Rathbones
Look forward

Rathbone Investment Management

Finders Private Client Conference – " From Greed to Fear - Where Next?"

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

March 2019

Introducing Rathbones

About us

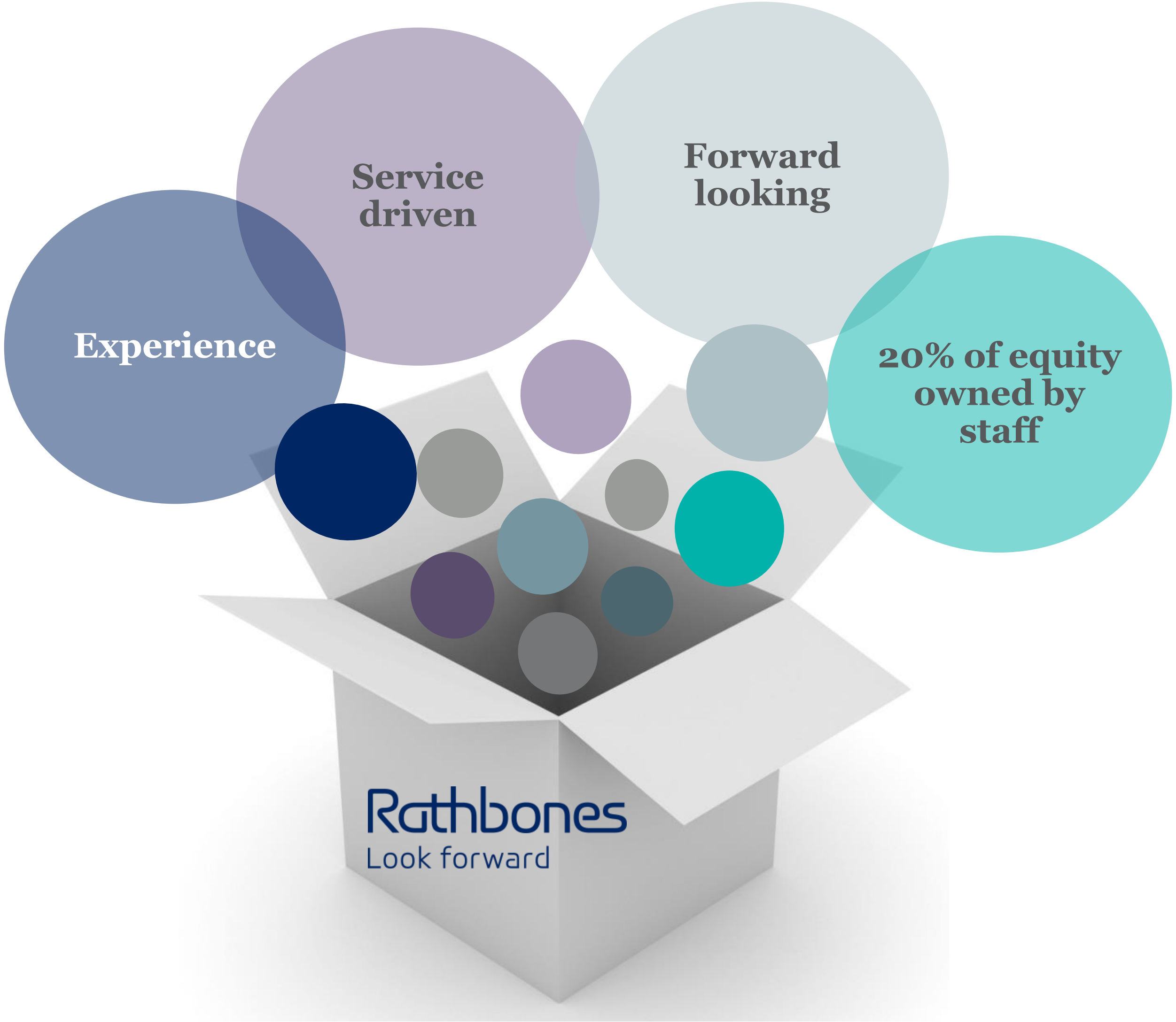
- one of the UK's largest and longest-established providers of high-quality, personalised discretionary investment management services for individuals and trustees
- £44.1 billion in funds under management[1]
- investment management is our core business
- ability to manage money across portfolio types (i.e. personal, ISA, SIPP, trusts)
- low turnover among investment management staff
- part of Rathbone Brothers Plc – an independently-owned FTSE 250 company[2]
- the majority of our staff are shareholders in the firm
- extensive expertise in financial planning and trusts
- 15 offices across the UK and Jersey

1 As at 31 December 2018 includes funds managed by Rathbone Unit Trust Management Ltd

2 Independent refers to the fact that Rathbone Investment Management is part of Rathbone Brothers Plc, a FTSE 250 company

Introducing Rathbones

Rathbones today



£44.1bn in funds under management[1]

Banking licence

1,225 staff, 309 investment professionals[2]

Boutique service, supported by an institutional process

[1] As at 31 December 2018 includes funds managed by Rathbone Unit Trust Management Ltd.

[2] As at 30 June 2018.

Introducing Rathbones

Leading UK private client wealth managers

	Private client AUM (£m)	Total
1	St. James's Place Wealth Management	90,700
2	Barclays	50,850
3	UBS Wealth Management	42,529
4	Brewin Dolphin Ltd	37,600
5	Cazenove Capital	36,785
6	Investec Wealth & Investment	34,400
7	**Rathbone Brothers Plc[1]**	**33,780**
8	Canaccord Genuity Wealth Management	25,822
9	JPMorgan Private Bank[2]	24,789
10	Quilter Cheviot	23,600
11	Tilney	21,234
12	Citi Private Bank[2]	20,978
13	Coutts	18,465
14	Smith & Williamson Investment Management	18,124
15	Goldman Sachs International	16,903
16	Thesis Asset Management Limited[2]	15,156
17	Charles Stanley & Co Limited	14,700
18	Kleinwort Hambros	14,476
19	Man GLG[2]	14,412
20	Davy Private Clients	14,064

	Private client AUM (£m)	Total
21	Credit Suisse (UK) Limited	13,825
22	Seven Investment Management (7IM)	12,447
23	HSBC[2 3]	12,311
24	Brooks Macdonald	11,738
25	Standard Chartered Private Bank[2]	11,510
26	Julius Baer[2]	11,072
27	Lloyds Bank Private Banking[2]	11,063
28	Lombard Odier[2]	10,641
29	LGT Vestra	10,015
30	JM Finn	9,920
31	Close Brothers Asset Management	9,631
32	Rothschild Wealth Management	9,143
33	Raymond James Investment Services[4]	8,730
34	Partners Capital	8,400
35	Pictet Wealth Management[2]	7,849
36	Santander Financial Planning	7,000
37	Standard Life Wealth[5]	6,856
38	ABN AMRO	6,700
39	**Speirs & Jeffrey[6]**	**6,598**
40	Ruffer LLP	6,261

Data source: PAM 2018 for 2017 figures

1 Rathbones figure only includes funds under management by Rathbone Investment Management and is quoted as at 31 December 2017 which was prior to the acquisition of Speirs & Jeffrey which was completed on 31 August 2018

2 Estimate

3 Combined entity of HSBC Bank Plc and HSBC Private Banking

4 Includes all assets managed on the Raymond James platform

5 May include assets other than private client, i.e. institutional or charity

6 Owned by Rathbone Brothers Plc as at 31 August 2018

Introducing Rathbones

Your team

Mark Holloway

Investment Director

Mark is an Investment Director, joining Rathbones in June 2015. He has spent over 25 years in the Financial Services industry and is a member of the Chartered Institute for Securities & Investment and amongst other qualifications, holds the Private Client Investment Advice & Management papers. He has responsibility for maintaining and building bespoke investment solutions for individuals under the Court of Protection (CoP) or in receipt of personal injury awards. Since 2007 Mark has concentrated in this specialist area of investment planning and before joining Rathbones, spent 12 years at Gerrard Investment Management Limited who were taken over by Barclays as part of the Wealth & Investment Management division, initially as a Wealth Advisor before helping to reshape the CoP and Personal Injury Trust team, building total funds under management in excess of £700m.

020 7399 0024
mark.holloway@rathbones.com

Paul Phazey

Investment Director

Paul began his career as a graduate trainee at Charterhouse Tilney in Liverpool in 1989. He then joined the Peterborough office of Allied Provincial in 1990, becoming an Investment Director of Gerrard Investment Management in 2000. After spells in Cambridge and Leeds, Paul joined the Barclays Wealth Court of Protection Team in 2007 and with his colleagues, established the largest Court Of Protection fund in England and Wales.
The Rathbones Court of Protection and Personal injury team offer a unique relationship based service for professional and lay deputies to ensure that protected parties and their families receive all the financial and welfare support they require, often in challenging circumstances. Paul is a Chartered Fellow of the Chartered Institute of Securities and Investments.

020 7399 0240
paul.phazey@rathbones.com

Debra Smith

Investment Directors’ Assistant

Debra joined Rathbones in August 2015. She had previously worked with Mark and Paul at Barclays and is a highly experienced Court of Protection administrator.

020 7399 0019
debra.smith@rathbones.com

Introducing Rathbones

Your team

Rupert Heggs

Investment Director

Rupert Heggs is an investment director. He joined Rathbones in March 2001 specialising in the management of private client and charitable portfolios. He was previously a director at Flemings having been with the company since the start of his City career in 1987. He graduated in accountancy studies at Exeter University, is a Fellow of the Chartered Institute for Securities and Investment and holds an MBA in International Management of Financial Services. Rupert is a member of the Rathbones Corporate Stewardship Committee and the International Stock Selection Committee.

020 7399 0397
rupert.heggs@rathbones.com

Amy Kirby

Assistant Investment Manager

Amy began her career at Rathbones on an apprenticeship scheme in 2013, before transitioning to the investment management team in 2014. She assists in the management of portfolios for private clients, trusts and charities.

Amy is a Chartered Member of the CISI, having obtained the Chartered Wealth Manager qualification in 2017. In doing so, she became the youngest person to ever achieve this qualification aged 21. Amy is a member of the Rathbones Fixed Income Collectives Committee.

020 7319 5574
amy.kirby@rathbones.com

Emma Hillman

Administration Assistant

Emma Hillman joined Rathbones in January 2018. She worked previously at Kapytal Ltd as Executive Assistant to the company Chairman. Emma has forged a strong city career within Secretarial Support / Administration, since leaving University in 2007. Emma assists Rupert Heggs' team providing secretarial support and portfolio administration.

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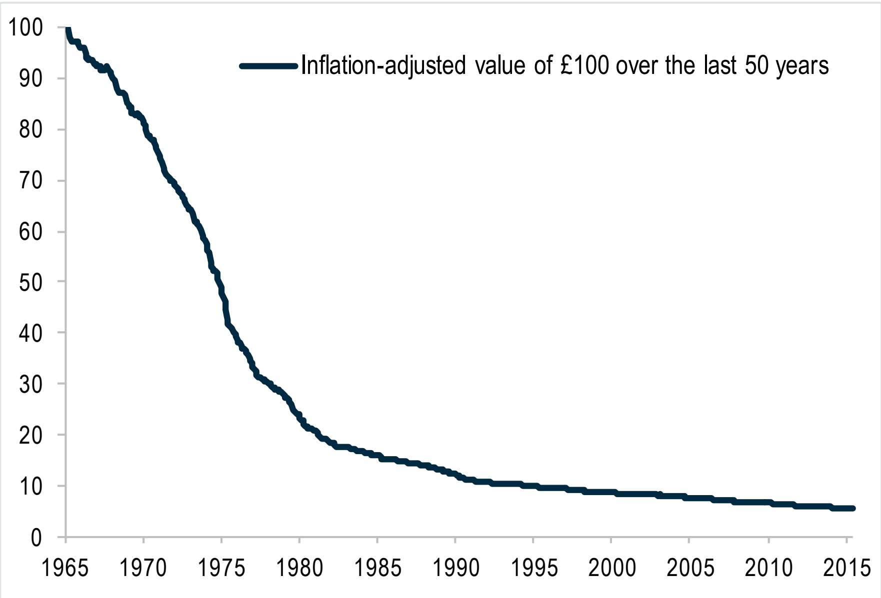
Building an investment strategy

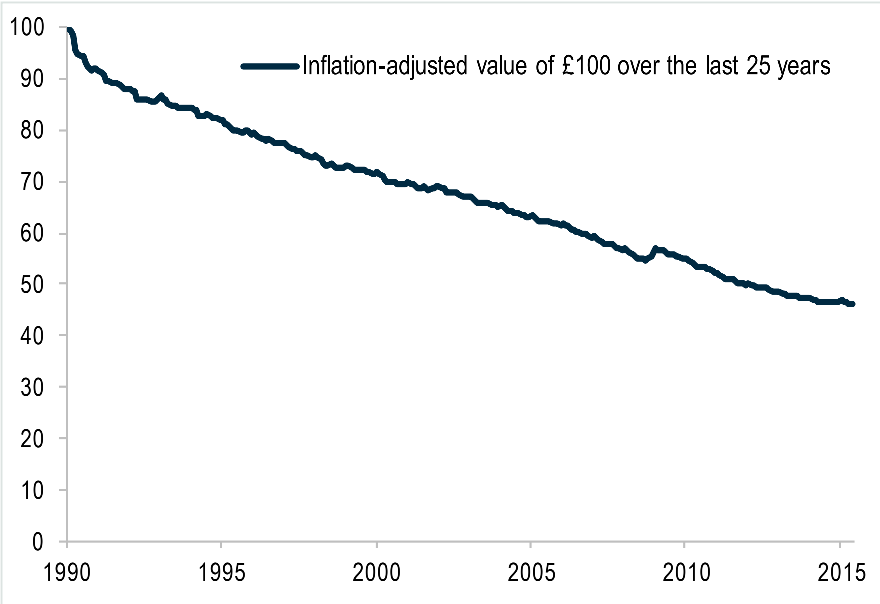
Inflation erodes asset values

- 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



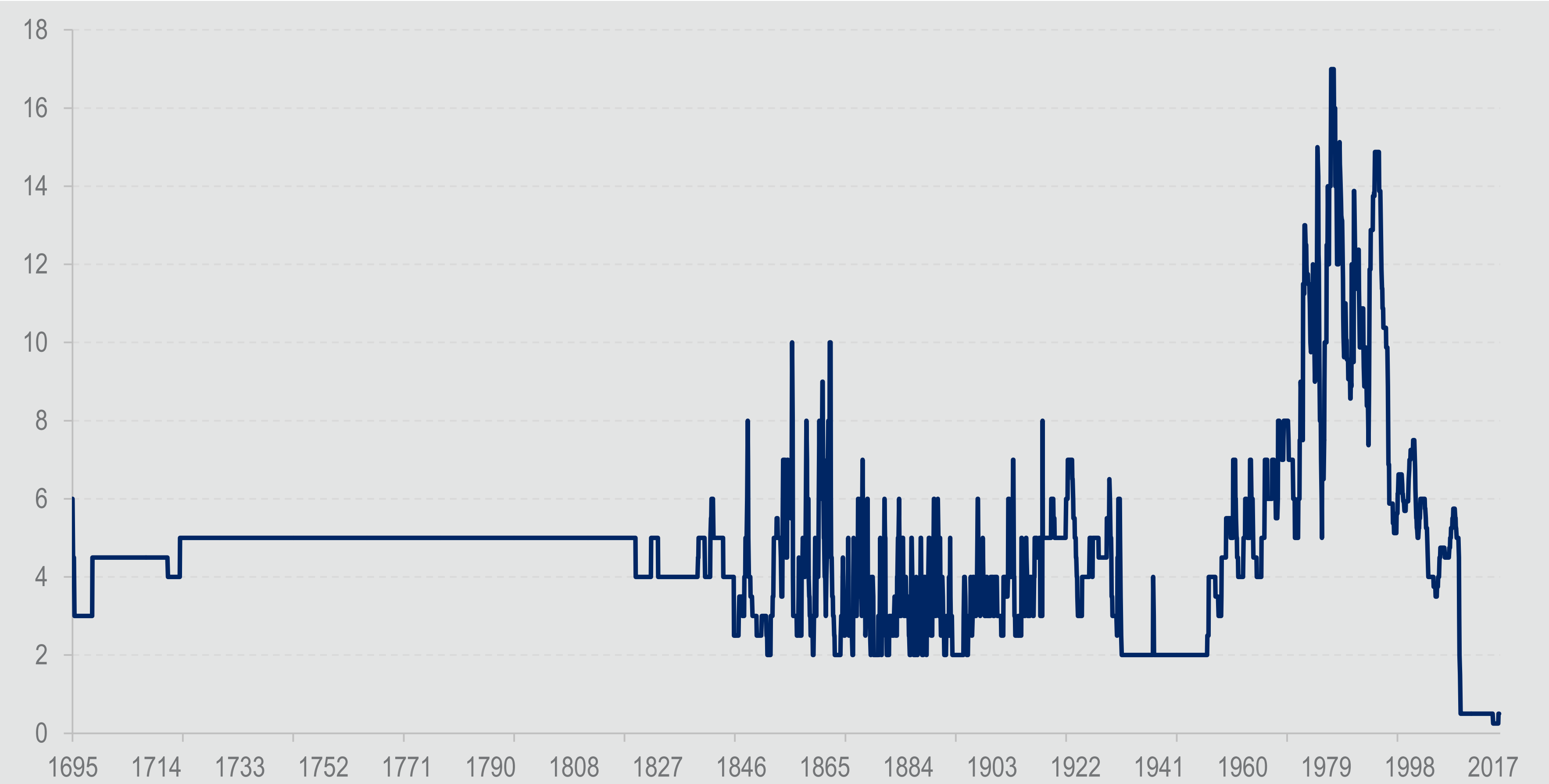
£100 in 1990 is worth just £46 in today's money



Source: Datastream, Rathbones Asset Allocation Strategy Research

Building an investment strategy

The Bank of England base rate 1694–2017



Source: Bank of England. Data as at 31 December 2017.

Building and investment strategy

A focus on correlation is key to managing risk

Grouping asset classes according to characteristics

Liquidity

Assets that can be sold easily, low credit risk but may carry interest rate and currency risk

- — cash: £/$/€/yen
- — government bonds:
  - — conventional
  - — index linked
  - — UK and overseas
- — high-quality investment grade (AA↑)

Equity-type risk

Equities and all assets highly correlated with equities

- — corporate bonds: investment grade, high yield
- — emerging market debt
- — equities: UK, US/Europe/Japan/Asia/emerging markets, private equity
- — property equities: UK and overseas
- — commodities sensitive to the economic cycle, i.e. industrial metals/energy

Diversifiers

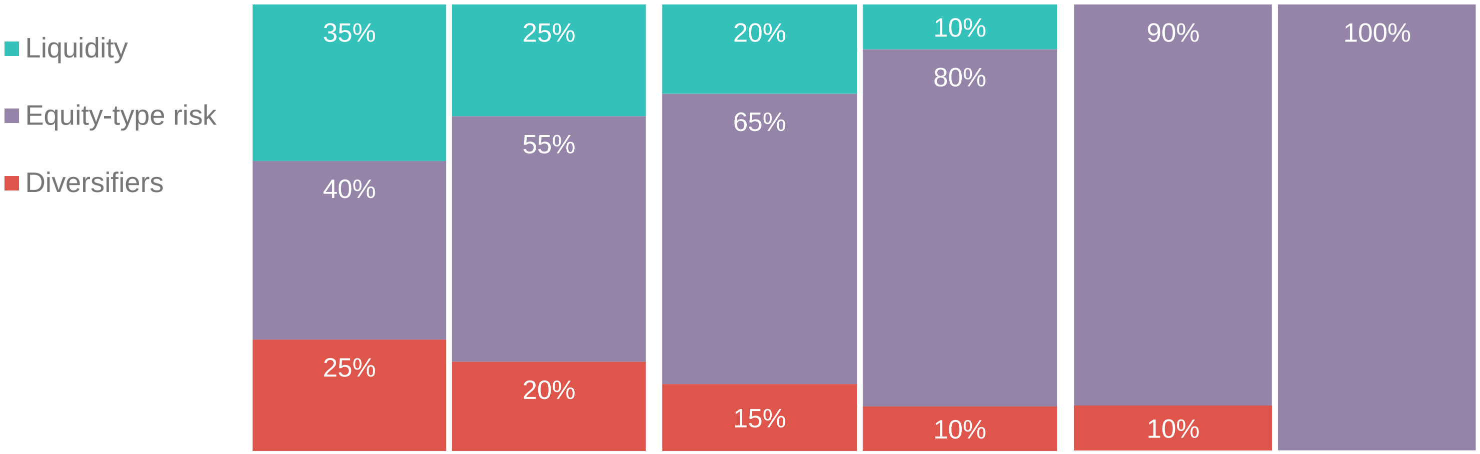
Assets with diversification potential demonstrated by low correlation to equities

- — commodities: precious metals, agriculture
- — macro/trading: discretionary, systematic
- — target return strategies
- — infrastructure
- — bricks and mortar property funds

Building an investment strategy

Risk adjusted asset allocation strategies

Risk strategy	1	2	3	4	5	6
Suggested time horizon (years)	3-5		6-10		10+	



Return and risk guidelines

	1	2	3	4	5	6
Inflation+ reference			Inflation + [2%+]	Inflation + [3%+]	Inflation + [4%+]	Inflation + [5%+]
Cash+ reference	Cash + [1%+]	Cash + [2%+]				
Risk measure/maximum drawdown (%)*	-9.6%	-15.9%	-21.2%	-28.6%	-35.1%	-41.8%
Possible reference indices	MSCI WMA Conservative		MSCI WMA Balanced			MSCI WMA Global Growth
		MSCI WMA Income		MSCI WMA Growth		

Lower risk → **Higher risk**

A wide range of objectives can be met: income or regular cash flow, total return and capital growth

* Drawdown shows the largest cumulative loss experienced by each strategy between the highest point and subsequent lowest point measured from 30 June 1998 to 30 June 2018.
For a more detailed description of our investment strategies, please request a copy of 'Our investment strategies' document from your investment manager. These will be subject to ongoing review and therefore may change over time.

Building and investment strategy

Investment options, their characteristics and why we choose them

Lower risk → Higher risk

	Cash %	Gilts %	UK index linked bonds %	Corporate bonds %	Funds of hedge funds %	UK equity large companies %	International equity %	Commodities %	Property %	UK equity small companies %	Private equity %
Historical returns (CAGR)	3.3	5.9	7.7	6.8	4.0	5.2	7.5	1.1	7.3	7.3	8.7
Historical volatility (Standard deviation)	0.7	5.5	7.5	11.6	5.6	13.8	15.4	15.0	10.5	17.3	19.1
Historical risk (Max drawdown)	0.0	7.3	12.7	18.6	22.2	44.4	48.6	54.0	58.5	57.0	74.8

Source: Rathbones, Evestment and Datastream

Please note:

1. Performance measured on a total return basis in sterling, apart from fund of hedge fund returns, which are calculated on a NAV basis
2. Based on a performance period of 20 years to end of September 2017
3. CAGR represents the compound annual growth rate
4. Historical volatility is measured using standard deviation of monthly returns
5. Maximum drawdown represents the largest drop in the value of an asset class from its height or peak to its lowest point over the period (trough)

Past performance should not be seen as an indication of future performance

Representative indices:

Cash: UK 3M IBA Interbank Libor 3M Total Return Index £

Gilts: FTSE Actuaries UK Conventional Gilts All Stocks Total Return Index £

UK Index Linked Bonds: FTSE British Government Index Linked Bonds All Maturities Total Return Index £

Fund of Hedge Funds: HFRI Fund of Funds composite Total Return Index £

Corporate Bonds: Barclays Capital Sterling Bond Non Gilts All Maturities Total Return Index £ Prior to Jan 1997 & ML Corporate All UK Total Return Index £ thereafter

Property: 50% IPD (Investment Property Databank) & 50% FTSE NAREIT Property Total Return Index £

UK Equity Large Companies: FTSE 100 Total Return Index £

International Equity: FTSE All-World Ex UK Total Return Index £

UK Equity Small Companies: FTSE Small Cap Total Return Index £

Commodities: Dow Jones AIG Total Return Index £

Private Equity: UK Private Equity DataStream Investment Trusts Ex-3I Total Return Index £

2018 – the end of the 10 year bull market?

— first losing year for majority of asset classes since 2009

— only UK Commercial Property showed positive returns

— FTSE 100 fell by 12.5% – BREXIT?

— S&P 500 fell by 4.3% (worse if "Big Tech" is stripped out) – Tarrifs? Trump?

— UK Gilts fell by 2.2% - Interest Rates?

— lower quality and emerging market debt suffered significant losses – Credit risk?

— MSCI WMA Private Investor Balanced index (Medium Risk Proxy) fell by 7.2%

Quantitative easing – the elephant in the room that's about to walk out?

Sample portfolio returns since 2009 (lower risk)

2009	18.0%
2010	11.6%
2011	-0.5%
2012	10.2%
2013	12.5%
2014	6.1%
2015	2.4%
2016	11.3%
2017	11.3%

Quantitative easing has driven asset prices higher for nine years. What happens when it ends?

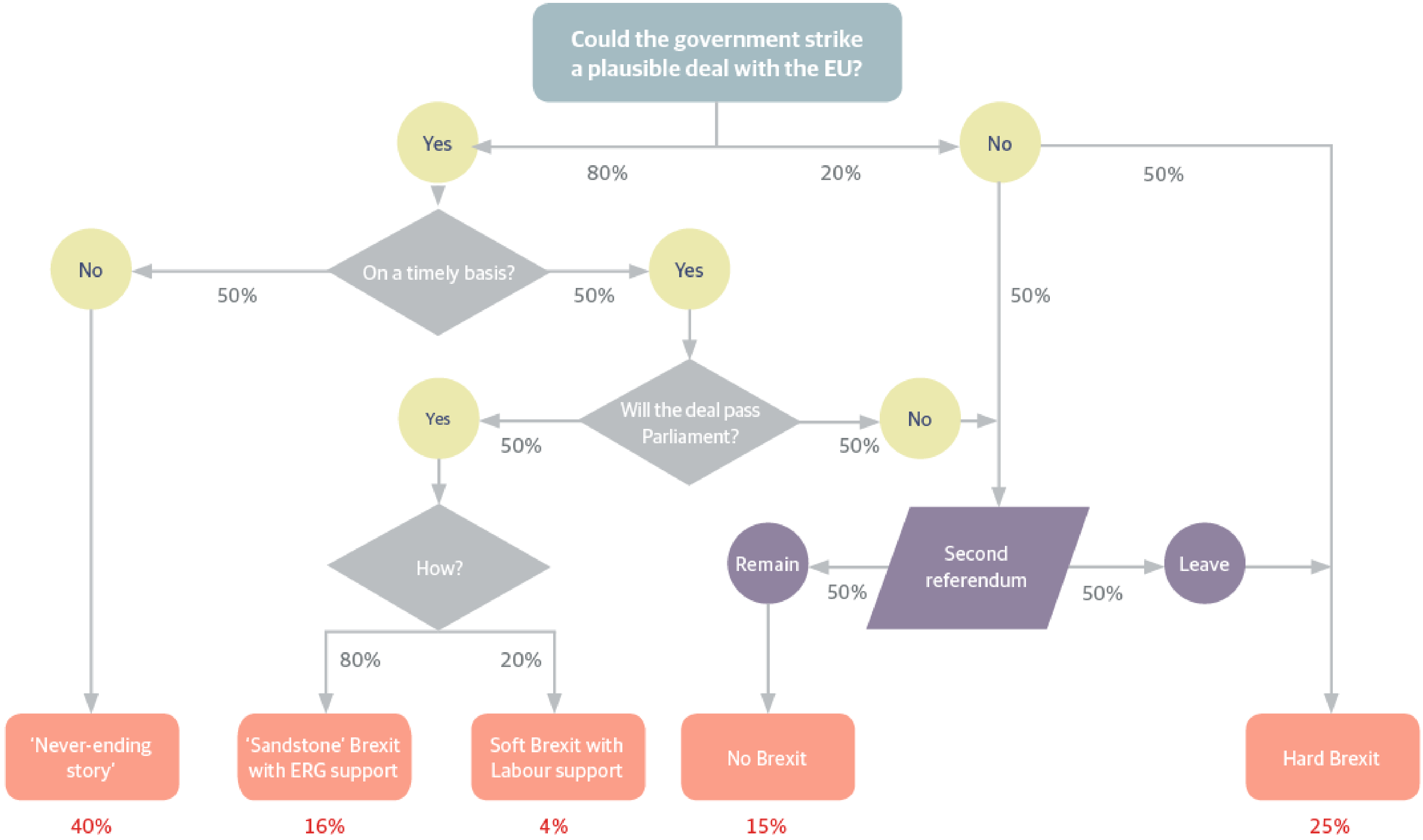
Asset class performance quilt

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	10 Years
EM 68.9%	REITs 28.4%	TIPS 13.3%	EM 19.1%	Small Cap 41.0%	REITs 30.4%	REITs 2.4%	Small Cap 26.6%	EM 37.3%	Cash 1.7%	Small Cap 15.0%
Small Cap 41.6%	Small Cap 27.2%	REITs 8.6%	Int'l Stocks 18.8%	Mid Cap 35.2%	Large Cap 13.5%	Large Cap 1.3%	Mid Cap 20.5%	Int'l Stocks 25.1%	Bonds 0.1%	Mid Cap 13.4%
Mid Cap 37.6%	Mid Cap 26.3%	Bonds 7.7%	REITs 17.6%	Large Cap 32.3%	Mid Cap 9.4%	Bonds 0.5%	Comdty 12.9%	Large Cap 21.7%	TIPS -1.4%	Large Cap 13.0%
REITs 30.1%	EM 16.5%	Large Cap 1.9%	Large Cap 16.0%	Int'l Stocks 21.4%	Bonds 6.0%	Cash -0.1%	Large Cap 12.0%	Mid Cap 15.9%	Large Cap -4.6%	REITs 12.1%
Int'l Stocks 27.0%	Comdty 16.2%	Small Cap 1.1%	Small Cap 15.7%	REITs 2.3%	Small Cap 5.5%	Int'l Stocks -1.0%	EM 10.9%	Small Cap 13.1%	REITs -6.0%	EM 6.6%
Large Cap 26.4%	Large Cap 15.1%	Cash 0.0%	Mid Cap 15.2%	Cash -0.1%	TIPS 3.6%	TIPS -1.8%	REITs 8.6%	REITs 4.9%	Small Cap -8.6%	Int'l Stocks 5.8%
Comdty 20.1%	Int'l Stocks 8.2%	Mid Cap -1.5%	TIPS 6.4%	Bonds -2.0%	Cash -0.1%	Small Cap -1.8%	TIPS 4.7%	Bonds 3.6%	Mid Cap -11.3%	TIPS 3.3%
TIPS 8.9%	Bonds 6.4%	Int'l Stocks -12.3%	Bonds 3.8%	EM -3.7%	EM -3.9%	Mid Cap -2.5%	Bonds 2.4%	TIPS 2.9%	Comdty -13.1%	Bonds 3.1%
Bonds 3.3%	TIPS 6.1%	Comdty -14.0%	Cash 0.0%	TIPS -8.5%	Int'l Stocks -6.2%	EM -16.2%	Int'l Stocks 1.4%	Comdty 0.7%	Int'l Stocks -13.8%	Cash 0.2%
Cash 0.3%	Cash 0.0%	EM -18.8%	Comdty -2.1%	Comdty -11.1%	Comdty -18.6%	Comdty -28.2%	Cash 0.1%	Cash 0.7%	EM -15.3%	Comdty -4.9%

Funds: EEM, VNQ, MDY, SLY, SPY, EFA, TIP, AGG, DJP, BIL

Rathbones view in charts

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



Source: Rathbones

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

Sensible long term asset allocation will prevail

Brexit for investors

Outcomes and Their Possible Effect on Asset Classes

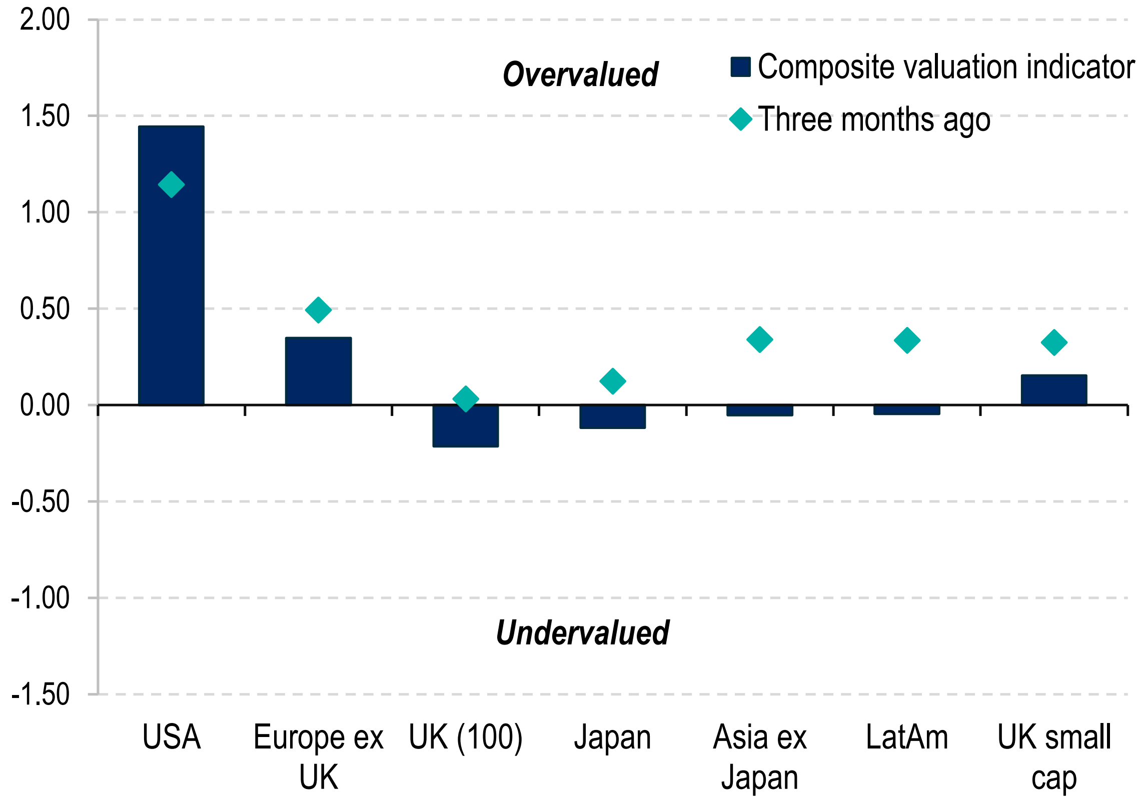
	25% Hard Brexit		'16%' 'Sandstone' Brexit		4% Soft Brexit		40% 'Neverending story'		15% No Brexit		Probability -weighted
Sterling	7	Another leg down, but its already very undervalued on an L-T basis	6	Small devaluation but continued trading relationship softens blow	3	£ appreciates though remains below pre-referendum levels	3	Can-kicking suggests probability of reaching some sort of deal rises - £ appreciates	1	10% + appreciation of the pound	↗
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 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	•
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	•
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	↗

1	2	3	4	5	6	7	8	9
↑	↗	↗	↗	•	↘	↘	↘	↓
Extremely positive impact on asset class				No impact on asset class				Extremely negative impact on asset class

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,

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)

We don't know doesn't mean sell UK shares

Overview

- **a more defensive outlook.** Although stock market performance has been disappointing in the last few months of 2018, our asset allocation committee has maintained its preference for equities over bonds. Yet with the pace of economic growth around the world forecast to slow slightly in 2019, a more defensive position within equities could be prudent.
- **growth stocks could struggle.** In particular, the share prices of growth companies with high price-earnings ratios may begin to struggle as growth slows and interest rates rise, which will push up the cost of capital. The US tech giants have already suffered a substantial fall in price as investors worry about ongoing trade disputes between America and China.
- **the FAANGs lose their bite**. The broad sell-off in technology shares pushed the NASDAQ and S&P500 indices closer to their lowest points of the year. Apple's market value has fallen dramatically since early August, when it broke the $1 trillion mark for the first time. Amazon also reached this milestone in September, but its market value has since declined by around $200 billion.
- **higher risk in high yield.** Conventional bonds remain relatively unattractive and there are concerns about the rising default risk in high-yield bond markets. This is compounded by worries that some prominent companies could see their credit ratings downgraded to junk (below investment grade).
- **political uncertainty in Europe.** The political landscape in Europe remains uncertain. President Macron's honeymoon period in France seems to be over following *gilets jaunes* protests over proposed fuel price rises. In Germany, Angela Merkel announced she will step down as Chancellor in 2021.
- **slowing growth in China.** China reported its slowest economic expansion in a decade, with GDP growth falling to 6.5% year-on-year in the third quarter. This hints at vulnerabilities, including deleveraging in the shadow-banking sector and the US trade war. In response, the authorities are looking to introduce stimulus measures to boost confidence and economic activity.

Fixed income

Bonds

— Brexit uncertainty continues to cast a shadow over the UK government bond market. Although the Bank of England is unlikely to raise rates any time soon, gilts remain unattractive at current levels.

— UK inflation-linked bonds remain popular with investors as a hedge against an unexpected fall in the pace of economic growth, which would probably cause sterling to fall and inflation to rise (figure 1).

— comments from Chairman Jerome Powell, and other officials at the US Federal Reserve (Fed), suggest the central bank may be moving toward more dovish market expectations (figure 2).

High yield and emerging market debt

— investors are nervous that default rates in the high-yield bond markets could rise, adding to concerns that some prominent companies could see their credit ratings downgraded to junk.

— emerging markets around the world remain under pressure owing to various concerns, including the trade war between America and China.

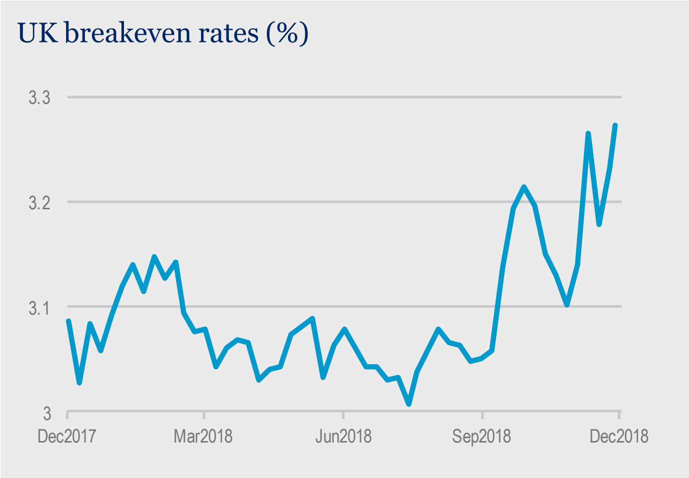


Figure 1

The breakeven rate is the difference between the yield on a nominal fixed-rate bond and the real yield on an inflation-linked bond. UK linkers have been outperforming recently, partly due to Brexit uncertainty.

Source: Datastream, Rathbones

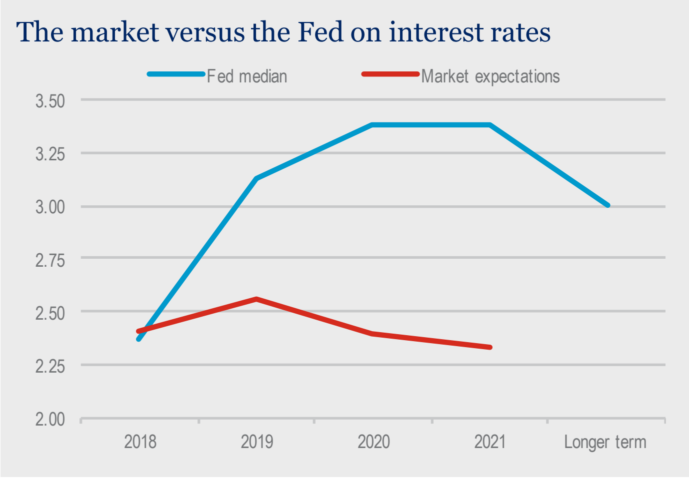


Figure 2

Financial markets expect US interest rates to rise next year but not by as much as the Fed is suggesting.

Source: Datastream, Rathbones

Past performance should not be seen as an indication of future performance.

Equities – UK

— Brexit negotiations continue to dominate UK markets and investors remain nervous about the outcome. After reaching new highs earlier in 2018, the FTSE 100 struggled in the final few months of the year, along with sterling (figure 3).

— the value of the pound should provide a reliable indication of what investors think about the likely outcome of Brexit, which in turn will drive the performance of the FTSE 100. Meanwhile, the FTSE 250 could rebound from its Brexit-driven weakness on any good news for the domestic UK economy.

— despite the negative headlines, profit forecasts aren't disastrous (figure 4). Where company results have disappointed investors, their share prices have been heavily penalised. Yet the UK corporate sector is not as unhealthy as many people think.

— although the pace of growth has slowed, owing partly to Brexit uncertainty, the UK economy is still growing at an annualised rate above 1%. Unemployment is low and inflation has remained contained at around 2.5%.

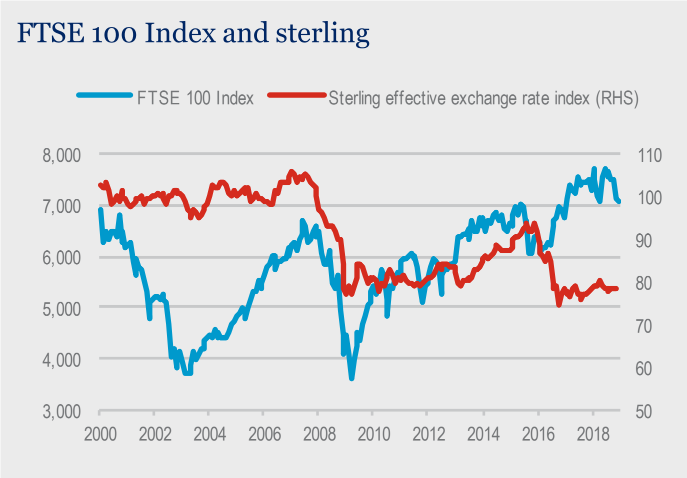


Figure 3

The FTSE 100 has been pushed and pulled in different directions by sterling volatility since the 2016 vote for Brexit.

Source: DataStream, Rathbones

Figure 4

Despite some negative headlines and high-profile misses, profit warnings from UK companies have remained relatively stable over the past few years.

Source: EY, Rathbones

Past performance should not be seen as an indication of future performance.

Equities – US

— at the G20 summit in Argentina, Presidents Donald Trump and Xi Jinping agreed that America would delay raising tariffs on Chinese goods for 90 days. Tariffs on $200bn of Chinese goods were to rise from 10% to 25% on 1 January.

— although US growth forecasts for 2019 have fallen slightly, the economy is set to expand by around 3.5%. Consumer sentiment is buoyant against a background of low unemployment, rising wages and tax breaks (figure 5).

— US stock markets have been weighed down by investor jitters over rising interest rates, the slowing Chinese economy and uncertainty about global trade tensions. The sell-off in tech shares has been particularly brutal, with both Apple and Amazon losing their trillion-dollar valuations (figure 6).

— the Democrats took control of the House of Representatives in the mid-term elections, while the Republicans retained the Senate. With Congress divided, Trump is unlikely to be able to progress with his desired healthcare and fiscal reform, which means he is likely to continue to focus on trade issues.

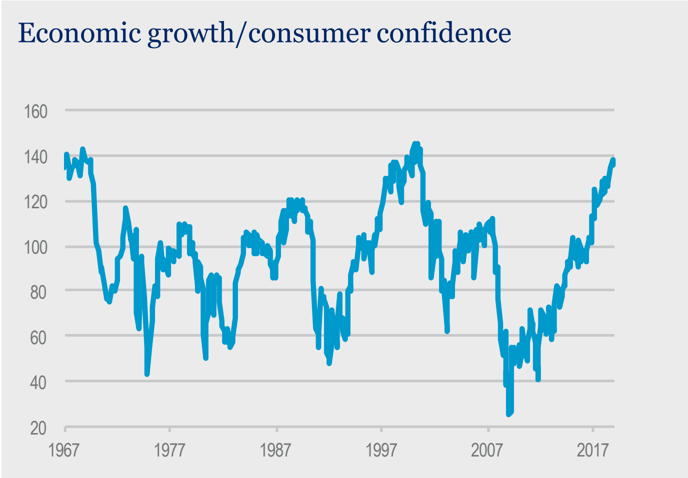


Figure 5

Consumer confidence is riding high following President Trump's tax cuts, and the pace of growth remains buoyant.

Source: The Conference Board, Rathbones

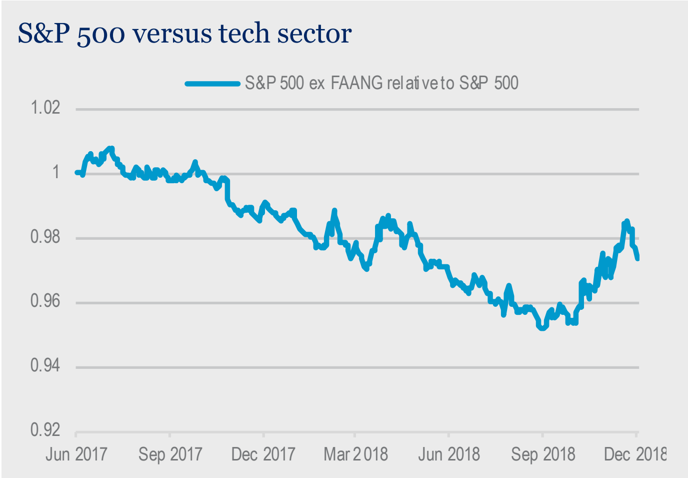


Figure 6

The FAANGs lost their bite in the final few months of 2018, with technology stocks underperforming the broader index.

Source: DataStream, Rathbones

Past performance should not be seen as an indication of future performance.

Equities – Europe

— the pace of economic growth across the eurozone has slowed over the past few quarters, and activity remains lacklustre throughout the region. German GDP fell in the third quarter, weighing on Germany's DAX index and the euro (figure 7).

— the region's political landscape remains uncertain. President Macron's honeymoon period in France appears to be over following *gilets jaunes* protests over proposed fuel price rises. Amid a more fragmented political environment in Germany, Angela Merkel has announced she will step down as Chancellor in 2021 (figure 8).

— Italy has revised down its proposed budget deficit from 2.4% to 2.04% of GDP for 2019, though the concessions may not be enough to placate Brussels. Given anaemic economic growth, Italy's already huge debt stock would likely still continue to increase as a proportion of GDP under the new proposal.

— company results across the region have been mixed. In particular, the banking sector remains under pressure, although it looks significantly less fragile following a series of recapitalisation measures.

Figure 7

Germany's stock market has struggled in the second half of 2018 and the euro has weakened.

Source: Datastream, Rathbones

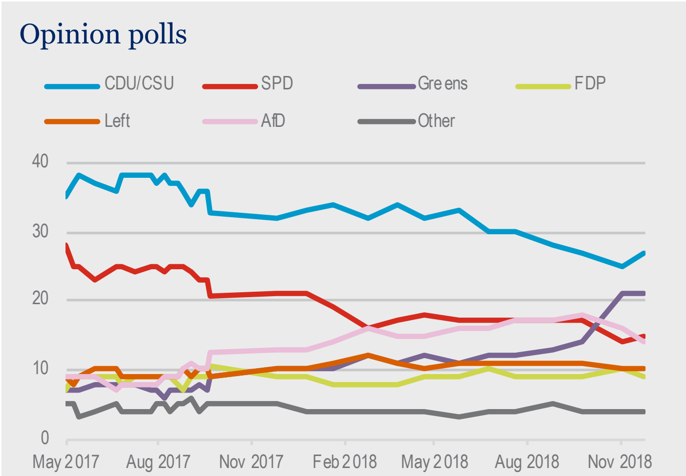


Figure 8

Germany's political environment has become more fragmented and increasingly polarised over the past year.

Source: YouGov, Rathbones

Past performance should not be seen as an indication of future performance.

Equities – Japan

— Japan's economy contracted in the third quarter of 2018, with GDP falling at an annualised rate of 1.2%. The contraction had been widely expected after severe flooding hit the west of the country in July and an earthquake affected the north in September.

— Prime Minister Shinzo Abe has been pushing on with the structural reforms that make up the third arrow of his economic stimulus programme, known as Abenomics. There are encouraging developments in attempts to reduce overtime, encourage more women into the workforce, boost immigration and improve wage prospects (figure 9).

— at a company level, there has been a recent spate of governance reforms. The vast majority of companies now have at least two independent directors, and there are more female board members too. All this is encouraging news for investors.

— many Japanese businesses caught in the crossfire of the US-China trade war are facing a dilemma: either change how their products are assembled or bide their time until the world's two largest economies reach an accord. Yet business sentiment remains buoyant (figure 10).

A picture of employment

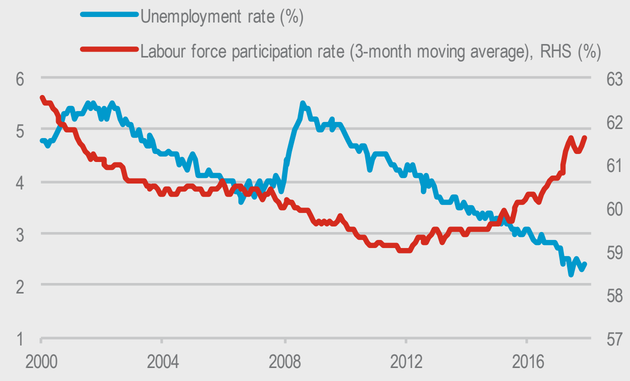


Figure 9

Unemployment continues to fall even with more women joining the workforce.

Source: Datastream, Rathbones

Tankan business survey

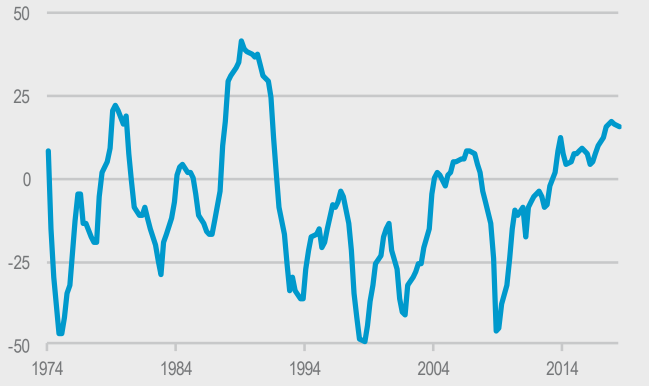


Figure 10

Business confidence has increased recently and the economy should rebound from its third-quarter contraction.

Source: Datastream, Rathbones

Past performance should not be seen as an indication of future performance.

Equities – Asia and emerging markets

— China reported slower-than-expected GDP growth in the third quarter of 2018, to 6.5% year-on-year. This is the slowest rate in a decade and hints at vulnerabilities, including deleveraging in the shadow-banking sector and the US trade war (figure 11).

— in response, the authorities are looking to put in place stimulus measures to boost confidence and economic activity. They include devaluing China's currency to offset the negative impact of punitive trade tariffs and encouraging local authorities to raise funds for various infrastructure projects.

— other Asian economies continue to be affected by China's slowdown due to the intricately linked supply chains in the region. Taiwan, South Korea and Southeast Asian countries, such as Singapore, are among the most export-dependent economies, making them especially vulnerable to current trade tensions.

— the Brazilian economy and stock market perked up on record-low interest rates and a one-off government-led boost (figure 12). Yet the political backdrop remains uncertain as far-right politician Jair Bolsonaro was elected president after riding a wave of popular anger against traditional politicians.

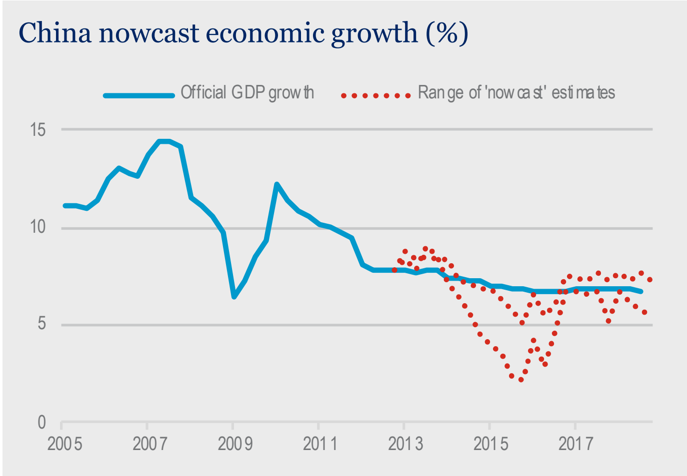


Figure 11

The pace of growth in China continues to slow, although the officially reported rate has moved closer to the reality.

Source: Datastream, Rathbones

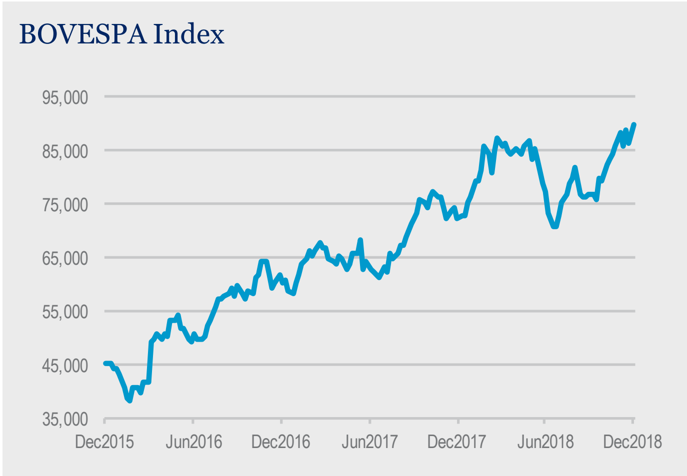


Figure 12

Brazil's economy has struggled over the past couple of years, but its stock market has recently bounced following the election of a populist president.

Source: Datastream, Rathbones

Past performance should not be seen as an indication of future performance.

Diversifiers

Commodities

— although gold's performance has been disappointing over the past year against a background of uncertainty, it outperformed most other safe haven assets in the last few months of 2018, including government bonds (figure 13).

Alternative investment strategies

— we have seen high levels of return dispersion among diversifying strategies. Macro funds have benefited from an increase in volatility, while trend followers have performed less well owing to the lack of momentum and sharp reversals within markets.

— we maintain diversification across different types of uncorrelated risk to enhance long-term risk-adjusted returns, and provide downside protection during difficult periods in equity markets (figure 14).

Commercial property

— the demand for large distribution warehouses continues to grow, driven by the shift from the high street to online shopping, but property remains vulnerable to Brexit concerns.

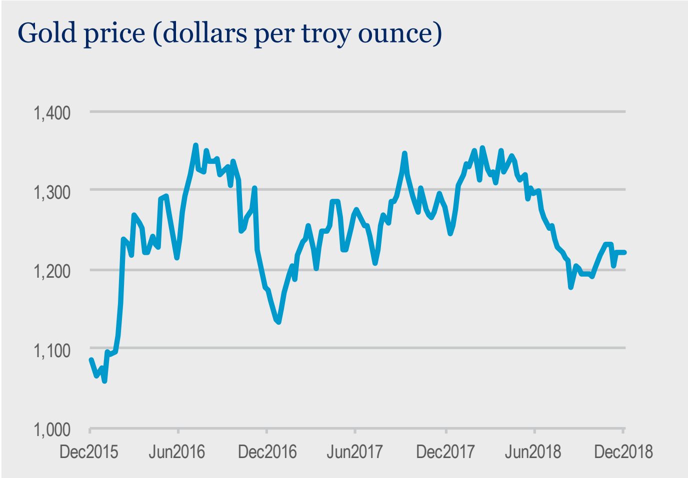


Figure 13

Gold prices have not performed as expected against a background of economic and political uncertainty.

Source: Datastream, Rathbones

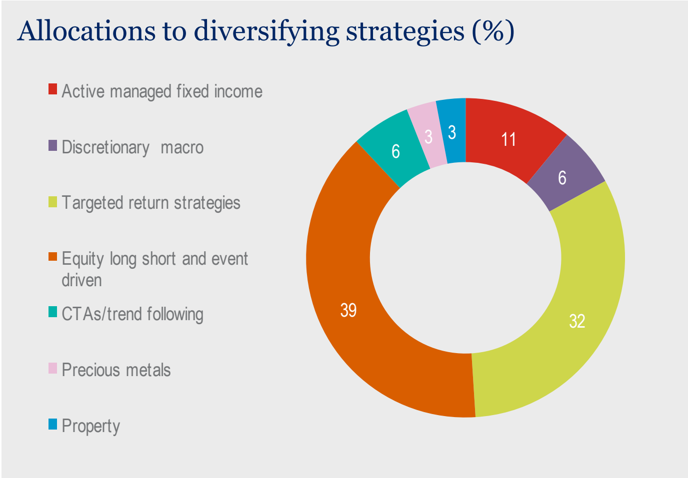


Figure 14

Allocations to diversifiers in a typical Rathbones balanced portfolio, as of 30 September 2018.

Source: Datastream, Rathbones

Past performance should not be seen as an indication of future performance.

Questions and answers

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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