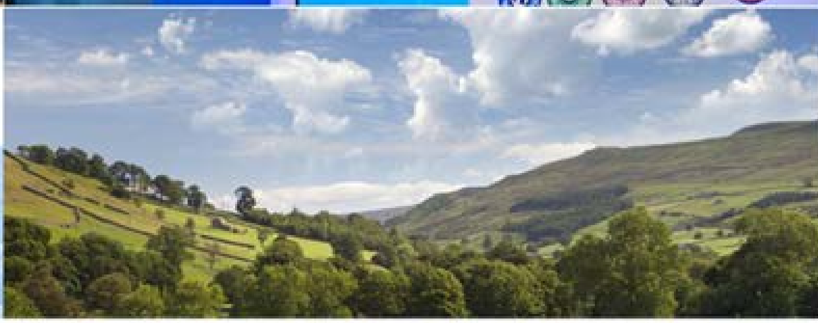

PRIVATE & CONFIDENTIAL

Grayside
Quarterly Portfolio Review
January 2018

Background

The asset allocations and fund selections are reviewed formally on a quarterly basis. This Quarterly Review documents the review that has taken place and any changes resulting from it.

As Nucleus is the main platform used, all funds selected will be checked for availability on this platform.

To put this review in context, it should be read in conjunction with our investment bulletin issued earlier in the month.

Quarterly Market Commentary

The final quarter of 2017 saw a continuation of very low volatility levels within equity markets and the global synchronised recovery in economic growth, which led to very strong returns from a number of the major equity markets. Although headline volatility remains very low, there continues to be large gains and falls in individual stocks and sectors. Volatility has been increasing within the historically lower risk fixed income markets and within currency markets, with many UK and global government bond funds seeing volatility levels similar to those of some equity funds.

The positive economic backdrop saw strong gains from the majority of global equity markets with Japan, Asia and emerging markets performing particularly well for sterling based investors, although returns were slightly stronger in local currency terms in Japan. Europe was a significant laggard this quarter with the main market producing a relatively flat return. Growth stocks continued to outperform across the majority of markets with Japan a major exception and there was little difference between value and growth in the UK market.

In the UK the financial situation of the consumer remains starkly in focus, as consumer spending and retail sales remain weak, inflation has increased further with the gap to current wage inflation also increasing, and debt levels have increased to support spending habits and/or service old debts. Brexit remains an ever-present concern with the market fluctuating on positive and negative news regarding negotiations with the EU. European economic data continues to be very positive with strong PMI figures, unemployment falling further and inflation stabilising below target with euro strength and politics (Italy elections, formation of a German government, anti-EU rhetoric from Hungary / Poland / Turkey) being the main concerns.

The Federal Reserve began their balance sheet reduction programme in October, so we are still in the very early days and any significant impact may not be known for some time, monetary policy is certainly becoming less accommodative. President Trump has finally pushed through his tax reform programme and with mid-term elections due in November we may see more proposed reforms over the coming months.

Fixed income markets had a very positive quarter with index/inflation-linked markets outperforming their conventional counterparts in the UK and globally. Corporate bond markets outperformed their equivalent government bond markets but the global high yield market produced a relatively flat return and emerging market debt produced a negative return. Long-dated assets comfortably outperformed short-dated assets, as the interest rate environment remained relatively benign.

UK commercial property continues to produce relatively consistent monthly returns with income being the main driver, as opposed to capital appreciation, and rental growth being more sector and regional specific.

Comparative Performance - Benchmarks

Each of the portfolios has a composite benchmark for performance comparison purposes whose underlying constituents represent the sector averages for each fund selected within the portfolio (e.g. UK Gilt for Allianz UK Gilt, UK All Companies for JOHCM UK Opportunities etc.)

Strategic Asset Allocations

We last made some changes to the high level asset allocations in the October 2016 quarterly review and we are proposing a couple of changes this quarter

In the lower risk portfolios there remains a bias towards UK equities versus international equities but it seems more appropriate to have an equal balance between the two for diversification purposes and the strategic asset allocations for the Cautious, Balanced and Progressive portfolios will be changed accordingly.

Below are the strategic asset allocations that will become effective from 1st February 2018:

Risk Level	Cautious	Balanced	Progressive	Adventurous	Specialist
Asset Allocation	**%**	**%**	**%**	**%**	**%**
Cash	2.00%	2.00%	2.00%	2.00%	2.00%
UK Equities	10.00%	23.00%	31.50%	36.00%	38.00%
International Equities	10.00%	23.00%	31.50%	42.00%	60.00%
Property	10.00%	10.00%	10.00%	10.00%	0.00%
Fixed Interest	68.00%	42.00%	25.00%	10.00%	0.00%
Absolute Return	0.00%	0.00%	0.00%	0.00%	0.00%
Others	0.00%	0.00%	0.00%	0.00%	0.00%
	100.00%	100.00%	100.00%	100.00%	100.00%

Growth Portfolios

Performance of the Growth portfolios during the quarter was mixed with the higher risk portfolios producing higher returns and also better relative returns versus their respective comparative sector averages and composite benchmarks.

The tables below show the model asset allocations of the Growth model portfolios, as at the end of December 2017, and the differences to the main strategic asset allocations: (before the changes above).

Portfolio Allocations

Risk Level	Cautious	Balanced	Progressive	Adventurous	Specialist
Asset Allocation	**%**	**%**	**%**	**%**	**%**
Cash	2.00%	2.00%	2.00%	2.00%	2.00%
UK Equities	10.00%	28.00%	31.00%	34.00%	34.00%
International Equities	5.00%	21.00%	35.00%	47.00%	64.00%
Property	10.00%	10.00%	10.00%	10.00%	0.00%
Fixed Interest	58.00%	39.00%	22.00%	7.00%	0.00%
Absolute Return	15.00%	0.00%	0.00%	0.00%	0.00%
Others	0.00%	0.00%	0.00%	0.00%	0.00%
	100.00%	100.00%	100.00%	100.00%	100.00%

Differences to SAA

Risk Level	Cautious	Balanced	Progressive	Adventurous	Specialist
Asset Allocation	**%**	**%**	**%**	**%**	**%**
Cash	0.00%	0.00%	0.00%	0.00%	0.00%
UK Equities	-5.00%	-2.00%	-2.00%	-2.00%	-4.00%
International Equities	0.00%	5.00%	5.00%	5.00%	4.00%
Property	0.00%	0.00%	0.00%	0.00%	0.00%
Fixed Interest	-10.00%	-3.00%	-3.00%	-3.00%	0.00%
Absolute Return	15.00%	0.00%	0.00%	0.00%	0.00%
Others	0.00%	0.00%	0.00%	0.00%	0.00%
	0.00%	0.00%	0.00%	0.00%	0.00%

Cautious Growth Portfolio

The Cautious Growth Portfolio produced a reasonable, positive return but underperformed its composite benchmark this quarter, albeit not significantly, and underperformed its most comparable IA sector average. The main contributors to performance, both positive and negative, are highlighted within the sections below.

Multi-Asset, Absolute Return

The allocation to absolute return in favour of fixed income and equities was negative this quarter, given the negative return from both our fund selections.

The Jupiter fund produced a slightly larger than expected negative return. The fund's long positions added value, as you would expect in rising equity markets, but this was outweighed by negative returns from the fund's short positions. The fund continues to hold short positions in a number of US technology and industrial companies that have continued to perform well and the overall environment of low volatility has not helped absolute return strategies but the manager is maintaining his overall strategy.

Fixed Income

The UK index-linked market was the main outperformer this quarter, so having no direct exposure was a negative for the portfolio. Corporate bonds marginally outperformed government bonds both in the UK and globally but high yield was the main underperformer, which was negative for the average strategic bond fund versus their investment grade counterparts.

The Standard Life fund has been selected in place of UK index-linked exposure, so this was a negative for absolute returns, but the fund did outperform its global bond sector average by a decent margin.

The selection of the Schroder Absolute Return Bond fund in place of conventional fixed income exposure was a negative from an absolute perspective, as the fund produced a small negative return, and the fund also underperformed within the absolute return sector it sits within.

The M&G Global Floating Rate High Yield fund also produced a small negative return and underperformed its more conventional high yield sector average.

The final fund to produce a small negative return was the M&G Global Macro Bond fund, which meant it underperformed its sector average.

Within credit, the strategically low duration positioning of the Schroder Strategic Credit fund meant it underperformed in a period when longer duration assets outperformed.

UK Equities

The average IA UK All Companies fund underperformed the main UK equity index this quarter.

Fund selection was very negative, as both funds underperformed the sector average with the Jupiter fund underperforming by a large margin and producing a very small negative return. The fund suffered from not holding any large cap oil and mining stocks plus a couple of stock specific performance issues.

International Equities

The average IA Global fund performed in line with the main global equity index but fund selection provided a positive for the portfolio, as the Artemis fund comfortably outperformed the sector average.

Property

NB: The Henderson property fund has been re-named as Janus Henderson, in line with the corporate re-branding.

Both property funds produced solid, positive returns but underperformed the IA sector average in the composite benchmark, as this was a much better quarter for global property securities. The relative performance of UK commercial property and global/UK/European property securities and REITs funds will always be a factor in these funds' and the portfolio's relative performance

Changes

In light of the changes to the strategic asset allocation, it is decided to equalise exposure to UK and international equities. It is recommended to remove the Jupiter UK Growth fund, whose more recent performance has been disappointing, and increase the weighting to the Investec fund and also increase the weighting to the Artemis fund.

We are recommending one further change to the portfolio. The Aberdeen property fund is currently running with a high level of cash 25%-30% and this is not expected to reduce any time soon. We would prefer a core property fund with a lower cash balance where the managers are actively looking to invest, so we recommend switching to the **F&C UK Property Feeder** fund.

Balanced Growth Portfolio

The Balanced Growth Portfolio produced a reasonably good, positive return but marginally underperformed its composite benchmark this quarter, although it outperformed its most comparable IA sector average. The main contributors to performance, both positive and negative, are highlighted within the sections below.

Fixed Income

The UK index-linked market was the main outperformer this quarter, so having no direct exposure was a negative for the portfolio. Corporate bonds marginally outperformed government bonds both in the UK and globally but high yield was the main underperformer, which was negative for the average strategic bond fund versus their investment grade counterparts.

The Standard Life fund has been selected in place of UK index-linked exposure, so this was a negative for absolute returns, but the fund did outperform its global bond sector average by a decent margin.

The selection of the Schroder fund in place of conventional fixed income exposure was a negative from an absolute perspective, as the fund produced a small negative return, and the fund also underperformed within the absolute return sector it sits within.

Another fund to produce a small negative return was the M&G Global Macro Bond fund, which meant it underperformed its sector average.

UK Equities

The average IA UK All Companies fund underperformed the main UK equity index this quarter.

Fund selection was negative, as three of the funds (Investec, Schroder and Threadneedle) underperformed the sector average whilst the Old Mutual fund marginally outperformed. This meant all the funds underperformed the UK index. The Investec fund suffered from holding an underweight to Royal Dutch Shell and not holding some of the large cap mining companies that outperformed this quarter, which led to an overall negative from sector allocation. Stock selection was a larger negative with individual stocks in the Travel & Leisure and Telecoms sectors the largest contributors.

International Equities

The average IA Global fund performed in line with the main global equity index but fund selection provided a larger positive for the portfolio, as all three funds outperformed the sector average with the Artemis fund producing the strongest return and comfortably outperforming.

Property

NB: The Henderson property fund has been re-named as Janus Henderson, in line with the corporate re-branding.

Both property funds produced solid, positive returns but underperformed the IA sector average in the composite benchmark, as this was a much better quarter for global property securities. The relative performance of UK commercial property and global/UK/European property securities and REITs funds will always be a factor in these funds' and the portfolio's relative performance

Changes

In light of the changes to the strategic asset allocation, it is decided to change our exposure to UK and international equities but to maintain our tactical underweight and overweight positions. It is recommended to maintain our existing UK equity holdings but reduce their weightings.

For international equities it is recommended to add another holding to the portfolio and to equalise the weightings across the four funds. We recommend adding the **Troy Trojan Global Equity** fund, which is a more defensively managed fund and adds something different to the portfolio.

We are recommending one further change to the portfolio. The Aberdeen property fund is currently running with a high level of cash 25%-30% and this is not expected to reduce any time soon. We would prefer a core property fund with a lower cash balance where the managers are actively looking to invest, so we recommend switching to the **F&C UK Property Feeder** fund.

Progressive Growth Portfolio

The Progressive Growth Portfolio produced a good, positive return but marginally underperformed its composite benchmark this quarter, although it outperformed its most comparable IA sector average despite having a lower equity content versus the average. The main contributors to performance, both positive and negative, are highlighted within the sections below.

Fixed Income

The UK index-linked market was the main outperformer this quarter, so having no direct exposure was a negative for the portfolio. Corporate bonds marginally outperformed government bonds both in the UK and globally but high yield was the main underperformer, which was negative for the average strategic bond fund versus their investment grade counterparts.

Global bond fund selection was the main negative, as the Templeton fund underperformed its sector average and produced a higher than expected negative return. It suffered from its currency positioning with overweight positions in Latin America (Mexico and Brazil) and an underweight to the Euro being the main negatives. The fund also has limited duration exposure in developed markets and taken duration exposure through select Emerging Markets.

UK Equities

The average IA UK All Companies fund underperformed the main UK equity index this quarter.

Fund selection was positive overall, as two of the funds (Investec and Schroder) underperformed the sector average but the others outperformed with the Old Mutual UK Mid Cap fund producing the strongest performance. The Investec fund suffered from holding an underweight to Royal Dutch Shell and not holding some of the large cap mining companies that outperformed this quarter, which led to an overall negative from sector allocation. Stock selection was a larger negative with individual stocks in the Travel & Leisure and Telecoms sectors the largest contributors.

International Equities

Having specific exposure to Asia, Emerging Markets and Japan was very positive, as these areas outperformed on a global basis. Exposure to Europe was negative, as the region produced a relatively flat return and comfortably underperformed on a global basis.

The average IA Global fund performed in line with the main global equity index but fund selection provided a positive for the portfolio, as both global funds outperformed their sector average with the Threadneedle fund producing the strongest return and comfortably outperforming. Stock selection was the key driver of returns, particularly in the Financials and Industrials sectors.

Regional fund selection was mixed, as the BlackRock funds outperformed within their respective sectors, with the Asia fund performing noticeably well, but the Lazard and Schroder funds underperformed.

Property

Both property funds produced solid, positive returns but underperformed the IA sector average in the composite benchmark, as this was a much better quarter for global property securities. The relative performance of UK commercial property and global/UK/European property securities and REITs funds will always be a factor in these funds' and the portfolio's relative performance

Changes

In light of the relatively small changes to the strategic asset allocation, it is decided to change our exposure to UK and international equities but to maintain our tactical underweight and overweight positions.

It is recommended to reduce our three largest UK equity holdings equally. For international equities it is recommended to marginally increase both our European and Japanese equity weightings.

We are recommending one further change to the portfolio. The Aberdeen property fund is currently running with a high level of cash 25%-30% and this is not expected to reduce any time soon. We would prefer a core property fund with a lower cash balance where the managers are actively looking to invest, so we recommend switching to the **F&C UK Property Feeder** fund.

Adventurous Growth

The Adventurous Growth Portfolio produced a reasonably strong return and outperformed both its composite benchmark and its most comparable IA sector average. The main contributors to performance, both positive and negative, are highlighted within the sections below.

Fixed Income

Corporate bonds marginally outperformed government bonds both in the UK and globally but high yield was the main underperformer, which was negative for the average strategic bond fund versus their investment grade counterparts.

Both of our strategic bond fund selections outperformed their sector average, albeit not significantly.

UK Equities

The average IA UK All Companies fund underperformed the main UK equity index this quarter.

Fund selection was positive overall, as two of the funds (AXA and Schroder) underperformed the sector average but the others outperformed with the Old Mutual UJK Mid Cap fund producing the strongest performance.

International Equities

Having Asian equities as the largest regional weighting was positive, as the region comfortably outperformed on a global basis. In addition, fund selection was also positive, as both funds outperformed their sector average and the main Asian equity index.

European equities is the portfolio’s second largest exposure but this region underperformed by a large margin this quarter, so this was negative for absolute and relative returns. Fund selection was marginally negative, as the Jupiter fund underperformed by a slightly larger margin than the BlackRock fund outperformed by.

Fund selection was also positive in the US and Emerging Markets but was slightly negative in Japan with the underperformance of value being a key contributor.

Property

Both property funds produced solid, positive returns but underperformed the IA sector average in the composite benchmark, as this was a much better quarter for global property securities. The relative performance of UK commercial property and global/UK/European property securities and REITs funds will always be a factor in these funds' and the portfolio's relative performance

Changes

We are recommending one change to the portfolio this quarter.

RSMR has placed the Jupiter European Special Situations fund Under Review following some mediocre performance within a very competitive sector and we recommend replacing the fund in this portfolio. Our recommended replacement is the **BlackRock European Dynamic** fund that is already held in other portfolios.

Specialist Growth Portfolio

The Specialist Growth Portfolio produced a strong return and outperformed its composite benchmark and comfortably outperformed its most comparable IA sector average. The main contributors to performance, both positive and negative, are highlighted within the sections below.

UK Equities

The average IA UK All Companies fund underperformed the main UK equity index this quarter.

Fund selection was negative, as four of the main UK equity funds underperformed the sector average with only the Old Mutual UK Mid Cap fund outperforming.

Specific smaller companies exposure was very positive, as the Franklin fund performed very strongly and significantly outperformed its own sector average.

International Equities

Having Asian equities as the equal largest regional weighting was positive, as the region comfortably outperformed on a global basis. In addition, fund selection was also very positive, as all three funds outperformed their sector average and the main Asian equity index with the Baillie Gifford fund performing particularly strongly. An off-benchmark allocation to Vietnam plus strong stock selection in China and Korea were the main positives.

European equities is the portfolio's second largest exposure but this region underperformed by a large margin this quarter, so this was negative for absolute and relative returns. Fund selection was marginally negative, as the Jupiter fund underperformed by a slightly larger margin than the BlackRock fund outperformed by.

Fund selection was also positive in the US and Emerging Markets but was slightly negative in Japan with the underperformance of value being a key contributor.

Changes

We are recommending a couple of changes to the portfolio this quarter.

RSMR has placed the Jupiter European Special Situations fund Under Review following some mediocre performance within a very competitive sector and we recommend replacing the fund in this portfolio. Our recommended replacement is the **BlackRock European Dynamic** fund that is already held in other portfolios.

Also, it has recently been announced that Richard Penny, manager of the Legal & General UK Alpha fund, will be leaving Legal & General. We recommend the **River & Mercantile UK Dynamic Equity** fund as a replacement, as this is also a relatively concentrated fund with large mid and small cap exposure.

Income Portfolios

Performance of the Income portfolios during the quarter was a little disappointing, as they all underperformed their composite benchmarks, although the levels of underperformance were relatively small. The highest risk portfolio produced the highest absolute return.

The tables below show the current asset allocations of the Income model portfolios, as at the end of December 2017, and the differences to the strategic asset allocations (before the earlier changes):

Portfolio Allocations

Risk Level	Cautious	Balanced	Progressive
Asset Allocation	**%**	**%**	**%**
Cash	2.00%	2.00%	2.00%
UK Equities	13.00%	26.00%	30.00%
International Equities	7.00%	18.00%	29.00%
Property	10.00%	10.00%	10.00%
Fixed Interest	63.00%	39.00%	24.00%
Absolute Return	0.00%	0.00%	0.00%
Others	5.00%	5.00%	5.00%
	100.00%	100.00%	100.00%

Differences to SAA

Risk Level	Cautious	Balanced	Progressive
Asset Allocation	**%**	**%**	**%**
Cash	0.00%	0.00%	0.00%
UK Equities	-2.00%	-4.00%	-3.00%
International Equities	2.00%	2.00%	-1.00%
Property	0.00%	0.00%	0.00%
Fixed Interest	-5.00%	-3.00%	-1.00%
Absolute Return	0.00%	0.00%	0.00%
Others	5.00%	5.00%	5.00%
	0.00%	0.00%	0.00%

Cautious Income Portfolio

The Cautious Income Portfolio produced a reasonable return but underperformed its composite benchmark this quarter. It also marginally underperformed its most comparable IA sector average. The main positive and negative contributors are highlighted within the sections below.

Fixed Income

NB: The Henderson Strategic Bond fund has been re-named as Janus Henderson, in line with the corporate re-branding

The UK index-linked market was the main outperformer this quarter, so having no direct exposure was a negative for the portfolio. Corporate bonds marginally outperformed government bonds both in the UK and globally but high yield was the main underperformer, which was negative for the average strategic bond fund versus their investment grade counterparts.

The Standard Life fund has been selected in place of UK index-linked exposure, so this was a negative for absolute returns, but the fund did outperform its global bond sector average by a decent margin.

The M&G Global Floating Rate High Yield fund produced a small negative return and underperformed its more conventional high yield sector average.

Global bond fund selection was the main negative, as the Templeton fund underperformed its sector average and produced a higher than expected negative return. The fund suffered from its currency positioning with overweight positions in Latin America (Mexico and Brazil) and an underweight to the Euro being the main negatives. The fund also has limited duration exposure in developed markets and taken duration exposure through select Emerging Markets.

UK Equities

The average IA UK Equity Income fund comfortably underperformed the main UK equity index this quarter.

Fund selection was negative, as both funds underperformed the sector average with the Threadneedle fund underperforming by a large margin and producing a negative return. The fund suffered from a small number of disappointments at stock level, including Centrica, Morrisons and Marks and Spencer.

International Equities

The average IA Global Equity Income fund underperformed the main global equity index by a reasonable margin. Fund selection provided a positive for the portfolio, as the Artemis fund comfortably outperformed the sector average.

Property

NB: The Henderson property fund has been re-named as Janus Henderson, in line with the corporate re-branding.

Both property funds produced solid, positive returns but underperformed the IA sector average in the composite benchmark, as this was a much better quarter for global property securities. The relative performance of UK commercial property and global/UK/European property securities and REITs funds will always be a factor in these funds' and the portfolio's relative performance.

Others

An allocation to the VT Gravis fund was negative on a relative basis, as the fund underperformed the main fixed income markets.

Changes

In light of the changes to the strategic asset allocation, it is decided to change the exposure to UK and international equities to maintain the existing tactical asset allocation. It is recommended to reduce the existing UK equity holdings but also to add another fund to the international equities portion for diversification. It is recommended to add the **Schroder Global Equity Income** fund, which is already within other income portfolios.

We are recommending one further change to the portfolio. The Aberdeen property fund is currently running with a high level of cash 25%-30% and this is not expected to reduce any time soon. We would prefer a core property fund with a lower cash balance where the managers are actively looking to invest, so we recommend switching to the **F&C UK Property Feeder** fund.

Balanced Income Portfolio

The Balanced Income Portfolio produced a reasonable return but underperformed its composite benchmark this quarter and underperformed its most comparable IA sector average. The main positive and negative contributors are highlighted within the sections below.

Fixed Income

NB: The Henderson Strategic Bond fund has been re-named as Janus Henderson, in line with the corporate re-branding

The UK index-linked market was the main outperformer this quarter, so having no direct exposure was a negative for the portfolio. Corporate bonds marginally outperformed government bonds both in the UK and globally but high yield was the main underperformer, which was negative for the average strategic bond fund versus their investment grade counterparts.

The Standard Life fund has been selected in place of UK index-linked exposure, so this was a negative for absolute returns, but the fund did outperform its global bond sector average by a decent margin.

The M&G Global Floating Rate High Yield fund produced a small negative return and underperformed its more conventional high yield sector average.

Global bond fund selection was the main negative, as the Templeton fund underperformed its sector average and produced a higher than expected negative return. The fund suffered from its currency positioning with overweight positions in Latin America (Mexico and Brazil) and an underweight to the Euro being the main negatives. The fund also has limited duration exposure in developed markets and taken duration exposure through select Emerging Markets.

UK Equities

The average IA UK Equity Income fund comfortably underperformed the main UK equity index this quarter.

Fund selection was negative, despite strong outperformance from the JOHCM fund, as the three other funds underperformed the Equity Income sector average – although the Invesco Perpetual fund is in the UK All Companies sector, with the Threadneedle fund underperforming by a large margin and producing a negative return. The fund suffered from a small number of disappointments at stock level, including Centrica, Morrisons and Marks and Spencer.

International Equities

The average IA Global Equity Income fund underperformed the main global equity index by a reasonable margin.

Fund selection provided a positive for the portfolio, as three of the funds outperformed the sector average with the Artemis and Schroder funds comfortably outperforming the sector average. The more defensive nature of the Fidelity fund led to underperformance.

Property

NB: The Henderson property fund has been re-named as Janus Henderson, in line with the corporate re-branding.

Both property funds produced solid, positive returns but underperformed the IA sector average in the composite benchmark, as this was a much better quarter for global property securities. The relative performance of UK commercial property and global/UK/European property securities and REITs funds will always be a factor in these funds' and the portfolio's relative performance

Others

An allocation to the VT Gravis fund was negative on a relative basis, as the fund underperformed the main fixed income markets.

Changes

In light of the changes to the strategic asset allocation, it is decided to change our exposure to UK and international equities but to maintain our tactical underweight and overweight positions.

Given the reduction in the UK equity weighting, it is recommended to remove the Invesco Perpetual Income fund and to slightly decrease the Premier and Threadneedle fund weightings.

Given the increase in the international equities weighting, it is recommended to add another holding to the portfolio. We recommend adding the **Threadneedle Global Equity Income** fund, which is already contained in the higher risk portfolio. The weightings to the existing Artemis and Fidelity funds will be increased slightly.

We are recommending one further change to the portfolio. The Aberdeen property fund is currently running with a high level of cash 25%-30% and this is not expected to reduce any time soon. We would prefer a core property fund with a lower cash balance where the managers are actively looking to invest, so we recommend switching to the **F&C UK Property Feeder** fund.

Progressive Income Portfolio

The Progressive Income Portfolio produced a reasonably good return but underperformed its composite benchmark and also underperformed its most comparable IA sector average. The main positive and negative contributors are highlighted within the sections below.

Fixed Income

NB: The Henderson Strategic Bond fund has been re-named as Janus Henderson, in line with the corporate re-branding

The UK index-linked market was the main outperformer this quarter, so having no direct exposure was a negative for the portfolio. Corporate bonds marginally outperformed government bonds both in the UK and globally but high yield was the main underperformer, which was negative for the average strategic bond fund versus their investment grade counterparts.

The M&G Global Floating Rate High Yield fund produced a small negative return and underperformed its more conventional high yield sector average.

Global bond fund selection was the main negative, as the Templeton fund underperformed its sector average and produced a higher than expected negative return. The fund suffered from its currency positioning with overweight positions in Latin America (Mexico and Brazil) and an underweight to the Euro being the main negatives. The fund also has limited duration exposure in developed markets and taken duration exposure through select Emerging Markets.

UK Equities

The average IA UK Equity Income fund comfortably underperformed the main UK equity index this quarter.

Fund selection was mixed with strong outperformance from the JOHCM and Marlborough funds but underperformance from the other three funds – although the Invesco Perpetual fund is in the UK All Companies sector. The Threadneedle fund underperformed by a large margin and produced a negative return. The fund suffered from a small number of disappointments at stock level, including Centrica, Morrisons and Marks and Spencer.

International Equities

The average IA Global Equity Income fund underperformed the main global equity index by a reasonable margin.

Fund selection provided a positive for the portfolio, as three of the funds outperformed the sector average with the Artemis and Schroder funds comfortably outperforming the sector average. The more defensive nature of the Fidelity fund led to underperformance.

Property

Both property funds produced solid, positive returns but underperformed the IA sector average in the composite benchmark, as this was a much better quarter for global property securities. The relative performance of UK commercial property and global/UK/European property securities and REITs funds will always be a factor in these funds' and the portfolio's relative performance

Others

An allocation to the VT Gravis fund was negative on a relative basis, as the fund underperformed the main fixed income markets.

Changes

There have been some relatively small changes to the strategic asset allocation. It is decided to change our exposure to UK and international equities and to increase the exposure to international equities to take an overweight position, increasing the fixed income underweight at the same time.

In addition, recent performance of the Invesco Perpetual Income fund has been disappointing and we recommend replacing this with the **Premier Income** fund, which is smaller and has a greater focus on income.

We are recommending one further change to the portfolio. The Aberdeen property fund is currently running with a high level of cash 25%-30% and this is not expected to reduce any time soon. We would prefer a core property fund with a lower cash balance where the managers are actively looking to invest, so we recommend switching to the **F&C UK Property Feeder** fund.

SRI Portfolios

Strategic Asset Allocations

As with the main portfolio, there is currently a bias towards UK equities versus international equities and it seems more appropriate to have a more equal balance between the two for diversification purposes. The strategic asset allocations will be changed accordingly.

Below are the strategic asset allocations that will become effective from 1st February 2018:

Risk Level	SRI Cautious	SRI Balanced	SRI Progressive
Asset Allocation	**%**	**%**	**%**
UK Equities	12.00%	24.50%	33.50%
International Equities	11.50%	24.50%	29.00%
Specialist Equities	0.00%	0.00%	4.00%
Fixed Interest	74.50%	49.00%	31.50%
Cash	2.00%	2.00%	2.00%
	100.00%	100.00%	100.00%

The tables below shows the model asset allocations of the Growth model portfolios, as at the end of December 2017, and the differences to the main strategic asset allocations (before the changes above):

Portfolio Allocations

Risk Level	SRI Cautious	SRI Balanced	SRI Progressive
Asset Allocation	**%**	**%**	**%**
UK Equities	14.50%	27.00%	28.00%
International Equities	9.00%	22.00%	38.00%
Specialist Equities	0.00%	0.00%	0.00%
Fixed Interest	74.50%	49.00%	32.00%
Cash	2.00%	2.00%	2.00%
	100.00%	100.00%	100.00%

Differences to SAA

Risk Level	SRI Cautious	SRI Balanced	SRI Progressive
Asset Allocation	**%**	**%**	**%**
UK Equities	-3.00%	-5.00%	-6.50%
International Equities	3.00%	5.00%	10.00%
Specialist Equities	0.00%	0.00%	-4.00%
Fixed Interest	0.00%	0.00%	0.50%
Cash	0.00%	0.00%	0.00%
	0.00%	0.00%	0.00%

Performance

All three portfolios underperformed their respective composite benchmarks but performance relative to the most relevant IA sector averages was much better. Below are comments relating to positive and negative fund contributors.

Fixed Income

The UK index-linked market was the main outperformer this quarter, so having no direct exposure was a negative for the portfolio. Corporate bonds marginally outperformed government bonds both in the UK and globally but high yield was the main underperformer, which was negative for the average strategic bond fund versus their investment grade counterparts.

Only the Kames Ethical Corporate Bond fund underperformed the fixed income index within the composite benchmarks - and this was only by a small margin – and all the funds outperformed their respective IA sector averages.

UK Equities

The average IA UK All Companies fund underperformed the main UK equity index this quarter, so this was a negative for performance versus the composite benchmark.

All the funds across the portfolios underperformed the index with the Kames and F&C funds outperforming their respective IA sector averages. The Amity UK fund was the weakest performer and underperformed the index by a reasonably large margin. The fund suffered from its natural bias away from the Oil & Gas and Mining sectors, where it has no exposure, plus stock selection in the Retail sector.

International Equities

The average fund in the IA Global sector performed virtually in line with the main global equity index but none of the portfolio funds outperformed, although a couple of the funds only underperformed by very small margins. The weakest performers were the Jupiter and Stewart Investors funds, although the former only underperformed its own benchmark index by a small margin. Its underperformance versus the main index was mainly due its natural lack of exposure to the Oil & Gas and Mining sectors and overweight to Industrials.

Changes

In light of the changes to the strategic asset allocation, it is decided to change our exposure to UK and international equities but to maintain our tactical underweight and overweight positions.

For the SRI Cautious Portfolio, given the reduction in the UK equity allocation it is recommended to remove the F&C Responsible Income fund and keep the three capital growth-orientated funds, two of which are at reduced weightings. Given the increase in the international equities allocation it is recommended to increase the weightings of the existing holdings.

For the SRI Balanced Portfolio, given the reduction in the UK equity allocation it is recommended to remove the F&C Responsible Income fund and keep the four capital growth-orientated funds with a very marginal reduction to the Amity fund weighting. Given the increase in the international equities allocation it is recommended to add the **Stewart Investors Worldwide Sustainability** fund, which is already in the higher risk portfolio, and increase the weightings of the existing Old Mutual fund.

For the SRI Progressive Portfolio, there are only marginal changes to both the UK equity and international equities allocations and the weightings to the F&C and Old Mutual funds will be amended accordingly.

Summary

The current 'goldilocks scenario' of growth neither too hot nor too cold and the lack of any significant inflationary pressures has provided investors with what can be described as the 'Best of Both.' This current sweet spot for equity markets may persist for a while yet, although the market's reaction to ongoing central bank talk of tighter monetary conditions will be interesting, with the possibility of increased volatility after a period of unusual calm in markets. It is possible that President Trump's tax reform may extend the US economic cycle, benefiting US corporates and prolonging the global economic recovery. Our main concern with the US equity market is valuation levels, although the move upwards has been driven by a select number of large index stocks and sectors, further exacerbated by the amount of money invested into passive strategies.

Global growth is still on a positive trajectory, so our favoured asset class remains equities, with more of a preference for non-UK equities versus UK equities. Within equity markets both Europe and Asia have scope to continue to play catch-up and are seeing positive earnings upgrades, although euro strength is a concern here. Japan is also a preferred region with the recent snap election having passed without any surprises, economic growth stronger than expected and attractive valuations (relative to their history) on both a Price-to-Book basis and versus comparable markets. We have maintained our balanced view regarding investment styles, as we are not totally convinced that value will outperform growth. Should there be more signs of improving economic growth, more consistent inflation increases, higher interest rates and higher bond yields, then there may be periods when value strongly outperforms.

In fixed interest we have become more negative on investment grade credit, as yields continue to fall and spreads versus government bonds have tightened further making them increasingly vulnerable to any increase in the underlying government bond yields. Credit still offers a better risk/return than government bond markets with global high yield markets benefiting from improving economic, corporate and market fundamentals. UK government bonds (gilts) are our least preferred sub-asset class, although we are negative on global sovereign debt as a whole.

In markets where there is little margin of safety due to full valuations, risk also needs to be considered, as when an economic downturn does occur high levels of leverage are likely to impact negatively, and operational gearing for some companies will have risen. This suggests investors should continue to hold diversified portfolios rather than trying to win big by making a few big calls. Going back to basics, whilst fundamentals are improving, valuation is not on the investor's side but investor sentiment is reasonably positive – much more so than at the beginning of 2017. There also remains the possibility of policy mistakes by central banks and whilst it is accepted that the sensitivity of the global economy to a rise in interest rates has increased, it is impossible to measure the extent of this.

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