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INVESTMENT COMMITTEE PACK

9th April 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%) predominantly in response to geo-political factors; the trade tensions between the US and China and BREXIT to the fore, with market participants becoming increasingly risk averse. We believe investors should look through these issues and remain focused on valuations. We had built up considerable cash reserves before this set-back and used them to rebuild our equity market positions.

In Q1 2019 we have made a further changes to the models, though these have largely been within assets classes rather than between them. We purchased further Emerging Markets equities, which was funded through a disposal of European stocks and a slight reduction in UK gilt exposure. Although Emerging Markets have recovered half of the losses they suffered in 2018 so far this year (up 9.0% since we made our first investments) we still believe Emerging Markets to be relatively undervalued justifying the increase our exposure.

UK equity

In the UK, equity markets have been impacted by the seemingly unresolvable uncertainties surrounding BREXIT (though please refer to our note of 26th February). This represents a value opportunity and we are 9.0% 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 eight years and the trade war between the US and China led Emerging Markets to decline by (16.6%) in 2018. As noted above we consider them to now be offering good value and they have so far returned 9.0% since our first investments.

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

European equity

We have sold all the European equity exposure in the models. This was done to fund the further purchases of Emerging Market equity, where we see better value and fewer long term concerns.

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 – we're not chasing yields by trading down the quality of the issuer. With the compression of the UK gilt curve so far this year we have reduced the debt exposure, reinvesting the proceeds into equity.

gold

Gold provides an alternative asset exposure that has historically had a negative correlation to equities during periods of deep stress – it is an effective hedge against our equity positions. This proved 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 prior 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 these structures.

TACTICAL ASSET ALLOCATION

We deployed the cash reserves in the portfolio in Q4 2018, following the market falls. The model portfolios are currently fully invested:

Key highlights

- 9% overweighting to UK equity
- no exposure to European equity
- underweight US equity
- overweight Japan and Emerging Market equity
- underweight alternative investments (no exposure to 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%	

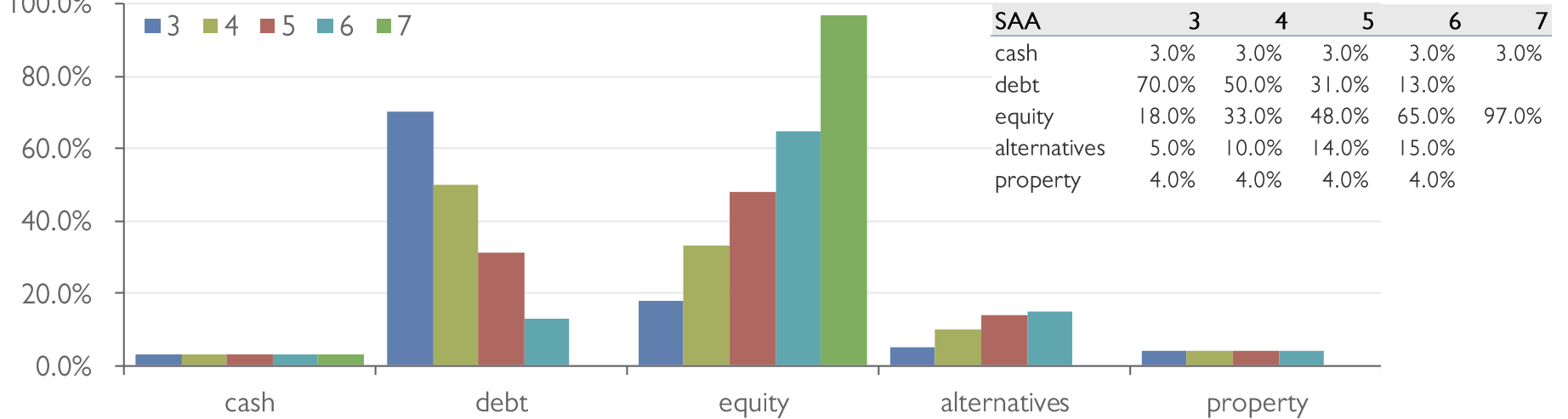
TAA	3	4	5	6	7
cash	3.0%	3.0%	3.0%	3.0%	3.0%
debt	64.0%	46.0%	29.0%	11.0%	
equity	27.0%	42.0%	57.0%	74.0%	97.0%
alternatives	2.0%	5.0%	7.0%	8.0%	
property	4.0%	4.0%	4.0%	4.0%	

VARIANCE	3	4	5	6	7
cash	0.0%	0.0%	0.0%	0.0%	0.0%
debt	(6.0%)	(4.0%)	(2.0%)	(2.0%)	0.0%
equity	9.0%	9.0%	9.0%	9.0%	0.0%
alternatives	(3.0%)	(5.0%)	(7.0%)	(7.0%)	0.0%
property	0.0%	0.0%	0.0%	0.0%	0.0%

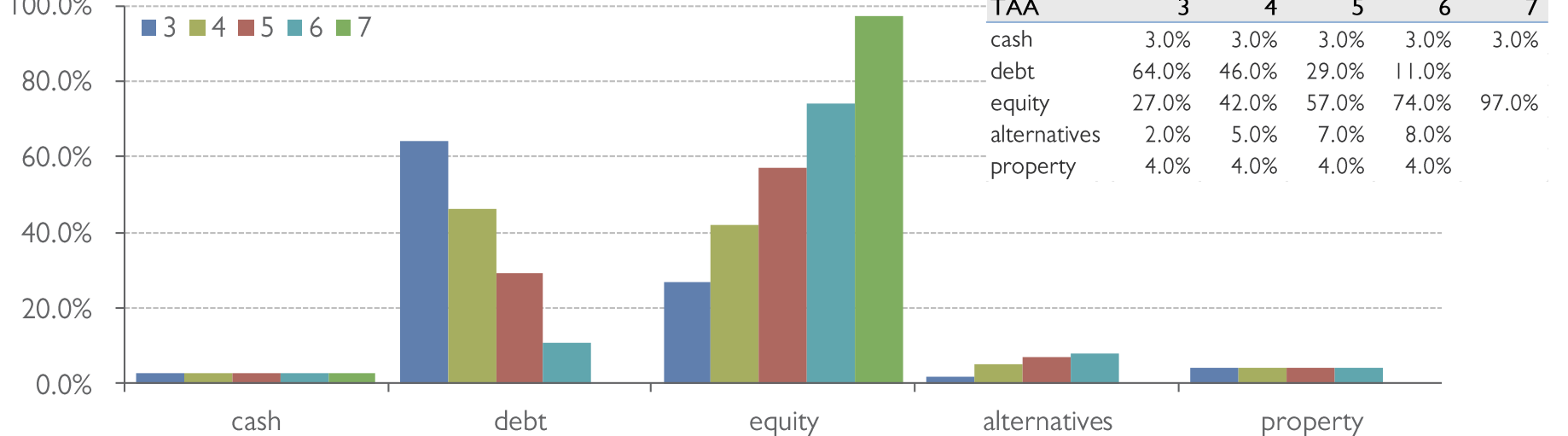
note: the variance from the SAAs is capped at $\pm 10\%$

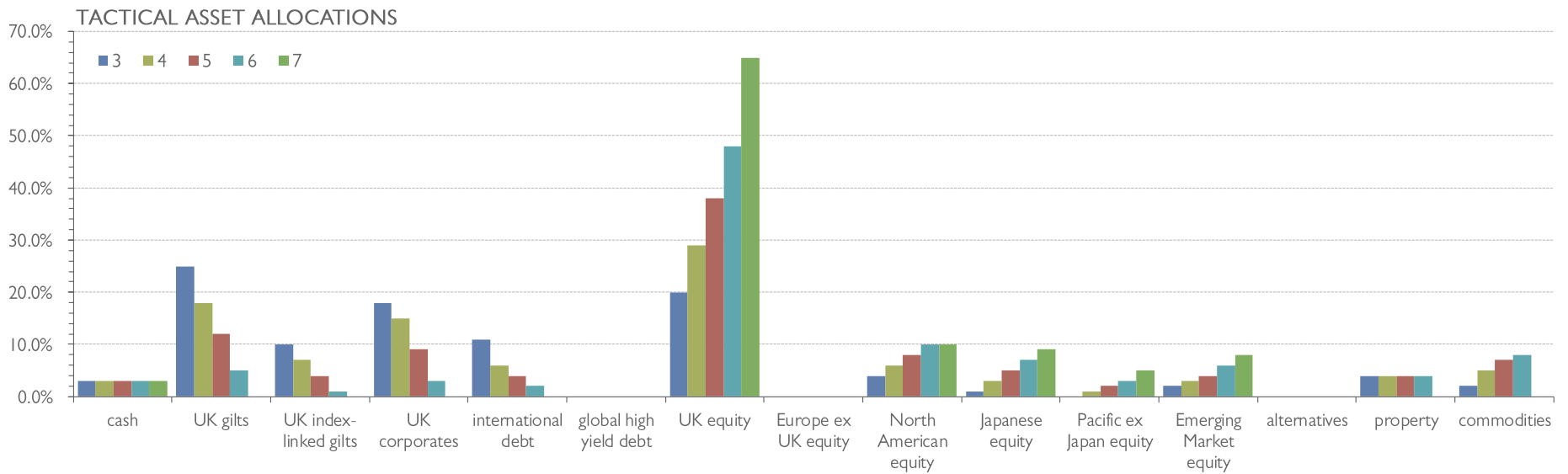
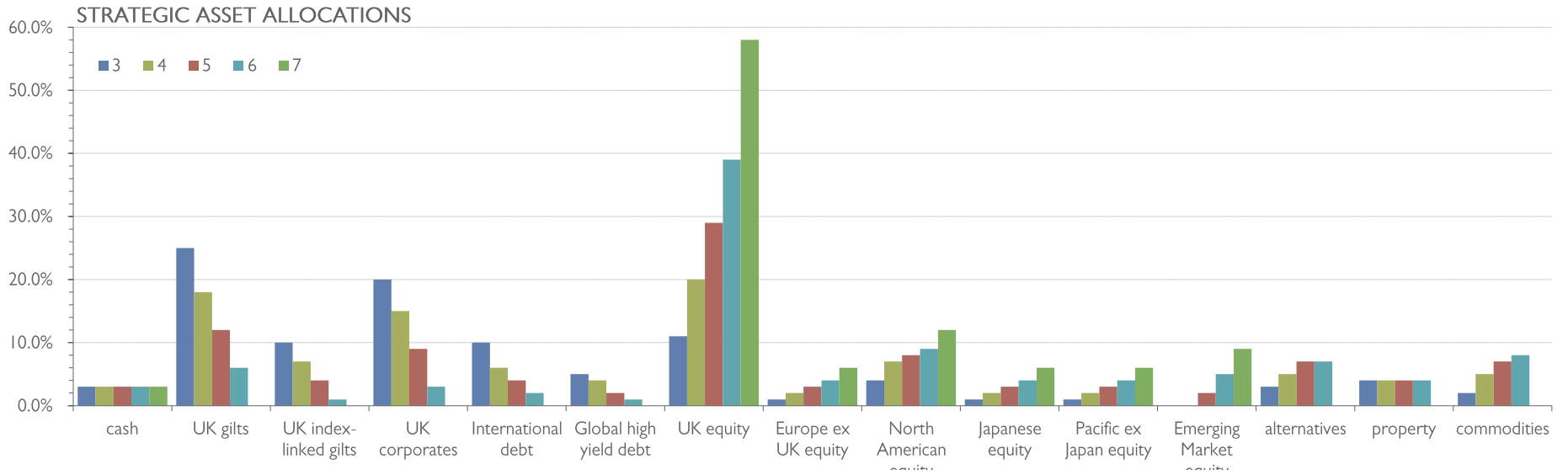
BLACKWOOD MODELS

STRATEGIC ASSET ALLOCATIONS



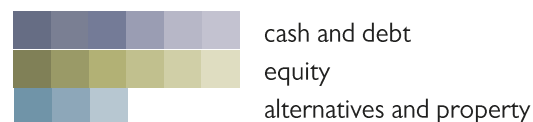
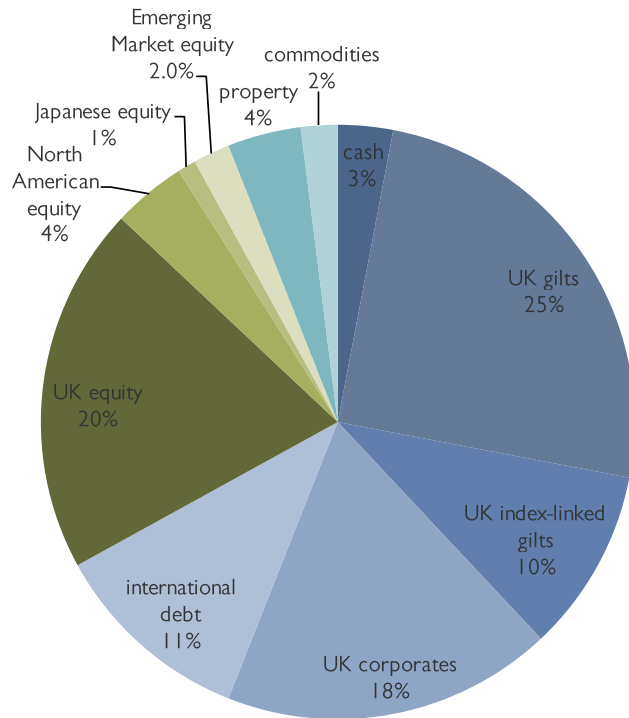
TACTICAL ASSET ALLOCATIONS





BLACKWOOD MODEL 3 TACTICAL ASSET ALLOCATION

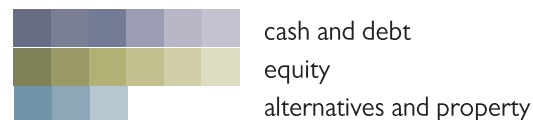
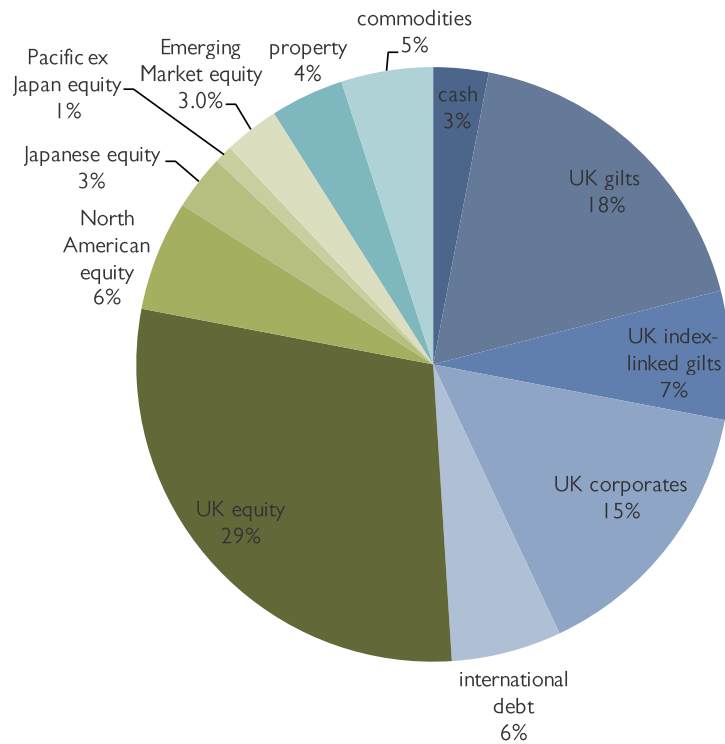
number of holdings 12
total cost of investment 0.78%



asset class	fund holding	% total
cash		3.0%
cash	sterling	3.0%
bonds		64.0%
UK gilts	Vanguard U.K. Government Bond	25.0%
UK gilts	L&G All Stocks Index-Linked Gilt	10.0%
UK corporates	Vanguard UK Investment Grade Bond	18.0%
international bonds	TwentyFour Dynamic Bond	5.5%
international bonds	TwentyFour Monument Bond	5.5%
equity		27.0%
UK equity	iShares 100 UK Equity	14.0%
UK equity	SORBUS VECTOR	6.0%
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

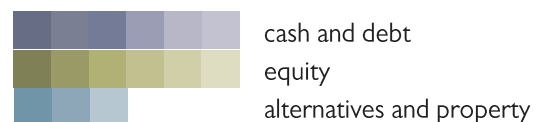
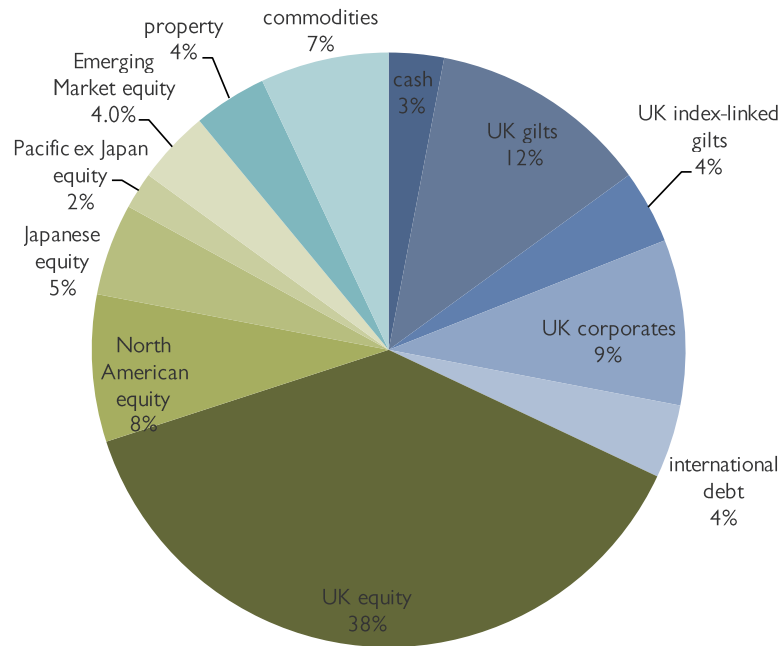
number of holdings 14
total cost of investment 0.87%



asset class	fund holding	% total
cash		3.0%
cash	sterling	3.0%
bonds		46.0%
UK gilts	Vanguard U.K. Government Bond	18.0%
UK gilts	L&G All Stocks Index-Linked Gilt	7.0%
UK corporates	Vanguard UK Investment Grade Bond	15.0%
international bonds	TwentyFour Dynamic Bond	3.0%
international bonds	TwentyFour Monument Bond	3.0%
equity		42.0%
UK equity	iShares 100 UK Equity	20.3%
UK equity	SORBUS VECTOR	8.7%
North American equity	Vanguard U.S. Equity	6.0%
Japanese equity	iShares Japan Equity	3.0%
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	3.0%
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

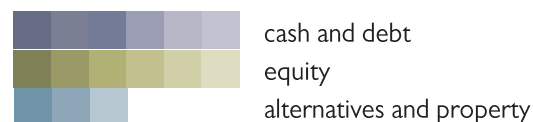
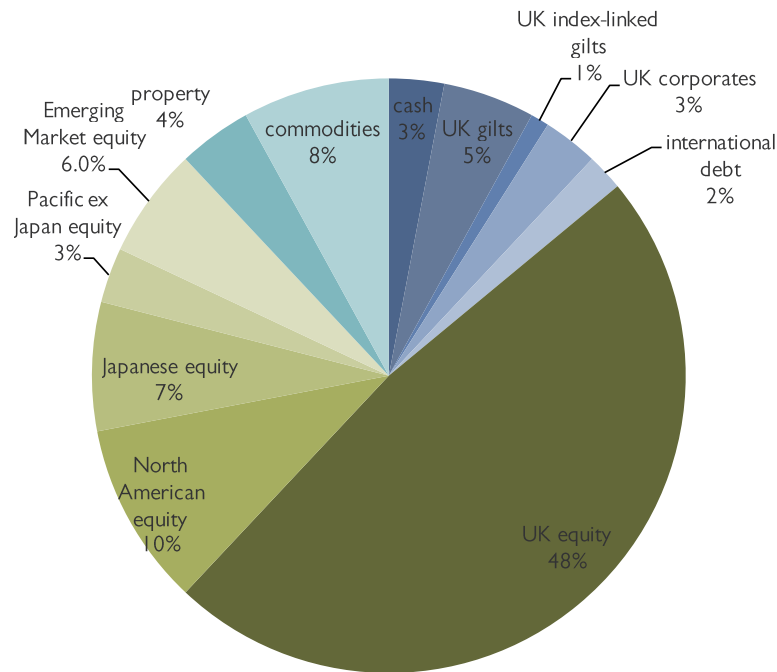
number of holdings 14
total cost of investment 0.93%



asset class	fund holding	% total
cash		3.0%
cash	sterling	3.0%
bonds		29.0%
UK gilts	Vanguard U.K. Government Bond	12.0%
UK gilts	L&G All Stocks Index-Linked Gilt	4.0%
UK corporates	Vanguard UK Investment Grade Bond	9.0%
international bonds	TwentyFour Dynamic Bond	2.0%
international bonds	TwentyFour Monument Bond	2.0%
equity		57.0%
UK equity	iShares 100 UK Equity	28.0%
UK equity	SORBUS VECTOR	10.0%
North American equity	Vanguard U.S. Equity	8.0%
Japanese equity	iShares Japan Equity	5.0%
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	4.0%
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

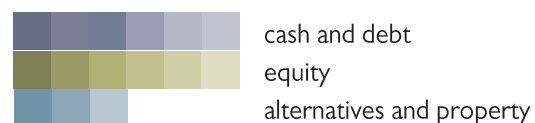
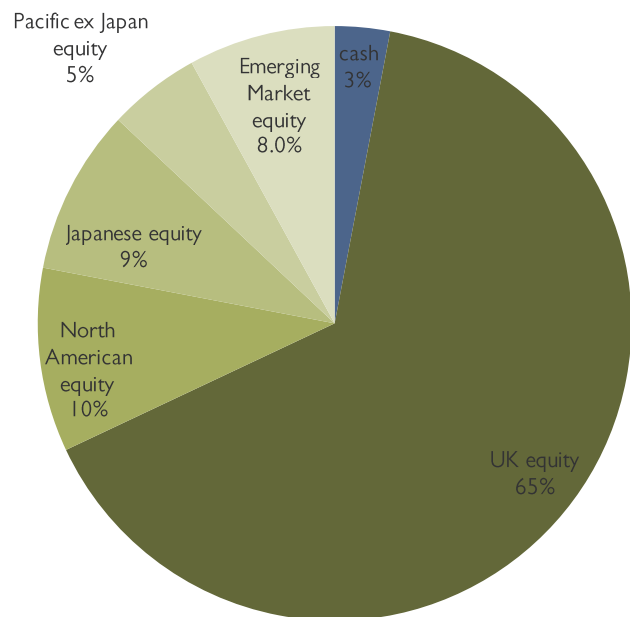
number of holdings 14
total cost of investment 0.93%



asset class	fund holding	% total
cash		3.0%
cash	sterling	3.0%
bonds		11.0%
UK gilts	Vanguard U.K. Government Bond	5.0%
UK gilts	L&G All Stocks Index-Linked Gilt	1.0%
UK corporates	Vanguard UK Investment Grade Bond	3.0%
international bonds	TwentyFour Dynamic Bond	1.0%
international bonds	TwentyFour Monument Bond	1.0%
equity		74.0%
UK equity	iShares 100 UK Equity	38.0%
UK equity	SORBUS VECTOR	10.0%
North American equity	Vanguard U.S. Equity	10.0%
Japanese equity	iShares Japan Equity	7.0%
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	6.0%
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 7
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	55.0%
UK equity	SORBUS VECTOR	10.0%
North American equity	Vanguard U.S. Equity	10.0%
Japanese equity	iShares Japan Equity	9.0%
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	8.0%

MODEL PORTFOLIO COST COMPARISON

CURRENT CHARGES

model portfolio	DFM charges*	fund OCF	fund transaction charges	fund incidental charges	total charges
3	0.30%	0.29%	0.12%	0.07%	0.78%
4	0.30%	0.32%	0.16%	0.10%	0.87%
5	0.30%	0.33%	0.18%	0.12%	0.93%
6	0.30%	0.33%	0.18%	0.12%	0.93%
7	0.30%	0.26%	0.16%	0.12%	0.83%

*DFM charge includes VAT at 20%

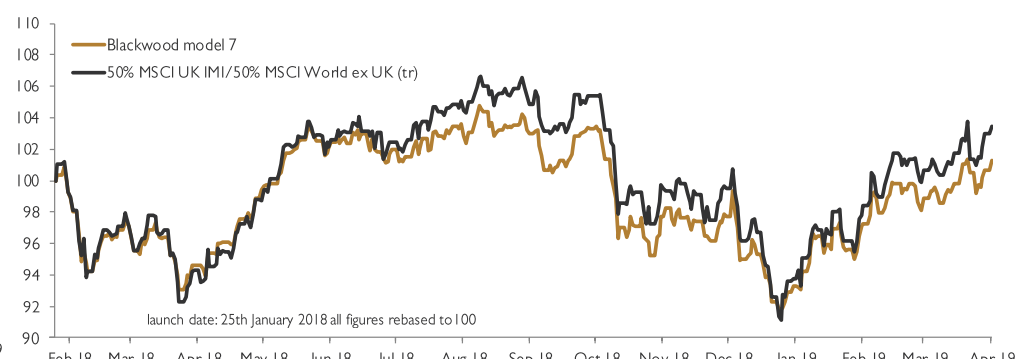
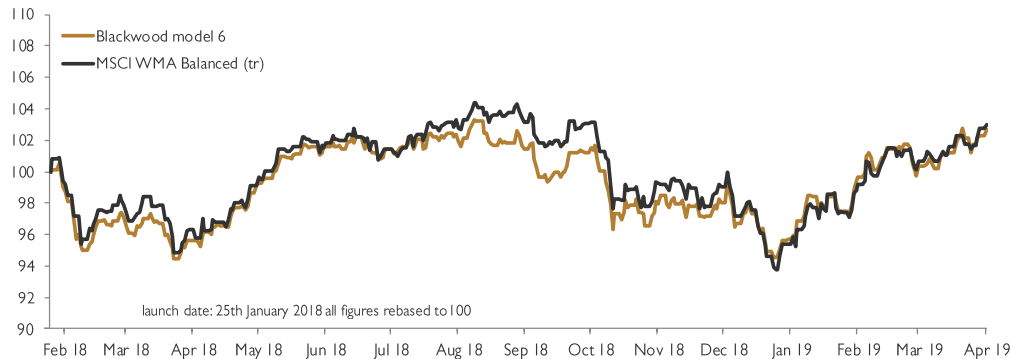
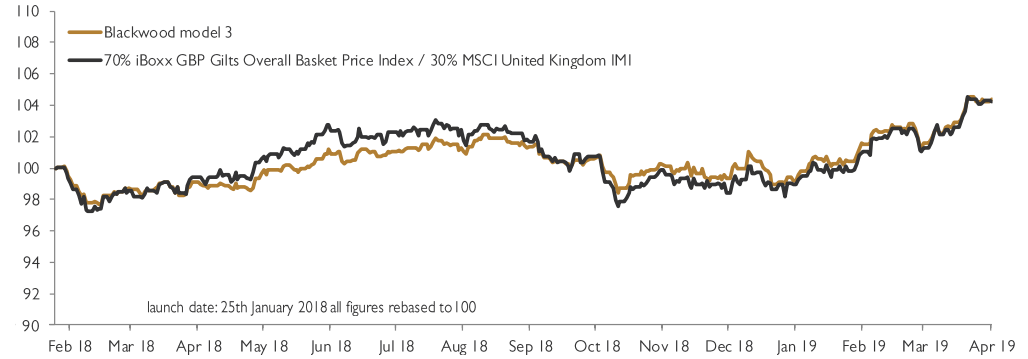
These are the current charges on the BAM models. Fund managers are in the process of releasing one year ex-post charging figures for transaction and incidental charges so these may change by a few basis points over the next month. The figures released to date has led to an overall decline in the total cost of investment for clients.

The most marked decline has been in the transaction charge on the Investec Global Gold fund. The transaction charge (based on Morningstar data) has fallen from 1.27% to 0.45% (the equivalent of a 6 bps reduction on model 6's total charge).

Investec Global Gold currently has the lowest OCF and total cost of all gold funds that have released ex-post charging data.

PERFORMANCE SINCE LAUNCH (as at 01/04/2019)

model	model performance				
	1 month	3 months	6 months	1 year	inception
3	2.7%	5.2%	3.7%	5.3%	4.4%
4	2.5%	5.8%	2.9%	6.1%	3.8%
5	2.4%	6.4%	1.8%	6.6%	3.1%
6	2.3%	7.3%	1.1%	7.3%	2.6%
7	2.4%	8.6%	(2.1%)	7.0%	1.3%



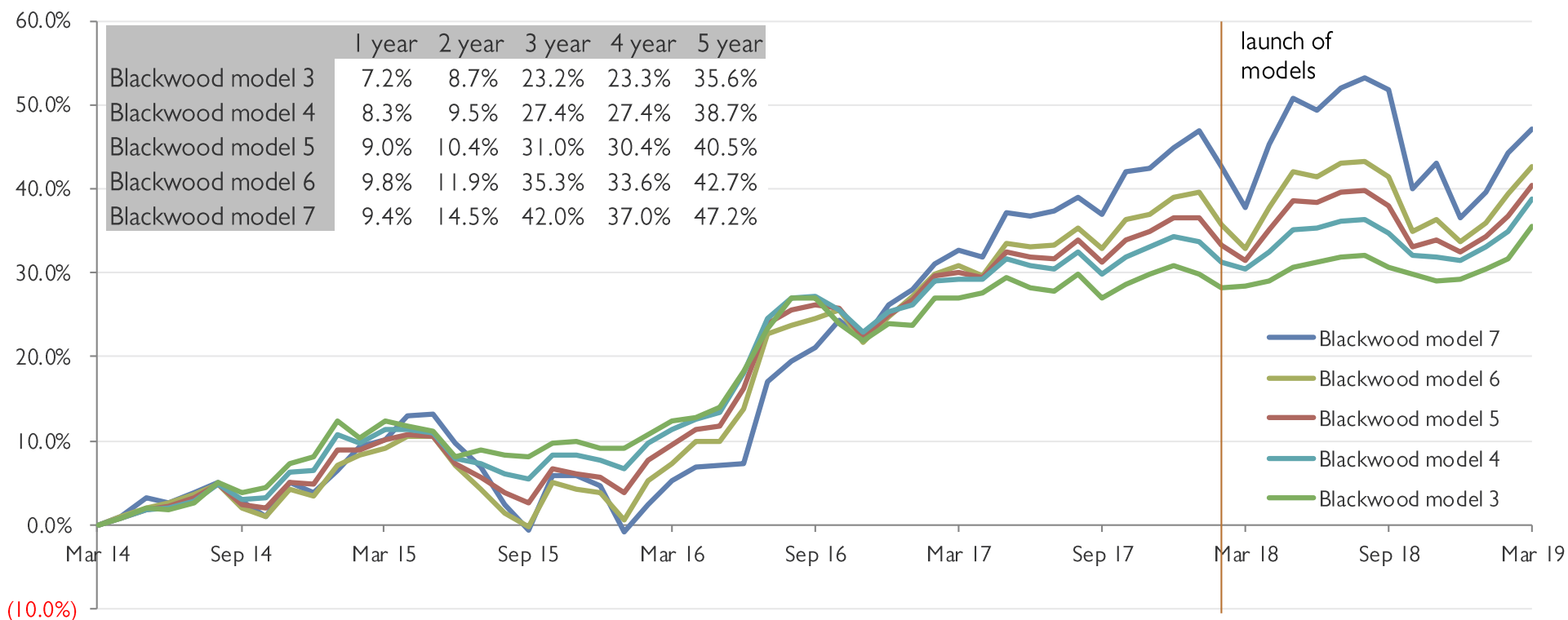
PERFORMANCE VERSUS BENCHMARK AND TATTON

The below table covers the period of 25/01/2018 to 01/04/2019.

BAM model	Blackwood benchmark		Tatton
3	4.4%	4.2%	2.3%
4	3.8%	3.0%	0.9%
5	3.1%	2.7%	(0.2%)
6	2.6%	3.0%	(1.2%)
7	1.3%	3.4%	(1.9%)

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

5 YEAR PERFORMANCE OF BLACKWOOD MODELS (BACKDATED)



period: 31 March 2014 to 31 March 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.

FURTHER DISCUSSION POINTS

MSCI WMA PRIVATE INVESTOR INDICES

BAM currently pays \$2,000 + VAT per annum for the licence to use the MSCI WMA Private Investor Indices. The licence has been renewed for a further 12 months (runs inline with tax year).

DYNAMMIC PLANNER BENCHMARKS

Last update was that they were to be released in the spring of 2019. Has Elevation Group received further news on their launch?

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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