

MODEL PORTFOLIO SERVICE

31st December 2018



COMMENTARY

The final quarter of 2018 proved to be a challenging one for investors in global financial markets, with the negative returns generated by many global equity indices being the worst for a single quarter since the Great Financial Crisis a decade ago. It is not a coincidence that such a difficult quarter occurred on the back of the world's central banks in aggregate moving from a period of quantitative easing to quantitative tightening. Tighter monetary conditions, combined with ongoing friction in US-China trade negotiations, ongoing Brexit uncertainty and signs (albeit muted) of slowdowns in the growth of some major economies sparked indiscriminate selling across many financial markets. Whilst global equity markets experienced turmoil, investors sought safer havens, resulting in a rally in the gold price and in government bonds. The gold price rally had a knock on effect on the share prices of gold mining companies, which were amongst the top performers over the quarter. In addition, the price of silver rose and the performance of silver mining companies was strong. Each of our Models hold Merian Gold & Silver (+5.4%) and thus all benefited from this position during the quarter.

Defensive returned -1.5% versus -3.0% for the IA Mixed Investment 0-35% Shares Sector. It was pleasing that amid a month of market turmoil, the funds that we own to provide diversification benefits during such times delivered. Jupiter Absolute Return (+2.3%), M&G Global Macro Bond (+3.2%) and Merian Gold & Silver all generated positive returns, whilst a further five funds did not lose more than 2% in a quarter that saw double digit falls across many equity markets.

Cautious (-3.1%) also outperformed its benchmark return, with the IA Mixed Investment 20-60% Shares Sector returning -5.4% during the quarter. Like Defensive, Cautious was a beneficiary of its exposure to those funds we hope to provide diversification benefits in difficult market conditions. However, exposure to UK equities through Man GLG Undervalued Assets (-12.0%) and to Japanese equities through Jupiter Japan Income (-11.5%) resulted in a negative absolute return generated during the quarter.

Balanced (-6.1%) outperformed the IA Mixed Investment 40-85% Shares Sector return of -7.9%. Although the Model has

greater exposure to Merian Gold & Silver, less exposure to absolute return funds and greater exposure to mainstream equity markets resulted in a poor absolute return. The biggest detractor over the quarter was Merian UK Smaller Companies (-19.5%) and negative global investor sentiment amid global market falls was compounded by ongoing Brexit noise for UK focussed funds.

Growth (-9.0%) and **Aggressive** (-9.1%) both underperformed their benchmark, the IA Flexible Investments Sector (-8.3%). It is not surprising that in such a challenging quarter for global equity markets that our Models with greatest equity exposure fared worst. With the Federal Reserve Bank in the US continuing to raise interest rates, investor concerns over the valuations attributed to growth style companies grew, with the growth style suffering greatest during the market falls. Smaller companies share prices suffered, and Standard Life Global Smaller Companies (-21.2%) and Merian UK Smaller Companies (-19.5%) both struggled.

Distribution (-5.6%) outperformed the IA Mixed Investment 40-85% Shares Sector return of -7.9% during the quarter. On a relative basis, income oriented funds held up better than growth oriented funds during the quarter which benefited the Model. In addition, exposure to emerging market debt through M&G Emerging Markets Bond (+2.5%) contributed positively to returns. However, despite income focussed funds holding up better, they still suffered large losses culminating in Distribution delivering a negative absolute return over the quarter.

Investors in the Model Portfolio Service will be aware that the management of the service transferred to Discretionary Research Team with effect from the start of this year. There are a number of enhancements to the service planned for the coming weeks and we shall be pleased to inform you of the details of these shortly.

RATINGS/AWARDS



PLATFORM AVAILABILITY

The Model Portfolios are available on the following platforms:



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