

*“Time is your friend; impulse is your enemy.”*

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What a difference three months can make.

When we wrote the update in June, we were still trying to understand what the potential fallout would be from the vote to leave the EU. The portfolios had returned between 1.32% and 3.26%, and we expected that with a fair wind we would achieve returns in the region of 5% to 7% for the year.

But even then we were nervous. We felt we were entering a period of uncharted territory with potential cuts in interest rates, weaker sterling and as a consequence of this and other global tensions, increased volatility.

Two thoughts uppermost in our minds at the time were where would this uncertainty lead, and a feeling that nowhere seemed to offer a safe haven. In the first few days after the vote we saw a weaker stock market particularly in certain domestic stocks; a faltering property market and potentially falling cash interest rates coupled with rising inflation.

So what has happened?

Our thoughts were not wrong – greater volatility, weaker sterling etc. However, the outcome has almost been the reverse of what we feared. One important factor has been that sterling weakness has definitely been a friend to the portfolios.

Even in September, with fears over a Trump victory, Deutsche Bank collapsing, events in China etc, we have seen extreme volatility and yet delivered positive returns.

John (Jack) Bogle once said “Time is your friend; impulse is your enemy.”

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We've spoken to many fund managers whose funds we hold, what their thoughts were on the vote and asked whether they have done anything differently. Some have made changes, but in the main they have seen the volatility as an opportunity to buy into companies they like that just got taken down by the panic in the markets. I feel quoting Warren Buffett would be good at this point!

Arriving at the end of September the portfolios have returned between 7.96% and 15.56%. Somewhat higher than we thought. We would caution euphoria and a feeling that all is okay in the world; because markets remain volatile. There are lots of events to watch this year – the US elections, the Italian Referendum, what happens to Deutsche Bank are just some. Then we have Article 50 and European Elections etc in 2017.

It is right to be cautious but as we will expand in this update, we think we have some interesting fund managers and that they can carry us through this period.

If you were to ask me for an idea of the returns for the year all bets are off, I'm afraid. If quarter 4 is positive, then it could be 10% to 20%. If there is extreme volatility, then we could go back down to the 5% to 7% as initially suggested. But if we come out of a year where we saw a global meltdown in January, a vote to leave the EU and a Trump victory (and anything else you can add to the mix) with positive returns then actually that has to be a good thing. (And a lot better than cash!!!).

*George Ladds*

October 2016

## PORTFOLIO OVERVIEW

### Bitesize introduction

This year you could turn to many factors when the markets were down – first six weeks of the year, oil price fluctuations, post the EU vote, mid-September dips etc. And yet with all of this, we have seen an unprecedented positive return month on month across the portfolios with the exception of January.

If we take this to its extreme; January to Mid-February was like someone ripped a massive hole in the bottom of a boat and everything was sinking fast. Somehow we managed to patch it all up for someone else to make holes in the patch in June, and again in September. Any other year and we would be sunk. 2011 was an example of this.

But the good ship “Portfolioy McPortfolioface” has held firm and delivered returns between 7.96% and 15.56%. Over 12 months the returns are 12.53% to 24.15%!

In summary we are not prematurely celebrating but hopefully it emphasises our philosophy of being globally diversified, and holding steady whatever is being chucked at us! We are not going to predict a return for the full year and the portfolios have taken a battering, but we hope this will carry them through to the end of the year and deliver some nice positive returns, whatever your risk profile.

### Highs and lows of the third quarter

The top three areas have been Emerging Markets, Asia and North American Smaller Companies. At the bottom UK Smaller Companies, UK All Companies and Strategic Bond.

The portfolios remain behind their benchmarks for the year and over twelve months and this is disappointing for us. This year 42.5% of the funds beat their benchmark, but when you are not hitting the 50% level you are up against it.

Delving a little deeper we mentioned in the last update that the Standard Life GARS and GFS Funds had not responded well in this climate. We saw them recover during April and May and then fall back in June due to the US exposure. In July and August both funds recovered again, but have dropped back in September. The GARS Fund is down for the year but less than it was in June! On the flip side the benchmark is a mix of Gilts and Corporate Bonds and these have returned over 15% this year due to low interest rates.

So for portfolios with a high exposure to GARS they have lagged behind the benchmark. Another factor has been that as we saw in 2011, in periods like this equity benchmarks also outperform. For the year only our exposure to Europe and the US held the portfolios in check. Even at the times when the gap kept growing I was convinced that the portfolios would bounce back.

When I ran the figures for the new portfolio year we saw the outperformance of the portfolios jump to 75% of the funds. If I take out the fixed interest element this increases to 84%. It is also more spread covering Property, UK, US, Europe, Emerging Markets, Global and Specialist. For this reason, the new portfolios have outperformed their benchmark for the first three months (as from 1 July).

One additional point to add is that for the first time, we started to see a slowdown in gilt performance and we may just be seeing the wind come out of the sails for bonds so will be watching this carefully.

We could be fearful as the FTSE smashes the 7,000 mark but we believe the portfolios haven't fully benefited from the upturn in the market. Our exposure to Emerging Markets and Asia has served the portfolios well – Threadneedle Emerging Market Bond Fund (+32.67%), BlackRock Emerging Europe (+30.69%), Liontrust Asia Income Fund (+31.67%), BlackRock Frontier Markets (+30.35%), Hermes Global Emerging Markets Fund (+29.30) and Templeton (+42.88%).

There are funds which have started to recover strongly in the last couple of months, but whose returns have been weak for the year – TR Property Trust (+5.65%), SLI UK Equity Unconstrained Fund (-6.89%), SLI UK Smaller Companies Fund (-3.49%), SLI UK Equity Income Unconstrained Fund (-2.94%), Neptune Japan Fund (-10.57%), Artemis Global Income Fund (+12.82%), Scottish Mortgage (+18.27%), 3i (+15.37%) and AXA Framlington BioTech Fund (-3.51%).

These funds just need to continue what they have achieved in the last three months, and for the benchmarks to drop back to help deliver strong returns for the portfolios. Even if it is not this year, it appears there is plenty of scope left should they need to pick up the slack from Emerging Markets and Asia next year.

In summary, we are behind the benchmarks over the calendar year but over the last three months we have started to see the funds outperform their benchmark. Taking out the fixed interest element this is 84% which is a level we would be happy with. The challenge is whether we can maintain this and certainly there are opportunities for funds to gain ground. We have touched on GARS and we are monitoring this; it has seen periods like this before – 2008, 2011 and 2013 – and each time it has bounced back. We would just prefer to see this sooner rather than later!

### **A prediction for quarter 4**

I think we are entering quarter 4 with the same level of uncertainty as we did quarter 2 or quarter 3, or in fact any other quarter lately!

The big headline things to watch are monetary policy especially in the US, the US elections and referendum in Italy. But there are other things to consider such as global tensions, China, oil etc.

We have a much bigger tailwind going into this quarter than we did going into quarter 3. This could serve the portfolios well as we can expect a lot of volatility in the coming months. We should end the year positively, unless of course we have a global meltdown. The question is whether this will be higher or lower than where we are today! We do have some juice in a number of funds that have underperformed and even a slight uptick from these could make a big difference.

### **Summary**

The portfolios have benefited from a weak sterling and performance in Emerging Markets and Asia. Having a diversified portfolio has been a massive benefit but we do expect more volatility over the coming months, but with a fairly healthy buffer in performance we believe we can deliver good positive returns this year.

*Note: You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.*

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A summary of the performance is shown below. The performance shown does not reflect our fees and any charges for where the investments are held. The impact of these charges varies but is around 1% p.a.

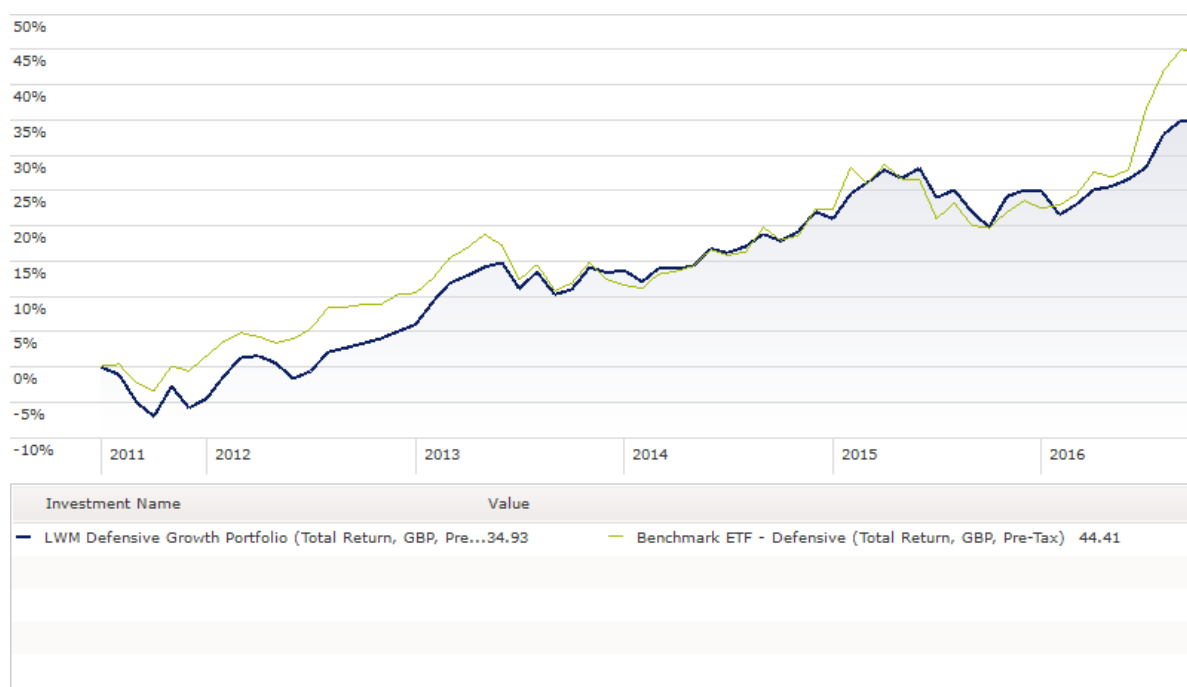
## Summary of performance – 1 January 2009 – 30 September 2016

|                 | 12 months |           | 2 years   |           | 3 years   |           | 4 years   |           | 5 years   |           | Since launch |           |
|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--------------|-----------|
|                 | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio    | Benchmark |
| Defensive       | 12.53%    | 20.56%    | 14.42%    | 22.29%    | 21.46%    | 28.99%    | 30.46%    | 32.57%    | 44.99%    | 49.36%    | 34.93%       | 44.41%    |
| Cautious Risk 4 | 15.62%    | 21.85%    | 18.35%    | 15.15%    | 27.80%    | 22.30%    | 40.56%    | 27.24%    | 59.62%    | 44.58%    | 135.56%      | 72.56%    |
| Cautious Risk 5 | 15.34%    | 21.97%    | 17.66%    | 19.51%    | 25.71%    | 26.62%    | 38.82%    | 33.35%    | 55.60%    | 51.34%    | 126.67%      | 81.61%    |
| Balanced        | 17.84%    | 23.23%    | 21.43%    | 17.69%    | 30.83%    | 24.37%    | 48.34%    | 33.79%    | 67.92%    | 51.90%    | 140.25%      | 78.56%    |
| Mod Adventurous | 22.33%    | 24.63%    | 21.83%    | 15.33%    | 30.61%    | 20.81%    | 52.87%    | 31.93%    | 70.69%    | 49.31%    | 143.15%      | 74.69%    |
| Adventurous     | 24.15%    | 25.42%    | 23.03%    | 14.83%    | 31.96%    | 20.66%    | 57.04%    | 33.66%    | 76.41%    | 51.21%    | 147.03%      | 71.60%    |
| Ethical         | 20.13%    | 13.01%    | 24.41%    | 9.41%     | -         | -         | -         | -         | -         | -         | 27.39%       | 8.63%     |

Note: Please read special note to tables at the end of the tables. The launch date of the portfolios is 1 January 2009 with the exception of the Defensive Portfolio which is 30 June 2011, and Ethical Portfolio 1 August 2014. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.

## Detailed breakdown of performance

### Defensive

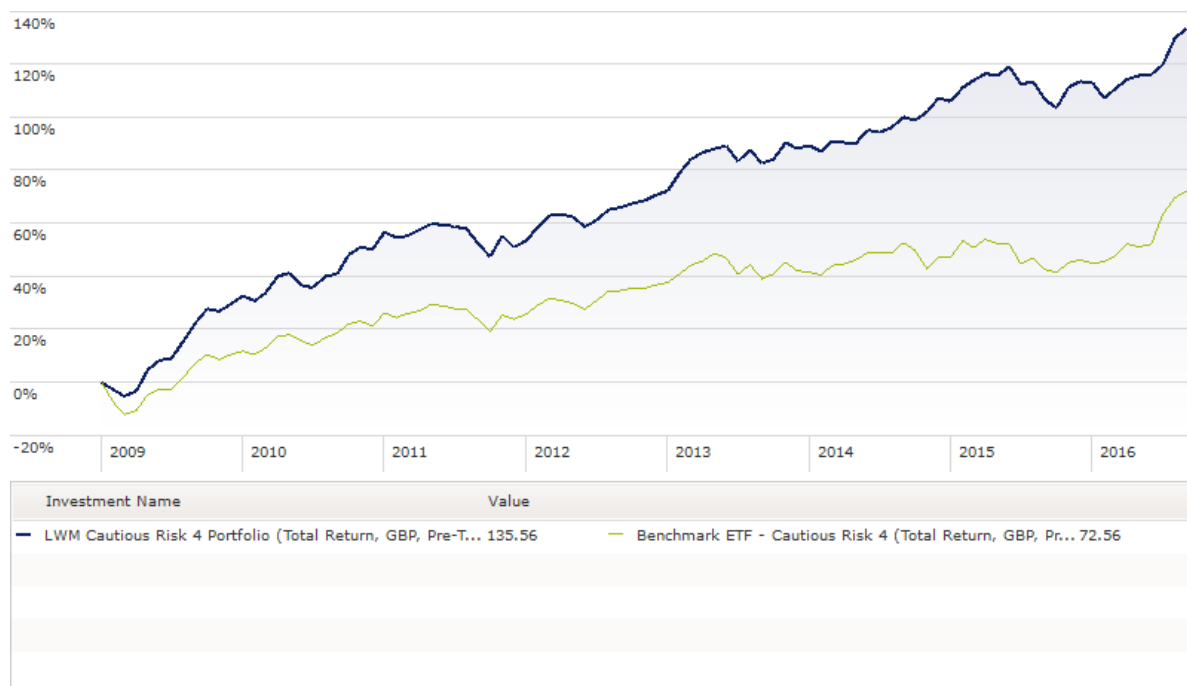


|                  | 2011 | 2012   | 2013  | 2014  | 2015  | 2016   | Since launch |
|------------------|------|--------|-------|-------|-------|--------|--------------|
| <b>Defensive</b> | N/A  | 11.02% | 7.18% | 6.50% | 3.29% | 7.96%  | 5.87% p.a.   |
| <b>Benchmark</b> | N/A  | 8.80%  | 0.98% | 9.66% | 0.12% | 17.79% | 7.24% p.a.   |

|                  | 1 Year to 30/09/12 | 1 Year to 30/09/13 | 1 Year to 30/09/14 | 1 Year to 30/09/15 | 1 Year to 30/09/16 |
|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Defensive</b> | 11.14%             | 7.41%              | 6.15%              | 1.68%              | 12.53%             |
| <b>Benchmark</b> | 12.66%             | 2.78%              | 5.48%              | 1.44%              | 20.56%             |

Note: Please read special note to tables at the end of the tables. The launch date of the Portfolio is 30 June 2011, and performance is up to 30 September 2016. The Benchmark performance tracks the performance period of the portfolio. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.

## Cautious Risk 4 (Previously Cautious Income)

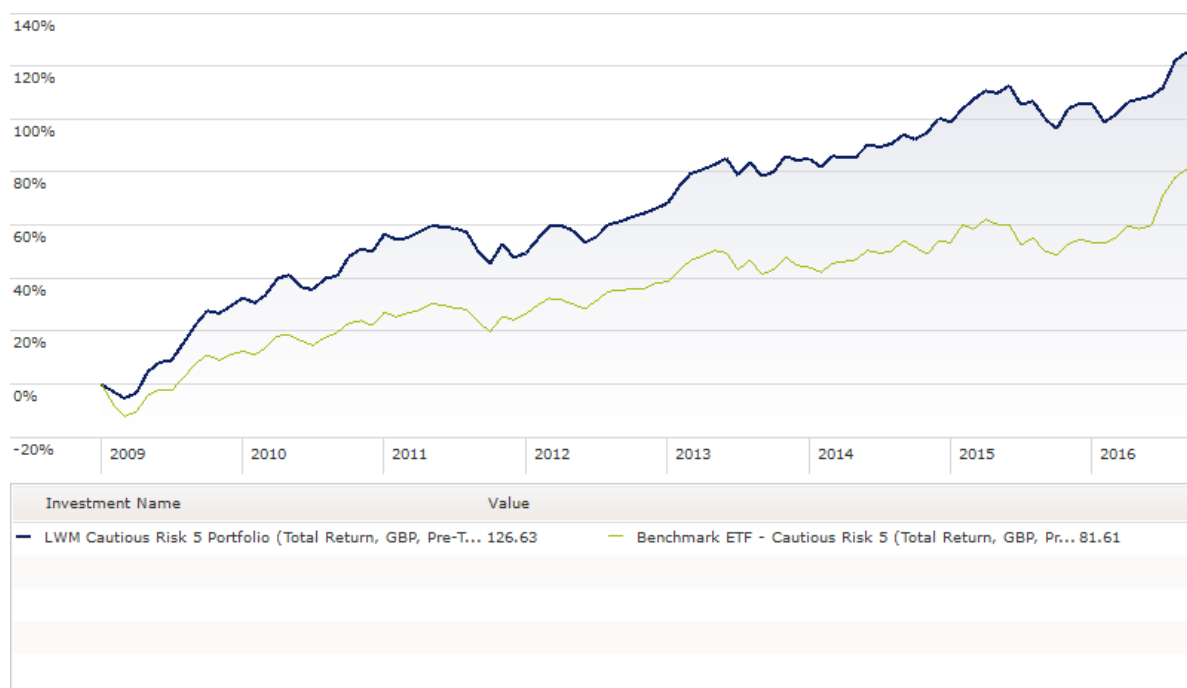


|                        | 2011   | 2012   | 2013  | 2014  | 2015   | 2016   | Since launch |
|------------------------|--------|--------|-------|-------|--------|--------|--------------|
| <b>Cautious Income</b> | -2.04% | 12.27% | 9.97% | 8.81% | 3.52%  | 10.45% | 11.70% p.a.  |
| <b>Benchmark</b>       | -0.32% | 9.46%  | 2.84% | 4.01% | -1.50% | 18.91% | 7.30% p.a.   |

|                        | 1 Year to 30/09/12 | 1 Year to 30/09/13 | 1 Year to 30/09/14 | 1 Year to 30/09/15 | 1 Year to 30/09/16 |
|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Cautious Income</b> | 13.56%             | 9.98%              | 7.98%              | 2.36%              | 15.62%             |
| <b>Benchmark</b>       | 13.63%             | 4.04%              | 6.21%              | -5.50%             | 21.85%             |

Note: Please read special note to tables at the end of the tables. The launch date of the Portfolio is 1 January 2009, and performance is up to 30 September 2016. The Benchmark performance tracks the performance period of the portfolio. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.

## Cautious Risk 5 (Previously Cautious Growth)



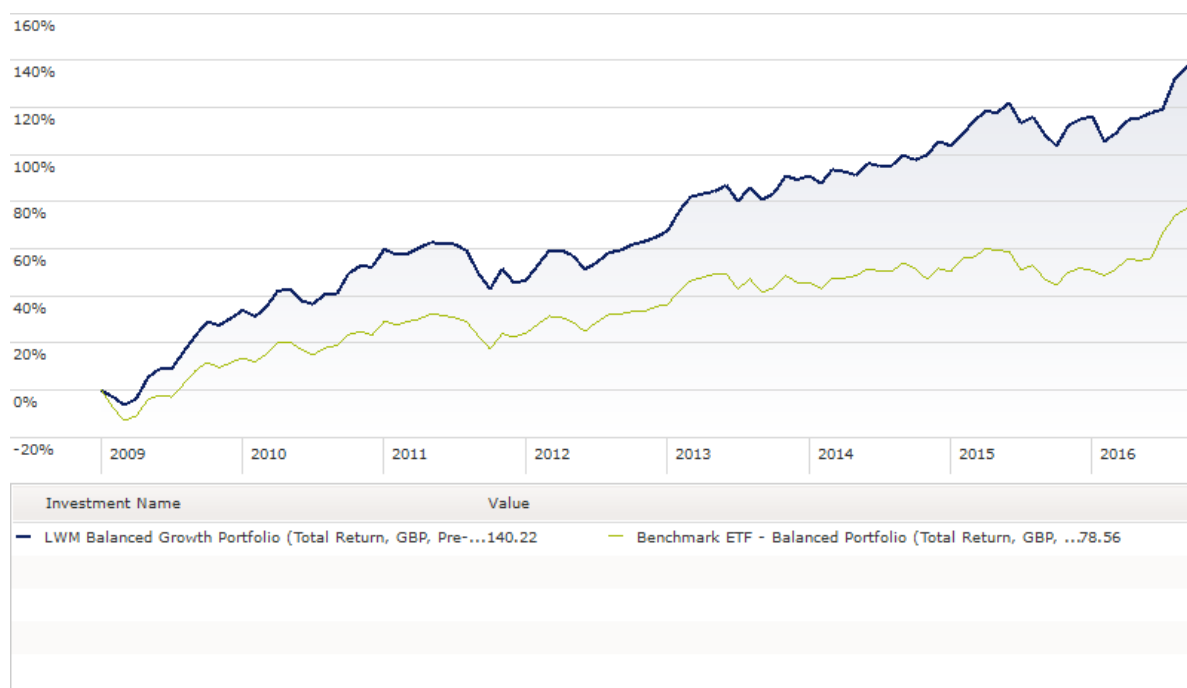
|                        | 2011   | 2012   | 2013   | 2014  | 2015   | 2016   | Since launch |
|------------------------|--------|--------|--------|-------|--------|--------|--------------|
| <b>Cautious Growth</b> | -4.52% | 12.89% | 10.00% | 7.49% | 3.52%  | 10.02% | 11.14% p.a.  |
| <b>Benchmark</b>       | -0.49% | 0.46%  | 3.86%  | 6.56% | -0.05% | 18.21% | 8.01% p.a.   |

|                        | 1 Year to 30/09/12 | 1 Year to 30/09/13 | 1 Year to 30/09/14 | 1 Year to 30/09/15 | 1 Year to 30/09/16 |
|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Cautious Growth</b> | 12.09%             | 10.43%             | 6.84%              | 2.02%              | 15.34%             |
| <b>Benchmark</b>       | 13.49%             | 5.32%              | 5.95%              | -2.02%             | 21.97%             |

Note: Please read special note to tables at the end of the tables. The launch date of the Portfolio is 1 January 2009, and performance is up to 30 September 2016. The Benchmark performance tracks the performance period of the portfolio. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.



## Balanced Growth

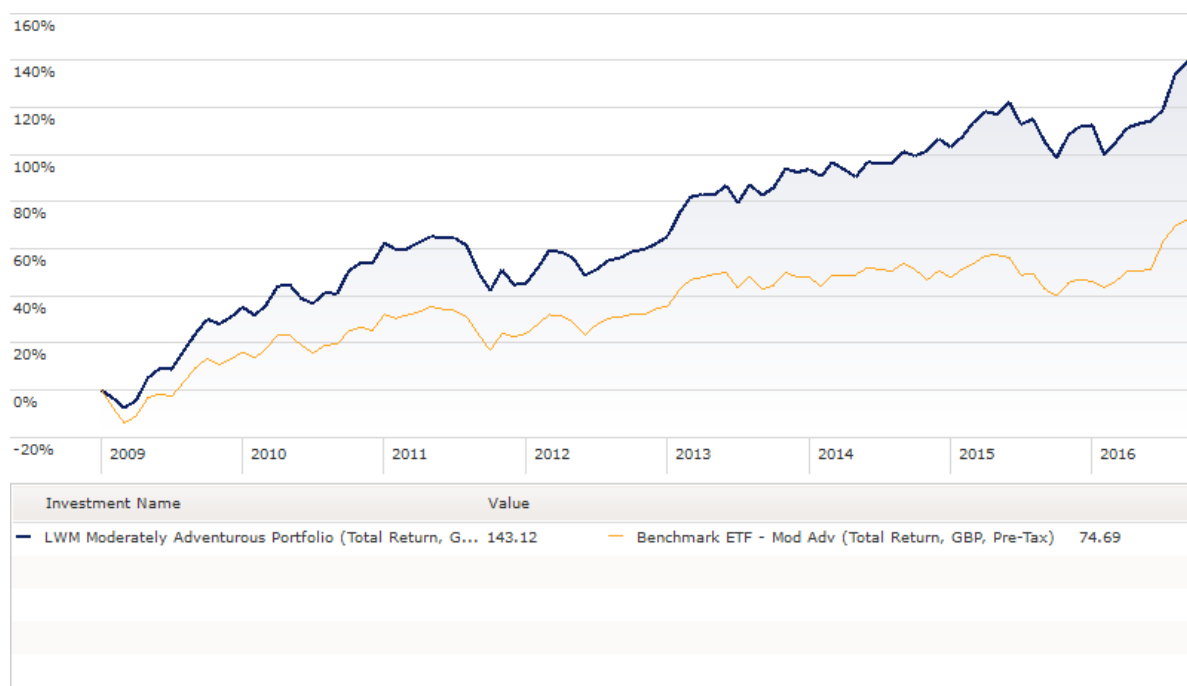


|                        | 2011   | 2012   | 2013   | 2014  | 2015  | 2016   | Since launch |
|------------------------|--------|--------|--------|-------|-------|--------|--------------|
| <b>Balanced Growth</b> | -8.29% | 14.36% | 13.89% | 6.71% | 6.24% | 10.96% | 11.98% p.a.  |
| <b>Benchmark</b>       | -5.56% | 7.78%  | 7.11%  | 0.81% | 0.27% | 18.34% | 7.77% p.a.   |

|                        | 1 Year to<br>30/09/12 | 1 Year to<br>30/09/13 | 1 Year to<br>30/09/14 | 1 Year to<br>30/09/15 | 1 Year to<br>30/09/16 |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Balanced Growth</b> | 13.20%                | 13.39%                | 7.74%                 | 3.04%                 | 17.84%                |
| <b>Benchmark</b>       | 13.54%                | 7.58%                 | 5.67%                 | -4.49%                | 23.23%                |

Note: Please read special note to tables at the end of the tables. The launch date of the Portfolio is 1 January 2009, and performance is up to 30 September 2016. The Benchmark performance tracks the performance period of the portfolio. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.

## Moderately Adventurous Growth

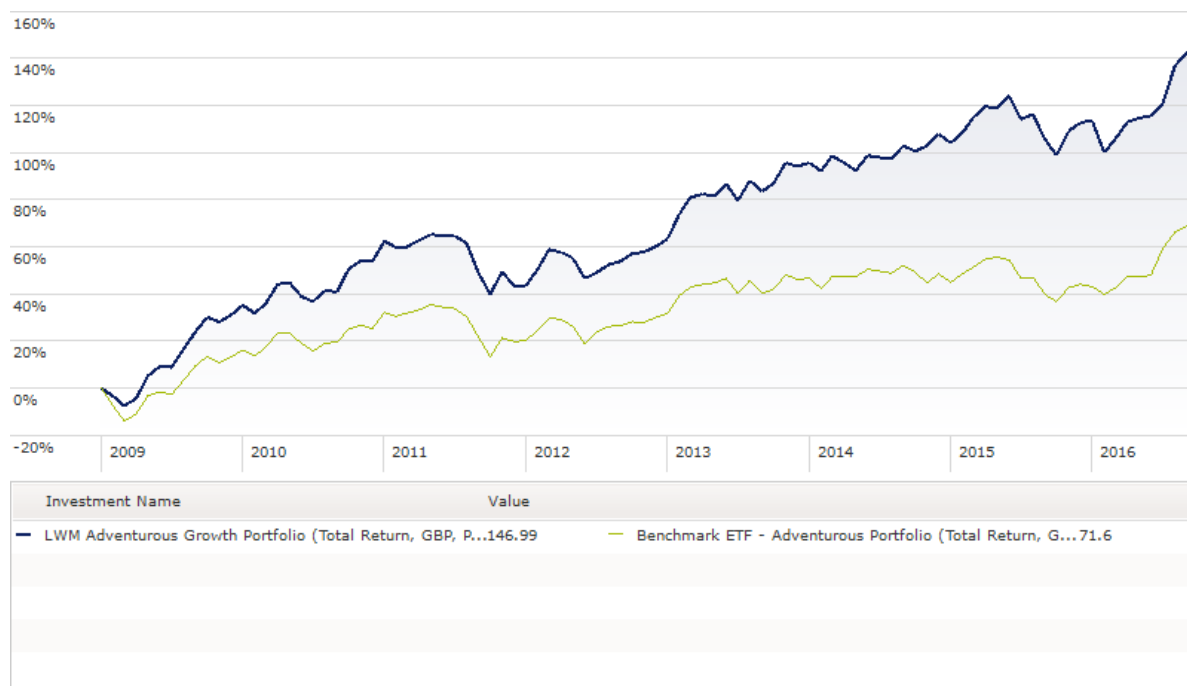


|                                      | 2011    | 2012   | 2013   | 2014   | 2015   | 2016   | Since launch |
|--------------------------------------|---------|--------|--------|--------|--------|--------|--------------|
| <b>Moderately Adventurous Growth</b> | -10.51% | 13.82% | 17.19% | 4.86%  | 4.66%  | 14.31% | 12.16% p.a.  |
| <b>Benchmark</b>                     | -6.30%  | 9.54%  | 9.00%  | -0.17% | -1.04% | 19.37% | 7.47% p.a.   |

|                                      | 1 Year to 30/09/12 | 1 Year to 30/09/13 | 1 Year to 30/09/14 | 1 Year to 30/09/15 | 1 Year to 30/09/16 |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Moderately Adventurous Growth</b> | 11.66%             | 17.04%             | 7.21%              | -0.41%             | 22.33%             |
| <b>Benchmark</b>                     | 13.17%             | 9.21%              | 4.75%              | -7.47%             | 24.63%             |

Note: Please read special note to tables at the end of the tables. The launch date of the Portfolio is 1 January 2009, and performance is up to 30 September 2016. The Benchmark performance tracks the performance period of the portfolio. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.

## Adventurous Growth



|                           | 2011    | 2012   | 2013   | 2014   | 2015   | 2016   | Since launch |
|---------------------------|---------|--------|--------|--------|--------|--------|--------------|
| <b>Adventurous Growth</b> | -11.59% | 13.88% | 19.73% | 4.30%  | 4.69%  | 15.56% | 12.38% p.a.  |
| <b>Benchmark</b>          | -9.18%  | 9.82%  | 11.19% | -1.09% | -1.34% | 19.76% | 7.22% p.a.   |

|                           | 1 Year to 30/09/12 | 1 Year to 30/09/13 | 1 Year to 30/09/14 | 1 Year to 30/09/15 | 1 Year to 30/09/16 |
|---------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Adventurous Growth</b> | 12.33%             | 19.00%             | 7.26%              | -0.90%             | 24.15%             |
| <b>Benchmark</b>          | 13.13%             | 10.78%             | 5.08%              | -8.45%             | 25.42%             |

Note: Please read special note to tables at the end of the tables. The launch date of the Portfolio is 1 January 2009, and performance is up to 30 September 2016. The Benchmark performance tracks the performance period of the portfolio. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.

## Ethical Portfolio



|                  | 2011 | 2012 | 2013 | 2014 | 2015  | 2016   | Since launch |
|------------------|------|------|------|------|-------|--------|--------------|
| <b>Ethical</b>   | N/A  | N/A  | N/A  | N/A  | 6.63% | 12.38% | 11.83% p.a.  |
| <b>Benchmark</b> | N/A  | N/A  | N/A  | N/A  | 0.01% | 8.98%  | 3.89% p.a.   |

|                  | 1 Year to 30/09/12 | 1 Year to 30/09/13 | 1 Year to 30/09/14 | 1 Year to 30/09/15 | 1 Year to 30/09/16 |
|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Ethical</b>   | N/A                | N/A                | N/A                | 3.57%              | 20.13%             |
| <b>Benchmark</b> | N/A                | N/A                | N/A                | -3.19%             | 13.01%             |

The launch date of the Portfolio is 1 August 2014, and performance is up to 30 September 2016. The Benchmark performance tracks the performance period of the portfolio.

**Special note to tables:** You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

## Additional notes

The key measure for us is to outperform a fund that tracks an index over a medium to long term period. Within each sector we will have funds that perform differently. We have set a benchmark which accurately and fairly reflects what we are aiming to do. The benchmark is tradable and therefore can be invested in. The benchmarks we have used are:

|                  |   |
|------------------|---|
| Fixed Interest   | iShares Core UK Gilts<br>iShares Core £ Corporate Bond<br>iShares J.P.Morgan \$ Emerging Mkts Bond            |
| Property         | iShares Developed Markets Property Yld  |
| UK               | iShares UK Dividend<br>Lyxor ETF FTSE All Share   |
| Europe           | iShares MSCI Europe Ex UK<br>iShares MSCI Eastern Europe Capped ETF   |
| US               | iShares MSCI North America  |
| Japan            | DB X-Trackers MSCI Japan ETF  |
| Asia             | iShares MSCI AC Far East Ex Japan   |
| Emerging Markets | iShares MSCI Emerging Markets (Acc)<br>iShares MSCI Frontier 100  |
| Global           | iShares MSCI World Dist   |
| Specialist       | ETFS All Commodities<br>ETFS Agriculture<br>iShares Global Infrastructure<br>Lyxor ETF MSCI World Health Care |

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