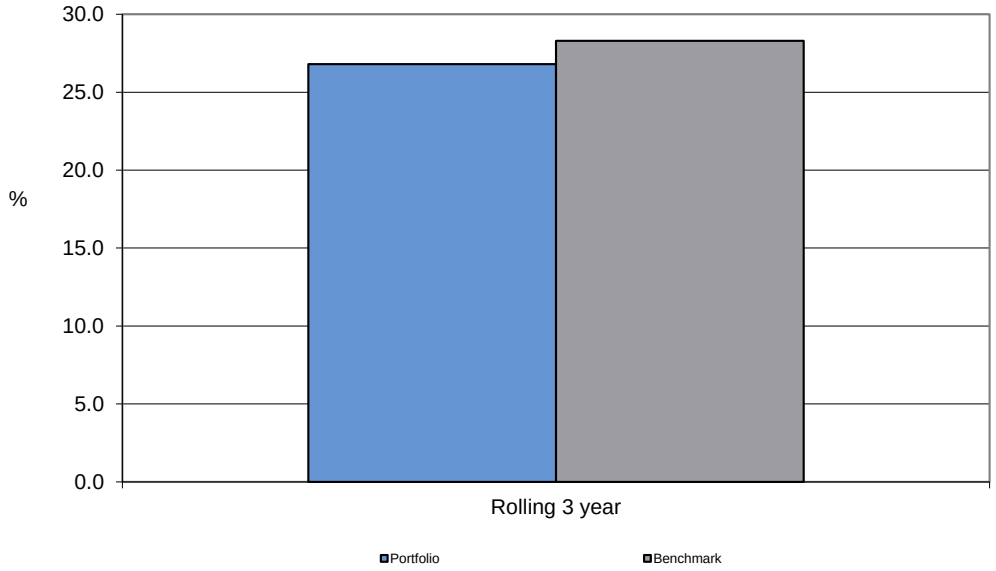
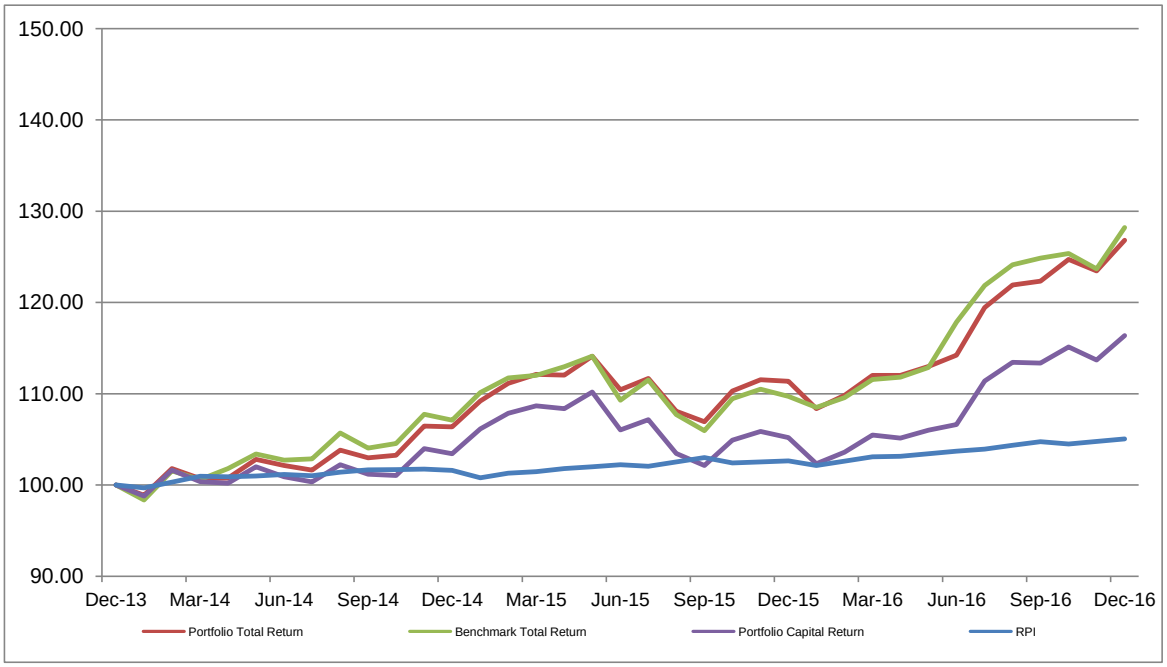
Long term performance



	Total Return (%) Rolling 3 year
Portfolio	26.8
Benchmark	28.3



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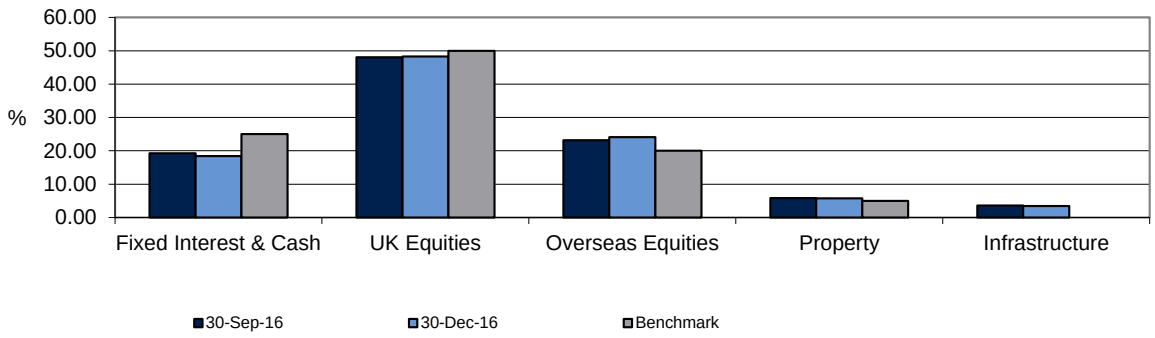
Allocation versus Benchmark



Strategic Decisions

- We have already mentioned the underweight position in bonds and it is unlikely that we will add to this asset class in the coming quarter. UK bond yields are often correlated to US yields and it is likely these will drift higher during 2017 as US interest rates are raised. Any uncertainty surrounding EU exit negotiations is likely to lead sterling lower, fuelling inflation concerns and putting similar upward pressure on yields (forcing prices down).

- Although we remain fully committed to equities, where the outlook is currently supported by the prospect of global monetary and (now also) fiscal stimulus, we have retained a bias in favour of overseas geographies. This reflects our view that markets such as the US (rising earnings expectations and strong currency) offer better potential relative to the UK where domestic companies are likely to remain under/come under pressure from Brexit uncertainty and currency-induced inflation increasing costs. We did, however, reduce exposure to Emerging Markets. Europe has some attractions in terms of an improving growth and earnings outlook, but the political landscape remains extremely uncertain as we enter 2017 and so it seems prudent to contain weightings at this time.

- Across the UK market, the core of your portfolio will remain focussed on quality, global companies where dividend progression is likely. Valuations are stretched in places so we have made changes to the mix of funds held. However, maintaining a good exposure to more resilient businesses should stand you in good stead to meet your objectives over time.

- Having reduced UK commercial property earlier in the year we have maintained the lower weighting and the infrastructure weighting is also unchanged. Both asset classes offer attractive income yields and diversification but there remain concerns that the London property market will struggle to make much headway while there is uncertainty about the future location of certain non-UK operations, especially in the City and this prevents us from being more optimistic.

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Asset Allocation: 30th December 2016

Asset Area		Value (£)	Weighting (%)	Benchmark (%)
Fixed Interest:	Conventional Gilts	31,333	3.75	
	Index-Linked Gilts	10,532	1.26	
	Foreign Bonds	27,065	3.24	
	Debentures	58,816	7.03	
			15.28	23.00
Cash:		25,990	3.11	2.00
			18.39	25.00
Equities:	UK	403,494	48.25	
			48.25	50.00
	Overseas			
	US	110,670	13.24	
	Europe	35,131	4.20	
	Japan	27,032	3.23	
	Far East	23,107	2.76	
	Emerging Markets	5,865	0.70	
			24.13	20.00
Property:		48,217	5.77	5.00
Infrastructure:		28,936	3.46	0.00
TOTAL FUND		836,188	100.00	100.00

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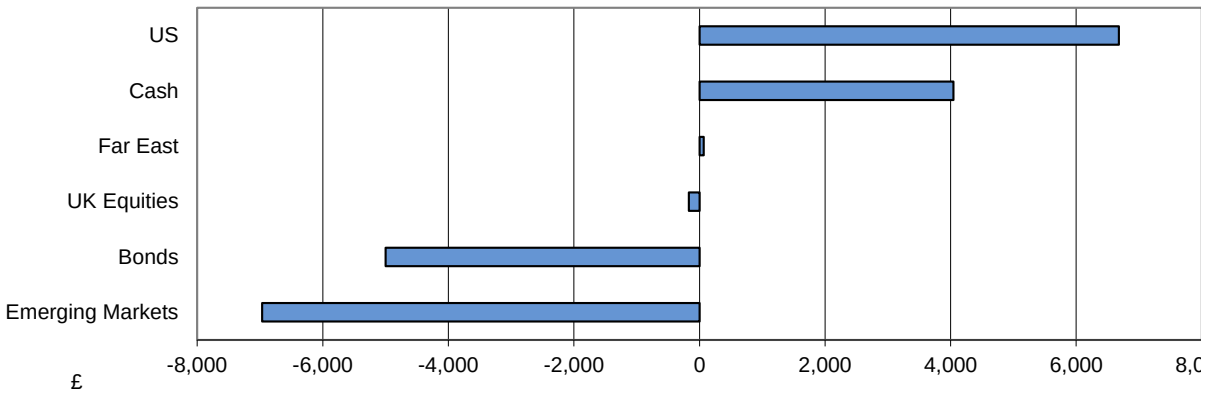
Transaction Summary



Transaction comment

- The rotation currently underway out of dependable growth stocks into more cyclical value stocks led us to reduce exposure to the Lindsell Train UK Equity Fund and add to the Jupiter UK Special Situations Fund. We do still like the Lindsell Train fund, which has performed very strongly in the past, but the unlikelihood that the manager will rotate in favour of value stocks (as the Jupiter manager has) means that a lower weighting is more appropriate for now, in our view.

- One of the ramifications of the proposed plans of the incoming US President is an increased likelihood that US interest rates will rise steadily during 2017 in response to the threat of higher inflation. This is likely to be negative for developing markets as the resulting rise in the US dollar will hurt those whose debt is denominated in that currency. We therefore took precautionary measures and reduced your exposure by selling First State Stewart Investors Global Emerging Markets investment trust after a strong rise earlier in the year. We inceased the weighting in the US via the Vanguard S&P 500 tracker fund.

- In fixed interest the Places For People 5% 2016 corporate bond redeemed at par.