Quarterly Investment Update

Q1 | 2019

Aisa Professional


7000
6724
52.19
-67
-54
6500
6000

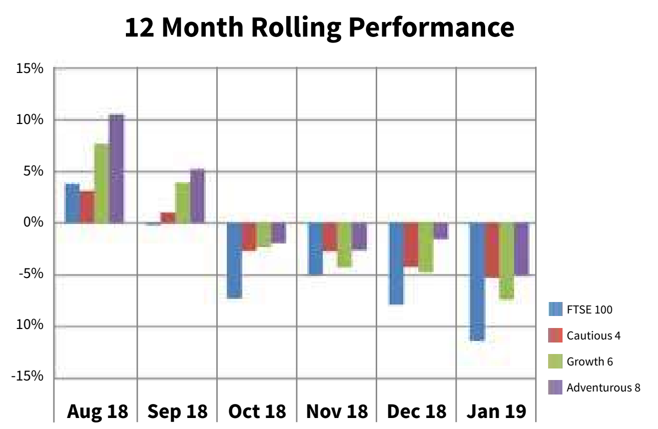
Executive Summary

Market Summary

- The FTSE 100 has been extremely volatile over the last 12 months to 13th January 2019, with a low of 6584.70 and a high of 7877.50. Over this period the Dow Jones Index has dropped 7.66% and the S&P 500 has dropped 6.82%.
- Over the period, 14th October 2018 – 13th January 2019, the FTSE 100 was down 1.11%.

Investment Portfolios

- All of our portfolios have outperformed a FTSE 100 for a 12 month rolling period to November 18, December 18 and January 19, whilst all showing less volatility.
- None of our portfolios have gone down as far as the FTSE 100 over the past 24 months, with the FTSE 100 going down 5.72% whereas; all of our portfolios have seen a positive return over the same period.
- Income portfolios continue to hit targets for yield and performance.



How we work

- Funds are selected using criteria in our governance document. The funds are allocated using our strategic plan and which asset classes we feel should be considered over the coming 12 months and longer.
- Our strategic plan is largely decided by our informed view on the economies of the world and individual sectors. We obtain our information by meeting with fund managers and reviewing economic publications.
- By meeting and listening to investment companies, we are able to have constructive conversations on the committee. The committee will take a collective view rather than any individual view.

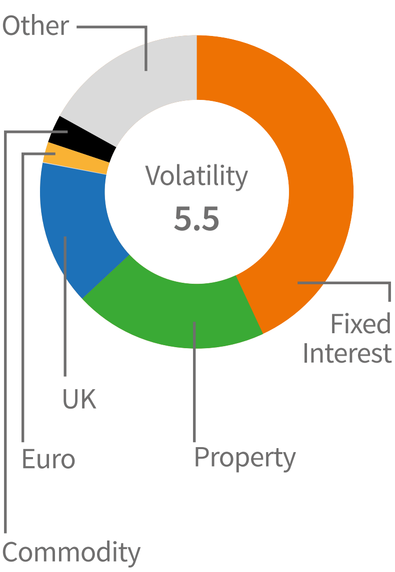
Aisa's Investment Portfolios

The graphs below show typical holdings in our following risk portfolios. They are not designed to represent the day to day current holdings which may change due to volatility in markets and the investment team quarterly reviews. Potential gain/loss on a portfolio over any short period 3 months, 6 months, 1 year is demonstrated by volatility listed inside the portfolio and shows how much you could lose or gain by being invested typically. However, actual gains or losses can be higher than this and there is no guarantee on performance. They are designed to demonstrate the concept of loss and risk and returns linked to different risk portfolios. The committee will take a collective view rather than any individual view.

Defensive 3

Target Return

4.00%

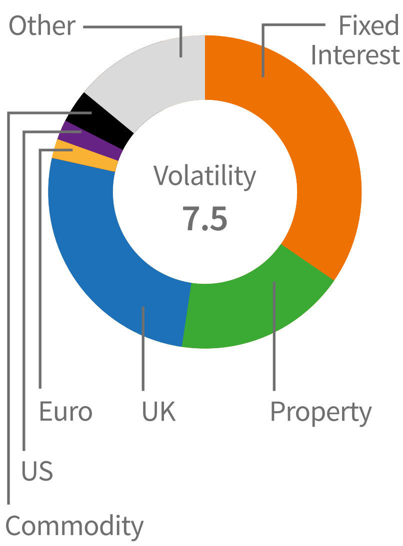


- Fixed Interest 43.1%
- Property 20.6%
- UK Equities 14.9%
- Euro Equities 2.0%
- US Equities 0%
- Asia Equities 0%
- Emerging Markets 0%
- Japan Equities 0%
- Commodity 3.0%
- Other 16.4%

Cautious 4

Target Return

5.50%

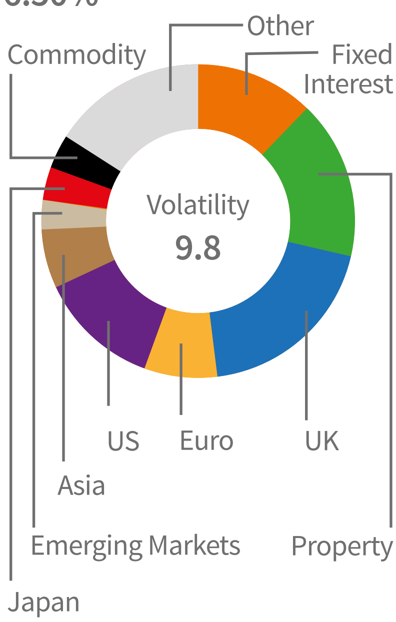


- Fixed Interest 34.6%
- Property 17.91%
- UK Equities 26.1%
- Euro Equities 2.0%
- US Equities 2.0%
- Asia Equities 0%
- Emerging Markets 0%
- Japan Equities 0%
- Commodity 3.5%
- Other 13.9%

Balanced 5

Target Return

6.50%



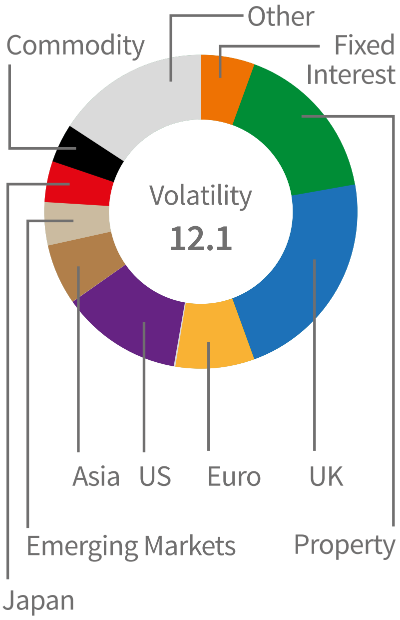
- Fixed Interest 12.2%
- Property 16.4%
- UK Equities 19.4%
- Euro Equities 7.5%
- US Equities 12.5%
- Asia Equities 6.0%
- Emerging Markets 3.1%
- Japan Equities 3.3%
- Commodity 3.5%
- Other 16.1%

Volatility: Refers to the amount of uncertainty or risk about the size of changes in a security's value. A higher volatility means that a security's value can potentially be spread out over a larger range of values. This means that the price of the security can change dramatically over a short time period in either direction. A lower volatility means that a security's value does not fluctuate dramatically, but changes in value at a steady pace over a period of time.

Growth 6

Target Return

7.75%

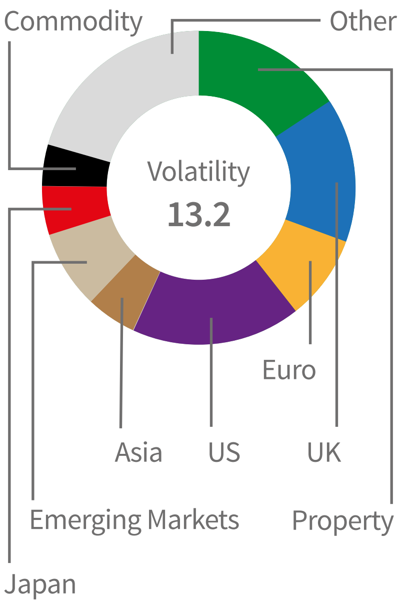


- Fixed Interest 5.6%
- Property 16.7%
- UK Equities 22.3%
- Euro Equities 8.4%
- US Equities 12.4%
- Asia Equities 6.3%
- Emerging Markets 4.5%
- Japan Equities 4.2%
- Commodity 4.0%
- Other 15.6%

Speculative 7

Target Return

8.75%

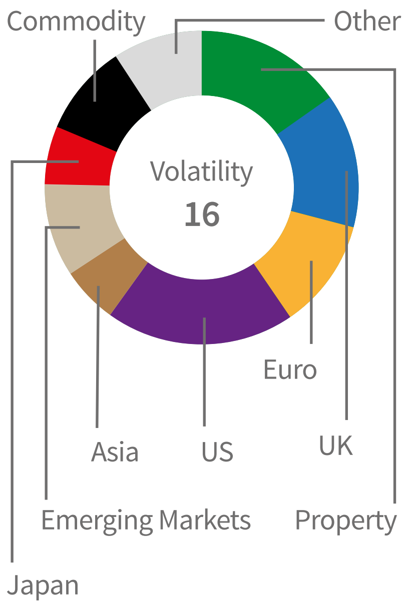


- Fixed Interest 0%
- Property 15.7%
- UK Equities 14.9%
- Euro Equities 8.8%
- US Equities 15.9%
- Asia Equities 5.2%
- Emerging Markets 7.9%
- Japan Equities 5.0%
- Commodity 4.3%
- Other 21.9%

Adventurous 8

Target Return

9.50%



- Fixed Interest 0%
- Property 15.2%
- UK Equities 13.9%
- Euro Equities 11.4%
- US Equities 19.4%
- Asia Equities 5.9%
- Emerging Markets 9.6%
- Japan Equities 6.0%
- Commodity 9.5%
- Other 9.1%

Aisa Team (AIT) Committee Meeting

Dated: 23rd January 2019

Attendees: John Reid (Chairman)
James Pearcy-Caldwell (Member of Board and Compliance)(Skype)
Geordie Bulmer (Member of Board)
Lee Hinton (Guest)

Secretary: James Dunford (Secretary)

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1 Review of previous minutes and sign off

After agreement, the minutes of 24th October 2018 were signed as correct by the Chair.

Actions outstanding at previous meeting, and outcomes:

- contacted clients who were affected by the fund change(s) in their portfolio(s)

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2 General strategy *(internal eyes only - not for publication)*

3) Aisa Comment & Presentations

a) Aisa Comment

As we march into 2019 with renewed optimism...

I guess those are words that have been missing in the press recently. I remember a year ago when every invited guest fund manager told the investment committee what a great year 2018 was about to be for investments. They were wrong, just as most of the fund managers and commentators will be wrong in 2019!

I read a short piece on LinkedIn, where people who fundamentally believe only in passive tracking and passive investments (passive can be a many things including pro-active, but also lazy investing following tracked indices, removing the decision making and management of fund managers). Their argument is that passive tracking funds outperform the majority of active managers due to charges and costs being higher and because there is no fund picking involved.

Actually, I like passives but I also believe passionately that a good stock picker, or fund manager can make a difference. Look at Warren Buffet.

Aisa Group have invested in a mixture of passives and active managers, whilst managing risk and sector or geographic exposure ourselves.

How have we done?

One client asked us to compare his portfolio that we managed against the MSCI All World index, an index between 1.5 and 3 times riskier than our portfolios 3-7. He was in the Growth Portfolio; our much lower risk portfolio had outperformed the index in 4 of the last 6 measured periods even after costs and charges. Indeed, we also almost matched the returns of the World Index in the other 2 time periods. For lower risk and volatility, we had outperformed the World Index and that was without allowing for any charges (which is unrealistic). Past performance is not a guarantee of future performance of course.

You have therefore benefited from our active management, because we moved your assets towards the gold index and lower volatility over the last 6 months. Most of you have outperformed the FTSE 100 over the last 3, 6, 12, 24 months. (The FTSE is our main index which we track against along with a UK Bond Index.)

Another client did ask us to go to cash not realising this simply crystallised recent losses with no opportunity to benefit from future gains in markets or funds. That is each client's option of course, but some change their minds once they realise they are missing out on returns and exposure.

In 2019 you have asked us to consider setting up slightly higher risk passive portfolios for those prepared to accept that additional risk. We will do this but still have an element of active management, unlike some competitors.

In the meantime, our own main consideration for you centres around the world's 6 largest economies which have some serious issues to deal with now. 2019 will indeed be an interesting year with the Chinese debt bubble and slowing economy, US ongoing trade wars, Brexit, German slowing economy and migrant crisis, France lacking the will to reform in the face of protests. We could go further and say Italian economic woes interacting with an increasing budget deficit, but you cannot ignore that France has also given into protests also leading to higher budget deficits that may break Eurozone rules.

There is a lot to be concerned about and so the real question is do you want Aisa Group to just track indices passively in 2019, or do you want active portfolios that have an element of passives and decent active fund managers?

Renewed optimism might be missing right now, but ongoing diligence has never gone away.

b) Schroder Tokyo

Our first presentation was regarding Japan and the Schroder Tokyo fund.

The inflation rate in Japan is currently around 0.8% and is slowly trending upwards. In 2013 the Bank of Japan set the inflation target of 2%, since 2014 the actual inflation rate hasn't reached that target. The Bank of Japan are not expected to change the inflation target even if they continue to undershoot their target. In terms of GDP growth for Japan, 2018 had a mixed year, with Q1 seeing its first negative quarter since 2015, a rebound in GDP for Q2 and then due to a large amount of flooding in Q3 GDP decreased. Figures for GDP Q4 have not yet been released; however we are expecting to see growth for this quarter.

No formal policy changes expected from the Bank of Japan, yet Japan 10 year government bond yields are relatively close to 0% and they have been since October 2016. The Bank of Japan expected to have to spend 80 Trillion Yen to keep bond yields at 0%; however they only had to spend 40 Trillion Yen to achieve their target.

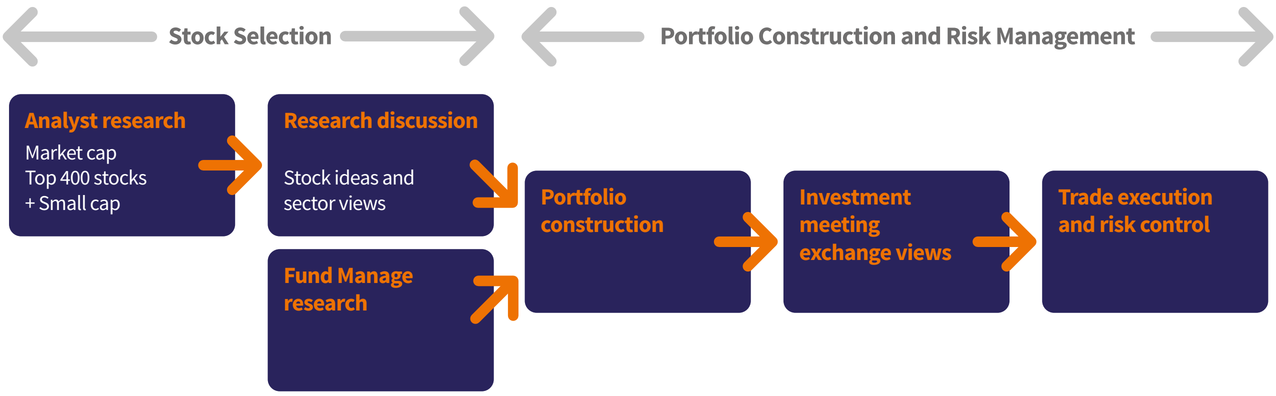
Japan's unemployment rate is around 2.4% which is low for a developed country. The focus on employment is on increasing the workforce in the labour sector. Japan is an aging population, which people can now feel in their ordinary lives. With the increased demand for workers in construction and social care. This has led the Japanese government to make it easier for foreign workers to come over and work in these sectors. There are currently 350,000 foreign workers in Japan working on construction for the 2020 Olympics in Japan. These workers mainly come from Thailand, Indonesia and the Philippines. Without the foreign workers Japan would be unable to complete all the construction for the Olympics.

Corporate profit growth in Japan is expected to slow this year however should still remain positive. Foreign investors have been coming out of Japan since 2012; however Japan is now much better placed economically than in 2012. Over the last 12 months and especially in the last quarter of 2018, many Japanese equities have been undervalued, creating opportunities.

The Schroder Tokyo fund has been ran by Andrew Rose since 2004 and works with 17 other professionals within the Japanese Equity Team. The bulk of these are based in Japan, enabling the team to conduct on the ground research.

Key features of the Schroder Tokyo Fund:

- Bottom up approach based on in-house research
- Strong valuation discipline with contrarian bias
- Long term approach with low turnover
- Typically overweight in mid and mall caps



One outright sale the Schroder Tokyo fund has recently completed is the sale of Canon Inc. Canon has previously produced a yield of 5%, however the Schroder team do not believe that they can continue to do this. The product range is the concern, with people having many different options for cameras; printers etc. Schroder believe that Canon will have to reinvest any profits made to update their product range; therefore the shareholders will not receive an as generous dividend.

c) Investment Trusts

The second presentation we had was on Investment Trusts.

An Investment Trust is a form of a collective investment and trades as a public listed company. The trust itself will invest in shares of other companies.

In order to raise money for the trust there is an Initial Public Offering (IPO) where shares of the trust are sold to investors. The trust operates as a closed ended fund, therefore there is a certain amount of shares available and in order for you to buy/sell a share someone else must buy/sell them from/off you.

The actual price of the trust might not exactly reflect the value of the underlying holdings (Net Asset Value). The trust will therefore trade at either a premium or a discount. If a trust is trading at a premium, the trust is more expensive than its Net Asset Value. If a trust is trading at a discount, the trust is cheaper than its Net Asset Value. Investment Trusts can have investors who will buy a trust when it is trading at a large discount and ride the discount to a lower amount. The investors affect the quality of the share register and increase the volatility of the trust.

Investment trusts can increase the return opportunities for their shareholders by borrowing money (Gearing); however this will also increase the potential for loss. Therefore the volatility on an investment trust can be larger than that of an open ended fund.

The trust is governed by an independent board of directors. The board will ensure the trust is ran to the benefits of the shareholders by enforcing strict procedures that the investment managers have to follow. The board can offer share buybacks and issuance to generate money for the trust.

In a 2018 study produced by the Cass Business School, it has found that Investment Trusts have outperformed open ended funds by 0.8% per annum over the last 18 years.

The reasons given for the outperformance were as follows:

- Sector Bias – Trusts have smaller company bias
- Gearing and share buybacks
- Survivorship bias – Bad funds die fast
- Historically cheaper fees

In 2018 the average Investment Trust is trading at a -4.6% discount whereas the 10 year average is a -7.4% discount. Investment Trusts have found it a hard year to raise money for their IPO's with many only receiving half of the money that targeted. This is except the Smithson Global Mid Cap Equities Investment Trust which raised £822.50 million, the largest ever IPO for an Investment Trust.

Schroder run 8 Investment Trusts; 2 UK Equity Trusts, 4 Asian Equity Trusts and 2 Real Estate Trusts.

4a) Geographical & Sector Outlook

The FTSE 100 has been extremely volatile over the last 12 months, with a low of 6584.70 and a high of 7877.50. Over the period, 14th October 2018 – 13th January 2019, the FTSE 100 down 1.11%. None of our portfolios have gone down as far as the FTSE 100 over the past 24 months, with the FTSE 100 going down 5.72% whereas; all of our portfolios have seen a positive return over the same period.

The US market has also been extremely volatile over the last 12 months. Over this period the Dow Jones Index has gone down 7.66%.

MONITOR: Our ongoing review of asset classes & where the AIT would collectively invest:

Medium Term Stance		Tactical Funds	
	Very Heavy		
Credit	Heavy	Developed Asia Equities Investment Grade Corporate Bonds Emerging Market $ Debt	Gold UK Equities Japanese Equities
Property Equities Cash	Neutral	Emerging Market Local Debt High Yield Corporate Bonds UK Inflation-linked Debt Global Commodities	US Equities US, European and Asian Real Estate Emerging Market Equities Japanese Bonds
	Light	UK Gilts US Dollar FX UK Real Estate Cash	European Equities European Bonds Euro FX Yen and Sterling FX
Government Bonds	Very Light	US Treasuries	

- **Equity Europe** – Negative.
- **Equity UK** – Positive.
- **Equity US** – Neutral.
- **Equity Japan** – Positive.
- **Equity China and Emerging Markets connected with China** – Negative.
- **Equity South East Asia and Other Emerging Markets** – Neutral.
- **Equity Income** – Positive.
- **Property (UK Residential)** – Negative.
- **Property (UK Commercial)** – Negative.
- **Property (Global)** – Cautiously Positive.
- **Bonds (Gilts)** – Neutral.
- **Bonds (Strategic)** – Neutral.
- **Bonds (Corporate)** – Positive on not heavily indebted and investment grade only bonds.
- **Cash** – Negative, although some National Savings products could be considered.
- **Commodities** – We are positive on Gold.
- **Currency Concerns** – We are concerned with the price of Sterling following the uncertainty of Brexit.

5a) Fund review for all portfolios *Actual Performonce of our clients colour co-ordinated as follows:*

Growth Portfolios

Including Charges · After Charges

Aisa Portfolio	Risk Grade	3 mths	12 mths	24 mths	36 mths	48 mths	60 mths
Defensive (31)	3	-0.98% -1.50%	-2.36% -4.00%	5.24% 1.73%	14.23% 8.50%	13.65% 6.26%	20.62% 10.89%
Cautious (50)	4	-0.73% -1.26%	-3.63% -5.26%	5.30% 1.82%	16.27% 10.49%	15.73% 10.45%	23.60% 16.99%
Balanced (87)	5	-0.37% -0.88%	-4.30% -5.89%	8.34% 4.73%	27.94% 21.45%	26.12% 17.96%	36.28% 25.34%
Growth (90)	6	-0.56% -1.05%	-5.44% -7.39%	10.74% 7.05%	32.54% 25.67%	30.67% 22.09%	45.00% 32.96%
Speculative (98)	7	0.07% -0.45%	-3.98% -5.59%	10.85% 7.14%	32.27% 25.58%	30.01% 21.69%	46.23% 34.35%
Aggressive (114)	8	0.22% -0.14%	-3.60% -5.09%	8.19% 4.88%	34.81% 28.01%	26.31% 18.70%	40.93% 30.31%

Important Note

Our portfolio past performance is linked to actual clients who hold these portfolios. For this quarterly review we have decided to include past performance for 60 months.

We have included the portfolios past performance for 60 months because we now have that information for the majority of our portfolios.

Please note that clients may receive slightly different performance to this as the charges taken into account within the portfolios are based on the value of two clients averaged. As charges vary linked to the value of investment held then, the charges and fees you pay will determine the actual return you obtain.

Aggregate costs and Cumulative effect on of costs on returns

The total costs and charges for your investment are made up of a mixture of our charges, the platform or product and investment funds and services. The table above shows how the total costs are allocated over the different time periods by measuring the difference between the gross returns (black) and the net returns (orange).

The total charge deducted for each investment or product will have an impact on the investment return you might receive. Using the tables above you can calculate that impact. For example, if you were a Balanced Investor with 300,000 invested then over the last 12 months the total charges applied were (black minus orange) 1.59%. For 300,000 your charges were therefore 300,000 x 1.59% = 4,770. If there were no charges this is how much more your fund would have grown by.

You can therefore do this calculation over any time period up to 5 years for all our portfolios. Past performance should not be used as a guide to future returns.

Income Portfolios

■ Including Charges ■ After Charges

Aisa Portfolio	Risk Grade	Yield	3 mths	12 mths	24 mths	36 mths	48 mths	60 mths
Cautious (47)	4	4.46%	-1.26% -1.72%	-4.04% -5.51%	5.62% 2.41%	16.16% 10.90%	16.47% 9.63%	N/A
Balanced (71)	5	4.11%	-1.57% -2.08%	-5.26% -6.83%	4.75% 1.36%	22.02% 16.09%	20.28% 13.02%	24.34% 15.42%
Growth (79)	6	4.06%	-1.67% -2.18%	-5.42% -7.00%	5.23% 1.82%	22.95% 16.97%	21.46% 14.16%	26.21% 18.56%

It has been agreed by the committee that all the income portfolios must produce a yield of more than the average standard daily saving rate (annualised) plus 1%. Current yields are all higher than 4%.

5b) 12-Month Rolling Performance

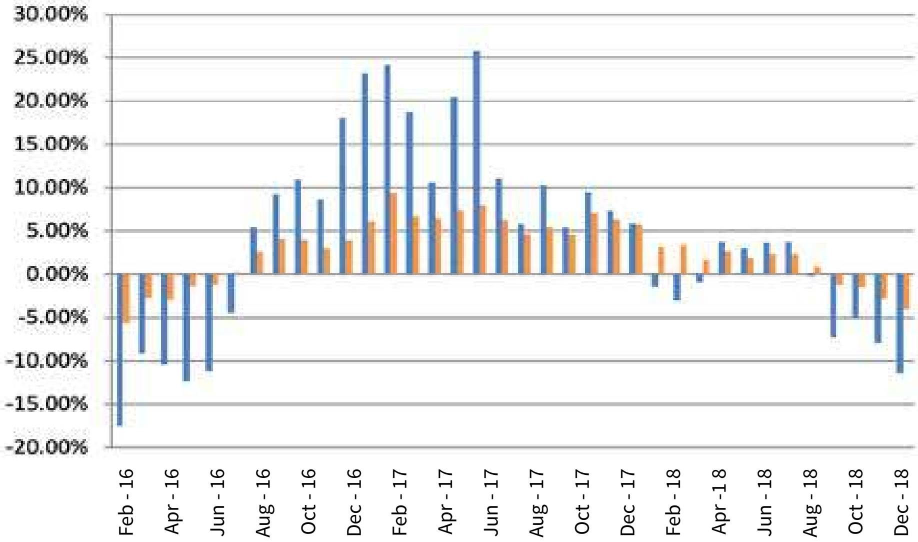
We have analysed the actual performance of three of our model portfolios over the last two years, on a rolling 12-month basis. In the table below, next to each month, we have shown the performance for the last 12 months, i.e. January 2017 to January 2018, February 2017 to February 2018 and so on.

All of our portfolios have outperformed a FTSE 100 tracker for a 12 month rolling period to November 18, December 18 and January 19, whilst all showing less volatility.

Month	FTSE 100	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Portfolio 8
Feb-16	-17.47%	-5.64%	-7.90%	-9.53%	-8.80%	-10.30%	-13.62%
Mar-16	-9.18%	-2.74%	-3.64%	-3.49%	-2.63%	-3.89%	-6.55%
Apr-16	-10.37%	-2.93%	-4.47%	-3.54%	-3.22%	-4.28%	-6.68%
May-16	-12.33%	-1.29%	-2.29%	-0.70%	0.55%	-1.47%	-3.80%
Jun-16	-11.23%	-1.23%	-2.29%	0.50%	0.66%	0.56%	-1.09%
Jul-16	-4.43%	0.05%	0.88%	6.80%	7.61%	8.14%	9.15%
Aug-16	5.41%	2.64%	4.41%	10.86%	11.67%	12.43%	14.30%
Sep-16	9.26%	4.11%	6.19%	11.58%	12.90%	13.22%	16.09%
Oct-16	10.96%	3.99%	6.21%	12.73%	15.02%	16.22%	18.53%
Nov-16	8.66%	2.97%	4.10%	8.49%	10.40%	10.50%	15.31%
Dec-16	18.07%	3.95%	5.40%	10.71%	11.40%	11.90%	16.18%
Jan-17	23.27%	6.14%	8.10%	15.15%	15.93%	16.50%	21.14%
Feb-17	24.23%	9.42%	13.40%	23.13%	24.12%	25.37%	30.31%
Mar-17	18.73%	6.72%	9.50%	16.07%	17.17%	17.83%	19.99%
Apr-17	10.65%	6.48%	8.40%	13.09%	13.90%	13.90%	15.67%
May-17	20.49%	7.45%	10.12%	15.58%	17.38%	17.69%	19.73%
Jun-17	25.82%	7.93%	10.95%	16.77%	17.83%	18.51%	21.25%
Jul-17	11.06%	6.28%	7.80%	10.01%	11.01%	11.42%	8.33%
Aug-17	5.77%	4.68%	5.39%	6.90%	7.62%	7.56%	4.68%
Sep-17	10.27%	5.44%	6.94%	11.11%	11.74%	12.97%	10.73%
Oct-17	5.40%	4.63%	5.36%	7.77%	8.19%	8.72%	6.21%
Nov-17	9.51%	7.07%	9.80%	15.00%	14.65%	16.95%	13.19%
Dec-17	7.35%	6.42%	8.73%	13.61%	13.97%	16.27%	12.67%
Jan-18	5.83%	5.75%	7.11%	11.17%	11.13%	13.53%	10.82%
Feb-18	-1.42%	3.23%	3.42%	5.98%	6.96%	8.74%	5.78%
Mar-18	-3.07%	3.38%	3.72%	7.68%	8.21%	10.74%	9.09%
Apr-18	-0.89%	1.66%	1.53%	3.68%	4.86%	6.05%	4.44%
May-18	3.77%	2.65%	2.97%	6.93%	7.68%	9.16%	9.94%
Jun-18	2.98%	1.91%	2.26%	6.09%	6.89%	7.91%	8.86%
Jul-18	3.73%	2.31%	2.80%	6.21%	6.80%	7.61%	8.92%
Aug-18	3.81%	2.32%	3.13%	7.32%	7.65%	8.86%	10.52%
Sep-18	-0.20%	0.89%	1.03%	3.63%	3.92%	4.46%	5.24%
Oct-18	-7.27%	-1.19%	-2.67%	-2.91%	-2.32%	-2.48%	-1.91%
Nov-18	-5.01%	-1.45%	-2.71%	-3.09%	-4.26%	-2.79%	-2.62%
Dec-18	-7.89%	-2.86%	-4.21%	-3.42%	-4.72%	-2.49%	-1.52%
Jan-19	-11.39%	-4.00%	-5.26%	-5.89%	-7.39%	-5.59%	-5.09%

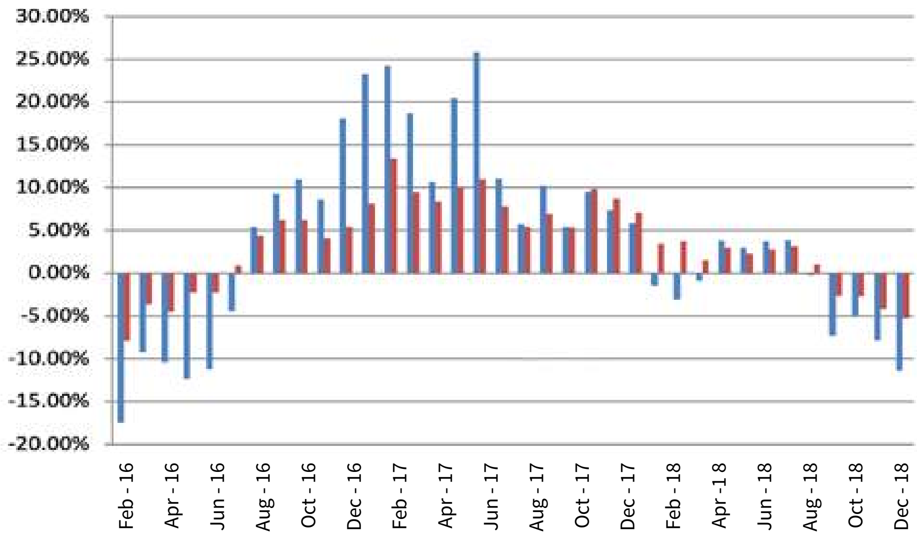
Aisa Defensive 3

- FTSE 100
- Aisa Defensive 3



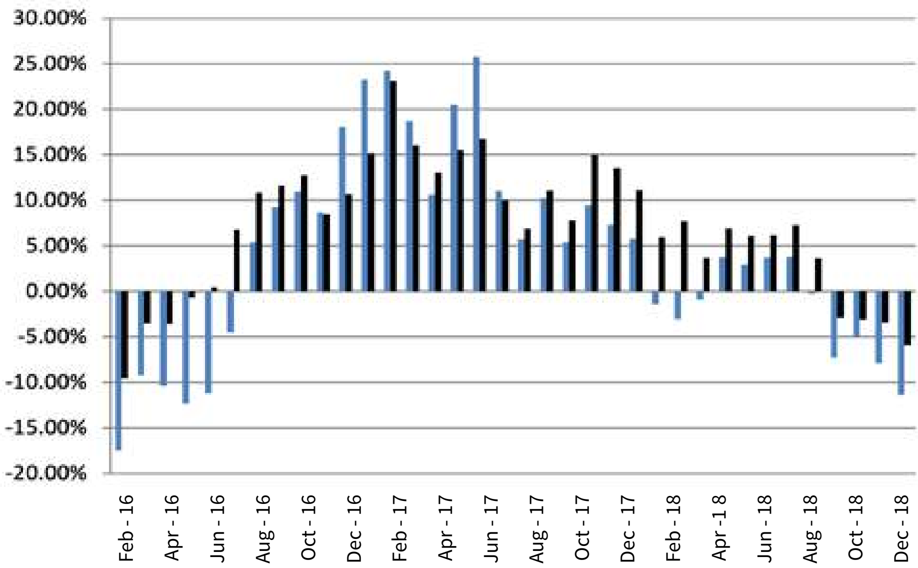
Aisa Cautious 4

- FTSE 100
- Aisa Cautious 4

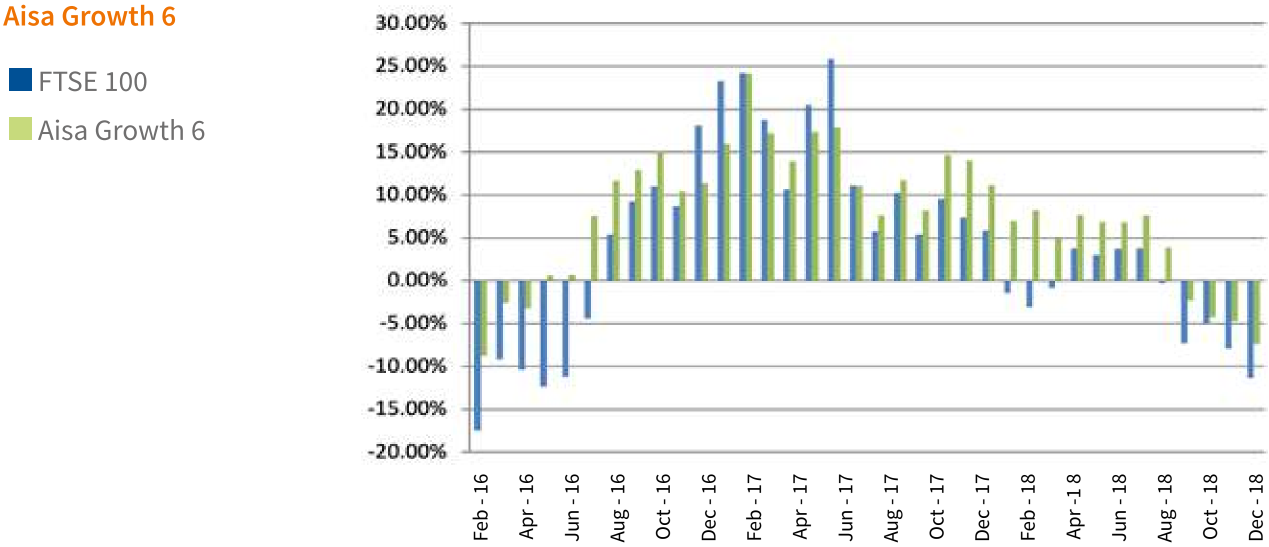


Aisa Balanced 5

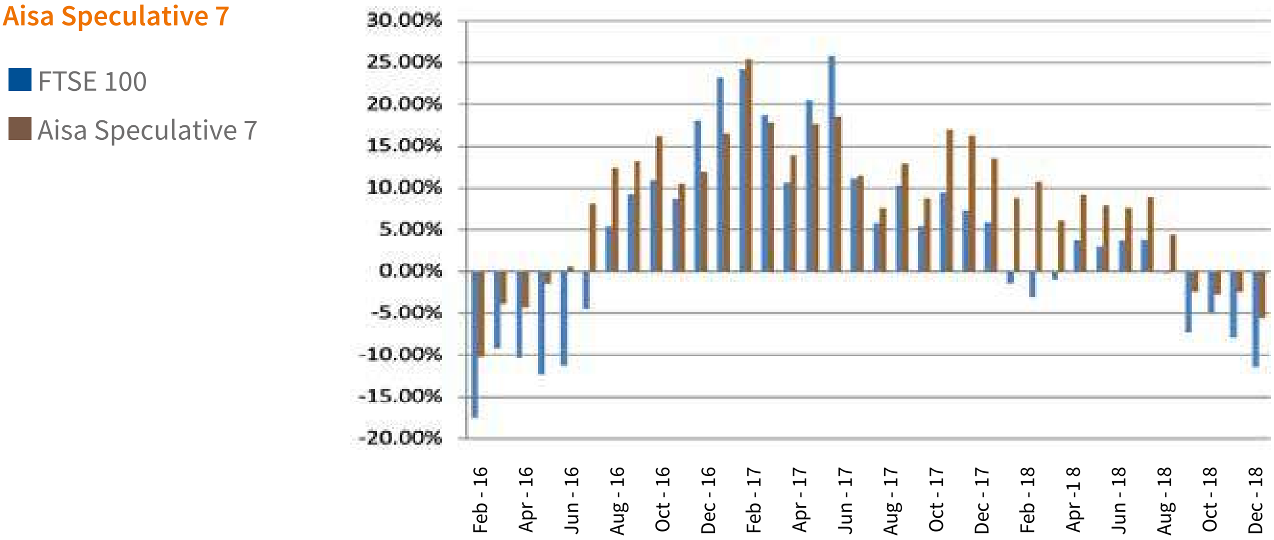
- FTSE 100
- Aisa Balanced 5



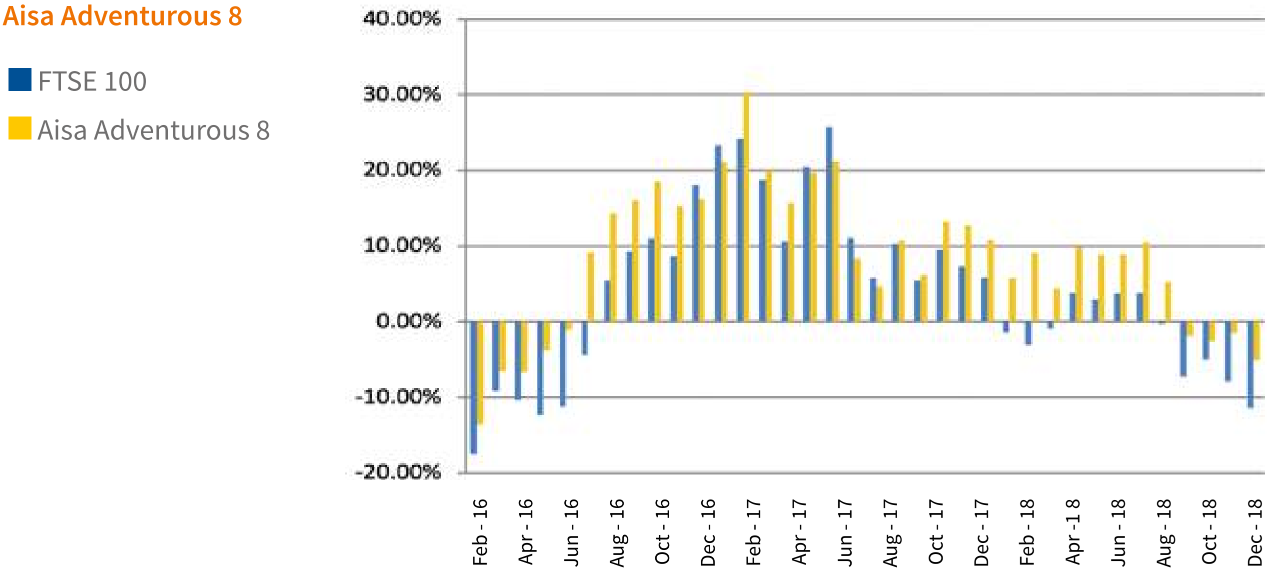
Aisa Growth 6



Aisa Speculative 7



Aisa Adventurous 8



6) Quarterly timetabled asset/product discussions

The product discussions for this quarter were UCIS Methodology which was updated by John Reid, ETP and Passive Tracking which was updated by James Pearcy-Caldwell and Offshore Bonds which was updated by Geordie Bulmer. We are creating a portfolio of passive investments as an alternative investment approach for our clients to use. These will be based on the geographical spread of our existing model portfolios. All information is to be updated into our Governance document centrally held at our main office.

7) AOB

We are in the process of building a factsheet for our portfolio. This will be a short 2 or 3 page document which summarises the key features of the portfolio, how the portfolio has performed and who the portfolio is suitable for.

Reference Material utilised in this meeting:

Analytics – review of funds.
Aisa Performance data.
Aisa Governance Document.
Ascentric presentations.

8) Next Meeting

Next meeting will be held at Schroders on 29th April 2019.

9) Actions Outstanding

Action: **Contact clients who are affected by any fund change(s) in their portfolio(s).**
Action: **James to update the Governance Document with quarterly research.**
Review: **Those funds on quarterly watch.**
Review: **Monitor funds in growth portfolios.**

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Signed by Chairman


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