equinox

half yearly investment magazine

Brexit: the aftermath

Pick 'n' mix: how we select funds

Why active management pays

equilibrium

October 2016

PLUS: Priceless holidays | Gilt-y pleasures | Putting High Legh Park Golf Club on the map

Welcome

Portfolios are currently basking in the glow of the Brexit bounce as currency moves, interest rate cuts and quantitative easing all mix together to turbo charge returns. No doubt the Brexit bounce will be followed by the Brexit bump, before Brexit boredom eventually sets in!

In this edition we take a look at life after the referendum and what this means for the investment world. We also go into detail about how we pick the mix of funds for portfolios and share some of the lessons we have learnt over the years about gilts and bonds.

In our investment commentary from page 30, Mike Deverell looks back over the last six months and peers into the proverbial crystal ball to contemplate what is in store for your portfolios moving forward.

I hope you enjoy this issue and the mix of articles. As always, if you have any comments please get in touch at colin.lawson@eqllp.co.uk or on 0161 486 2250.

Colin Lawson
Founder & Partner

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Brexit: the aftermath

Following the UK's momentous decision to leave the European Union, we ask three economists, an MP and an MEP to share their views on the outcome of the referendum and what this means for the economy and the political landscape.

Ian Kernohan
Economist
Royal London Asset Management

Markets were convinced there would be a Remain vote, with sterling rising sharply in the hours before the polls closed. It was the strength of this conviction, based mainly on telephone polls and betting markets, which helps to explain what happened next. As the result became clear, sterling collapsed, along with global equity markets and bond yields. Investors seemed braced for a re-run of the Lehman crisis.

In the immediate aftermath, we took the view that Brexit did not represent a systemic shock to the global economy, with any economic fallout largely confined to the UK. Looking back this was the correct view, with equity markets rallying strongly after a brief wobble, and little (if any) evidence of a Brexit hit to economic activity outside the UK. Even in the UK itself, the immediate impact was much less than feared, although risks lie ahead as the process of disengagement from the EU begins.

The Bank of England (BOE) reacted to developments by pushing monetary policy to limits not thought possible just a few years ago. This has helped stabilise the situation in the near term, however easier monetary policy is a necessary rather than sufficient condition for an improvement in growth prospects.

Much will depend on how far the new government steps away from Osborne austerity, with talk of some fiscal stimulus and a new industrial strategy. Looking further ahead, by far the most important influence on the UK economy will be the shape of the new trading arrangements with Europe and the rest of the world. There are a wide range of possible outcomes here, with much depending on how open the UK economy will be.

Graham Brady
Conservative MP
Altrincham and Sale West

Lampedusa's great work *The Leopard* tells us everything must change for everything to remain the same. The Brexit vote was a massive shock to the British establishment that will allow Britain to remain an outward-looking, free trading country with an open, liberal political tradition.

Several months after the referendum everyone can pick positives or negatives to support their own view. The FTSE 100 has soared, the cost of government borrowing is the lowest in history and unemployment has continued to fall. No emergency budget has threatened, but the BOE has implemented a package of monetary stimulus that is at once modest and unprecedented. Depending on your business or holiday plans, a 10% currency devaluation might be good or bad. We should look beyond all of these short-term issues.

Britain's greatest economic strength is political stability, allied to a culture of tolerance and the rule of law unrivalled in the world. Since the Restoration, we have shown an ability to make big adjustments without violence: the Glorious Revolution and the Great Reform Act. Brexit is a similar achievement. The people have insisted that they should be listened to; the establishment has been brought to heel; all done without revolution. It is possible to have democracy and free trade.

Sajjad Karim
Conservative MEP
North West

Leaving the EU is an enormous challenge, the outcome affecting many future generations.

Reaffirming her tough approach, Prime Minister Theresa May has ruled out a possible second referendum, telling Cabinet: 'We must continue to be very clear that 'Brexit means Brexit', that we're going to make a success of it. That means there's no second referendum; no attempts to sort of stay in the EU by the back door; that we're actually going to deliver on this'.

She also ruled out holding a vote in Parliament and the government has again said we will not accept free movement of EU workers after Brexit, nevertheless still wanting 'unique' access to the single market. But we will not get one without the other!

The PM is rightly giving full commitment of her office to allow Boris Johnson, Liam Fox and David Davies an unqualified opportunity to deliver the promises they made to the British people in the referendum. They therefore have no excuse not to deliver.

Difficulties will emerge if their delivery diverges from their promises and whether this will be an acceptable form of Brexit. Exiting Britain into a vacuum will not be satisfactory to the PM so now leading Brexiteers must come up with the goods and present the alternatives to EU membership.

Any more uncertainty just makes it much harder to get a position together and to even start negotiations. I don't think that uncertainty is in anyone's interests at this stage.

Whilst the markets may have recovered from the post-referendum dive, much ambiguity remains both in the medium and long term, with our EU exit strategy still undecided. The PM knows total commitment is required to ensure that Britain thrives outside the EU and builds market confidence.

Peter Westaway

Chief Economist for Europe
Vanguard Asset Management

Despite new Prime Minister Theresa May declaring 'Brexit means Brexit', we still don't really know what that means! What we do know so far is that the outcome of the UK vote represents a huge shock to the UK economy. In all likelihood, the increase in uncertainty about what happens next is already causing firms and households to postpone their spending until the dust settles. In our view, this will lead to a UK recession later this year or early next.

Whether this turns into something more protracted will depend on whether the newly composed UK government opts to negotiate for a Brexit-lite option, preserving the benefit of single market membership, or a more costly Brexit-heavy option, which would likely involve immigration restrictions at the expense of UK-EU trade relations.

What seems probable is that politically, matters are likely to get more (not less) messy as the UK embarks on the process of extracting itself from EU membership.

Despite this turmoil, investors should be wary of making radical changes to their portfolio to try to circumvent this uncertainty. At times like these, it is usually better to take a longer-term perspective and not to lose sight of investment objectives.

Mike Bell

Vice President and Global Market Strategist
J.P. Morgan Asset Management

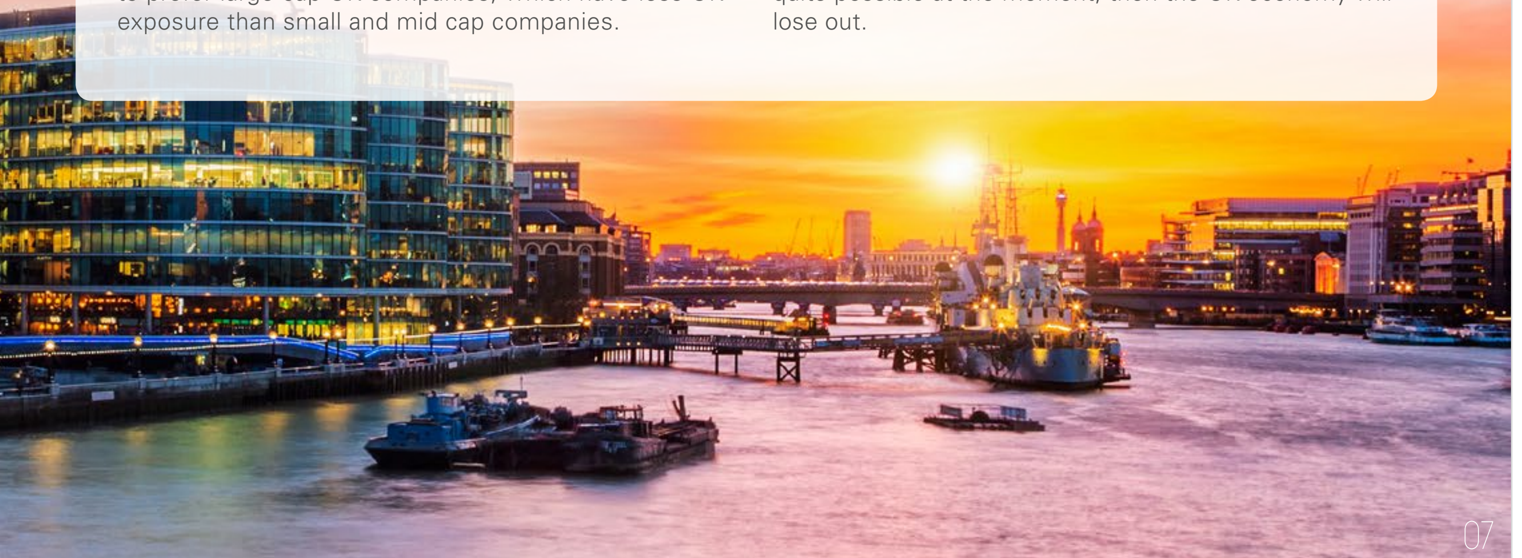
The only thing we knew about the referendum is that it would be a close result and that markets were expecting a vote to remain.

While we were wrong in thinking that a vote to remain was the most likely outcome, we turned out to be right in thinking that either outcome would end up being good for UK equities in the months that followed the vote.

Had the UK voted to remain, equity markets would probably have rallied because of the removal of political uncertainty. As it happened, the vote to leave led to an initial drop in UK equities and then a quick recovery as the pound plunged, increasing the sterling value of international revenues, which make up over 70% of UK companies' sales. We recommended and continue to prefer large cap UK companies, which have less UK exposure than small and mid cap companies.

Looking ahead, we see a slowdown in the UK economy, assuming Article 50 is triggered. It will probably be centred on London as the uncertainty over single market access forces some financial services firms to move part of their operations to other EU countries. It is hard to predict the exact scale and timing of this effect, although it is likely to be large enough to drag on the economy, London's property markets and the nation's tax revenues. Across the UK, consumers will start to feel the pinch from rising prices as a result of the fall in the pound.

In the long term the economic outlook will be largely defined by the trade deals the UK eventually manages to negotiate. The more we are able to trade freely in both goods and services with our largest and closest trading partner (44% of our exports go to the EU), the wealthier we will be as a country in the long run. If Brexit ends up meaning less freedom to trade with the EU, as looks quite possible at the moment, then the UK economy will lose out.



Expedition Brexit: a political trip around Europe

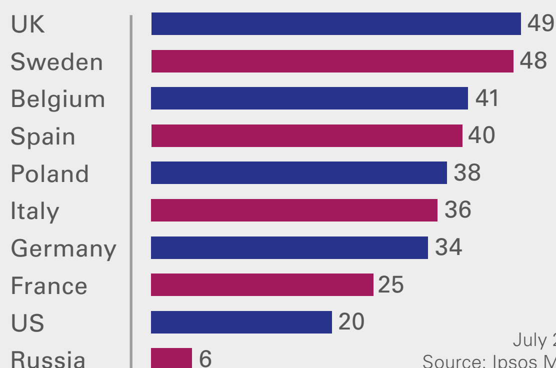
Four months on from the Brexit result we take a look at the political repercussions and public opinion in the 'big four'.

By Fiona Bousfield

UK

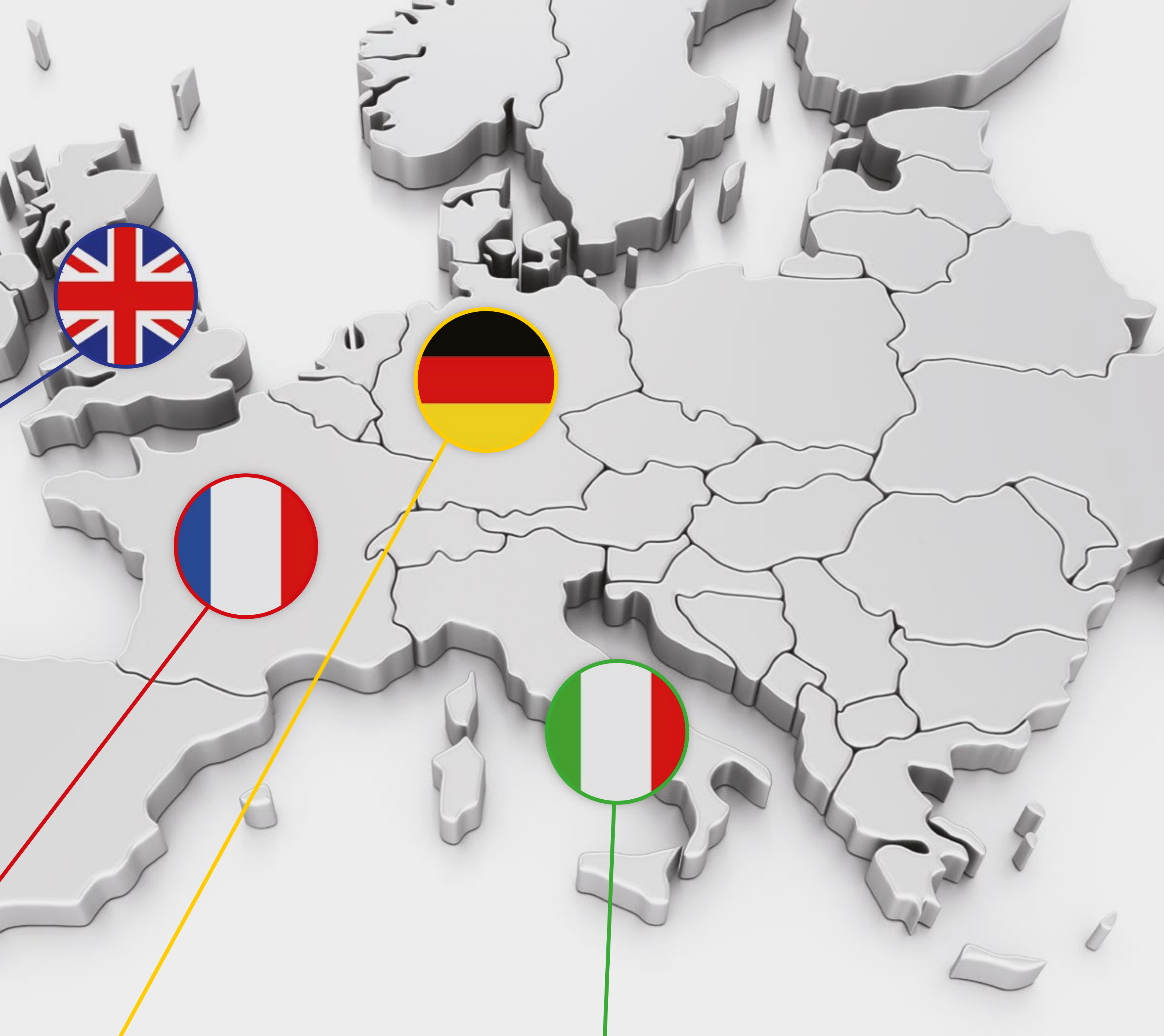
The Brexit vote had ramifications across the British political landscape and will undoubtedly lead to further disruption when Article 50 is triggered. Political tensions have been rising in Scotland and Northern Ireland. With Scotland voting overwhelmingly to remain part of the EU, Scottish independence has once again come to the forefront of the political agenda. Debate rages on about what will happen to the 310 mile long north-south Irish border (with nearly 300 roads crossing it). Questions are also being raised about how Brexit may affect the 18 years of peace agreements with Ireland and whether this could stir up any historical unrest.

% Share of people saying they are sad about the UK's decision to leave the EU



France

The French newspaper *Liberation* notoriously showed Boris Johnson dangling from a zipwire the day after the referendum (complete with 'good luck' headline emblazoned underneath). The leading market research company MORI polled citizens in several countries asking whether they were 'happy or sad about the UK's decision to leave the EU' – and the French opinion seemed to be somewhat indifferent with 60% being neither. This may not be the case in French political waters as the Brexit vote will undoubtedly have a big impact on the 2017 presidential election. Nicolas Sarkozy's Les Republicains party is demanding a redesign of the European Union and leader of the far-right Front National, Marine Le Pen, is pushing for a French referendum. Paris' vision for the EU will undoubtedly be a big issue at the crux of the presidential campaign.

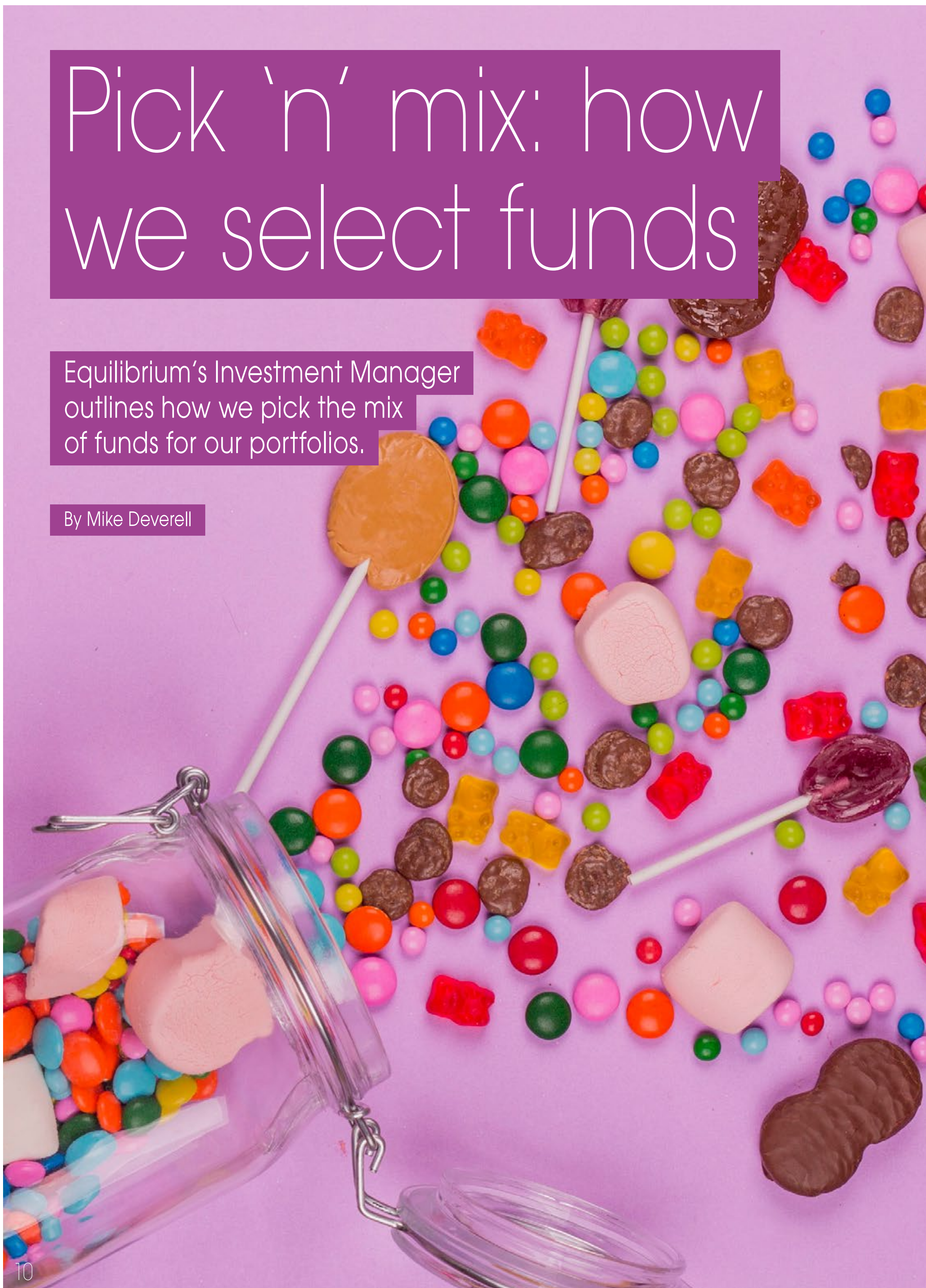


Germany

German economic interests are expected to be considerably affected by Brexit. Chancellor Angela Merkel called the UK's decision to leave the EU a 'watershed' for Europe and European unity - and in her role as head of Europe's largest economy, she feels Germany has a 'particular responsibility' to make European unity a success. Germans are the most likely to think Britain's economy will be harmed by Brexit according to another question asked by the MORI poll. Whilst there has been no clear call for a German referendum by any political party, the right-wing Alternative fur Deutschland will presumably use Brexit as an opportunity to put more pressure on the government and prompt widespread institutional reforms, potentially impacting the next German federal elections being held between August and October 2017.

Italy

Italian banks have been unstable for a while and the Brexit vote has certainly not helped. Talks of a bail-out from the Eurozone have caused controversy. Furthermore, Italy's referendum on parliamentary reform to revamp the political system (planned for early December 2016) may also be impacted by the Brexit result due to it potentially strengthening Italy's Eurosceptics – the far right Lega Nord and the anti-establishment Movimento 5 Stelle. Similar to Cameron, Italy's Prime Minister Matteo Renzi has staked his political career on the result. With multiple opinion polls suggesting the result will be fairly close, this could spark a new phase of extremely high political uncertainty.



Pick 'n' mix: how we select funds

Equilibrium's Investment Manager outlines how we pick the mix of funds for our portfolios.

By Mike Deverell

We like fund managers who are calm, relaxed and knowledgeable and have a strong, repeatable and easy to understand process

There are over 7,000 investment funds we can choose from when building a portfolio.

From this vast array, we need to eliminate 99.6% to get to the 26 funds which currently make up a balanced portfolio. This means we need a robust and repeatable process.

When considering buying a fund the first decision is whether to go for an actively managed fund or a passive index tracker. The former are actively managed by an individual manager or team of managers, whereas the latter mirror the components of a market index. We will only select an active manager if they have a proven record of outperforming the index after costs on a repeatable, risk adjusted basis. If not we will go for a passive fund. Either way, costs are extremely important.

Whether to go active or passive partly depends on which sector you are looking at. For example, in US equities we find that very few active funds consistently beat the market, favouring a passive approach. Meanwhile, in the UK smaller companies sector there is strong evidence that a good active fund can outperform.

We screen each fund sector regularly using our own proprietary screening tool. This takes data from Financial Express (the industry-leading data, software and analysis company) and runs an array of calculations. In total, the system looks at 11 different factors and gives each fund a score for each. The factors we look at are:

- Consistency of performance
- Consistency of alpha – a measure which shows whether stock selection has added or detracted value
- Volatility
- Cumulative performance
- Maximum drawdown – what is the worst loss you could have made buying this fund?
- Maximum gain – what is the largest possible gain the fund has made?
- Upside capture – when the market goes up, how much of this does the fund tend to capture?
- Downside capture – how much does the fund go down when the market goes down?
- Participation ratio – the ratio of upside to downside capture
- Sharpe ratio – how much return does the fund achieve for each unit of risk?
- Activity score – interprets how 'active' the fund manager is.

The system gives each fund an overall score, however we can also filter any of the categories depending on what type of fund we're looking for. This process allows us to whittle a sector down to three or four potential candidates with the type of behaviour we require.

The next stage is due diligence. We ask the fund manager to complete a detailed questionnaire about their process as well as regulation and risk controls.

After all this quantitative analysis the next stage is much more human. If a fund passes the first two tests we then meet the manager to get more of an in-depth idea of how they manage the fund. We like fund managers who are calm, relaxed and knowledgeable and have a strong, repeatable and easy to understand process.

If a fund is included in a portfolio, it is then constantly monitored and formally reviewed each quarter.

It is a fund's behaviour that is crucial. Funds will never outperform in all market conditions. That is okay, but if a fund underperforms at a time we would have expected that style to do well, that is a concern. Similarly, if a fund does better than expected in a particular market condition, that raises a red flag as it could indicate the manager is doing something different to what we had been led to expect.

This process has proven results. Each month we monitor the performance of the funds we hold over various time periods, including the period since we bought it. Funds are scored as 'amber' if they are within 10% of their benchmark, 'green' if they are more than 10% ahead, and 'blue' if they are more than 25% ahead.

At the end of July 2016, 91% of funds held in portfolios are amber or better over the period since they were purchased.

However, whilst this is a pleasing ratio, as George Soros once said: "*It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong.*"

Happily, that is very much the case and 65% of funds have beaten their sector by at least 25% since purchase.

Whilst we still believe that asset allocation is the key driver of long-term returns, fund selection can still add significant value.

Priceless holidays

Chester-based tour operator ITC Luxury Travel (www.itcluxurytravel.co.uk) has been curating tailor-made holidays for over 40 years and was recently the subject of BBC Two's The Millionaires' Holiday Club. Here, we've asked its team of travel experts to recommend their top five luxury holiday experiences.

The private island

'Nothing exudes luxury like the Caribbean which is why this is by far the most popular holiday destination amongst our clients,' says ITC Luxury Travel sales specialist Julia Whittington. 'For a truly exclusive experience, we recommend choosing a private island where guests will find themselves in a natural oasis.' While some private islands are available only for exclusive hire, others, such as Peter Island in the British Virgin Islands, house resorts that can be booked room by room. With just 55 rooms, suites and a small collection of villas, guests at Peter Island can enjoy serenity away from large crowds with activities including water sports, tennis, big game fishing and scuba diving to fill their time.

Find out more: https://www.itcluxurytravel.co.uk/destinations/caribbean/british-virgin-islands/hotels/peter-island

The air tour

Imagine ticking off bucket list sights including Machu Picchu, Easter Island, the Great Barrier Reef, the Taj Mahal, the Serengeti and Petra in one 24-day trip. 'It might sound exhausting,' says ITC's David Pointer, 'But this round the world trip is taken by private jet so passengers will travel in the height of style and arrive refreshed at each new destination.' Every detail is taken care of, from guided excursions to the major sights, down to thoughtful touches like providing guests with a kitty of local currency in each destination to cover small purchases. Private jet air tours cater for up to 80 guests with a choice of routes throughout the year.

Find out more: https://www.tcsworldtravel.com/expedition/around-the-world-classic-2017/2017/september

The seven-star hotel

'The Burj Al Arab in Dubai is often described as the world's first seven-star hotel, setting a new standard in luxury resorts,' says Middle East specialist Zoe Saunders. 'Guests here will stay in suites attended by personal butlers, they can fly in by helicopter, be chauffeured around in a Rolls Royce and make use of gold-plated iPads. Luxury hotels no longer rely just on designer room furnishings and Michelin quality dining to satisfy guests. Personalised service is the key to making guests feel truly valued and this is a trend luxury hotels worldwide are tapping into.'

Find out more: https://www.jumeirah.com/en/hotels-resorts/dubai/burj-al-arab

The cruise

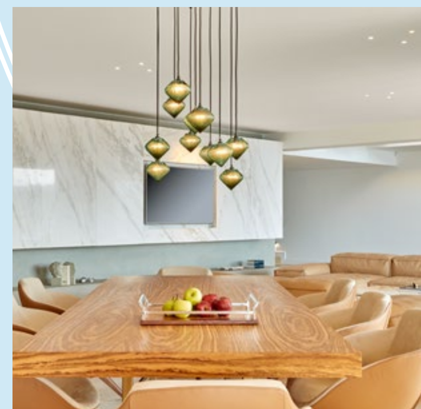
There's more to cruising than vast ocean liners, says Far East specialist Erica Moore. 'Tall ships, river cruises, ocean yachts and expedition voyages are amongst the top picks for our discerning clients. Smaller vessels provide a more personalised experience and are also able to dock at less-visited ports to create distinctive itineraries.' New for 2017 are voyages to some of Indonesia's tiny jungle-and-sand islands on board the Star Clipper, a re-creation of a classic full-rigged sailing ship of the type that ruled the waves during the 19th century. A highlight of this trip will be the chance to see the Komodo dragon in its natural habitat.

Find out more: http://starclippers.co.uk/star-clippers-sail-to-indonesia-for-first-time.html

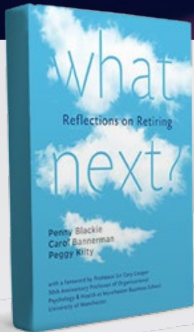
The ultimate villa

'Renting a villa offers privacy, flexibility and plenty of space in which to relax, but holidaymakers shouldn't be put off by the idea of having to self-cater and make their own beds,' says Europe specialist Gabrielle Cowley. 'Opting for a villa on the grounds of a resort generally gives guests access to a wide range of additional facilities and services such as childcare, housekeeping and of course restaurants and bars'. In 2016, Daois Cove in Crete unveiled a new luxury villa called The Mansion, a three-storey property sleeping up to six guests, which comes complete with outdoor and indoor pools and a private spa. A private chef and personal trainer are amongst the extras guests can book during their stay.

Find out more: https://www.itcluxurytravel.co.uk/destinations/europe/greece/crete/hotels/daios-cove



What we are reading this month...



Caroline Cordery, CV Consultant and Equilibrium client

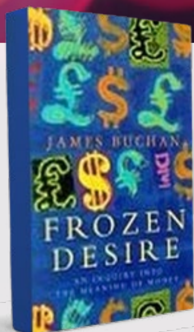
What Next?: Reflections on Retiring

By Penny Blackie, Carol Bannerman, Peggy Kilty

Five years ago I left my job of nearly 35 years with a major multi-national. I knew I wasn't ready to fully retire and had thought little about it - so I set up a small business - which keeps me occupied and out of trouble. I am happy with life, healthy and financially secure. So what did this book have to tell me?

Well, some of the things in the book do remind me of how I was feeling before leaving my job. It is an excellent compilation of people's experiences and well worth a read. It will stimulate your mind, make you focus and also make you realise that there is no right or wrong way to approach retirement. You may plan, but do not expect all plans to come to fruition.

I think that the last few pages of 'Not Exactly Advice' are excellent, as is the list of websites. My only criticism is that there is a lot of repetition in the texts and a shorter book, with the option to read more on the website, might be better. I fear some readers may give up part-way through, I nearly did, but am glad I persevered to the end.



Vanessa Carey, Client Manager

Frozen Desire: Meaning of Money

By James Buchan

Frozen Desire takes you on a journey through the origins of money and what people used to trade before coins, notes, cards etc. were invented.

You are taken along a timeline and provided with snapshots of the more memorable events in history, including the peaks and troughs and how money has adapted through the ages. The author is clearly a fountain of knowledge on the subject, as the book provides a great understanding of money as well as the nature of wealth.

If you were to ask economists about money - its meaning, origins, function - they would all give you different answers. However, the author clearly knows his subject matter and talks about money so passionately that you almost forget how much of a divide it can cause in the real world.

Don't let the size of the book put you off! It is definitely in my top ten books to read.

Providing a prompt, personal and professional service to patients

The Private GP Service was established over 30 years ago to offer patients a personalised medical service with peace of mind at all times.

By Fiona Bousfield

Based in South Manchester, The Private GP Service is a small group of experienced GPs offering the highest level of care to supplement NHS services. The practice has a large client base across the North West, caring for individual patients, families and companies.

> Our GPs are available 24 hours a day to be there when our patients need us the most

After already working as a doctor for more than a decade, Dr Bruce Jobling took over the practice 12 years ago. His aim was to continue providing a personal touch to healthcare. The service allows patients to remain with a NHS GP whilst also receiving extra medical care when they require it.

'Accidents or illnesses can occur when you least expect them and having to wait many hours for healthcare can only make the ordeal worse. Our GPs are available 24 hours a day to be there when our patients need us the most, whether that is for a home visit, same day appointment or organising an admission to hospital,' explains Dr Jobling.

'Some people come to us just to have the peace of mind that we will always be there if they need us, some simply for convenience and others for complete confidentiality and discretion. Good health is usually on the top of everyone's list and our service provides the time and care to best deliver this to our patients, with a more personal touch – the kind we would all like for our family'.

Read more online...

To find out more or to register with The Private GP Service go to www.theprivategp.uk

Why active management pays

Property funds offer huge benefits over individual bricks-and-mortar investments, but they must be watched carefully.

By Colin Lawson and Neal Foundly

Property is a great asset to invest in over the long term. Many people on The Sunday Times Rich List have made their millions from this asset class.

However, property prices go through troughs that can last a while and avoiding these can add huge value for individual investors.

Property funds enable individual investors to own a share in a property portfolio. This is much more diverse in property type and location than anyone, except the very richest, could achieve.

We can also buy and sell these funds at the touch of a button, which is a huge advantage.

Equilibrium has a great record in deciding when is and is not the right time to hold property. As a result of some bold moves over the years, our returns from this sector have outperformed a buy-and-hold strategy dramatically.

Why funds close

The ability to buy and sell funds at the press of a button applies 99% of the time. Very occasionally though, when they face significant withdrawal requests over a prolonged period, managers can close the funds, which is known as gating. This means telling investors that they cannot have their money back until further notice.

The reason this can happen is that the funds cannot sell underlying properties at the click of a button. It could take many months to sell a property and even many years to sell at the desired price.

As a result of some bold moves over the years, our returns from this sector have outperformed a buy-and-hold strategy dramatically

So gating is designed to protect investors and give the fund manager the time to sell properties in an orderly fashion, therefore achieving the highest price possible. However, most investors who are locked into a fund that is falling in value every day do not feel very protected.

This can cause real-life issues ranging from the simple fact that the money is no longer available to spend, to more complex ones such as the inability to transfer a pension, or conclude the distribution of an estate on death.

Furthermore, the reason a manager gates a fund is likely to be because it has already paid most of its cash reserve to the investors who got their money out early. It is also probable that such funds are predicting further falls in values, leading other investors to want to withdraw.

The fund manager will therefore look to sell properties to restore the cash reserves to its previous level, and to provide a buffer to meet the expected increase in withdrawal requests.

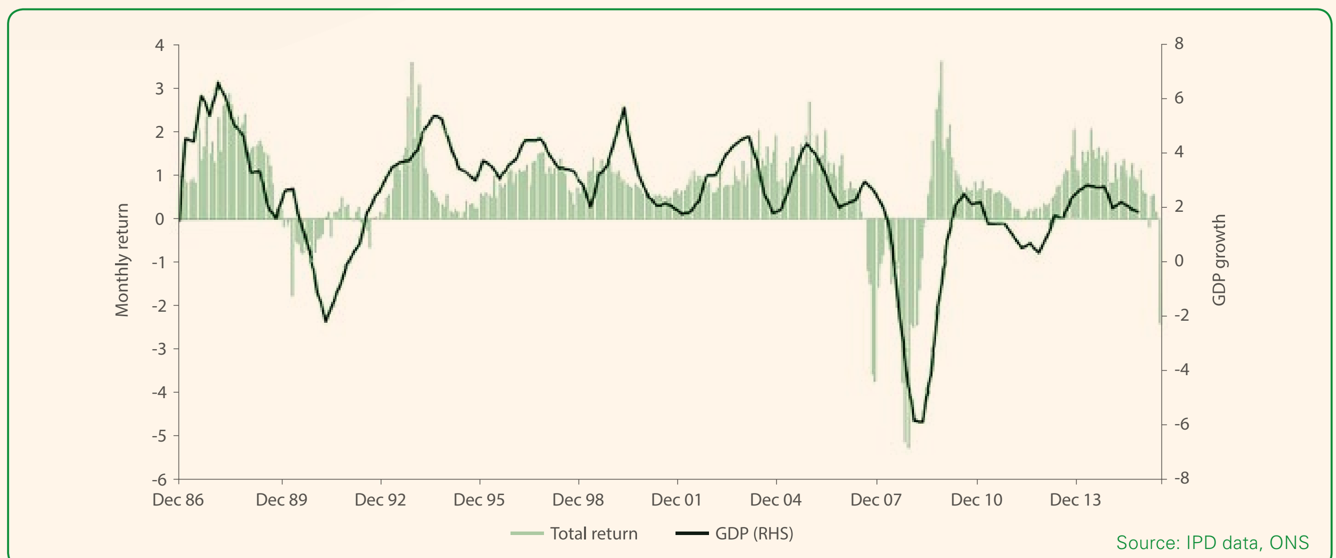
When every manager is doing the same thing, this can create a downward spiral. If there are more sellers than buyers in the market, the price will keep falling.

We are always watching for the tell-tale signs of a potential gating. Fortunately, they are relatively easy to spot if you know what you are looking for.

Economic correlation

Property values correlate strongly to the economy. If the economy is growing, that means companies are expanding and they need more space, pushing up rents and capital values. If we are in recession the opposite is true, so we watch the economy carefully - especially early indicators such as the Purchasing Managers' Index (PMI).

The bars on the chart below are the returns from the Investment Property Databank (IPD) property sector and the black line that we have laid onto it represents gross domestic product (GDP) growth. The correlation is clear to see.



Source: IPD data, ONS

Monitoring fund flows

Managers only ever close the gates on a fund when they have had large withdrawals over a reasonable time period, so we need to monitor the amount that investors are putting in or taking out from a fund. The fund managers will not provide us with this information, so we need to work it out.

Say a fund had £400 million on 1 August and a positive 1% performance over the month to 1 September. If it had £420 million invested on the latter date, then this means it received £16 million of inflows during the month, which is a £20 million increase in fund value minus £4 million investment growth. We can also make that calculation for the whole sector.

Changes in yield

Generally, people buy property for the income it produces. If the yield on offer (rental income) is above its long-term average versus other income producing assets such as gilts, equities or cash, then people are likely to want to buy and fund flows should be positive.

Repricing

Managers can reduce the price of the fund (usually by 5%) to reflect the cost of buying and selling properties. This is generally the first step in trying to dissuade investors from withdrawing. If funds are repricing, gating may well follow soon.

Following the herd

Finally, when one fund closes, others often follow. If you hear of a closure and act quickly enough, then you may be able to get out of other funds that you hold.

While we can sell property at the press of a button, doing so requires careful monitoring and decisive, well-timed actions

Equilibrium acts

Last summer we were overweight in property with it representing 28% of a typical balanced portfolio compared to our long-term target of 22%. This exposure equated to £150 million of our clients' investments. We started reducing this due to concerns that the yield had fallen and the prospect for capital growth was minimal.

We subsequently saw outflows - first from individual funds, then the whole sector - and repricing, so we reduced our holdings further.

On the day of the Brexit referendum result, our property holdings stood at just 12% of a typical balanced portfolio. As we felt that the outlook for the economy had become uncertain, we sold all our remaining property holdings.

We wanted liquidity so that we had the freedom to invest this money elsewhere as opportunities arose; or to buy back into property at lower levels. This has worked well because, since then, many funds have gated and all have fallen in value.

We dipped our toes back into the water recently by investing 3% of client portfolios into the Kames Property fund for a much lower price than we sold it at. The Kames fund has little exposure to London and a good yield versus other assets and the sector. It is a relatively small fund and it could fare well by attracting new investments and using them to take advantage of distressed prices.

We will continue watching the market and holding to our principle that, while we can sell property at the press of a button, doing so requires careful monitoring and decisive, well-timed actions.

Two taxing

Laura Hutchinson, Partner at tax specialist Forbes Dawson, considers two recent changes in UK tax legislation and regulation.

Death bed planning

As the rather insensitive name suggests, death bed planning is the last chance to mitigate inheritance tax (IHT). Many people will be familiar with the concept of making gifts and surviving seven years to reduce their liability but what can be done if life expectancy is less than this?

For married couples, there will be no IHT on first death provided the chargeable assets are left to the surviving spouse in the will. The surviving spouse may then have the ability to make gifts and survive the required seven years. If this is not possible, other options need to be considered.

One of the most valuable IHT reliefs is Business Property Relief (BPR). This offers complete exemption from IHT on specific business assets, including shares in unquoted trading companies, provided they have been held for a two year period at the date of death. There are investment portfolios available specifically tailored to attract this relief, typically investing in companies listed on the Alternative Investment Market, which attempt to minimise the risk involved in investing in, what can be, higher risk companies. This is a useful way of converting chargeable cash into an IHT tax-free investment within just two years, without the need for a gift.

If gifts are made within seven years of death, whilst they may not be successful gifts for IHT, they will reduce the value of the estate for the purpose of ascertaining whether the residential nil rate band is available. This is important as this relief is tapered for estates valued over £2m, thus such a gift could inadvertently result in up to a £140,000 IHT saving.

Stamp Duty Land Tax (SDLT)

SDLT on UK residential property has seen significant changes over the last few years with changes from the 'slab' system (a single rate of SDLT if the property value falls within a specific price bracket) to the slice system (a tiered system of charge). This new system is beneficial for those properties falling below £937,500 and is designed to collect greater SDLT on more expensive properties.

From 1 April 2016 an additional 3% SDLT applies on top of the normal SDLT residential rates on the purchase of second properties, which will typically be buy-to-let properties. This means it is no longer possible to purchase a buy-to-let property worth less than £125,000 and pay 0% SDLT. The rate applicable now will be 3%, resulting in a charge of up to £3,750. The rates increase to as much as 15% on properties over £1.5m.

If the property acquired replaces the existing main residence that hasn't yet been sold, it may be possible to reclaim this additional tax if the old residence is sold within 36 months. These additional rates will also affect parents buying properties in their own name for a child, a UK holiday home and the first residential property acquired in a company or a discretionary trust, to list a few scenarios. This significantly increases the costs of such property acquisitions for those involved in the property rental market.

Putting High Legh Park Golf Club on the map

By Sam Massey

If you can say one thing about Andrew and Anna Vaughan, it would have to be that they love a challenge.

Back in the early 90s the couple, who currently run the well-respected High Legh Park Golf Club in Knutsford, left successful roles in the insurance industry in search of the perfect work-life balance.

This led them to the Lake District where they took over a neglected 1950s holiday park.

Andrew says: 'It was a real mess. It took 10 years but we created a thriving business where families loved to visit us.'

But while business was soaring, the work-life balance wasn't quite right.

In 1999 while pregnant with the couple's now 17-year-old daughter, Anna was diagnosed with breast cancer. The diagnosis prompted the Vaughans to make the move to Spain, where they could manage the business remotely and commute when necessary.

Andrew says: 'Moving to Spain was another huge lifestyle change but we wanted to get the balance back. The business was at a stage where we could manage it overseas so we went for it.'

This successful arrangement lasted eight years before the couple sold the business.

Never ones to rest on their laurels it wasn't long before they found their next venture and with it a challenge of epic proportions.

In 2010 Andrew stumbled across High Legh Park Golf Club in Knutsford, Cheshire.

Andrew says: 'To say it was somewhat run-down is an understatement.'

Built in the late 90s to an extremely high standard, the 27-hole course had fallen into a state of disrepair after the original owner passed away.

But with the Vaughans at the helm, they were confident they could not only turn the business around but create a club like no other.

Andrew says: 'Golf clubs can be intimidating with lots of rules and regulations. We wanted to create a golf club completely away from that where everyone from the novice to the professional feels comfortable.'

The 18-hole Championship course has been completely restored, while the nine-hole Academy course is a pay to play green open to all ages and abilities.

Andrew says: 'If you want to entice people to take up golf they need somewhere where they can learn without worrying about the correct clothing or slowing people down. Our nine-hole course is ideal for those who want to learn the game without feeling pressurised.'

The same relaxed rules apply in the clubhouse where all are welcome.

Other facilities include a floodlit driving range and multiple practice greens. It is also home to one of only three private golf schools run by former world number one Lee Westwood.

As well as former world champions, the Vaughans are also working closely with American Golf – one of the biggest retailers of golf equipment in Europe. There is an American Golf shop on site and the firm owns the naming rights to the club's academy.

> “We wanted to create a golf club where everyone from the novice to the professional feels comfortable

Plus the Vaughans and American Golf are currently rolling out a new scheme offering free golf lessons to local schools in a bid to engage youngsters with the sport.

Andrew adds: 'A golf club needs new members to survive and right now there are very few icons in the golfing world. We want to encourage youngsters to take an active interest in the sport from a young age.'

So as well as restoring a once decrepit course, building a club with a unique ethos, encouraging children to take up the sport and the day-to-day running of the business, are the Vaughans ready to put their feet up?

'Not yet,' says Andrew. 'We already have our next project lined up but we're not finished with our plans for High Legh Park just yet.'

Building a family business

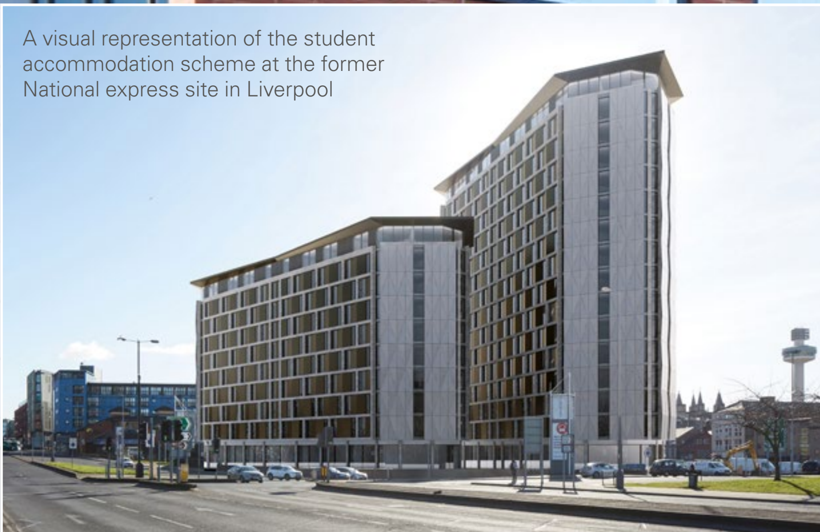
By John Warburton

(L-R) Mathew Anwyl, Graham Anwyl & Tom Anwyl

In 1930, two jobbing builders - a father and son - set up a business offering their services around the up and coming Welsh resort town of Rhyl.

Now 86 years on, that partnership has become Anwyl Construction, one of Wales' biggest housebuilders employing 160 people and boasting a string of over 30 prestigious industry awards to their name.

ANWYL GROUP


A visual representation of the student accommodation scheme at the former National express site in Liverpool

In 2016 the firm made their biggest move to date – relocating their head office from Rhyl to Ewloe, in Flintshire, setting sights for the future across the English border and specifically in Cheshire.

As Anwyl Construction embarks on its latest chapter, we speak to Managing Director, Graham Anwyl, about the history, the family and the future of this successful business.

The son and grandson of the original founders, Graham is the third generation to join the business.

He says: 'One of our key aims for the coming years is to look further afield for bigger projects. Moving closer to the Welsh border gives the business better access to sites in the North West Powerhouse and brings us closer to Manchester and Liverpool city centres, as well as Cheshire. What's more, our new base has given us a huge boost in office space with new facilities and room to expand.'

And expand they have, with the family's latest venture, Anwyl Land, which launched in October 2016.

Anwyl Land is a land trading company and will focus on finding opportunities to promote land for residential and mixed-use development in partnership with landowners. The primary focus will be southern England and sites will typically range from 4 - 40 acres.

Graham adds: 'One of the key reasons for our recent office move was to attract talent from a wide geographical area so we have the very best team in place.'

Not that the firm is forgetting its roots any time soon. Anwyl Construction's joinery workshop remains firmly in Rhyl.

Rhyl has played a crucial role in the success of Anwyl Construction, or T Anwyl and Son Limited as it was originally known. Not only was Rhyl the firm's base, it also provided a steady source of employees as the town's popularity soared.

'After the Second World War there was a considerable amount of work in Rhyl and neighbouring towns,' says Graham. 'We were building amusement arcades, bingo halls and cafes to cater for the growing tourist industry and we also built numerous convalescent homes and pubs.'

Graham joined the business in 1964 and by then attention had turned to the High Street where the firm had made a name for itself renovating popular shops like Marks & Spencer, Barclays and WHSmith.

But despite huge success, by 1990 the firm refocused its efforts away from the High Street and onto the housing market.

It was during this period that Graham's three children become the fourth generation of Anwyls to join the family firm.

Youngest son Mathew is Housing Director, daughter Lucy is Group Financial Director and oldest child Tom is Director in charge of Contracting and Administration. Mathew's wife Claire serves as the firm's Marketing Manager.

Graham says: 'As a family business we work, live and breathe it. There is a family dedication to what we are trying to do and everyone is committed to the success of the business.'

Today, the firm directly employs 160 people and works with a network of local suppliers to deliver hundreds of new residential and commercial buildings each year.

And they are pretty good at it too with scores of industry awards, including Best Small Housebuilder of the Year, to their name.

Not one to rest on its laurels, the firm is also embarking on a plethora of new projects including two in Liverpool: a 16-storey student residence on the old National Express coach station site and they have recently submitted a planning application for 336 apartments on Pall Mall, which being 22 stories, will be the tallest building in Anwyl's history.

But for Graham, no matter how many titles they win, for him the real joy is watching the business flourish.
He says: 'Since its inception in 1930, Anwyl Construction has enjoyed a steady growth. It has expanded organically over the years and I am immensely proud of running a family-owned business, especially when I see my three children working harmoniously together to achieve success.'

Gilt-y pleasures

There have been many lessons learnt and tales to tell of buying gilts for our portfolios over the years.

By Neal Foundly

In retrospect, we should have held more gilts. Lots of them.

Over the last decade, these low-risk government bonds have provided an investment annual rate of return of 6.74% compared with 5.77% per annum from UK equities.

How did we miss it? After all, as James Carville, Bill Clinton's campaign manager pointed out: "It's the economy, stupid." The slowing growth of the UK economy over the last three decades, the property crisis at the start of the 1990s, the bursting of the technology bubble in 2000 and the credit crisis of 2008 all led to lower interest rates to stimulate the economy, boosting the value of government debt in the process.

The name's Bond

Furthermore, the credit crisis eight years ago heralded the start of a programme of monetary easing by the Bank of England (BOE) called 'quantitative easing' (QE). Although this was an opaque form of financial stimulus the upshot of it was that the BOE became a big buyer of bonds.

Hindsight is a wonderful thing so we do try to learn from lessons from the past

Between 2008 and 2012 the BOE spent £375bn buying government bonds and then in August of this year announced a further round to buy £60bn of gilts and £10bn of corporate bonds.

As a result of this large scale buying, the BOE now owns one quarter of all the gilts in issue.

Quantum of solace

To be fair, we were not sitting on our hands during this time.

As the economy emerged each time from a recession, we switched out of gilts into investment grade (good quality) corporate bonds as they provided better yields and the prospect of greater returns as default risk diminished. This switch, in May 2009, made a lot of sense given the relative yields at the time with corporates offering 8.3% against 3.7% for gilts.

As the economy emerged each time from a recession, we switched out of gilts into investment grade corporate bonds

Indeed, a year later the total return on our corporate bond fund was 14.2% against 6.1% from the gilt fund.*

As these bonds rose and (given the inverse relationship) the yields fell, we switched from investment grade bonds to high-yield bonds to garner the higher yields. However, as the economy recovers there reaches a point when growth wobbles and this served to pare our overall returns.

The real bond returns

Hindsight is a wonderful thing so we do try to learn from lessons from the past.

QE programmes are probably here to stay. Pension funds and life companies are feeling the pincers of an ageing population combined with rapidly rising liabilities as their values are calculated using lower and lower discount rates. They will certainly be buyers of bonds for many years to come.

There are unlikely to be big falls in gilt prices anytime soon.

However, if your income is fixed at a low level, then the real (after inflation) value can very quickly be eroded. The rate of inflation is now up to 0.6% which, when you consider that the 10-year gilt currently only yields 0.65%, implies there is a strong danger of negative real returns from buying UK government bonds now.

Linked in

The decision to exit the EU in the referendum compounds this issue, as the weaker value of sterling against most other major currencies will lead to higher prices for imported goods.

The BOE cited weak sterling for its recent rise in inflation forecasts for this time next year from 1.5% to 1.9% and for 2 years' time from 2.1% to 2.4%.

In this light, we bought an index-linked gilt tracker fund for portfolios shortly after the referendum.

Index-linked gilts provide the same 'risk-free' security against default as normal gilts but are structured to guarantee a fixed level of income above the rate of inflation. For example, if inflation is 3% then a 1% index-linked bond would provide an income of 4%.

Since we bought the index-linked fund in late July, it has risen by well over 10%.

Not stirred

Gilts may not have had top billing in the portfolios over the years but instead we have focused on driving great returns from other assets such as equities and property. These bonds have a place in portfolios but we always need to be sure of a risk-free return, not a risk that they are return-free.

*Source: FE Analytics. 12m total returns of Schroders All Maturities Corporate Bond Fund and L&G All Stocks Gilt Index Trust to 21st May 2010.

In profile:

Ashcroft helps push North West to new heights

The CEO of events and networking group pro-manchester has been using his vast experience to harness an exciting period of growth.

By Tim Cooper

John Ashcroft has achieved huge success in his career to date and has become a strong influence in the economic development of the North West of England. He says it is great to be involved in the development of Manchester at this exciting stage in its growth and is glad to see pro-manchester now involved in so many facets of business life.

John started his working life at Reed International, then moved to home fashion group Coloroll in 1978, where he ultimately became CEO and Chairman. After leaving the group in 1990, he studied for a doctorate and worked in consulting and corporate finance until 2009, when he started his current role.

A passionate economist, John has also held a wide range of other distinguished roles and has been publishing The Saturday Economist every week for more than five years.

Despite all this, he jokes that his most outstanding achievement was entering a 'Can you sing?' charity event with Fran Eccles-Bech, CEO of the Manchester Law Society. 'Our interpretation of Elton John and Kiki Dee had the audience rolling with laughter while plugging their ears at the same time - no mean ergonomic achievement,' says John.

Dedicated to development

John was born in Wigan and is dedicated to the development of his region and especially pro-manchester, which was set up in the 1980s to boost the profile of professional services in the city. The job has led to him taking a number of other important roles: Director of Marketing Manchester, Chief Economist for the city's Chamber of Commerce, a member of the Association of Greater Manchester Business Leadership Council and a visiting professor at Manchester Metropolitan University Business School.

He also wrote the first ever budget for Greater Manchester Local Authority, which helped give the city a better standing in the national budget and improved relations with the Treasury.

When John took on the pro-manchester role, he initiated a 70-point plan to increase revenue, build membership and raise the seniority of individual members – all of which he has achieved comfortably.

'All the leading names in the city are involved now,' he says. 'We run almost 150 events with over 5,000 delegates a year. These include two major conferences and corporate finance and property lunches.'

> All the leading names in the city are involved in pro-manchester now. We run almost 150 events with over 5,000 delegates a year

Pro-manchester's business development programme includes a club for small and medium-sized enterprises, which offers free advice to 25,000 members in Greater Manchester. It continues to expand with plans for quarterly events in 2017.

John says the key to the group's success lies in staying true to its goals and always striving to improve on them. 'We always aim to be a learning organisation that is open, truthful, honest - and a great place to work,' he says. 'We want our people to have pride in what they do and to trust and enjoy working with their colleagues. Also, the managers set tough standards of performance for themselves.'

Never stop learning

John says his philosophy is never to stop learning and jokes that his obituary will read: 'could have done more.'

His work-life balance has been poor as 'economics and strategy are pretty much 24/7 experiences.' He says: 'Addiction to the news is a bad habit for any economics commentator. I have been blogging on economics for over 20 years and we have built The Saturday Economist to one of the largest brands in the UK.'

Despite all this, John does have some time to relax and play tennis, and go to the cinema and other musical events. His long-term personal goals include continuing to enjoy these hobbies and to keep developing the profile of pro-manchester nationally and internationally, as well as the profile of The Saturday Economist.

Plus, he still needs to work on his singing.

Read more online...

To find out more about pro-manchester go to www.pro-manchester.co.uk/sector-groups

Views from the frontline – Brexit

In this special edition, we ask UK fund managers how the EU referendum result has affected their asset class.

UK Fixed Interest

Mark Holman

Managing Partner,
TwentyFour Asset Management

Whilst the full ramifications of the vote to Brexit are not yet clear in the UK or Europe, one thing that has surprised many is how well the fixed income market has responded so far.

Since the referendum in June, the largest effects have been in sterling assets, with the 10 year Gilt index up +7.7% and the Sterling Corporate Bond Index up a huge +10.3%. European high yield has delivered a healthy return of +4.1%.

Immediately after the vote, the sterling market began pricing in additional quantitative easing (QE) and a base rate cut, and on 4 August Mark Carney duly delivered by cutting base rates to 0.25%, announcing a further £60bn of gilt purchases and an additional £10bn corporate bond purchase programme. The result was a sustained rally in both gilts and corporate bonds and not only in those sectors directly involved. The 'portfolio effect' has led to managers recycling their gains into higher yielding sectors.

So far, the measures taken by the Bank of England have been very supportive for sterling assets and when combined with the European Central Bank's ongoing Asset Purchase Programmes the broader outlook remains constructive, despite the lower yields.

UK Equities

Gervais Williams

Managing Director & Fund Manager,
Miton UK Multi Cap Income

After Brexit the value of sterling fell. Normally a decline in the exchange rate of sterling would lead to price increases within imported goods and a boost in inflation.

This can be good news because multi-national stocks actually pay their dividends in US dollars, so these dividends are now worth more in sterling terms. This is one of the reasons that the share prices of many of the largest companies initially rose after Brexit. Many other stocks that are not as large also generate a large part of their profits overseas too. So, there's been a second wave of stock market recovery as the share prices of some of the mid-sized and smaller companies have recovered.

However, a reduction in the UK's exchange rate can be bad news too. The devaluation effect could be transitory since most companies are unable to dodge the slowdown in world growth.

In contrast, smaller companies have greater ability to grow. This means they can buck the wider economic trend and continue to grow even when the economy is flat. Smaller companies, therefore, often have better scope to generate good and growing dividends.

Equilibrium view

The period following the referendum result was one of great uncertainty for the UK economy and for various UK asset classes.

The initial indications were that the result would have an immediate and significant impact on both the economy and on investments. So-called safer assets such as gilts and investment grade corporate bonds initially did very well, whilst commercial property funds did very poorly.

The fall in sterling is a symptom of the concerns about the UK economy, but conversely this has a positive impact on some UK assets. In particular, large UK companies who make more of their profits overseas have performed better than smaller companies who typically make more revenues in the UK.

The outlook for the UK remains uncertain but has improved following the initial shock. Much will hinge on what form of 'Brexit' we opt for and how long it will take to agree. In the meantime, we would generally be cautious about various UK asset classes.

UK Equities

Nick Train

Fund Manager, Lindsell Train UK Equity

Since the referendum, companies with low business exposure to the UK economy have performed well, especially those with 'defensive' characteristics. We have calculated in the past, though this is inevitably rough and ready, that at least 75% of the earnings in the Lindsell Train UK Equity fund do not derive from the UK – emphasising the global nature of many of the franchises we hold.

What happens next? Of course we don't know. But we take an optimistic view. We expect the UK to be able to reach an acceptable trade agreement with our friends on the Continent, while at the same time increasing the number of other important economies with whom we will be able to trade more freely. This should be good for the UK economy and enhance the long run earnings power of our portfolio companies.

We very much hope this is the outcome of the inevitable period of uncertainty and disruption which looms. On that point we urge investors to remember how critical the 'long term' is for the valuation of UK equities and not to obsess too much about short term earnings disruption.

UK Commercial Property

George Shaw

Fund Manager, Standard Life UK Real Estate

Firstly, a 'liquidity pinch' is what we see happening in investment markets today. The requirement for liquidity from investors in open-ended real estate funds coincided with dramatically reduced buyer interest in the investment market. This mismatch in buyers and sellers cannot entirely be blamed on the referendum outcome – the UK market was already reaching the late phase of a three-year strong capital growth run of close to 30%.

In terms of deal activity, the impact of the mismatch between buyers and sellers is translating into a 'liquidity penalty' of up to 10% on sale prices.

Over the medium term the impact on real estate values and performance will hinge on the health of the underlying economy. Our view on the economic impact of the UK's vote to leave the EU is more bearish than consensus. Overall, from 23 June we expect low double-digit declines in capital values on their pre-referendum level.

At this stage, it is difficult to model the longer-term outlook for returns given that the impact of the UK's exit from Europe will hinge on what replaces the current relationship. For instance, the impact on London offices will be highly dependant on the future for EU passporting and Euro clearing. The UK's financial and professional services industry generates 12% of UK economic output. If this figure were impacted significantly then longer-term output predictions will need to be revised.

Read more online...

The Equilibrium investment team regularly share their views on our website. To read more go to: www.eqllp.co.uk/blog

Investment review:

EU vote leads to strong performance

Welcome to the investment review section of this edition of Equinox.

By Mike Deverell

20.0%
17.5%
15.0%
12.5%
10.0%
7.5%
5.0%
2.5%
-0.0%
-2.5%

Apr `16
May `16
Jun `16

Brent crude oil > $40

EQ reduces property, increases fixed interest

EQ sells some property, fixed interest & equity to cash

UK £1 = $1.47

The EU referendum

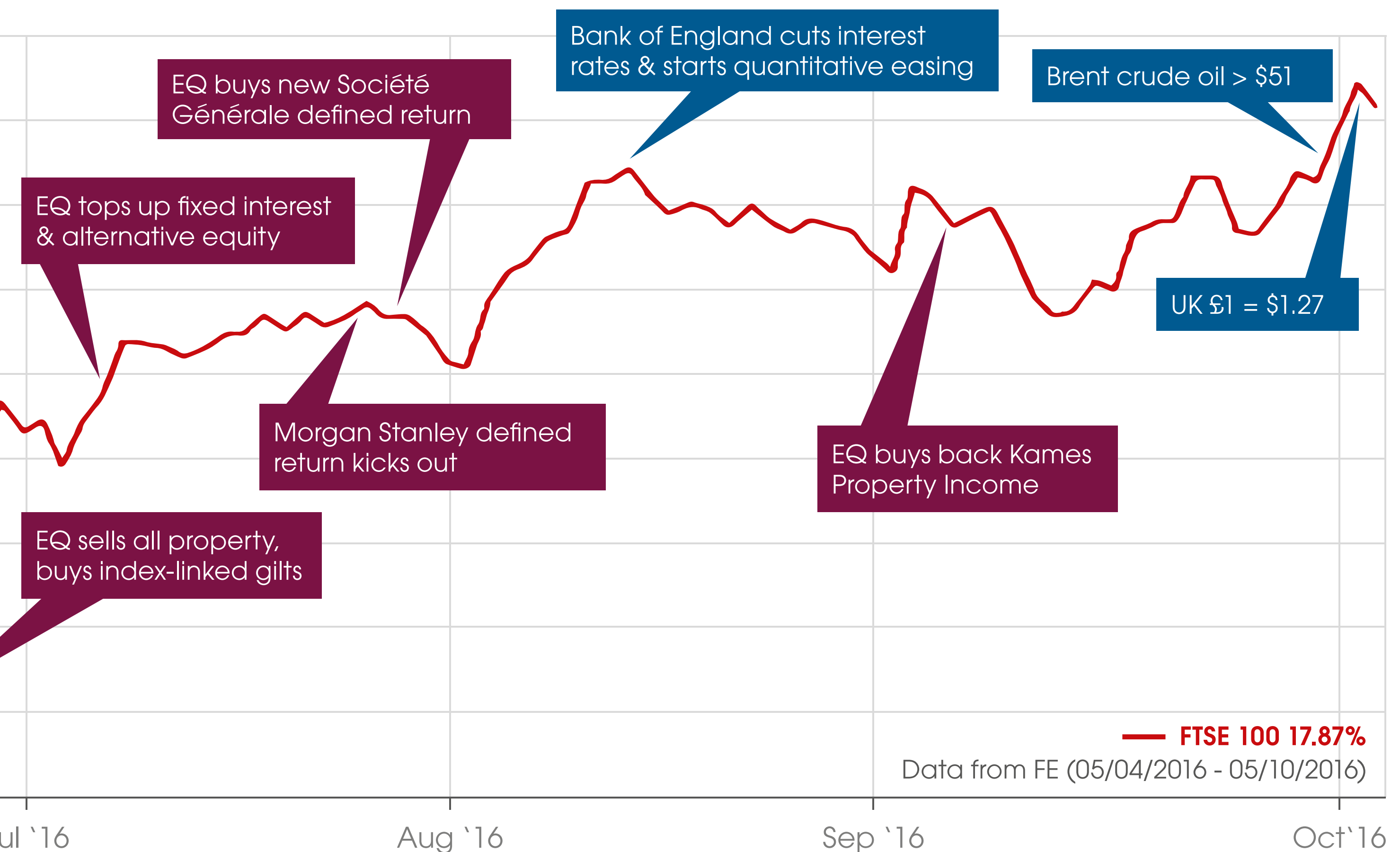
35 **Asset class outlook**
In general, we are underweight equities, hold less fixed interest and remain cautious about property.

36 **Portfolio changes & added value**
We have made 18 changes over the past 12 months to the end of September, adding 1.37% to the returns of a balanced portfolio.

This section reviews events in the investment world over the past six months, what has happened in Equilibrium portfolios and the actions we have taken.

The referendum on whether Britain should leave the European Union has dominated this period. The result of the vote has already impacted investments, with the pound's precipitous fall and the Bank of England (BOE) cutting rates and injecting more money into the economy through quantitative easing (QE). In the short term, these events have had a positive effect on stock markets.

The chart on this page shows the FTSE 100 – the index of the top 100 UK shares - over the past six months and highlights some of the key events over the time period.



37 **Sector performance & analysis**
Most of our UK funds have beaten their respective sectors over the past year.

39 **Portfolio performance**
Despite turbulence after the Brexit result portfolio performance has remained strong.

Wow markets

In many ways, it has been a stunningly good period for those with investments in sterling.

Over the six months to 5 October, the FTSE 100 was up 17.87% including dividends. A typical balanced portfolio is up 7.17% after all fees and charges over the same period.

Our balanced portfolio has returned 51.08% over the past five years which works out as just over 8.5% a year on average. That puts it 7% a year ahead of inflation which averaged less than 1.5% over the same period. Generally, we hope to return 5% more than inflation over a typical five-year period, so the portfolio has more than achieved that.

These positive returns have come despite our relative caution of late. One of our guiding principles is to achieve target returns with the lowest possible risk.

Recently, we have held much more cash than usual, partly because we sold all our property funds the day after the referendum result – this avoided a loss of over 6% at worst. Although property funds have recovered slightly since then, they are generally still below pre-Brexit levels.

Good investment management is as much about avoiding losses as capturing gains. To have achieved such a positive return with a cautious approach is satisfying.

We review the impact of our portfolio changes on returns regularly. Over the three years to 30 September, our balanced portfolio returned 19.77%. Had we not made any changes it would only have returned 13.68% - a difference of 6.09%.

These pages explain the recent drivers of returns and look at what could happen in the future.

Flying FTSE and the pound pounded

The FTSE 100 has outperformed other established markets in 2016. In the year to 5 October, the index was up 16.36%. By comparison, the S&P 500 in the US was up 6.93% and the FTSE Europe ex UK down 1.04%, both in local currency terms.

The reason the FTSE has done so well is not because it has so many outstanding companies experiencing robust profit growth. It is all about currency movements.

Chart 1

Source: Thomson Reuters

Table 1

Market	Return in local currency	Currency change vs. sterling	Currency-adjusted return of fund held by Equilibrium
US (S&P 500)	2.20%	16.19%	19.26% JPM US Equity Income 19.83% Vanguard US Equity Index
Japan (Nikkei)	3.58%	18.69%	28.44% Baillie Gifford Japanese 25.73% Schroder Tokyo
Europe (FTSE Europe ex UK)	1.36%	14.70%	12.29% BlackRock European Dynamic
FTSE Asia Pacific ex Japan	7.86%*	16.20%*	33.14% Schroder Asia Alpha Plus 28.45% Invesco Perpetual Hong Kong & China

*Hong Kong dollar used as proxy country for Asia since Hong Kong has the largest weight in our Global Speculative funds.
Data from 23 June to 5 October 2016

Overseas investors in the FTSE will have had a different experience. In dollar terms, the FTSE is only up 0.59% this year. A Euro investor would have experienced a 2.43% loss, and Japanese investors will have lost 13.45% in yen terms.

Currency has driven the market partly because a large proportion of FTSE revenues are derived from overseas. Between 23 June, the day of the referendum, and 5 October the pound was down 13.9% and has since fallen even further. If around 80% of revenues come from overseas and the pound has moved 13.9%, a rough calculation shows that the currency fall should increase earnings in sterling terms by around 11%.

Since the referendum, the FTSE 100 is up almost exactly 11%, excluding dividends. The correlation between the UK market and the currency is remarkable. Chart 1 shows the FTSE 100 in blue and the trade-weighted sterling index (the pound against other major currencies) in orange. This line is inverted so when it goes up, that means other currencies are going up against the pound and the pound is going down.

The falling pound has also helped the overseas funds that Equilibrium holds in clients' portfolios. If we buy a US equity fund for example, then we are effectively buying dollars. As the dollar has gone up relative to the pound, this has boosted the value of our US equity funds.

Table 1 shows some of the main global stock markets and the return of our fund holdings in each region after accounting for the currency movement.

Some of these returns are more like what we would see in a good year, rather than just over three months.

However, the currency movement has also had some less desirable effects. It is now much more expensive to travel abroad and you get less than one Euro to the pound at most airports.

Though the weak pound should boost exports, many manufacturers will have to pay more for their imported materials.

The UK's balance of trade remains staunchly negative; we import much more than we export. This means that the weak pound could have a serious impact on inflation. Currently, the official inflation rate (CPI) is only

0.6%. Forward-looking market based instruments now expect CPI to jump to more than 3% and we think there is potential for this to go even higher.

The recovering oil price - back above $50 a barrel from $28 back in January – has compounded this. Factor in the currency and oil is now £42 a barrel from £20 earlier this year – up 110%.

Unless wages start to grow more quickly, a rise in prices will mean that many people will have less money in their pockets than they are used to.

UK economy faces challenges

The potential for short-term inflation is a headwind for the UK economy. At the time of writing, we have not yet had any official growth numbers since the referendum, but we do have surveys.

One we monitor closely is the purchasing managers index (PMI), which has historically been a good leading indicator of economic growth.

This survey asks business leaders how optimistic they are about their businesses. Chart 2 shows the correlation between this measure and the official UK GDP numbers, which come out later.

The PMI dipped sharply after the referendum to the lowest reading since the financial crisis. However, it has since rebounded and, while the third quarter of 2016 is likely to be weaker than previous quarters, the UK looks likely to avoid recession for now.

The official exit from the EU will not take place for some time. Prime Minister Theresa May will trigger Article 50 by the end of March 2017, following which we will have up to two years to negotiate the exit.

We do not know exactly when the exit will happen and what new trade deals we will have by then. These factors will decide how strong the UK economy will be after exiting the EU. In the interim, there will be uncertainty.

Several surveys have shown that businesses are already holding back on investment because they are worried about the economic outlook. This can create a self-fulfilling prophecy with businesses' caution adding to any slowdown.

Bank of England supports assets

Perhaps one reason for the positive rebound in survey data has been prompt action by the BOE in cutting interest rates to a record low of 0.25%.

It has also started a new round of QE, in which the bank electronically 'prints' money and uses it to buy government bonds (gilts) on the open market. This time, they are also buying UK corporate bonds too.

QE pushes up the price of these bonds, which pushes down the yield. This is intended to lower the cost of borrowing and to help counteract the instinct of businesses and consumers to hold back on spending.

How well QE stimulates the real economy is a matter of debate, but it undoubtedly supports asset prices. Between 23 June and 5 October 2016, UK gilts (FTSE Allstocks Gilt Index) were up 7.03% and corporate bonds (UT Sterling Corporate Bond sector) up 6.45%.

Index-linked gilts have performed even better, as they also benefit from the prospect of rising inflation.

This has been positive for our portfolios, since one of our first actions following the referendum was to buy index-linked gilts. The fund we purchased tracks the FTSE Index-Linked Gilt Index and has risen by 13.33% since purchase on 28 June.

Property pummelled

While many UK asset classes have done well recently, the exception has been commercial property funds.

The first action we took on referendum results day was to sell all our property holdings. Property is extremely sensitive to economic news and we had already been reducing our position before the referendum.

Given the economic outlook, we felt many others would be selling. Property can be illiquid and if everyone is looking to sell at once, funds have no option but to suspend redemptions until they are able to sell enough buildings to fund withdrawals.

We did not want to get locked in, we were determined to get out quickly. Just over a week after selling our property holdings, the first major fund closed to redemptions. Many others followed soon after. In June, investors pulled around £1.5 billion of funds from the property sector, most of it in the final week of the month. But at one point over £15 billion was still locked into closed funds.

The blue line on Chart 3 shows the huge outflows from the sector in June, followed closely by a big drop in property prices (red bar) in July.

While initially property fund prices dropped sharply, they have recovered since. Things have settled down to the extent that we have since bought back a small amount of property in portfolios.

Demographic drivers and fiscal stimulus

The gloomy economic outlook is only partially to do with Brexit. We think economic growth will be lower than it has been in the past. This is not necessarily a problem but it may mean we have to adjust our expectations.

Demographics are at the root of this change. The world's population is getting older and the number of people working is reducing as a proportion of the population.

This problem is particularly acute in developed economies such as the UK. For an economy to grow, it either needs to increase its workforce or its productivity. If the forecasts are correct, we will not have a growing workforce, so each worker will need to produce more.

Unfortunately, productivity growth has slowed. Also, while we continue to make technological advances, the rate of advancement has slowed. This slowdown in productivity can be seen in the UK GDP figures.

Chart 4 shows how the UK economy has evolved ever since 2007. Our GDP (blue line) – the total size of our economy – shrank sharply in the financial crisis and did not recover to 2007 levels until 2013.

The orange line shows GDP per capita, or per head of population. This has lagged far behind and it did not recover to 2007 levels until 18 months later.

This explains why many people think their standard of living has not increased. This data does not show which areas have grown and which parts of society have benefited.

Typically, the wealthier sections of society have benefited from rising asset prices, increasing inequality.

Growth has been weak ever since the financial crisis despite massive monetary stimulus, which no longer seems to be having much effect on the real economy. It helps to support asset prices and benefits investors, but the trickle-down effect is, at best, limited.

The perceived failure of current strategies to boost growth is why many are calling for governments to increase fiscal spending on long-term projects like infrastructure.

Record low bond yields mean governments can borrow extremely cheaply to fund such projects, with a strong likelihood that returns from the investment will be well over borrowing costs.

Even so, we should probably expect lower growth in the developed world than we saw prior to the financial crisis. In this case, companies would grow their profits at a lower rate, and this may therefore result in lower investment returns.

It would also mean that, aside from short-term currency induced spikes, inflation is likely to be low and interest rates are unlikely to go back to pre-crisis levels.

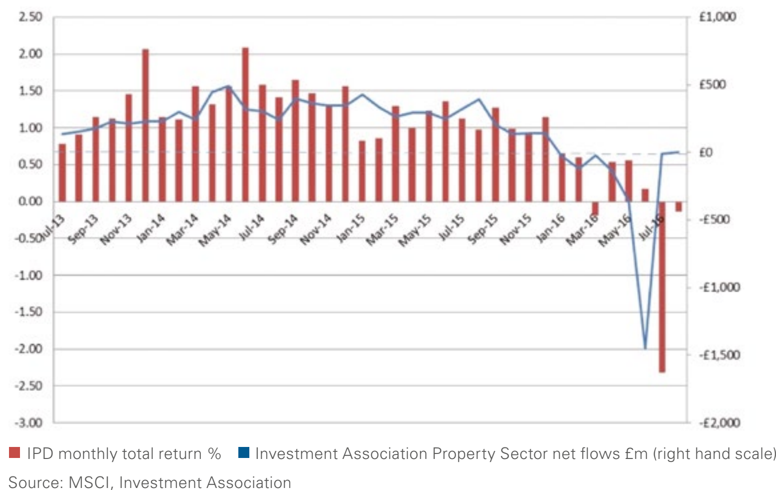
We do not need to be too pessimistic about this because, even if nominal investment returns are lower in the future (provided inflation is lower too) then real returns could remain at similar levels.

By managing portfolios actively we can also gear them towards higher growth areas. Such changes also throw up opportunities for good fund managers.

Many of the opportunities that we favour have high weights to areas like technology, which continue to grow. Many are also heavily involved in the healthcare sector, which is a growing area given the ageing population.

Managers will also need to find exceptional companies that can grow despite poor economic growth. There is therefore a strong argument that passive index tracking investing will not be as successful in the future.

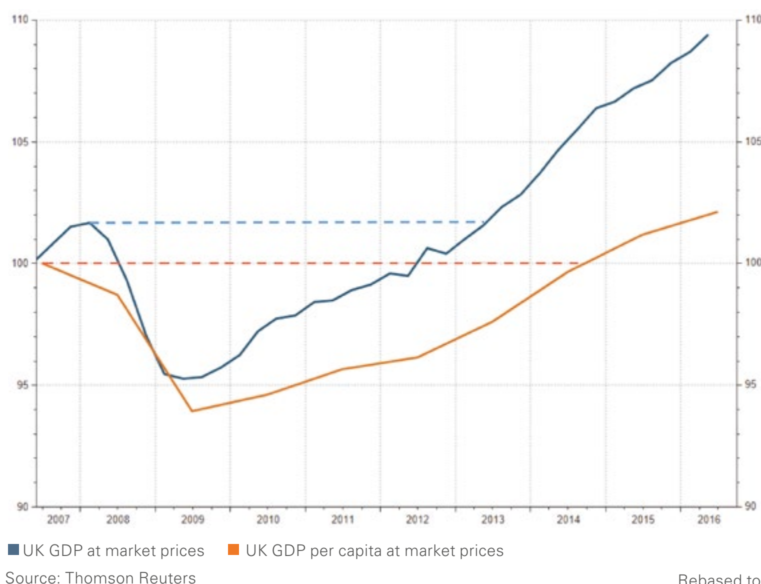
Chart 3



IPD monthly total return % ■ Investment Association Property Sector net flows £m (right hand scale)

Source: MSCI, Investment Association

Chart 4



UK GDP at market prices ■ UK GDP per capita at market prices

Source: Thomson Reuters

Rebased to 100 at 2007 values

Asset class outlook

Equity – looking expensive

We are underweight equities, meaning we have less in this asset class than we normally would. This is mainly because many of the markets look expensive relative to their long-term averages.

Chart 5 shows the valuations of each region according to our own proprietary indicator, which combines various metrics. The green bar for each region shows its current value. The black area shows the full historic range for this indicator.

The chart also shows standard deviations around the average. We expect that the indicator would be between the light blue and orange lines, which represent one standard deviation, around 68% of the time. It would be within two standard deviations – between the red and dark blue bars - around 95% of the time.

Currently, both the US and UK are about one standard deviation above the norm, meaning they are more expensive than on 68% of occasions. On the flip side, Japan is one standard deviation below the norm making it historically cheap.

The historic returns at the bottom of the chart represent the median return over the five-year periods when our indicator has been at its current level. At these levels, markets in the UK, Europe and the US have typically returned less than our long-term expected return for equities of 10% a year (which is based on historic results).

Emerging markets, China and Japan are all much cheaper relative to their own long-term averages and this has historically meant much higher returns. This does not mean that we will see such high returns in the future. In fact, we are almost certain that we will not get 24% a year from Japan over the next five years. But it does show why we prefer those areas to more western economies.

We expect equity returns to be lower over the next two years than we have seen over the long term. However, this does not mean we expect negative performance and returns can be improved by tilting the portfolios towards more attractive areas.

Fixed interest – hard to see value

After their fantastic run, both gilts and corporate bonds look expensive relative to history. With interest rates at record lows of 0.25%, it is hard to see much value. If you lend your money to the UK government for 10 years you will be paid just 0.81% a year, which is likely to be well below inflation.

In our fixed interest portfolio, we hold some index-linked gilts. As the pound keeps falling and inflation expectations continue to rise, they could do well in the short term and do provide a hedge against such risks.

The rest of our portfolio is more exposed to higher yielding stocks from companies with lower credit ratings. While these are riskier, in the current interest rate environment, we are receiving a decent premium in the shape of a higher yield, which we feel compensates for the extra default risk. Table 2 shows the current yield on our portfolio relative to standard corporate bonds and gilts.

In general, we expect lower returns from fixed interest than the long-term average of around 6% a year, so we remain underweight.

Property – cautious re-entry

While we sold all our property after the referendum, we have subsequently bought back a small holding of around 3% in most portfolios.

Property prices tend to fall when there is a recession and be weak when the economy is weak. Having said that, many of the problems in the property market might be more keenly felt in London than the rest of the country. The City in particular could be hit hard if financial services lose their 'passporting' arrangements allowing them to sell their services into Europe. This could lead to firms beefing up

Equity market composite indicators and subsequent median five-year annualised returns

Chart 5

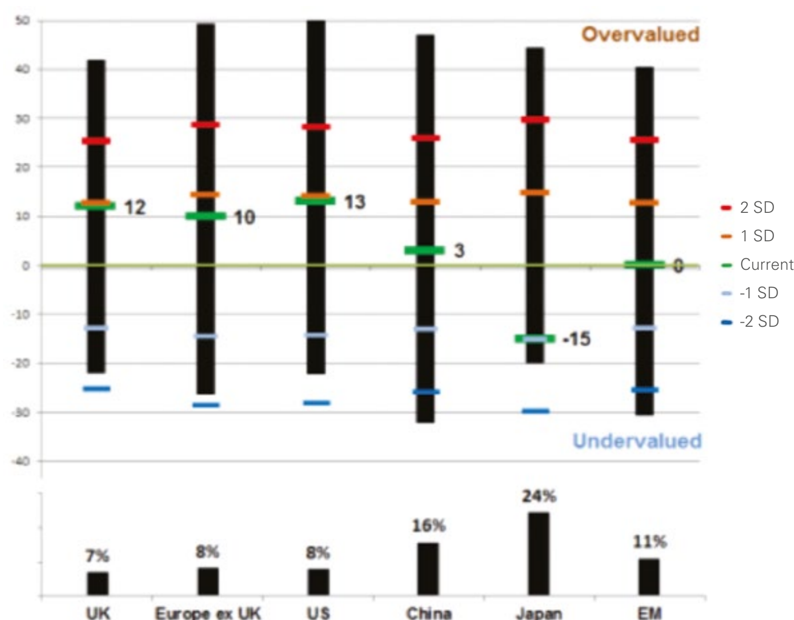


Table 2

Asset	Yield to maturity*
Equilibrium Fixed Interest Portfolio	4.06%
UK 10 Year Gilts	0.81%
UK Corporate Bonds (IBOXX UK Non Gilts Index)	2.31%

* Yield to maturity is the return that would be achieved should the funds hold all their current bonds until maturity, before fees.

their Paris or Frankfurt operations at the expense of London.

Outside the capital, there has been little impact on property prices to date. We have therefore purchased Kames Property Income, a fund with virtually no London exposure. This fund produces a high yield of over 5.5% a year, which is attractive relative to bonds and cash. This means that, even if capital falls, we could still receive a positive return. We also bought the fund at around 3.5% below where we sold it.

We remain alert for other similar opportunities, but for now we remain significantly underweight property.

Asset allocation changes – adding value

Chart 6 shows the asset allocation changes made to our ideal balanced portfolio over the past 12 months.

The general trend has been to reduce equities (the red area) in response to their rising valuations. Other notable trends were the reduction in property (light grey) over the year, culminating in the complete sale at the end of June. This meant that cash (blue) increased, although we have subsequently reinvested this, including a small amount back into property in September.

Chart 6

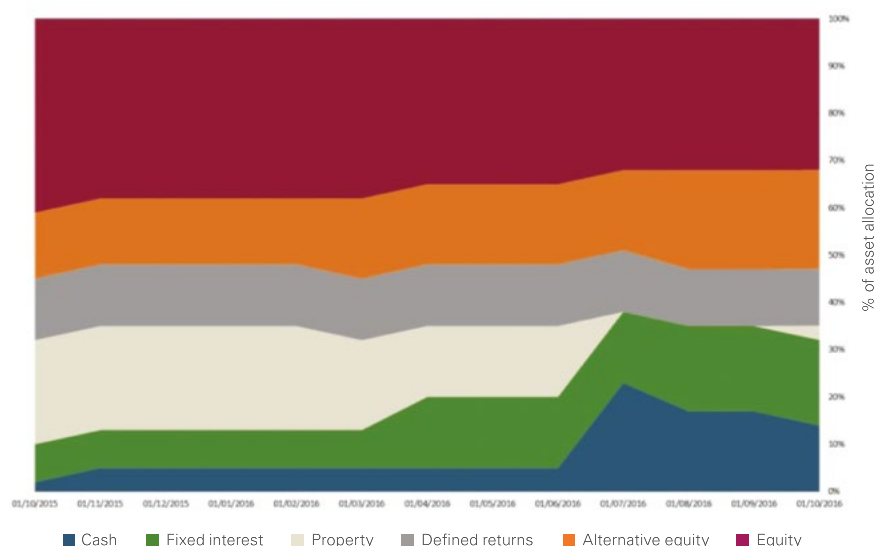


Table 3

Change	Added value %
Cash to Kames Property	2.23%
Cash to Soc Gen Defined Return	2.10%
Reduce Morgan Stanley Defined Return	-2.33%
Cash to Alternative Equity	-0.66%
Cash to Fixed Interest	4.84%
Property 100% to Cash	2.49%
Pre Referendum UK Equity Sales to Cash 16/06/16	-10.95%
Pre Referendum Fixed Interest Sales to Cash 16/06/16	-0.53%
Tactical Cash to L&G All Stocks Index Linked Gilt Index 28/06/16	14.64%
Pre Referendum Property Sales to Cash 16/06/16 - 27/06/16	4.50%
Equilibrium Property Portfolio to Equilibrium Fixed Interest Portfolio	12.20%
L&G UK Index to Blackrock Corporate Bond Tracker	-1.85%
Standard Life UK Property to Natixis H2O MultiReturns	8.66%
Tactical Cash to Fidelity Index UK (12.02.16)	6.07%
Tactical Cash to Fidelity Index UK (08.01.16)	0.56%
Tactical Cash to Fidelity Index UK (14.12.15)	5.27%
Vanguard UK Equity Income Index to Woodford Equity Income	0.57%
Invesco Tactical Bond to Royal London Sterling Extra Yield Bond	4.56%
Percentage of positive outcomes	72.00%
Total added value for a balanced portfolio	1.37%

We need to ensure that all this activity is adding value rather than detracting. Every month, we review all changes made to portfolios over the past year. Table 3 shows the changes made over the 12 months to the end of September.

We made 18 changes over this period and 72% of them had a positive effect. Our balanced portfolio returned 9.66% in 12 months to 30 September but had we not made these changes the return would only have been 8.29%. Added value over this period is therefore 1.37%.

Many changes that added the most value did so at least partially by avoiding losses in the assets we sold. In particular, the moves out of property have all added value.

Over three years to 30 September, our balanced portfolio returned 19.77%. Had we not made any changes it would have returned 13.68%, a difference of 6.09%.

Portfolio performance remains strong

Performance has been strong with returns varying from 5.05% for cautious portfolios to 8.86% for adventurous portfolios over the past six months.

Over five years, returns have varied from approximately 7.7% to 9.25% a year, depending on the level of risk taken. This puts all portfolios significantly ahead of inflation, which averaged around 1.5% over the same period.

Over the short term, our cautious and balanced portfolios have slightly lagged behind a typical managed fund, represented by the UT Mixed Investment 20% to 60% Shares sector. This is generally because we have taken less risk than these funds. For example, the average managed fund has around 42% in equities and 40% in fixed interest. We think this is not sufficiently diversified.

By contrast, our balanced portfolio currently has 32% equity and the cautious has only 24%. As always, our aim is not to beat such benchmarks but to provide the returns that our clients require at the lowest possible risk.

Over five years, our cautious and balanced portfolios have outperformed the sector with less risk. Adventurous has taken more risk but has achieved higher returns.

Sector performance & analysis

UK equities - funds beat their sectors

It has been a difficult period for active managers in the UK. Very few actively-managed funds are beating the FTSE All Share Index in 2016. Currency movements since the referendum have boosted many of the large multinationals which make up a big part of the index. Many active managers have been underweight in this area as many of these companies have been struggling to grow their revenues.

The oil majors like Shell and BP have suffered from the low oil price, but many other large companies have also seen profits slide over the past two years. The fall in sterling has given them a big profit boost, which has reflected in share prices.

Of our UK funds, it is therefore not surprising that the Vanguard FTSE All Share index tracker is one of the best performers, up 14.7% over 12 months. This was bettered by only two of our active funds, Lindsell Train UK Equity and Royal London UK Equity Income.

Most of our UK funds have beaten their respective sectors over the past year though. Table 4 shows their performance.

As you can see, our UK Conservative Equity portfolio also beat its benchmark - the UK Equity Income sector - over 12 months; and our more aggressive UK Dynamic Portfolio also beat its sector over the year.

Table 4

	6 months %	1 year %	3 years %
CF Miton UK Multi Cap Income	3.19	5.21	40.40
Royal London UK Equity Income	16.59	16.67	
CF Woodford Equity Income	10.73	10.51	
Equilibrium UK Conservative Equity	9.44	10.27	27.46
Sector: UT UK Equity Income	11.63	10.04	24.86
Lindsell Train CF Lindsell Train	12.87	19.25	
Marlborough Special Situations	9.20	11.89	50.43
CF Miton UK Value Opportunities B	0.92	0.97	43.94
Equilibrium UK Dynamic Portfolio	8.70	11.47	39.77
Sector: UT UK All Companies TR	12.94	10.75	22.15
Vanguard FTSE U.K. All Share Index A Inc GBP TR	16.44	14.70	23.20
Sector: UT UK All Companies TR	12.94	10.75	22.15

* Three-year performance only shown where a fund has been held for at least three years. Figures are highlighted in green where they are in excess of the relevant sector.

Overseas equity - pleasing performance

Overseas equity fund performance has also received a boost from the fall in the pound, as shown in Table 5.

Table 5

	6 months %	1 year %	3 years %
Vanguard US Equity Index	19.20	31.34	66.10
JPM US Equity Income	15.71	32.59	
Sector: UT North America	17.45	29.99	
BlackRock European Dynamic	13.74	19.43	40.60
Sector: UT Europe Excluding UK	15.76	19.10	29.77
Baillie Gifford Japanese	38.35	39.63	
Schroder Tokyo	29.82	27.62	45.03
Sector: UT Japan	27.44	29.94	42.33
Equilibrium Global Established Portfolio	22.56	28.83	51.79
Global Est. Benchmark	17.13	25.59	45.82
Invesco Perpetual Hong Kong & China	28.76	31.65	
Schroder Asian Alpha Plus	30.33	37.65	
Equilibrium Global Speculative Portfolio	29.56	34.66	35.09
Sector: UT Global Emerging Markets	27.06	37.09	22.25

* Three-year performance only shown where a fund has been held for at least three years. Figures are highlighted in green where they are in excess of the relevant sector.

Returns were helped by our preference for Japan over Europe, with the best performer Baillie Gifford Japanese returning 39.63% over 12 months.

Overall, fund performance was pleasing with our European and US funds also ahead of their respective sectors over 12 months.

Our global speculative (emerging markets) portfolio currently focuses purely on Asia, especially China and Hong Kong. This has boosted performance recently and over longer periods, but led to slight underperformance relative to global emerging markets over 12 months after a commodity-led rally.

Fixed interest - beating its benchmark

Over the past two years, our fixed interest portfolio has struggled relative to gilts and the safest corporate bonds.

Table 6

	6 months %	1 year %	3 years %
BlackRock Corporate Bond Tracker	3.72	8.90	
Jupiter Strategic Bond	2.21	5.89	6.81
L&G All Stocks Index Linked Gilt Index Trust	11.44		
Royal London Sterling Extra Yield Bond	5.68	9.79	
TwentyFour Dynamic Bond	4.02	5.29	4.46
Equilibrium Fixed Interest	5.23	9.00	8.77
Sector: UT Sterling Corporate Bond	4.02	8.21	11.18

* One and three-year performance only shown where a fund has been held for that length of time. Figures are highlighted in green where they are in excess of the relevant sector.

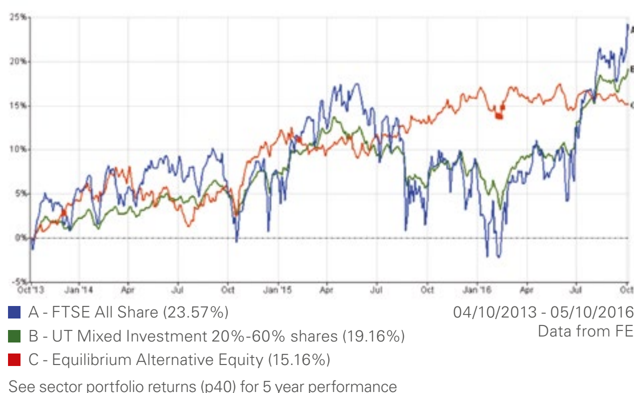
Chart 7

A - Equilibrium property portfolio (-0.47%)
B - Composite property benchmark (-1.98%)
C - Equilibrium property portfolio (old) (-4.85%)

05/10/2015 - 05/10/2016
Data from FE

See sector portfolio returns (p40) for 5 year performance

Chart 8



A - FTSE All Share (23.57%)
B - UT Mixed Investment 20%-60% shares (19.16%)
C - Equilibrium Alternative Equity (15.16%)

04/10/2013 - 05/10/2016
Data from FE

See sector portfolio returns (p40) for 5 year performance

We could not see much value in such bonds and had less fixed interest than usual. We only invested in corporate bonds with a much higher yield. However, there has been plenty of demand for gilts, driven partly by their safe haven appeal and less demand for our riskier bonds. After the referendum, the 10-year gilt yield dropped to 0.55% before resurging slightly.

However, more recently the performance of our fixed interest portfolio has picked up significantly. Investors are now starting to see the value of some higher yielding funds relative to lower yielding gilts. The decision to buy index-linked gilts also boosted performance.

Our fixed interest portfolio is now ahead of its benchmark over six months. Table 6 shows six-month performance to highlight the performance of the index-linked gilt fund, bought since the last edition of Equinox.

Property - losses avoided

As outlined earlier, property has had a turbulent time since the referendum. But we sold all our remaining property funds on the day after the result.

Chart 7 shows our property portfolio in blue over 12 months, including a switch to cash after the referendum and re-purchase of the Kames Property Income fund in September. The green line is our composite benchmark of bricks and mortar property funds. The red line shows what would have happened to the property portfolio had we remained invested. As you can see, the actions we took helped avoid losses and outperform the benchmark.

Alternative equity - disappointing returns

Alternative equity has had a disappointing period, returning only 1.13% over 12 months.

This portfolio is designed to produce equity-like returns over the long term, but with lower risk. The funds describe themselves as absolute return, but we dislike the term as it implies positive returns in all market conditions.

Our portfolio will tend to go up less than the market when equities are rising, but fall less when markets go down. In fact, alternative equity can often make money in falling markets. Unfortunately, this means it can also lose money in rising markets if the managers get their calls wrong, which has happened since the referendum in particular.

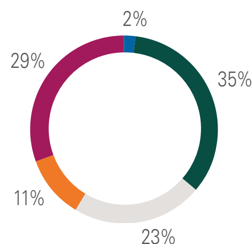
The Odey Absolute Return fund, one of our best performers over the long term, has suffered in particular as the manager has been bearish at a time when markets have forged ahead.

Chart 8 shows the performance of our portfolio over three years against its benchmark - the UT Mixed Investment 20% to 60% Shares sector - and against the FTSE Allshare index. The period from the middle of 2015 to early 2016 shows the valuable diversification that this portfolio can provide, as alternative equity carried on rising despite a sharp fall in stocks.

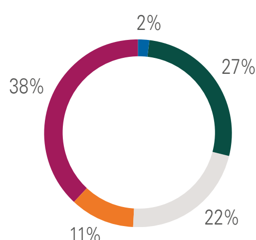
Model portfolio returns

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

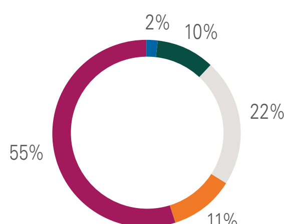
Strategic asset allocation



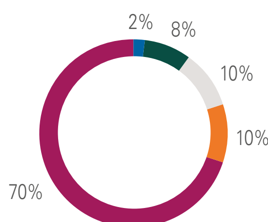
Cautious Model	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Cautious Portfolio	6.10	6.77	17.31	44.81	63.53
Mixed Asset 20-60% Shares Sector	9.05	11.67	19.16	42.44	53.86



Balanced Model					
Balanced Portfolio	7.17	8.40	20.14	51.08	68.34
Mixed Asset 20-60% Shares Sector	9.05	11.67	19.16	42.44	53.86



Adventurous Model					
Adventurous Portfolio	10.84	12.83	24.36	56.89	72.76
Mixed Asset 20-60% Shares Sector	9.05	11.67	19.16	42.44	53.86



Speculative Model					
Speculative Portfolio	13.49	15.53	26.82	65.34	73.16
Mixed Asset 40-85% Shares Sector	11.67	15.07	23.65	55.81	70.38

We also show returns compared to the Asset Risk Consultants indices made up of other discretionary managers' portfolio returns. These are shown in the table below and are given to 30 September 2016 as ARC indices are published on a monthly basis:

- Cash
- Fixed interest
- Property
- Alternative equity
- Equity

	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Cautious Portfolio	5.05	7.94	16.98	42.99	54.56
ARC Sterling Cautious PCI	4.19	5.81	11.56	24.55	33.94
Balanced Portfolio	5.86	9.66	19.77	48.49	57.32
ARC Sterling Balanced PCI	6.83	9.90	16.61	37.89	40.84
Adventurous Portfolio	8.86	14.16	23.59	53.07	59.71
ARC Sterling Balanced PCI	6.83	9.90	16.61	37.89	40.84
Speculative Portfolio	10.89	16.84	25.65	60.42	70.42
ARC Sterling Steady Growth PCI	9.11	13.41	20.60	48.57	63.24

* Launch date 1 January 2008 except speculative model AA 10 launched 1 September 2009. All data to 5 October 2016.
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	9.44	10.27	27.46	84.32	104.03
UT UK Equity Income Sector	11.63	10.04	24.86	78.94	94.18
UK All Companies	16.44	14.70	23.22	73.71	86.01
UK Dynamic	8.70	11.47	39.77	106.00	115.86
UT UK Equity All Companies Sector	12.94	10.75	22.15	78.69	85.50
Global Established	22.56	28.83	51.79	118.91	129.08
Global Established Benchmark **	17.13	25.59	45.82	116.03	123.6
Global Speculative	29.56	34.66	35.09	65.14	63.64
UT Global Emerging Mkts Sector	27.06	37.09	22.25	49.43	58.82
Cautious Equity Mix	17.94	19.80	33.37	87.82	101.20
Cautious Equity Benchmark ***	14.66	15.31	27.64	82.08	90.84
Balanced Equity Mix	18.07	21.02	37.80	93.76	103.66
Balanced Equity Benchmark ***	16.13	18.67	31.67	88.11	95.74
Adventurous Equity Mix	19.06	23.16	38.14	90.58	100.32
Adventurous Equity Benchmark ***	17.46	20.92	31.49	85.44	92.05
Alternative Equity	-0.35	1.13	15.16	53.68	59.07
UT Mixed Asset 20-60% Shares	9.05	11.67	19.16	42.44	53.86
Fixed Interest Portfolio	9.00	8.77	15.62	42.91	67.16
UT Sterling Corp Bond Sector	8.21	11.18	21.91	40.42	65.90
Property Portfolio	-2.46	-0.47	21.70	25.56	46.41
Composite Property Benchmark ****	-3.92	-1.98	20.05	22.59	46.84

* 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)	17.87	16.10	21.70	65.95
FTSE All Share Index (UK)	16.51	14.84	23.57	73.46
FTSE 250 Index (UK Mid Cap)	10.78	9.31	32.81	118.03
MSCI Europe Ex UK Index	16.98	18.82	25.44	82.73
S&P 500 Index (USA)	18.04	31.50	68.49	146.42
Topix (Japan)	27.10	30.31	45.75	85.36
MSCI Emerging Markets Index	26.91	35.89	23.12	49.86

Fixed Interest

	6 Months %	1 Year %	3 Years %	5 Years %
IBOXX Sterling Corporate Bond Index	10.44	15.34	29.08	57.05
UT Sterling Corporate Bond Sector	8.21	11.18	21.91	40.42
FTSE British Government Allstocks (Gilt) Index	7.90	12.50	28.44	33.37
UT Gilt Sector	9.12	13.39	29.53	33.47
UT Sterling High Yield Sector	6.73	8.69	12.74	46.09

Property

	6 Months %	1 Year %	3 Years %	5 Years %
IPD UK All Property Index	-1.27	2.89	42.25	56.70
Composite Property Benchmark*	-3.92	-1.98	20.05	22.59

Other Measures

	6 Months %	1 Year %	3 Years %	5 Years %
Bank of England Base Rate	0.21	0.46	1.47	2.48
RPI Inflation	1.46	2.04	5.16	11.35

* 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 2016.
- 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 in which you are invested. We will also provide personalised performance information at your regular reviews.

Ideal funds

Portfolio	Fund Name	Initial Charge %	Annual Management Charge %	Ongoing Charges Figure %
Liquidity	Cash	0.00	0.00	0.00
Fixed Interest	BlackRock Corporate Bond Tracker	0.00	0.15	0.17
	Jupiter Strategic Bond	0.00	0.50	0.73
	Royal London Extra Yield Bond	0.00	0.75	0.85
	TwentyFour Dynamic Bond	0.00	0.75	0.81
	L&G All Stocks Index Linked Gilt Index	0.50	0.15	0.15
Property	Kames Property Income	0.00	0.75	0.90
Alternative Equity	H2O Multi-returns	0.00	1.00	1.00
	Odey Absolute Return	0.00	0.75	0.92
	Invesco GTR	0.00	0.87	0.87
	Old Mutual GEAR	0.00	0.75	0.85
Defined Returns	Barclays FTSE Autocall Nov 2014	0.15	0.00	0.00
	Credit Suisse FTSE Autocall June 2015	0.15	0.00	0.00
	Société Générale FTSE Autocall July 2016	0.15	0.00	0.00
Equity - UK Conservative	Royal London UK Equity Income	0.00	0.62	0.67
	Miton UK Multi Cap Income	0.00	0.75	0.82
	Woodford Equity Income	0.00	0.75	0.75
Equity - UK All Companies	Vanguard FTSE All Share Index	0.20	0.08	0.08
Equity - UK Dynamic	Lindsell Train UK Equity	0.00	0.65	0.77
	Miton UK Value Opportunities	0.00	0.75	0.87
	Marlborough Special Sits	0.00	0.75	0.80
Equity - Global Established	Baillie Gifford Japanese Co.	0.20	0.65	0.68
	BlackRock European Dynamic	0.00	0.75	0.93
	JPM US Equity Income	0.00	0.75	0.93
	Schroder Tokyo	0.00	0.75	0.92
	Vanguard US Equity Index	0.00	0.10	0.10
Equity - Global Speculative	Invesco Hong Kong and China	0.00	0.94	0.94
	Schroder Asian Alpha	0.00	0.75	0.96

These are the funds in our standard portfolios at 5 October 2016. These will change periodically and have not all been held throughout the period covered by this document.

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- North East Cheshire Business Excellence in Customer Service Award 2015

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