Discretionary Portfolio Service

Market Commentary for the Period 1st January 2016 – 31st March 2016

Global equity markets broadly fell over the period, with emerging market equities outperforming their developed market counterparts. The IMF cut its global growth forecast in 2016 to 3.4% from 3.6% citing commodity and China weakness leading to a challenging outlook for emerging markets, as well as US policy tightening. Later the OECD also cut its growth forecast to 3% from 3.3% commenting on weakness in economic data. A number of the world's key central banks cut interest rates and lowered rate expectations further in light of global economic challenges. In the UK, a date was set for the EU referendum which sparked much debate and amplified uncertainty in markets. The growth outlook in China deteriorated with lower economic growth coupled with poor trade data. Agreements were made between both OPEC and non-OPEC countries to limit oil production to support the price of oil. Bond markets were supported by generally pessimistic central bank comments leading to expectations for interest rates to remain lower for longer.

US equity markets ended the quarter slightly lower with investors tentative over changing rhetoric from the central bank. In the recent Federal Reserve meeting, the growth and inflation outlook was lowered marginally in both 2016 and 2017 citing global economic and financial risks. The bank now expects to raise interest rates twice this year, as opposed to four hikes expected in the December meeting last year. US fourth quarter GDP fell to 1.4% q/q annualised, encouraged by a larger than expected drag from business inventories. Inflation fell to 1% y/y in February as lower energy costs detracted. Unemployment remained at 4.9% in February, much in line with expectations.

European equity markets fell despite significant policy action by the central bank. The European Central Bank announced a series of measures in order to boost growth including; an interest rate cut to 0%, increase in stimulus by €20bn a month and a new series of low cost loans to banks. ECB President Mario Draghi implied that interest rates had reached their lower bound, subject to future economic conditions. The central bank of Sweden and Norway also cut interest rates to -0.50% and 0.50% respectively, both citing lower expected inflation and adding that there would be further scope to cut rates. European fourth quarter GDP remained at 0.3% q/q as growth was boosted by fixed capital, but pulled lower by household spending and net trade. Inflation fell to -0.2% y/y in February as lower oil prices over the year remained a significant downward factor. Unemployment fell to 10.3% in January surpassing expectations and marking a 4.5 year low.

UK equity markets experienced losses amidst growing concerns over a potential British exit from the EU. David Cameron announced that the EU referendum would be held on 23rd June 2016 following a two-day summit in Brussels. London Mayor Boris Johnson reported he would be backing Britain to leave the EU, causing much internal debate. The Bank of England continued to vote unanimously to keep interest rates unchanged, as the only member previously voting for a rate hike aligned his vote with other members. The most recent comments were centred around increased uncertainty due to the EU referendum, which may delay spending decisions and depress growth. The bank announced plans to hold additional liquidity auctions to offset threats of a potential bank run.

UK fourth quarter GDP rose to 0.6% q/q with consumer demand remaining the main driver of growth. Inflation remained at 0.3% y/y in February with the largest upward pressure coming from housing and utilities, while transport prices, recreation & culture and food & non-alcoholic beverages detracted. Unemployment remained at 5.1% in January while wage growth rose to 2.1% (inc bonuses), beating expectations. The UK trade deficit narrowed in January primarily driven by a fall in imports from overseas. The trade gap of goods with the EU however widened to the highest level on record.

Asian equity markets failed to fully recoup earlier losses in the quarter with China dragging the broader Asian market lower. The Chinese central bank was active over the period, raising its daily fixing to the dollar and lowering the reserve requirement by 0.50% to 17% in attempt to increase bank lending. Chinese fourth quarter GDP fell to 6.8% y/y marking the lowest growth rate since 1990 as higher services and consumption was offset by weaker manufacturing and exports. Most recent trade data from China showed a significant fall in both exports and imports following the trend of falling trade from recent periods. In India, market concerns over the governments reform agenda were alleviated as the budget was seen as being supportive of growth in a challenging environment.

Japanese equity markets suffered over the period as a strong yen currency hurt companies exporting overseas. The Bank of Japan announced a surprise interest rate cut to -0.1% commenting that the move was encouraged by a falling oil price and a Chinese slowdown, not domestic economic weakness. Later comments from the Japanese central bank indicated further optimism around the economy based on increased domestic demand and higher exports as emerging markets move out of their deceleration phase. Japanese fourth quarter GDP fell to -0.3% q/q as higher business spending was offset by lower private consumption. Inflation rose to 0.3% y/y in February led by higher food costs. Unemployment rose to 3.3% in February, slightly higher than expectations.

Emerging markets gained over the quarter, supported in part by a rally in the oil price. Earlier in the quarter the International Energy Agency warned that the excess of supply of oil over demand was set to worsen, having a negative impact on price. Saudi Arabia and Russia then agreed a deal to limit oil production alongside Iraq, Qatar and Venezuela. This marked the first time in 15 years that OPEC and non-OPEC countries worked together. Later Iran confirmed they would not be limiting their oil production given that they were under sanctions when all other countries were raising their output. Credit ratings agency Standard & Poor's cut Saudi Arabia's credit rating by 2 notches to A- commenting that low oil prices would have a considerable impact on the country's economy. In addition, Brazil's rating was cut by one notch to BB due to the further deterioration in the country's economic and political fundamentals.

In fixed income markets, yields on government bonds fell leading to positive returns to investors in broad terms. Bonds with less perceived credit risk outperformed as investors absorbed generally negative comments from central banks alongside interest rate cuts or reduced expectations for rate rises. Yields on the UK, US and German 10 year bond ended the quarter at 1.41%, 1.77% and 0.13% respectively.

Our comments below relate to our general approach to portfolios over the period. Actual activity on trading accounts may differ from this depending on personal circumstances, and timing of investment. Please refer to your Valuation and Transaction Statements for details.

Portfolio Activity

As mentioned in last quarter's market commentary, the Investment Committee initiated a portfolio rebalancing exercise over the period. Following movements in markets over the period invested, the process trimmed positions which had become overweight and invested the proceeds into underweight positions, re-aligning portfolios to preferred weightings.

Whilst carrying out the rebalancing exercise, a number of trades were implemented in the process. The general theme running throughout portfolios was to reduce risk by decreasing net UK equity exposure and increasing exposure to alternatives, whilst also investing excess cash. The committee felt that reducing net UK equity exposure was warranted following increasing valuations over recent years propped by central bank stimulus as well as shorter term uncertainty around the EU referendum. Proceeds were invested in funds which adopt an alternative strategy relative to more conventional asset classes, where it is felt there is scope to enhance risk-adjusted returns.

Positions were sold in L&G UK Index across core mandates to remove passive UK equity exposure given the fund tracks the FTSE All Share index. Positions were also sold in Royal London UK Equity Income across core mandates and reduced alongside Artemis Income in income mandates. The funds were chosen for sale based largely on the challenging environment for many large UK dividend paying companies.

Amidst the sale/reduction of these UK equity funds, various other funds were added in portfolios. In balanced risk mandates positions were added in Amati UK Smaller Companies which the committee feel will be less susceptible to global market events, picking up more on stock specific opportunities focusing on quality business models. In income mandates a new position in Unicorn UK Income was initiated. The fund focuses on small and medium sized companies where the ability to meet dividend targets appear less at risk.

In increasing the alternatives segment of portfolios, 2 new positions were added. The first was JPM Global Macro Opportunities within core and income mandates. The fund manages positions around key macro themes while maintaining a globally diversified portfolio to mitigate risk. The second was across core mandates (excl high risk) in Old Mutual Global Equity Absolute Return which aims to achieve a positive return with a low correlation to equity and bond markets through a market neutral portfolio of global equities.

As well as adding new alternative funds, existing positions in Insight Absolute Insight, Invesco Perpetual Global Targeted Returns, and Aviva Multi Strategy Target Income were increased. This was funded in part by a reduction in the Standard Life Global Absolute Return Strategies fund where the committee were keen to reduce concentration to the fund.

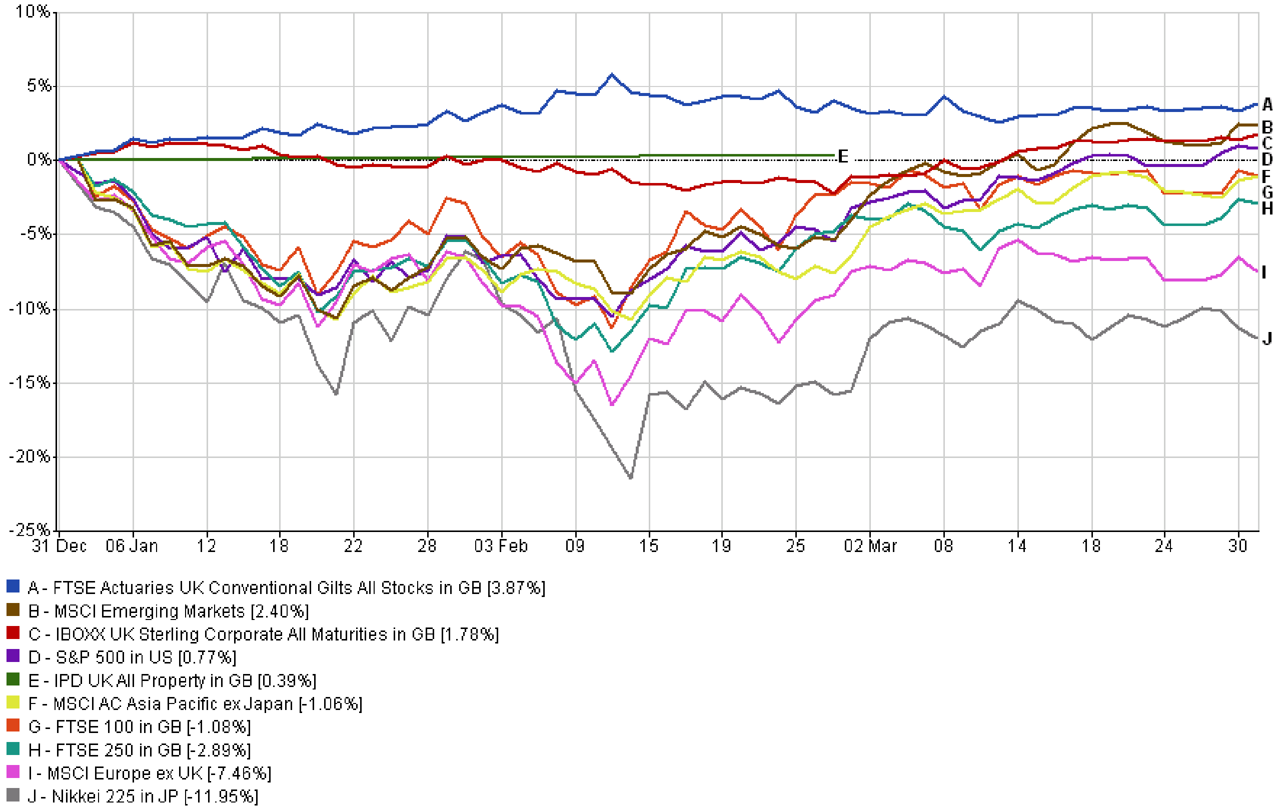
Markets

Financial Markets	Index	31 Dec 2015	31 Mar 2016	Change %
UK Government Bonds	FTSE Actuaries UK Conventional Gilts All Stocks	170.75	177.35	3.87%
UK Corporate Bonds	IBOXX UK Sterling Corporate All Maturities	99.53	101.31	1.78%
UK Commercial Property	IPD UK All Property*	179.52	180.22	0.39%
UK Large Cap Equity	FTSE 100	6,242.32	6,174.90	-1.08%
UK Mid Cap Equity	FTSE 250	17,429.82	16,926.12	-2.89%
US Equity	S&P 500	2,043.94	2,059.74	0.77%
Europe ex-UK Equity	MSCI Europe ex-UK	1,213.92	1,123.39	-7.46%
Japan Equity	Nikkei 225	***19,033.71	16,758.67	-11.95%
Asia ex-Japan Equity	MSCI AC Asia Pacific ex-Japan	460.61	455.74	-1.06%
Emerging Market Equity	MSCI Emerging Markets	44,483.64	45,552.52	2.40%

Economic Measures		31 Dec 2015	31 Mar 2016	Change %
Inflation	Retail Price Index**	260.60	260.00	-0.23%
Interest Rate	Bank of England Base Rate	0.50%	0.50%	0.00%

FE Adviser Fund Index	31 Dec 2015	31 Mar 2016	Change %
AFI Cautious Index	185.53	185.47	-0.03%
AFI Balanced Index	210.50	209.57	-0.44%
AFI Aggressive Index	233.54	232.08	-0.63%

[Source: FE] *Values between 31st December 2015 and 29th February 2016 as end of quarter figure not yet published. ** Values between 15th December 2015 and 15th February 2016 as this is the most recent published data. *** Price date 30th December 2015.



31/12/2015 - 31/03/2016 Data from FE 2016

House View

One of the most prominent topics on UK investors' radars is the forthcoming EU referendum scheduled in June. There has been much debate amongst market participants over the impact of a 'Brexit' on the economy and financial markets. A recent report by Capital Economics demonstrates this with the central case on the impact on growth ranging from -2.25% to +10% if Britain were to exit, caveating the higher figure was an estimate by UKIP.

Moving to financial markets, there has already been a fairly significant move in sterling with the currency weakening since the start of the year. Given the extent of these falls already, it is difficult to take a view on further moves in the lead up to the event. UK equity markets are yet to show signs of tension independent of wider market events while property transaction activity has notably slowed. Given the multitude of variables and the level of uncertainty around the event, the committee consider it prudent to balance risks alongside other key events when reviewing asset allocation within portfolios.

In a broader context, fixed income markets generally continue to offer lower yields relative to other asset classes, although the committee appreciates the diversification benefits and investment characteristics with an overall portfolio. An allocation to emerging market bonds provides an additional boost in yield and further diversifies the fixed income component.

Exposure to alternative investments has increased reflecting the current challenging market backdrop. This is on the basis that funds are able to extract value from less conventional investments such as currency and relative value trading, while attempting to mitigate losses through sophisticated hedging strategies.

UK commercial property markets remain well supported by economic fundamentals as well as demand from income seeking investors. However despite these factors liquidity appears to be tightening further making it ever more challenging for property funds. The upcoming referendum on Europe exacerbates this dynamic as investors appear reluctant to commit capital until after the event. This will continue to be monitored closely.

Developed equity markets including UK, US, Europe and Japan have all benefited from high levels of central bank stimulus since the financial crisis by means of low interest rates and quantitative easing. While there is still some value in equity markets, the margin has certainly been narrowing. Markets are undoubtedly more reliant on higher corporate earnings, where the outlook is somewhat uncertain. The committee believe this is firmly a stock pickers market, favouring managers who demonstrate their ability to pick up on idiosyncratic opportunities.

Emerging equity markets have experienced a slight turn in sentiment over the period, with question marks over whether the trend is temporary or longer term. Valuations remain broadly relatively lower than developed market equities, however this is discounting some of the key issues which are more prominent within the emerging world such as exchange rate volatility, heightened geopolitical risks and a weakening Chinese economy.

The committee have commented progressively on the market backdrop which has been supported by an abundance of cheap debt. The recent quarter reflects a degree of caution where more conviction has been placed on those funds which aim to preserve capital over varying market conditions. There remains sufficient investment opportunities in the marketplace for the active investor, although diversification remains key in this environment of unprecedented central bank policy.

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Research Analyst

5th April 2016

Contacts

For issues relating to your financial planning, please contact your usual adviser. For further detailed information with regard to your investments managed within the Discretionary Portfolio Service, please contact a member of the Investment Committee in the Exeter office:

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