



Rathbones
Look forward

Rathbone Investment Management

Finders Deputyship Development Day – “Brexit and the Effect on Markets”

Presented by Mark Holloway and Paul Phazey, *Investment Directors*

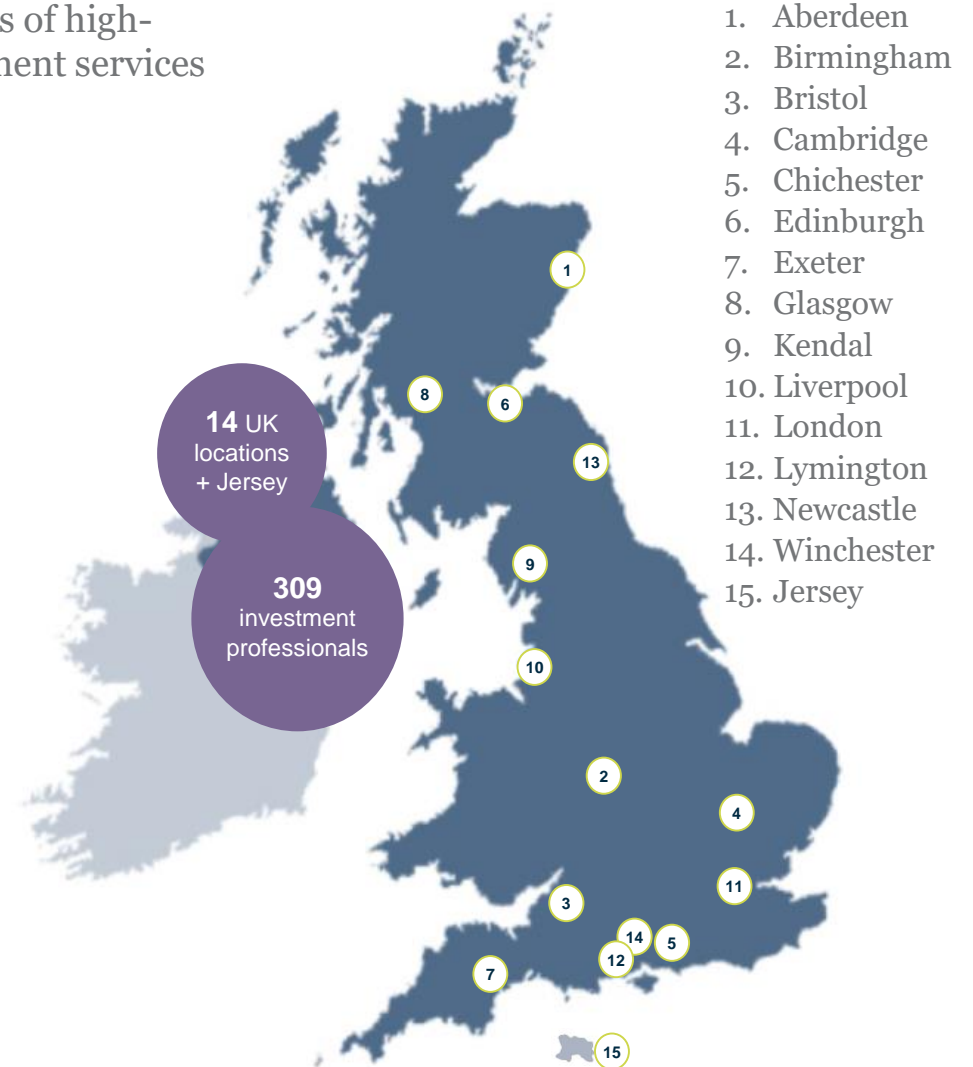
September 2018

Classification: Confidential

Introducing Rathbones

About us

- one of the UK’s largest and longest-established providers of high-quality, personalised discretionary investment management services for individuals and trustees
- £39.9 billion in funds under management¹
- ability to manage money across portfolio types (i.e. personal, ISA, SIPP, trust)
- low turnover among investment management staff
- part of Rathbone Brothers Plc – an independently-owned company
- the majority of our staff are shareholders in the firm
- offices across the UK and Jersey



1. Aberdeen
2. Birmingham
3. Bristol
4. Cambridge
5. Chichester
6. Edinburgh
7. Exeter
8. Glasgow
9. Kendal
10. Liverpool
11. London
12. Lymington
13. Newcastle
14. Winchester
15. Jersey

¹ As at 30 June 2018 includes funds managed by Rathbone Unit Trust Management Ltd.

Introducing Rathbones

Our philosophy



“We do not sell products — we offer a *service*.

For us that’s an important distinction. We aim to build long-term relationships with individuals, their families and advisers.

This approach is becoming unusual but we strongly believe it is important for our clients who value having direct access to the person managing their investments.”

Mark Nicholls

Chairman

Introducing Rathbones

We're here to support you



Safeguarding your clients' capital and providing a solid lifetime income requires in-depth, detailed understanding of the complexities of Court of Protection and personal injury matters. Rathbones Court of Protection team works in close collaboration with deputies and trustees on a daily basis.



Mark Holloway MCSI
Investment Director
Court of Protection and Personal
Injury Specialist

Mark is an investment director with 30 years' experience as a financial planner and latterly as an investment manager.

Prior to joining Rathbones in 2015, Mark had worked for 12 years at Gerrard which became part of Barclays Wealth.

Since 2007, Mark has worked exclusively with clients under the Court of Protection, primarily with acquired brain injuries. He acts for professional, lay and public authority deputies as well as trustees overseeing personal injury trusts.

Mark is a member of the CISI.

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Paul Phazey Chartered FCSI
Investment Director
Court of Protection and Personal
Injury Specialist

Paul is an investment director of almost 30 years' experience. Prior to joining Rathbones in 2015, he had spent almost his entire career working for Gerrard and its predecessor companies which became part of Barclays Wealth.

Since 2007, Paul has worked exclusively with clients under the Court of Protection, primarily with acquired brain injuries. He acts for professional, lay and public authority deputies as well as trustees overseeing personal injury trusts.

Paul is a Chartered Fellow of the CISI.

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Introducing Rathbones Deputyships - 2017

- 57,702 registered in England and Wales
- 27,890 Lay Deputies
- 168 Local Authority Deputies
- average case load per LA Deputy – 120
- outsourcing becoming more commonplace
- average timeline for a protected party under deputyship – **3.5 years**

Source: OPG, October 2017



Introducing Rathbones

Introduction to the investment process

- cash is an inert asset class
- issues over inflation
- interest rates remain at historically low levels – 10 years!
- ***but is that about to change?***
- however, we have to be mindful of vulnerable nature of client
- Wells v Wells– “not ordinary investors”
- differentiate between PI awardees and the elderly
- time horizon for investment for the elderly client is important

Source: OPG, October 2017

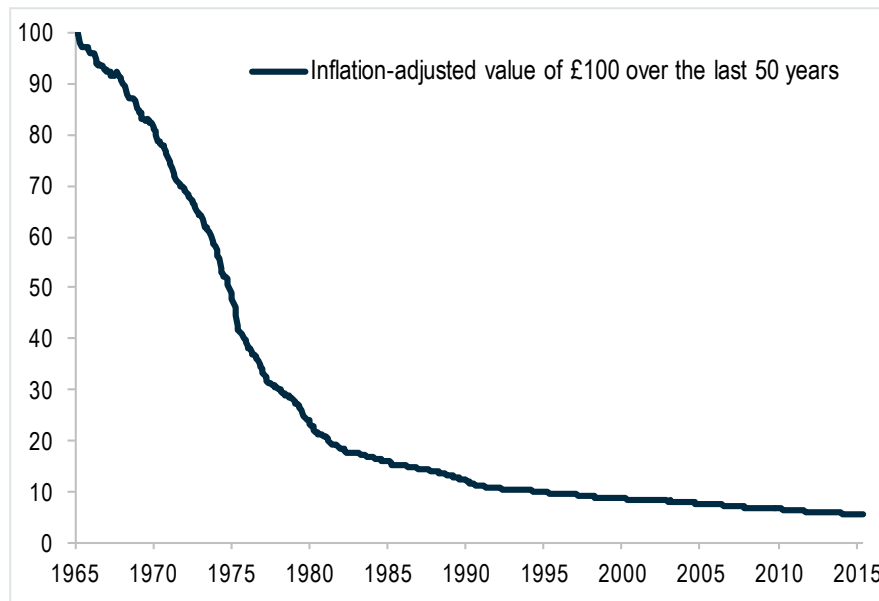


Building an investment strategy

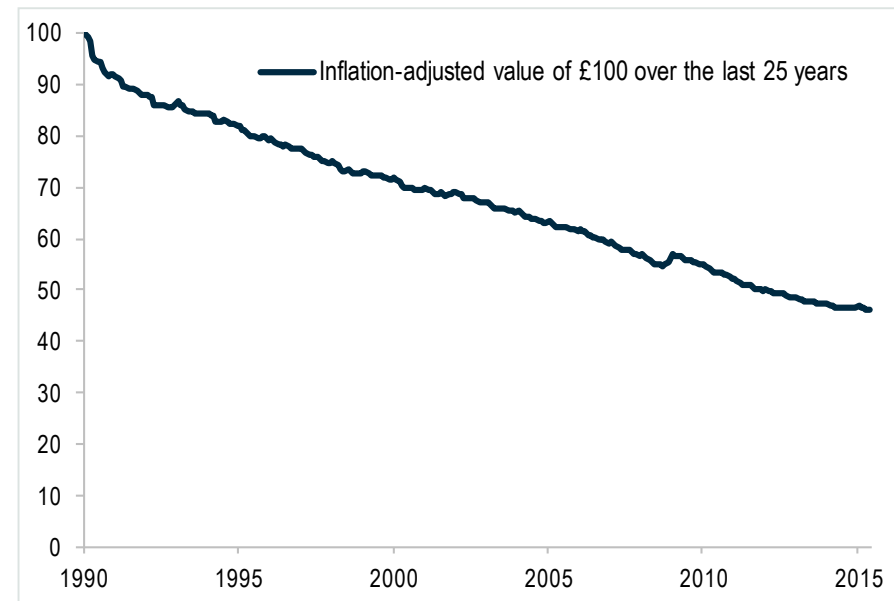
Inflation erodes asset values

- inflation erodes the purchasing power of money
- even the relatively subdued inflation of the last 25 years has caused a dramatic reduction of purchasing power of idle cash

£100 in 1965 is worth just £5.60 in today's money



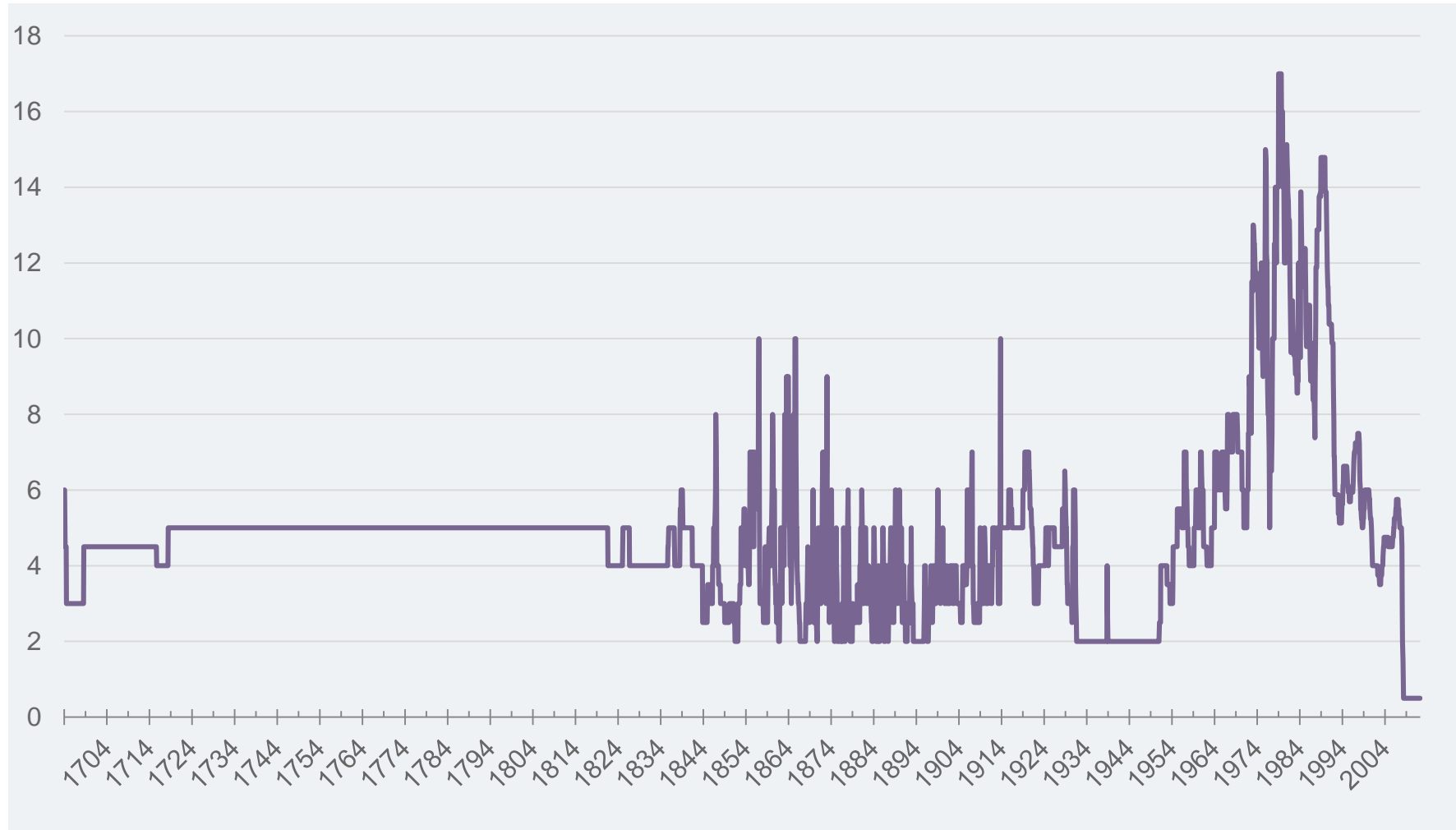
£100 in 1990 is worth just £46 in today's money



Source: Datastream, Rathbones Asset Allocation Strategy Research

Building an investment strategy

Bank of England base rates 1694–2016



Source: Bank of England

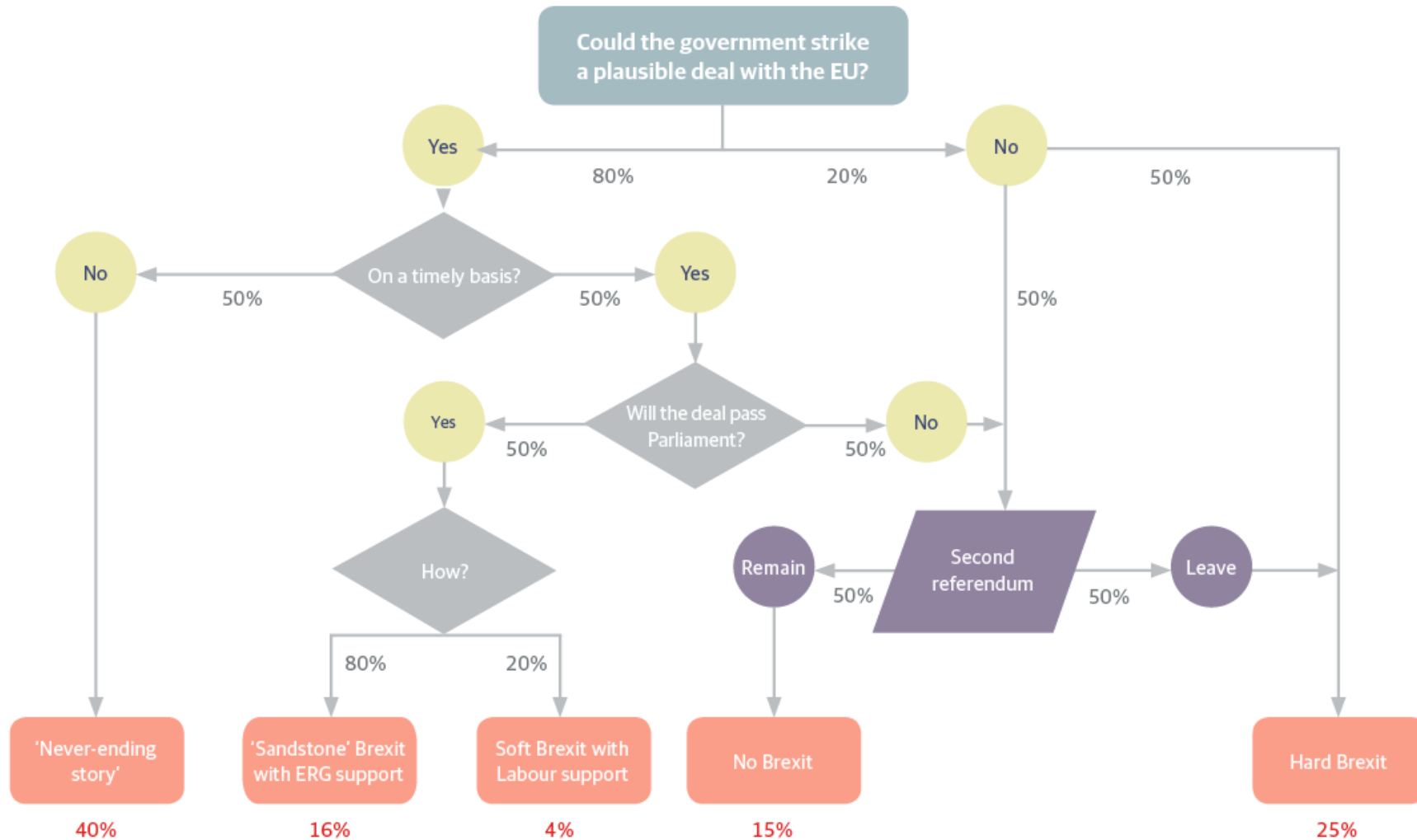
The Decision Tree

Beyond Brexit's "We Don't Knows"

- Stopping at “we don’t know” is a missed opportunity.
- Break conundrum down into a series of smaller questions.
- Decision tree – not all outcomes are equally likely.
- Tree is not all encompassing – reduced down to crucial points.

Rathbones view in charts

Amid all the Brexit unknowns, Rathbones' decision tree yields some useful information – a 'never ending story' is most likely



The Decision Tree

Probability of Outcomes – 1 YEAR TIME HORIZON

- EU doesn't want to be blamed for damaging Good Friday Agreement.
- If “no”; Hard Brexit; barriers to trade – 2nd referendum? (25%)
- Most likely – 29 March – de minimis deal and prolonged negotiations.
- “The Never Ending Story” outcome (40%)
- If deal is reached – will it pass UK Parliament? (50%)
- YES – “Sandstone” Brexit with support from ERG (Rees Mogg) (16%)
- YES – Soft Brexit with Labour Support (4%)
- NO – 2nd Referendum:
 - Remain (no Brexit 15%) Leave – Hard Brexit (see above)
 - General Election – Labour Victory – loop back to top of tree!

Brexit for Investors

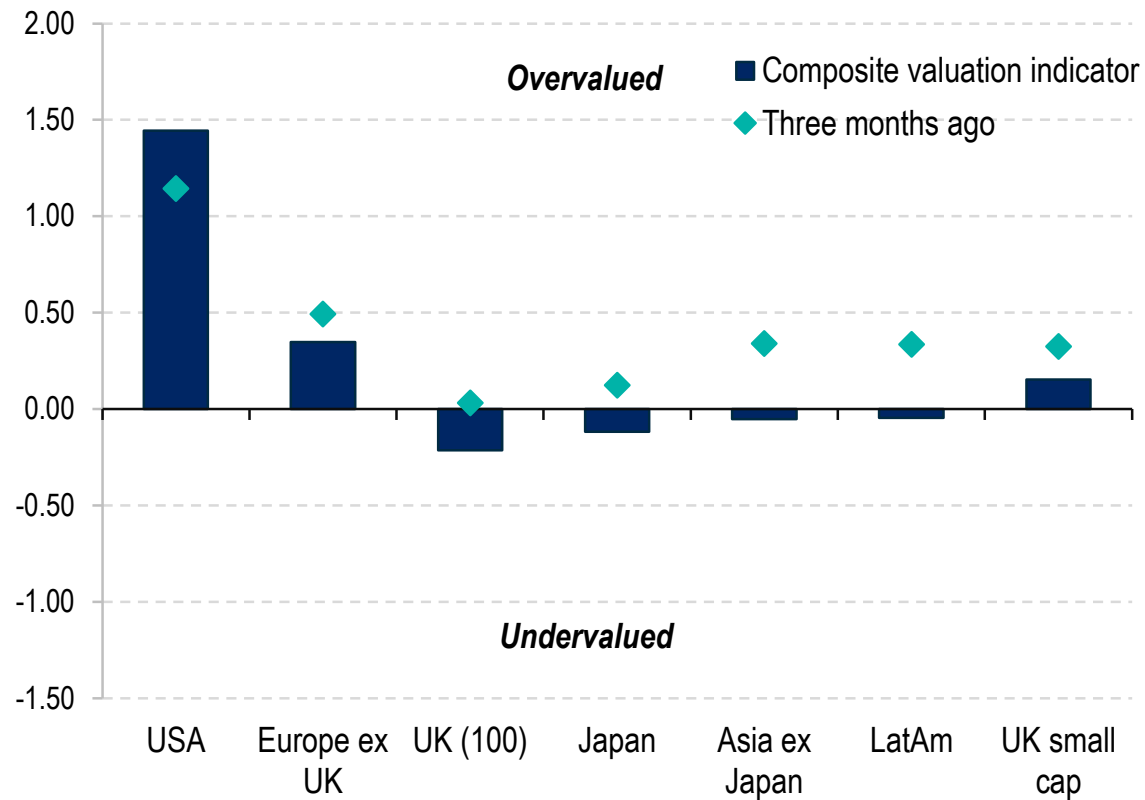
How Financial Markets Might React

- “We don’t know” does not equal “sell the UK stock market”.
- FTSE 350 companies make 25% revenue in UK.
- Sterling is already priced in for a fairly hard Brexit (c/f 2016).
- Undervalued vs Euro as much as ever been in last 35 years (theoretical)
- Softer Brexit = stronger £ and stronger FTSE.
- FTSE “massively under owned” by foreign investors.
- Most likely outcome - £ appreciates and UK based multinationals come back into favour.
- WE DON’T KNOW DOESN’T MEAN SELL UK SHARES

Rathbones view in charts

UK shares are pricing in a hard Brexit: we see fundamental value and opportunity despite UK economic uncertainty

*Rathbones composite valuation indicator**



Source: Datastream,

Brexit for Investors

Outcomes and Their Possible Effect on Asset Classes

	25%			16%			4%			40%			15%			Probability-weighted	
	Hard Brexit			'Sandstone' Brexit			Soft Brexit			'Neverending story'			No Brexit				
Sterling	7		Another leg down, but its already very undervalued on an L-T basis	6		Small devaluation but continued trading relationship softens blow	3		£ appreciates though remains below pre-referendum levels	3		Can-kicking suggests probability of reaching some sort of deal rises - £ appreciates	1		10%+ appreciation of the pound	Sterling	
UK multi-nationals	3		FX sees them appreciate	3		FX sees them appreciate; uncertainty disappears and foreigners re-engage	3		FX is a headwind, but major source of uncertainty is removed - foreigners re-engage	6		FX poses a small headwind; some uncertainty removed but still a headache	3		FX poses headwind; but uncertainty and foreign investors come back	UK multi-nationals	
UK domestics	8		Fall as FX makes multinationals more attractive, and UK growth deteriorates	6		Fall as FX makes multinationals more attractive; UK growth still poor	2		Relatively more attractive as FX appreciates; growth outlook improves	4		Relatively more attractive as FX appreciates	1		Relatively more attractive as FX appreciates	UK domestics	•
Gilts	3		Lower yields as a result of lower growth and lower term premium	4		Yields edge a little lower on growth outlook	7		Interest rate outlook steepens and term premium rises	6		Real yields rise but inflation expectations falls; term premium a little higher too perhaps	7		Real yields rise but inflation expectations falls; term premium a little higher too perhaps	Gilts	•
Linkers	1		Rising inflation expectations mean linkers beat gilts	3		Rising inflation expectations mean linkers beat gilts	8		FX causes inflation to fall	6		Linkers unlikely to outperform	8		Linkers take a tumble as real yields rise	Linkers	



Building an investment strategy

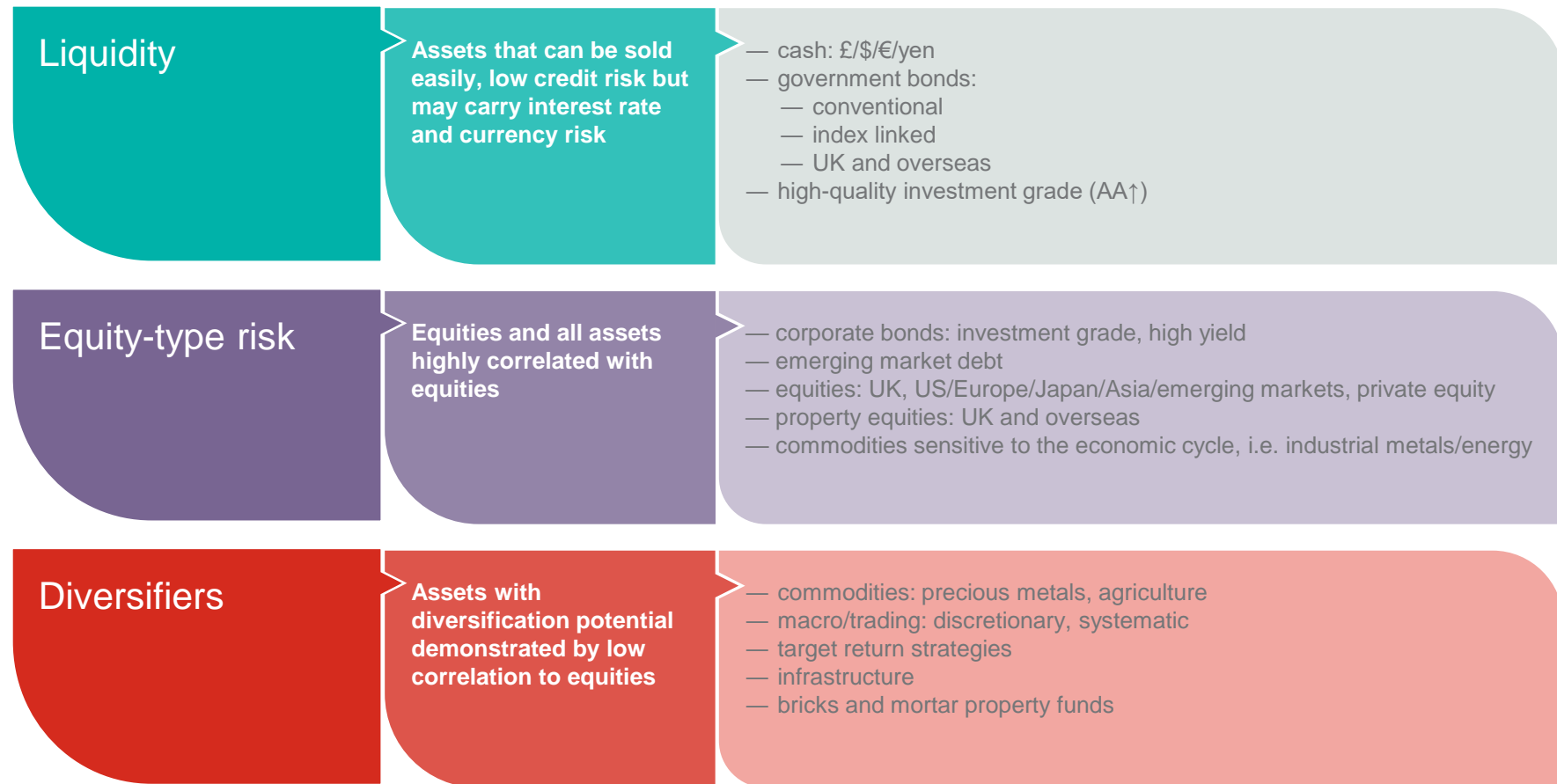
Other Important Issues - The End of Quantitative Easing?

- developed economies “normalise”
- inflation remains above the level desired by central banks
- governments stop buying gilts (and bonds)
- gilt yields are rising
- interest rates rise
- good for savers; bad for borrowers (corporate and private)
- what about investors? (tread carefully.....in the short term)
- **SENSIBLE LONG TERM ASSET ALLOCATION WILL PREVAIL**

Building and investment strategy

A focus on correlation is key to managing risk

Grouping asset classes according to characteristics



Important information

The value of investments and the income from them may go down as well as up and you may not get back your original investment. Past performance should not be seen as an indication of future performance. Changes in rates of exchange between currencies may cause the value of investments to decrease or increase.

Information valid at date of presentation.

Tax regimes, bases and reliefs may change in the future.

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Questions and answers

