Performance Bulletin

1, 3, 5 and 10 Years to December 2016

SAUNDERSON HOUSE

Wealth Accumulation Balanced Model Portfolio[1]

Stirred, not Shaken

We are pleased to report that the Saunderson House model portfolio proved resilient through a challenging year. In this note, we comment on our asset allocation positioning over 2016 and look at the performance of the model against both peer group and industry comparators. Finally, we provide a brief recap of our investment process.

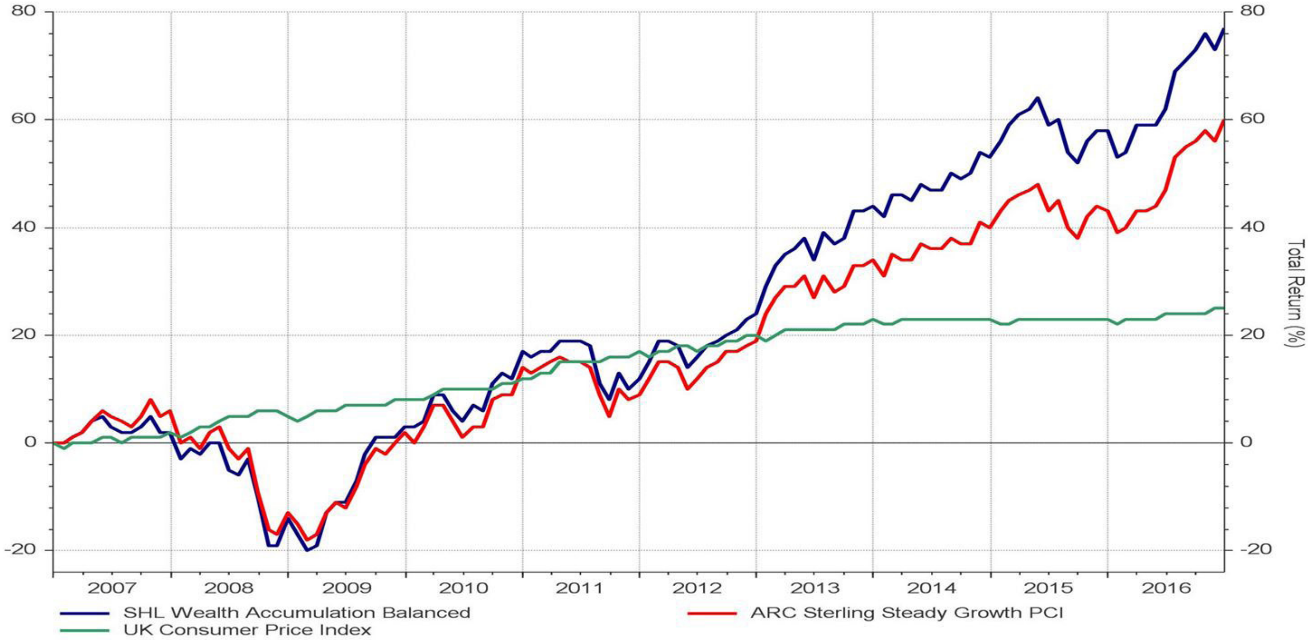
If we had foreseen this time last year that the British electorate would vote to leave the EU and that Donald Trump would become US President, we would not have expected gains for equity markets and, in truth, we would have been recommending lower allocations to risk assets. However, even as the political world was shaken by unforeseen events, equity markets were stirred into life by developments in foreign exchange markets and an improving economic picture. For sterling based investors, gains from equities were in part due to the sharp fall in the pound in the wake of the Brexit referendum. This boosted both the value of overseas equity holdings, and the earnings of British multinationals with foreign currency revenues. The election of Donald Trump also proved a positive insofar as investors decided to ignore his many anti-market policies and focus instead on promised tax cuts and fiscal expansion. These provided further justification for gains in developed equity markets, as well as the dollar.

Perhaps of greater importance was that the political dramas masked that the global economy turned a corner in mid-2016 and has since been improving steadily, further validating rising share prices. With equity markets enjoying their best year since 2013, we took the opportunity to lock in profits, aware of the fact that investors would at some point have to confront the less positive sides of both Donald Trump and Brexit.

A strengthening global economy, combined with the expectation of greater government spending on both sides of the Atlantic, also explains why government bond yields, having trended lower for many years, changed direction and began to increase once more from the summer onwards. This is something we have been anticipating for several years and so were positioned accordingly, if a little prematurely.

Having entered the year with fairly full weightings to risk assets and been duly rewarded, we are now recommending portfolios with a reasonable degree of liquidity. We believe this will serve clients well as we look forward to a year where equity valuations are no longer cheap, interest rates are set to rise and political risks remain elevated.

Saunderson House Model Portfolio Performance



Source: Thomson Reuters Datastream, FE Analytics, Asset Risk Consultants

The chart above shows that our methodical process has enabled us to capture the opportunities markets have presented. Over 10 years to 31 December 2016, our model portfolio has delivered a total return of more than 76%, outperforming the relevant Asset Risk Consultants (ARC)[2] comparator by over 16%. In monetary terms, based on a starting portfolio value of £1,000,000, this equates to £160,000 of additional return compared to the ARC peer group. It has also comfortably outpaced inflation, delivering an average real return of more than 3.5% per annum.

The Saunderson House Investment Process

In our view, there are only two genuine sources of added value in the world of investment. The first is asset allocation; simply being invested in the right place at the right time. The aim here is to hold risk assets when economic and valuation indicators suggest that it should prove profitable to do so and not hold them when the outlook is worsening and the return expected does not look sufficient to warrant the risk. Our simple, four asset class model is key here. When valuation and outlook indicate that there are attractive returns to be made, we increase allocations to our 'risk-on' asset classes: **equity** and **property**. When this is not the case, or when value is apparent in 'risk-off' asset classes, we have higher allocations to these: **bonds** and **cash**.

The second source of outperformance comes from fund selection. Through a decision process rooted in the approach used by active fund managers to pick stocks, we populate client portfolios with funds where we have strong conviction that they are capable of adding significant value over and above the performance of the underlying asset class.
By following this process meticulously, we have been able to generate returns in excess of our peers and inflation. Moreover, as the table below demonstrates, we have delivered returns that have beaten equity markets despite having an average equity allocation over the 10 years of only 59% and therefore ensuring client portfolios have encountered much less volatility[3].

Saunderson House Model Portfolio Performance

	1 Year %	3 Years %			5 Years %			10 Years %		
		Total	p.a.	Vol.	Total	p.a.	Vol.	Total	p.a.	Vol.
SHL Model Portfolio	**12.0 (2)**	**22.3**	**6.9 (1)**	**6.3**	**58.1**	**9.6 (1)**	**6.5**	**76.7**	**5.9 (1)**	**8.9**
ARC Steady Growth PCI	11.6	19.4	6.2	6.2	46.3	7.9	6.3	59.7	4.8	8.6
CPI	1.6	2.3	0.8	1.1	7.2	1.4	1.1	25.3	2.3	1.3
FTSE All Share Index	16.8	19.3	6.1	9.7	61.8	10.1	10.1	71.8	5.6	14.1

Returns to 31 December 2016. Sources: FE Analytics, Asset Risk Consultants, ONS

The numbers in brackets represent the quartile ranking of the Saunderson House Model within the ARC index.

[1] Portfolios for other risk profiles are constructed on the same basis with different weightings to the four asset classes as appropriate. Returns from other models are comparable on a risk adjusted basis. Performance figures are quoted on a total return basis, net of fund management charges and excluding any trail commission rebated. An indicative annual advisory charge of 0.75% has also been deducted. Actual advisory fees may differ. All returns are quoted in sterling unless stated otherwise.

[2] ARC produces four sterling Private Client Indices (PCIs). Each PCI is based on the monthly volatility of the MSCI World index less cash. The returns data are provided by participating investment managers. The data supplied by the participating managers are generated from unconstrained portfolios and must have returns dating back at least 12 months. All data submitted are net of all investment manager charges and fees. Additional advisory fees may be applicable. The ARC PCI used here is based on 60-80% of the monthly volatility of the MSCI World index less cash.

[3] ARC risk bands are measured by volatility. Volatility is a measure of how much variability there has been in returns from financial assets and is widely used as a measure of risk. It is calculated from historical observations and is simply a measure of how widely spread observed returns have been from their average. The higher the volatility figure, the more the value of the portfolio or index in question has moved in either direction over the period.

This note is for general guidance only and represents our current understanding of law and HM Revenue and Customs practice as at 15 February 2017. We cannot assume legal liability for any errors or omissions and detailed advice should be taken before entering any transaction. The value of investments and any income therefrom can go down as well as up and you may not get back the full amount you invested. Performance data is purely indicative and based on unaudited pro-forma models. Actual returns will depend on individual circumstances. Past performance is not a guide to future performance. Saunderson House Limited is authorised and regulated by the Financial Conduct Authority.

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