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INVESTMENT COMMITTEE PACK

15th January 2019

BLACKWOOD
ASSET MANAGEMENT

Attendees: MTR / RWF / SCG / SMG / TS / AR / AJ

PURPOSE:

This meeting performs part of BLACKWOOD's due diligence in ensuring the model portfolios continue to meet their investment objectives.

The aim of the meeting is to enable BLACKWOOD to:

- discuss the main drivers of the markets and our sentiment on the different asset classes
- to review the model portfolios
- to discuss and decide on a course of action based on the preceding discussions detailing what needs to be done, by whom and by when

DATA SOURCE: Blackwood Asset Management, Bloomberg (unless otherwise stated).

MACRO OVERVIEW

The period leading up to the financial crisis saw an artificial boost to global productivity as western technology met the excess labour and resources of the developing world. This has now ended. A combination of aging demographics, and a lack of transformative innovations mean that productivity growth is below historic levels and will remain that way.

Given that, in the long run, productivity growth is the driver of economic growth (nominal GDP) this means that we are not going to be seeing interest rates rising to historic levels. Central bankers will be constrained in raising interest rates as any movement upwards in rates will act to stymie the low levels of GDP growth present. As a result interest rates will remain at 'zero' forever with low levels of inflation persisting.

This has important implications for the allocation of capital within the global economy. Interest rates are the pricing mechanism for an economy's capital stock. Low levels of interest rates keep so called "zombie" companies, which offer negative returns on capital, alive. This prevents the capitalist process of creative destruction that allows capital to be re-allocated to those tasks that generate the highest returns, in turn creating a self-reinforcing cycle of diminished productivity growth.

From the point of view of investors this means we cannot expect future returns to match those witnessed historically, and must remain aware of the increased risk, and opportunities, generated from the market inefficiencies caused by the misallocation of capital.

TACTICAL OVERVIEW

The 4th quarter of 2018 saw global equity markets decline by (13.9%). The decline was in response to the trade tensions between the US and China, with market participants becoming increasingly risk averse. In the UK, equity markets have also been impacted by the uncertainties surrounding BREXIT. We do not believe this is a harbinger of the next stock market crash and we deployed the cash reserves we had built up when equity markets were at or around their record highs.

UK equity

We are overweight UK equities. Three quarters of the earnings generated by FTSE100 companies is from overseas, however, concerns over BREXIT have led to UK equity markets being undervalued compared to both overseas markets and by historic standards.

Emerging Markets equity

Emerging Markets have underperformed developed equities over the last 8 years and the trade war between the US and China led Emerging Markets to decline by (16.6%) in 2018. We had been avoiding any Emerging Market exposure during this long period of underperformance, however, following such a steep decline we consider them to now be offering good value. We have therefore been building an exposure to Emerging Markets within the models.

US equity

The world's largest stock market is expensive by historical standards. This has led us to maintain an underweight exposure to these assets.

TACTICAL OVERVIEW

Japanese equity

Japan has spent the last two decades dealing with the debt overhang from the asset price bubble of the late 80s early 90s, but is now beginning to emerge. Corporate governance is being reformed (the number of corporate scandals such as at Toyota and Mitsubishi have been falling) and corporate earnings are on the rise as companies traditionally run to be profitless are forced to take account of shareholders. We do not expect the reforms to be a quick process, but based on the progress seen to date we are comfortable taking a larger allocation to Japanese equity.

debt

The historically high levels of corporate debt lead us to remain negative on high yield and corporate debt. The model portfolio exposure is focused on high quality sovereign debt and asset backed securities.

gold

Gold provides an alternative asset exposure that has historically been proven to have a negative correlation to equities during periods of deep stress. This has proven to be the case during the 4th quarter of 2018 when the price of gold rose 7.5%, albeit from a relative low point over the last 12 months.

alternative asset classes

We continue to avoid other alternative investments such as hedge funds, VCTs and private equity funds. We do not consider the potential returns on these assets to be sufficient to offset the risks and costs involved with the investments.

TACTICAL ASSET ALLOCATION

As noted at the time of the last meeting the market declines in Q4 2018 provided us with the opportunity to deploy cash into the areas where we see particularly good value, namely the U.K. and Emerging market equities.

The model portfolios currently have a cash position closely aligned with the Strategic Asset Allocations and the models have a 5% overweighting to UK equity.

We remain underweight alternative investments as we continue to avoid hedge funds, VCTs and private equity funds.

The Tactical Asset Allocations, and their variance from the Strategic Asset Allocation can be seen in the tables on the right hand side.

SAA	3	4	5	6	7
cash	3.0%	3.0%	3.0%	3.0%	3.0%
debt	70.0%	50.0%	31.0%	13.0%	
equity	18.0%	33.0%	48.0%	65.0%	97.0%
property	4.0%	4.0%	4.0%	4.0%	
alternatives	5.0%	10.0%	14.0%	15.0%	

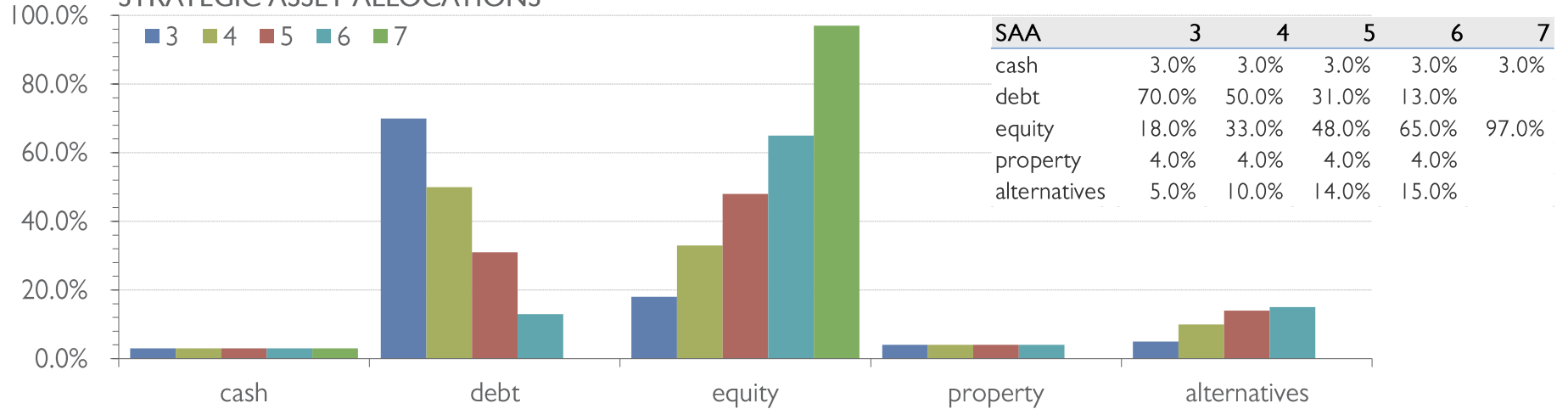
TAA	3	4	5	6	7
cash	5.0%	5.0%	4.0%	3.0%	3.0%
debt	66.0%	48.0%	32.0%	15.0%	
equity	23.0%	38.0%	53.0%	70.0%	97.0%
property	4.0%	4.0%	4.0%	4.0%	
alternatives	2.0%	5.0%	7.0%	8.0%	

VARIANCE	3	4	5	6	7
cash	2.0%	2.0%	1.0%	0.0%	0.0%
debt	(4.0%)	(2.0%)	1.0%	2.0%	0.0%
equity	5.0%	5.0%	5.0%	5.0%	0.0%
property	0.0%	0.0%	0.0%	0.0%	0.0%
alternatives	(3.0%)	(5.0%)	(7.0%)	(7.0%)	0.0%

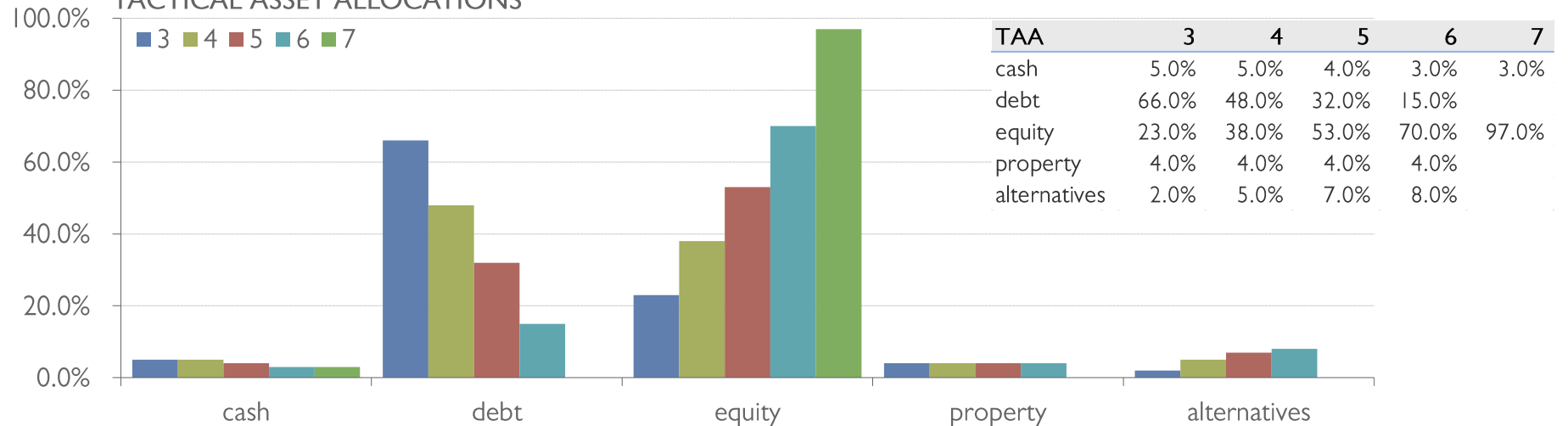
note: the variance from the SAAs is capped at $\pm 10\%$

BLACKWOOD MODELS

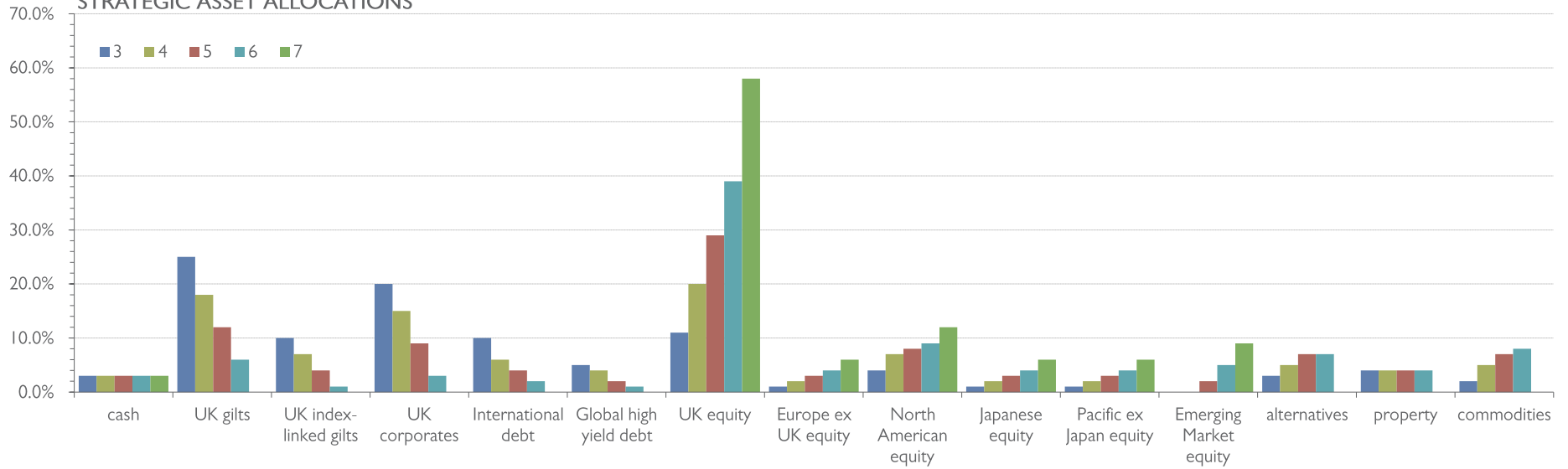
STRATEGIC ASSET ALLOCATIONS



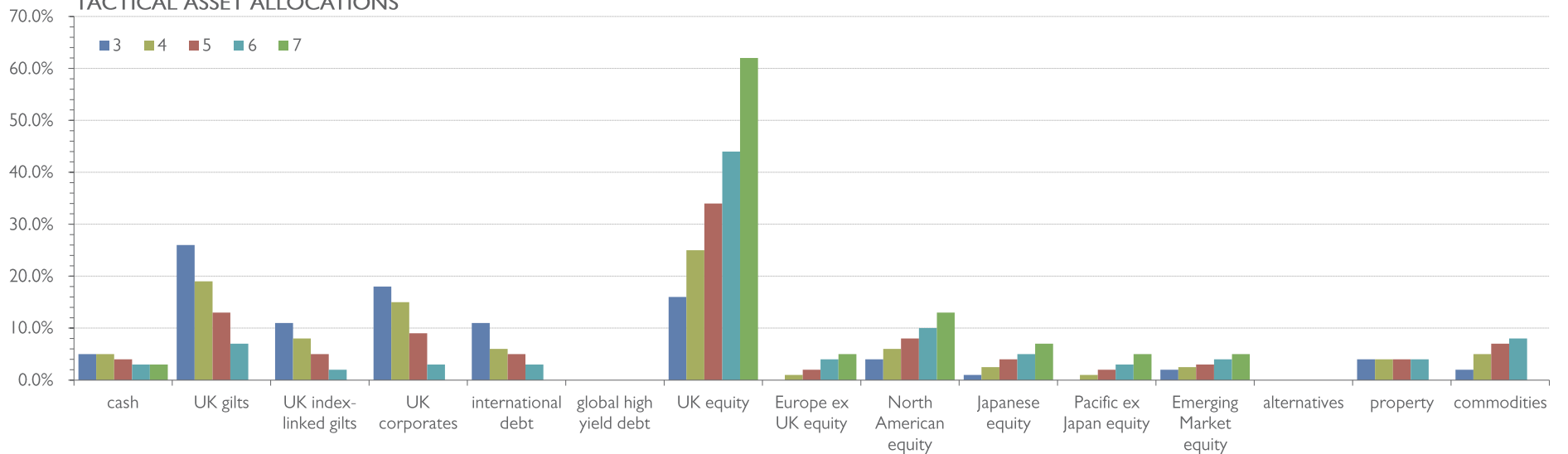
TACTICAL ASSET ALLOCATIONS



STRATEGIC ASSET ALLOCATIONS

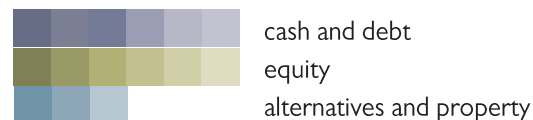
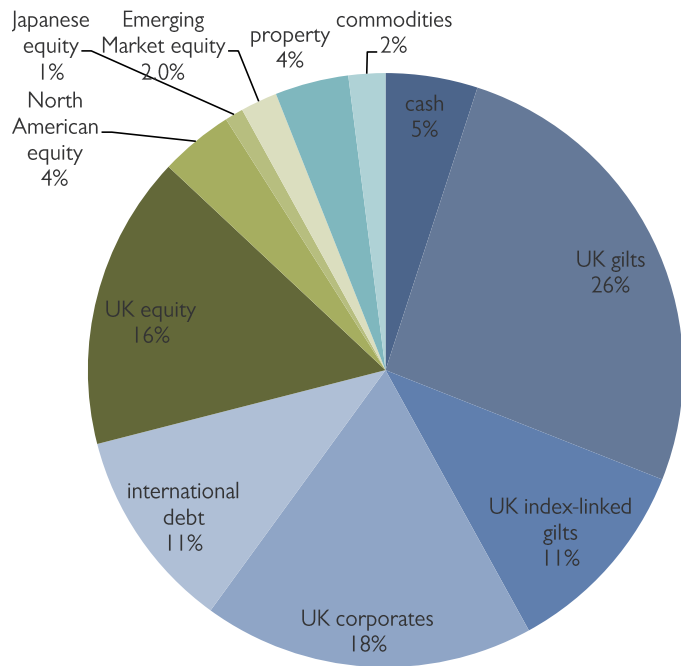


TACTICAL ASSET ALLOCATIONS



BLACKWOOD MODEL 3 TACTICAL ASSET ALLOCATION

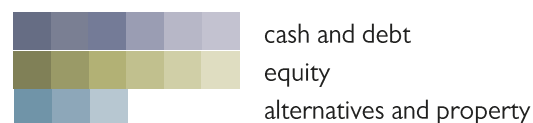
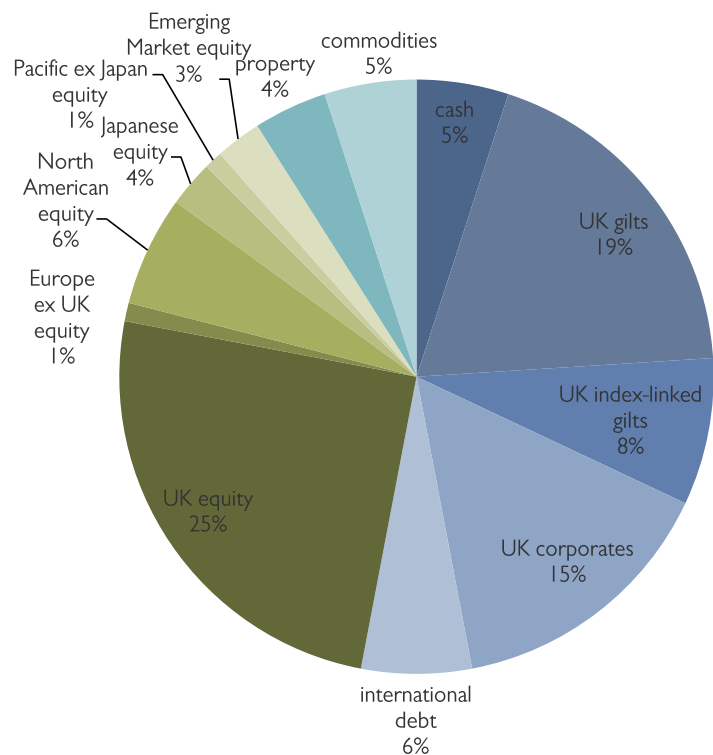
number of holdings 12
total cost of investment 0.76%



asset class	fund holding	% total
cash		5.0%
cash	sterling	5.0%
bonds		66.0%
UK gilts	Vanguard U.K. Government Bond	26.0%
UK gilts	L&G All Stocks Index-Linked Gilt	11.0%
UK corporates	Vanguard UK Investment Grade Bond	18.0%
international bonds	TwentyFour Dynamic Bond	5.5%
international bonds	TwentyFour Monument Bond	5.5%
equity		23.0%
UK equity	iShares 100 UK Equity	11.2%
UK equity	SORBUS VECTOR	4.8%
North American equity	Vanguard U.S. Equity	4.0%
Japanese equity	iShares Japan Equity	1.0%
Emerging Market equity	Vanguard Emerging Markets	2.0%
alternatives		2.0%
commodities	Investec Global Gold	2.0%
property		4.0%
property	iShares Global Property Securities Equity	4.0%

BLACKWOOD MODEL 4 TACTICAL ASSET ALLOCATION

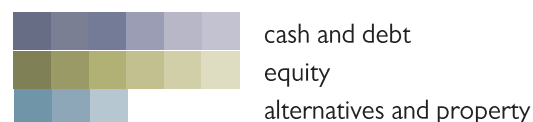
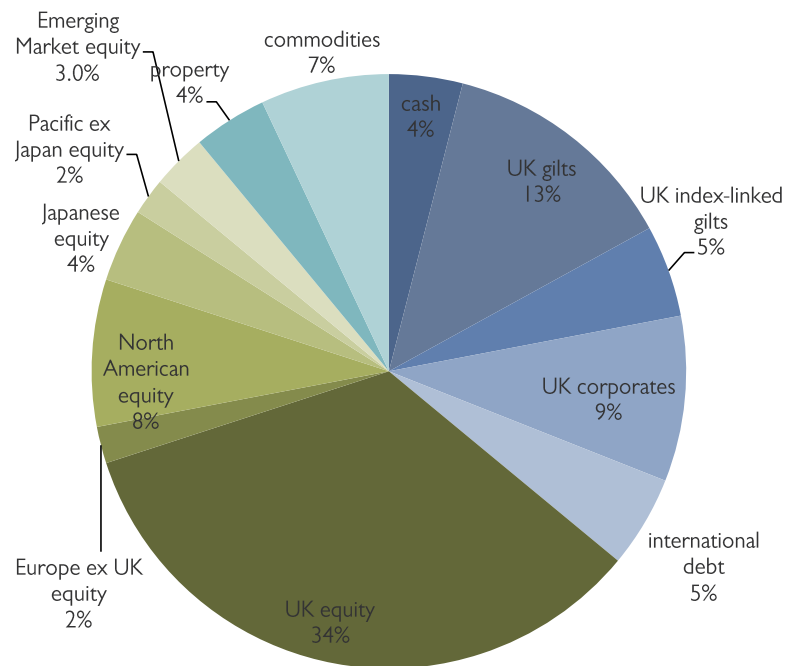
number of holdings 15
total cost of investment 0.87%



asset class	fund holding	% total
cash		5.0%
cash	sterling	5.0%
bonds		48.0%
UK gilts	Vanguard U.K. Government Bond	19.0%
UK gilts	L&G All Stocks Index-Linked Gilt	8.0%
UK corporates	Vanguard UK Investment Grade Bond	15.0%
international bonds	TwentyFour Dynamic Bond	3.0%
international bonds	TwentyFour Monument Bond	3.0%
equity		38.0%
UK equity	iShares 100 UK Equity	17.5%
UK equity	SORBUS VECTOR	7.5%
Europe ex UK equity	Vanguard FTSE Developed Europe ex UK Equity	1.0%
North American equity	Vanguard U.S. Equity	6.0%
Japanese equity	iShares Japan Equity	2.5%
Pacific ex Japan equity	Invesco Perpetual Asian Z	0.5%
Pacific ex Japan equity	Stewart Investors Asia Pacific Leaders B	0.5%
Emerging Market equity	Vanguard Emerging Markets	2.5%
alternatives		5.0%
commodities	Investec Global Gold	5.0%
property		4.0%
property	iShares Global Property Securities Equity	4.0%

BLACKWOOD MODEL 5 TACTICAL ASSET ALLOCATION

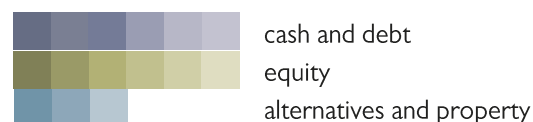
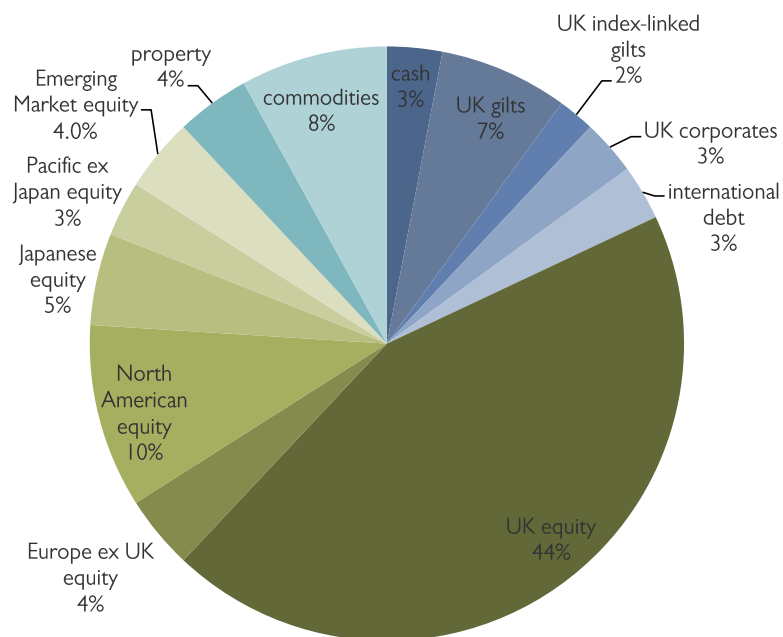
number of holdings 15
total cost of investment 0.99%



asset class	fund holding	% total
cash		4.0%
cash	sterling	4.0%
bonds		32.0%
UK gilts	Vanguard U.K. Government Bond	13.0%
UK gilts	L&G All Stocks Index-Linked Gilt	5.0%
UK corporates	Vanguard UK Investment Grade Bond	9.0%
international bonds	TwentyFour Dynamic Bond	2.5%
international bonds	TwentyFour Monument Bond	2.5%
equity		53.0%
UK equity	iShares 100 UK Equity	24.0%
UK equity	SORBUS VECTOR	10.0%
Europe ex UK equity	Vanguard FTSE Developed Europe ex UK Equity	2.0%
North American equity	Vanguard U.S. Equity	8.0%
Japanese equity	iShares Japan Equity	4.0%
Pacific ex Japan equity	Invesco Perpetual Asian Z	1.0%
Pacific ex Japan equity	Stewart Investors Asia Pacific Leaders B	1.0%
Emerging Market equity	Vanguard Emerging Markets	3.0%
alternatives		7.0%
commodities	Investec Global Gold	7.0%
property		4.0%
property	iShares Global Property Securities Equity	4.0%

BLACKWOOD MODEL 6 TACTICAL ASSET ALLOCATION

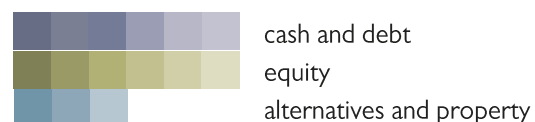
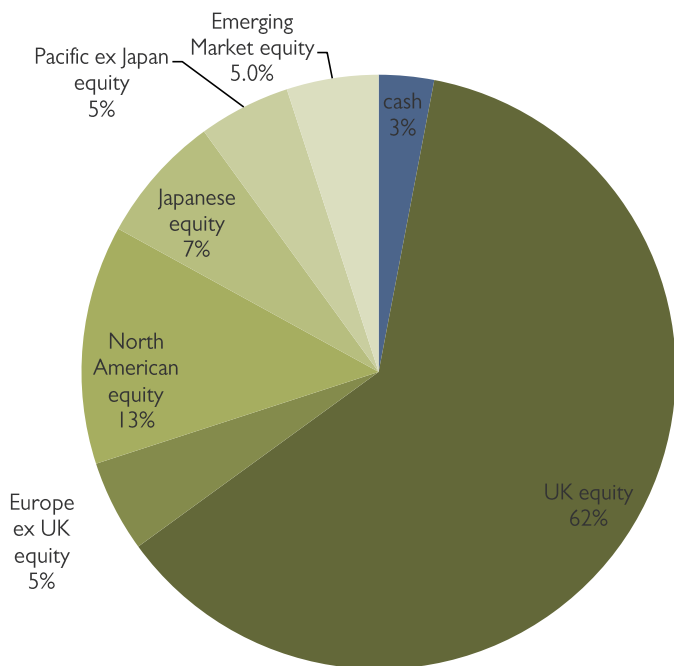
number of holdings 15
total cost of investment 1.0%



asset class	fund holding	% total
cash		3.0%
cash	sterling	3.0%
bonds		15.0%
UK gilts	Vanguard U.K. Government Bond	7.0%
UK gilts	L&G All Stocks Index-Linked Gilt	2.0%
UK corporates	Vanguard UK Investment Grade Bond	3.0%
international bonds	TwentyFour Dynamic Bond	1.5%
international bonds	TwentyFour Monument Bond	1.5%
equity		70.0%
UK equity	iShares 100 UK Equity	34.0%
UK equity	SORBUS VECTOR	10.0%
Europe ex UK equity	Vanguard FTSE Developed Europe ex UK Equity	4.0%
North American equity	Vanguard U.S. Equity	10.0%
Japanese equity	iShares Japan Equity	5.0%
Pacific ex Japan equity	Invesco Perpetual Asian Z	1.5%
Pacific ex Japan equity	Stewart Investors Asia Pacific Leaders B	1.5%
Emerging Market equity	Vanguard Emerging Markets	4.0%
alternatives		8.0%
commodities	Investec Global Gold	8.0%
property		4.0%
property	iShares Global Property Securities Equity	4.0%

BLACKWOOD MODEL 7 TACTICAL ASSET ALLOCATION

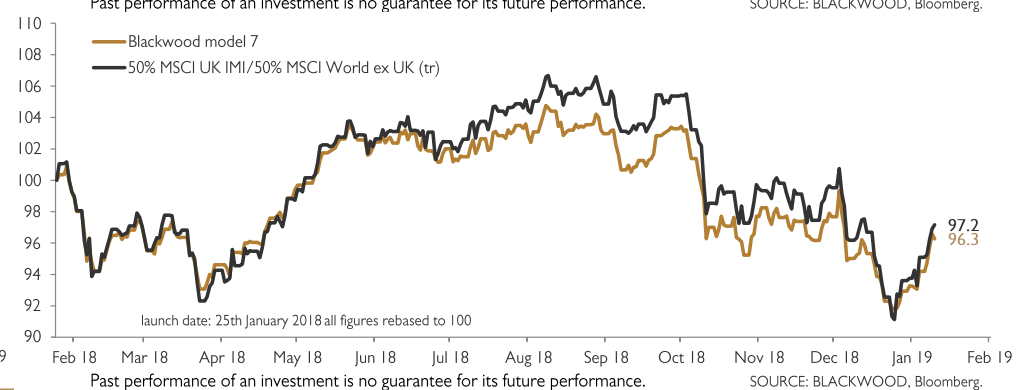
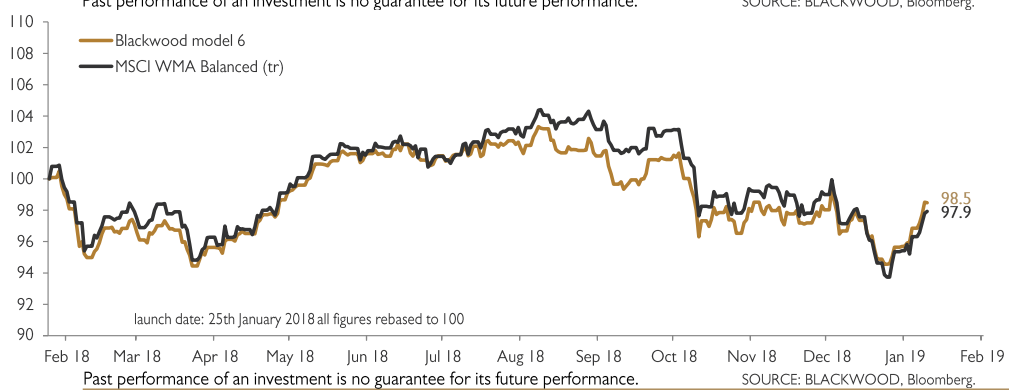
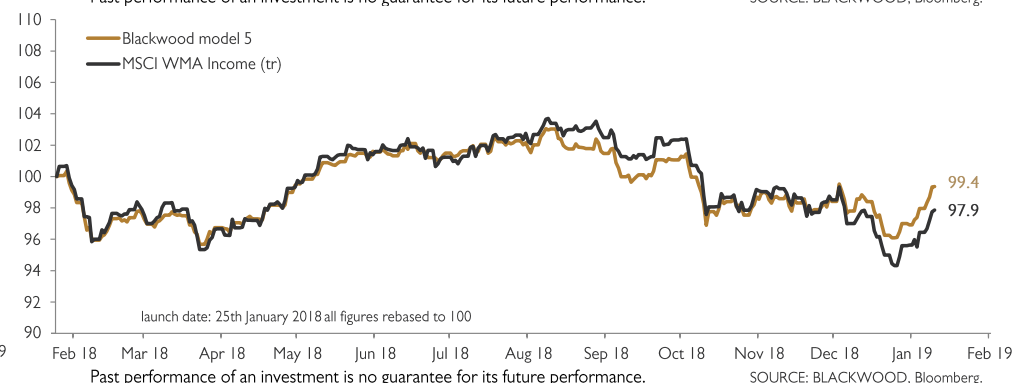
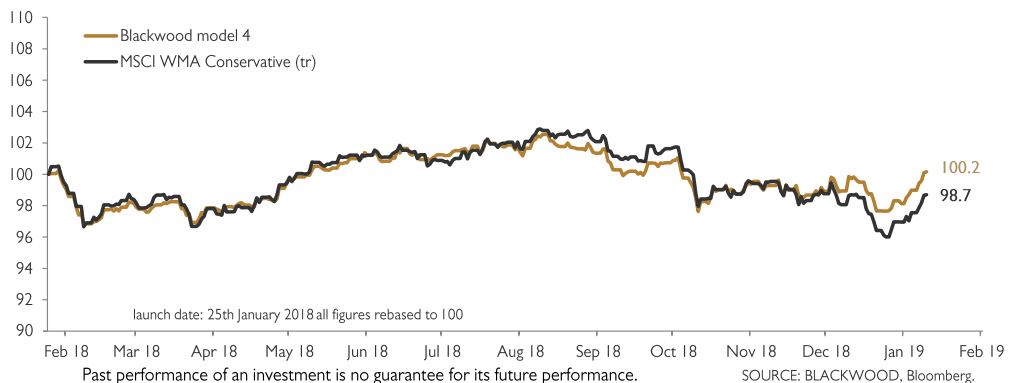
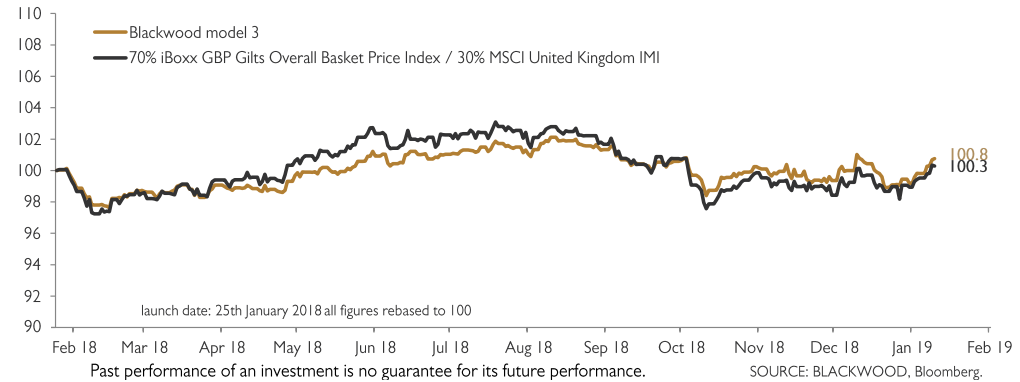
number of holdings 8
total cost of investment 0.83%



asset class	fund holding	% total
cash		3.0%
cash	sterling	3.0%
equity		97.0%
UK equity	iShares 100 UK Equity	52.0%
UK equity	SORBUS VECTOR	10.0%
Europe ex UK equity	Vanguard FTSE Developed Europe ex UK Equity	5.0%
North American equity	Vanguard U.S. Equity	13.0%
Japanese equity	iShares Japan Equity	7.0%
Pacific ex Japan equity	Invesco Perpetual Asian Z	2.5%
Pacific ex Japan equity	Stewart Investors Asia Pacific Leaders B	2.5%
Emerging Market equity	Vanguard Emerging Markets	5.0%

PERFORMANCE SINCE LAUNCH (as at 10/01/2019)

model	model performance		
	1 month	3 months	inception
3	(0.3%)	1.8%	0.8%
4	0.3%	1.7%	0.2%
5	0.8%	1.1%	(0.6%)
6	1.2%	0.5%	(1.5%)
7	1.1%	(2.7%)	(3.7%)



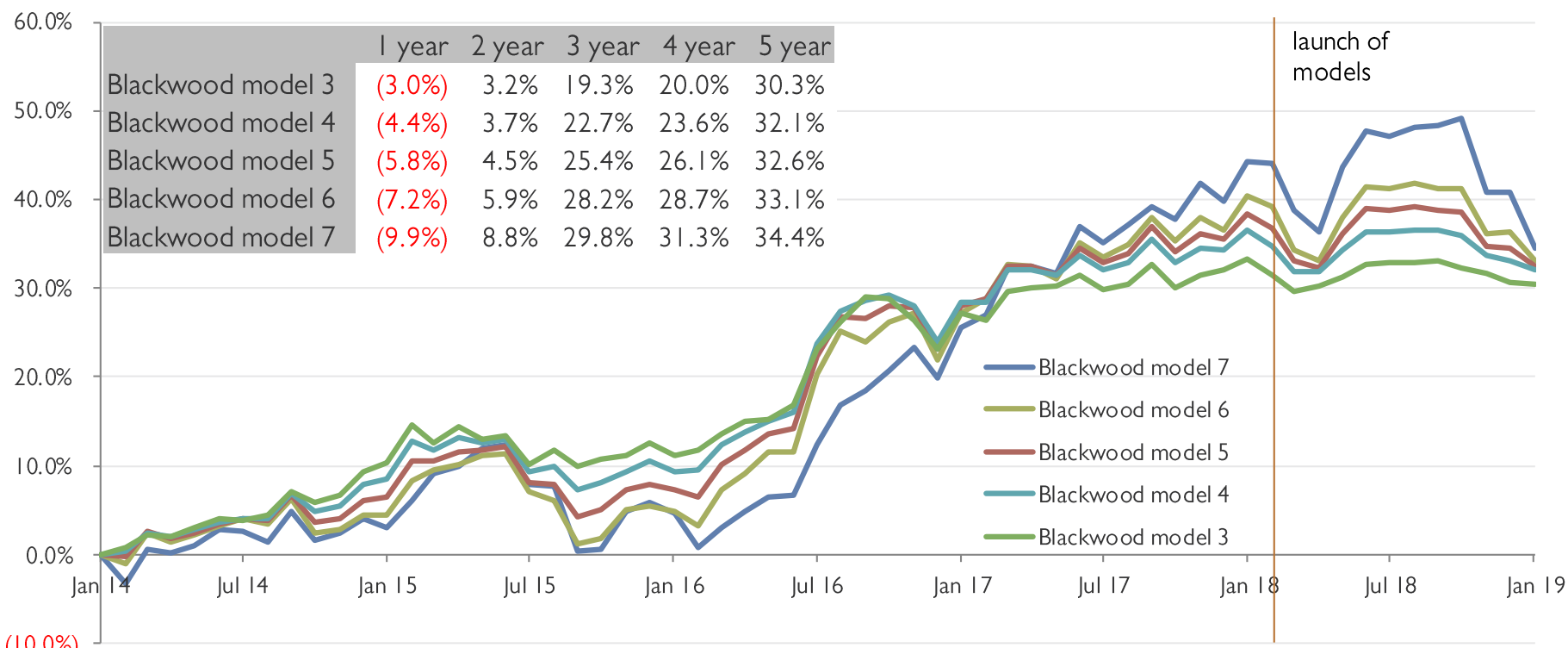
PERFORMANCE VERSUS BENCHMARK AND TATTON

The below table covers the period of 25/01/2018 to 10/01/2019.

BAM model	Blackwood	benchmark	Tatton
3	0.8%	0.3%	(0.1%)
4	0.2%	(1.3%)	(2.0%)
5	(0.6%)	(2.1%)	(3.1%)
6	(1.5%)	(2.1%)	(4.4%)
7	(3.7%)	(2.8%)	(5.4%)

Source: Blackwood Asset Management, Bloomberg, Morningstar (Tatton).

5 YEAR PERFORMANCE OF BLACKWOOD MODELS (BACKDATED)



period: 1st January 2013 to 1st January 2019

note: all figures are gross of DFM fees but net of fund manager charges

Performance figures prior to the launch of the models on the 25/01/2018 have been derived based on the underlying index returns of the funds currently constituting the models and the strategic (long term) asset allocation for each model. Past returns are not a guide to future performance and this graph is not intended to set expectations of the potential future returns on the models. It is intended solely to provide information on the historic variance in the returns of the models. The actual asset allocation of the models at any time and for an extended period of time may differ significantly from the strategic asset allocations, reflecting the dynamic investment and market conditions.

This is provided for information purposes only at your request and does not constitute a formal valuation. While we have used all best endeavours to ensure that the performance figures and/or the values in this report are correct, it has been produced manually and has not been independently validated and we take no responsibility for any loss you may suffer as a consequence of your relying upon the information in this document.

APPENDIX

FUND SELECTION

We structure our model portfolios almost entirely from passive funds. This reflects the evidence that actively managed funds cannot consistently beat the market (Cremers et al. 2014, Blake et al. 2015, S&P, 2014). This allows SORBUS to keep the underlying investment costs low and thus boosting the portfolio returns.

The occasions where SORBUS PARTNERS uses active funds represents a specialist market where markets are not efficient and an investment house is able to add value through their deeper understanding of market conditions.

active fund choices

bond funds

- TwentyFour Asset Management Monument bond fund
- TwentyFour Asset Management Dynamic bond fund

Asia pacific equity funds

- Invesco Perpetual Asian
- Stewart Investors Asia Pacific Leaders

ACTIVELY MANAGED FUNDS

TWENTYFOUR ASSET MANAGEMENT

TwentyFour asset management is a fixed income specialist that provides two of the externally active managed funds that the model portfolios invest in. They operate in niche market areas that offer benefits of diversification to client portfolios.

Monument Bond Fund

This is a low risk bond fund that invests in a selection of floating rate asset backed securities (largely mortgage backed). The investments are plain vanilla (not a repeat of the subprime versions from 2008). As the fund invests in floating rate securities it naturally provides a degree of protection from rising interest rates.

Dynamic Bond Fund

This fund is higher risk than the Monument fund. It operates on an unconstrained basis. It aims to provide an attractive level of income along with the opportunity for capital growth, by investing in a broad range of bonds and fixed income assets, including investment grade bonds, high yield bonds, government bonds and asset-backed securities.

ASIA PACIFIC EQUITY FUNDS

The Asia Pacific region (ex. Japan) is an example of an inefficient market. Both fund selection choices have a strong track record of outperformance against their peer group and against the FTSE Asia Pacific ex Japan indices.

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