Quarterly Investment Update

Q3 | 2016

Aisa Professional


7000
6724
52.19
-67
-54
6500
6000

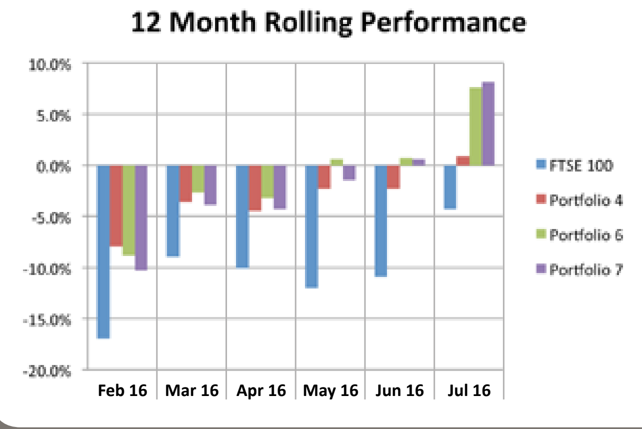
Executive Summary

Market Summary

- The FTSE 100's performance has gone from 5,499.50, up to just under 6,600. Over the period of 14th July 2015 – 13th July 2016, the FTSE 100 was up 3.4%
- Overall, when considering the risk of our portfolios it is great to see nearly all of our higher risk growth and income portfolios have outperformed the FTSE 100 consistently over rolling 12 month periods (Details inside) for the last 4 years.
- At the time of our meeting in July the main talking points include the Referendum in the UK, separately retail and commercial property and worldwide debt levels but in particular those in the EU with EU banks coming under scrutiny.
- There was a market bounce after Brexit and we anticipate the remainder of the year being volatile

Investment Portfolios

- All our growth and income portfolios with risk ratings over balanced or higher have outperformed the FTSE 100 over the last 12 months
- Our portfolios have outperformed 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.
- There is a concern about government debt and interest rates being sub 1% in the EU in particular. Therefore, this keeps fixed interest subdued and we want to be underweight which we already are.
- We have been negative on China and Emerging Markets since end 2014, but neutral towards South East Asia and other Emerging Markets and our positioning is now changing
- We are aiming to rebalance our property portfolio away from the UK in 2016 and towards global property, and these actions commenced 9 months ago, but we have prevented from taking further action in this quarter due to property funds preventing trading. We had reduced our property content by almost 50% in the previous 6 months though.



How we work

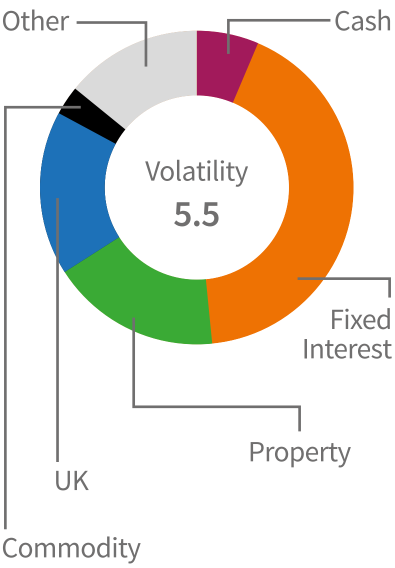
- Funds are selected using criteria in our governance document. The funds are allocated using our strategic plan and which asset classes we feel should be considered over the coming 12 months and longer.
- Our strategic plan is largely decided by our informed view on the economies of the world and individual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

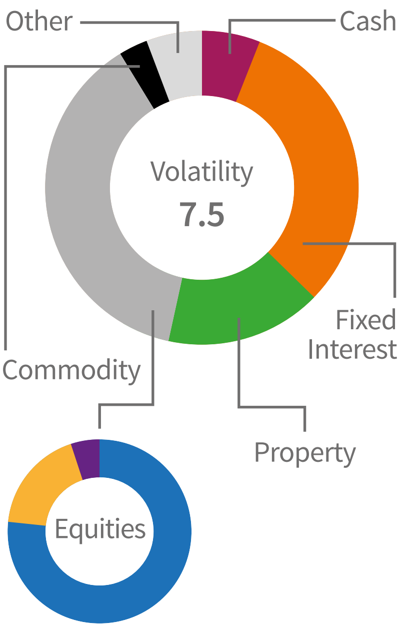
Target Return
4.60%



- Cash 6.5%
- Fixed Interest 41.9%
- Property 17.8%
- UK Equities 16.9%
- Euro Equities 0%
- US Equities 0%
- Asia Equities 0%
- Emerging Markets 0%
- Japan Equities 0%
- Commodity 3.0%
- Other 13.9%

Portfolio 4

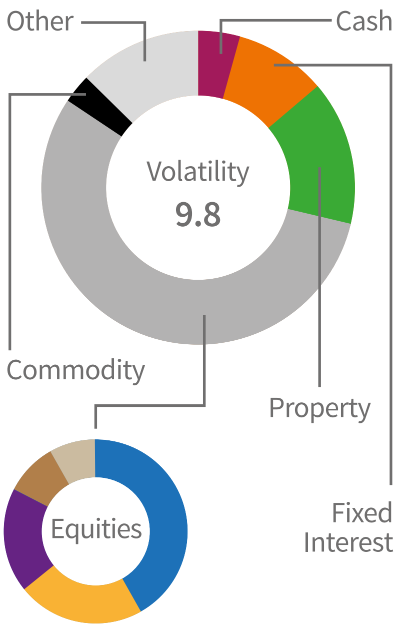
Target Return
5.70%



- Cash 6.0%
- Fixed Interest 31.3%
- Property 16.1%
- UK Equities 29.4%
- Euro Equities 7.1%
- US Equities 1.5%
- Asia Equities 0%
- Emerging Markets 0%
- Japan Equities 0%
- Commodity 3.0%
- Other 5.6%

Portfolio 5

Target Return
6.70%



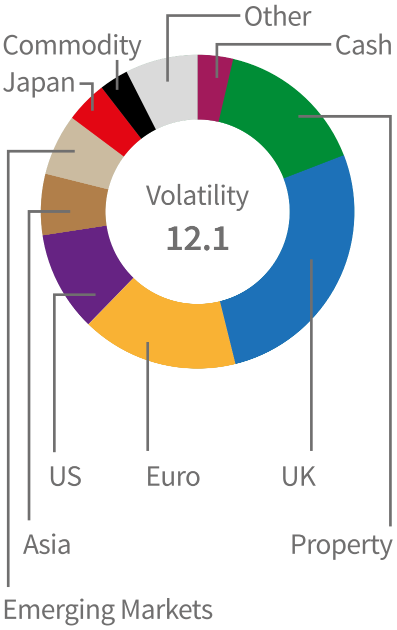
- Cash 4.3%
- Fixed Interest 9.4%
- Property 15.2%
- UK Equities 23.0%
- Euro Equities 12.5%
- US Equities 10.1%
- Asia Equities 5.2%
- Emerging Markets 5.0%
- Japan Equities 0%
- Commodity 3.0%
- Other 12.3%

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%

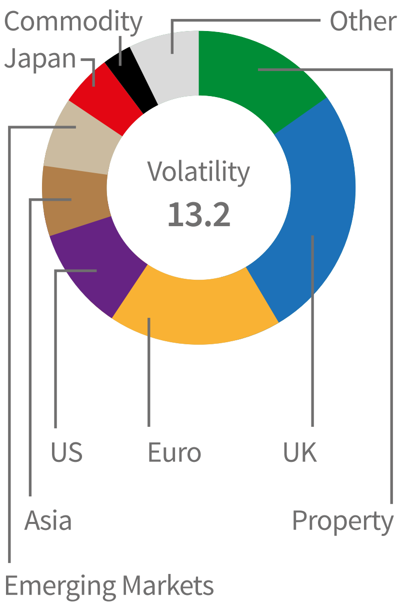


- Cash 3.6%
- Fixed Interest 0%
- Property 15.4%
- UK Equities 27.1%
- Euro Equities 16.3%
- US Equities 10.4%
- Asia Equities 6.3%
- Emerging Markets 6.3%
- Japan Equities 4.3%
- Commodity 3.0%
- Other 7.3%

Portfolio 7

Target Return

8.80%

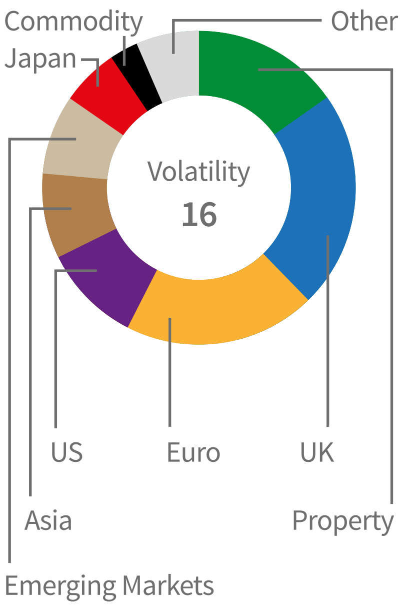


- Cash 0%
- Fixed Interest 0%
- Property 15.2%
- UK Equities 26.2%
- Euro Equities 17.9%
- US Equities 10.7%
- Asia Equities 7.3%
- Emerging Markets 7.3%
- Japan Equities 5.1%
- Commodity 3.0%
- Other 7.3%

Portfolio 8

Target Return

9.90%



- Cash 0%
- Fixed Interest 0%
- Property 15.4%
- UK Equities 22.3%
- Euro Equities 19.8%
- US Equities 10.2%
- Asia Equities 8.9%
- Emerging Markets 8.1%
- Japan Equities 6.0%
- Commodity 3.0%
- Other 6.3%

Aisa Team (AIT) Committee Meeting

Dated: 14th July 2016

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

Secretary: Kieran Howse (Investment Secretary)

1 Review of previous minutes and sign off

After agreement, the minutes of 21st April 2016 were signed off as correct by James.

Actions outstanding at previous meeting, and outcomes:

- James Updated the Governance Document.
- Kieran and John have reviewed funds on the Watchlist
- Kieran and John have monitored funds in Growth portfolios.

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

3 Presentations

3a MetLife and Standard Life

1. Charlie Hunter the Reginal Business Director from MetLife gave us a presentation in segmented sections.

Brexit – Certainty in an uncertain world.
Charlie provided us with much information regarding Brexit and how MetLife are strategically confronting it to ensure their Clients feel secure with their investments, Charlie explained that over the past few years long term and annuity rates have been extremely volatile, which has nothing to do with Brexit.

The MetLife Proposition.
Providing income and Capital guarantees across their Pensions, Trustee Investment Plans, ISAs and On/Offshore Bonds.

Secure income options for MetLife are as follows:

- Guaranteed level of income
- 4% income deferral increases
- Lock-ins of investment performance is above the guarantee base
- Guaranteed death benefits

Capital options for MetLife are as follows:

- Term related Capital guarantee
- Lock-ins of investment performance above the guarantee base
- Wilder investment choice

It was explained to us that these are 2 guaranteed investment options MetLife has to offer.

Charlie then spoke about how they have 2 Fund managers in MetLife,

The MetLife BlackRock Global Growth Fund which is passively driven and the MetLife Fidelity Corporate Bond Fund which is actively driven.

It was elaborated that MetLife are very flexible and Charlie gave us an example of changing a drawdown has no penalties at all, making the clients feel free to change things to their convenience without consequence.

Business is to continue as normal, MetLife are ensuring they give Capital and Income certainty through their Terms, Interest rates, Charges and MetLife's Balance Sheet.

2. Michael Dinwoodie, Standard Life Conference call regarding Property funds and Brexit.

The conversation with Michael was an in depth one, The Conference call started with an introduction into the current situation with Standard Life's property funds and how this has been affected by the Brexit referendum.

We were all told that currently Standard Life has a suspension on their property funds, which has ceased any transactions in or out of property. The reasoning behind this is to protect investors as well as Fund managers, Standard Life were the first to suspend their property funds, then other larger companies followed suit quite quickly.

1. Michael explained to us that Standard Life are very uncertain as to what is going to happen with property funds and when the suspension can be lifted but he ensured us as soon as he knows so will we. James then asked some questions:

(i) What will happen after the suspension is lifted? What was the outcome when this occurred in the past?

Michael told us that that previously it was a very different set of circumstances with money still being able to go into the funds as normal, this time no money can be deposited.

(ii) What is the state of the commercial property market?

Yields are good which would normally indicate there was still potential for capital growth

(iii) So what has led to the run on property funds?

In one word – sentiment! There were concerns about the length of time since the last correction and the growth in the marketplace, and the chancellor and the BoE were already raising issues about various different types of property and started taking action against residential. The word "property" does not differentiate between commercial or residential, and so concerns were spread over all property. The final matter that changed sentiment to negative was Brexit and the impact / uncertainty that would have on future purchases.

(iv) So what was the fund managers thought process if property is still "reasonably valued" – why close the funds?

Essentially, every property fund is invested to a maximum level, and then has a certain amount held in liquid account to allow for purchase and redemptions. Normally Standard Life holds over 10% liquid. Immediately after Brexit, there were large institutions selling shares (sometimes in response to their own illiquid positions and the need for money as they may have bet against Brexit and got it wrong) which would have included property funds. This quickly reduced the liquidity level of Standard Life down to around 5% and if it had gone much lower than it would have meant there would have been no money to pay out upon redemptions. To prevent this and enforce sales in an uncontrolled fashion, they shut the funds to access.

(v) How often will this be reviewed?

Each company will set their own review period but Standard Life will simply say that they will do it regularly, possibly monthly.

(vi) What about new instructions or past instructions?

Standard Life said, "Where trading in a fund has been suspended or deferred any trades instructed may be delayed indefinitely. In some circumstances trades will be held in a queue until funds are available to complete the trade"

(vii) When this has happened in the past what has the fund decreased by and how many properties will now be sold?

They cannot estimate precisely either of these questions but will keep us informed. They suspect that at the point of re-opening funds may initially trade at 10% down but this may not represent true value which could be higher as in this instance, with the weaker pound, commercial property may become a target for overseas investors due to high rental yields.

The committee would discuss their position later and this meeting was concluded.

3b Brexit discussion on sectors and shares affected including property funds

The issue is that there is real uncertainty and many people would be unable to confidently predict where is best to invest. Where shares have been hit by Brexit, and they have other areas of concern, then sentiment has hit them particularly hard and some could say an over-reaction. However, people who would have come out of shares, for example, immediately after Brexit, would have missed out on the rebound and growth. In fact our own portfolios are doing well.

During the meeting whilst discussing the Brexit results we discussed and highlighted BP shares have gone up by 40% this year as well as microchip manufacturing and mining resource shares have been positively growing. (The announcement of AIM occurred a week after our meeting)

There has been a great decline in supermarkets recently since the Brexit referendum, not solely due to Brexit but also due to pricing and competition issues and potential inflation due to the twin force of sterling devaluation and future agreements on trade.

Airline shares have decreased by 30% including companies such an EasyJet which we hold for some clients, and this devaluation is due to fuel prices increasing (again sterling devaluation) and potential competition issues after Brexit. We think there is an emotional over-reaction on this at the moment and believe EasyJet is well placed and flexible enough to continue to grow and make profits. There may even be a bid for them from a larger airline.

Bank funds have taken a hammering this year due to various matters from continued weakness in EU areas, through to Brexit. We have decided Bank funds are best kept exactly how they are currently as they are rock bottom again in some instances and undervalued and not popular. We will review further at the next meeting but we believe things such as the Italian banking crisis is already priced into shares.

Biotech funds are increasingly diminishing so we will watch those closely, but they are reducing from great growth and many clients made a lot of money in the last 2 years, and these profits were realised as we reduced our exposure to Biotech almost a year ago. Therefore, shares held onto represent the growth from previous surges. Again, sentiment is down on any higher risk areas such as Biotech, but we fundamentally believe there is still long term growth available.

Our gold funds have done very well due to the uncertainty, some clients showing 30% growth or more in the last 9 months. We believe that whilst the immediate uncertainty and currency fluctuations occur then gold funds remain solid, but we will consider taking profit later this year.

Although everyone is extremely uncertain as to what is going to happen with property funds James mentioned to us about an article that was published in the financial times 13/07/2016. James explained to us all that the article gave a very thorough analysis of how well property markets are currently doing. Hedge Fund Managers are finding that the property gloom is exaggerated and that the prices for property are fair. Commercial properties are currently receiving a yield of around 4-5%, and if property prices go down then this will be attractive to overseas buyers on the weak pound.

Any bad news at the moment is being blamed on the ubiquitous “Brexit” and many positives are being ignored leading to a downturn in sentiment that is perhaps overdone. However, there are genuine other challenges such as EU banks and EU sovereign debt. Overall, this is the wrong time to be making big decisions.

4a Geographical & Sector Outlook

At the time of our meeting in July the main talk is about Brexit and the uncertainty over how funds are going to respond to this. We have covered this in section 3 in greater detail; we have seen that property funds have suspended transactions. Despite this our portfolios continue to outperform the main mature market indices and we are monitoring events.

The FTSE 100 has been extremely volatile in the last year but has now grown since the last quarter's AIT meeting in March 2016. A downward trend over the last 2 years has been reversed since March 2016 and the graph below shows positive growth.

The Figure 1 graph shows the low reached in February 2016, and since then the FTSE 100's performance has gone from -14%, up to 35%. Although growth in the FTSE 100 is welcome we anticipate ongoing volatility in the coming 12 months.

The Figure 2 graph shows the low reached in August 2015 and February 2016, and since then the S&P 500's performance has gone from -11%, up to 4%. Although we welcome growth in the S&P 500, we anticipate ongoing volatility in the coming 12 months..

FTSE 100 and S&P 500 – 12 month performance & volatility

Past performance graphs kept on file.

Figure 1 FTSE 100: Year July 2015 – July 2016

Figure 2 **S&P 500: Year July 2015 – July 2016**

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

We plan to email all plus service clients to recommend they move to 25% cash at the point where markets have rebounded. Some other clients may wish to follow this principle as well – please contact us if this is your intention.

4c Watchlist

We will continue to review the funds in the Watchlist, and also review any other funds that potentially need to be entered onto the Watchlist.

4d MONITOR: Our ongoing review of asset classes & where the AIT would collectively invest:

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

- **Equity** – We have moved from neutral on Europe to negative, we continue to feel neutral in UK and US both due to political events.

  We continue to be positive towards Japan for the reasons previously given. We remain negative on China and Emerging Markets connected with China, although this may change, but neutral towards South East Asia and other Emerging Markets and believe that we should allocate some funds into those areas later this year.
- **Equity Income** – We have changed from being positive on UK and US to now being neutral since the last AIT meeting.
- **Property (UK Residential)** – Negative. Although there is currently a good yield in property we still remain negative due to the dramatic decline over the past months.
- **Property (UK Commercial)** – Linked to the comments in section 3 (b) we are unable to sell our property funds at this time anyway. We had been reducing exposure over the last 12 months anyway, but overall conclusion was to hold although commercial property may become attractive due to yield levels with sterling weak and if prices reduce much.
- **Bonds (Gilts)** – Negative.
- **Bonds (Corporate)** – Negative.
- **Cash** – Negative.
- **Commodities / currency concerns** – Sterling has devalued by 10% and this has had a worldwide impact. Commodity linked companies have done well as a result and we remain positive on gold and some commodity companies.
- **Conclusion:** We are positive on gold, oil and some mining companies, and negative on sterling volatility until we understand the implications of Brexit which may be some time.

5a Growth Portfolio *Actual Performonce of our clients colour co-ordinated as follows:*

Growth Portfolios

■ Including Charges ■ After Charges

	3 months	12 months	24 months	36 months	48 months
UK Index (52)	0.57%	-1.33%	2.59%	10.23%	26.56%
Word Index (72)	9.50%	11.45%	19.30%	27.40%	57.66%
B of E 1 yr Fixed Rate Bond (2)	0.17%	1.10%	2.38%	3.88%	6.14%
FTSE 100	8.69%	3.40%	2.78%	14.62%	36.46%

Aisa Portfolio	Risk Grade	3 months	12 months	24 months	36 months	48 months
Defensive (27)	3	1.98% (1.56%)	2.51% (0.88%)	9.01% (5.45%)	13.04% (7.98%)	24.06% (15.12%)
Cautious (43)	4	1.05% (0.63%)	1.96% (0.31%)	6.57% (3.10%)	12.52% (7.44%)	34.91% (25.80%)
Balanced (55)	5	1.84% (1.63%)	2.63% (1.70%)	7.20% (5.09%)	13.97% (10.44%)	
Growth (64)	6	4.67% (4.27%)	8.26% (6.64%)	17.42% (13.84%)	23.99% (18.82%)	
Speculative (71)	7	5.75% (5.30%)	9.06% (7.29%)	19.13% (15.14%)	26.61% (20.71%)	54.52% (44.75%)
Aggressive (78)	8	7.79% (7.39 %)	9.83% (8.21%)	16.44% (12.98%)	25.79% (20.63%)	63.07% (54.55%)

Important Note

Our portfolio past performance is linked to actual clients who hold these portfolios. Some information goes back more than the published 36 months in this document and this information is available upon request.

We only publish 36 months as we hold this information for all portfolios and therefore it is easy for clients to compare the actual performance.

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 months	12 months	24 months	36 months	48 months
Cautious	4	0.63% (0.28%)	1.04% (0.40%)	5.34% (2.26%)	10.64% (6.33%)	20.59% (12.03%)
Balanced	5	5.58% (5.19%)	9.16% (7.60%)	15.34% (11.99%)	19.03% (14.30%)	35.23% (28.55%)
Growth	6	4.32% (3.89%)	6.13% (4.43%)	14.23% (10.49%)	20.74% (15.16%)	41.11% (32.28%)
Speculative	7	5.24% (4.84%)	9.20% (7.57%)	18.06% (14.47%)	26.10% (20.90%)	52.94% (45.01%)

Income Portfolios

■ Including Charges ■ After Charges

Aisa Portfolio (risk)	Risk Grade	Yield	3 months	12 months	24 months	36 months	48 months
Cautious (37)	4	4.11%	0.74% (0.34%)	0.46% (-1.01%)	4.75% (1.65%)	11.65% (7.15%)	
Balanced (48)	5	4.26%	1.32% (0.93%)	1.54% (0.01%)	5.39% (2.35%)	10.53% (6.08%)	21.69% (15.69%)
Growth (58)	6	4.19%	0.75% (0.36%)	1.83% (0.43%)	4.89% (1.9%)	10.97% (6.48%)	22.70% (16.77%)

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%

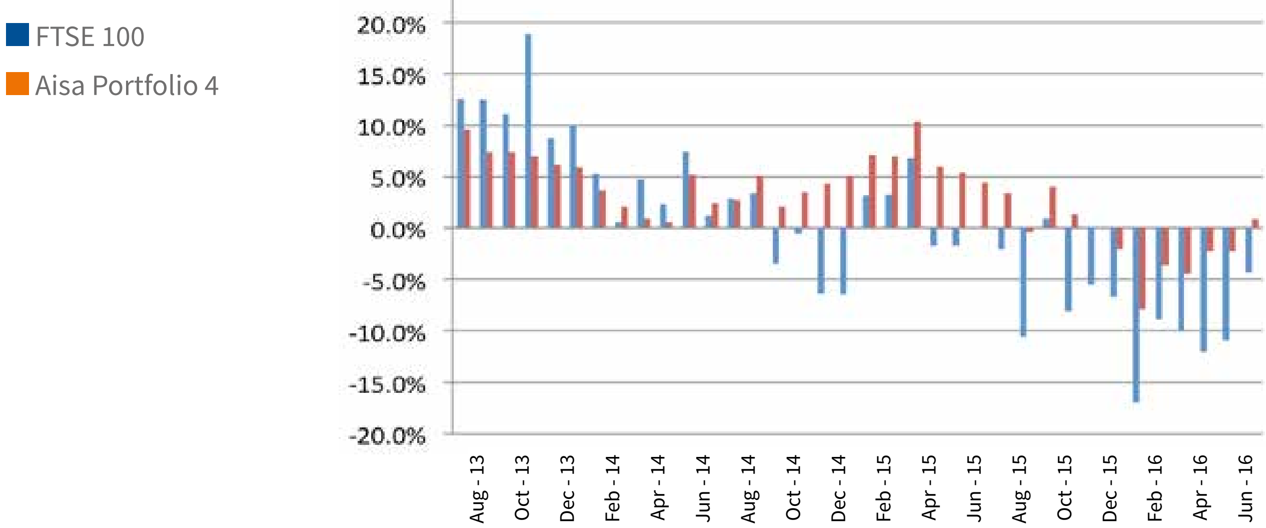
5b 12-Month Rolling Performance

We have analysed the actual performance of three of our model portfolios over the last 3 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.

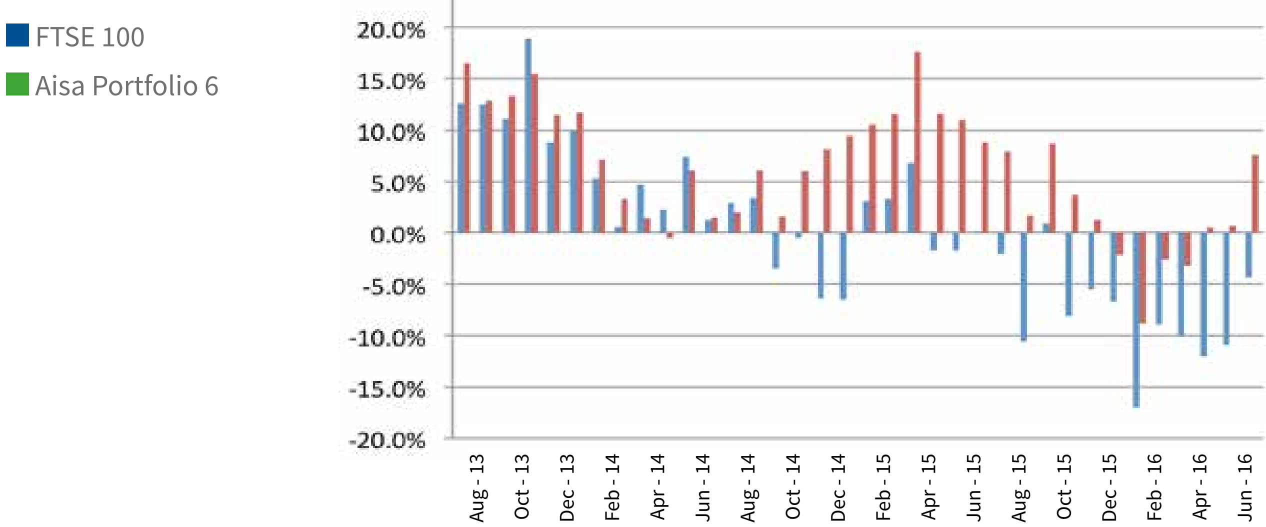
From February 2015 all of our portfolios have outperformed the FTSE 100, prior to this there were fluctuations of volatility between Aug 2013 – Jan 2015 predominantly our portfolios have outperformed although some months the portfolios under performed.

Month	FTSE 100	Portfolio 4	Portfolio 6	Portfolio 7
Aug-13	12.6%	9.6%	16.5%	17.1%
Sep-13	12.5%	7.4%	12.9%	15.3%
Oct-13	11.1%	7.4%	13.3%	13.7%
Nov-13	18.9%	7.0%	15.5%	17.0%
Dec-13	8.8%	6.2%	11.5%	14.0%
Jan-14	10.0%	5.9%	11.7%	13.2%
Feb-14	5.3%	3.7%	7.1%	9.0%
Mar-14	0.6%	2.1%	3.3%	4.4%
Apr-14	4.7%	0.9%	1.4%	2.8%
May-14	2.3%	0.6%	-0.5%	1.4%
Jun-14	7.4%	5.2%	6.1%	10.4%
Jul-14	1.2%	2.4%	1.5%	3.6%
Aug-14	2.9%	2.7%	2.0%	3.6%
Sep-14	3.4%	5.1%	6.1%	8.1%
Oct-14	-3.5%	2.1%	1.6%	4.2%
Nov-14	-0.5%	3.5%	6.0%	8.7%
Dec-14	-6.4%	4.3%	8.1%	10.3%
Jan-15	-6.5%	5.1%	9.4%	11.6%
Feb-15	3.1%	7.1%	10.5%	12.7%
Mar-15	3.3%	7.0%	11.6%	13.8%
Apr-15	6.8%	10.3%	17.6%	20.0%
May-15	-1.7%	6.0%	11.6%	12.8%
Jun-15	-1.7%	5.4%	11.0%	11.2%
Jul-15	0.1%	4.4%	8.8%	9.3%
Aug-15	-2.1%	3.4%	7.9%	8.6%
Sep-15	-10.6%	-0.4%	1.7%	1.9%
Oct-15	0.9%	4.0%	8.7%	8.9%
Nov-15	-8.1%	1.3%	3.7%	2.6%
Dec-15	-5.5%	0.0%	1.2%	0.3%
Jan-16	-6.7%	-2.1%	-2.2%	-3.4%
Feb-16	-17.0%	-7.9%	-8.8%	-10.3%
Mar-16	-8.9%	-3.6%	-2.6%	-3.9%
Apr-16	-10.1%	-4.5%	-3.2%	-4.3%
May-16	-12.0%	-2.3%	0.6%	-1.5%
Jun-16	-10.9%	-2.3%	0.7%	0.6%
Jul-16	-4.3%	0.9%	7.6%	8.1%
Average	0.8%	3.0%	6.6%	7.3%

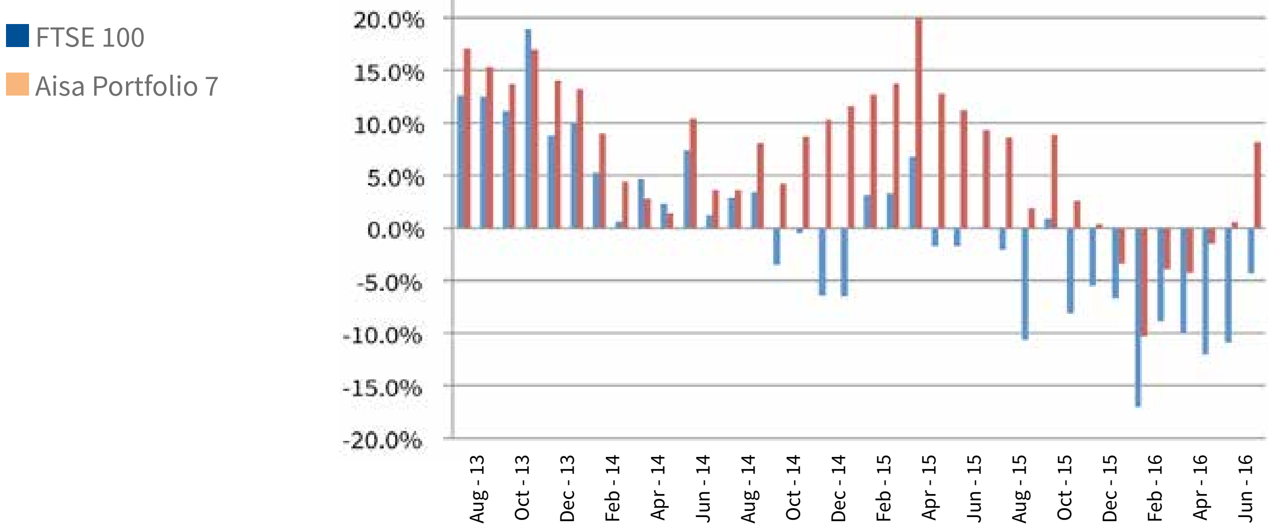
Aisa Portfolio 4



Aisa Portfolio 6



Aisa Portfolio 7



6 Additional Funds and Offshore portfolios

Nothing to discuss.

7 Quarterly timetabled asset/product discussions

1. Investment trusts – No changes
2. VCT & EIS – No changes
3. DFM Processes –

Geordie met with Vestra Wealth, whilst in the Ait meeting Geordie mentioned that we do not need to use DFM's to outperform our portfolios.

Also Geordie met with Darrel Diamond, a DFM, he confirmed at the meeting that are able to take advantage of the situation with Brexit due to being able to move money more swiftly.

Geordie provided us with documentation for the assessment of DFM Vestra Wealth and Appendix: Discretionary Management.

Reference Material utilised in this meeting

1. Previous minutes (Signed off)
2. Watchlist of funds (Taken from FE Analytics)
3. Actual performance document (Data taken from FE analytics & Ascentric.)
4. 12 month rolling performance (Data collected from Yahoo & Ascentric.)
5. MetLife presentation and documents.
6. DFM Vestra Wealth document (Provided by GB)
7. Appendix: Discretionary Management. (Provided by GB)
8. AIT Agenda.
9. All property fund fact sheets (Provided by FE Analytics)

8 AOB

Nothing to report.

9 Next AIT Meeting

The next AIT meeting will be held in London, Date and time are to be confirmed.

Schroder – Asian Income to brief us?

10 Actions outstanding

Action: **Update Actual Performance document with 48 monthly figure (Complete).**

Action: **James to update the Governance document with quarterly research.**

Review: **Review Military shares linked to arms as military expansion happening worldwide. Consider increasing exposure? – John.**

Review: **Watchlist – Kieran.**

Review: **Monitor funds in growth portfolios – Kieran.**

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Signed by Chairman

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