



DEFENSIVE PORTFOLIO UPDATE

— JANUARY 2019 —

The Investment Committee continually monitors our range of fund managers and considers the opportunities and challenges presented by an ever-changing macroeconomic and market environment. This due diligence extends to our range of Growth and Income Portfolios.

This update provides a summary of the recent performance of the Defensive Portfolio.

MARKET OVERVIEW

For developed world equities in 2018, it was the fourth quarter that really counted.

In the US, the S&P 500 rose some 9% across the first three quarters, but a fall of some 14% in the fourth left it down for the year. Japan's Topix index, Europe's Eurostoxx 50 and the UK's FTSE 100 also suffered difficult final quarters.

The VIX, which measures volatility across S&P 500 stocks, spiked to 36 in mid-December and ended the year around 25 – its historical average is just 20.

Geopolitics, diplomacy and trade loomed large. Among these, the falling price of oil was notable; a barrel of Brent crude dropped from \$86 at the start of October to below \$55 at year-end.

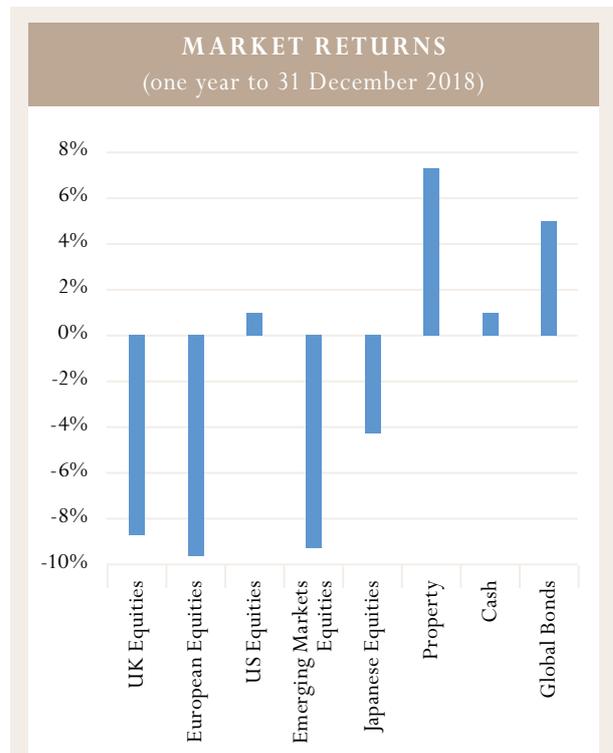
The price drop offers some relief to China, the world's largest oil importer, after a year in which growth slowed and the Shanghai Composite index fell an eye-watering 25% on growth and trade fears.

A rising dollar and specific crises in Turkey, Argentina and Brazil helped knock almost 10% off the MSCI Emerging Markets index in the first three months of the year, and nearly as much again in the final quarter.

Yet growth and corporate earnings were hardly all bad – global and US growth were forecast at around 3% for 2018. The US also benefited from strong wage growth and corporate earnings. Indeed, the US is enjoying its second-longest run of economic growth and the S&P 500 its second-longest – some say longest – bull run.

The technology majors have driven index gains in recent years and grew 18% over the first three quarters as Apple and then Amazon became the first listed companies to be valued at a trillion dollars. But 2018 gains were forfeited in the final quarter on regulation and business growth fears.

The Federal Reserve raised rates four times in 2018 as expected – against just once for the Bank of England – but was sounding more dovish by December. 2018 was also the year when markets started to feel the effects of quantitative tightening, as the Fed began to sell bonds back to the market.

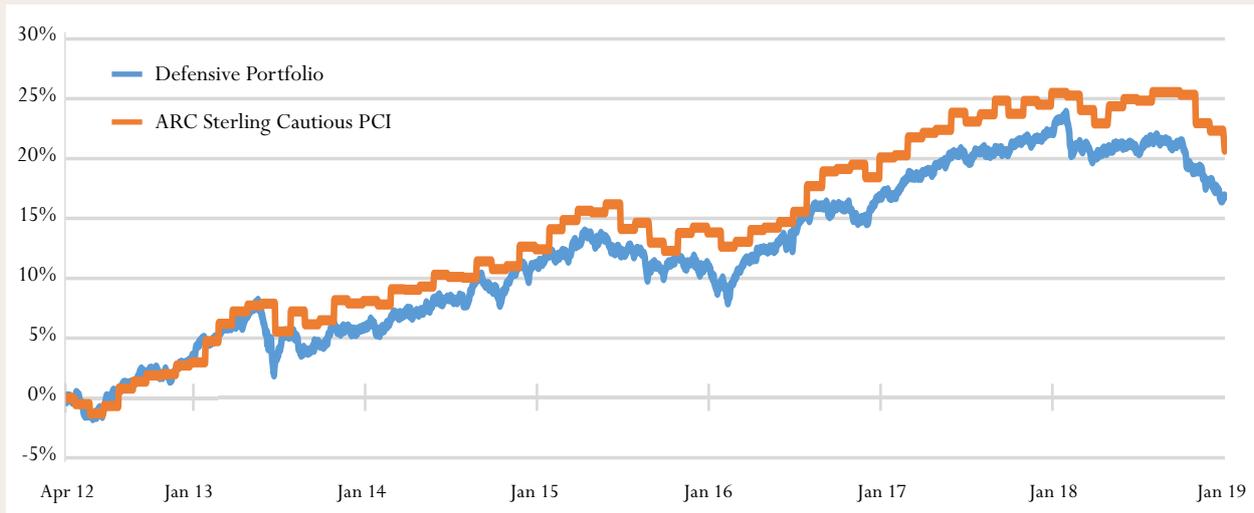


Source: Financial Express. Performance figures to 31 December 2018, expressed in sterling on a total return basis. The investment returns in the table above, reflect the performance of the relevant market indices. Please be aware that past performance is not indicative of future performance. The value of an investment may fall as well as rise. Returns on equities cannot be guaranteed. Equities do not provide the security of capital characteristic of a deposit with a bank or building society.

Politics was never far from market movements, whether in the form of a December government shutdown in the US; state elections that went badly for Angela Merkel in Germany; or ‘gilets jaunes’ protests in France that obliged the president to water down recent reforms.

Politics in the UK was more volatile still, despite improving public finances. Theresa May’s decision to delay a parliamentary vote on her Brexit plan only added to uncertainty.

PORTFOLIO PERFORMANCE
(UNIT TRUST/ISA – LAUNCH TO 31 DECEMBER 2018)



Source: Financial Express/St. James’s Place. Data to 31 December 2018. Performance figures shown assume investment into the Portfolio was made on 10 April 2012. Investment returns are based on the performance of the underlying funds and reflect the St. James’s Place Investment Committee’s recommended fund allocations over that period. Performance figures since launch have been used where funds are less than one-year-old. The ARC Sterling Cautious Private Client Index (PCI) provides a representative peer group for the Defensive Portfolio. ARC PCI prices are reported monthly.

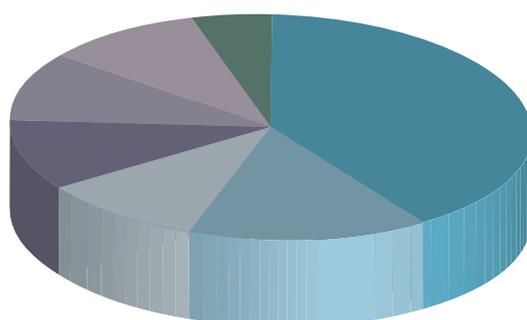
Portfolio fund allocations are not rebalanced automatically. Client Portfolios may have different fund allocations and, therefore, individual investment experience may vary.

The Defensive Portfolio was launched 10 April 2012

CUMULATIVE PERFORMANCE

	3 months	6 months	1 year	3 years	5 years	Since launch (AGR)
Defensive Portfolio	-3.78%	-3.11%	-4.38%	5.20%	10.31%	2.34%
ARC Sterling Cautious PCI	-3.66%	-3.28%	-3.78%	6.08.%	11.69%	2.84%

DEFENSIVE PORTFOLIO FUND ALLOCATION



- Multi Asset* 40%
- UK Absolute Return 15%
- Alternative Assets 10%
- Diversified Bond 10%
- Gilts 10%
- Investment Grade Corporate Bond 10%
- Worldwide Opportunities 5%

* This is a blended manager solution, the fund is split: Invesco 40%, Payden & Rygel 35%, Schroders 25%

PORTFOLIO COMMENTARY

The Defensive Portfolio posted a negative return over the quarter.

Global equities suffered over the period, falling dramatically on a range of fears relating to growth, trade and politics; but also because, in aggregate, central banks began to pull away support from markets for the first time since the global financial crisis. While the European Central Bank ended its quantitative easing programme in December, the Federal Reserve had already begun quantitative tightening in the Spring.

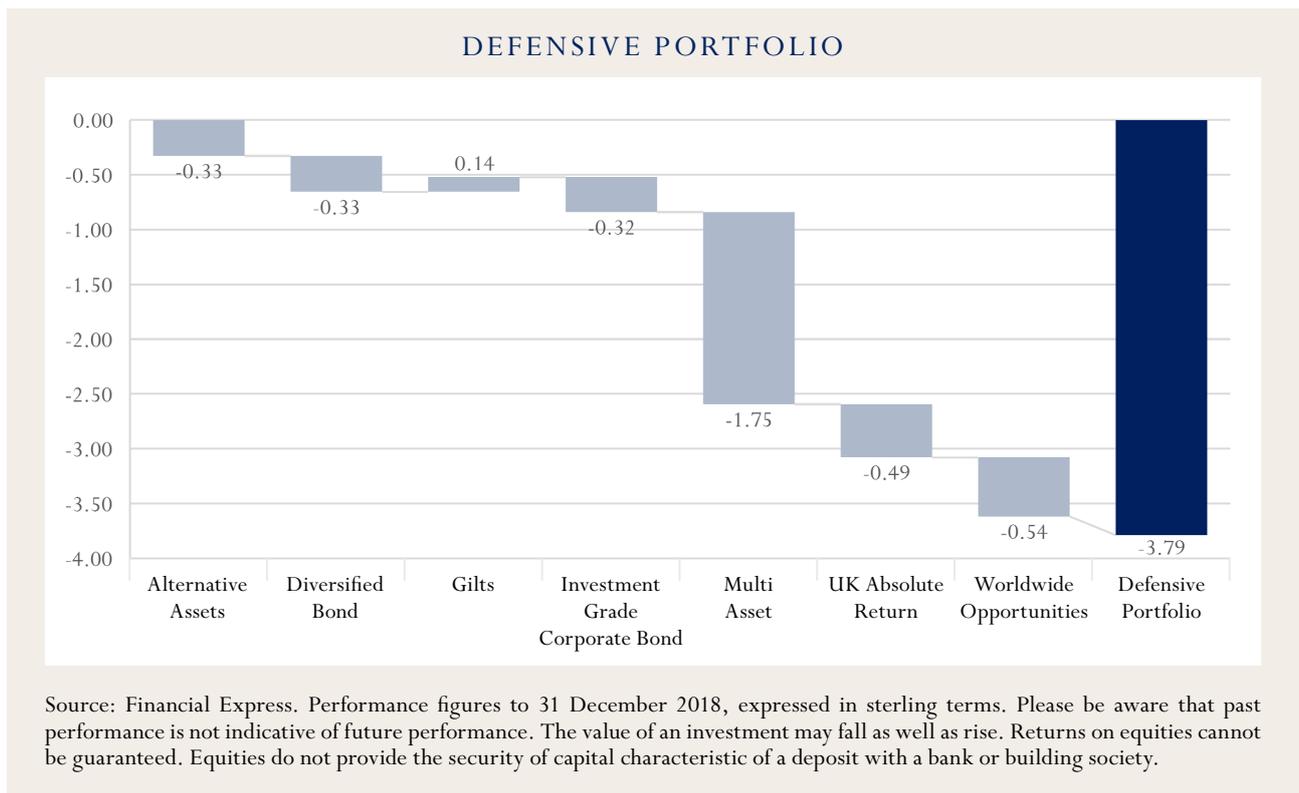
The Multi Asset fund, the largest fund weighting within the Portfolio, suffered the majority of its 2018 losses over the final quarter. The Multi Asset fund, the largest component within the Defensive Portfolio, struggled over the quarter and was responsible for half of the losses over the period. Poor asset allocation decisions against a volatile financial backdrop proved costly.

Major tobacco stocks suffered in November, following news that the US Food & Drug Administration was considering a ban on menthol cigarettes and stricter rules on e-cigarettes. Big tobacco also continues to suffer disruption from next generation products. British American Tobacco’s underperformance weighed on the UK Absolute Return fund, managed by BlackRock.

Information Technology stocks suffered a particularly bad final quarter of 2018, after several years of exceptional growth. In part, this reflected the accelerating Sino-US trade war, but worries over regulation and a profit warning from Apple caused some of the largest technology companies in the world to drop in the final quarter, taking global stocks down with them. These falls hurt the performance of the Worldwide Opportunities fund, co-managed by Artisan, as both Chinese and US tech majors suffered price falls, among them Baidu and Alphabet, Google’s parent company. Losses for the fund over the quarter weighed heavily on broader Portfolio performance.

The Autumn equity sell-off on global markets also saw investors head to safe havens such as government bonds. The Gilts fund delivered a positive performance over the period, in line with this risk aversion, as corporate bonds struggled. Risk aversion on global bond markets over the period lay behind the negative performance of the Diversified Bond fund, co-managed by Payden & Rygel, Brigade and TwentyFour. For TwentyFour, returns were hit by widening spreads in European high yield bonds and by European bank debt; Europe’s banks remain a worry on markets, especially in light of the end of quantitative easing.

The chart below shows the individual fund contribution to the performance of the Portfolio over the quarter.



CONSTITUENT FUND PERFORMANCE

The table below shows the past performance of the underlying funds that are currently in the Portfolio.

Performance 12 months ending (%)

FUNDS CURRENTLY IN THE PORTFOLIO	Launch Date	31 December 2018	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Alternative Assets	08/08	-5.0	3.9	11.2	-7.4	3.0
Diversified Bond	11/15	-3.5	4.2	8.2	-	-
Gilts (Class L)	03/09	-0.2	-0.2	4.0	-0.3	6.0
Investment Grade Corporate Bond	04/09	-3.4	4.0	4.7	-1.3	6.9
Multi Asset	04/12	-5.5	6.9	2.3	-1.5	4.6
UK Absolute Return	01/11	-6.1	0.9	2.1	7.5	7.3
Worldwide Opportunities	01/07	-2.1	10.0	23.2	4.2	9.5

Source: Financial Express. Fund performance data to 31 December 2018. All figures are percentage growth on a bid to bid basis for accumulation units, income reinvested and in fund currency. Please be aware that past performance is not indicative of future performance. The price of units and the income from them may go down as well as up. You may not get back as much as you invested.

Historic fund performance data and history of the underlying fund allocation for each of the Portfolios is available from your St. James's Place Partner.

- The Portfolio fund split shown overleaf applies to investments made from 2 November 2015. Some funds within your Portfolio will perform better than others so, over time, those funds will make up a larger proportion of your investments. Consequently, the weighted average yield and average fund charges on your investments will also fluctuate over time. The Portfolio fund allocation will not be rebalanced automatically. You should review your investments regularly to ensure that the balance of risks remains appropriate to your circumstances. Your St. James's Place Partner will help you to do this.
- Equities do not provide the security of capital characteristic of a deposit with a bank or building society.
- The prices of funds and the income from them may go down as well as up. You may not get back the amount invested.
- All data is quoted as at 31 December 2018.
- This Portfolio has been rated as lower-medium risk. The St. James's Place 'A Guide to understanding the balance between risk and reward including the St. James's Place Portfolios and funds', explains investment risk in detail and is available from your St. James's Place Partner.

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