Quarterly Investment Update

Q4 | 2017

Aisa Professional


7000
6724
52.19
-67
-54
6500
6000

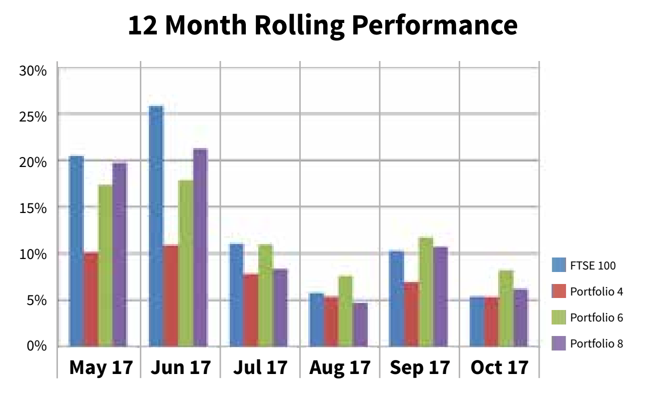
Executive Summary

Market Summary

- The FTSE 100 has been volatile over the last 12 months, with a low of 6,693.30 and a high of 7,547.60
- Over the period of 04/07/17 – 03/10/17 the FTSE 100 was 2.51% higher.
- The AIT discussed the possibility of using stop losses with our portfolios, however the AIT decided against this idea as they believe this will not add value to the existing portfolios.
- The markets as a whole have done extremely well post Brexit, although they have largely stagnated over the last half of this year.

Investment Portfolios

- All of our growth and income portfolios over the last three months have gone up, ranging from 0.62% to 3.08% net after charges.
- Over the last 12 months our growth 5-8 portfolios have outperformed a FTSE 100 tracker. 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.
- Growth portfolio 4 matched the performance of a FTSE 100 tracker and growth portfolio 3 had slightly lower returns than a FTSE 100 tracker.
- All of our portfolios take less risk than the FTSE 100.



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.

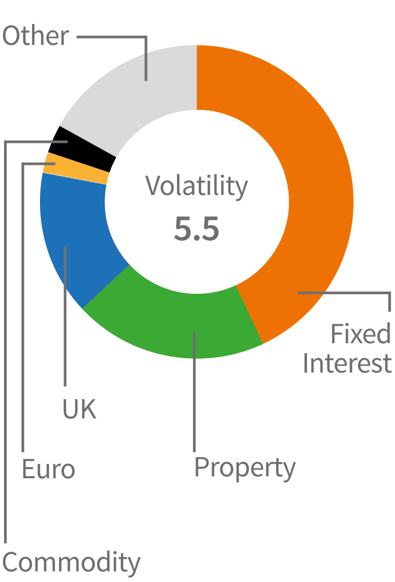
Aisa's Investment Portfolios

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%

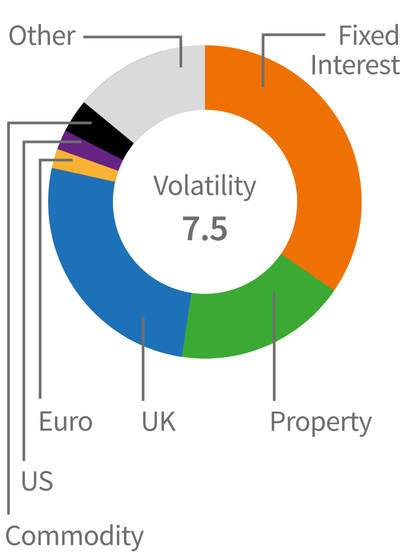


- Fixed Interest 43.1%
- Property 20.6%
- UK Equities 14.9%
- Euro Equities 2.0%
- US Equities 0%
- Asia Equities 0%
- Emerging Markets 0%
- Japan Equities 0%
- Commodity 3.0%
- Other 16.4%

Portfolio 4

Target Return

5.70%

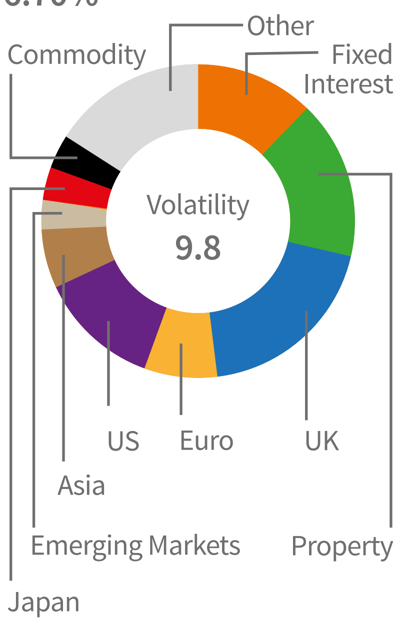


- Fixed Interest 34.6%
- Property 17.91%
- UK Equities 26.1%
- Euro Equities 2.0%
- US Equities 2.0%
- Asia Equities 0%
- Emerging Markets 0%
- Japan Equities 0%
- Commodity 3.5%
- Other 13.9%

Portfolio 5

Target Return

6.70%



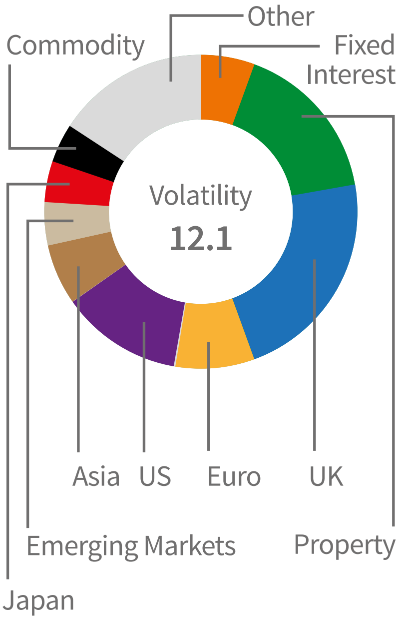
- Fixed Interest 12.2%
- Property 16.4%
- UK Equities 19.4%
- Euro Equities 7.5%
- US Equities 12.5%
- Asia Equities 6.0%
- Emerging Markets 3.1%
- Japan Equities 3.3%
- Commodity 3.5%
- Other 16.1%

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%

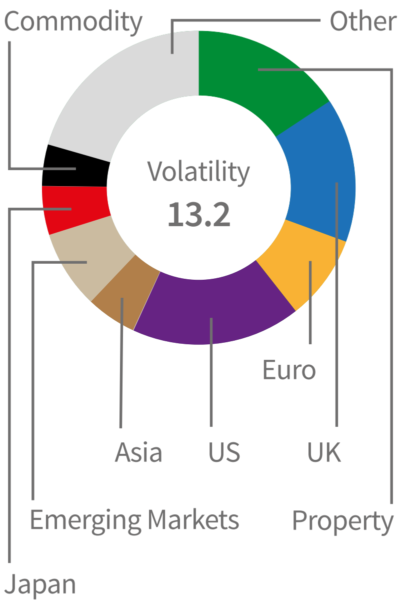


- Fixed Interest 5.6%
- Property 16.7%
- UK Equities 22.3%
- Euro Equities 8.4%
- US Equities 12.4%
- Asia Equities 6.3%
- Emerging Markets 4.5%
- Japan Equities 4.2%
- Commodity 4.0%
- Other 15.6%

Portfolio 7

Target Return

8.80%

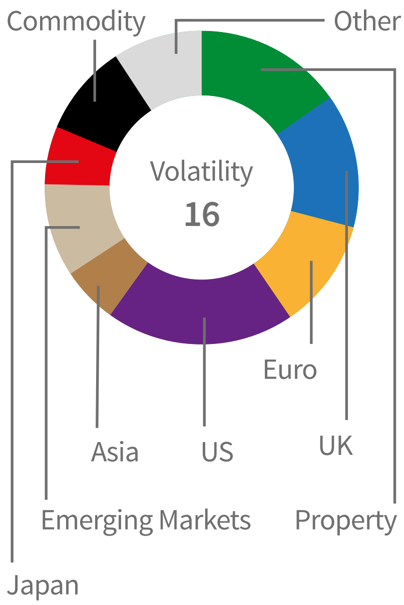


- Fixed Interest 0%
- Property 15.7%
- UK Equities 14.9%
- Euro Equities 8.8%
- US Equities 15.9%
- Asia Equities 5.2%
- Emerging Markets 7.9%
- Japan Equities 5.0%
- Commodity 4.3%
- Other 21.9%

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: 12th October 2017

Attendees: John Reid (Chairman)
James Pearcy-Caldwell (Member of Board and Compliance Representative)
Geordie Bulmer (Member of Board)
Marius Hampden (Guest)
Paul Pulickal (Guest)

Secretary: James Dunford (Secretary)

1 Review of previous minutes and sign offf

a) After agreement, the minutes of 19th July 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 Presentations

a) Will this bull market ever end?

For those clients who need reminding of bull and bear markets, and what they mean, then simply think back to 1999-2003 or 2007-2009 and remember what happens when a bull market finishes. This should not be scary, more the idea is to be educational. The key to understanding is that just when everyone is thinking “I should be invested and involved in this” is usually the point where you should be doing just the opposite.

The problem is no-one wants to miss the end of a bull market as you can obtain some good growth. However, what needs to be understood is that most of the risk is viewed as being to the downside as our presentation from Anna Stupnytska highlighted, and which is covered in detail in the next section 3(b). What Anna wanted to highlight is the problem that central banks have in dealing with reducing the money supply that has been non-stop in many countries since 2009, versus inflation, versus financial stability.

We covered inflation and the associated problems in the last quarter and we would urge you to go back and read that if you have not done so already. Inflation can be good in terms of reducing the real value of debt, but it can be bad for those having to repay the debt! Everyone wants the former without the pain of the latter, and life is not like that. Having higher debt repayments takes money from other areas of expenditure both in governments, companies and individuals. Something has to give and therefore, the issue of interest rates (which directly affects the payments) is a major issue.

As we write this we have both the federal reserve and Bank of England suggesting that interest rates are going up in the near future. By the time this is published and read, it may be that interest rates have risen. However, the markets have already priced in small interest rate rises and we do not see this materially affecting investing portfolios.

Another interesting fact that arose in our last meeting was the issue of passive investing. We do believe in the utilisation of passive investment in mature markets, but what came across loud and clear is that those using passives linked to government or investment grade bonds would have been far better off investing actively over the last few years.

The investment committee prides itself on not being of a single fixed mind or inflexibility. We hear discussions on passive (that is where an index is replicated or copied to produce similar growth and losses) versus active (that is where people make a decision on where and what advantages they feel they can obtain by investing or not investing in shares or assets). Both principles work in different areas at different times. Our own investment approach continues to enjoy this flexibility and results are published in our quarterly bulletin based on real client fund performances.

One final thing, we have been asked to consider stop-loss strategies. That is where when a fund/share reduces below a certain level then an automatic sale occurs. We intend to conduct this review over the coming year but, as attractive as it sounds, there is considerable research that demonstrates it does not always work the way it is intended to. We will relay back to our clients our own research and outcomes in 2018.

b) Anna Stupnytska from Fidelity International

Anna is a global economist and she gave a global macro outlook for 2017 and beyond.

Growth momentum peaked with risks to growth skewed to the downside. Inflation still subdued and are unlikely to accelerate fast from here. Central banks facing trade-off between inflation and financial stability. Global liquidity getting withdrawn resulting in uncharted territory for markets. Uncertainty around US policy, Brexit, EU reform key to outlook. Geopolitics is another key risk but hard to factor in.

What current global cycle are we tracking? 2013 to 2015 where growth reaccelerated or 2006 to 2008 where growth worsened. We have seen an uptick in growth momentum except for in the consumer and labour sector.

Global core inflation will be relatively subdued with Anna expecting the US to be below their target of 2% and the UK to rise just above 3% in Q4 2017 and begin to reduce in Q1 2018.

The US has seen meaningful easing since November 2016 with business and consumer confidence holding up but this strength may be partly driven by inflation illusion. The US are seeing lower real wages in comparison to expenditure and housing becoming less affordable.

The UK, for now, has shown no signs of collapse on Brexit uncertainty. However consumer confidence is decreasing due to inflation levels and negative real wage growth is posing further downside risks.

Anna's current views on asset allocation are; positive on equity because continued stabilisation in macro data and ability for earning growth to continue, strongly negative on fixed income due to sustained global growth and stretched valuations across multiple fixed income markets, neutral on cash and this is because of potential for higher market volatility.

Anna's views on regional equity positioning are; negative on US because of weakness in interest rate sensitive areas and potential for wage acceleration, Negative on UK because of Brexit negotiations and European assessments of progress on the first round of negotiations, positive on Europe because of ongoing improvement in employment indicators and outlook for European Central Bank, Neutral on Japan because of future of Abernomics and benign global macro conditions, neutral on Asia Pacific because of the impact of China tightening in Q4 2017 and property market slowdown, neutral on Emerging markets because of reversal in US Dollar weakness and strength of non-China growth drivers.

Anna views on fixed income positioning; negative on government bonds because of Outlook for Federal reserve and European Central Bank policy, positive on inflation linked bonds because of labour market tightness and supply cut backs to commodity production, positive on investment grade bonds because of investor appetite for relative safety, neutral on high yield bonds because of valuations as the asset class becomes more sensitive to rate rises, negative on hard currency emerging market debt because of strength of emerging market growth relative to developed markets, neutral on local currency emerging market debt because of rebound in US Dollar strength and higher real yields in developed markets, negative on emerging market corporate debt because of investor sentiment towards emerging markets.

c) Simon Housden from Time investments

Please see note at the bottom of this presentation.

Simon presented to us about residence nil rate band (RNRB) and business property relief (BPR).

The Residence Nil Rate Band came into effect on April this year and is a form of inheritance tax relief by allowing someone to pass on property to their children. RNRB is starting at £100,000 in 2017/18 rising £25,000 a year to reach £175,000 by 2020/21, from 2021/22 onwards RNRB will rise by CPI. RNRB is only allowed to be passed on to direct descendants (Closely Related). This includes children, grandchildren, stepchildren, adopted children and fostered children. Only certain types of trust will meet the requirement of closely inherited, these include; Absolute/Bare, Immediate Post Death Interest, Bereaved Minors, Disabled Persons Interest, 18-25 Trust. Discretionary trusts do not qualify. RNRB will be transferable between spouses and civil partners in exactly the same way as the nil rate band, although partial transfers (where some has already been used) are more complicated. Large estates may lose RNRB entitlement due to tapering. RNRB allowance is tapered if the estate is worth more than £2 million. The appropriate RNRB amount will be reduced by £1 for every £2 by which the taper threshold is exceeded to provide an 'adjusted allowance'. If the taper threshold is exceed then the amount of RNRB will be reduced by £1 for every £2, this is called an "adjusted allowance".

Downsizing provisions have also been included in RNRB. This is where RNRB can be passed on for the value of a previous property but only available when assets of an equivalent value are being left to lineal descendants. It applies if a person has downsized before their death and their residence is replaced by a smaller property or if a person has sold a property before their death and it has not been replaced by another one. The downsizing or disposal of the property has to take place after 8th July 2018.

Business Property Relief is a form of relief on inheritance tax for passing on business assets. Ways to access BPR are; owner of a qualifying trading business, investing in trades which are asset backed and/or with more predictable cash flow, invest in AIM portfolio of BPR qualifying shares (not all AIM shares qualify), and invest in Enterprise Investment Schemes (EIS). The owner of the shares must own them for a minimum of two years for the shares to qualify for Business Property Relief. There are some exemptions for example the shares being passed to the owners spouse and then to the children. This can be applied if the owner of the shares dies within two years of and they pass their shares on to their spouse then the spouse lives the remaining term and when she dies, she passes the shares on to the children, the shares will then qualify for business property relief.

If you are the owner of shares which qualify for BPR and you have had them for a minimum of 2 years, you can sell these shares and if you buy different shares, which also qualify for BPR, within 3 years then the shares will be immediately exempt from inheritance tax, if passed on to the owners children.

BPR can be accessed for the shares being passed on to the children and then the grandchildren. This is where the owner of the qualifying shares dies after the 2 years minimum and then passes the shares on to the children, then the children die within the 2 years of holdings the shares they can still pass on the shares on to the grandchildren with the full exemption.

***NOTE:* This is a record of a meeting and does not constitute a recommendation to clients. Clients should not take such actions based on these write-up's and would retain liability for their own actions if they do. They should seek advice from a qualified and regulated professional before investing in such concepts or services.**

4a) Geographical & Sector Outlook

The FTSE 100 has been volatile over the last 12 months, with a low of 6,693.30 and a high of 7,547.60. Over the period of 04/07/17 – 03/10/17 the FTSE 100 was up 2.51%. All of our growth and income portfolios have gone up over the same period, with our growth portfolios 5,6,7 and 8 beating FTSE 100 after charges. These growth portfolios after charges went up by; portfolio 5 up 2.61%, portfolio 6 up 2.71%, portfolio 7 up 2.92% and portfolio 8 up 3.08%.

Over the last year the Dow Jones Index has gone up 24.73%. With a low of 17,888.28 and a high of 22,661.64.

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, and neutral towards South East Asia and other Emerging Markets.
- **Equity Income** – Positive.
- **Property (UK Residential)** – Negative.
- **Property (UK Commercial)** – Neutral.
- **Property (Global)** – Positive.
- **Bonds (Gilts)** – Negative.
- **Bonds (Strategic)** – Neutral as they can be utilised in asset allocation where risk mitigation is required. Strategic bonds are more likely to take account of inflation and their long term values will not be as affected as fixed gilts.
- **Bonds (Corporate)** – Positive, 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	1.80% 1.40%	6.35% 4.63%	13.66% 9.98%	16.97% 11.32%	23.99% 16.18%	31.81% 22.05%
Cautious (39)	4	2.04% 1.64%	7.07% 5.36%	16.88% 13.14%	21.24% 15.47%	27.24% 19.47%	37.28% 27.26%
Balanced (64)	5	3.02% 2.61%	9.52% 7.77%	27.95% 23.87%	33.30% 26.95%	38.16% 29.87%	49.93% 39.27%
Growth (66)	6	3.11% 2.71%	9.94% 8.19%	29.86% 25.61%	38.15% 31.39%	45.00% 35.88%	64.14% 51.63%
Speculative (74)	7	3.33% 2.92%	10.46% 8.72%	32.33% 28.08%	41.61% 34.77%	49.47% 40.29%	69.34% 56.89%
Aggressive (87)	8	3.47% 3.08%	7.43% 6.21%	33.31% 29.04%	36.15% 29.99%	42.41% 34.33%	70.16% 58.50%

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 (39)	4	1.81% 1.41%	5.10% 3.60%	14.19% 10.86%	16.13% 10.23%	20.98% 13.33%	30.80% 21.16%
Balanced (65)	5	2.39% 2.02%	6.85% 5.64%	24.81% 21.69%	29.88% 24.73%	32.17% 25.36%	41.61% 32.74%
Growth (69)	6	2.45% 2.05%	8.65% 7.00%	26.26% 22.57%	34.78% 28.69%	32.17% 25.36%	58.13% 46.81%
Speculative (74)	7	2.79% 2.45%	7.92% 6.67%	28.76% 25.33%	37.67% 31.94%	42.18% 34.78%	61.29% 51.24%

Income Portfolios

■ Including Charges ■ After Charges

Aisa Portfolio	Risk Grade	Yield	3 mths	12 mths	24 mths	36 mths	48 mths	60 mths
Cautious (37)	4	4.39%	1.40% 1.02%	9.31% 7.69%	16.79% 13.40%	20.00% 14.79%	26.87% 19.79%	N/A
Balanced (58)	5	4.07%	1.87% 1.50%	8.32% 6.93%	18.27% 15.04%	21.59% 16.56%	27.09% 20.29%	35.70% 27.38%
Growth (64)	6	3.90%	1.01% 0.62%	8.80% 7.16%	22.40% 18.74%	26.65% 21.06%	29.58% 22.48%	40.34% 31.49%

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 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 2016 to January 2017, February 2016 to February 2017 and so on.

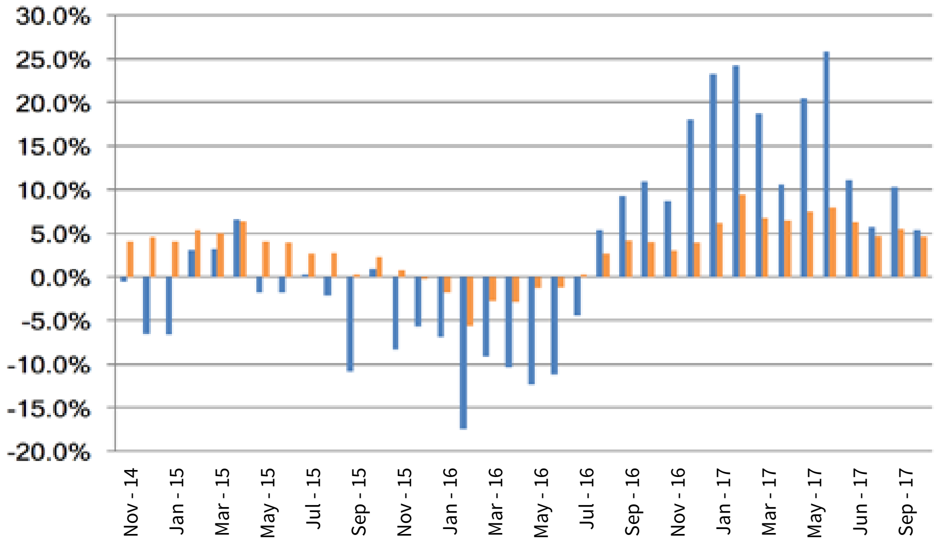
Over the last 12 months our growth 5-8 portfolios have outperformed a FTSE 100 tracker. Growth portfolio 4 matched the performance of a FTSE 100 tracker and growth portfolio 3 had slightly lower returns than a FTSE 100 tracker. All of our portfolios take less risk than the FTSE 100.

Month	FTSE 100	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Portfolio 8
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%
Aug-17	5.8%	4.68%	5.4%	6.90%	7.6%	7.6%	4.68%
Sep-17	10.3%	5.44%	6.9%	11.11%	11.7%	13.0%	10.73%
Oct-17	5.4%	4.63%	5.4%	7.77%	8.2%	8.7%	6.21%
Average	**2.9%**	**3.1%**	**4.2%**	**6.8%**	**8.8%**	**9.2%**	**8.5%**

Aisa Portfolio 3

FTSE 100

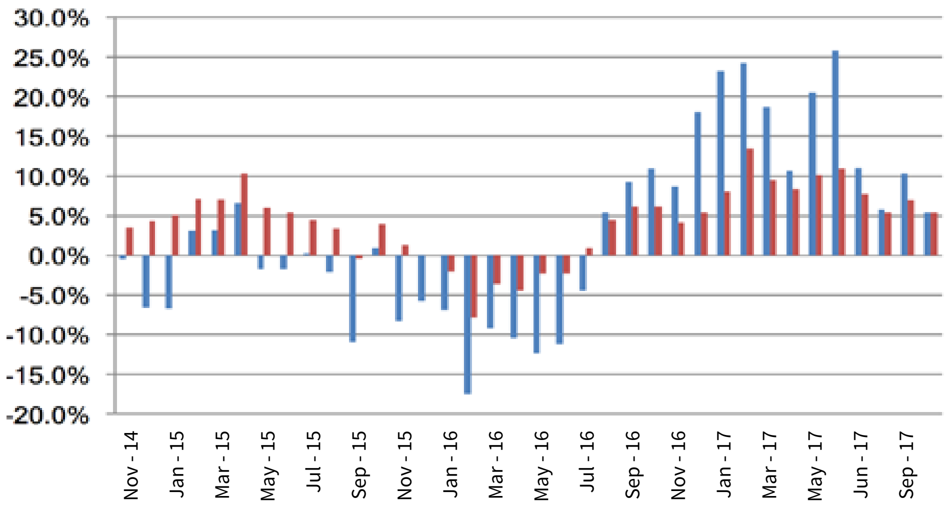
Aisa Portfolio 3



Aisa Portfolio 4

FTSE 100

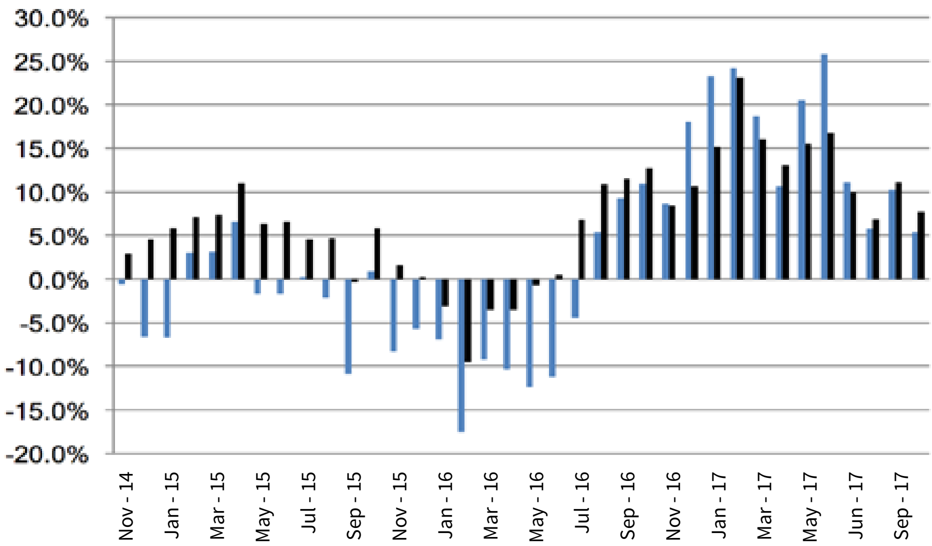
Aisa Portfolio 4



Aisa Portfolio 5

FTSE 100

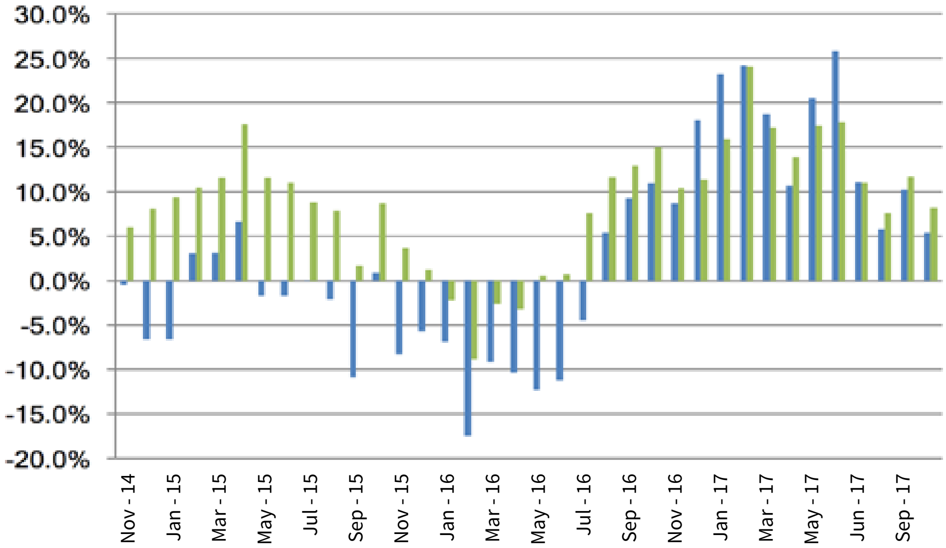
Aisa Portfolio 5



Aisa Portfolio 6

FTSE 100

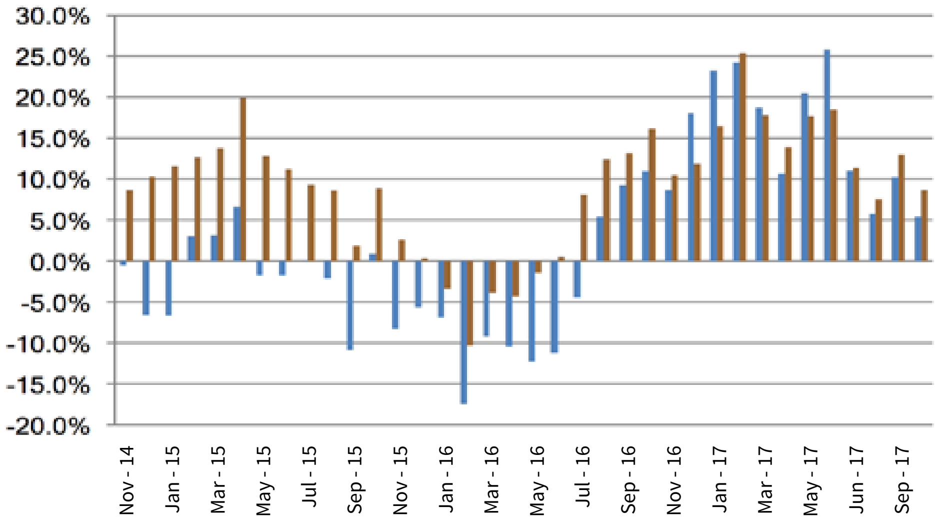
Aisa Portfolio 6



Aisa Portfolio 7

FTSE 100

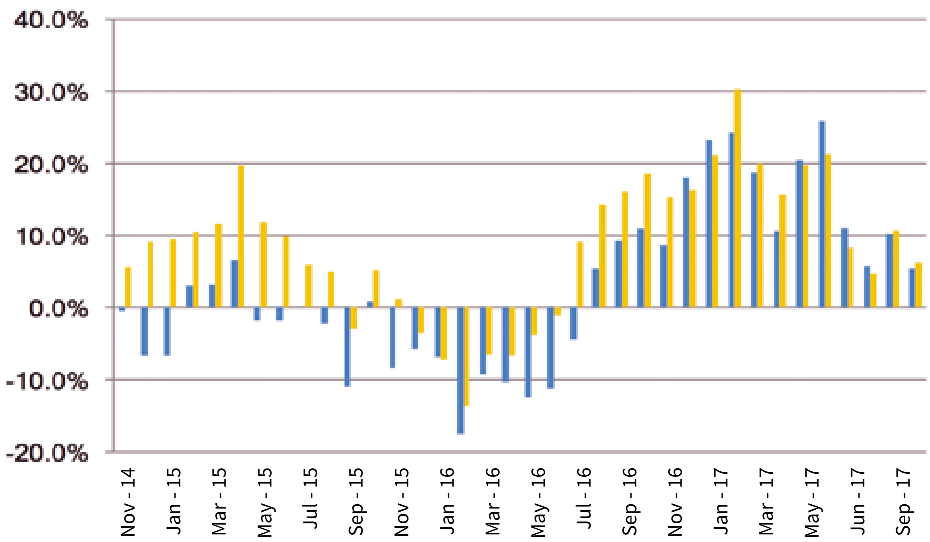
Aisa Portfolio 7



Aisa Portfolio 8

FTSE 100

Aisa Portfolio 8



6 Quarterly timetabled asset/product discussions

The product discussions for this quarter were Structured Products, Asset Allocation Profiling and Offshore Bonds. All information has been updated into our Governance document centrally held at our main office.

7 AOB

All matters of relevance are covered in the notes made.

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 on Thursday 18th January 2018.

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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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