



BALANCED 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 Balanced 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.

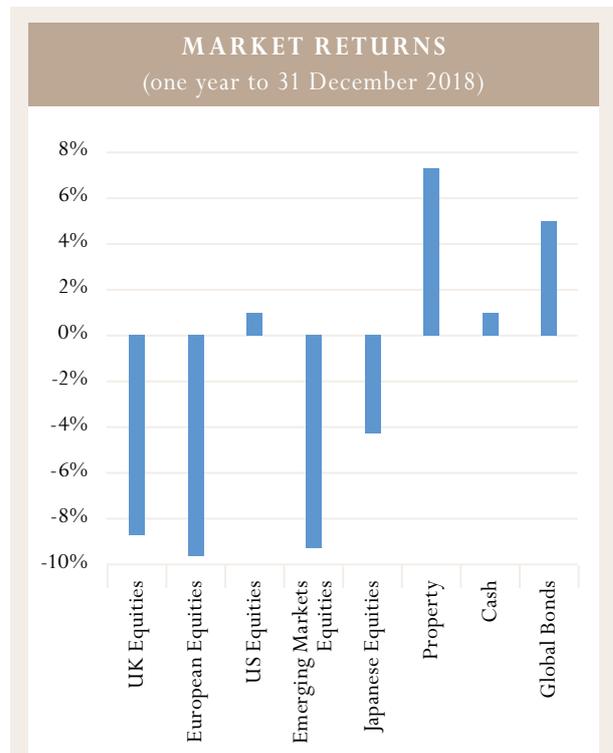
The price drop offers some relief to China, the world's largest oil importer, after a year in which growth slowed and the Shanghai Composite index fell an eye-watering 25% on growth and trade fears.

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.

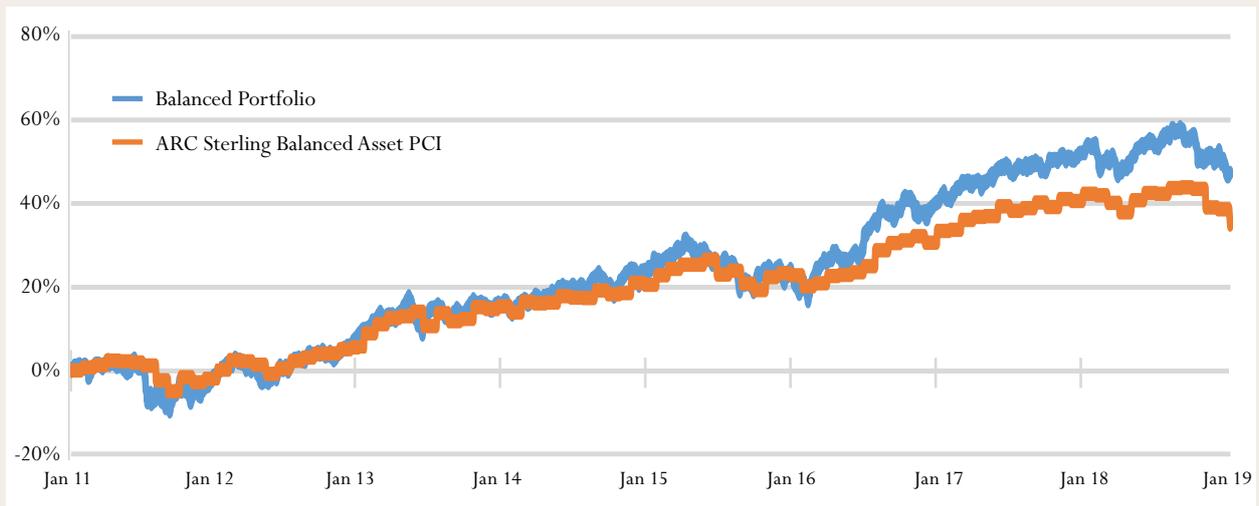


Source: Financial Express. Performance figures to 31 December 2018, expressed in sterling on a total return basis. The investment returns in the table above, reflect the performance of the relevant market indices. Please be aware that past performance is not indicative of future performance. The value 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)



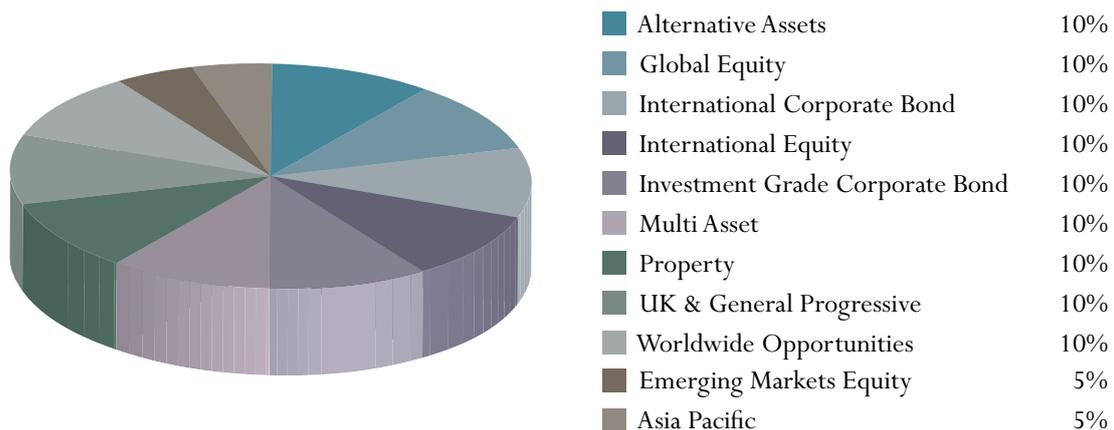
Source: Financial Express/St. James’s Place. Data to 31 December 2018. Performance figures shown assume investment into the Portfolio was made on 31 January 2011. Investment returns are based on the performance of the underlying funds and reflect the St. James’s Place Investment Committee’s recommended fund allocations over that period. Performance figures since launch have been used where funds are less than one-year-old. The ARC Sterling Balanced Asset Private Client Index (PCI) provides a representative peer group for the Balanced 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 Balanced Portfolio was launched 31 January 2011

CUMULATIVE PERFORMANCE						
	3 months	6 months	1 year	3 years	5 years	Since launch (AGR)
Balanced Portfolio	-5.90%	-4.28%	-3.20%	18.82%	26.74%	5.02%
ARC Sterling Balanced Asset PCI	-5.90%	-5.14%	-5.14%	9.95%	17.06%	3.87%

BALANCED PORTFOLIO FUND ALLOCATION



PORTFOLIO COMMENTARY

The Balanced Portfolio delivered a negative return over the period, reversing gains made earlier in the year.

Uncertainty stalked UK markets. Brexit uncertainty was thought to lie behind Philip Hammond’s Budget timidity, while the prime minister felt obliged to delay the parliamentary vote on her Brexit deal due to expectations she would lose it. Siren warnings from business only added to nerves among investors.

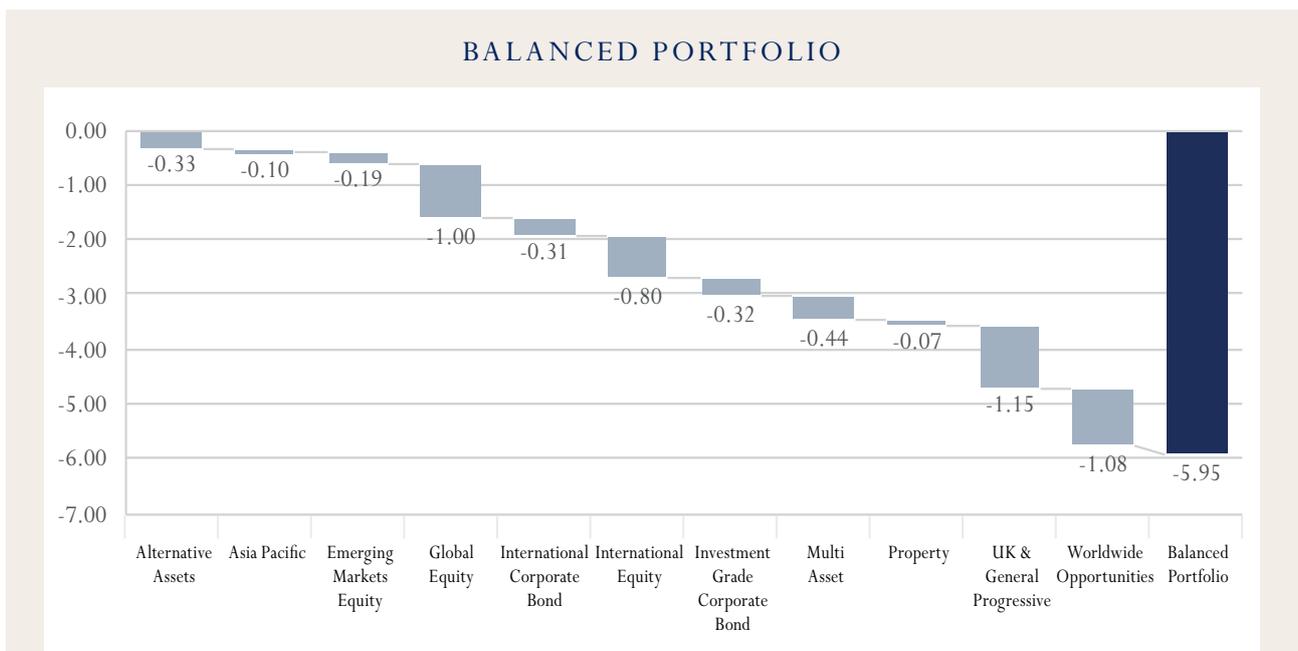
The UK & General Progressive fund, co-managed by Majedie and BlackRock, suffered from the risk-off sentiment over the period. Despite reporting above-par results, Electrocomponents, a UK electronics and industrial distributor, detracted from performance after three years of a rising stock price. In part, this reflected an investor shift from growth stocks to value stocks. Tesco, more perplexingly, also detracted from performance, despite the lack of negative news, although it may have been tarred with the Brexit brush, given worries over the outlook for UK retail in the short term.

More significantly for global assets, the oil price fell some \$30 to end the quarter below \$55 for a barrel of Brent crude. Such moves generally have sharp market effects for oil importers and exporters alike, as well as for major energy companies. Ensc0 and BP both suffered over the period, contributing further to losses on the UK & General Progressive fund. However, performance was helped by what the fund did not hold, notably British American Tobacco, as investors fretted over growing US regulatory pressure on the tobacco sector.

Global equity markets were perhaps hit hardest by slowing Chinese growth; expectations that US growth would slow in the near future; and the rise in tensions between the two countries. The Global Equity and Worldwide Opportunities funds, both multi-manager funds, detracted from Portfolio performance through the quarter. So too did the International Equity fund, although it was a net contributor over the year as a whole.

If equities struggled through the period, so too did corporate bonds. The International Corporate Bond and Investment Grade Corporate Bond funds both slipped over the quarter. The International Corporate Bond fund, co-managed by Capital Four and Oaktree, effectively made all its 2018 losses in the final three months, suffering due to its European bias just as European growth was slowing. AA, Heatwave and Veritas all weighed on performance. The Investment Grade Corporate Bond fund, managed by Loomis Sayles, suffered from credit selection in the banking sector.

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
Emerging Markets Equity	04/14	-7.3	24.2	13.2	-12.4	-
Asia Pacific	01/92	-0.5	17.7	-	-	-
Global Equity	09/11	-6.1	13.5	27.3	-1.0	8.4
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
Property	01/07	2.1	6.5	1.6	7.6	10.9
UK & General Progressive	01/92	-9.0	4.8	13.9	4.3	2.1
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 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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