



## CONSERVATIVE 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 Conservative 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.

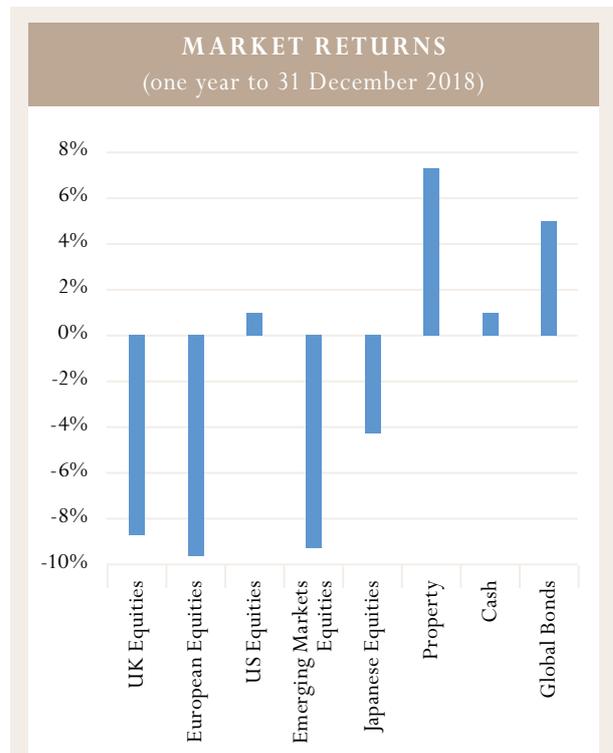
The price drop offers some relief to China, the world's largest oil importer, after a year in which growth slowed and the Shanghai Composite index fell an eye-watering 25% on growth and trade fears.

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.

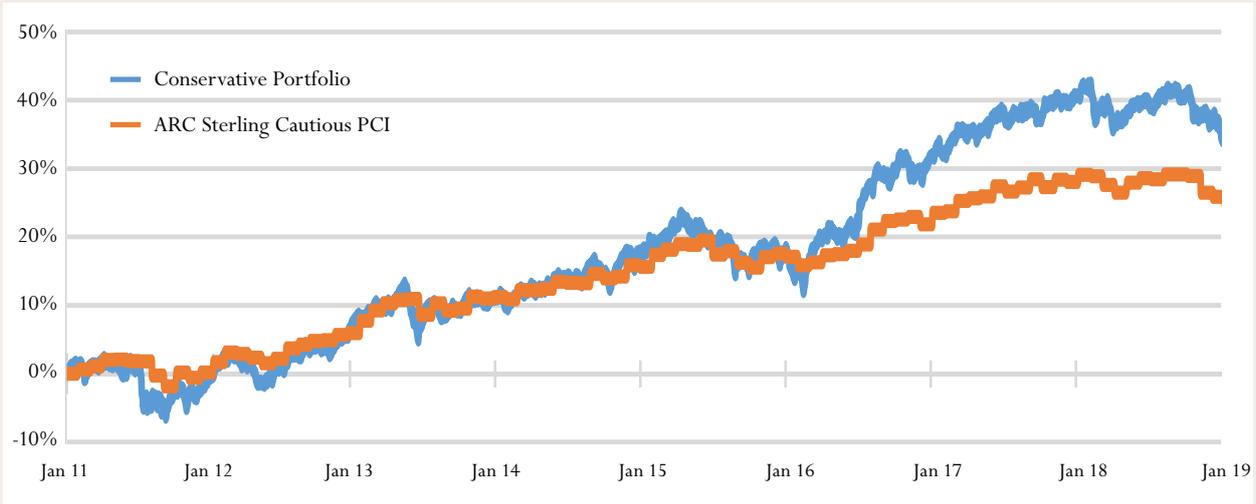


Source: Financial Express. Performance figures to 31 December 2018, expressed in sterling on a total return basis. The investment returns in the table above, reflect the performance of the relevant market indices. Please be aware that past performance is not indicative of future performance. The value 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 31 January 2011. 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 Conservative Portfolio. ARC PCI prices are reported monthly.

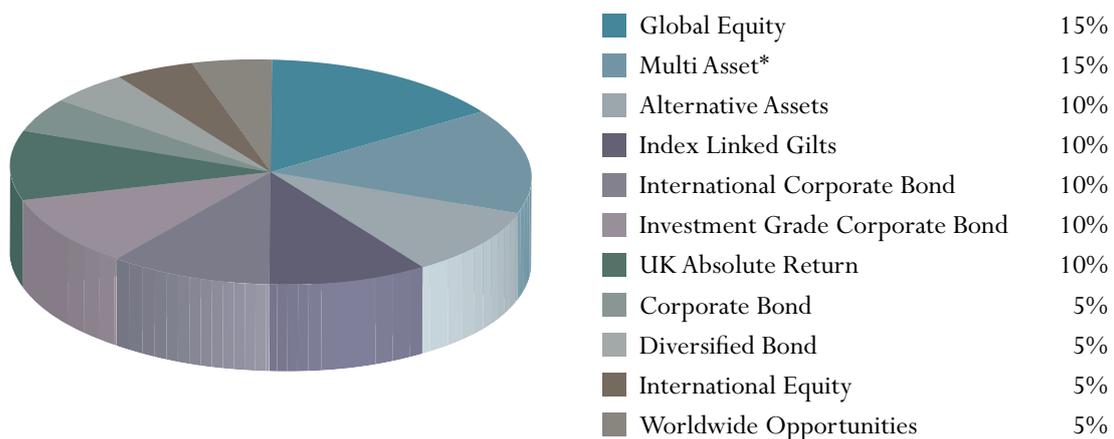
Portfolio fund allocations are not rebalanced automatically. Client Portfolios may have different fund allocations and, therefore, individual investment experience may vary.

The Conservative Portfolio was launched 31 January 2011

**CUMULATIVE PERFORMANCE**

	3 months	6 months	1 year	3 years	5 years	Since launch (AGR)
<b>Conservative Portfolio</b>	-4.67%	-3.11%	-4.22%	14.03%	21.14%	3.83%
<b>ARC Sterling Cautious PCI</b>	-3.66%	-3.28%	-3.78%	6.08%	11.69%	2.78%

**CONSERVATIVE PORTFOLIO FUND ALLOCATION**



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

PORTFOLIO COMMENTARY

A number of headwinds weighed on the Conservative Portfolio over the quarter.

It was a tough quarter for risk assets globally. In the US, the S&P 500 lost 14% over the three-month period, reflecting a range of factors: the fall from grace of the ‘tech majors’; fears that the boost from Donald Trump’s tax cuts package would soon peter out; slowing growth in China; the continuing Sino-US trade war; and fears over central bank policy worldwide beginning to turn tighter.

The Global Equity fund, co-managed by BlackRock, Edgepoint, J O Hambro and Sands Capital, weighed on Portfolio performance. Sands Capital saw some of its equity holdings detract from performance through the period. Among these were Zalando, Adyen, Netflix, ASOS and Charles Schwab. Adyen, a Dutch payment processor, suffered market blowback when MSCI, a leading index provider, chose not to add the company to its indices.

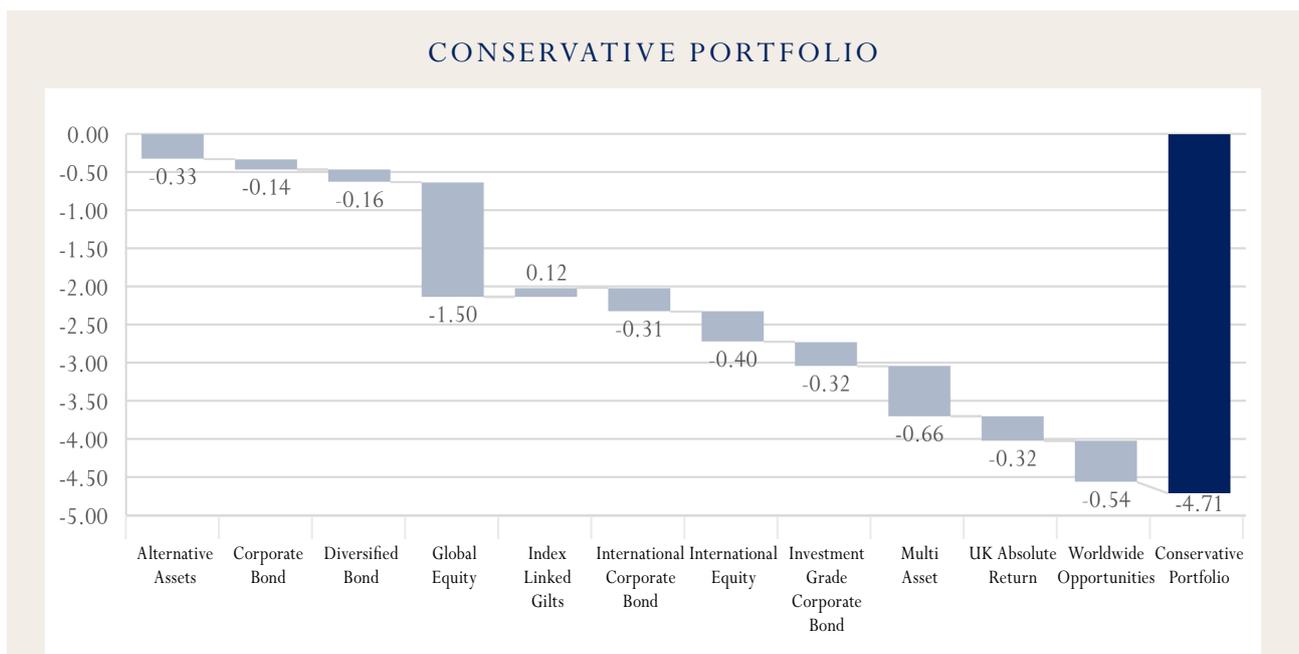
“We view this as a short-term factor that doesn’t reflect any changes in the underlying business,” Sands reported. “In fact, we recently raised our long-term estimates based on research on Adyen’s in-store point-of-sale (POS) processing opportunity. We now expect POS – not just e-commerce – to be a material contributor to growth.”

The Worldwide Opportunities fund, co-managed by Artisan, Burgundy and Select Equity, suffered from some of the same political and macroeconomic headwinds, as well as from high exposure to technology stocks, which underperformed. More specifically, stock selection and timing issues cost Artisan; although the team made some gains from Kingfisher, a UK retailer, it sold the stock ahead of a significant rally late in the year.

The International Equity fund, managed by Magellan, also detracted from Portfolio performance. Although the fund delivered positive performance over the year as a whole, the fourth quarter heavily pared gains made earlier in the year. Among the better performers was Starbucks, which enjoyed a strong boost on markets after the company announced better-than-expected earnings and revenues for the third quarter. The earnings beat followed two years in which investors had expressed disappointment at the pace of growth.

While both equity and bond markets suffered over the quarter, government debt performed well; sovereign bonds tend to act as a harbour for investors during broader market downturns. The Index Linked Gilts fund, managed by BlackRock, delivered a positive performance over the period, as investors exited equities in favour of UK government debt.

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



Source: Financial Express. Performance figures to 31 December 2018, expressed in sterling terms. 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.

## 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
Corporate Bond	09/95	-3.7	6.2	7.3	0.8	3.1
Diversified Bond	11/15	-3.5	4.2	8.2	-	-
Global Equity	09/11	-6.1	13.5	27.3	-1.0	8.4
Index Linked Gilts	04/12	0.4	-0.2	7.8	-3.3	3.8
International Corporate Bond	04/10	-3.2	3.9	6.6	1.7	1.1
International Equity	02/97	3.5	12.3	20.0	7.7	11.5
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 7 October 2013. 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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