Preferred

Investment Market Review & Outlook

Issue 4 - 2016

We are pleased to provide you with our latest Investment Market Review.

The very first impressions of what a post-EU-referendum Britain will look like have emerged, but the route to 'leave' and the terms of our future relationship with the European Union remain unclear. National data shows that the effect so far has not been huge for the most part, but fresh warnings from international trading partners have been regular since the vote.

Investment Committee

Mark Denley	Craig Hilton	David Ellis	Michael Bretherick	Simon Rees	Tom Sparke	Barry Lee	Jeff Elliott

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The Gibbs Denley Charity of the Year 2016

Stock markets have risen almost without exception since our last Market Review & Outlook and bond markets have followed suit for the most part. Much of this movement may have been a 'relief rally' as the initial fall-out from the referendum was not as bad as many had feared. However, a generally positive earnings season from companies globally has also increased positive feelings.

Market Review & Outlook – October 2016

2016	RPI (%)	CPI (%)	Unemployment (%)	GDP Growth (%)*
April	1.3	0.3	5	
May	1.4	0.3	4.9	Q2 +0.7
June	1.6	0.5	4.9	
July	1.6	0.6	4.9	
August	1.9	0.6	-	Q3 +0.1†
September	-	-	-	

**Based on percentage change on previous quarter   †British Chambers of Commerce Estimate, 2016*

Economy

Investors' attention turned to potential US interest rate increases and as no change was announced in September, a rise in December is now expected. Recent strong economic data has been supportive of a further move in rates but the Federal Reserve is unlikely to enact any change prior to the Presidential Election in November.

The Bank of England reduced the UK's base rate to 0.25% in August and announced the expansion of its quantitative easing (QE) programme. The latest development is that the Bank of England will be purchasing £10bn of bonds issued by private companies (in addition to their existing government bond purchases) in the UK and globally, providing that they provide a material contribution to the UK economy.

Evidence of burgeoning inflation has started to appear, with fuel being the most significant contributor to Consumer Price Index (CPI) figures in August. Oil was weaker last year and this will be evident in year-on-year inflation figures as its sharp fall will start to impact them. An element of wage growth may also be a factor in the coming months, though early signs indicate that this may ease as businesses hold off from hiring among post-referendum uncertainty.

The fall in Sterling will inevitably increase import prices, leading to further inflation, but the currency has experienced only modest declines and some gains against both the US dollar and the Euro over the last quarter. Sterling was boosted by better corporate confidence data, after an initial shock in July, and the UK Purchasing Managers Index (the survey of intended spending by companies) showed a resurgence in August.

In Japan, the central bank moved to tackle deflation by introducing a 'cap' on 10-year government bonds (to maintain their level at around a 0% yield) and pledged to keep their asset-purchasing plan (currently ¥80trn sovereign bonds a year) going for as long as necessary to "overshoot" their 2% inflation goal.

What does this mean for your investments?

Fixed Interest

After achieving returns of over 15% this year, UK Government bonds (gilts) wavered this quarter, giving back nearly 4% on fears of interest rate increases, which are normally negative for bonds, especially low-yielding, long-dated issues.

We do not anticipate a significantly more difficult environment for bonds as interest rates will rise only very gradually and the demand for these assets remains very high. The Bank of England has now started buying corporate bonds (in addition to the gilts it was already accumulating), so further support is already evident.

Higher yielding bonds did well over the quarter and especially those based in emerging markets where opportunities for well-priced, higher income bonds look intriguing. Our holdings in more speculative fixed income instruments added well to portfolios over this period and we anticipate these being important to our portfolios in the foreseeable future.

Our moves this year into lower-risk fixed income funds has helped to smooth the performance of a large portion of our models and keep volatility low.

Equities

In July, large internationally-focused UK-based companies boosted the FTSE 100 after Sterling fell around 10% post-referendum and positive earnings and economic data pushed the US indices higher too.

The biggest winners from the referendum outcome were companies with overseas earnings (which benefitted from the plunge in Sterling). These continued to do well, but their mid-sized counterparts, who were hit harder in the Summer, have also recovered of late.

In the US, positive economic data helped to push markets to new highs again over the quarter and it looks likely that these figures will continue to be supportive in this election year. If history is a guide, we look to the statistic that over the last 22 US presidential election cycles, in the three months leading up to an election, a rising market predicted a win for the incumbent party. Irrespective of the outcome of the election in November, we anticipate a recession in the US within 3 or 4 years but expansion is still strong in the short to medium term.

Equities in Asia and Emerging Markets progressed well over the last three months, with our relevant funds adding more than most by posting a second consecutive quarter of good growth. These markets are attracting both equity and bond investors as they generally lack the premium demanded by developed markets, are of (selectively) high quality, and often yield generously.

Our Japanese assets rallied strongly in July and into August but our Yen-hedge held us back from participating in all of the growth. We anticipate better prospects for these assets outside of the domestic currency as the Bank of Japan continues its programme of asset purchasing and loose monetary policy.

We remain comfortable with the significantly reduced levels of equity risk in most portfolios and our models have protected well in rocky periods, even though this is at the expense of capturing limited upside. We would reiterate that that we will not rush to re-allocate to higher risk assets until we deem this appropriate and we believe that markets may be underestimating risk at this time.

Property

As we alluded to in August, our concerns in holding commercial property have centred around the 'liquidity', or ability to buy and sell at the appropriated market price and this manifested itself in the temporary suspension of some property funds. The managers prohibit dealing in these funds when potential redemptions are high (such as post-referendum) to give them time to sell some assets and raise the required capital.

We have heard from all of our property asset managers that valuations have not collapsed and that sales have been at or above pre-referendum valuations. This is partly boosted by overseas buyers attracted to UK real estate by the weaker Sterling, which has been making these assets 8-10% cheaper in other currencies.

The relevant funds have either re-opened or are opening imminently and we continue to view these as long-term assets and for as long as the risk they carry is not elevated, they should remain valuable income-producers and diversifiers for portfolios.

Commodities

The price of gold has surged of late, growing to a total that is now over 40% higher than at the start of this year. Gold miners have benefitted greatly from this rise and the path for these companies may be even more constructive as traditional risk assets move to higher and higher valuations and precious metals appeal as an alternative.

Oil moderated over the quarter, falling sharply in July on supply glut fears but recovering in August. It is perhaps no coincidence that the main beneficiaries of lower oil prices, most notably India, have been even more positive since the falls of last year.

Continued over.

Conclusion & Outlook

There is undoubtedly some fear and reluctance to take on risk surrounding the UK following the referendum, but the material consequences will likely not be evident until agreements are made, action is taken and the world knows the relationship the UK will have with Europe in the future. Unfortunately this does not look likely to be determined in the near-term. In addition to this domestic uncertainty there are numerous other critical events yet to unfold, these include the US election and interest rates (likely to rise in December), potential European political changes (driven by the rising popularity of more extreme parties), the volatile price of oil and unprecedented central bank policies, to name a few.

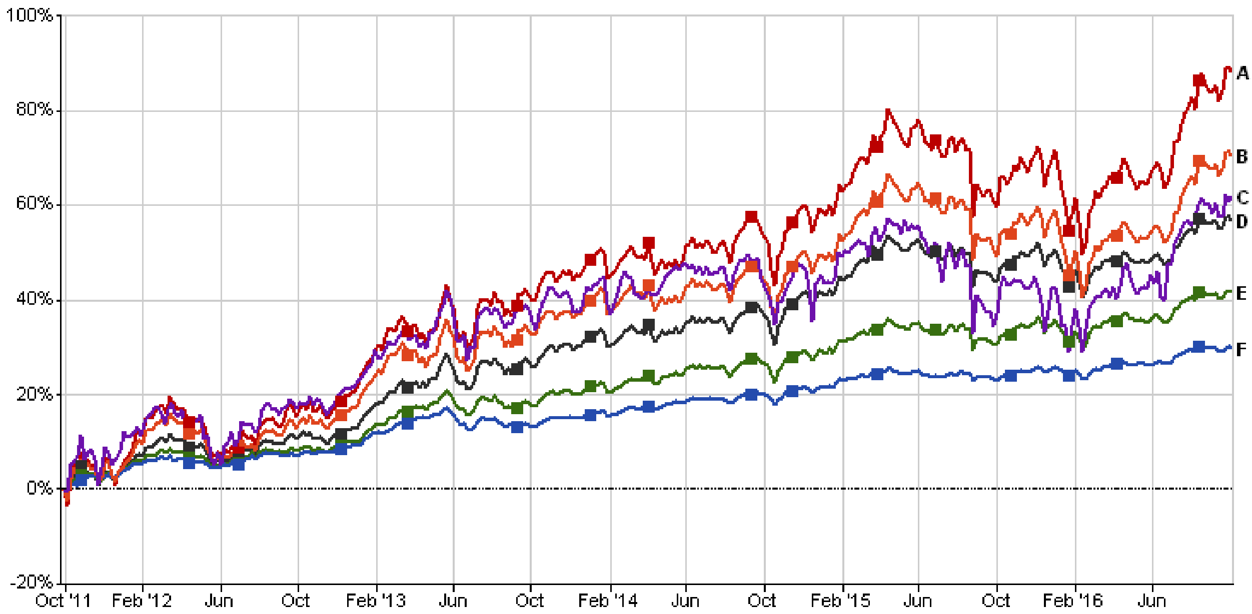
We have designed our portfolios not to be reliant on the fate of any single event or factor and we have elevated levels of assets that do not require significant equity or bond returns in order to perform. Ahead of our quarterly meeting, we remain vigilant to the appropriate time to take higher conviction risk positions but we feel that our prudent approach will be successful in traversing a potentially perilous period into the year's end.

In the near future, we will begin offering a Discretionary Fund Management (DFM) option to our customers. This will not affect the allocation of funds within our models, but will allow us to make timely changes that fit your risk profile without requesting your authorisation every time. This will only affect those customers who opt in to the service.

As ever, please feel free to contact us if you have any queries about how we manage your investments.

Gibbs Denley Investment Committee
October 2016

Five-Year Performance of Gibbs Denley Investment Models



- A - GD Aggressive 11/08/2016 TR in GB [88.14%]
- B - GD Moderately Aggressive 11/08/2016 TR in GB [70.42%]
- C - FTSE 100 TR in GB [61.98%]
- D - GD Balanced 11/08/2016 TR in GB [56.86%]
- E - GD Conservative 11/08/2016 TR in GB [41.54%]
- F - GD Cautious 11/08/2016 TR in GB [29.84%]

30/09/2011 - 30/09/2016 Data from FE 2016

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