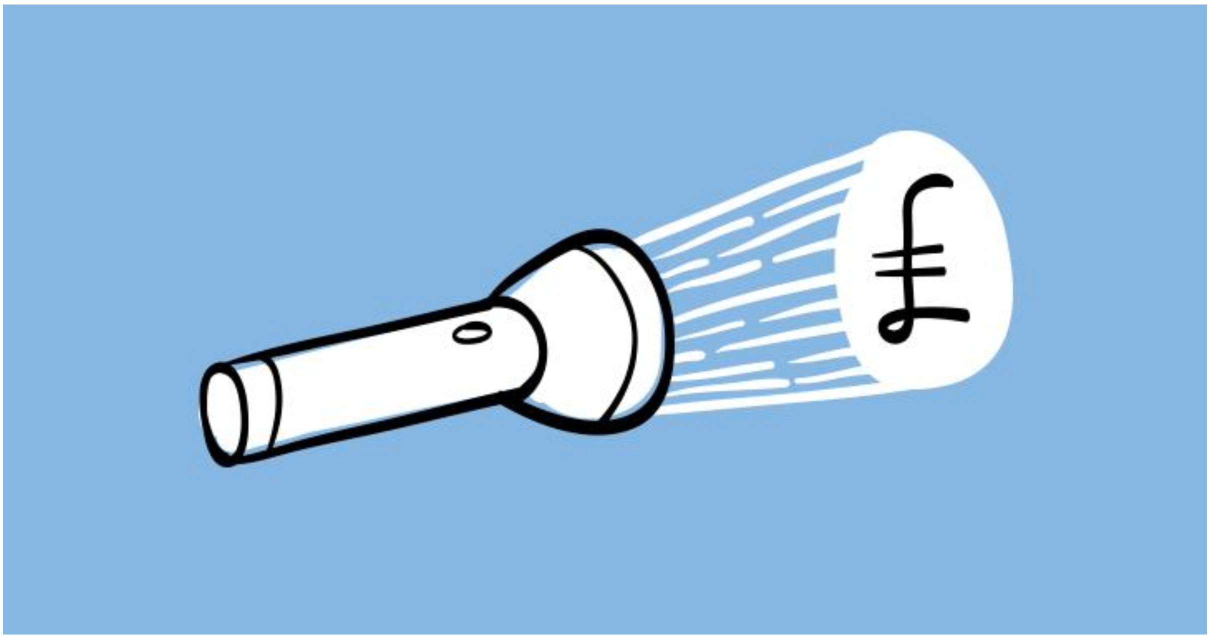
QUARTERLY PORTFOLIO REVIEW – JANUARY 2017



"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us….."

Writing the half yearly update in July I never considered that I would be able to talk about gross returns of between 10% and nearly 20% for the year; putting this into perspective these are the best inflation adjusted returns since 2009 for the Adventurous Portfolios, since 2010 for the Cautious and Balanced Portfolios and since launch for the Defensive Portfolio.

That's good when you consider everything that has happened. Perhaps I could end the update at this point with the words:

"it was a difficult year, we all survived and did okay!!!"

But we can't shy away from the fact that although we did well, the portfolios are behind the benchmark; we pride ourselves on beating it and didn't! In this report, I want to cover this in more detail and how this might impact the rebalance in July.

I always try to provide some sort of prediction for performance for the year ahead; in all honesty, I think it is more difficult than ever to speculate. I appreciate this isn't helpful but let me explain.

The biggest potential to driver of returns will come from the US. Setting aside any view we might have on Trump, it is worth considering this:

1. He has put in place a strong business-focused team
2. The Republicans have total control
3. There are likely to be tax cuts, and
4. There is likely to be infrastructure spend

There will also be more which could lead to a golden period for the US. The focus is on making the US 'great' again, but other countries will benefit including Asia and Emerging Markets.

On the flipside, you have the UK and we really don't know what will happen. The next couple of years might be okay and there are signs that this is the case, but beyond that. Turning to Europe it faces challenging times with elections in Holland, France and Germany as well as a potential referendum in Italy on whether to remain in the EU.

These are not the only factors that will have an impact on returns; old favourites including oil, China, ISIS or some other event we don't know about yet!

With all of this in mind we don't think we will see the same level of returns as we saw last year. We do however think there is the <u>potentia</u>l to deliver near double digit returns but this will depend on how the US plays out. It is also worth adding that if 2016 taught us anything it is that what seems to make sense doesn't necessarily make sense!

When I was thinking about this report, this quote from a Tale of Two Cities came to mind.

> *"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us….."*

We are highly respectful that you entrust us with your funds and we take that responsibility seriously. We hope that 2016 proved that our philosophy works when all the odds seem to be stacked against us. But we are not going to sit back and relax, as we know that 2016 taught us that the unexpected can and does happen.

George Ladds

January 2017

PORTFOLIO OVERVIEW

Bitesize introduction

It feels like I am repeating myself but 2016 was tricky; despair in the first six weeks, oil price fluctuations, EU vote, Trump, Italian Referendum etc.

At times, it felt like the “season of darkness” and yet even at what seemed to be points of “despair” there was light. The portfolios got through to the end of June with flat returns, and six months later double digit; what I think is more surprising is that only January and November posted negative returns.

Being globally diversified helped but it was also sticking to our philosophy, and holding firm whatever was thrown at us that also played a part. So, to summarise 2016 was uncomfortable but it was also a year of two halves.

Highs and lows of 2016

There is no hiding from the fact that the benchmarks significantly outperformed the portfolios in 2016.

We will cover individual funds later in this report but to put this into perspective just 44% of funds outperformed their benchmark in 2016; this is not the first time, we saw this in 2011. It demonstrates that in periods of extreme volatility, passive investing (benchmarks) will outperform. Often “quality” stocks see prices inflated, and these are often companies not held by the active managers we invest with. As we have demonstrated it is through active management that over the longer term we can get the greatest returns.

In 2016 there was a rush to passive investing (particularly in Asia and Emerging Markets) which forced up the price of certain parts of the market. As the portfolios did well from 1 July, so did the active funds which showed 83% of funds outperforming their benchmark over the final six months of the year.

Six months is early days but we believe that we should see this continue going into 2017, and we will be monitoring this closely.

In terms of performance it was an extremely volatile year and for those who follow their investments daily it might have felt uncomfortable. The Adventurous Portfolio at its lowest point was down over 12%, and yet ended the year up nearly 20%.

You wouldn’t blame anyone for walking away at the end of June but the stark reality was that in doing this they would have missed out on the growth for the year. Perhaps the first half was the worst of times, and the second half the best.

And so, coming into 2017 how are we approaching the portfolios?

2017

We spend the year monitoring funds and meeting fund managers. All this feeds into the reports we produce and our decisions on the annual rebalance. We don't take lightly removing funds as we believe good fund managers are rare, and though they may have periods of underperformance in the long term their track records speak for themselves.

Two recent examples where funds were moved to a watch list were Templeton Emerging Markets Investment Trust and M&G Global Dividend Fund. We waited for things to improve but nothing seemed to be happening. After getting updates from the teams behind the funds we decided to keep the funds in for one final year, and if nothing changed we would look to remove.

At the end of 2016 both funds were up over 40%! For us it was a reminder that even when things are uncomfortable it might be best hold on, do the research, talk to the managers and wait.

Of course, you can't be dogmatic and refuse to never change. An immediate warning to us is a change of management or philosophy. One such scenario was the SLI UK Equity Unconstrained Fund, where a new manager took over in July 2015. We decided to hold the fund as the manager had originally set up the fund and therefore we felt he had the potential to continue the stellar performance. Despite meeting the manager, we haven't seen this and it is likely in the review that we will recommend removing this fund. This also reflects our feeling of uncertainty in the UK, and we will be looking to have a maximum weighting of 15% in the UK, and less in some cases. This may mean reallocating assets to global investments.

Sometimes waiting on a fund manager can be a good thing; we saw this with Schroder Global Property which had a new management team with an excellent reputation. It was at a time when we were looking to remove the fund. The team have turned around the performance and it remains part of the portfolios.

A fund many hold, whether in the portfolios or separately, is the SLI Global Absolute Return Fund and this hasn't had a good year; at the end of November, it was down over 4%. In part its strategy was linked to interest rates going up in the US and everything that could go wrong seemed to. The number of times we spoke to the team and they reassured us that it would come good, was high! But nothing seemed to change. Then in December we saw a bounce and although the fund is down for the year we think this is a turn for the better.

We continue to have faith in the fund and we think that it will reverse the negative performance of 2016. However, for the last 3 years we have been looking for funds which we can blend with the Standard Life Fund. This reduces risk as funds will perform differently at different points of the cycle, so we will be introducing some recommendations in the rebalance.

Additionally, we have identified two funds which have had a torrid twelve months and similar to Templeton and M&G we will monitor and not rush to remove. There has been no change in management or philosophy so we will look to speak to the team, only if we feel the performance is unlikely to improve will we make steps towards changing them.

In summary 2016 was an unusual year; we still believe the portfolios should have some exposure to the UK but we are likely to restrict this to a maximum of 15% across most of the portfolios. Bonds (against all odds) provided significant returns and we have not participated in this sector for some time which has played against us. With the underperformance of the Standard Life GARS Fund this contributed to the underperformance vs the benchmark but we have seen positive performance in

December and we believe this will continue. We have for some time wanted to blend other funds with GARS to reduce risk and we are excited about the options we have found.

We don't think 2017 will be easy but we believe that we don't need to make wholesale changes to the portfolios; rather small adjustments to provide some additional protection.

Summary

The portfolios have benefited from a weak sterling which has turbo-charged returns from regions including the US, Emerging Markets and Asia. Having a diversified portfolio has been a benefit but we do expect more volatility over the coming months. With a fairly healthy buffer in performance we believe there is the potential for another positive year, however we shouldn't underestimate that much of this relies on what happens in the US, as well as geopolitics in Europe.

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.

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.

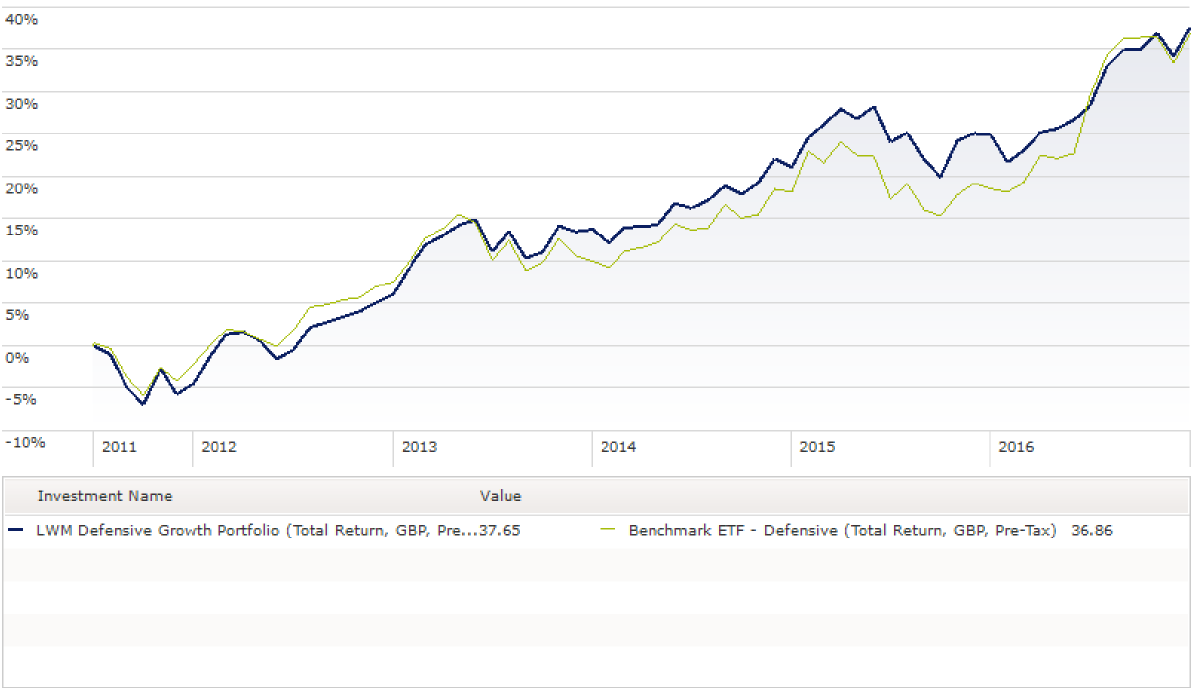
Summary of performance – 1 January 2009 – 31 December 2016

	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	10.14%	15.42%	13.67%	15.81%	21.01%	24.41%	29.71%	27.26%	44.00%	39.86%	37.65%	36.86%
Cautious Risk 4	11.73%	17.78%	15.58%	16.17%	25.72%	19.09%	38.26%	23.63%	55.22%	36.18%	138.81%	68.69%
Cautious Risk 5	12.42%	17.70%	16.30%	17.80%	24.97%	23.72%	37.47%	29.71%	54.77%	43.13%	131.61%	78.42%
Balanced	13.76%	19.99%	20.78%	20.40%	28.86%	23.23%	46.76%	32.18%	67.83%	45.69%	146.30%	79.76%
Mod Adventurous	18.06%	23.46%	23.49%	22.17%	29.46%	21.63%	51.72%	32.80%	72.68%	45.64%	151.13%	79.93%
Adventurous	19.65%	24.82%	25.21%	23.11%	30.57%	21.77%	56.32%	35.51%	78.01%	48.94%	155.77%	79.59%
Ethical	15.51%	13.27%	23.17%	13.28%	-	-	-	-	-	-	30.93%	12.90%

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

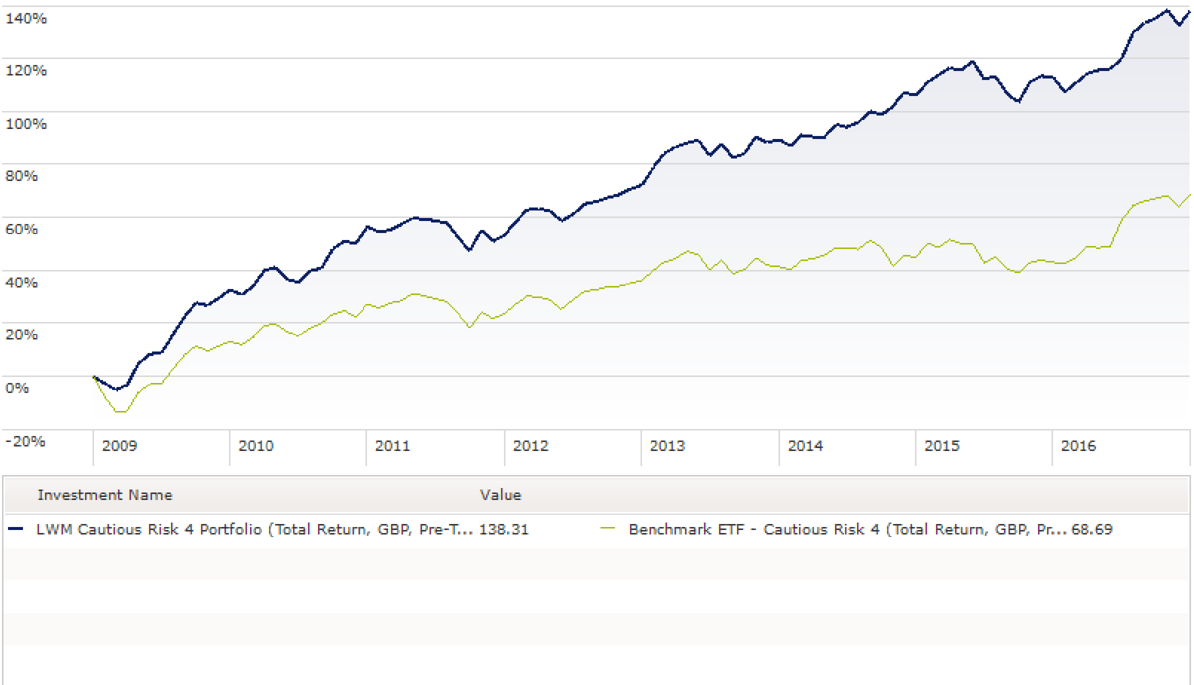


	2011	2012	2013	2014	2015	2016	Since launch
Defensive	N/A	11.02%	7.18%	6.50%	3.29%	10.14%	5.98% p.a.
Benchmark	N/A	9.91%	2.29%	7.43%	0.34%	15.42%	5.87% p.a.

	1 Year to 31/12/12	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16
Defensive	11.02%	7.18%	6.50%	3.29%	10.14%
Benchmark	9.91%	2.29%	7.43%	0.34%	15.42%

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 31 December 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)

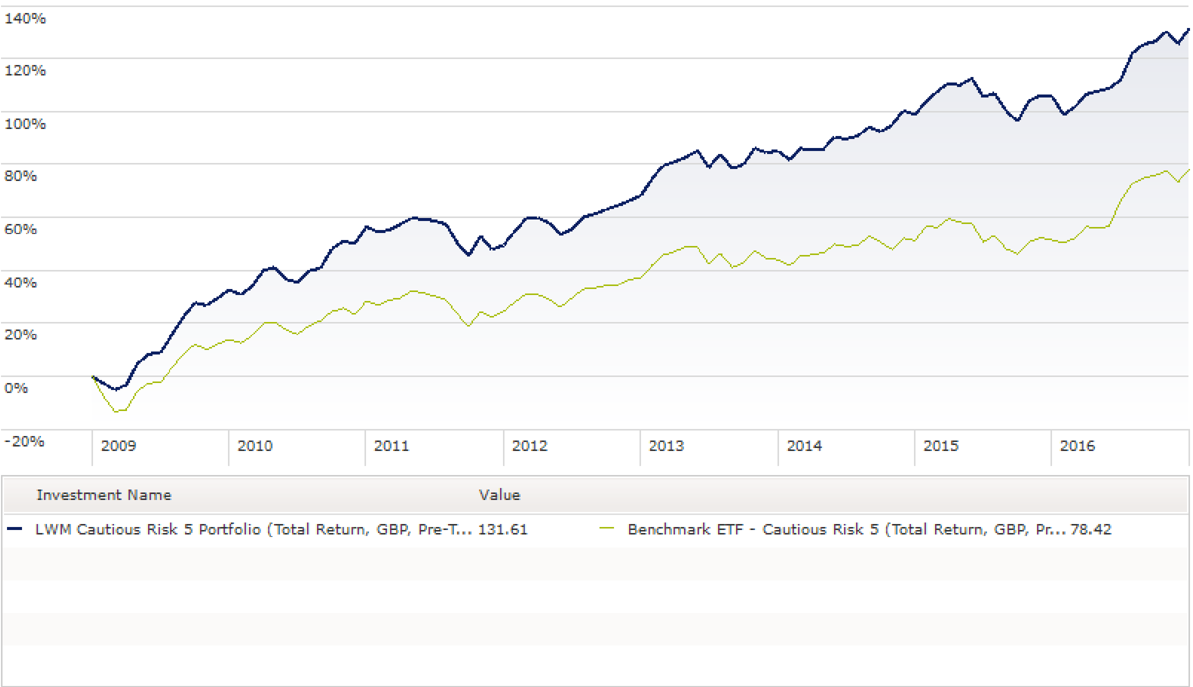


	2011	2012	2013	2014	2015	2016	Since launch
Cautious Income	-2.04%	12.27%	9.97%	8.81%	3.52%	10.14%	11.93% p.a.
Benchmark	-2.81%	10.15%	3.81%	2.51%	-1.37%	15.42%	7.51% p.a.

	1 Year to 31/12/12	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16
Cautious Income	12.27%	9.97%	8.81%	3.52%	10.14%
Benchmark	10.15%	3.81%	2.51%	-1.37%	15.42%

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 31 December 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)

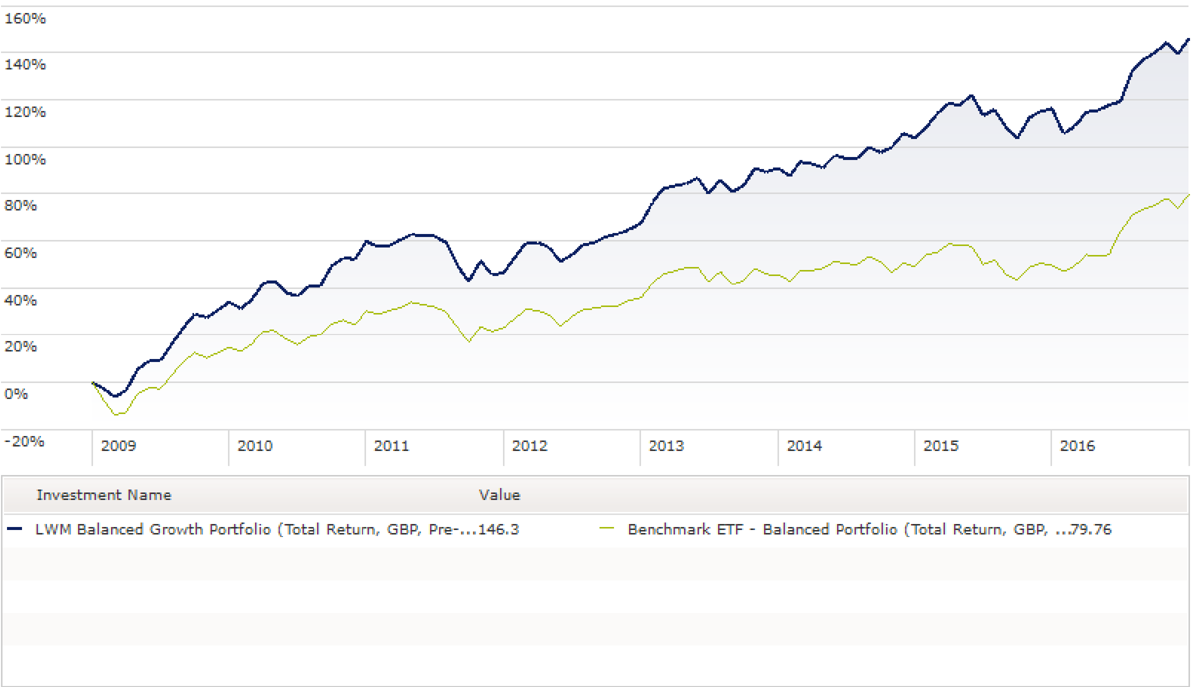


	2011	2012	2013	2014	2015	2016	Since launch
Cautious Growth	-4.52%	12.89%	10.00%	7.49%	3.52%	12.42%	11.07% p.a.
Benchmark	-2.98%	10.35%	4.84%	5.03%	0.09%	17.70%	7.51% p.a.

	1 Year to 31/12/12	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16
Cautious Growth	12.89%	10.00%	7.49%	3.52%	12.42%
Benchmark	10.35%	4.84%	5.03%	0.09%	17.70%

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 31 December 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

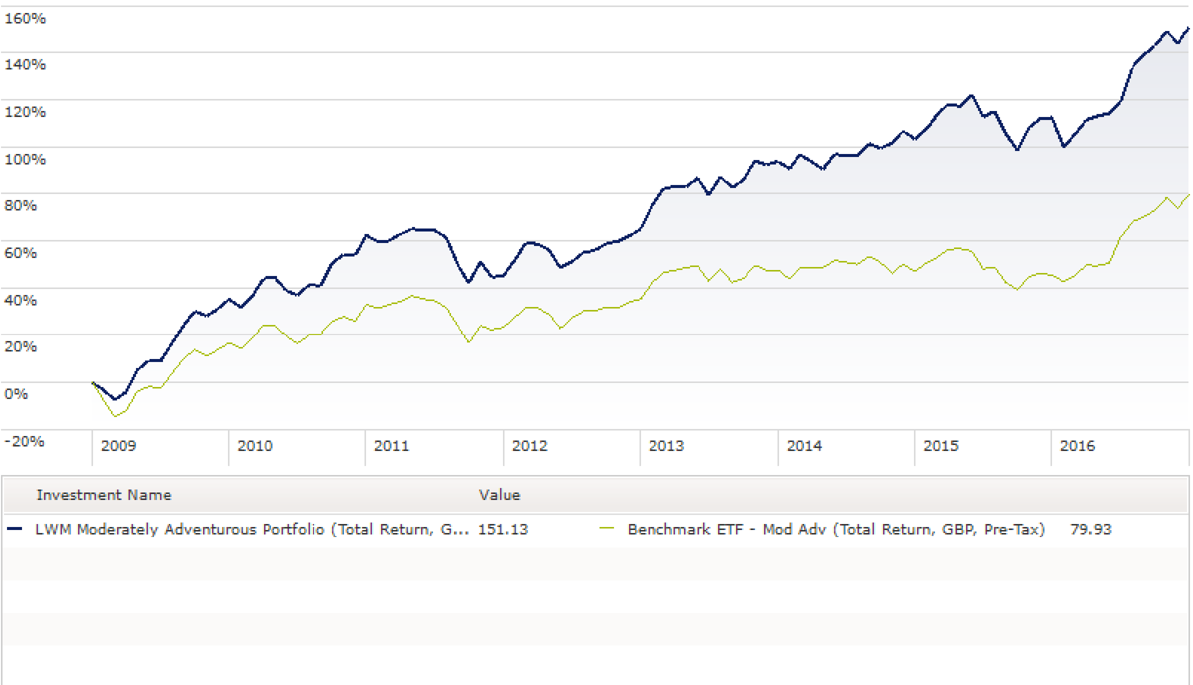


	2011	2012	2013	2014	2015	2016	Since launch
Balanced Growth	-8.29%	14.36%	13.89%	6.71%	6.24%	13.76%	11.93% p.a.
Benchmark	-5.42%	10.22%	7.27%	2.34%	0.35%	19.99%	7.61% p.a.

	1 Year to 31/12/12	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16
Balanced Growth	14.36%	13.89%	6.71%	6.24%	13.76%
Benchmark	10.22%	7.27%	2.34%	0.35%	19.99%

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 31 December 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

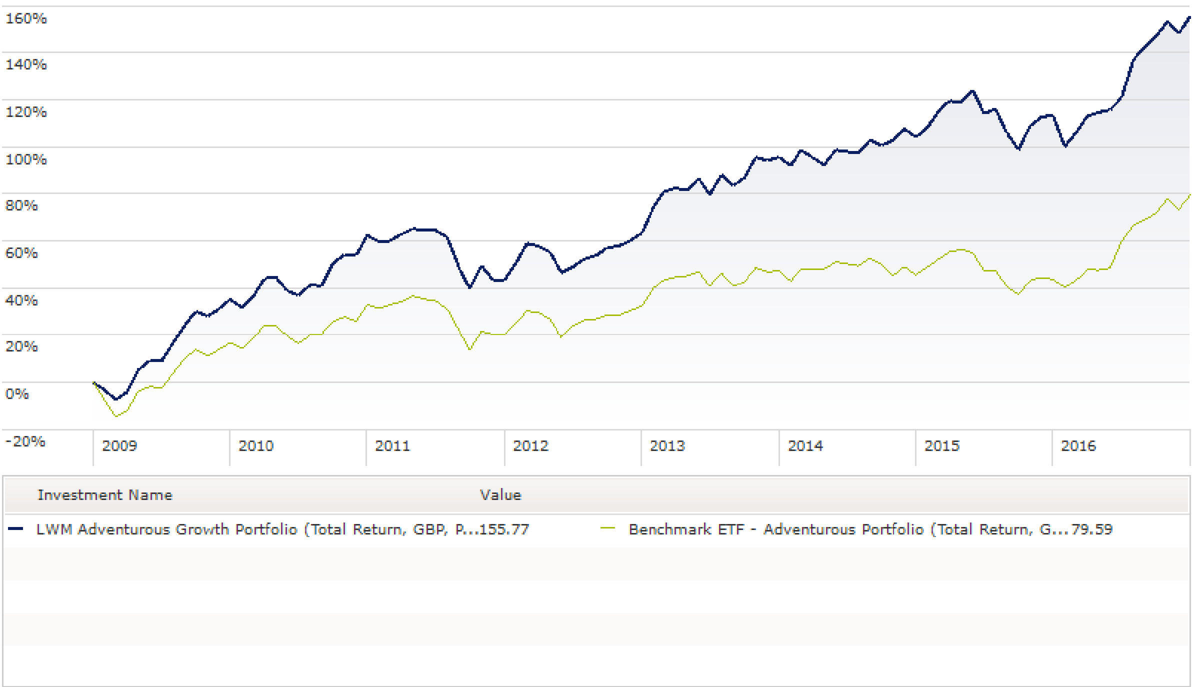


	2011	2012	2013	2014	2015	2016	Since launch
Moderately Adventurous Growth	-10.51%	13.82%	17.19%	4.86%	4.66%	18.06%	12.20% p.a.
Benchmark	-7.15%	9.67%	9.18%	-0.44%	-1.05%	23.46%	7.62% p.a.

	1 Year to 31/12/12	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16
Moderately Adventurous Growth	13.82%	17.19%	4.86%	4.66%	18.06%
Benchmark	9.67%	9.18%	-0.44%	-1.05%	23.46%

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 31 December 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

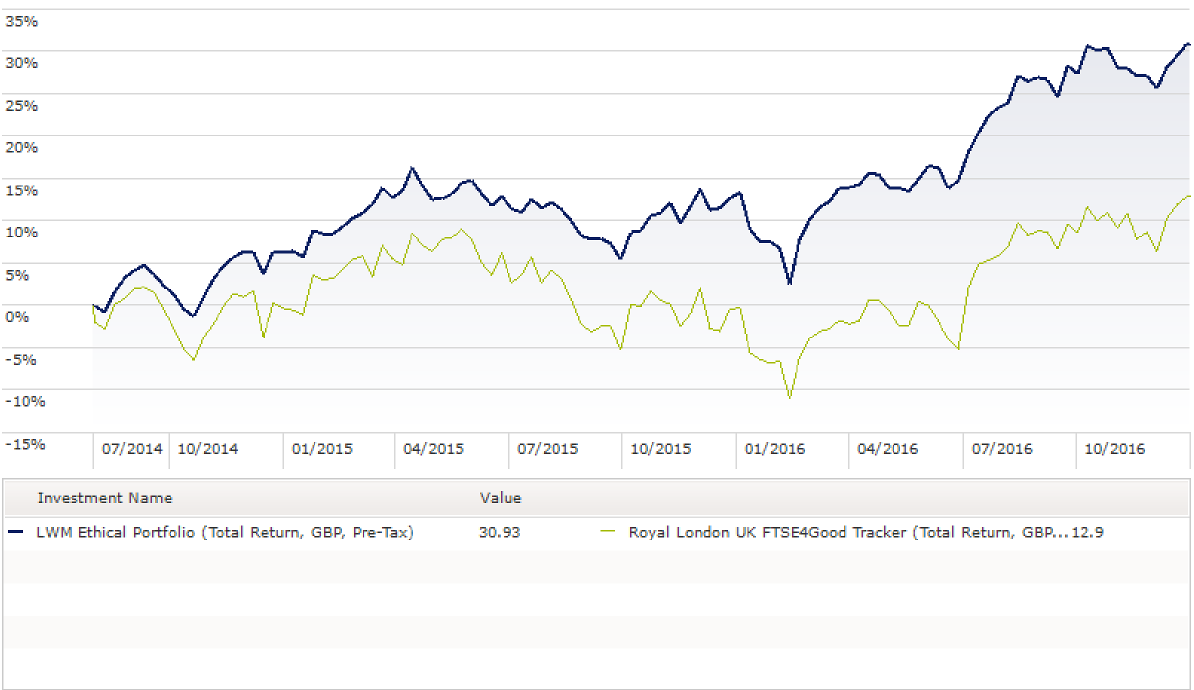


	2011	2012	2013	2014	2015	2016	Since launch
Adventurous Growth	-11.59%	13.88%	19.73%	4.30%	4.69%	19.65%	12.46% p.a.
Benchmark	-9.38%	9.91%	11.28%	-1.09%	-1.37%	24.82%	7.59% p.a.

	1 Year to 31/12/12	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16
Adventurous Growth	13.88%	19.73%	4.30%	4.69%	19.65%
Benchmark	9.91%	11.28%	-1.09%	-1.37%	24.82%

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 31 December 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
Ethical	N/A	N/A	N/A	N/A	6.63%	15.51%	11.79% p.a.
Benchmark	N/A	N/A	N/A	N/A	0.01%	13.27%	5.14% p.a.

	1 Year to 31/12/12	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16
Ethical	N/A	N/A	N/A	6.63%	15.51%
Benchmark	N/A	N/A	N/A	0.01%	13.27%

The launch date of the Portfolio is 1 August 2014, and performance is up to 31 December 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
	iShares UK Gilts 0-5 yr
	iShares Core £ Corporate Bond
	iShares £ Corp Bond 0-5 yr
	iShares J.P.Morgan $ Emerging Mkts Bond
Property	iShares Developed Markets Property Yld
UK	iShares UK Dividend
	Lyxor ETF FTSE All Share
Europe	iShares MSCI Europe Ex UK
	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)
	iShares MSCI Frontier 100
Global	iShares MSCI World Dist
Specialist	ETFS All Commodities
	ETFS Agriculture
	iShares Global Infrastructure
	Lyxor ETF MSCI World Health Care