Performance Bulletin

1, 3, 5 and 10 Years to March 2018

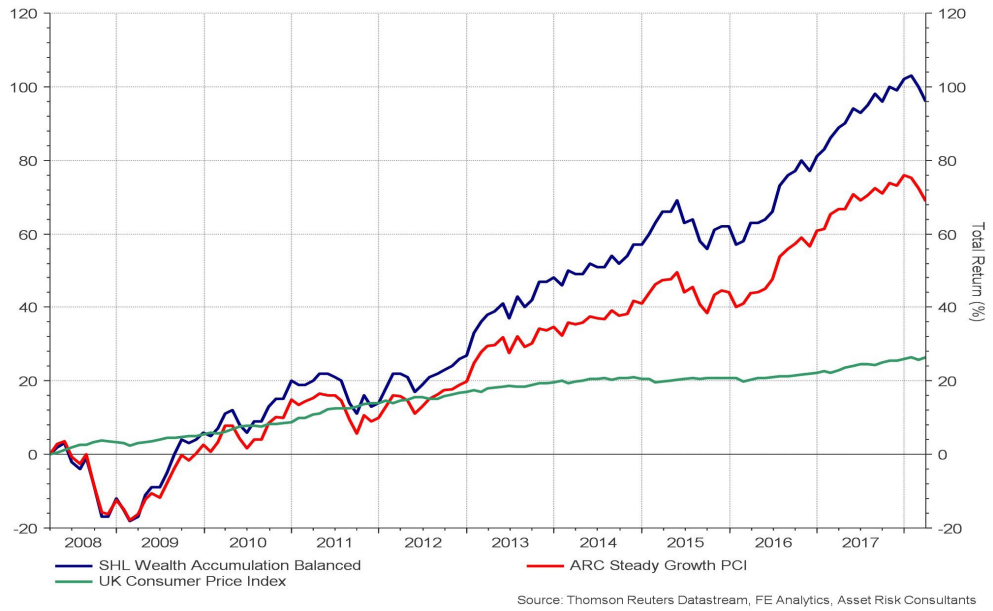
SAUNDERSON HOUSE

Wealth Accumulation Balanced Model Portfolio[1]

Volatility's Return

Over the 10 years to 31 March 2018, our Wealth Accumulation Balanced Model has delivered a total return of more than 95%, outperforming the relevant Asset Risk Consultants (ARC)[2] comparator by 27%. In monetary terms, based on a starting portfolio value of £1,000,000, this equates to £270,000 of additional return compared to the ARC peer group average. Performance has also comfortably outpaced inflation, delivering an average real return of over 4.6% per annum.

Saunderson House Model Portfolio Performance



It was a tale of two halves for equity investors over the 12 months to the end of March. Throughout most of 2017 and into mid-January, stock markets across much of the world rose almost without interruption, while volatility stayed at historically low levels. The combination of low interest rates, limited inflationary pressures and strong growth in economies and corporate earnings propelled markets to new highs. However, both geopolitical and economic developments in 2018 thus far have fostered apprehension among investors.

Given the supportive backdrop for risk assets last year, we recommended adding to equity allocations in April 2017. An uptick in global growth and trade had started to prove beneficial for export-led economies and industries, and it was with this in mind that we increased exposure to Japanese equities at the expense of cash. The move has added value, with the Japanese market delivering attractive returns since the recommendation was made. Europe has been another beneficiary of the resurgent economic strength, with both the euro and equity markets rising in response to a pickup in domestic and external growth. Emerging markets and Asia followed a similar trend, with markets driven higher by the expansionary backdrop and its impact on company earnings. The model portfolio benefited from overweight allocations to both regions.

While the market at times viewed developments in 2017 through rose-tinted lenses, shrugging off concerns over Brexit, North Korea and President Trump's eccentric policy announcements, events in 2018 have been viewed with an altogether more critical eye, leading to increased volatility. There were two main reasons for this. The first was the realisation of fears of a trade war between the US and China. While rhetoric over the imposition of tariffs on US imports from the Far East had for some time formed part of Trump's message, the perceived negative impact on both economies (and importantly the American consumer) meant that few thought it would come to pass. However, this was proven wrong in Q1, when punitive import duties on steel and aluminium, as well as solar panels and white goods, gave investors cause for concern.

The second, and more urgent reason, was an uptick in inflationary pressures in the US. This led to fears that interest rates in the world's largest economy could rise faster than expected, indicating that the economic cycle in the US may be reaching a late stage. Meaningful allocations to short dated credit helped to protect value within the Saunderson House model during this period, however an uptick in bond yields meant that even these funds were not immune to the more challenging environment. We have taken these developments into account since the end of the quarter, bringing the model's equity weighting back in line with its strategic weighting. Indeed, as we move into the latter half of the economic cycle, we believe that the growing risks warrant a degree of caution going forward.

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. Our 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	**4.0 (1)**	**18.5**	**5.9 (1)**	**6.2**	**42.1**	**7.3 (1)**	**6.0**	**95.8**	**7.0 (1)**	**8.7**
ARC Steady Growth PCI	1.3	14.5	4.6	6.2	30.4	5.5	6.0	68.8	5.4	8.3
CPI	2.3	5.3	1.7	1.1	7.0	1.4	1.1	25.9	2.3	1.2
FTSE All Share Index	1.3	18.6	5.9	9.5	37.6	6.6	9.7	90.6	6.7	13.8

Returns to 31 March 2018. 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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