Investment Commentary and Portfolio Update – July 2015

Stan Gaskin Ltd
Financial Advisers

This document is designed to provide clients of SG Wealth Management and Stan Gaskin Ltd background information into our latest opinions on investment matters, covering the economic background environment and how we are positioning clients' portfolios with this in mind. *Your attention is drawn to the risk wording and caveats at the end of the document.*

Comparative Market Data – to end June 2015

The following table shows the performance of different global markets over recent months and years:

Market Index	1m	3m	6m	1yr	3yr	5yr	10yr
FTSE 100	-6.40	-2.76	1.36	0.20	30.38	58.51	83.49
FTSE 250 Index	-3.26	3.56	10.45	14.51	73.72	114.39	212.78
FTSE All Small ex Inv Trusts	-1.47	5.42	11.86	8.40	88.29	119.49	95.20
FTSE World Europe EX UK Index	-5.66	-5.83	4.11	1.12	50.46	55.89	105.28
FTSE World Index	-5.15	-5.16	1.92	9.86	47.60	74.37	125.20
MSCI EM (Emerging Markets)	-5.49	-4.95	2.07	3.15	11.26	13.99	148.64
Hang Seng (HK / China)	-5.91	1.24	12.72	27.77	50.10	48.54	196.85
Nikkei 225 (Japan)	-3.17	-2.54	11.93	20.13	46.11	48.37	80.29
S&P 500 (US)	-4.90	-5.49	0.06	16.08	57.94	105.03	128.73
FTSE British Government All Stocks	-1.73	-3.41	-1.29	8.86	8.76	29.99	67.58
IPD UK All Property	1.37	3.64	6.76	16.72	42.84	63.25	75.14
LIBOR GBP 1m (Cash)	0.04	0.13	0.25	0.50	1.51	2.82	24.08
UK Retail Price Index	0.15	0.70	0.54	1.01	7.07	15.53	34.70
ARC Sterling Equity Risk PCI*	-4.30	-2.96	1.77	4.36	31.43	48.44	82.95
ARC Sterling Steady Growth PCI*	-3.60	-2.54	1.96	4.94	27.11	41.31	74.61
ARC Sterling Balanced Asset PCI*	-2.80	-2.12	1.78	4.42	22.08	33.82	63.97
ARC Sterling Cautious PCI*	-1.80	-1.60	1.21	3.32	14.54	23.00	51.16
IA Mixed Investment 0%-35% Shrs*	-2.52	-2.57	0.80	3.40	14.68	25.96	41.66

Data source: Financial Express Analytics. Cumulative gross total return, rebased to GBP, to 30/06/2015.
**These indices have been added to the above table as comparators for our risk adjusted model portfolios.*

Quarterly Market Commentary – written as at end June 2015

It seems sensible to start a whistle-stop tour of our views on the global economy in Greece, given the amount of attention it has demanded from politicians, bankers and newscasters in recent times. However it has been dangerous commenting on Greece in written word, given the fluidity of circumstances on a daily basis and each passing deadline!

Before Syriza won power at the start of the year many economic indicators for Greece had started to improve following the bail outs in 2010 and 2012, however the recent months of impasse with creditors has sent this fragile recovery into dramatic reverse. It is impossible not to feel sorry for the Greek people in all of this, who voted in January 2015 on a mandate of change and seem to be the unfortunate pawns in games of brinkmanship between their domestic and European political masters.

The uncertainty of the Greek situation has naturally led to an uptick in volatility in financial markets in recent weeks, albeit the risk of dramatic financial contagion into a much wider European banking and financial crisis is much lower than the past due to the firewalls that have been built in recent times.

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Looking much further east, events in China have also focussed attention and caused volatility on a domestic and regional basis. Despite slowing Chinese economic growth and weakening fundamentals, the Shanghai Composite market rose over 150% in the 12 months to mid June, fuelled largely by speculation from small domestic investors often borrowing to invest in the domestic A Shares market. As often, this sort of bubble has been followed recently by a significant bursting with markets falling over 25% since their peak. Whilst the local market is largely unavailable to foreign investors, fears grew that the volatility may spill out into other markets as Chinese investors reassess their positions and in some instances nurse the loss of their life savings.

Returning home, the UK saw surprise election results (particularly for Paddy Ashdown who is still probably digesting his hat!), with the Conservatives winning an outright mandate to rule. Whilst this could prove difficult at times with a slender majority, it promises to allow continued business friendly policies to be implemented to help drive economic growth to balance out planned further austerity measures. The UK economy appears to be in generally decent health, albeit the pending European referendum will cause additional uncertainty and volatility as it approaches on the horizon.

The Japanese and developed European economies (excluding Greece) are areas that we continue to favour as significant monetary stimulus appears to be starting to have sustained positive impacts. Whilst equity markets had already seen some healthy gains in reaction to the announcement of monetary policies, as the results of these start to broaden into more fundamental economic improvements, we feel it is sensible to add slightly to our current exposure in these regions by increasing our weightings to our **Jupiter European** and **Schroder Tokyo** positions (performance of which over 12 months to end June is shown below), and adding new holdings to our Adventurous approach.

Beyond the exporters and energy companies whose earnings have been suffering as a result of dollar strength and the low oil price respectively (potentially temporary factors), growth in earnings from US companies seem to be still making decent progress.

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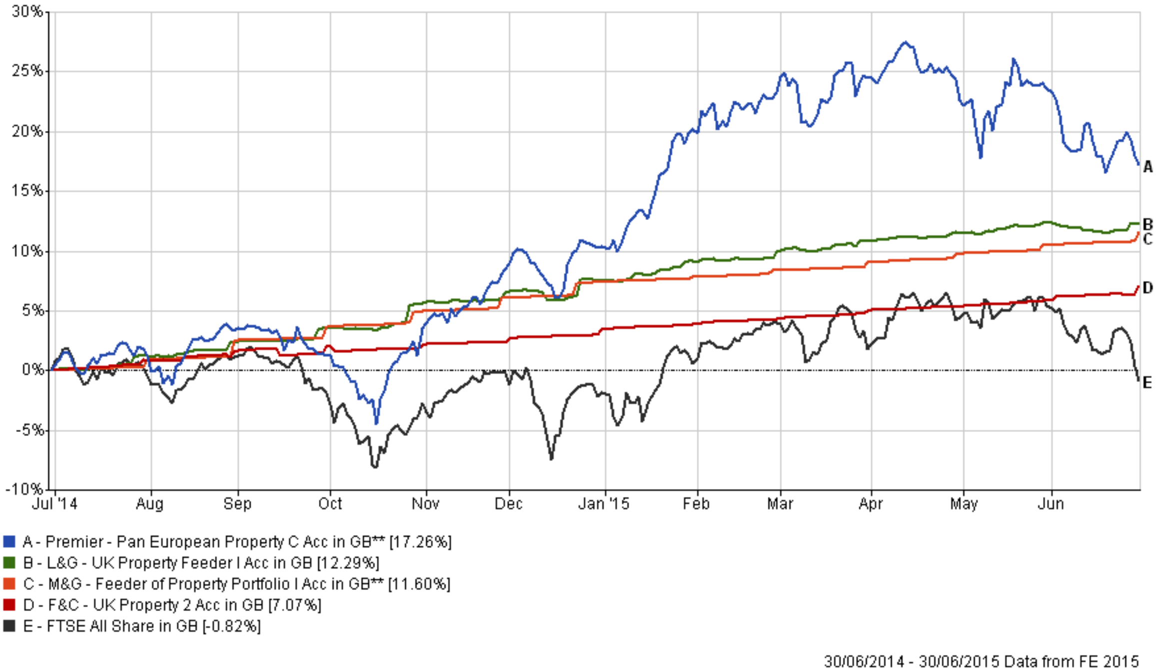
The US is likely to still be on course to start raising rates before the year is out, and this expectation has already caused a noticeable uptick in government bond yields around the world since April. Of course, when yields rise the price of bonds is falling and therefore recent weeks have seen a correlation in returns from bonds and equities (i.e. both falling in value) when more commonly negative correlation applies.

Furthermore history suggests that when rate rises do actually start to happen, additional volatility and synergy between returns in bonds and equities (negatively) may occur on a temporary basis however whilst bonds may continue to struggle in a rate rising environment, equities then often tend to start to move forward again.

Whilst the outlook in some areas remains somewhat uncertain, we feel that equities can continue to do well over the medium term against a backdrop of relatively modest growth and what is likely to be a very gradually tightening monetary policy. We feel that the increase in volatility we have seen in recent weeks is likely to continue to be seen going forward, although of course it should be remembered that this is the sort of environment in which active stock pickers (which we tend to favour within the portfolios) tend to perform better in. Indeed volatility need not be a negative factor and many of our investment managers have been using recent market dips to add to their favoured positions at more attractive valuations.

In previous commentaries we have alluded to the importance of diversification, particularly for less risk tolerant investors, and this remains a key focus of ours. Indeed we are looking to nudge up our property exposure slightly to add further diversification from the mainstream performance of equities and bonds. We are adding the **F&C Property** fund into our more cautious portfolios, and the **Premier Pan European Property** fund into more aggressive portfolios given that it invests in property and land companies, and therefore is correlated with equities over shorter periods. The following two charts show this by looking at our preferred property funds against the FTSE All Share over the 12 months to the end of June.



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Changes to Model Portfolios

This section of our update provides details of any changes we will be making to our target model portfolios following the Investment Committee's last quarterly review meeting. Please read this in conjunction with the relevant model portfolio factsheet. *NB not all clients are affiliated to model portfolios and even when they are, a change detailed here may not be deployed to an underlying client portfolio for specific reasons.*

Overview of Changes

Within the SG Model portfolios we have made some minor alterations to asset allocation in order to adjust our overseas equity positions, slightly increasing exposure to European and Japanese equities where fundamental economic improvements seem to be coming through. We have temporarily decreased exposure to broader Asian markets due to the effect that slowing Chinese growth could cause.

Elsewhere, UK Smaller Companies exposure has been added to our more adventurous exposures as this part of the UK equity market looks better valued on a relative basis.

We have also slightly increased our exposure to commercial property, as this asset class still seems well positioned to deliver attractive returns relative to other classes. Our Property exposure is now slightly higher than our preferred long-term position, and we will look to reduce this in the future when other assets offer more relative value. Fixed interest positions in some instances have been trimmed further in anticipation of issues with potential further volatility in this asset class and nervousness around liquidity in certain areas of the bond market.

We still remain well diversified across the portfolios to help make the best of future opportunities and to try and reduce volatility that may occur in markets in the future.

Defensive – Reduce Sterling Strategic Bond from 26.5% to 24%, and increase Property by +2.5%. Add a Japanese equity weighting (2.5%) and remove the broader Asian equity weighting (-2.5%). Swap the 2.5% US Equity weighting for a global equity mandate.
Cautious – Reduce Sterling Strategic Bond from 21% to 19%, and increase Property by +2.5%. Remove Asian Equity -3.5%, with additional funds allocated to Japanese (+2%) and European (+1%) equities.
Balanced – Asian Equity exposure reduced (-4%), with additional funds allocated to Japanese (+2%) and European (+1%) equities and Property (+1%).
Moderately Adventurous – Asian Equity exposure reduced (-4.5%), with additional funds allocated to Japanese (+1.5%) and European (+1.5%) equities and Property (+1.5%). UK Equity Income trimmed by 3% to add UK Smaller Companies exposure (3%).
Adventurous – Asian Equity exposure reduced (-5%), with additional funds allocated to Japanese (+2%) and European (+3) equities and Property (+2%). UK Equity Income trimmed by 6% to add UK Smaller Companies exposure (5%).

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Within our asset allocation models we are also making some alterations to the underlying funds held, due to ongoing research in various areas. The new funds being included across various the portfolios are as follows:

- **Premier Pan European Property –** This fund invests in property companies in both the UK and continental Europe. Due to not holding physical property, the manager can alter exposure relatively quickly to adapt to changing economic fundamentals. By investing in property company shares, the fund can demonstrate equity type volatility at times. Alex Ross has successfully managed the fund since 2005 and previously ran the Aberdeen Property Share fund.
- **F&C Property –** This UK commercial property fund is only 5 years old and therefore remains relatively nimble. We view this as a straightforward and potentially less risky fund that is well diversified regionally and focusses on generating steady returns to investors.
- **Schroder UK Dynamic Smaller Companies** – Paul Marriage has an excellent long-term track record in running this UK Smaller Companies fund, which was previously operated at Cazenove Capital prior to acquisition by Schroders in July 2013. The fund will principally invest in the smallest 10% of UK listed companies, which are selected on a purely bottom-up basis.
- **Henderson European Focus –** This is an actively managed concentrated portfolio investing in European (ex UK) companies. The fund managers are free to implement their views on markets by identifying themes and strategies and mapping them to specific company opportunities.
- **JPM Japan –** This is another bottom-up stockpicking equity fund, being added at present to the Adventurous portfolio to broaden our Japanese exposure. JP Morgan have a substantial and largely long-serving Japanese equity team who have responsibility for managing this fund.

The specific changes we will be deploying across the portfolios are therefore as follows:

Defensive Portfolio Changes

- Swap JP Morgan US Equity Income for Fundsmith Equity (2.5%)
- Swap Newton Asian Income for Schroder Tokyo (2.5%)
- Trim M&G Property Portfolio (-2.5% to 5%) and M&G Optimal Income (-2.5% to 3%)
- Introduce new holding in F&C Property (5%)

Cautious Portfolio Changes

- Remove Newton Asian Income (-3.5%)
- Increase Jupiter European (+1% to 5%) and Schroder Tokyo (+1% to 5%)
- Trim M&G Property Portfolio (-2.5% to 5%) and M&G Optimal Income (-2.0% to 3%)
- Introduce new holding in F&C Property (5%)

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Balanced Portfolio Changes

- Remove Newton Asian Income (-4%)
- Increase Jupiter European (+1% to 6%) and Schroder Tokyo (+2% to 6%)
- Trim M&G Property Portfolio (-2% to 8%)
- Introduce new holding in Premier Pan European Property (3%)

Moderately Adventurous Portfolio Changes

- Remove Newton Asian Income (-6%)
- Increase Jupiter European (+1.5% to 7.5%) and Schroder Tokyo (+1.5% to 7.5%) and First State Asia Pacific Leaders (+1.5% to 6.5%)
- Trim M&G Property Portfolio (-2.5% to 5%), Rathbone Income (-1% to 8%) and Royal London UK Equity Income (-2% to 8%)
- Introduce new holdings in Premier Pan European Property (4%) and Schroder UK Dynamic Smaller Companies (3%)

Adventurous Portfolio Changes

- Remove Newton Asian Income (-7%)
- Increase First State Asia Pacific Leaders (+2% to 10%)
- Trim M&G Property Portfolio (-4% to 6%), Rathbone Income (-1% to 5.5%), Royal London UK Equity Income (-4% to 6%), Artemis Income (1% to 5%) and Lazard emerging Markets (-1% to 6%)
- Introduce new holdings in Premier Pan European Property (6%) and Schroder UK Dynamic Smaller Companies (5%)

Portfolios will be rebalanced again in line with target fund weightings during mid August 2015 and therefore you may receive confirmations of resulting transactions once they happen.

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Risk Warnings and Other Important Information

We hope that this document is helpful in explaining the background to investment decisions that are being made within the portfolios of our clients. Please bear in mind the following important points:

- Any past performance is not guaranteed and not necessarily a guide to future returns. The value of investments and the income they produce can be affected by a number of factors and can go down as well as up, and the value you get back may be less than your initial investment.
- Opinions are those of SG Wealth Management Ltd and Stan Gaskin Ltd at the time of writing and are subject to change. They are based upon our investment research and philosophy and there are no guarantees of any particular outcome.
- It is important that your investment portfolio is regularly reviewed to ensure it continues to be appropriate for your circumstances, needs and underlying economic conditions. We will do this with you as part of an ongoing client agreement.
- Investors should not construe this document as specific advice and we take no responsibility for the outcome of any individuals taking actions personally (i.e. not via SG Wealth Management or Stan Gaskin Ltd) based upon the contents of this, or other published investment documents
- Not all changes detailed in this document may be deployed across clients' portfolios as there may be circumstances where it was not judged suitable to do so. In some instances clients may hold exposure to the MFM SGWM Managed fund, as an alternative to specific equity fund holdings. This fund may not exactly replicate equity fund holdings in other portfolios.
- All figures quoted are bid-bid, total return, source FE Analytics, unless otherwise specified.