Quarterly Investment Update

Q3 | 2017

Aisa Professional


7000
6724
52.19
-67
-54
6500
6000

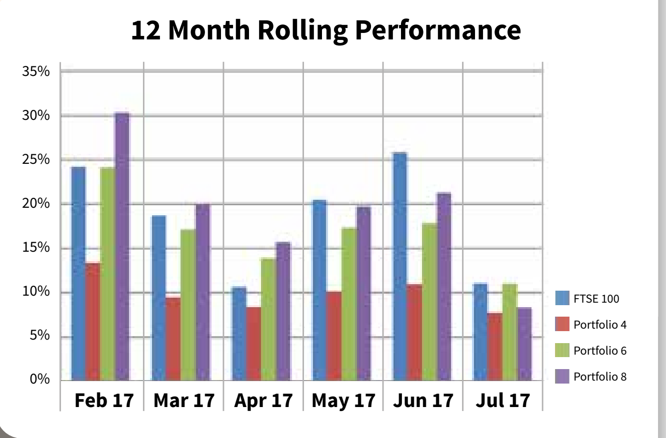
Executive Summary

Market Summary

- The FTSE 100 has been volatile over the last 12 months, with a low of 6,634.4 and a high of 7,547.63.
- Over the period of 14/04/17 – 13/07/17, the FTSE 100 was up 2.14%.
- Part of the AIT discussions were the UK's position regarding Brexit negotiations following the results of the snap election called by Theresa May.
- Until last month, the UK has seen inflation continuing to rise. The AIT note that we may see an increase in interest rates and are looking into how we can minimise the impact.
- The markets as a whole have done extremely well post Brexit, although they have largely stagnated over the last few months.

Investment Portfolios

- All of our growth and income portfolios over the last three months have gone up, ranging from 0.26% to 3.13% net after charges.
- Over the last 12 months our portfolios have performed well against the FTSE 100. This includes portfolio 7 beating the performance of the FTSE 100. They have performed well due to tactical asset allocation decisions the committee has made in the past whilst retaining the appropriate risk and volatility. We continue to do this.
- All of our portfolios take less risk than the FTSE 100.
- Since the end of 2014 we have been negative on China and Emerging Markets, however we have changed our position and are now neutral.



How we work

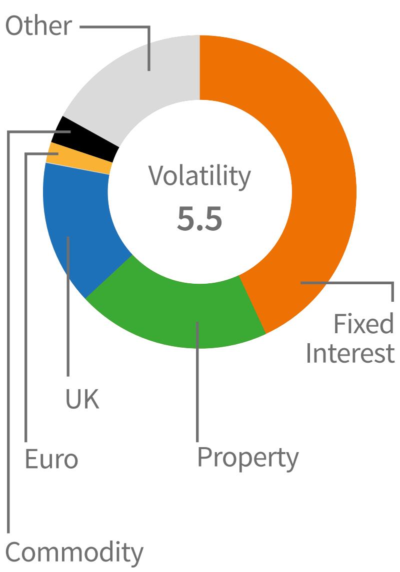
- Funds are selected using criteria in our governance document. The funds are allocated using our strategic plan and which asset classes we feel should be considered over the coming 12 months and longer.
- Our strategic plan is largely decided by our informed view on the economies of the world and individual 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.

Portfolio 3

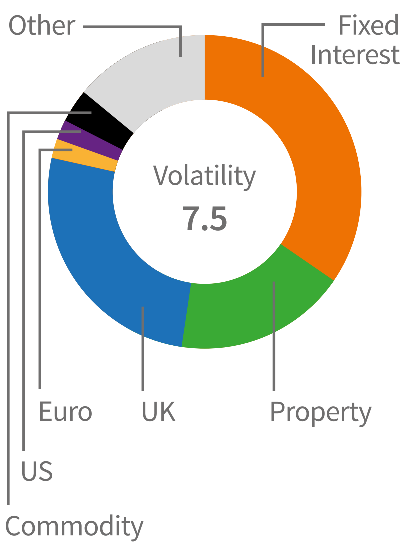
Target Return
4.60%



- 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%

Portfolio 4

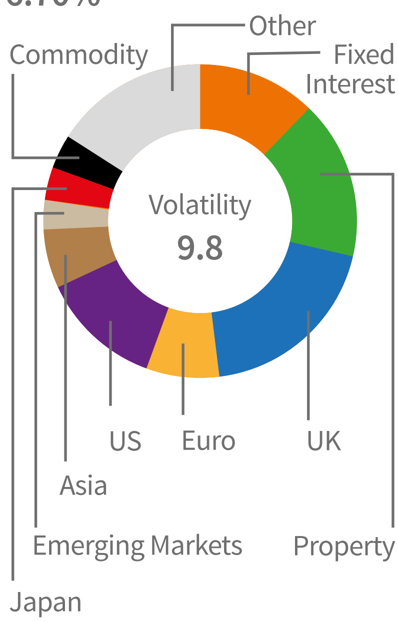
Target Return
5.70%



- 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%

Portfolio 5

Target Return
6.70%



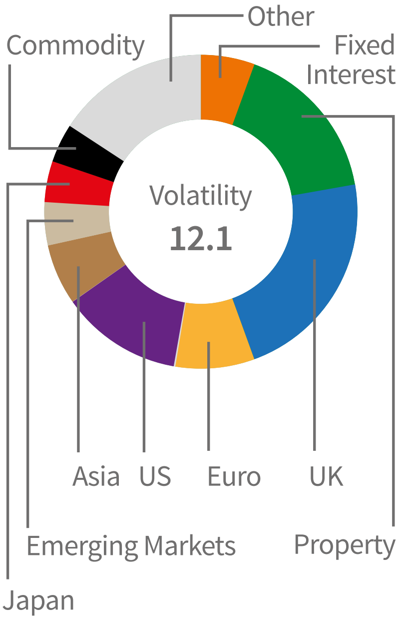
- Fixed Interest 12.2%
- Property 16.4%
- UK Equities 19.4%
- Euro Equities 7.5%
- US Equities 12.5%
- Asia Equities 6.0%
- Emerging Markets 3.1%
- Japan Equities 3.3%
- Commodity 3.5%
- Other 16.1%

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.

Portfolio 6

Target Return

7.80%

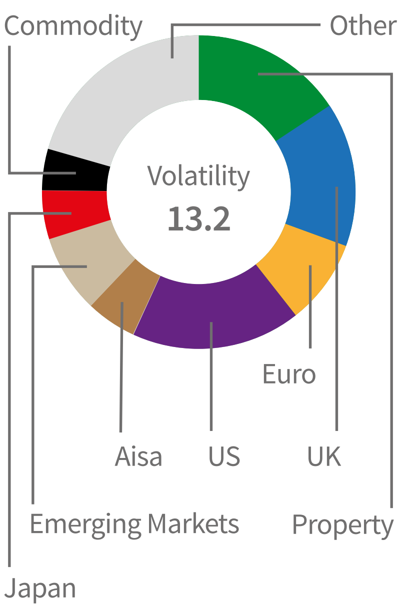


- Fixed Interest 5.6%
- Property 16.7%
- UK Equities 22.3%
- Euro Equities 8.4%
- US Equities 12.4%
- Asia Equities 6.3%
- Emerging Markets 4.5%
- Japan Equities 4.2%
- Commodity 4.0%
- Other 15.6%

Portfolio 7

Target Return

8.80%

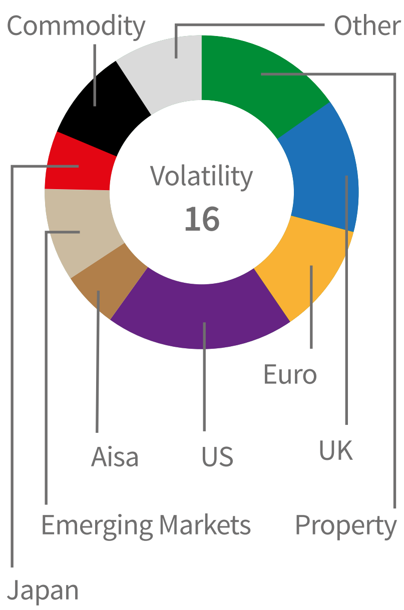


- Fixed Interest 0%
- Property 15.7%
- UK Equities 14.9%
- Euro Equities 8.8%
- US Equities 15.9%
- Asia Equities 5.2%
- Emerging Markets 7.9%
- Japan Equities 5.0%
- Commodity 4.3%
- Other 21.9%

Portfolio 8

Target Return

9.90%



- 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: 19th July 2017

Attendees: John Reid (Chairman)
James Pearcy-Caldwell (Member of Board and Compliance Representative)
Geordie Bulmer (Member of Board)

Secretary: James Dunford (Secretary)

---

1 Review of previous minutes and sign offf

a) After agreement, the minutes of 19th April 2017 were signed as correct by the Chair.

b) Actions outstanding at previous meeting, and outcomes:

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

---

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

3 Aisa Comment & Presentations

a) How do interest rates affect equities?

The “talk of the town” in mid-2017 has been the potential for interest rate rises in the USA, UK and the ceasing of quantitative easing in the Eurozone. We would like to try to explain Aisa’s investment consideration for such matters in a way that is of interest to you.

Let us first of all understand that when you print money (quantitative easing) you are putting more money into circulation which in turn, devalues the money already there. This oversupply during the last 10 years has been combined with low interest rates. Whilst banks have re-capitalised in the UK and the USA, they have also lent out more capital from this new money. In brutal terms, everyone who has been borrowing to invest, or who owns assets such as property, benefit due to asset price increases linked with all that new spare cash in circulation.

What eventually happens, however, is people with less money, no assets or high borrowings become susceptible to potential inflation as prices go up but their salaries do not due to low salary inflation, and / or potentially higher borrowing costs. In the UK we have seen the devaluation of sterling due to Brexit fears, leading to inflation. In this instance Brexit fears are a catalyst rather than a cause. However, people on lower salaries will need to seek wage increases or more borrowing or both!

Businesses and governments that pay the wages therefore have to make lower profits (have a higher deficit for a government) or they have to put their prices or taxes up. Clearly a business making lower profits would pay out lower dividends, so they put prices up or seek cost savings, often via redundancies. Ironically both of these impacts on the very same people that are already struggling as companies seek efficiency and greater productivity.

Thus you enter a vicious cycle and the way a Central Bank, such as the FED or Bank of England, attempts to reduce the impact of this cycle is to increase interest rates and reduce cash in circulation (the polar opposite of what has been going on for the last 10 years). This has to be done very carefully, as any reduction in stimulus will naturally affect all assets. We do not see this happening in the next 6-9 months but we do think this will be the big decision over the coming 12-18 months.

Clearly, where someone is using someone else’s money, a rise in interest rates leads to a ripple effect across the entire community, and in this case, possibly across the whole world. As the UK has just demonstrated however, the economy takes around about 12 months for any effects to be felt. Be warned; markets react quicker and can take into account the future impact in tomorrow’s values today however!

Understanding this relationship is how we can make better investment decisions. So what can we plan for? Well, for 10 years, we have had too much money chasing too few assets, often property, which has benefitted all those holding these assets. An increase in interest rates or a reduction in quantitative easing will reduce the amount of money in circulation by making money more expensive to obtain. In normal circumstances, this should lead to asset depreciation.

This reduction leads to people and companies spending less on discretionary items, which reduces business revenue in these areas. Other businesses with borrowings are also affected as this may bring higher costs, or borrow less, meaning lower investment and a slowdown in business growth or even cutbacks. The usual result; lower real earnings, higher unemployment and a fall in the stock price.

Banks in Switzerland are paying negative interest rates, while banks in Italy are struggling. Combine this with factors highlighted in this article and, even ignoring the issues that the EU has with Brexit, Greece, Poland and other southern EU countries, this is a toxic mix.

However, the fact is that the interest rates have not risen yet. The EU and Germans appear to suggest that they are content to continue underwriting the Euro, while Brexit is not a problem for the EU and property prices in mainland Europe and the US are still rising. The confidence of investors and economists remain strong at the moment; we will see how this changes with events. We will keep this tricky subject under review at our meetings.

b) Phil Harrison and Benji Dawes from Premier Asset Management

Phil started off the presentation by explaining who Premier Asset Management are and what role he plays within that.

Phil explained that Premier funds have an objective and they set out to meet that objective not just chasing performance. Phil stated that fund managers are coming under pressure on fund costs and with providing clean share classes. In regards to costs, Platform costs vary which can lead to clients with the same portfolios receiving completely different growth percentages. This can be due to trading costs, custody costs, admin costs etc. as well as the time taken for a trade to be executed can vary depending on the platform.

Premier do not have a house view and each fund focuses on meeting its own set objective, they do however offer a diversified fund which takes the best ideas from all of their funds. Premier analyse their performance by comparing it to a benchmark with 96% of their funds above median for their sectors and 60% top quartile.

Benji predicts that the Bank of England will increase interest rates potentially early next year. One reason for this is if there is another crisis, then the Bank of England will want to be able to reduce interest rates. We have witnessed in the UK, due to Brexit, inflation rates rising and Premier are taking a medium term view at trying to manage this.

Premier are currently focusing their property funds, depending on their objective, in certain sectors. For example they believe there is currently growth opportunity in the following sectors;

- UK commercial
- UK Distribution
- UK secondary retail
- German Residential

In brief, these areas are highlighted due to the UK seeing rental yields increasing, the success of online companies with large warehouses, affordable high street shops being taken over by service driven enterprises, and in Germany the ongoing expectation of the value of residential to continue after large increases in the last 3 years in places such as Berlin in particular.

c) Hoshang Daroga from Copia Capital Management

Copia Capital Management was established in 2013 and is part of the asset management division of Novia Financial plc. Copia offer a retirement investment portfolio ran by themselves. Copia's investment philosophy is to focus on asset allocation as that is what drives returns and the use of cost efficient Exchange Traded Funds is used for transparency, diversification and risk control. Copia have a consistent investment process;

1) Portfolio objective: to address the client's need
2) Asset allocation to match the clients need
3) Portfolio construction & rebalancing

Investing for decumulation requires a different approach to investing for accumulation. This is because the objectives are completely different. Copia's approach for accumulation is asset optimisation and for decumulation it is liability relative. Copia believe the key retirement risk is shortfall risk, which is running out of money. The four main factors for short term risks are as follows (in order):

1) Sequencing risk
2) Longevity risk
3) Interest rate risk
4) Inflation risk

A retirement portfolio should address these factors.

Copia have 20 portfolios, which include 5 different risk levels and 4 different investment terms.

Risk levels:	RP1, RP2, RP3, RP4 and RP5	*(RP3 = Risk Profile 3)*
Investment terms:	3-10Y, 11-15Y, 16-20Y, 20-25Y+	*(11-15Y = 11 to 15 years)*

If a client had a risk profile of 3 and an investment term of 13 years then they would fit into RP3 11-15Y.

Copia calculates a safe withdrawal rate (95% confident), this is where they calculate how much the client can withdraw from their portfolio and Copia are 95% confident that this portfolio will last the investment term with the portfolio seeing worst case scenario performance. Copia also calculate an average withdrawal rate (50% confident), this is how much the client can withdraw from their portfolio and Copia are 50% confident that this portfolio will last the investment term with worst case scenario performance.

For example:

Initial Investment: £100,000
Investment Term: 25 Years
Risk Level: 3

The safe withdrawal rate (95% confident) is 3.46% of the initial investment, this means the client can withdraw £3,460 annually and Copia are 95% confident that the portfolio will last the 25 years with worst case scenario performance.

The average withdrawal rate (50% confident) is 5.91%, this means the client can withdraw £5,910 annually and Copia are 50% confident that the portfolio will last the 25 years with worst case scenario performance.

4a) Geographical & Sector Outlook

The FTSE 100 has been volatile over the last 12 months, with a low of 6,634.4 and a high of 7,547.63. Over the period of 14/04/17 – 13/07/17, the FTSE 100 was up 2.14%. All of our growth and income portfolios over the same period have gone up, ranging from 0.26% to 3.13% net after charges.

Over the last year the Dow Jones Index has gone up 16.87%. With a low of 17,888.28 and a high of 21,640.75.

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

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

- **Equity** – We are neutral on Europe, neutral in UK and US. We are positive towards Japan. We are neutral on China and Emerging Markets connected with China, neutral towards South East Asia and other Emerging Markets.
- **Equity Income** – Positive.
- **Property (UK Residential)** – Negative.
- **Property (UK Commercial)** – Positive.
- **Property (Global)** – Positive, particularly in Europe.
- **Bonds (Gilts)** – Negative, except for strategic bonds which we are neutral towards.
- **Bonds (Corporate)** – Neutral, although some may have to be used as part of an asset allocation strategy; where necessary to utilise then Investment Grade only.
- **Cash** – Negative, although some National Savings products could be considered.
- **Commodities / currency concerns** – Neutral.

4b) Plus Service *(only applies to those clients signed up)*

No additional change for our plus clients – retain same fund strategy as main portfolios.

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 (26)	3	0.82% (0.4%)	8.07% (6.28%)	9.97% (6.45%)	15.11% (9.53%)	20.95% (11.25%)	N/A
Cautious (38)	4	1.3% (0.89%)	9.57% (7.8%)	12.92% (9.38%)	20.36% (14.62%)	24.77% (17.35%)	39.23% (28.05%)
Balanced (67)	5	2.39% (1.97%)	11.83% (10.01%)	21.21% (17.42%)	29.69% (23.52%)	32.33% (24.63%)	52.23% (41.48%)
Growth (71)	6	2.65% (2.23%)	12.85% (11.01%)	22.37% (18.46%)	35.17% (28.53%)	38.67% (30.2%)	68.11% (55.25%)
Speculative (74)	7	3.56% (3.13%)	13.24% (11.42%)	23.75% (19.9%)	38.88% (32.17%)	43.46% (34.94%)	73.38% (60.35%)
Aggressive (88)	8	1.96% (1.57%)	10.21% (8.33%)	21.52% (17.85%)	31.95% (26.04%)	36.37% (28.94%)	74.18% (62.31%)

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.

Growth+ Portfolios

Including Charges After Charges

Aisa Portfolio	Risk Grade	3 mths	12 mths	24 mths	36 mths	48 mths	60 mths
Cautious (40)	4	0.64% (0.26%)	7.2% (5.67%)	9.1% (5.99%)	13.72% (7.98%)	17.65% (10.4%)	31.52% (21.84%)
Balanced (70)	5	1.78% (1.41%)	8.71% (7.71%)	18.88% (16%)	26.39% (21.35%)	28.03% (21.57%)	44.75% (35.66%)
Growth (71)	6	2.16% (1.76%)	12.14% (10.63%)	19.74% (16.34%)	31.86% (25.95%)	37.43% (29.58%)	62.08% (49.54%)
Speculative (74)	7	2.57% (2.25%)	10.64% (9.32%)	21.03% (17.88%)	34.02% (28.52%)	30.42% (37.35%)	64.13% (52.48%)

Income Portfolios

Including Charges After Charges

Aisa Portfolio	Risk Grade	Yield	3 mths	12 mths	24 mths	36 mths	48 mths	60 mths
Cautious (36)	4	4.39%	2.46% (2.06%)	12.68% (11%)	12.81% (9.6%)	19.09% (13.92%)	22.35% (15.83%)	N/A
Balanced (57)	5	4.04%	1.27% (1.07%)	10.68% (9.91%)	13.22% (11.69%)	20.17% (17.65%)	23.74% (20.56%)	35.21% (31.06%)
Growth (63)	6	3.88%	1.39% (1.01%)	14.21% (12.49%)	16.83% (13.5%)	27.89% (22.19%)	26.9% (20.2%)	39.44% (30.91%)

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 higher than 3.8%.

5a) 12-Month Rolling Performance

We have analysed the actual performance of our model portfolios over the last three years, on a rolling 12-month basis. In the table here, next to each month, we have shown the performance for the last 12 months, i.e. January 2016 to January 2017, February 2016 to February 2017 and so on.

Over the last 12 months our portfolios have performed well against the FTSE 100. All of our portfolios take less risk than the FTSE 100. This includes portfolio 7 beating the performance of the FTSE 100.

It has been noted that the G8 Aggressive portfolio has a lower growth level in the shorter terms than some lower risk portfolios. Although this is sometimes to be expected with the higher risk nature of the portfolio, the Investment Team felt it appropriate to look into this in some detail.

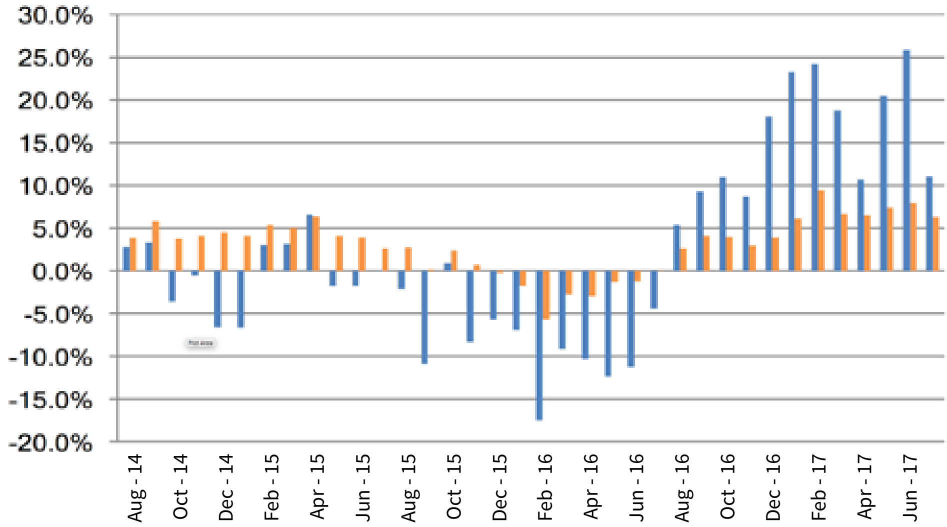
This is because G8 has a higher proportion invested in funds that have performed less well recently, for example ETFS Physical gold has gone down 5.15% in the last year and 5.5% of G8 is invested in this fund whereas the holding is 3% in other portfolios. Another reason is that portfolios G5, G6 and G7 all hold funds which have performed well but do not feature in G8, for example AXA Framlington UK Smaller Cos has gone up 33.98% over the last year. This fund is in G5, G6 and G7 but it does not feature in G8.

Month	FTSE 100	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Portfolio 8
Aug-14	2.8%	3.88%	2.7%	0.86%	2.0%	3.6%	2.17%
Sep-14	3.3%	5.82%	5.1%	4.43%	6.1%	8.1%	5.74%
Oct-14	-3.6%	3.80%	2.1%	0.65%	1.6%	4.2%	1.52%
Nov-14	-0.5%	4.09%	3.5%	2.92%	6.0%	8.7%	5.63%
Dec-14	-6.6%	4.53%	4.3%	4.62%	8.1%	10.3%	9.12%
Jan-15	-6.6%	4.09%	5.1%	5.86%	9.4%	11.6%	9.45%
Feb-15	3.1%	5.39%	7.1%	7.12%	10.5%	12.7%	10.51%
Mar-15	3.2%	4.99%	7.0%	7.39%	11.6%	13.8%	11.66%
Apr-15	6.6%	6.31%	10.3%	11.01%	17.6%	20.0%	19.67%
May-15	-1.7%	4.08%	6.0%	6.34%	11.6%	12.8%	11.90%
Jun-15	-1.7%	3.93%	5.4%	6.61%	11.0%	11.2%	9.83%
Jul-15	0.1%	2.63%	4.4%	4.59%	8.8%	9.3%	5.92%
Aug-15	-2.1%	2.72%	3.4%	4.72%	7.9%	8.6%	5.04%
Sep-15	-10.9%	0.18%	-0.4%	-0.3%	1.7%	1.9%	-2.9%
Oct-15	0.9%	2.35%	4.0%	5.84%	8.7%	8.9%	5.15%
Nov-15	-8.3%	0.72%	1.3%	1.65%	3.7%	2.6%	1.26%
Dec-15	-5.7%	-0.22%	0.0%	0.08%	1.2%	0.3%	-3.61%
Jan-16	-6.9%	-1.77%	-2.1%	-3.13%	-2.2%	-3.4%	-7.22%
Feb-16	-17.5%	-5.64%	-7.9%	-9.53%	-8.8%	-10.3%	-13.62%
Mar-16	-9.2%	-2.74%	-3.6%	-3.49%	-2.6%	-3.9%	-6.55%
Apr-16	-10.4%	-2.93%	-4.5%	-3.54%	-3.2%	-4.3%	-6.68%
May-16	-12.3%	-1.29%	-2.3%	-0.70%	0.6%	-1.5%	-3.80%
Jun-16	-11.2%	-1.23%	-2.3%	0.50%	0.7%	0.6%	-1.09%
Jul-16	-4.4%	0.05%	0.9%	6.80%	7.6%	8.1%	9.15%
Aug-16	5.4%	2.64%	4.4%	10.86%	11.7%	12.4%	14.30%
Sep-16	9.3%	4.11%	6.2%	11.58%	12.9%	13.2%	16.09%
Oct-16	11.0%	3.99%	6.2%	12.73%	15.0%	16.2%	18.53%
Nov-16	8.7%	2.97%	4.1%	8.49%	10.4%	10.5%	15.31%
Dec-16	18.1%	3.95%	5.4%	10.71%	11.4%	11.9%	16.18%
Jan-17	23.3%	6.14%	8.1%	15.15%	15.9%	16.5%	21.14%
Feb-17	24.2%	9.42%	13.4%	23.13%	24.1%	25.4%	30.31%
Mar-17	18.7%	6.72%	9.5%	16.07%	17.2%	17.8%	19.99%
Apr-17	10.7%	6.48%	8.4%	13.09%	13.9%	13.9%	15.67%
May-17	20.5%	7.45%	10.1%	15.58%	17.4%	17.7%	19.73%
Jun-17	25.8%	7.93%	11.0%	16.77%	17.8%	18.5%	21.25%
Jul-17	11.1%	6.28%	7.8%	10.01%	11.0%	11.4%	8.33%
Average	**2.4%**	**3.1%**	**4.0%**	**6.3%**	**8.3%**	**8.9%**	**8.2%**

Aisa Portfolio 3

FTSE 100

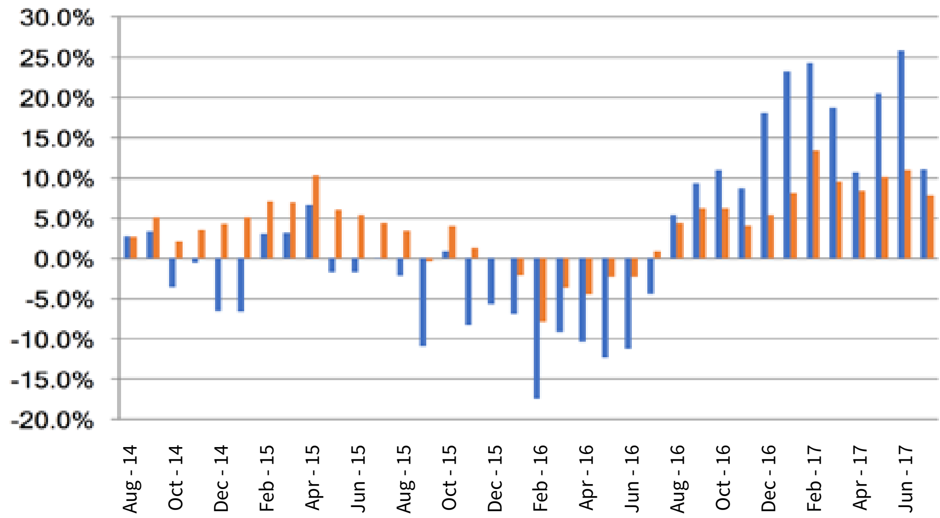
Aisa Portfolio 3



Aisa Portfolio 4

FTSE 100

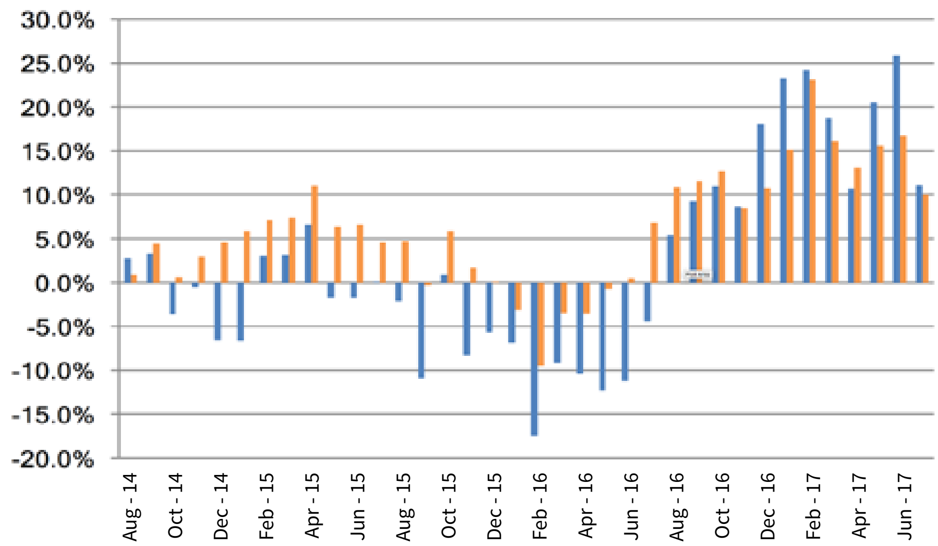
Aisa Portfolio 4



Aisa Portfolio 5

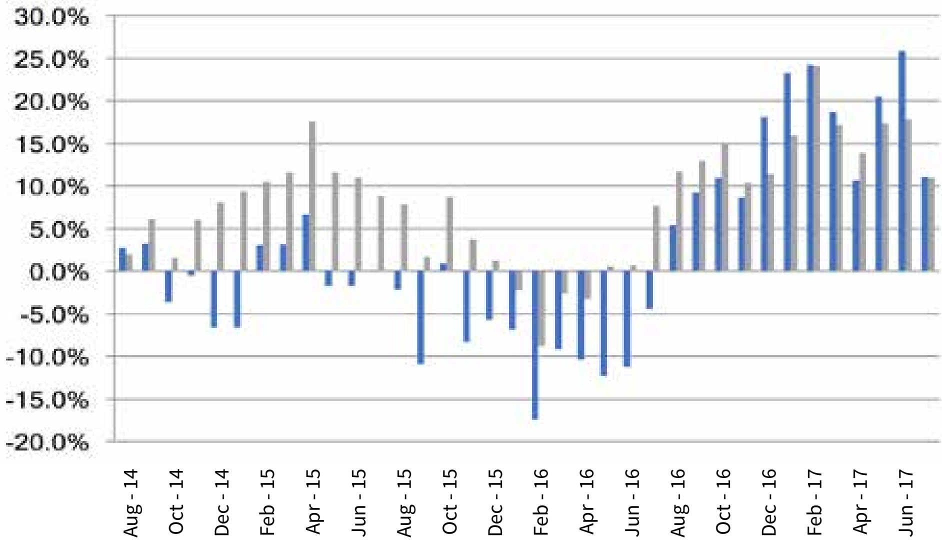
FTSE 100

Aisa Portfolio 5



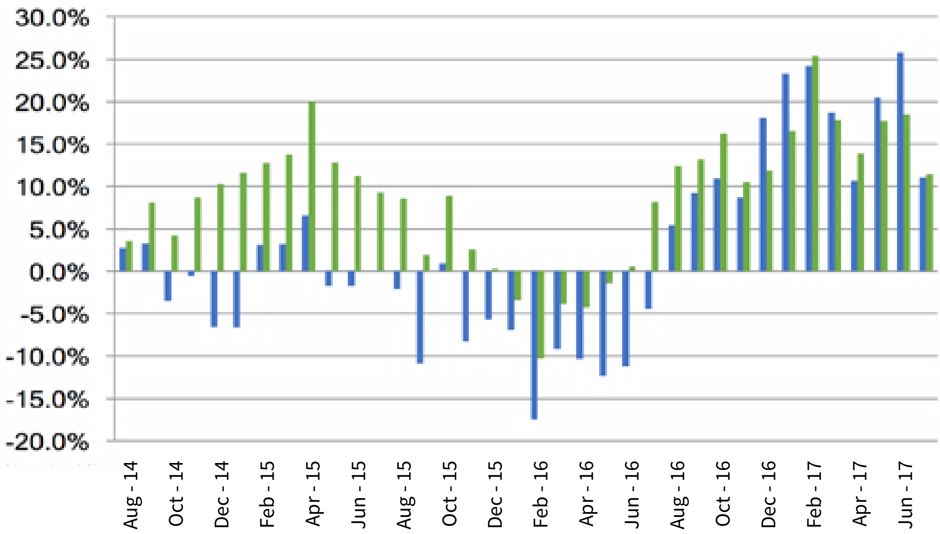
Aisa Portfolio 6

FTSE 100
Aisa Portfolio 6



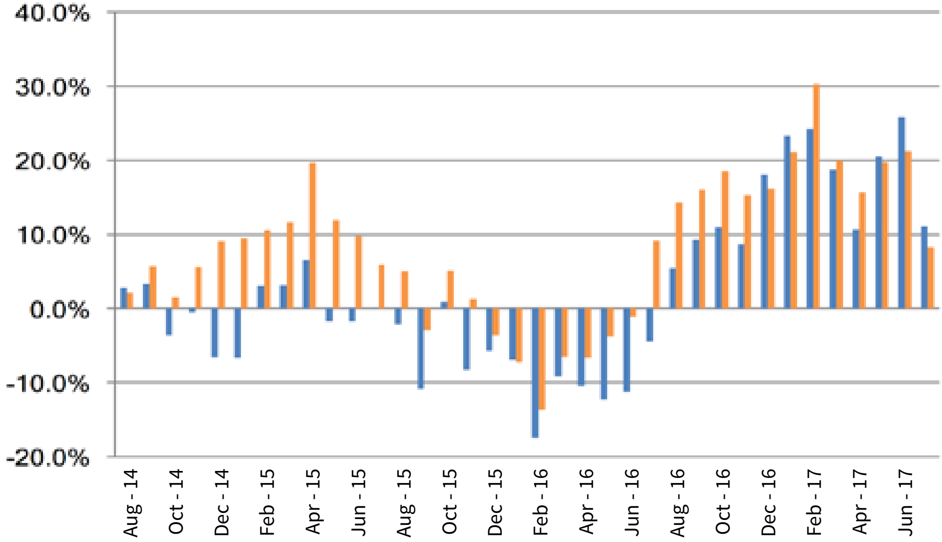
Aisa Portfolio 7

FTSE 100
Aisa Portfolio 7



Aisa Portfolio 8

FTSE 100
Aisa Portfolio 8



6 Interest Rates

Until last month, the UK has seen inflation continuing to rise. The AIT note that we may see an increase in interest rates and are looking into how we can minimise the impact.

7 Quarterly timetabled asset/product discussions

The product discussions for this quarter were Investment Trusts which was reviewed by James Pearcy-Caldwell, VCT/EIS which was reviewed by John Reid and Discretionary Management which was reviewed by Geordie Bulmer.

All information is to be updated into our Governance document centrally held at our main office.

8 AOB

Reference Material utilised in this meeting:

Analytics – review of funds.

Aisa Performance data.

Aisa Governance Document.

Ascentric presentations.

9 Next Meeting

Next meeting will be held on Thursday 12th October 2017.

10 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.**

....

Signed by Chairman


-24
50
40
30
20
0
3421

Aisa Professional

Phone: +44 (0)1672 569111
Email: info@aisagroup.org
Website: www.aisagroup.org

UK Address: Aisa, Unit 4, Fordbrook Business Centre, PEWSEY, Wiltshire, SN9 5NU