equinox

half yearly investment magazine

Nervous markets call for vigilance and planning

Defined returns in an indefinable world

Counting the cost of private medical insurance

equilibrium

October 2015

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Welcome

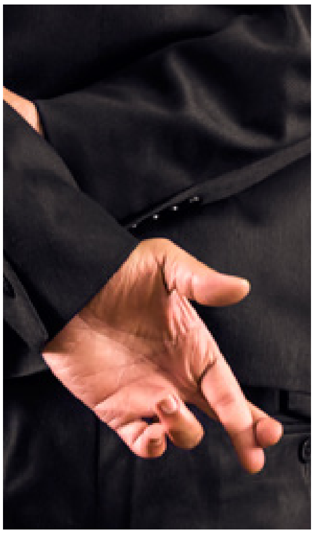
The recent so-called "Great Fall of China" has led the markets to suffer a stock market correction, a term usually defined as a fall of 10% or higher. The jury is still out as to whether the FTSE has now found a resistance level of 6,000, or if it is just the half-time intermission during a market crash with a fall of 20% or more. Our portfolios have held up well during this volatile time and full details of our returns and our views can be found from page 29 onwards.

As always, our primary focus at Equilibrium is to provide clients with financial confidence so that they can continue to enjoy their lives, regardless of the tabloid headlines of doom that continue to saturate the media landscape. In order to do so we ensure portfolios are as resilient as possible to falls in the market, whilst being best placed to benefit from the upside of a recovery.

We also recognise that confidence is built through knowledge and experience. In this edition we share with you what we have learned about market crashes. Are they predictable? How frequently do they occur? And importantly, what strategies do we utilise to protect your portfolios against them?

I hope you enjoy the issue and I would be delighted to hear your comments. You can get in touch with me by email at colin@eqllp.co.uk or call me on 0161 486 2250.

Colin Lawson
Managing Partner

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Nervous markets call for vigilance and planning

When a bear market is due, we monitor the situation constantly and stand ready with action plans.

By Colin Lawson

On average, 1.75 hurricanes hit the US East Coast every year, and 40% of those affect Florida. Despite this, the state has defied the odds and there has not been a hurricane in Florida for a record nine years. So, would you buy a beach villa on the Florida Keys now?

This is the kind of dilemma that faces investors in asset markets today. On average, stock markets decline 20% or more every four years, but it has been nearly 6.5 years since the last market crash. Should they buy, sell or hold?

Averages are just statistical calculations – there is no such thing as 1.75 hurricanes – and new records are broken all the time. However, in the same way that you may survey the Gulf of Mexico skyline nervously from your hammock, we are equally on a state of alert.

Cycle Spin

Naturally occurring events – including economic cycles – tend to repeat themselves. History tells us that what goes up subsequently goes down, and vice versa. Economists have claimed to identify many such business cycles.

In the 1920s, economist Joseph Kitchin identified four-year cycles resulting from the time it took companies and entrepreneurs to react and respond to periods of high and low demand.

Looking longer-term, Soviet economist Nikolai Kondratiev claimed that there are 40- to 60-year cycles for the economy as it goes through various structural changes. Others have since ascribed 'Kondratiev waves' to periods of marked innovation such as the Industrial Revolution, the Railway Age and the Information and Telecommunications Age.

"

We have been consistently positioning client portfolios to weather storms that may appear

> Client portfolios would fall only around half as much as the S&P 500 index would in a bear market crash

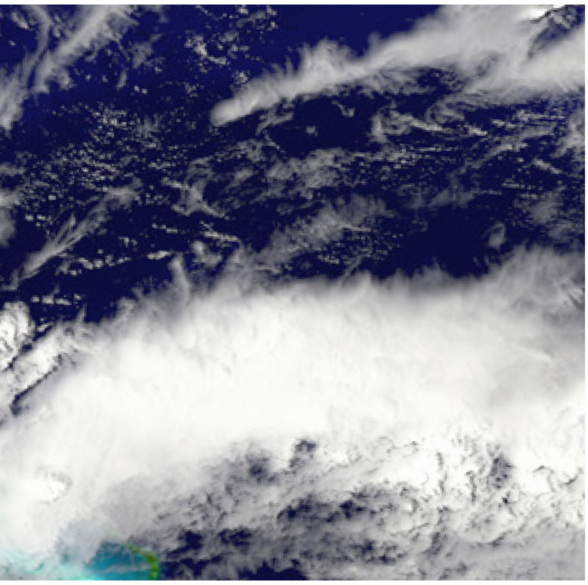
The dangers in such mechanical cycle theories is that they are vulnerable to change and imprecise in timing.

If we look at past business cycles in the US, the average period from trough to peak for economic growth is around 39 months. The last trough was in June 2009, which means that if you apply the average duration, the peak of the current business cycle would have been September 2012.

Clearly, the current cycle has continued well beyond the average and is now 74 months old. This is the fifth longest up-cycle since records began in 1854. That prompts the question: what could break this winning streak for the economic cycle?

Market Stalls

Looking at economic cycles is useful, but asset markets move in anticipation of changes in economic growth. Stock and bond market cycles always move ahead of the reported growth figures and this is where we encounter the dangers of forecasting. Changes in the economic conditions that presage a bear



market are often as subtle as the air pressure changes ahead of a gathering storm.

Stock markets generally rise over time but they always fluctuate and regularly dip. Every time the New York Stock Exchange bell rings to signify the end of trading, there is a 47% chance that the market will be down that day. As you look over longer periods, these odds fall with a 33% chance of losing money over a year and 11% over ten years.

But did you know that, on average, the UK's FTSE All Share Index has peak to trough declines of 15.8% every year?

This is the key reason for the 'volatility trades' that Equilibrium undertakes in our equity portfolios. By capturing the opportunities that these dips present, we can drive higher returns for client portfolios where the market is undervalued.

Until the recent volatility that started with 'Black Monday' in August, the markets had been defying gravity and it had been nearly four years since there was a fall of over 12% in any calendar year. It was the same in the US, which saw the third longest period without such a dip since the S&P 500 index was created.

The 'Great Fall of China' broke this run, but was that it or is it the start of something bigger?

Bear Hunt

The real beasts in asset markets are the bear markets. This is when the stock market falls 20% or more. You want to avoid them on the way down and to jump on board when they reach the bottom. These are the times when professional investors generate the best and worst portfolio returns.

Take the FTSE All Share over the credit crisis. From August 2008 to March 2009 - just seven months - the index fell 34%. In the following seven months, it rose by nearly 50%. If they can capture that upside and avoid that downside, a professional investor would achieve the Holy Grail of investment.

But as mentioned, we are overdue a bear market in the US by 2.5 years. This makes us nervous.

> "At Equilibrium, we have a range of indicators we call 'crash tests' that we use to detect the early warning signs

It has happened before. Between December 1987 and March 2000, there were no bear markets at all. This was also the longest period with no crashes since 1929. So, it could be a number of years yet until we see a bear market. But as with our hurricane watch, the clock is ticking.

Storm Warning

A number of action points are critical for the preservation of capital in the face of this uncertainty.

The investor needs to analyse and track signals that may indicate an economic or market crash. At Equilibrium, we use a range of indicators that we call 'crash tests' to detect early warning signs. They are not perfect but they are useful for helping us to see what might be on the horizon.

It is vital to create an action plan, which is no easy task. Selling everything would absolutely be the wrong thing to do.

For a good example of this, we can again refer back to the credit crisis. During the seven-month period before the market bottomed out in March 2009, as noted above, the FTSE All Share Index fell 34%. However, government bonds, which investors traditionally saw as safe-haven assets in times of financial distress, returned 12% over the same period.

So, should we make the action plan 'sell equities and buy bonds'? Bond prices have been rising for the last 30 years and many consider them to be overvalued already. Worse still, the correlations (the statistical relationships) between equities and bonds have risen markedly recently. So if the investor sells equities and buys bonds they could be no better off.

Equilibrium has action plans for a wide variety of scenarios that may unfold. Because we know where our clients are positioned, and we monitor the markets constantly, the action plans are not only ready for action but dynamic too. They adapt to changing market valuations and circumstances.

On Guard

Some of our crash tests are flashing red lights but the majority are not. We are not selling out of the market. But some of the statistics are worrying.

We have therefore been consistently positioning client portfolios to weather storms that may appear - for an example, please see the article "Defined returns in an indefinable world" in this edition of Equinox. Using statistical analysis based on previous crashes we would expect current client portfolios to fall around half that of equity markets in the event of a bear market - and that assumes no implementation of our action plans. Crashes can be caused by a wide range of reasons and our action plans incorporate a variety of approaches, such as switching to absolute return funds and using defined returns products that should serve to protect clients' capital in the event of a bear market.

Hopefully this has given you a flavour of our approach to the down side of investing. Vigilance is an important element of our service to clients, especially in times like this. We understand clients have financial commitments and objectives, and loss limitation is critical to fulfilling them – whether it be funding a retirement or saving for an ocean-front villa in the Florida Keys.

Counting the cost of private medical insurance

By Colin Lawson

Clients ask me frequently whether they should start or continue with private medical insurance. There are two elements to the question. The first is can you afford to be without private medical insurance? The second is does it represent value for money or would you be better off "self-insuring", which means building a kitty to pay for your own treatments?

> "Often the NHS is the best option for treating more serious and prolonged medical conditions

To answer this we need to distinguish between need and choice. I need insurance to cover me for any eventuality that I could not afford to pay for, or one that would put my future financial security at risk. I also choose to insure for some things to provide me with peace of mind and to save me the need to budget for them.

For example, I need at least third party car insurance because if I caused an accident that resulted in a serious injury the claim could run to millions, which I could not afford. In contrast, I do not need comprehensive cover because if my car was written off I could afford to replace it, however I still choose to have it for peace of mind.

Insurance versus self-funding

Often the NHS is the best option for treating more serious and prolonged medical conditions. We look to private care to provide the more minor, but still important, things like new knees and hips. This is due to the speed, quality and convenience of the treatment.

A new knee or hip costs around £10,000. While that is a major expense, it is affordable for many of our clients. My experience is also that in the periods before and after treatment other costs, such as holidays, will reduce. This can partly, or even sometimes fully, offset the medical expense.

So most of our clients do not need private medical insurance. But does the cost justify the peace of mind that it brings?

This is difficult to quantify, as there are so many variables. A good way to start is to look at an example and the typical premium that would apply. For a married couple aged 55, the cost is likely to be around £1,750 a year. This increases each year by around 6% as the cost goes up as you get older. You then need to add on inflation, which is higher than CPI for medical costs – let us assume 3%. This gives a conservative total increase of 9% a year.

Over a 20-year period, which takes our clients to 75, that is almost £100,000 in premiums alone. Would they really expect to spend that much on private medical fees during that period? Let us look at investing that money instead in a "self-insurance" kitty and withdrawing it as needed for operations.

I will assume an annual 7% return on their investments, that the cost of treatment increases by 3% for inflation, and that our couple need two major treatments each - one every 10 years at a cost today of £10,000. That would provide each of them with a new hip and a new knee. There may be more minor claims, but this is a good starting point.

The table below shows how their investment kitty would look.

So, does that mean that private medical insurance is a rip off? Not at all. I suspect the reason for the high premiums is that some policyholders "rip off" the insurers by taking out cover knowing they will need treatment, then cancelling it shortly after.

You have to bear in mind that the value of the investment can go down as well as up, but the conclusion to me is clear. Self-insuring is the way to go. However, you may be concerned that you will need a larger than average amount of treatment, or simply that the peace of mind from the cover outweighs the financial benefits of funding your own treatment.

> So does it mean that private medical insurance is a rip off?

End of Year	Total Invested	Medical Fees Paid to Date	Portfolio Value
5	£10,473	£0	£12,740
10	£26,588	£25,347	£10,341
15	£51,382	£40,473	£29,537
20	89,530	£58,008	£70,297

* Based on annual investment less medical costs, plus 7% pa growth.

PMI Costs

Year	PMI Cost	Total PMI Cost
1	£1,750	£1,750
2	£1,908	£3,658
3	£2,079	£5,737
4	£2,266	£8,003
5	£2,470	£10,473
6	£2,693	£13,166
7	£2,935	£16,101
8	£3,199	£19,300
9	£3,487	£22,787
10	£3,801	£26,588
11	£4,143	£30,731
12	£4,516	£35,246
13	£4,922	£40,168
14	£5,365	£45,534
15	£5,848	£51,382
16	£6,374	£57,756
17	£6,948	£64,704
18	£7,573	£72,277
19	£8,255	£80,532
20	£8,998	£89,530

Premiums Invested - Self Insuring Risk

Year	Value At Start Of Year	Premium Invested	Value After 7% Growth	Amount Taken Out	Value At End Of The Year	Cost Of Operation
1	£0	£1,750	£1,873	£0	£1,873	£10,000
2	£1,873	£1,908	£4,045	£0	£4,045	£10,300
3	£4,045	£2,079	£6,552	£0	£6,552	£10,609
4	£6,552	£2,266	£9,436	£0	£9,436	£10,927
5	£9,436	£2,470	£12,740	£0	£12,740	£11,255
6	£12,740	£2,693	£16,513	£0	£16,513	£11,593
7	£16,513	£2,935	£20,809	£0	£20,809	£11,941
8	£20,809	£3,199	£25,688	£12,299	£13,389	£12,299
9	£13,389	£3,487	£18,058	£0	£18,058	£12,668
10	£18,058	£3,801	£23,389	£13,048	£10,341	£13,048
11	£10,341	£4,143	£15,497	£0	£15,497	£13,439
12	£15,497	£4,516	£21,414	£0	£21,414	£13,842
13	£21,414	£4,922	£28,180	£0	£28,180	£14,258
14	£28,180	£5,365	£35,893	£0	£35,893	£14,685
15	£35,893	£5,848	£44,663	£15,126	£29,537	£15,126
16	£29,537	£6,374	£38,425	£0	£38,425	£15,580
17	£38,425	£6,948	£48,549	£0	£48,549	£16,047
18	£48,549	£7,573	£60,051	£0	£60,051	£16,528
19	£60,051	£8,255	£73,088	£0	£73,088	£17,024
20	£73,088	£8,998	£70,297	£17,535	£70,297	£17,535

Notes

1. PMI costs increase by 9% per annum.
2. Premiums invested increase by 7% per annum.
3. Current cost of operations are £10,000 per annum which increase by 3% each year.
4. Operations done in years 8, 10, 15 and 20.

High-earning pensions

By Colin Lawson

Whatever the outcome of the election back in May 2015, additional rate tax relief for pensions was always going to be headed the way of the dodo and, just like the dodo, it is unlikely to ever return once it's gone.

There is, however, a unique window of opportunity for those earning more than £150,000 to claim as much tax relief as they can "whilst stocks last" before radical changes to the pension system are implemented in April 2017. And there is a lot of tax relief up for grabs - up to £99,000 for each individual over the next 2 tax years.

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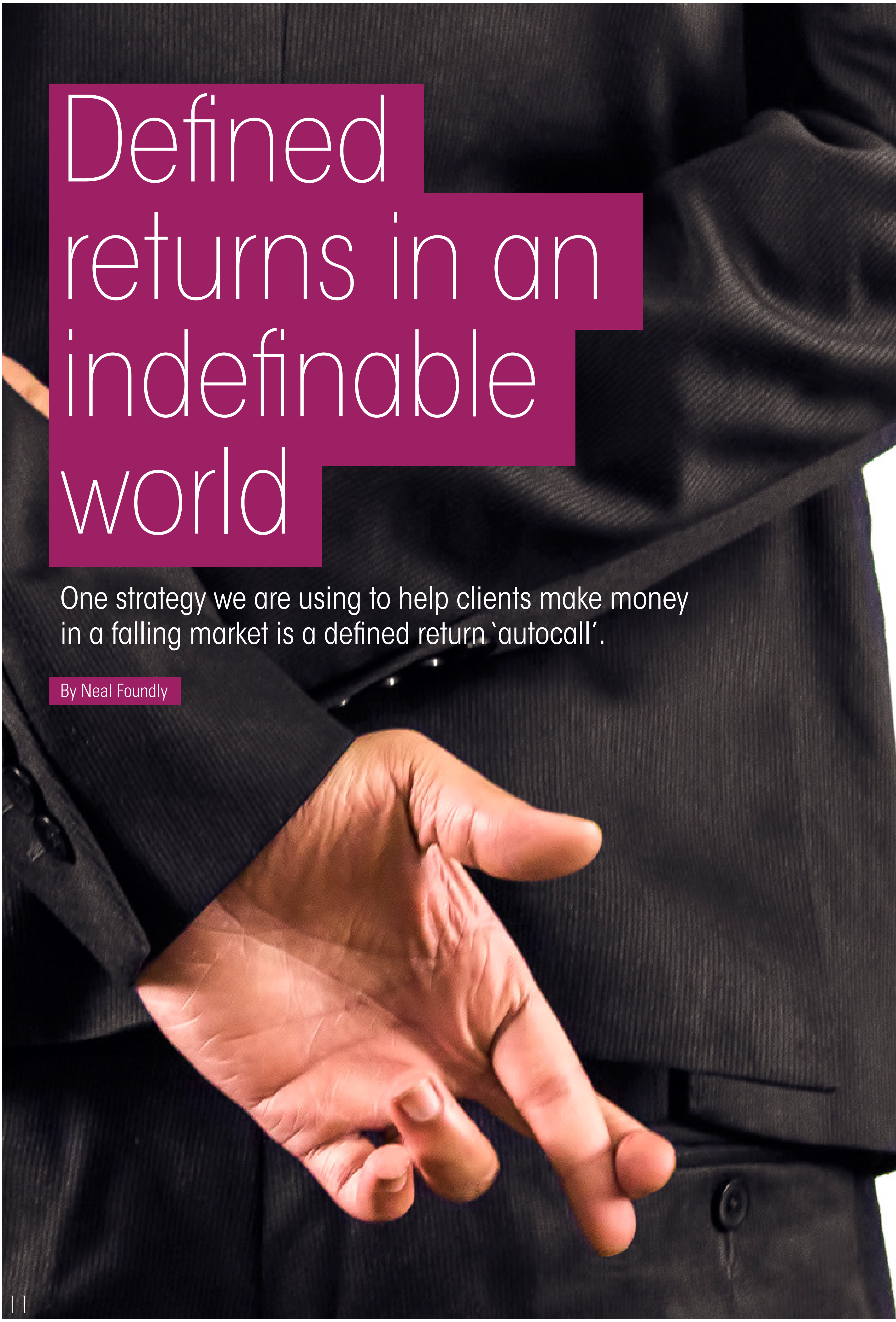
> No longer are you "locking your money away" when you invest in a pension

It's the fact that pensions are now so attractive that has led the political parties to moving the restriction of higher rate tax relief higher up the agenda. No longer are you "locking your money away" when you invest in a pension. If you are in your mid-40s, it's now a short(ish) term savings plan and if you are 55+, it acts like an instant access savings account.

If you earn more than £150,000 now is the time to act. Between now and the proposed rule change, the maximum you can invest is £220,000 over the 2 years – but it will only cost you £121,000 after tax relief. You can't get a much better return than that!



Defined returns in an indefinable world

One strategy we are using to help clients make money in a falling market is a defined return 'autocall'.

By Neal Foundly

The article in this edition 'Nervous markets call for vigilance and planning' shows how markets could fall 20% in the event of a crash. If that happens, you can still make money with certain investments.

This article focuses on just one of the strategies that we use, which is called defined returns.

On 2 December 2014, we bought a plan from Barclays that promised to pay 9.15% a year in certain circumstances.

This product, known as an 'autocall', is essentially an agreement with Barclays that they pay us a defined return a year - similar to coupons for a bond - if the FTSE 100 index stays within certain limits for the next six years. The 9.15% is a fixed payment and does not compound up over the life of the product.

On the day a provider launches an autocall product, it records the level of the FTSE 100 as the 'strike level', which in this case was 6,742.

There are different potential outcomes for investors in this product. The flowchart shows these scenarios with the returns to investors depending on the level of the index.

Attractive comparisons

The FTSE 100 Index at the time of writing is 7% below the strike level of 6,742, whereas the product is priced at 101p - representing a rise of 1%.

To provide a basis for comparison, let's compare buying the autocall with investing in a FTSE tracker fund.

Autocall Returns

1st Anniversary
is the closing level of the FTSE 100 Index equal to or higher than the strike level?
YES → Investment matures ('kicks out') returning 9.15% growth plus initial capital

NO ↓

2nd Anniversary
is the closing level of the FTSE 100 Index equal to or higher than the strike level?
YES → Investment matures ('kicks out') returning 9.15% x 2 =18.3% growth plus initial capital

NO ↓

...3rd, 4th, 5th...

NO ↓

6th Anniversary
is the closing level of the FTSE 100 Index equal to or higher than the strike level?
YES → Investment matures ('kicks out') returning 9.15% x 6 =54.9% growth plus initial capital

NO ↓

Has the FTSE 100 Index fallen more than 40% below the strike level (for Barclays, greater than 40% below 6,742 = 4,045)?
YES → Your capital will be reduced by the percentage fall in the FTSE 100 e.g. a 70% Index fall means a 70% fall in your capital

NO ↓

Repayment of original capital invested

> This is very attractive, which is why we are buying it for new clients and topping up where appropriate for existing clients

If the level of the stock market does not change over the 12 months to December (the Barclay's product anniversary), the returns on holding a tracker fund would only be the market's dividend yield, which would be around 3.5%.

In contrast, however, if we buy the Barclays autocall product today and the FTSE 100 Index recovers to close equal to the strike level of 6,742 (and it 'kicks out') in December, then it will provide an annualised return of a whopping 59.7%. If the market does not quite reach 6,742 by this December, but does so by December 2016, then the return will still be a generous 14.2%. That is very attractive, which is why we are buying it for new clients and topping up where appropriate for existing clients.

Risks and costs

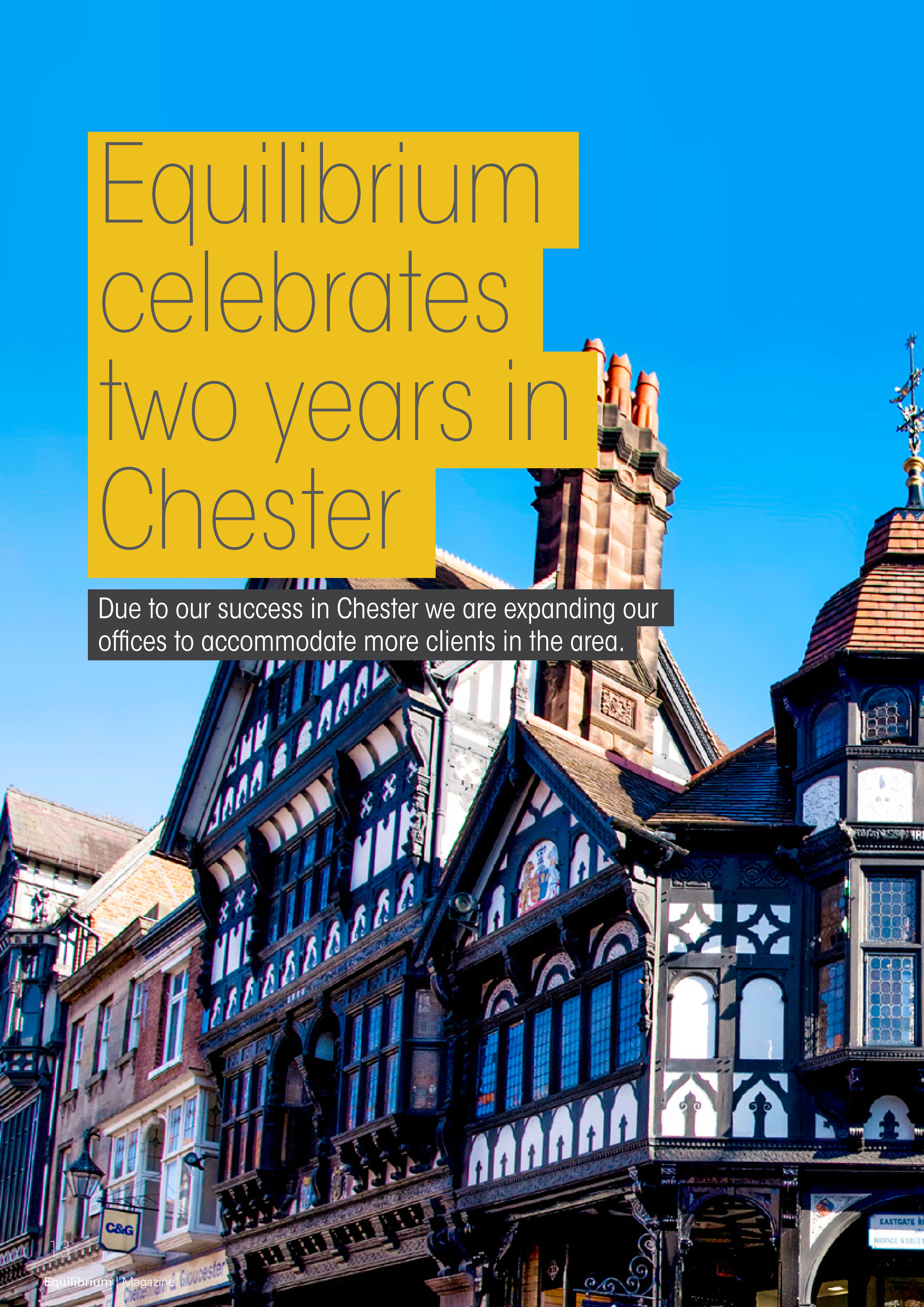
What is in it for the investment banks? Well, arguably, this is a form of casino banking and the banks take a slice out of each component that the product comprises.

Autocall products are not without risk. If the product never kicks out, and the FTSE 100 closes on 2 December 2020 below 4,045, then the investor will lose capital. If Barclays goes bust then all the capital could conceivably be lost. We will be discussing the risks in more detail in a future article, but suffice to say that we carefully control the risks and exposures for our clients to minimise any potential losses while providing significant return opportunities.

If you would like us to assess how your portfolio would stand up to a market crash, please contact us for a no-cost, no-obligation report.

Equilibrium celebrates two years in Chester

Due to our success in Chester we are expanding our offices to accommodate more clients in the area.



It's hard to believe that it has been two years since Equilibrium opened a Chester office. We already had a number of clients in the area and had recently added partner Andrew Hirst to the EQ team, who worked for many years in and around the local area. So we decided it was the perfect location to launch our third office and we haven't looked back since.

Celebrating our two year 'Chesterversary', Andrew Hirst looks back and shares the latest news from the banks of the River Dee.

'We've been marking our two years in Chester with a bang – well more of a move really as we're expanding to new offices in the city. We're moving from Herons Way in Chester Business Park to bigger premises at Telford Court of Chester Gates Business Park.

'Pension reform and the growing economy means savvy savers and investors in the Chester area are looking for ways to grow their well-earned assets, and Equilibrium is becoming many peoples' first port of call. The number of investors we've been working with has steadily grown and we needed more space. Our new Chester office provides modern and more comfortable surroundings in which clients and prospective clients can meet with their financial planner.

'It's been great getting to know people in the area who are looking to gain financial confidence. The investment seminars we've been regularly holding at the Doubletree by Hilton, in Hoole, have been packed out. There's obviously a demand in the area for transparent, personalised advice on wealth and asset management.

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>
> It's been great getting to know people in the area who are looking to gain financial confidence

'We've also been able to get behind the local community by launching the Chester Community Support Scheme. The aim of this is to provide vital funding to community groups and organisations in the region. We're inviting local charities and organisations to apply for grants to support the work they are doing in the Chester area. The scheme will accept applications from community groups which help disadvantaged people, promote sport and the arts, support education and development, and benefit the environment in Chester.

'I've been the lucky Equilibrium team member who has been able to present successful applicants with their donation cheques. So far the Equilibrium Foundation has helped local junior rugby team, Chester Gladiators, pay for additional coaches and buy new sports equipment. Chester Operatic Society now has a brand new electronic piano for concerts and recitals, and the pupils at Cherry Grove Primary School in Boughton have been able to create a nature area in the school grounds.

'There are so many great community groups in the area and I'm looking forward to finding out more about the work they do, and the positive impact they are making, as the Scheme continues. If you are reading this and thinking you know a good group in the area which would benefit from funding, visit the Chester Community Support Scheme page on our website or email communitysupport@eqllp.co.uk for more information.

'So what does the next two years and beyond hold for Equilibrium's Chester office? More growth hopefully. We'll continue to run our programme of investment seminars and dinners in the region and we're also looking to get involved in more events in the area.

So get ready to see more of our friendly Chester team's faces out and about!'

How to spot a crash

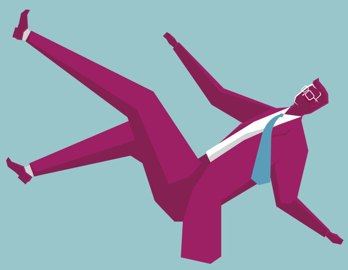
We use a range of market indicators to help us plan for negative news.

By Neal Foundly

Economic crashes can be devastating and often have ripple effects that are initially underestimated. They can also reduce clients' wealth. For example, the annualised return on the US stock market over 15 years to the end of last year was 9.85%. If you avoided just the 10 worst crash days in that period the annualised return would be 14.13%, over half as much again.

Unfortunately, no bells ring at market peaks. Often, like the proverbial boiling frog, the build-up to a crash is gradual and the fatal blow comes unexpectedly. At Equilibrium, we test the temperature of the water constantly.

We do this by monitoring key signals from the economy and the markets. These early warning signals are not



perfect. A number have failed to foresee crashes in the past. They are, however, a carefully selected set of parameters that have generally worked over time and they include indicators that have been evident ahead of, or during, previous crashes.

Here are some examples of the indicators we monitor.

The first is an economic signal called capacity utilisation. This is analogous to the observation that faster cars are more likely to crash and have bigger crashes.

When the economy is booming demand is high, factory output is strong and unemployment is low. As the economy reaches full employment and production is at capacity, there is more demand than supply and inflationary forces take grip. Eventually demand growth slows setting the scene for weaker growth and inflation, and the start of the down cycle.

Using data that indicates how much of the economy's capacity is being utilised helps us understand where we are in this cycle. For example in the past, if the UK or the US were driving hard at around 85% of capacity, this was a danger signal. Currently it is at 78%.

> Investors are buying a record 3.8% of the value of the market using debt. This indicator is definitely flashing red

Over-extended borrowing

Another important market indicator is equity margin accounts. The key here is that when people borrow increasing amounts of money to invest this usually ends in tears.

Investors in equities have accounts with stockbrokers that enable them to borrow money to fund their equity investments. When markets are roaring, investors feel confident enough to borrow more. When borrowing rates are low – as they are now at almost zero – then they perceive it as a 'no-brainer trade'.

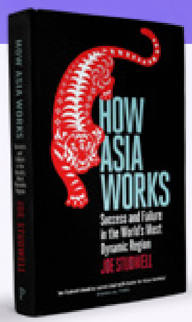
Two things can go wrong in this situation. Firstly, investors over-extend their borrowing and secondly, equity markets start to correct. As stocks start to fall, the banks call in the credit and investors find that they have to sell stocks, which drives the market down and starts a downward spiral.

Prior to the technology market crash of 2000, and credit crisis of 2007/8, there was a trend of high and rising borrowing on trading accounts, and we can see this pattern repeated today. Indeed, the amount of this borrowing has hit an all-time high. Investors are buying a record 3.8% of the value of the stock market using debt. This indicator is definitely flashing red as a danger signal that has foreshadowed market crashes in the past.

Although this signal is important, it is one of the range of indicators which collectively are not indicating an imminent crash, although there are a sufficient number to warrant caution.

I hope this has given you some idea of the analysis that goes on behind the scenes. Most of the time it will not apply but when it does, it is a critical element of wealth preservation.

What we are reading this month...



Neal Foundly, Investment Analyst

How Asia Works: Success and Failure in the World's Most Dynamic Region

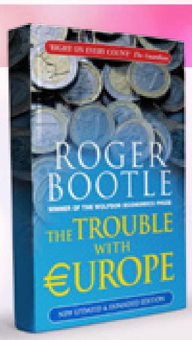
by Joe Studwell

If you are a Far East Asian despot this would be a great 'How-To' instruction guide to achieve global domination.

What Joe Studwell has done is to identify the key steps that Asian countries have needed to undertake in order to succeed and dominate. Take agriculture for example, it is important to keep it small (good yields) and intense (keeps employment up and thus revolutions down). Joe illustrates his points with a deep knowledge of history highlighting the consequences of adopting different approaches.

What really brings it all alive, however, is how the reader travels with Joe as he (sometimes literally) helicopters in on particular areas in the region to give a real-world account of the great or dismal results of decisions made. As the book moves on to manufacturing and ends with financing you begin to recognise why some of the names we know, such as Samsung or Hyundai, have risen to global prominence (and why the likes of the Bank Central Asia did not).

Yes, despots should buy it but so should anyone else interested in how Asian economies have got to where they are today and to understand what will help or hinder them tomorrow.



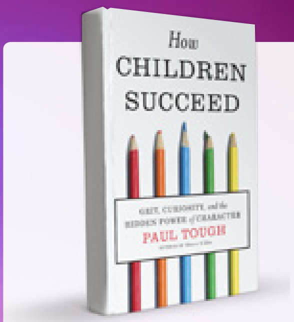
Colin Lawson, Managing Partner

The Trouble with Europe

by Roger Bootle

With the European Referendum getting ever closer I realised that I didn't possess sufficient knowledge to make an informed decision one way or another on the subject. Nor did I know enough to act in my role as a "friendly expert" to my clients, and so I decided to start my research with this enlightening, engaging and informative book.

Roger Bootle takes the complex and emotional EU issues and cuts through them with ease. Its conclusion that the EU is undemocratic, unsustainable and (in its current form) holding back economic growth surprised me. As I put the book down I decided I would vote to leave the EU. Moving it aside, and glancing at the cover and ominous title once more however, I realised my decision might have been a little premature based on half the story. So next I am looking forward to reading "The In/Out Question" by Hugo Dixon that was kindly sent to me by a client, and promises to argue the case for staying in. Maybe in the next issue of Equinox I will be able to scrutinise the "In" argument to come to a balanced decision!



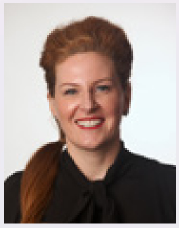
Gaynor Rigby, Chief Operating Officer

How Children Succeed

by Paul Tough

If you think that a child's success depends primarily on cognitive skills (IQ, exams etc.) then author Paul Tough sets out to show how a persons character is a better indication.

This is a fascinating book, written in a similar style to "The Tipping Point" by Malcolm Gladwell, and is full of great stories and anecdotes. The first chapter gives an example of a study which identified a set of strengths that were likely to predict life satisfaction and high achievement: grit, self- control, zest, social intelligence, gratitude, optimism and curiosity. There is so much more to this book but this chapter in particular gave rise to me having some great conversations with family and friends.



By wanting to protect our children from the mistakes we made, and by wanting them to have what we didn't, are we actually depriving them of the opportunity to develop the skills and core values of a successful adult? This was certainly a question that the book left me pondering.

Fiona Bousfield, Marketing Communications Executive

The Life Changing Magic of Tidying

by Marie Kondo

A good friend of mine who lived and worked in Japan for a couple of years passed along this book to me, and boldly promised that it would change my life by how I think and feel about my possessions. As Japan's "expert declutterer and professional cleaner", Marie Kondo presents her "KonMari" method which promises to transform your home into a clutter-free space, and that in turn your life revolution will follow.

Whilst I enjoyed Marie's underlying theme to only keep belongings that "spark joy", and to essentially look for happiness in your things before deciding whether to keep them or throw them out, many of her ideas are repeated and means chapters morph into each other. There are, however, some unusual ideas presented that you can put into practice, such as how to store all of your clothes vertically to save space and to tackle categories to tidy rather than rooms. It certainly makes for an interesting read but as far as "life-changing" goes – probably not.

In Profile:

Gaynor Rigby

Chief Operating Officer
Equilibrium

Since joining in 2010, Gaynor Rigby has played a key role in moving Equilibrium to its next stage of development. We find out how her optimistic philosophy on life has helped.

By Tim Cooper

When Gaynor Rigby, Partner and Chief Operating Officer at Equilibrium, first started working for the firm in 2010, it was at a crossroads. Having grown to a team of 27, it faced a decision about whether to keep growing or consolidate. But Gaynor says she realised quickly that she could help Equilibrium keep expanding and move to its next stage of development. Five years later, the team has grown to 57 and the success of her involvement is evident.

Gaynor previously worked as director of sales and marketing at Strategic Coach, based in Toronto. In 2010, she did some consultancy work for Equilibrium and says she found it had reached a size where the structures were under pressure.

'I could see how I could help to put new structures in place that would join the dots and help the firm continue to grow,' she says.

There was a good cultural fit too. Gaynor grew up in the North of England but moved to North America when she was 18, and living there helped her develop an optimistic outlook. 'When I came back to England, I was looking for similarly positive people and I found them at Equilibrium,' she says.

Gaynor sums up her own philosophy as follows: 'I want my headstone to say that I lived life to the edges. That means that I worked hard, pushed myself, did unusual things, took chances and explored. Some of the things I have learned about myself came from being in difficult circumstances, but a sense of accomplishment and achievement comes out of it.'

After the consultancy period, Equilibrium offered her a part-time, permanent role. This evolved to full-time three years ago.

Gaynor's background prepared her well for the challenge because in her words, 'I have done the journey from small to medium sized business before and I understood the necessary structures. The other part is getting people to understand and engage in a way that befits a larger organisation.'

Gaynor says managing partner Colin Lawson's role is to 'create the product of what Equilibrium does and how'. Her role is to make sure the team delivers that. It ranges from facilities management to marketing, recruitment and HR strategy.

She enjoys the strategic elements of the role as well. 'I am a bit of a geek when it comes to spreadsheets and data - I like looking at trends,' says Gaynor. 'I also enjoy helping people grow in confidence, so they become good leaders and can develop their own team. It is a great feeling to see them stretch their wings, and to see the benefit that brings to the business.'

> Some of the things I have learned about myself came from being in difficult circumstances

One of Gaynor's biggest projects has been to spearhead the development of Equilibrium's graduate programme, which took on its first four graduates in September 2015.

'There are not enough candidates in the market for us to service the clients that we are taking on,' explains Gaynor. 'This programme will meet that need.'

She has also led some major technology projects, including a new customer relationship management system to increase control over information; Yammer, which improves internal communication; and a cloud-based server.

Outside work, Gaynor has a bucket list, top of which is to see 60% of all the world's countries. It keeps her very busy and entertained as she visits at least three new countries a year.

As for the future, Gaynor says recruitment will continue to be her biggest challenge. 'Finding the right kind of people is crucial to the success of the business,' she says. 'Because what we do is so different, the learning curve is steep even for experienced people.

'But I hope we have an environment in which people feel that what they do makes a difference and creates opportunities for others. We take pride in doing a good job for clients and in having great people who can do that.'

A wave of enthusiasm

By Caleb Jackson and John Warburton

Enthusiasm is a charity dedicated to helping young people from deprived backgrounds turn their lives around.

Every year, around 5,000 people are referred to the organisation. These are youngsters who have been excluded from school and are on the periphery of the criminal justice system, with a real danger that they could soon be lost to a future of anti-social behaviour and crime.

Many young people Enthusiasm works with come from problem families - parents with substance addiction, mental ill-health, and histories of domestic violence are common.

Founded in 1992, Enthusiasm works by bringing these young people face to face with an adult who believes in them.

Through a combination of 1-2-1 mentoring and support the charity helps the children to break the negative cycle of behaviour, beliefs and associations which invariably lead to a life of poverty and lifelong problems.

Caleb Jackson, the leader of the Manchester arm of Enthusiasm, said:

'We aim to break the cycle of deprivation and give young people a more positive life experience.

'We challenge their thinking and behaviour and encourage them to be more involved with their community.

'Some of the young people we work with are on the periphery of gangs and are looking for a sense of belonging. We offer them a support network often missing at home.'

When young people are excluded from schools, they attend a Pupil Referral Unit

(PRU). If they then go on to be excluded from a PRU, that's when they access Enthusiasm services.

Caleb added: 'These are the kinds of young people the organisation helps. Youngsters who are difficult to engage, have chaotic lifestyles and entrenched social problems.

'Our programmes work at a grassroots level to tackle individual and institutional barriers to ensure that our young people and families can genuinely participate in society.'

As well as helping young people, the organisation aims to help communities and has earned a good reputation for delivering clean-up projects and gardening work.

They are currently opening a charity shop which will provide employment and training for youngsters as well as a source of income.

In monetary terms, it costs society an average of £203,000-a-year to keep one child locked up in a secure children's home. It costs Enthusiasm £4,000-a-year to prevent a child from entering the criminal justice system in the first place.

Caleb added: 'As well as the associated savings to Councils, the Ambulance and Police services, without our prevention services more children will end up in care or in custody at considerable cost to the public purse.

'There will also be a continual detachment of young people from their communities and a risk of returning to the awful riots of August 2011.'

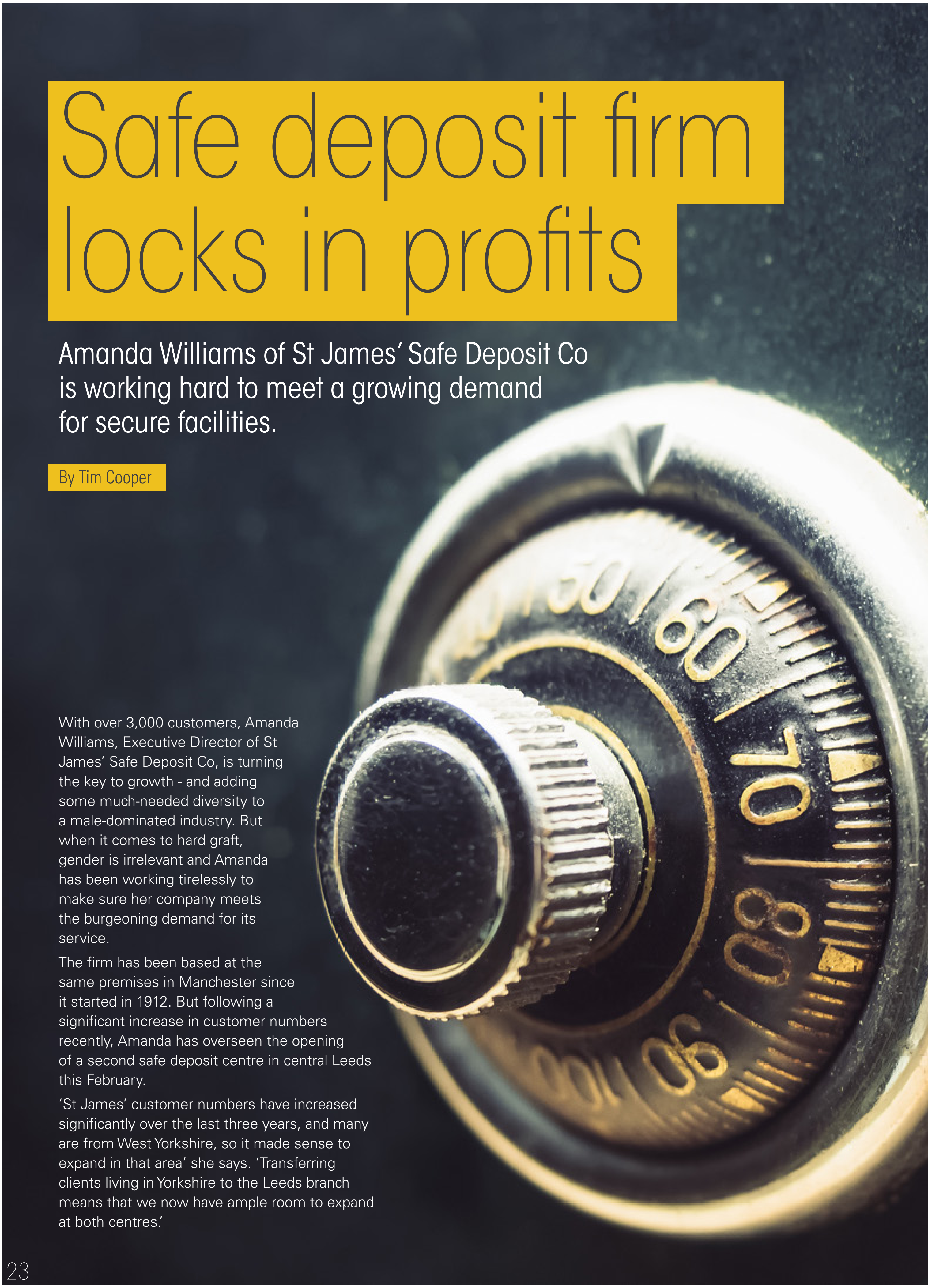
Enthusiasm operates in three cities – Manchester, Derby and Nottingham.

If you would like to contact the organisation to discuss ways in which you may be able to support Enthusiasm, or to arrange a visit, please call **01332 362479** or email:

Caleb Jackson
Manchester City Leader
caleb.jackson@enthusiasm.org.uk

> "it costs society an average of £203,000-a-year to keep one child locked up in a secure children's home. It costs Enthusiasm £4,000-a-year to prevent a child from entering the criminal justice system in the first place

Above: Caleb Jackson - Manchester City Leader, Enthusiasm



Safe deposit firm locks in profits

Amanda Williams of St James' Safe Deposit Co is working hard to meet a growing demand for secure facilities.

By Tim Cooper

With over 3,000 customers, Amanda Williams, Executive Director of St James' Safe Deposit Co, is turning the key to growth - and adding some much-needed diversity to a male-dominated industry. But when it comes to hard graft, gender is irrelevant and Amanda has been working tirelessly to make sure her company meets the burgeoning demand for its service.

The firm has been based at the same premises in Manchester since it started in 1912. But following a significant increase in customer numbers recently, Amanda has overseen the opening of a second safe deposit centre in central Leeds this February.

'St James' customer numbers have increased significantly over the last three years, and many are from West Yorkshire, so it made sense to expand in that area' she says. 'Transferring clients living in Yorkshire to the Leeds branch means that we now have ample room to expand at both centres.'

One big reason for the growth is that many banks have stopped offering safe deposit services. Amanda says, ‘High street banks are closing and safe deposit facilities are expensive to run. We do very little advertising and nearly all business comes from personal referrals and our website (www.stjames-safedeposit.com).’

The Asian community is one of the firm’s biggest customer groups as they traditionally keep gold items. ‘This can make them a target for burglars and this type of crime appears to have increased,’ says Amanda. ‘Some customers have told us that home insurance premiums drop by more than the cost of a box if you keep your valuables here.’

Beautiful buildings

Both sites are redolent with history and character. The Manchester vaults are below the St James Building, Oxford Street. This was built in 1912 in an Edwardian baroque style and this period feel is still present in the vault today. The firm’s original hand-bound ledgers show many longstanding customers, including one family that has kept the same box since 1918.

Amanda Williams **(centre)** with her management team, Ian McGloughin **(left)** and Tom Graham **(right)**.

The Leeds centre occupies former bank vaults on Russell Street (just off Park Row), in a building designed by celebrated Victorian architect Alfred Waterhouse, who also designed Manchester Town Hall and the Natural History Museum in London.

> “This is a competitive industry and we cannot afford to be complacent

Amanda says opening in Leeds has provided some of the best and worst moments of her time at St James. ‘We found this imposing building with impressive listed vaults, which had been untouched since the bank moved out nearly 40 years ago,’ she says. ‘But it was a long project. Finding the right premises took a year and a half. Negotiating the lease, planning physical and technical security systems, and managing teams of builders, electricians, IT consultants and security consultants took longer. I was exhausted by the time it opened.’

Diversity and service

Several new competitors have entered the safe deposit industry in other parts of the country, attracted by the potential recurring income. But Amanda points out that ‘you have to be in it for the long term, as start-up costs are high and it needs regular ongoing investment, which can take many years to pay off.’

Amanda’s father Nigel Kay MBE bought the business in 1991 and he is still Managing Director. ‘My father is very active in the business and is a good sounding board,’ says Amanda. ‘The rest of our team are also very experienced. Our Manager in Manchester has 27 years’ experience with a high street bank and our Leeds manager spent over 25 years running a large cash centre in Leeds. The knowledge they bring to the business cannot be underestimated.’

However, she believes that having a female director in the male-dominated world of security adds valuable diversity. ‘We have always employed ex-policemen and prison officers,’ says Amanda. ‘Now we plan to recruit another experienced woman to work as our Customer Services Manager. While the security of our branches remains our number one priority, we must also provide a first-rate experience for our customers. This is a competitive industry and we cannot afford to be complacent. We must do everything well if we want to retain our existing customers and attract new ones.’

The modern University, for over 50s

Longing to make new friends, learn about local history or join a scientific book club in your retirement?

Well, that's what Muriel Robinson, our Knutsford Community Champion for 2015, did when she helped to set up the U3A with two friends back in 2005.

Every year Equilibrium teams up with The Knutsford Guardian to find and reward people in the area who deserve to be named as a 'Community Champion'. This year Muriel was judged the winner for founding the Knutsford U3A and helping change local people's lives for the better.

The U3A (University of the Third Age) is a learning co-operative of over 50s, which enables members to share a range of educational, creative, physical and leisure-based activities. Members study subjects they've not had time for before retirement, and learn from one another by sharing knowledge, skills and experiences.

> "
>
> Learning is limitless and costs as little as £15 per year

The Knutsford branch has been going for more than ten years now and has been popular since its inception. From over 80 people spilling out of the civic hall at the very first meeting, and starting with a few classes including French, embroidery and a book club, the branch now has more than 600 members and in excess of 40 activities to choose from.

Learning is limitless and costs as little as £15 per year. Not only that, it's a great way of making friends. Activities such as wine tasting and theatre trips are organised and the Knutsford branch offers several modern languages, including Chinese, German and French. There are even Tai Chi classes available. Any member can put forward suggestions for new groups that they would like to establish themselves or see established.

There is no set campus, groups are nationwide and each group is independent. The independent groups all sit under the Third Age Trust which acts as a national representative body for U3A's in the UK. It is a registered charity and limited company and as such, administrators and teachers are not paid. They are there for the joy of teaching and learning themselves.

Each U3A has its own chairing committee and the trust is managed by a National Executive Committee which consists of a chairman, three other officers and 12 representatives from the governing regions across the UK. The voluntary organisation has more than 900 branches in the UK with over 350,000 members in total.

With no curriculum, no entry requirements, no exams, and activities ranging from wine tasting and bridge to walking groups and theatre trips, it comes as no surprise that approximately 50 new U3A's are started per year. There's a branch in Chester and in the last two years a Wilmslow branch has been set up.

The U3A provides life changing opportunities for the retired & semi-retired to meet with like-minded people and to discover new interests. It's a great way to keep active, both physically and mentally.

While a number of people in the local area help to run the organisation, Muriel and her neighbours, Margaret Weltman and Monica Beswick, certainly deserve the recognition for bringing it to Knutsford.

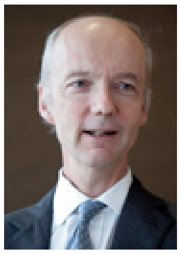
From left: Colin Lawson with Muriel Robinson (2015 Knutsford Community Champion), Cllr Neil Forbes (Knutsford Town Mayor) and Carla Flynn (Knutsford Guardian Editor). Photo by Jonathan Farber.

For more information on the Knutsford and District U3A visit **www.knutsfordu3a.co.uk**, or go along to one of the general meetings which are held on the second Thursday of every month at 2.15pm, with guest speakers and refreshments.

With more than 900 branches across the UK - visit **www.u3a.org.uk** to find out more.

Views from the Frontline

In this edition we interview four equity fund managers who give us their expert views on their specialist region.



Japan

Andrew Rose

Fund Manager

Schroder Tokyo

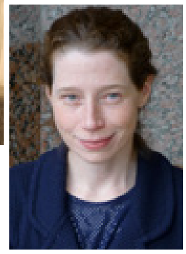
After the recent market setback, investors will be looking for any evidence of slower growth hitting company earnings. On a global basis, Japan remains in a relatively strong position as most of the expected profit growth was driven by domestic sources although, inevitably, there will be some impact from any lowering of overseas demand.

Nevertheless, we are not currently expecting any additional moves from the Bank of Japan, provided the gradual progress seen on inflation in recent months does not reverse. In the short term, however, most attention will be on the US Federal Reserve and whether or not any rate rise will be viewed positively by equity markets.

A US rate rise would change the relative position of Japan's monetary policy and presumably increase the chances of further easing in order to avoid upward pressure on the currency. Looking through all this, we should remain focused on the fact that earnings forecasts in Japan are so far little impacted by global events and revisions are still positive. The sharp fall in the market (during August) therefore raises numerous attractive opportunities for investment in individual companies.

Equilibrium View

Japan has been one of our favoured markets for some time and the region performed very well this year up until the summer downturn. We remain positive as we see stronger earnings growth than other regions and a market which looks better value than many.



USA

Clare Hart

Portfolio Manager

JP Morgan US Equity Income Fund

I take a constructive view on the US equity market. The primary reason for my confidence? The US economic recovery. Throughout this recovery we've witnessed slow and steady economic growth suggesting that this could be a very long period of positive economic growth. This should bode well for equity market returns.

The market rally has been plagued by persistent doubts that the market has taken valuations higher. This market doesn't look cheap, but it doesn't look expensive either. To us, it looks reasonable and the market's current valuation should be no reason to leave the party now.

When we look at the S&P 500 earnings picture, our analysts feel confident that earnings should grow by 3% this year. If we strip out the negative impact of the energy sector, that growth estimate jumps to 10%—a solid basis for continued earnings growth. And that in turn, should also lead to solid dividend growth. We focus on quality first, targeting companies with durable franchises, consistent patterns of earnings, high return on invested capital, conservative financials, and strong management teams.

Equilibrium View

For some time we have felt the US looked more expensive than other markets and held a smaller weighting than usual. After the drop in markets over the summer the US looks better value and it has less risk than in some regions. We have therefore topped up US exposure but still hold slightly less than our long term "strategic" weighting.

UK Smaller Companies

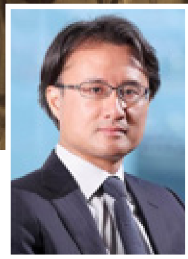
Gervais Williams

Managing Director & Fund Manager
CF Miton UK Multi Cap Income & CF Miton UK Smaller Companies

Over the last few years, economic data has generally been weaker than expected. Perversely for quite some time bad economic news was good news for investors as central bankers were able to offset adverse economic data via monetary policy. Even Governments have done their bit, they have run their budget deficits at much higher levels than planned.

However, these policies seem to have lost some of their potency. Over recent months the potential scale of the problems in China have appeared to overwhelm the potential benefit that central banks could deliver. So now bad economic news is also interpreted as bad news for markets. As investors we need to appreciate that such a link isn't sustainable in the longer term. In due course we need to find a way to generate more genuine, sustainable economic growth.

That's where smaller companies come in. During the 1960's and the 1970's when economic data was very troubled, smaller companies tended to outperform. Markets could remain volatile, but smaller companies could be well placed to deliver premium returns for years and decades.



China

Mike Shiao

Fund Manager
Invesco Perpetual Hong Kong & China Fund

The People's Bank of China has recently cut current interest rates as policymakers seek to restore confidence after the sharp fall in stockmarkets. The rate cut will help lessen the squeeze on corporate earnings from rising real interest rates as financing costs shrink.

In terms of Chinese equities, the dramatic correction has seen valuation measures such as price/earnings and price/book multiples for the MSCI China index, fall back to historic lows at a time that earnings estimates are quite conservative, in our view. Current consensus earnings growth forecasts for the MSCI China index in 2015 are only 1.3%, compared to 6.1% at the start of the year. Looking ahead, lower interest rates should not only help expand liquidity in the financial system, they should also translate into an improvement in corporate earnings via margin expansion.

In terms of valuations, the current price/earnings ratio for the MSCI China index is 8.5, and on price/book ratio of 1.1, well below developed markets and the rest of Asia. Valuations at these levels may begin to provide some support. We continue to focus on companies with sustainable leadership and competitive advantages that are trading below what we consider to be fair value.

Equilibrium View

We have had a positive view towards UK smaller companies for some time. These tend to be more focused on the domestic UK economy which has been doing well, with less exposure to slowing global growth. Profits have typically been growing more quickly than in larger companies, making them an attractive place to invest.

Equilibrium View

Stocks listed in Shanghai and Shenzhen reached bubble status and needed to correct, however Hong Kong listed Chinese stocks did not reach such giddy heights. Having been dragged down with Shanghai, we believe there is potentially some very good value in these so called "H-shares". Whilst we think Chinese growth will slow this may be more than reflected in stock prices already, making it possible for a good fund manager to pick up bargains.

Investment Review:

Highs and lows

Adding value despite market turmoil

By Mike Deverell

Welcome to the investment review section of our latest Equinox.

In this section we look at what has been happening in markets and in portfolios since our April edition.

It has been a period of highs and lows. The FTSE 100 closed at 6,833 on 2 April, and initially did very well hitting a new record high of 7,104 on 27 April.

It then dropped as low as 5,898 at close on 24 August, 13.7% down from 2 April and almost 17% below its peak.

In fact, 24 August, which some have coined "Black Monday" almost became one of the worst days in FTSE 100 history. At one point the market was 6.77% down during the day which would have made it the sixth worst day since the index began. In the end it finished "only" 4.7% down, narrowly avoiding a place in the top 10 worst days.

Since then we have seen something of a recovery, with the index closing at 6,298 on 5 October. Factor in dividends, and the FTSE 100 was down 6% over the past six months.

It is not all doom and gloom however. Despite the sharp drop in many equity markets, portfolios generally held up relatively well with a balanced portfolio down around 1.6% over six months. We don't like to see any loss, even over a short term, but in context we protected capital well, and the balanced portfolio is still up 4.8% over 12 months.

Whilst most markets have fallen sharply, some areas have made money, even within equities. Highlights include:

- Our "UK Dynamic" mix of more aggressive UK funds, up more than 10% over 6 months despite the FTSE dropping 6% over the same period. It benefited from the outperformance of smaller companies within the UK.
- Within this, the best performer - Miton UK Value Opportunities - made 14.97%, outperforming the FTSE 100 by almost 20%.
- Even our larger cap focused "UK Conservative" funds made 1% over the period despite the drop in the market.
- Property funds were up over six months, with our portfolio returning 3.25%.
- Alternative Equity, funds which can make money from falling markets as well as rising stocks, made 2.95%.
- Our fund selection added plenty of value, with 85% of funds ahead of sector and almost 60% of funds in portfolios at the end of September, beating their benchmark by more than 25% over the time we have held them.

Over the coming pages we look at what's caused all this volatility, and what we've been doing to protect portfolios from the downside whilst positioning them to take advantage of the recovery when it comes.

A tale of two economies

If you've been reading the financial pages recently you'll have read a lot about China and its slowing growth.

You'll also have read a lot about interest rates, particularly in the US where the "will-they won't-they" debate has moved on from September, when a lot of people thought rates would rise, to be repeated at the next Fed meeting. And possibly the next, and the next…

It's worth emphasising that these two issues are not only very important, they are intrinsically linked. And they affect everything.

The US is the world's largest economy whilst China is the second largest. China is the world's largest trading nation whilst the US is the second largest. What happens in these two countries is massively important for global growth.

During the past decade or so there has been a virtuous circle of trade and investment between the two countries which has been to both their benefit. As interest rates came down in the US, this translated into cheap money which could be borrowed and invested elsewhere.

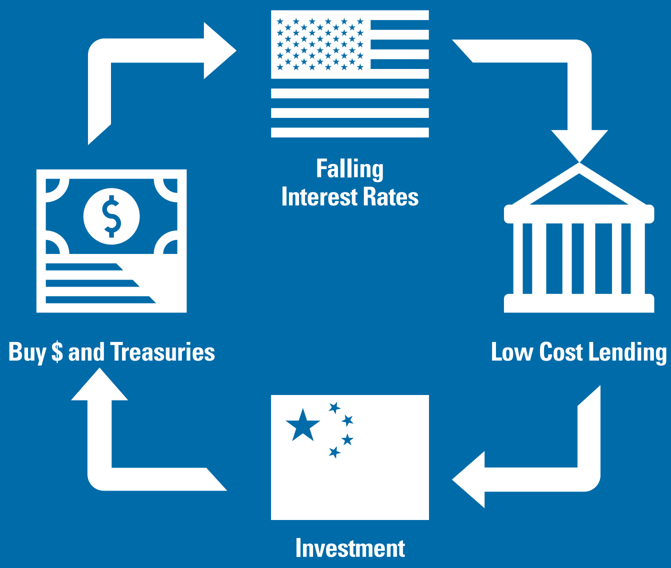
With such strong growth China became a natural place for this investment to go, to benefit from high potential returns. This helped to boost the already strong growth there.

Because of all this foreign currency from trade and investment, China built up a massive surplus. Much of this was held in US dollars through Chinese purchases of US government bonds (known as treasuries). In total, China owns about 20% of the US government bonds in issue.

Purchasing bonds in such numbers helps push the price up, which pushes the yields down. This reduces borrowing costs in the US even further, and so the cycle continues…

This virtuous cycle appears to be coming to an end as China slows and the US considers whether to start increasing rates. That in itself would put a possible brake on global growth, but what markets are really worried about is whether this cycle will go into reverse.

As rates go up, less easy money is available to invest, whilst at the same time China is a less attractive place to invest with lower potential returns than before. As money flows out of the country, China has had to dip into its foreign currency reserves to defend the Yuan, selling US Treasuries. If this trend accelerates they will be forced to sell more bonds and the price may therefore fall. As the price falls, the yield goes up and the cost of borrowing is increased. What was previously a virtuous cycle becomes a vicious one.



> In total, China owns about 20% of the US government bonds in issue

Right in the middle of all this are the commodity related companies such as energy or mining stocks, hit hard by falling prices as China's demand wanes. This problem is compounded in many cases by high levels of debt, with Glencore in particular making headlines after shares fell over 30% in one day, and around 75% since the start of the year.

The big worry investors have is that, being so highly geared, the equity value of some of these companies could end up being less than the debt value, making their shares pretty much worthless. Should some of these large companies go bust, the knock on effects could be significant.

If the vicious circle scenario did come to fruition, we could see a global recession and more Glencore scenarios emerge. We think these fears are probably overdone and we expect China's growth will level off rather than drop off a cliff, and the Fed will put up rates only slowly.

Value emerging

After the recent drops in stockmarkets, value is starting to emerge.

Before the dip, we were beginning to be concerned about valuations in certain stockmarkets. The US and European markets looked notably expensive in our view whilst many other markets were far from cheap.

In the UK, we have held less in the large cap FTSE 100 than usual in favour of smaller companies. Not only did the larger end of the market look more expensive relative to the earnings of the companies, but the profits of those companies were falling. In particular, the mining and oil companies that make up such a large part of the FTSE were very exposed to falling commodity prices.

As a result, we went into the recent dip holding less equity than usual and in particular we were underweight in the FTSE, as well as US and Europe. We were not predicting a crash as such but we were concerned that a market correction was overdue.

As the market fell, we then did what we usually do in a correction; we buy.

We did this because we know that corrections happen all the time. Table 1 shows the calendar year returns of the FTSE All Share over the past 15 years. It also shows the biggest intra-year drop in each 12 month period. In essence, no matter whether the FTSE ended the year up or down, in most years it fell at least 10% at some point during the year.

There have only been two calendar years since 2000 when the FTSE has not fallen by at least 10% during the year. Most of the time, a drop in markets is an opportunity to top up equities, which can then be sold again when markets recover. We call this volatility trading.

Chart 1 shows the FTSE 100 over the past 12 months. The chart also shows each time we have bought and sold as part of our volatility trading over that time.

In October last year we bought twice, at around 6,500 (where the red line is on the chart) and then at around 6,240. We sold those at a profit, reinvesting some of the cash as markets dipped back down again, selling again once it recovered.

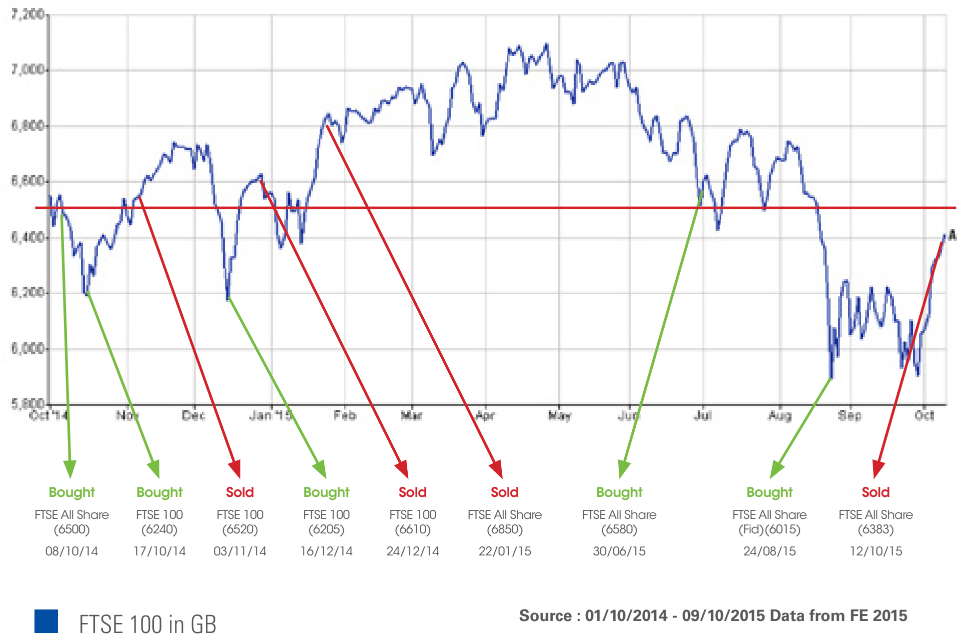
You can also see the trades we have placed over the past few months, buying first at around 6,580 in late June and then again at 6,015 in August. All index levels are approximate and may vary depending on the portfolio and the platform on which the investment is held.

As I write, the June trade is currently showing a loss. However, we have been able to bank a gain on the August trade, selling in early October after the market recovered to just below 6,400.

Table 1

Year	Calendar Year Return	Intra-Year Decline
2014	-2	-10
2013	17	-12
2012	8	-12
2011	-7	-19
2010	11	-17
2009	25	-23
2008	-33	-43
2007	2	-13
2006	13	-10
2005	18	-7
2004	9	-6
2003	17	-17
2002	-25	-31
2001	-15	-30
2000	-8	-12

Chart 1



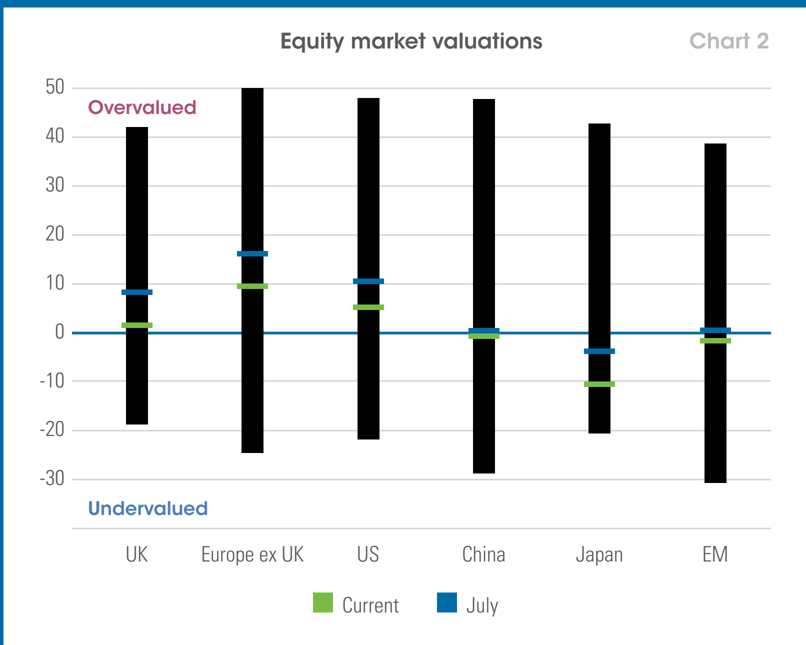
Source : 01/10/2014 - 09/10/2015 Data from FE 2015

Regional differences

After the falls, markets look much better value than they were. Chart 2 shows our composite valuation for each of the main equity market regions, which combines a number of indicators such as the ratio of market price to company earnings, or to their book value.

We display these like the graphic equaliser you used to get on your hi-fi system with the black bars showing the full range that our indicator has been in the past. The green bars show the latest valuation – the further up the bar then more expensive the market.

The blue bars show the valuation at the end of July, just before the steep market drop. For each of the markets the valuation is lower now than it was then.



What's notable is that it is the developed markets which have seen the biggest moves in terms of valuation, with China and emerging markets barely changing. All regions have seen prices fall but the change in valuation is not all down to price.

For example, one of our favoured indicators is the price/earnings (PE) ratio of each market. The lower the ratio, the cheaper it is. Falling markets move the price but we also have to pay attention to what is happening to the earnings side of the equation.

> "We have reduced emerging exposure in favour of US and European markets

Stocks in China and the wider emerging markets have fallen just as much and often more than developed markets. However, more of the fall there is justified by what's actually happening to company profits. Earnings in these regions are slipping as economic growth wanes.

If the price of a market falls 10% and earnings fall 10% (for example), the market hasn't become any cheaper in terms of its PE ratio.

As a result, whilst Chinese equities have only become cheaper on our indicator by 1 point and the wider emerging markets by 3 points, the US is 5 points cheaper, UK and Europe 6 points, and Japan 7 points. The score for each market is calculated relative to its own long term average valuation.

Given that the main source of risk is from emerging markets and that developed markets have become relatively cheaper, we have reduced emerging exposure in favour of US and European markets. We believe this reduces the potential risk without reducing the potential return.

We already hold more than usual in Japan which is now well below its long term average valuation, and continue to favour this region which has positive profit growth unlike some other countries.

Whilst we no longer hold any global emerging market funds, we do still hold Chinese and Asian funds in portfolios. This may seem counterintuitive given our comments about slowing growth in China, but again this is based partly on valuation. It may also be that commodity producers, who have historically exported to China, may be harder hit by slowdown than Chinese companies themselves.

Bond Street

Normally, when equities suffer we expect certain types of bonds to rally. Government bonds, such as UK gilts or US treasuries, represent safe haven assets guaranteed by the State and so tend to do well when investors are scared of the stockmarket.

This has happened to a certain extent during the recent downturn in markets, but perhaps less than we might expect.

Partly, this is because they were already trading at relatively high prices. Going into the crisis, a UK 10 year gilt was already yielding less than 2% pa. It has since fallen to 1.79% pa which means an investor would have made a small capital gain over this time.

Given the market has been expecting interest rates to go up soon it is perhaps not too surprising that bonds have not rallied as much as might have been expected. However, as concerns about the strength of the global economy grow, the expected date for the first rate increase keeps being pushed back. As I write, the Federal Reserve is still hinting that they will put rates up this year, but markets do not believe them.

Our own fixed interest portfolio was disappointing as we were, in hindsight, too cautious about interest rates going up. You can read more about our portfolio and a few changes we're making on page 37.

Property slows

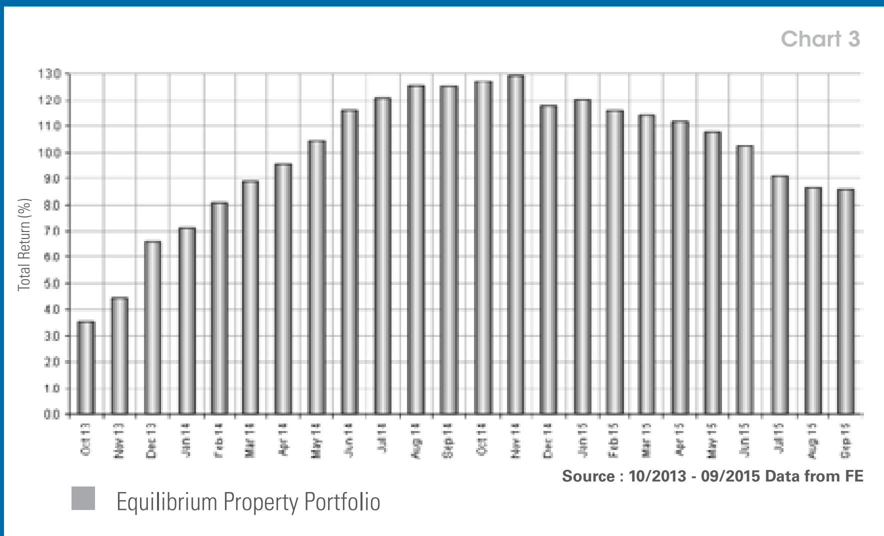
With equities volatile and bonds providing little return, we have been grateful that property continues to plod on its merry way.

We have been big fans of UK commercial property investing over the past couple of years, holding much more in this asset class than we would normally. However, we have recently started to reduce back to a more normal weighting, as returns begin to slow towards the long term averages.

We normally expect property to return around 7% pa over the very long term. Recently, we have been seeing double digit returns but this is starting to come back down.

Chart 3 shows the rolling 12 month returns ending in each month over the past two years. During the summer of 2014, the rolling annual returns were above 12%, but they gradually reduced into 2015 and over the 12 months to the end of September returns were 8.42%.

Property returns over the very long run are driven mainly by rental income. The asset class tends to do well when the UK economy is doing well, as it has over the past two years. This has led to increases in the prices of the buildings, but we are still seeing little sign of rental growth picking up. This means that the



overall rental yields have fallen as capital values have increased.

We still believe the asset class can provide some decent returns and, importantly, will continue to provide diversification from the volatile equity markets. However, until we see rental growth picking up, we expect returns to be much lower than we saw last year. Perhaps returns will be more in line with the long term expected return from property, around 7% pa.

What's the alternative?

One of our best performing sectors has been what we describe as "alternative equity". This is always a difficult asset class to describe but essentially it has two jobs in a portfolio.

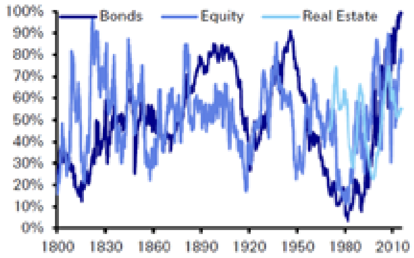
The first is to provide returns close to those available from the equity market over the long term, but with much less volatility – it would normally rise less when markets go up and fall less when they go down. The second is to provide diversification by producing positive returns at different times to the stockmarket.

Chart 4 shows that this has more than been achieved, with alternative equity returning 8.2% over 12 months in a relatively "slow and steady" fashion at a time when the market has been very volatile.

In the last edition of Equinox, I highlighted how the portfolio had been disappointing in February and March this year, making small losses at a time the stockmarket was growing quickly. I optimistically pointed out that this meant the opposite could happen and if markets dropped alternative equity could do well!

It is pleasing that it did behave as we had expected and it has been a good source of performance. It is an area we like and will continue to invest in.

Chart 5



Source : Deutsche Bank, GFD

There's never been a better time to invest... or a more difficult time

In our April 2014 edition of Equinox, Colin wrote a fantastic article highlighting why in some ways there has never been a better time to invest.

With interest rates at record lows and inflation at zero, this remains true in many ways. For example, the FTSE All Share Index has a dividend yield of 3.6% pa. If stocks stood still and you just picked up the yield, this would be a full 3.1% pa more than base rate and 3.6% above CPI inflation which stands at zero! In relative terms, we are more confident now than pretty much ever before of achieving our minimum aim of returning more than cash and inflation over a 5 year period.

We normally aim to achieve around 5% ahead of inflation on average over the long term, depending on the portfolio. This tends to be around 7% to 8% pa over a typical five year term, but it may be less over the next five years.

Chart 5 from Deutsche Bank's recent Long Term Asset Return Study 2015 shows the current valuation of bond, equity and real estate in developed markets compared to the (very) long term, back to 1800.

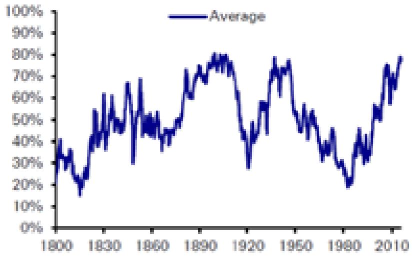
Deutsche calculates that bond markets are more expensive than ever before

Chart 4

Source : 03/10/2014 - 05/10/2015 Data from FE 2015

A - Equilibrium Alternative Equity (8.22%) B - FTSE All Share (2.64%)

Chart 6



Source : Deutsche Bank, GFD

whilst equity and real estate are well above average. They have also worked out the average value of the three main asset classes, and it is as high as it has ever been (see chart 6). Some of this is justified by low inflation and low rates, but it highlights that there is nothing out there that looks "cheap".

Normally, when one asset class looks expensive another looks cheap. As asset allocators, we can then weight portfolios away from one and towards the other. This is more difficult at present using traditional asset classes.

Quantitative easing and ultra-loose monetary policy has had the effect of "raising all boats" and increasing asset prices globally. This was precisely its intention, with the theory that those gains would trickle down into the real economy. Whether or not that has worked is another matter entirely, but it has certainly helped investors.

Deutsche Bank's figures show precisely why central bankers are being so cautious about tightening monetary policy. The long term average interest rates have been much higher and when rates are so low, any move is a big one. With base rates at 0.5%, a 0.5% move is a doubling of rates. Central banks are therefore being very cautious not to pop these bubbles.

Whilst all this makes our job harder, none of this means we don't think our target returns can be achieved. We believe they can, but we are having to look for more innovative ways to get there. We mentioned alternative equity earlier, whilst the article on page 11 explains the benefits of defined returns.

Volatility trading is another important strategy to eke out those extra returns. Our aim is to make small enhancements in a variety of areas such as these, fund selection and risk reduction, to name a few. When added together and compounded over time, lots of small differences can add up to a very big number indeed.

Asset allocation and added value

As we always say, asset allocation is the key driver of returns.

What we have consistently done over time is to reduce equity when it is higher and top this up when it drops. This has made a significant difference to returns.

Chart 7 shows all the changes we've made over the past five years. It is called an area chart and so, for example, when the red area is bigger that means we have more equity, and when smaller we hold less equity.

Balanced Portfolio Asset Allocation Changes

Chart 7

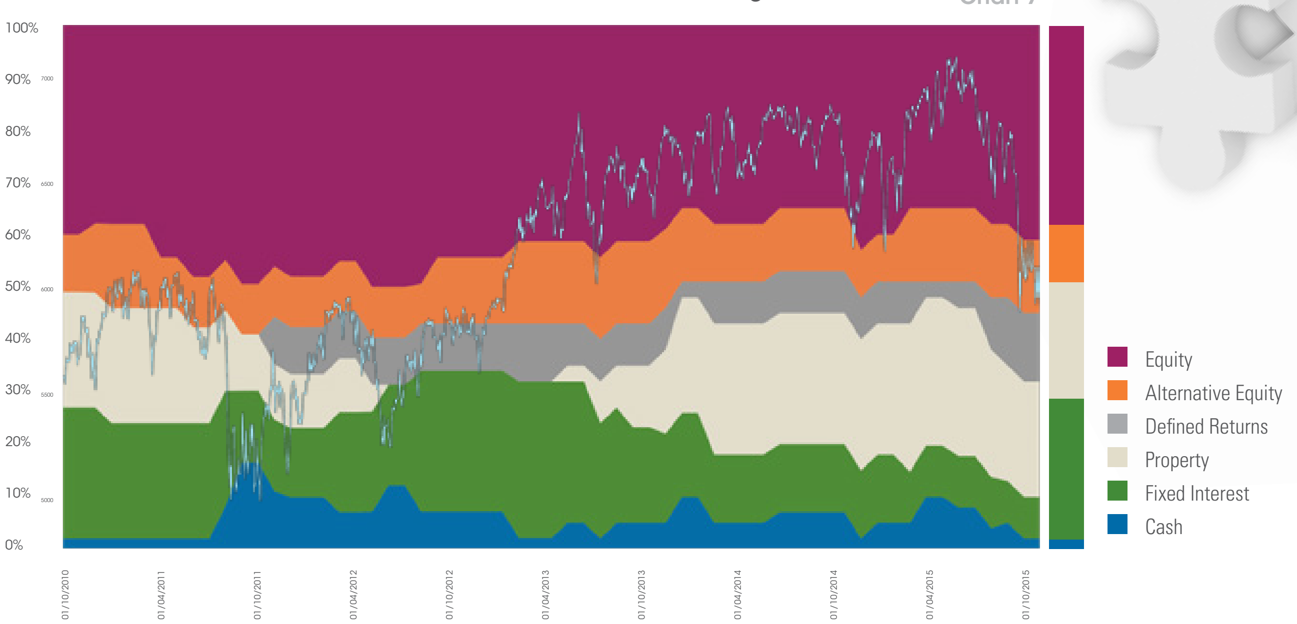
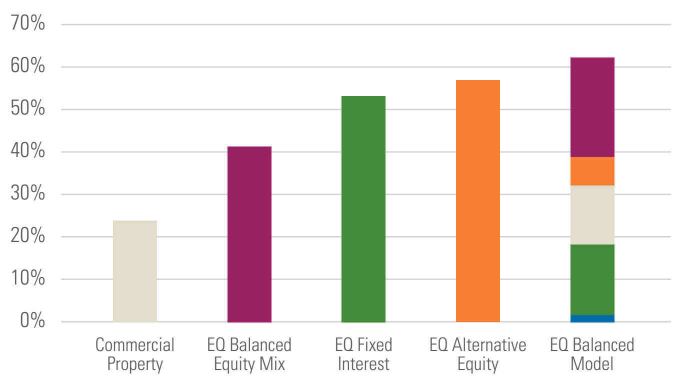


Chart 8



Overlaid on this area chart is a line showing the FTSE 100 level over the same period. This neatly illustrates how we have been able to take advantage of market dips when they occurred in the past, and bank gains when markets rise. When the line goes down – the red area gets bigger and vice versa!

This may seem like a common sense approach, however you would be surprised how often we see the exact opposite. Investors often top up equities as markets rise and their confidence increases. They often sell when markets fall as they become nervous. It sometimes requires a strong investment discipline to sell high and buy low.

The benefits of our active approach to asset allocation are shown in chart 8. This shows the performance of our balanced portfolio since launch, compared to all the constituent parts. For example, where the table says "balanced equity" it is our mix of equity funds, including all changes, over the same period.

Our balanced portfolio has outperformed all of its constituent parts. Even if we had been able to predict which asset class would provide the best returns (alternative equity), and invested 100% of the portfolio in that asset class, we would have returned less than our balanced portfolio.

This illustrates the importance of asset allocation and adapting the weighting of each asset class to market conditions.

* Property returns based on the past performance of two funds now held in the portfolio. At times we have not held property in portfolios. All figures shown without fees deducted.

Fund performance

Whilst asset allocation is very important, we don't neglect fund selection.

We go into this in detail on page 41 where we discuss the performance of the funds in each sector. However, in general we are very happy with the results.

Table 2 shows each of the funds currently held in our portfolios and the date they were bought. It also shows the benchmark return over the same period. The table is colour coded with those funds that have outperformed shown in blue (if outperforming by 25% or more) or green (if outperforming by 10% but less than 25%). Amber is within 10% of benchmark either way, and grey funds are underperformers.

85% of the funds we hold have beaten their benchmark since we bought them. Almost 60% have beaten their benchmark by at least 25%.

We would love to get them all right but we're pretty pleased with that ratio. We spend a lot of time and effort researching funds, meeting managers and conducting analysis. Part of this includes the decision to use an actively managed fund or an index tracker.

An index tracker is our default option in each sector. We will only use an actively managed fund if it can make an extremely convincing argument that it will outperform. In some sectors, such as the US for example, very few managers tend to beat the index and so here we have tended to hold tracker funds. Conversely, in Europe we have always tended to prefer active funds.

However, this is not set in stone and in fact we change our view depending on market conditions. For example, as mentioned earlier we have held less in UK index trackers than usual in favour of actively managed funds, with a skew towards smaller companies. No doubt this will change in the future and when markets are going up strongly, we are much more likely to hold index funds.

Table 2

Fund / Benchmark	Purchase Date	Fund Return	Benchmark
Sterling Strategic Bond			
Jupiter - Strategic Bond I Inc	01/02/2010	51.70	35.43
PFS - TwentyFour Dynamic Bond I Net Inc GBP	06/12/2012	19.71	9.86
Invesco Perpetual - Tactical Bond Z Inc	11/10/2011	21.83	20.17
UT Sterling Strategic Bond			
Property			
Aviva Inv - Property Trust 1 Inc	31/10/2013	12.17	20.73
Standard Life Investments - Ignis UK Property I Inc	13/06/2013	24.51	24.10
Kames - Property Income Feeder B	08/06/2015	2.93	2.16
Henderson - UK Property OEIC I Inc	08/08/2013	24.78	22.61
M&G - Feeder of Property Portfolio I Acc	26/01/2015	6.29	4.80
Standard Life Investments - UK Property Income Feeder Trust Platform Inc	29/01/2014	25.12	22.61
Aberdeen - Property Trust B Inc	10/04/2013	34.08	24.65
Composite Property Benchmark			
Absolute Return			
CF Odey - Absolute Return Inst	09/11/2010	141.82	14.10
Invesco Perpetual - Global Targeted Returns Z	06/12/2013	10.73	4.71
Old Mutual - Global Equity Absolute Return R Hedged Acc	06/12/2013	11.62	4.71
UT Targeted Absolute Return			
UK Equity Income			
CF - Miton UK Multi Cap Income B Inst Inc	07/05/2013	52.57	14.32
Vanguard - FTSE UK Equity Income Index Inc	21/04/2010	53.04	51.83
UT UK Equity Income			
UK All Companies			
Lindsell Train - CF Lindsell Train UK Equity	21/05/2015	-7.08	-10.10
Royal London - UK Equity Income M	26/01/2015	-5.55	-3.77
CF - Miton UK Value Opportunities B Inst Inc	22/04/2014	26.79	-0.44
Vanguard - FTSE U.K. All Share Index A Inc GBP	15/09/2009	57.14	64.92
UT UK All Companies			
UK Smaller Companies			
Marlborough - Special Situations P	26/06/2013	48.25	34.57
UT UK Smaller Companies			
North America			
Vanguard - US Equity Index Inc	09/08/2010	94.98	79.97
JPM - US Equity Income C	01/09/2015	1.07	-1.13
UT North America			
Europe Excluding UK			
BlackRock - European Dynamic D Inc	01/01/2008	100.86	25.94
UT Europe Excluding UK			
Japan			
Schroder - Tokyo Z Inc	01/01/2008	57.51	33.39
Baillie Gifford - Japanese B Inc	07/03/2014	7.18	8.82
UT Japan TR in GB			
China / Greater China			
Invesco Perpetual - Hong Kong & China Z	14/04/2014	5.48	2.48
UT China/Greater China			
Asia Pacific Excluding Japan			
Schroder - Asian Alpha Plus Z Inc	10/05/2013	-7.42	-9.35
UT Asia Pacific Excluding Japan			

Fund Return > 125% Benchmark Return

Fund Return > 110% Benchmark Return

90% BM < Fund Return < 110% BM

Fund Return < 90% Benchmark Return

Fund Return < 75% Benchmark Return

Sector Performance & Analysis

We group funds together into the following sector portfolios and combine these in different proportions to make up the various overall portfolios. All clients will have some exposure to these sectors but the amounts will differ depending on their risk profile.

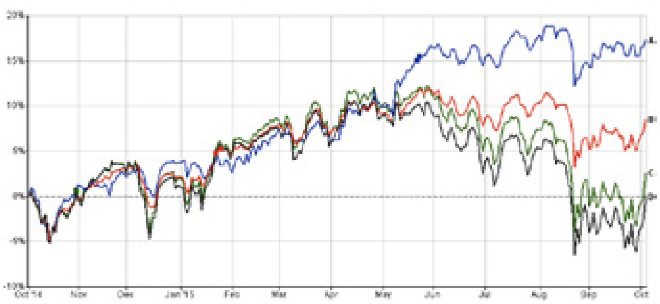
UK Equities

For some time we have been much more positive about smaller companies than large companies within the UK. These are typically much more exposed to the relatively robust UK economy than larger companies, and look better value in our view with attractive valuations and better earnings growth.

This is part of the reason we have also preferred actively managed funds to index trackers of late. With the FTSE 100 index dominated by large oil companies and mining and resource stocks, we have reduced exposure to this part of the market.

Chart 9 shows how our two main categories of actively managed funds have done over the past 12 months. Our more aggressive UK Dynamic funds (in blue) have returned 17.3% whilst our UK Conservative Equity mix (orange) has returned 8.5%. By contrast, the FTSE 100 (black) has returned basically nothing (0.07%).

Chart 9



Source : 03/10/2014 - 05/10/2015 Data from FE 2015

- A - Equilibrium UK Dynamic Portfolio (17.30%)
- B - Equilibrium UK Conservative Equity (8.52%)
- C - Equilibrium UK All Companies Portfolio (2.58%)
- D - FTSE 100 (0.07%)

The green line on the chart is our UK All Companies portfolio which tracks the FTSE All Share. We have less exposure to this area than usual but still have some coverage, and this only returned 2.58% over the same period.

What is surprising is how much better the FTSE All Share tracker has done than the FTSE 100. The top 100 accounts for perhaps 85% of the FTSE All Share index so to see this gap in performance shows how much better the small and medium sized companies have done than large caps over this period.

The funds that performed particularly well were those most exposed to smaller companies. The Miton UK Value Opportunities fund returned 25.6%, Marlborough Special Situations 21.09% and Miton UK Multi Cap Income 19.51%. All of our UK equity funds did better than the FTSE All Share, other than the one which tracks it.

Global Established

In general the established international markets of North America, Europe and Japan have done much better than the main UK market.

Over 12 months our Global Established portfolio has returned 11.12%, outperforming its benchmark* which returned 7.45% over the same period. Outperformance came partly through our preference for Japan which was the best performing of these regions. The worst performing of the three markets was North America, where the sector average returned 7.24%. The best performing individual fund was actually a European fund, with Blackrock European Dynamic returning 13.58%.

We had held less exposure to Europe and America for some time as we felt these markets were looking somewhat expensive. However, after the recent pull back we topped back up our exposure to these regions, after reducing holdings in our Global Speculative portfolio.

*40% UT North America, 40% UT Europe ex UK, 20% Japan.

Global Speculative

It has been a very different six months for our Global Speculative portfolio than the period ending in April! The portfolio, which invests in emerging markets, is down 2.19% over 12 months as shown in the chart 10.

Chart 10

Source : 03/10/2014 - 05/10/2015 Data from FE 2015

A - Equilibrium Global Speculative Portfolio (-2.19%)

B - UT Global Emerging Markets (-11.63%)

As you can see, at one point in April the portfolio was up over 20%, so this illustrates quite how steep the drop has been since then!

In absolute terms returns are poor but in relative terms the portfolio has actually done well, with the benchmark UT Global Emerging Markets sector losing 11.63% over the same period. Despite the catalyst for the drop being a slowdown in China, our Chinese and Asian funds have actually performed less badly than the wider emerging market sector. This might seem counterintuitive, but one of the biggest effects of slowing growth in China is their demand for commodities. This has had a major effect on commodity producing stocks and regions, many of which are also emerging markets.

Alternative Equity

Our Alternative Equity portfolio has significantly outperformed expectations with returns of 8.22% over 12 months. To put this in context, the portfolio's benchmark, the UT Mixed Investment 20%-60% shares sector, returned 2.01% whilst the FTSE All Share returned 2.64%.

There are three funds we hold in this sector, two of which (Old Mutual Global Equity Absolute Return and Invesco Perpetual Global Target Return) take a rather low risk approach aiming to achieve a reasonably steady return well ahead of cash. They returned a relatively consistent 5.2% and 5.04% respectively.

Our other fund, Odey Absolute Return is much more aggressive and able to make some very high returns, but it can be just as volatile as an equity fund. It can make money from 'going short' stocks, which means profiting from falling prices, as well as from stocks going up. This means it can outperform even when markets are falling, provided the manager calls it right as he certainly has done of late.

Fixed Interest

We have positioned our fixed interest portfolio quite defensively in anticipation of an interest rate increase.

Potential interest rate rises have kept being pushed back and back and, as a result, our portfolio has underperformed, only returning 0.12% over 12 months. Mainstream corporate bond funds have not done much better with the benchmark UT Sterling Corporate Bond sector returning 2.79% over the same period.

Whilst from an interest rate perspective we have kept risk low, we have been happy to take on credit risk by lending to slightly less secure companies to obtain a potentially higher yield. To that end, we are currently switching out of the defensively positioned Invesco Perpetual Tactical Bond fund into the Royal London Extra Yield fund. This fund has a current distribution yield of 6.5% whilst our other funds have a yield of 5.8% and 5% respectively.

This shows there is the potential for some good returns especially when compared to a UK gilt where a 10 year bond yields around 1.79% currently. We feel it is worth taking on some credit risk when we are talking about such a big gap between the potential future returns.

Property

Property returns have slowed recently after an excellent run. Having said that, our portfolio still returned 8.54% over 12 months which is more than our usual expectation of 7% pa from property.

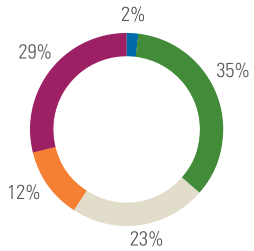
The portfolio performed in line with its benchmark, a composite of eligible property funds in the unit trust sector, which returned 8.53%. The gap was much larger before a re-price of the Aviva Property Trust in July. This fund experienced a number of outflows and so they have adjusted the price down to reflect that they might have to sell buildings should those outflows continue. This is designed to discourage further sellers.

This is one of the potential issues with property funds and is one reason we diversify our holdings into as many as seven funds.

Model Portfolio Returns

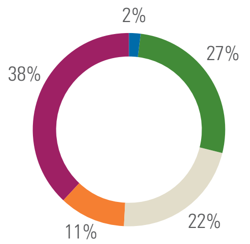
It is pleasing to note that portfolios are ahead of the average fund manager over all time periods.

Strategic Asset Allocation



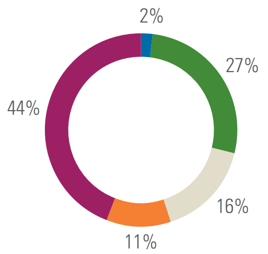
Cautious Model

Cautious Model	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Cautious Portfolio	-1.6	3.7	20.13	29.71	45.13
Mixed Asset 20-60% Shares Sector	-4.74	2.01	15.34	24.47	28.5



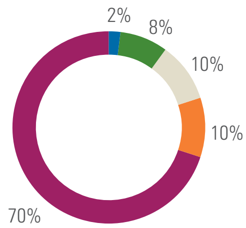
Balanced Model

Balanced Portfolio	-1.61	4.77	22.94	32.71	45.79
Mixed Asset 20-60% Shares Sector	-4.74	2.01	15.34	24.47	28.5



Adventurous Model

Adventurous Portfolio	-2.56	4.55	22.18	30.7	42.73
Mixed Asset 20-60% Shares Sector	-4.74	2.01	15.34	24.47	28.5



Speculative Portfolio

Speculative Portfolio	-3.98	4.72	23.83	33.03	49.72
Mixed Asset 40-85% Shares Sector	-5.86	2.45	20.02	29.92	48.06

We also show returns compared to the Asset Risk Consultants indices made up of other discretionary manager's portfolio returns. These are shown in the table below and are given to 30 September 2015 as ARC indices are published on a monthly basis:

	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Cautious Portfolio	-2.40	2.14	19.62	28.53	43.33
ARC Sterling Cautious PCI	-2.78	1.48	10.35	17.46	26.73
Balanced Portfolio	-2.73	2.79	22.10	31.11	43.57
ARC Sterling Balanced PCI	-4.49	1.23	15.10	23.74	28.65
Adventurous Portfolio	-4.01	2.13	20.79	28.65	39.99
ARC Sterling Balanced PCI	-4.49	1.23	15.10	23.74	28.65
Speculative Portfolio	-5.83	1.57	22.09	30.24	45.98
ARC Sterling Steady Growth PCI	-5.68	0.93	18.34	28.32	44.60

- Cash
- Fixed Interest
- Property
- Alternative Equity
- Equity

* Launch date 1 January 2008 except Speculative Model AA 10 launched 1 September 2009. All data to 5 October 2015.
Figures are highlighted in green where they are in excess of the relevant 'Mixed Asset' sector.

Sector Portfolio Returns

	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Equity Portfolios					
UK Conservative Equity	1.00	8.52	39.47	62.85	85.02
UT UK Equity Income Sector	-1.98	7.50	35.50	56.13	76.47
UK All Companies	-4.74	2.58	24.60	41.25	62.17
UK Dynamic	10.45	17.30	53.04	69.48	93.66
UT UK All Companies Sector	-2.66	6.12	32.85	49.27	67.50
Global Established	-6.83	11.12	43.63	63.37	77.81
Global Established Benchmark **	-7.18	7.44	43.03	62.47	78.04
Global Speculative	-12.45	-2.20	6.95	-6.34	21.52
UT Global Emerging Mkts Sector	-17.59	-11.63	-7.25	-12.21	15.85
Cautious Equity Mix	-4.01	5.90	31.08	47.34	67.95
Cautious Equity Benchmark ***	-4.48	5.65	32.15	46.90	65.51
Balanced Equity Mix	-3.24	8.07	34.75	47.89	68.28
Balanced Equity Benchmark ***	-5.58	5.72	33.58	47.26	64.94
Adventurous Equity Mix	-4.77	6.84	31.16	40.13	62.65
Adventurous Equity Benchmark* **	-6.91	4.09	29.43	39.71	58.82
Alternative Equity	2.95	8.22	29.70	49.15	57.29
UT Mixed Asset 20-60% Shares	-4.74	2.01	15.34	24.47	37.78
Fixed Interest Portfolio	-2.65	0.12	11.73	24.75	53.13
UT Sterling Corp Bond Sector	-3.40	2.79	12.25	26.33	49.21
Property Portfolio	3.29	8.58	25.45	30.14	47.05
Composite Property Benchmark ****	3.48	8.53	24.84	28.01	49.68

* Launch date 1 January 2008, except Property Portfolio 1 July 2009.

** Global Established Benchmark is 40% UT North America, 40% UT Europe Ex UK, 20% Japan

*** Cautious, Balanced and Adventurous Equity benchmarks are an appropriate composite of the benchmark for each component of that equity mix

**** Composite Property Benchmark is an equal weighting of all eligible funds in the UT Property Sector. Property portfolio switched to cash 15 June 2012 to 11 April 2013 as we did not hold property funds in this period.

Market Returns

	6 Months %	1 Year %	3 Years %	5 Years %
Equity Markets				
FTSE 100 Index (UK)	-6.01	0.07	19.54	33.85
FTSE All Share Index (UK)	-4.69	2.64	24.89	41.08
FTSE 250 Index (UK Mid Cap)	0.74	15.36	53.53	83.62
MSCI Europe Ex UK Index	-9.56	3.46	31.83	30.53
S&P 500 Index (USA)	-5.38	7.74	51.67	93.41
Topix (Japan)	-8.11	11.62	46.90	41.52
MSCI Emerging Markets Index	-17.89	-11.24	-6.54	-11.06

Fixed Interest

IBOXX Sterling Corporate Bond Index	-3.64	3.66	16.73	35.35
UT Sterling Corporate Bond Sector	-3.40	2.79	12.25	26.33
FTSE British Government Allstocks (Gilt) Index	-0.60	7.71	11.25	29.46
UT Gilt Sector	-1.45	7.63	10.66	28.01
UT Sterling High Yield Sector	-3.48	-1.42	11.68	25.13

Property

IPD UK All Property Index	5.83	13.81	45.00	63.09
Composite Property Benchmark*	3.48	8.53	24.84	28.01

Other Measures

Bank of England Base Rate	0.25	0.50	1.51	2.52
RPI Inflation	1.05	0.85	6.39	15.31

* Property benchmark is a composite of all eligible funds in the UT Property sector.

Risk Warnings and Notes

Past performance is never a guide to future performance. Investments may (will) fall as well as rise.

Any performance targets shown are what we believe are realistic long-term returns. They are never guaranteed.

None of the information in this document constitutes a recommendation. Please contact your adviser before taking any action.

Unless stated otherwise:

- All performance statistics are from Financial Express Analytics on a bid-bid basis with income reinvested.
- All performance data is to 5 October 2015.
- Model portfolio performance is stated after a 1.5% Equilibrium fee and a 0.35% platform charge, but with the discounts we receive from fund managers factored in.
- Your own performance may vary from the model due to dividend pay dates, transaction dates, contributions and withdrawals.
- Actual performance may also differ slightly due to constraints over how we can reflect fees and discounts from fund managers. These are assumed not to change over the whole investment period. In reality, discount levels change as we change the funds in which we invest.
- Individual sector portfolios are shown with no charges taken off or fund manager discounts applied.

For details of your own portfolio performance, please refer to your half-yearly statement from the wrap platform on which you are invested. We will also provide personalised performance information at your regular reviews.

Ideal Funds

Below are the funds currently in our different portfolios and the charges that apply to each fund.

Portfolio	Fund name	Initial Charge %	Annual Management Charge %	Total Expense Ratio %
Liquidity	Cash	0	0.000	0.000
Fixed Interest	Royal London Extra Yield Bond	0	0.750	0.850
	Jupiter Strategic Bond	0	0.630	0.870
	TwentyFour Dynamic Bond	0	0.750	0.850
Property	Aviva Property	0	0.620	0.750
	Henderson UK Property	0	0.750	0.850
	Ignis UK Property	0	0.750	0.770
	Kames Property Income	0	0.750	0.900
	M&G Property Portfolio	0	0.750	1.220
	Standard Life UK Property	0	0.850	1.000
	Aberdeen Property Trust	0	0.675	0.795
Alternative Equity	Odey Absolute Return	0	0.750	0.930
	Invesco GTR	0	0.870	0.870
	Old Mutual GEAR	0	0.750	0.980
Defined Returns	Barclays FTSE Autocall Nov 2014	0.15	0.000	0.000
	Credit Suisse FTSE Autocall June 2015	0.15	0.000	0.000
	Morgan Stanley FTSE Autocall July 2015	0.15	0.000	0.000
Equity - UK Conservative Equity	Royal London UK Equity Income	0	0.620	0.670
	Miton UK Multi Cap Income	0	0.750	0.890
	Vanguard FTSE UK Equity Income Index	0.4	0.220	0.220
Equity - UK All Companies	Vanguard FTSE All Share Index	0.2	0.080	0.080
	L&G FTSE 100 Tracker	0	0.100	0.100
Equity - UK Dynamic	Lindsell Train UK Equity	0	0.650	0.770
	Miton UK Value Opportunities	0	0.750	1.120
	Marlborough Special Sits	0	0.750	0.800
Equity - Global Established	Baillie Gifford Japanese Co.	0	0.650	0.700
	BlackRock European Dynamic	0	0.750	0.930
	JPM US Equity Income	0	0.750	0.930
	Schroder Tokyo	0	0.750	0.920
	Vanguard US Equity Index	0	0.100	0.100
Equity - Global Speculative	Invesco Hong Kong and China	0	0.940	0.940
	Schroder Asian Alpha	0	0.750	0.940

These are the funds in our standard portfolios at 5 October 2015. These will change periodically and have not all been held throughout the period covered by this document.

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Equilibrium is the award winning Chartered wealth management company that offers a genuinely personalised financial planning and investment management service, giving clients confidence now and in the future.

Headquartered in Wilmslow, Cheshire, we oversee more than £484 million worth of assets for over 790 clients and the firm also has offices in Knutsford and Chester.

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We think it is important to give back. That's why we launched the Equilibrium Foundation in 2010. If you are taking part in a charity fundraising event we will match the amount you raise so that your chosen charity gets the benefit of a double donation!

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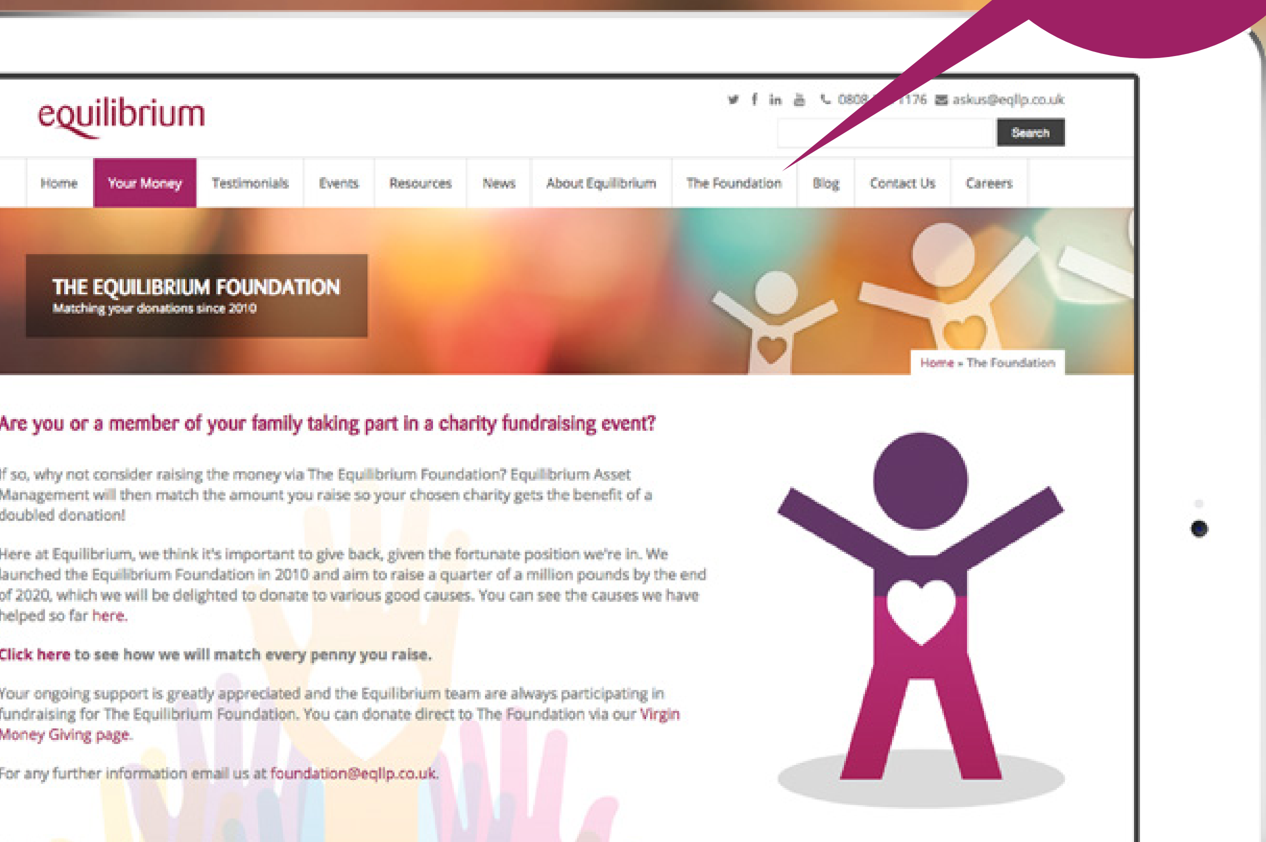

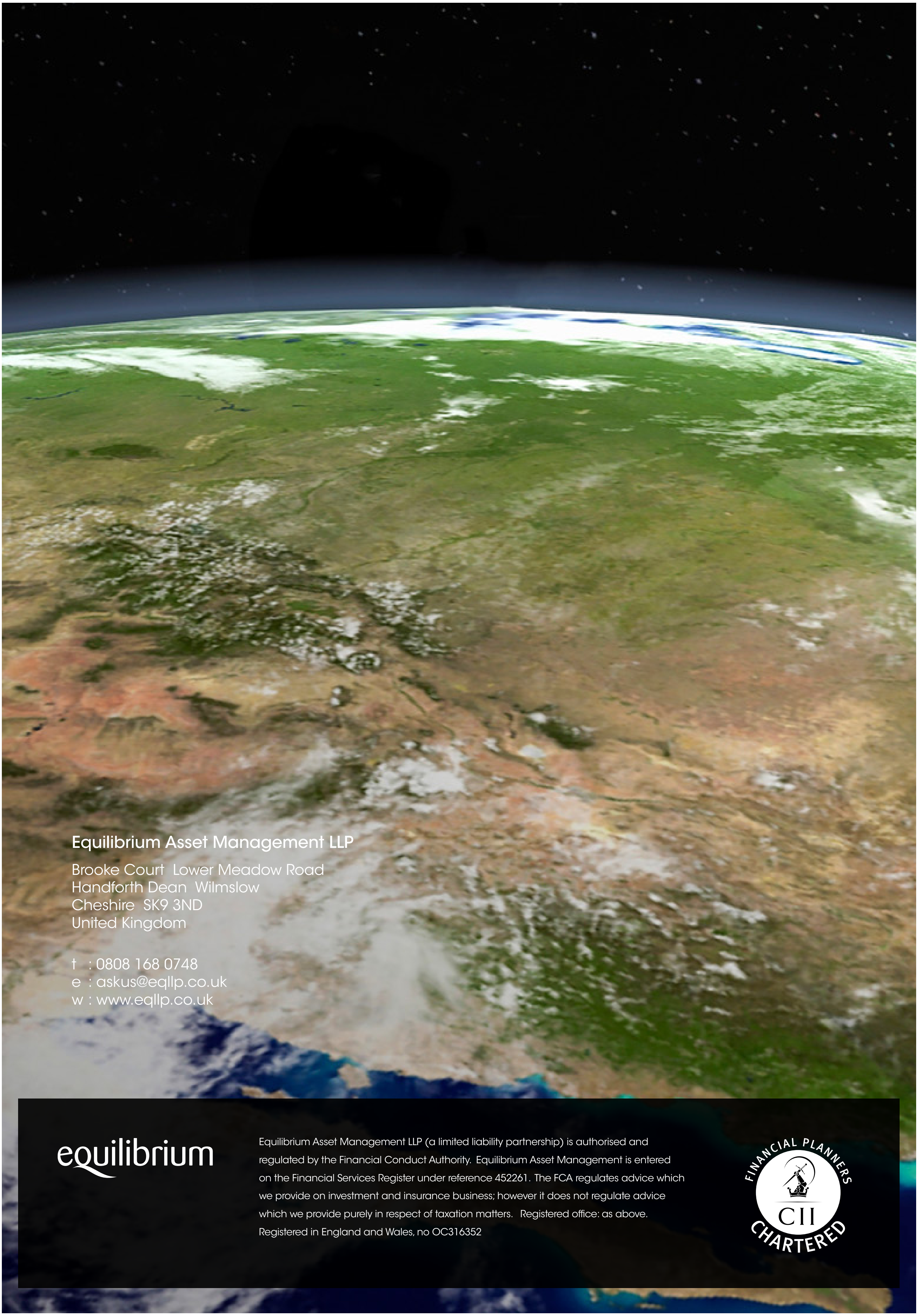

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