



MANAGED FUNDS 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 Managed Funds 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.

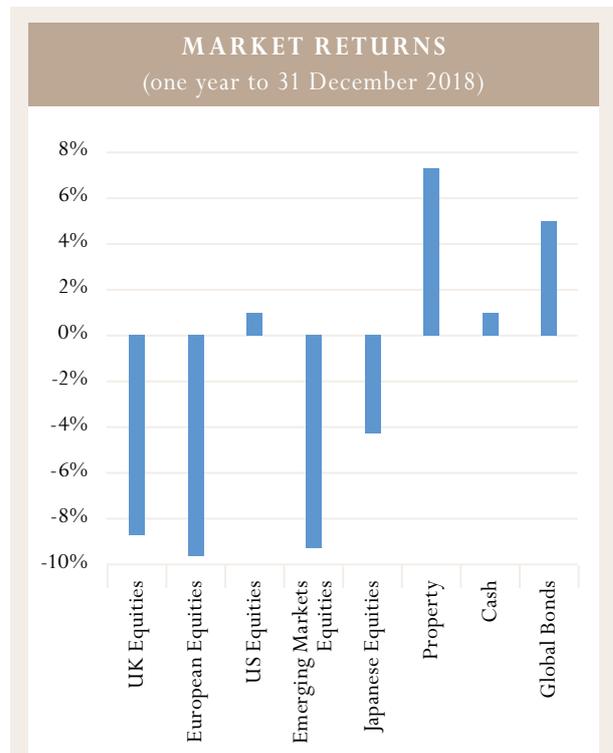
The price drop offers some relief to China, the world's largest oil importer, after a year in which growth slowed and the Shanghai Composite index fell an eye-watering 25% on growth and trade fears.

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.

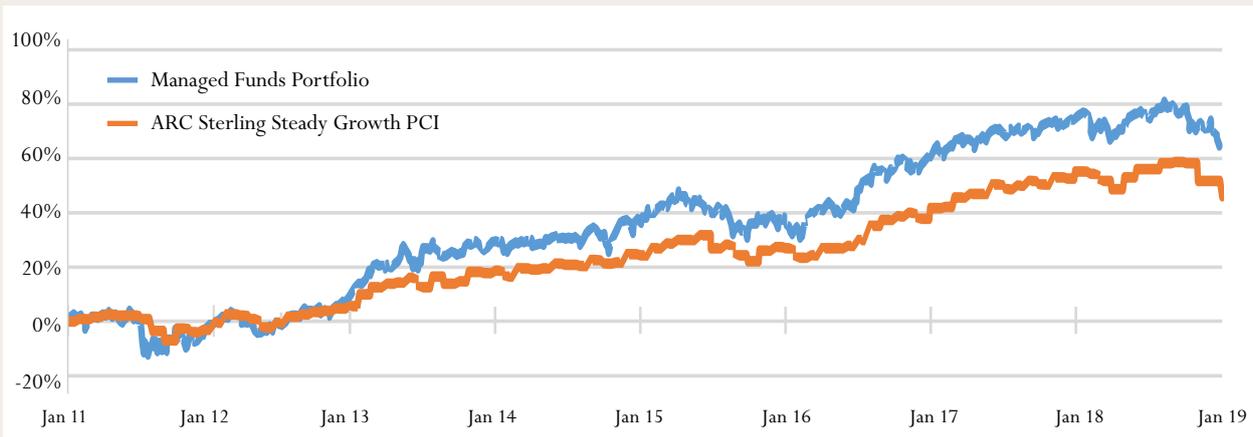


Source: Financial Express. Performance figures to 31 December 2018, expressed in sterling on a total return basis. The investment returns in the table above, reflect the performance of the relevant market indices. Please be aware that past performance is not indicative of future performance. The value 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 Steady Growth Private Client Index (PCI) provides a representative peer group for the Managed Funds Portfolio. ARC PCI prices are reported monthly.

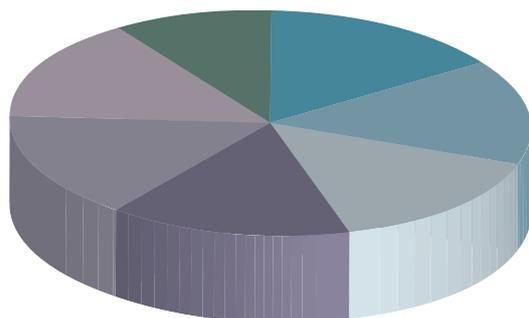
Portfolio fund allocations are not rebalanced automatically. Client Portfolios may have different fund allocations and, therefore, individual investment experience may vary.

The Managed Funds Portfolio was launched 31 January 2011

CUMULATIVE PERFORMANCE

	3 months	6 months	1 year	3 years	5 years	Since launch (AGR)
Managed Funds Portfolio	-7.29%	-5.43%	-4.90%	19.94%	28.36%	6.61%
ARC Sterling Steady Growth PCI	-7.64%	-6.44%	-5.71%	15.09%	23.19%	4.91%

MANAGED FUNDS PORTFOLIO FUND ALLOCATION



■ Balanced Managed	15%
■ Global Equity	15%
■ Managed Growth	15%
■ Multi Asset	15%
■ Strategic Income	15%
■ Strategic Managed	15%
■ International Equity	10%

PORTFOLIO COMMENTARY

The Managed Funds Portfolio provided a negative return over the quarter.

Several fears weighed on markets over the quarter, and China ranked high among them. Whatever the accuracy of the official growth figures, there was no debating the direction of travel – growth slowed over the course of the year, adding yet another dip to the prolonged growth rate decline the Chinese economy has witnessed since 2010. The Shanghai Composite index fell 25% over the course of the year, reflecting fears over the decline in the growth rate and the rise in trade tensions with the US.

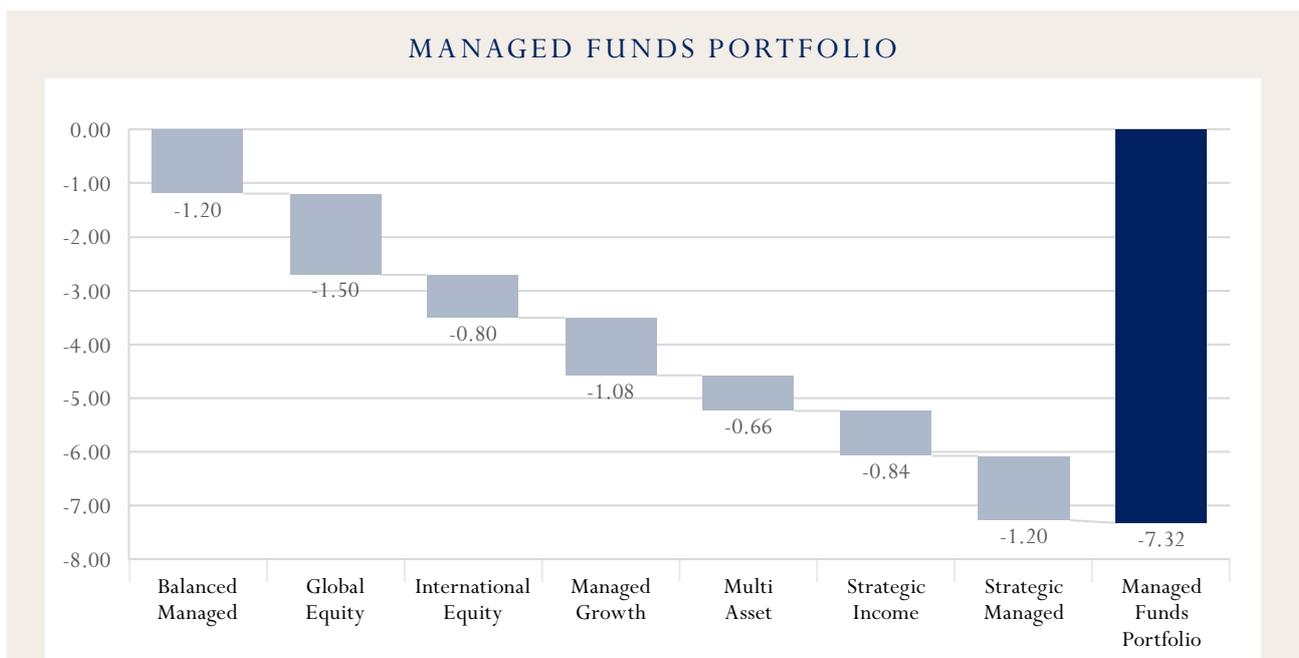
Concerns over China buffeted performance in Edgepoint’s sleeve of the Global Equity fund, even though the businesses concerned are not headquartered in China itself. TE Connectivity, a US-listed company that manufactures sensor and connectivity products for harsh environments, has direct exposure to China and saw its stock price decline more than 10% over the fourth quarter.

The rising temperature of the US-China trade spat created plenty of fallout on markets. Tensions were raised to new heights when Canadian authorities arrested the chief financial officer of Huawei, the Chinese technology giant, early in December, due to a US extradition request. Technology stocks suffered on both sides of the Pacific, detracting from the performance of the Balanced Managed fund, which is co-managed by GMO and Jennison Associates. Within the Jennison sleeve, a high allocation to technology majors hurt performance, although Jennison did sell out of ASOS, the UK online clothing retailer, in advance of its rapid share price fall in December. The GMO sleeve of the fund, which invests in both equities and bonds, held fund losses in check. GMO suffered from credit selection via bond holdings with low sensitivity to interest rates and a bias towards high-quality names – high yield bonds suffered a sell-off over the period.

The International Equity fund, managed by Magellan, also detracted from fourth quarter performance. However, the fund posted positive returns over the calendar year, benefiting from holdings in Starbucks, HCA Healthcare and Microsoft. The latter’s dominance of the enterprise software market and number two position in cloud computing provided stability.

The Strategic Managed fund, managed by Columbia Threadneedle, saw losses due to significant exposure to the support services, aerospace and defence sectors. Losses were partly held in check by positive stock selection, such as Deutsche Telekom and Altria.

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
Balanced Managed	04/10	-5.8	7.8	12.3	2.7	2.9
Global Equity	09/11	-6.1	13.5	27.3	-1.0	8.4
Managed Growth	04/10	-5.0	7.0	19.1	-1.3	4.1
Strategic Income	11/15	-7.2	7.6	13.7	-	-
Strategic Managed	04/10	-5.6	5.7	14.6	2.4	2.4
Multi Asset	04/12	-5.5	6.9	2.3	-1.5	4.6
International Equity	02/97	3.5	12.3	20.0	7.7	11.5

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 22 May 2017. 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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