Performance Bulletin

1, 3, 5 and 10 Years to December 2017

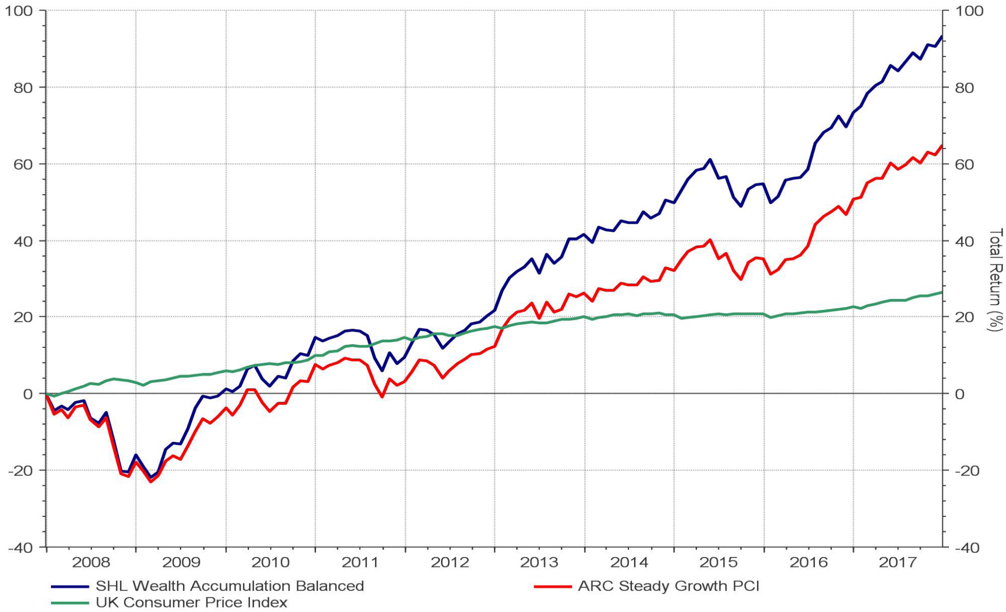
SAUNDERSON HOUSE

Wealth Accumulation Balanced Model Portfolio[1]

Eastern Promise Fulfilled

Over 10 years to 31 December 2017, our Wealth Accumulation Balanced Model has delivered a total return of more than 93%, outperforming the relevant Asset Risk Consultants (ARC)[2] comparator by over 28%. In monetary terms, based on a starting portfolio value of £1,000,000, this equates to £280,000 of additional return compared to the ARC peer group average. Performance has also comfortably outpaced inflation, delivering an average real return of over 4% per annum.

Saunderson House Model Portfolio Performance



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

For equity investors, 2017 proved to be a very good year. Returns were strong across all regions, but those investors focused on Asian markets, both emerging and developed, were particularly handsomely rewarded. Below, we discuss how we positioned portfolios to take advantage of this strength, and in turn consider how this has impacted the performance of the Saunderson House model compared to the peer group and relevant comparators.

Asian equity market leadership rotated once again in 2017. While 2016 was the year that value returned to favour, 2017 saw growth stocks deliver by far the strongest returns. However, it was not those companies with steady, predictable earnings that investors preferred, as they did for much of the preceding few years. Instead, it has been high growth technology firms, found principally in north Asian countries such as China, South Korea and Taiwan that led these markets higher, generating very strong returns for investors and demonstrating Asia's shift away from "the factory of the world" towards higher value-added activities. Against this backdrop, the overweight allocation to emerging markets and Asian equities within the Saunderson House model has been a key contributor to performance.

While technology dominated the headlines over the calendar year, it was not the only game in town. An improving economic backdrop across much of the world (except perhaps the UK, where a Brexit-related slowdown hampered growth), and an upturn in global trade proved supportive for export-led markets and industries. It was with these developments in mind that we increased allocations to Japanese equities in April last year, where stronger global growth and trade, combined with a weakening yen and improving corporate governance, resulted in excellent returns, particularly for the country's large export sector. Europe has been the other main beneficiary of the improving global macroeconomic environment. This also benefited the Saunderson House model, thanks to a longstanding overweight position in the region's equity markets.

Turning away from equities, fixed income returns were subdued in 2017, with the exception of more equity-like high yield debt. However, in our view much of the high yield sector now appears expensive, and so we continue to access it through strategic bond funds, where managers are able to selectively choose bonds as opportunities arise. We have also reduced cash weightings within portfolios in favour of short dated credit, given the extremely low returns available on deposits. These funds are still highly liquid, and give us the flexibility to add to equities in the event of a market correction.

The Saunderson House Investment Process: Recap

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 added value 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 the managers are capable of adding significant value over and above the performance of the underlying asset class. By applying this process diligently, we have been able to generate returns in excess of our peers and inflation. Moreover, as the table below illustrates, 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 endured 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	**11.5 (1)**	**29.0**	**8.9 (1)**	**6.0**	**58.7**	**9.7 (1)**	**6.1**	**93.1**	**6.8 (1)**	**8.8**
ARC Steady Growth PCI	9.4	24.8	7.7	6.0	47.0	8.0	6.1	65.0	5.1	8.5
CPI	3.0	4.8	1.6	1.1	7.5	1.5	1.1	26.4	2.4	1.3
FTSE All Share Index	13.1	33.3	10.1	9.3	63.0	10.3	9.7	84.5	6.3	14.0

Returns to 31 December 2017. 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. 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.

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