Investec
Wealth & Investment

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Investment Report

29th December 2017

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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

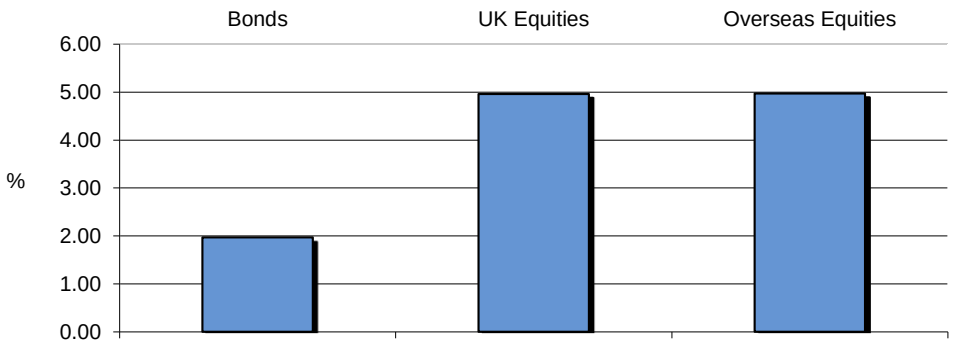
A customised benchmark is agreed of 23% Fixed Interest, 50% UK Equities, 20% Overseas, 5% Property and 2% Cash, whilst performance will also be measured against the underlying indices.

Valuation

			Money Out
Portfolio value as at:	**29th September 2017**	£841,672	-£50,000
Portfolio value as at:	**29th December 2017**	£806,220	

	3 Months	12 Months
Time-Weighted Total Return	3.00%	9.31%
Benchmark Return	4.09%	10.16%

Market Returns



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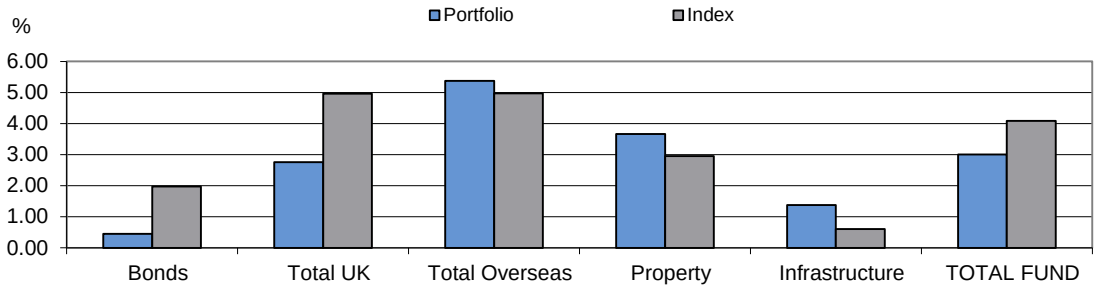
Quarterly Performance



- The final quarter of 2017 rounded off what turned out to be another very positive year for those prepared to accommodate the risk of equity markets. A continuing, benign global economic backdrop was increasingly supported by encouraging corporate earnings and, whilst chatter of tighter monetary conditions mounted, fears appear yet to emerge that economies are not robust enough to absorb this.

- Rising equity markets ensured positive returns for your portfolio this quarter and performance was ahead of your bespoke benchmark. Overall, the portfolio produced a decent absolute return but this was behind your bespoke benchmark due to weak relative returns in both UK equities and bonds.

- In bonds, whilst the underweight stance was beneficial (because bond returns lagged those of equity markets), yields once again fell back and your short dated issues did not participate in the resulting rise in prices.

- Infrastructure proved to be more volatile than previous quarters following some negative comments emanating from the Labour Party Conference which encouraged a degree of profit-taking after a very strong few years. UK commercial property remained surprisingly robust, with little evidence that the uncertainty surrounding Brexit was affecting transactions.

- UK equity performance was disappointing with those funds adopting a value bias within their portfolios (Jupiter and Threadneedle) lagging the broader market. The Lindsell Train UK Equity Income continued to perform well with its focus on consumer staples, technology and general financials but the Invesco fund performed poorly and has been sold. We have concerns over the size of Invesco's shareholdings in a number of companies, particularly given that a number of them are struggling at the moment.

- In overseas equity markets the overweight position was helpful to the overall performance, as were strong returns in Japan and the Far East. Fund selection in US also added value.

- 2017 proved a positive one for your portfolio in absolute terms. UK equity performance detracted from what was otherwise a successful year for the fund. Tactical asset allocation decisions were positive with the overweight position in overseas equities and underweight stance in fixed interest of particular benefit.

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Performance: Period ending 29th December 2017

Asset Class	Value (£) 29-Sep-17	Money in/out	Value (£) 29-Dec-17	Weighting (%)	Total Return (%)	Index (%)
Conventional Gilts	30,483	0	30,604	3.80	0.40	
Index-Linked Gilts	10,459	0	10,378	1.29	-0.01	
Foreign Bonds	26,684	0	26,185	3.25	0.28	
Debentures	48,455	-9,823	37,840	4.69	0.54	
Bonds	116,081	-9,823	105,007	13.02	0.45	1.97
Cash	53,667	-25,169	28,498	3.53	0.01	0.00
Total UK	397,028	-16,474	386,454	47.93	2.76	4.96
US	89,071	0	94,532	11.73	6.54	5.75
Europe	46,115	-157	46,226	5.73	0.64	0.39
Japan	27,989	0	30,190	3.74	7.87	7.71
Far East	26,324	0	27,966	3.47	7.00	6.97
Emerging Markets	13,790	0	14,558	1.81	5.54	6.60
Total Overseas	203,289	-157	213,472	26.48	5.37	4.97
Property	40,203	0	41,196	5.11	3.66	2.95
Infrastructure	31,404	0	31,593	3.92	1.38	0.60
TOTAL FUND	841,672	-51,623	806,220	100.00	3.00	4.09

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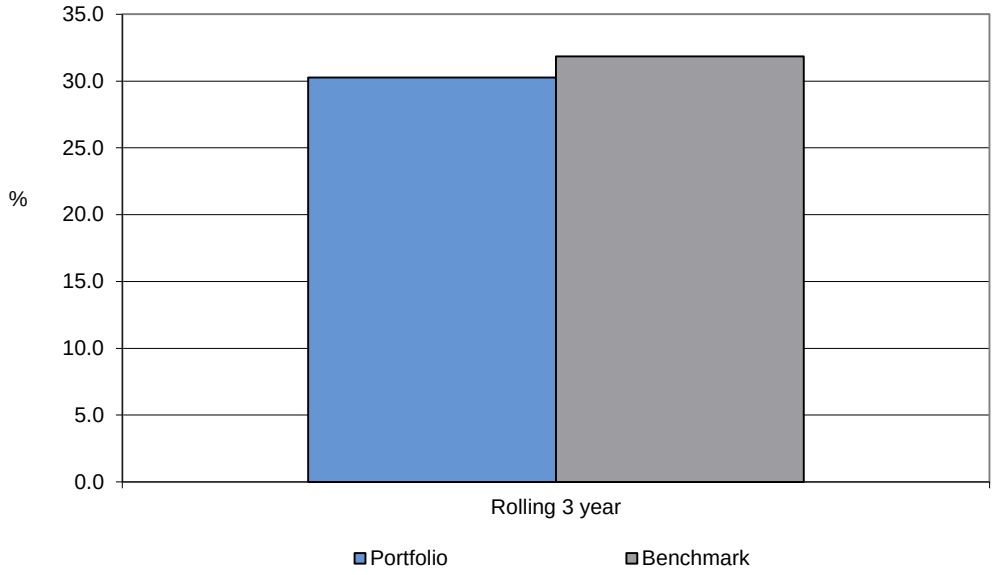
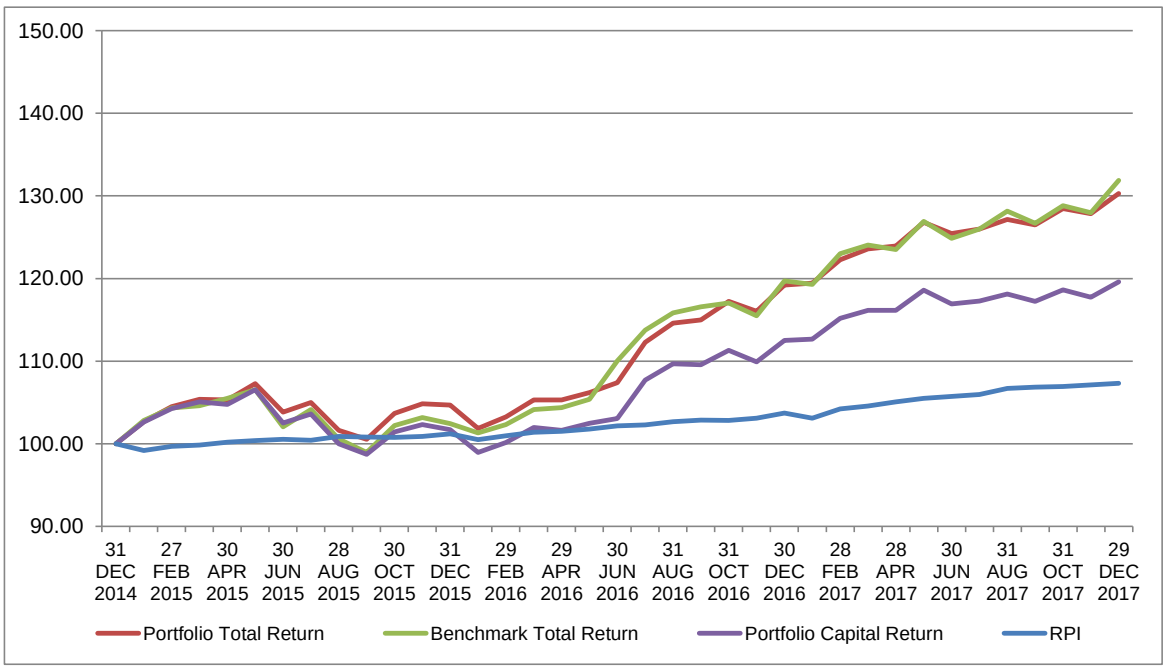
Long term performance



	Total Return (%) Rolling 3 year
Portfolio	30.3
Benchmark	31.9



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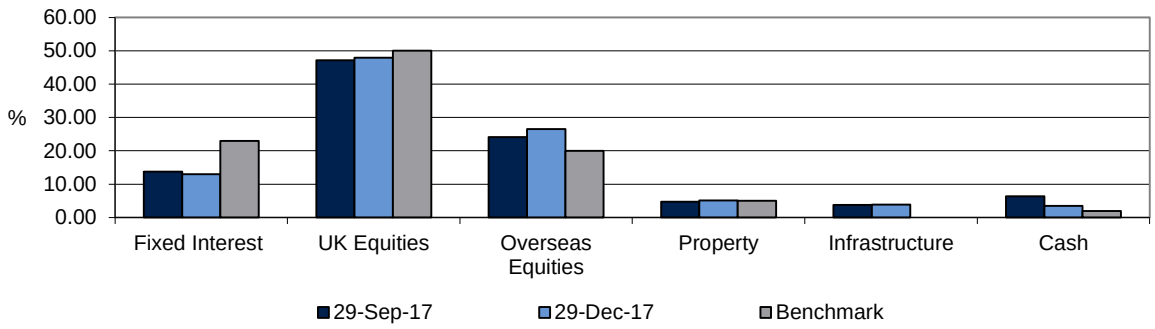
Allocation versus Benchmark



Strategic Decisions

- As indicated in an earlier section, the opposing forces we face as investors on your behalf are continued growth in economic activity and strong corporate earnings competing with the prospect of tighter monetary policies. We continue to believe that central banks will be careful to avoid mishandling the latter and will not risk a descent into outright deflation; however, we are mindful that it was quantitative easing and low interest rates that played a major role in raising asset prices after the financial crises and so withdrawal of that support must create a headwind for risk asset performance.

- As we look forward to 2018, therefore, we are likely to become increasingly wary of equity markets touching all-time highs and anticipate taking profits on overweight equity positions. Selling may well focus on overseas trusts where a steadier and indeed stronger pound, following some progress on the Brexit negotiations, mitigates returns from non-UK markets. Geopolitical risks also remain and are, of course, difficult to predict.

- Currency is also likely to influence our positioning in the UK, making the multinationals we have hitherto favoured less attractive. That said, forecasts for UK economic growth are deteriorating and so it is hard to justify a switch into companies more reliant on the domestic consumer. It is likely, therefore, that we will retain an underweight position in UK equities this quarter.

- If any sell-off in equities is triggered, as feared, from higher inflation and interest rates, it is unlikely that bond markets will be immune to the falls. We are not, therefore, likely to add to this asset class even if times appear uncertain. Cash is more likely be the beneficiary of any selling although we will also debate the merits of certain multi-asset funds that appear to offer uncorrelated returns as well as the other, more traditional, alternative asset classes.

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Asset Allocation: 29th December 2017

Asset Area		Value (£)	Weighting (%)	Benchmark (%)
Fixed Interest:	Conventional Gilts	30,604	3.80	
	Index-Linked Gilts	10,378	1.29	
	Foreign Bonds	26,185	3.25	
	Debentures	37,840	4.69	
			13.02	23.00
Cash:		28,498	3.53	2.00
			16.56	25.00
Equities:	UK	386,454	47.93	
			47.93	50.00
	Overseas			
	US	94,532	11.73	
	Europe	46,226	5.73	
	Japan	30,190	3.74	
	Far East	27,966	3.47	
	Emerging Markets	14,558	1.81	
			26.48	20.00
Property:		41,196	5.11	5.00
Infrastructure:		31,593	3.92	0.00
TOTAL FUND		806,220	100.00	100.00

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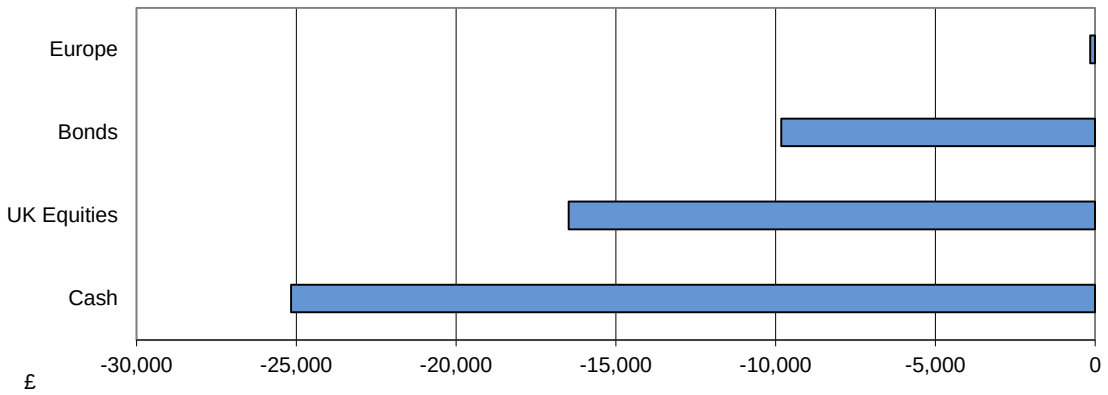
Transaction Summary



Transaction comment

- In UK equities we sold the afore-mentioned Invesco Income Fund and reinvested into a low-cost FTSE 100 tracker fund.
- In overseas markets we switched out of the Schroder European Opportunities Fund and reinvested into the Blackrock European Dynamic Fund. We are attracted to the Blackrock Fund by the growth style employed, which we think will be rewarded in the context of a very gradual increase in bond yields, and also the current positioning of the fund which we believe is better placed to capture a recovery the pick-up in earnings growth than the Schroder fund.