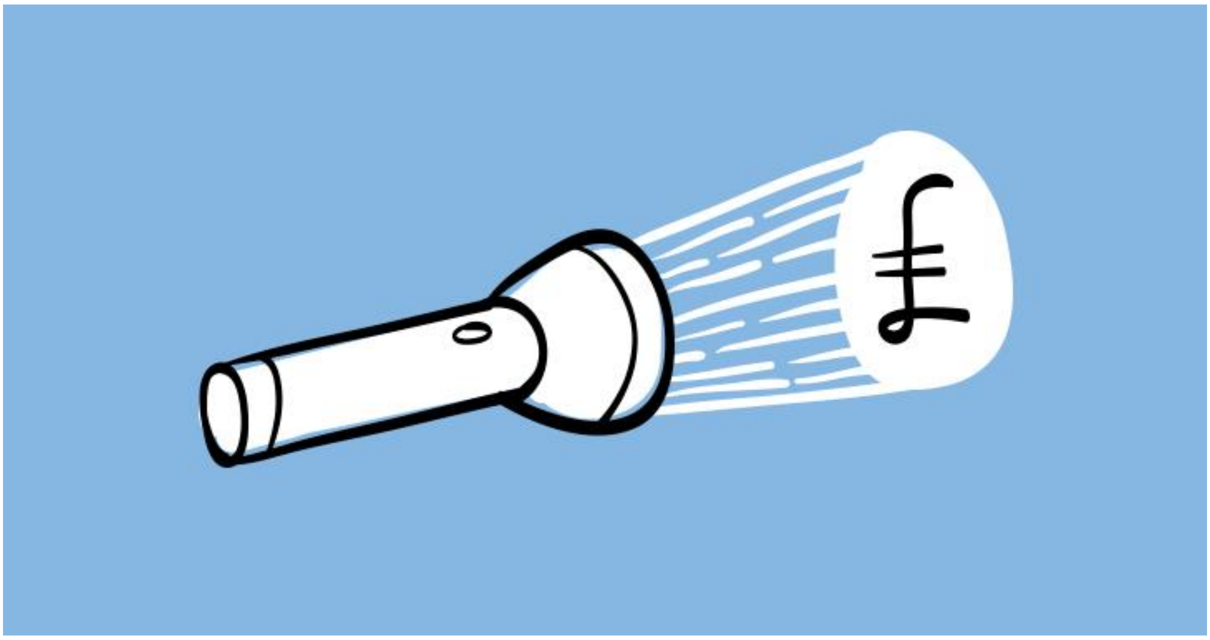
QUARTERLY PORTFOLIO REVIEW – JANUARY 2018



"Do you know what investing for the long run but listening to market news every day is like? It's like a man walking up a big hill with a yo-yo and keeping his eyes fixed on the yo-yo instead of the hill."
Alan Abelson

In the global market review I indicated that 2017 surprised many; it certainly seemed that the growth spurt was starting to slow with November being almost flat, and the first couple of weeks in December negative.

Somehow the markets found another gear which delivered very healthy figures in December, pushing the returns for the year up to between 7.83% and 21.89%.

Where there is optimism there is always pessimism. By nature, I guess I am pessimistic, but it is worth reflecting on where we have come from.

2014 and 2015 were lacklustre years; although the returns were positive there was nothing to shout about. It was hard work to get those returns with high volatility from one month to the next. This reflected that markets were constantly nervous; the slightest piece of bad news and the markets went down and then back up again.

Coming into 2016, the first 6 weeks were frankly horrible. Then the Brexit result came in, and we were relieved to have either flat or slightly positive returns for the first half of the year. You could be forgiven at this point in deciding enough was enough and bailing out, but for those who had had 2½ years of stomach-churning markets the decision to stay put now looks a really wise move.

The returns for 2016 almost in their entirety came post-Brexit. Nothing had really changed and as we have said before we can't take credit for this other than the fact that the portfolios are globally diversified and the collapse in sterling turbo-charged returns for the year. Looking at 2017, sterling has basically found a floor that it is happy with and seems to bounce around this level, so the returns are less related to sterling weakness because we haven't had the same dramatic impact. What has changed is that the data coming out is strong across most economies. This means rather than the markets being driven up because they feel it is good to do so, there is something that supports that growth.

In the past we have seen extreme volatility but in 2017 we saw none of that; there were two negative months, one of which was so minor it could be argued that it was flat. So, we go into 2018 in a very different place; the growth in 2016 was to a greater extent about the collapse in sterling. In 2017 it was more about solid financial data from across most global economies, and with a sense of optimism matched with this data, in theory there is no reason we shouldn't see more growth in 2018 and beyond.

Since 2008 there have been many false starts, but this could be changing. That's the optimist in me! Now, markets ebb and flow and we haven't seen a proper correction since 2008 so there are a small number of managers who feel this is on the cards. They feel we are at the end of the cycle and this is the last hoorah! They might well be correct; we have seen volatility (with exception of 2017) where the markets feel confident and then drop back, but nothing like 2008 and other serious corrections. Perhaps, 2011 was as close as we got to that. So, are they right, is there a correction coming?

The simple answer is that I don't know. I can see why this could run, and I can see why we should be cautious. What I do feel is that having some volatility in the market would be healthy. On paper we should see positive returns this year, but nothing is certain and perhaps seeing the last 18 months as "money in the bank", should a correction happen is not a bad thing.

Fundamentally, Alan Abelson is right; our role is naturally to look at what is happening today, but our focus has to be on what clients' long-term goals are. We invest for the long-term, we don't try to anticipate what the markets will do because research shows that staying focused over the long term is the best way to deliver on your goals.

In summary, I would like to think we should see positive returns this year but with potentially higher volatility, but at a lower level than 2017 and 2016. (I'm not placing any bets on this!)

George Ladds
January 2018

PORTFOLIO OVERVIEW

Bitesize introduction

Performance 1 January – 31 December 2017						
	Defensive Portfolio	Cautious Risk 4 Portfolio	Cautious Risk 5 Portfolio	Balanced Portfolio	Moderately Adventurous Portfolio	Adventurous Portfolio
Portfolio	7.83%	10.43%	11.81%	18.24%	20.16%	21.89%
Benchmark	5.96%	7.28%	7.76%	10.17%	11.59%	12.79%

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.

After a pullback in September, October recovered strongly, November was flat and a rally at the end of December delivered strong figures for the month. The final quarter delivered positive returns (before costs) of between 3.03% and 4.81%.

The more equity-based portfolios strongly this year; both adventurous portfolios are ahead of the 2016 returns, with the Balanced Portfolio significantly so. The lower risk portfolios also delivered strong returns for the year, but were slightly below that of 2016. All the portfolios outperformed their index.

The last quarter was spent meeting managers and we attended nearly 25 meetings throughout this period. This is really helpful in understanding how people view the market. As indicated the mood is positive but this time around, optimism is supported by strong economic data.

In summary, when we wrote the last update we said that we hoped you would be happy with the end of year figures. After 2½ years of lacklustre returns, the last 18 months have certainly made up for that. Over 4 years the returns on the portfolios have been between 30% and 59%, over five years this is between 39% and 90%. Hopefully something to be pleased about.

Final quarter

By the end of the year, 76% of the funds outperformed their benchmark; this was a slight pullback from the end of September where this reached 87%. This reflects that the rally in December benefited funds which track the index. There was also a change in the way that Morningstar show the performance for exchange traded funds; it seemed that they hadn’t been recording this correctly for several years and therefore this has raised the benchmark.

Having said that, for the year the portfolios outperformed the index by between 23% and 41%. Even over the long term the Balanced Portfolio (since launch) has outperformed the index by 40%, and over 5 years by 25%. This reflects the changes in the performance of the benchmark.

In July we introduced some funds into the portfolios to blend with the Standard Life Global Absolute Return Fund. The Threadneedle Dynamic Real Return Fund has performed strongly since being added, but the Jupiter Absolute Return Fund has had a difficult year. This fund responds best when there is volatility in the market, so 2016 was a strong year for the fund. In 2017 where there was no volatility the fund struggled and delivered negative returns. Having said that it did have a better December which pulled back some of those negative months.

The Standard Life Global Absolute Return Fund struggled for most of the year but in the final quarter the team seemed to turn things around, and the fund ended the year up 2.38%. We have a meeting with them in the early part of 2018 so hopefully things are changing but we will report back. The Invesco Global Targeted Fund performed well for the first 9 months, but has started to pull back a little in the last quarter.

It is worth adding that the alternative and property funds are key components of the more cautious portfolios. These funds have delivered the lowest returns whilst equities have raced ahead. So, we would be expecting these to deliver lower returns in this environment. They do have exposure to equities which have acted as a counterbalance.

In summary, the fourth quarter ended the year strongly and with 76% of funds outperforming the index, which helped to deliver another good year. The improved performance in GARS is one to watch, and if volatility returns to the market this will benefit the Jupiter Absolute Return Fund.

First quarter

2018 has started the way 2017 ended; with the markets edging higher. This could be famous last words, but there doesn't appear to be any obvious signs of a full-blown global meltdown. There are pressure points, and these could bring volatility back into the market. (I retain full rights to rescind this statement in future!)

Volatility is not a bad thing but what it may mean is that the returns for 2018 are lower than the previous 18 months, and that achieving those returns will feel like hard work. If there is a curve ball in 2018, there is plenty of fat in the system to provide a buffer against significant falls. Having said that, evidence shows that often markets recover within a period of 1 to 2 years. The bounce back after a crash can be as strong as the crash itself. It just feels uncomfortable at the time.

In summary, we are looking forward to 2018 where optimism is supported by strong economic data, but we should <u>not</u> be complacent, as volatility may well return to markets. If this happens, it will mean that <u>if</u> 2018 delivers positive returns, it will be a much harder grind than we have seen over the past 18 months.

Summary

I am repeating myself a little here, but the message is key: diversification. When looking at the data, we can assume the markets will continue to go up, but the reality is that we don't know they will with any certainty. We can't predict which areas will do best in 2018 or 2019 although we could take a guess, but we are not in the habit of guessing! Being diversified and having fund managers deliver consistent returns is the best way to deliver returns over the long term.

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.

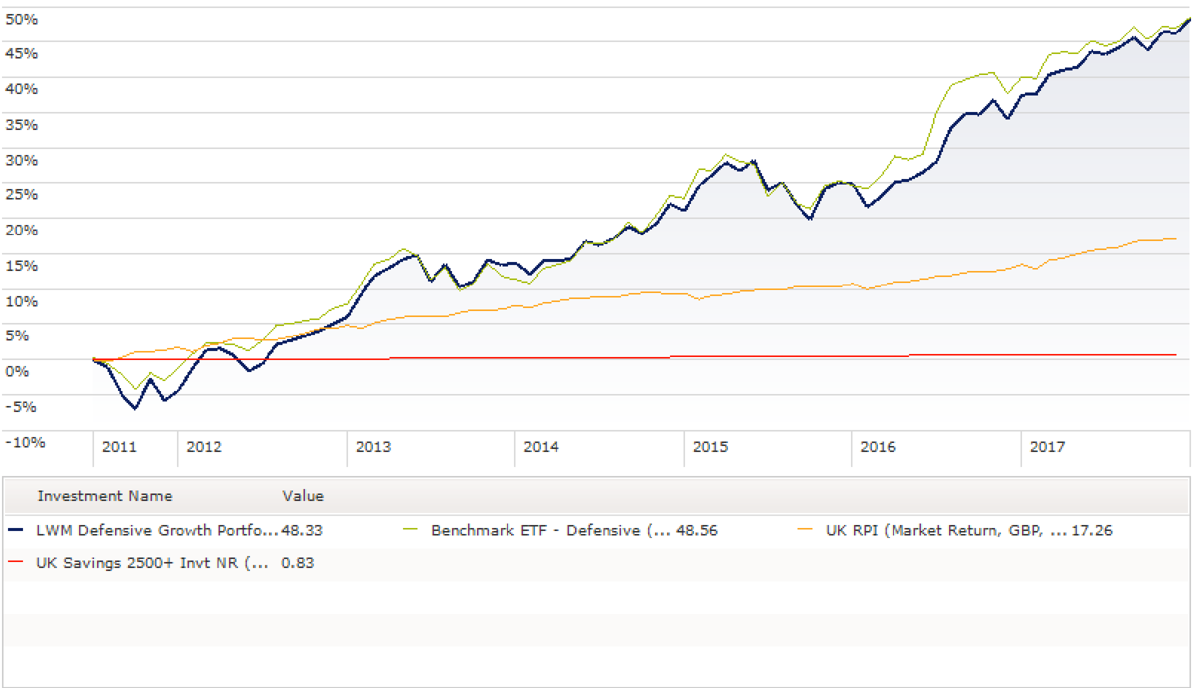
Summary of performance – 1 January 2009 – 31 December 2017

Performance up to 31 December 2017												
	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	7.83%	5.96%	18.67%	19.12%	22.48%	20.87%	30.39%	33.35%	39.76%	37.63%	48.33%	48.56%
Cautious Risk 4	10.43%	7.28%	23.30%	21.91%	27.55%	21.66%	38.73%	36.01%	52.57%	43.82%	162.97%	99.72%
Cautious Risk 5	11.81%	7.76%	25.63%	22.78%	29.96%	24.13%	39.66%	37.37%	53.62%	45.69%	158.82%	103.68%
Balanced	18.24%	10.17%	34.47%	28.38%	42.77%	29.98%	52.32%	41.42%	73.47%	54.00%	191.34%	114.86%
Mod Adventurous	20.16%	11.59%	41.84%	34.05%	48.36%	33.70%	55.53%	41.53%	82.28%	57.55%	201.93%	120.54%
Adventurous	21.89%	12.79%	45.83%	37.14%	52.61%	36.26%	59.14%	43.23%	90.53%	62.44%	211.96%	122.95%
Ethical	15.73%	10.52%	33.60%	25.08%	42.46%	25.09%	-	-	-	-	51.44%	24.68%

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

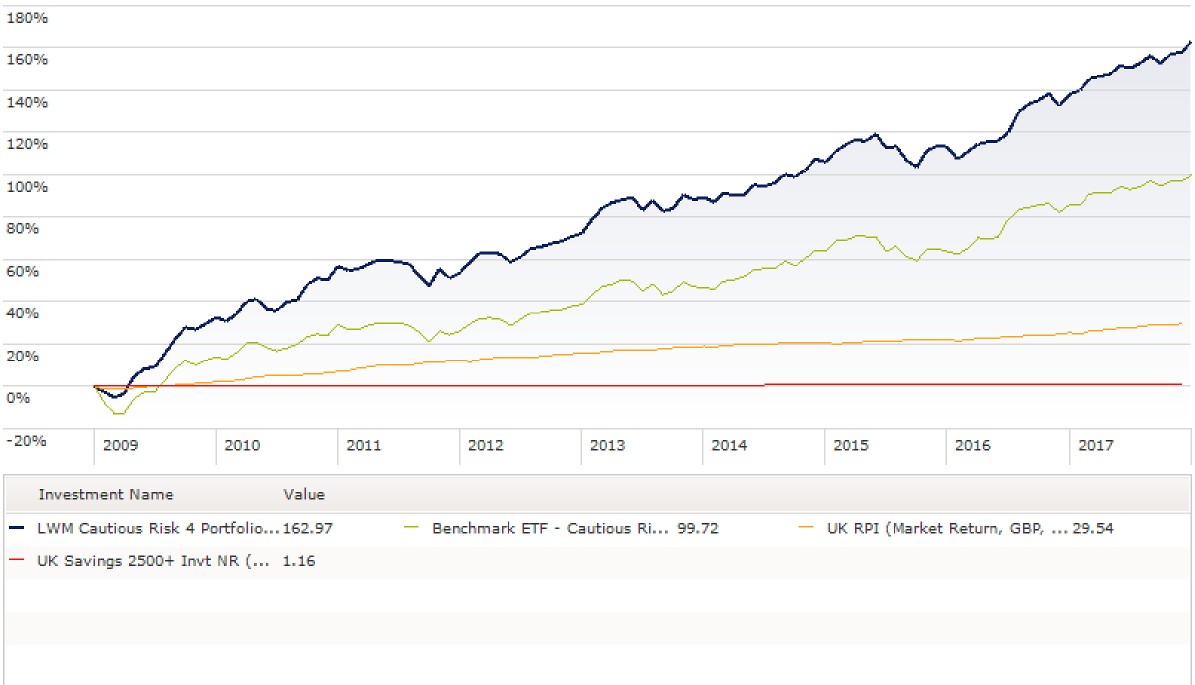


	2012	2013	2014	2015	2016	2017	Since launch
Defensive	11.02%	7.18%	6.50%	3.29%	10.14%	7.83%	6.25% p.a.
Benchmark	9.26%	3.21%	10.32%	1.47%	12.42%	5.96%	6.27% p.a.

	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16	1 Year to 31/12/17
Defensive	7.18%	6.50%	3.29%	10.14%	7.83%
Benchmark	3.21%	10.32%	1.47%	12.42%	5.96%

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 2017. 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)

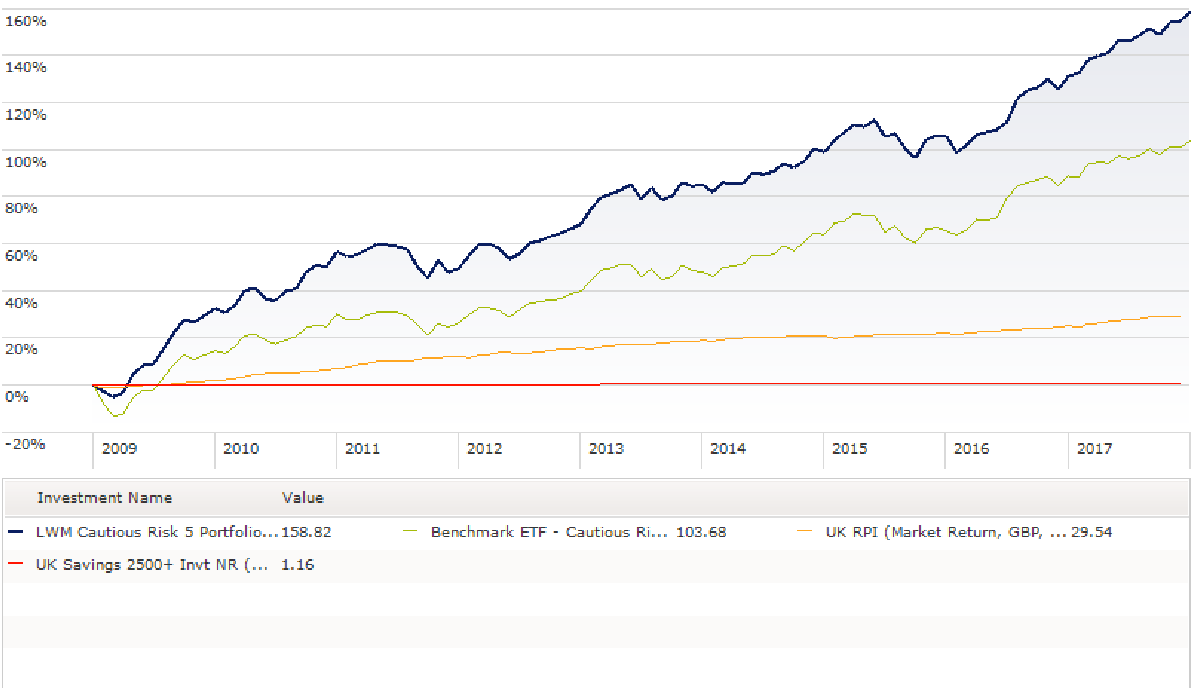


	2012	2013	2014	2015	2016	2017	Since launch
Cautious Risk 4	12.27%	9.97%	8.81%	3.52%	11.73%	10.43%	11.35% p.a.
Benchmark	10.08%	5.74%	11.79%	-0.20%	13.64%	7.20%	7.99% p.a.

	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16	1 Year to 31/12/17
Cautious Risk 4	9.97%	8.81%	3.52%	11.73%	10.43%
Benchmark	5.74%	11.79%	-0.20%	13.64%	7.20%

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 2017. 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)

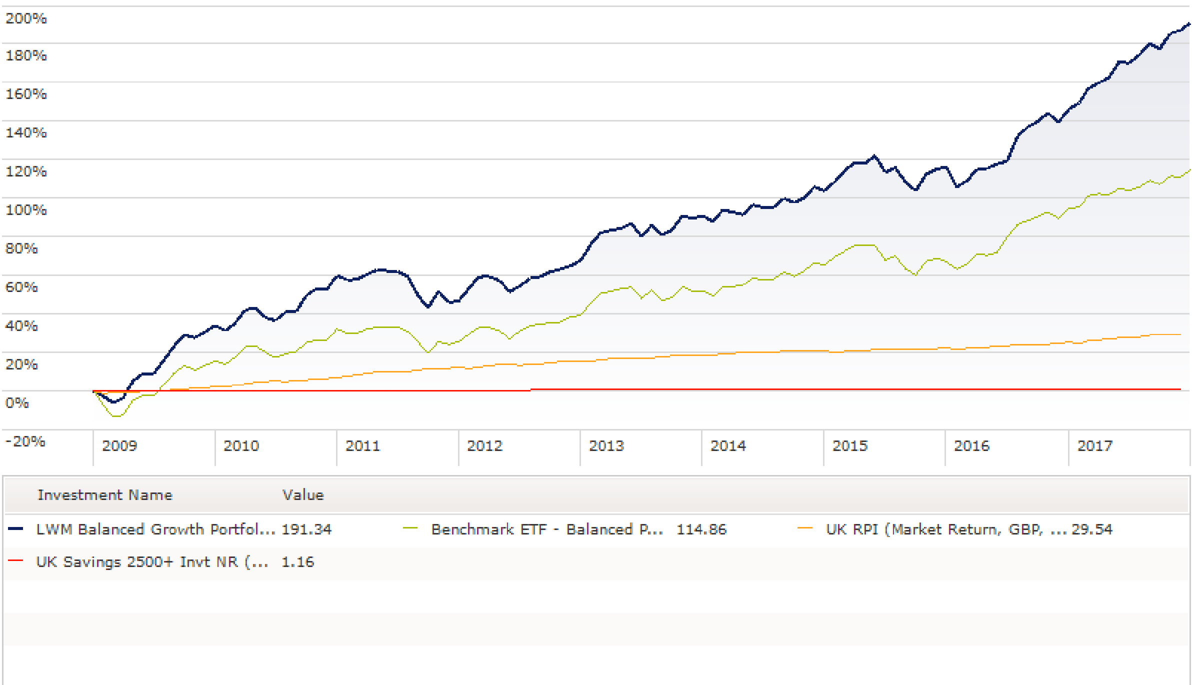


	2012	2013	2014	2015	2016	2017	Since launch
Cautious Risk 5	12.89%	10.00%	7.49%	3.52%	12.42%	11.81%	11.15% p.a.
Benchmark	10.39%	6.06%	10.67%	1.10%	13.94%	7.76%	8.23% p.a.

	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16	1 Year to 31/12/17
Cautious Risk 5	10.00%	7.49%	3.52%	12.42%	11.81%
Benchmark	6.06%	10.67%	1.10%	13.94%	7.76%

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 2017. 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

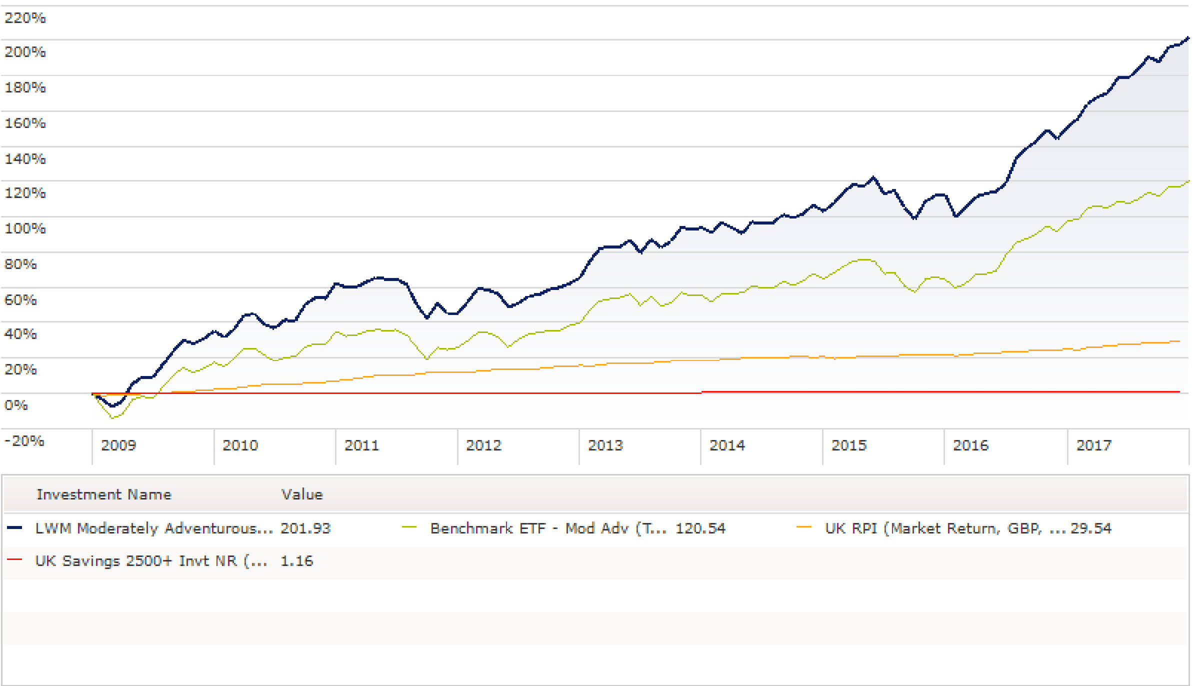


	2012	2013	2014	2015	2016	2017	Since launch
Balanced Growth	14.36%	13.89%	6.71%	6.24%	13.76%	18.24%	12.62% p.a.
Benchmark	10.98%	8.89%	8.80%	1.25%	16.53%	10.17%	8.87% p.a.

	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16	1 Year to 31/12/17
Balanced Growth	13.89%	6.71%	6.24%	13.76%	18.24%
Benchmark	8.89%	8.80%	1.25%	16.53%	10.17%

Note: Please read special note to tables at the end of tables. The launch date of the is 1 January 2009, and performance is up to 31 December 2017. 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

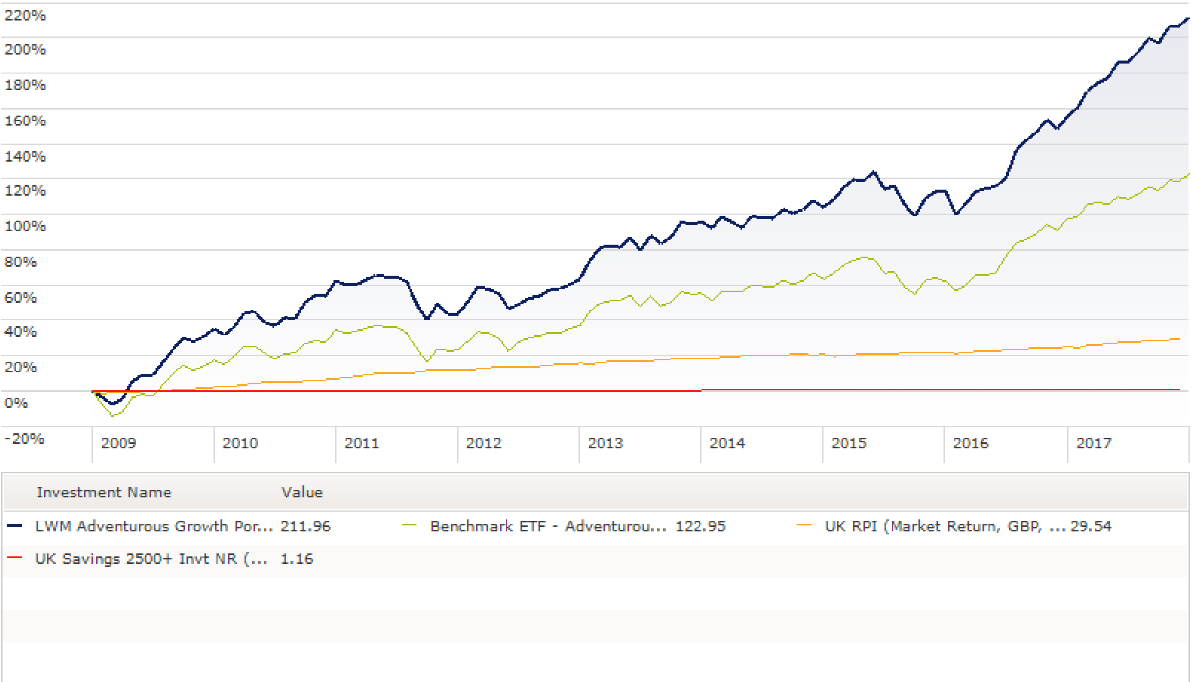


	2012	2013	2014	2015	2016	2017	Since launch
Moderately Adventurous Growth	13.82%	17.19%	4.86%	4.66%	18.06%	20.16%	13.07% p.a.
Benchmark	10.99%	11.32%	5.86%	-0.26%	20.12%	11.59%	9.19% p.a.

	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16	1 Year to 31/12/17
Moderately Adventurous Growth	17.19%	4.86%	4.66%	18.06%	20.16%
Benchmark	11.32%	5.86%	-0.26%	20.12%	11.59%

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 2017. 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

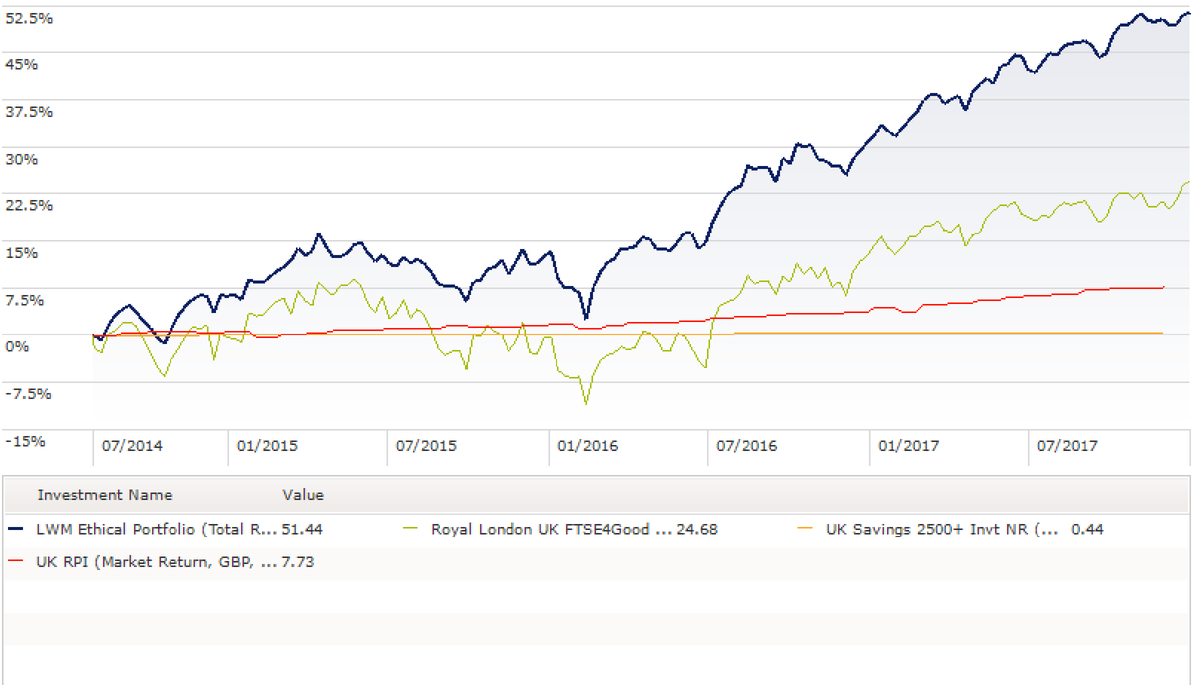


	2012	2013	2014	2015	2016	2017	Since launch
Adventurous Growth	13.88%	19.73%	4.30%	4.69%	19.65%	21.89%	13.48% p.a.
Benchmark	11.13%	13.41%	5.12%	-0.65%	21.59%	12.79%	9.32% p.a.

	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16	1 Year to 31/12/17
Adventurous Growth	19.73%	4.30%	4.69%	19.65%	21.89%
Benchmark	13.41%	5.12%	-0.65%	21.59%	12.79%

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 2017. 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



	2012	2013	2014	2015	2016	2017	Since launch
Ethical	N/A	N/A	N/A	6.63%	15.51%	15.73%	12.92% p.a.
Benchmark	N/A	N/A	N/A	0.01%	13.27%	10.52%	6.66% p.a.

	1 Year to 31/12/13	1 Year to 31/12/14	1 Year to 31/12/15	1 Year to 31/12/16	1 Year to 31/12/17
Ethical	N/A	N/A	6.63%	15.51%	15.73%
Benchmark	N/A	N/A	0.01%	13.27%	10.52%

The launch date of the Portfolio is 1 August 2014, and performance is up to 31 December 2017. 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	Vanguard Global Bond Index Fund
	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
	Royal London UK FTSE4Good Tracker