



## BALANCED INCOME 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 Income 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.

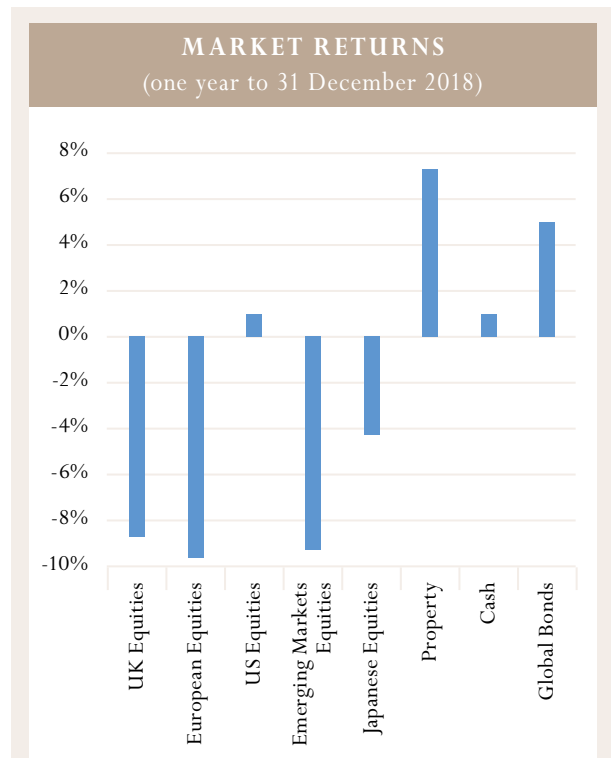
The price drop offers some relief to China, the world's largest oil importer, after a year in which growth slowed and the Shanghai Composite index fell an eye-watering 25% on growth and trade fears.

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.

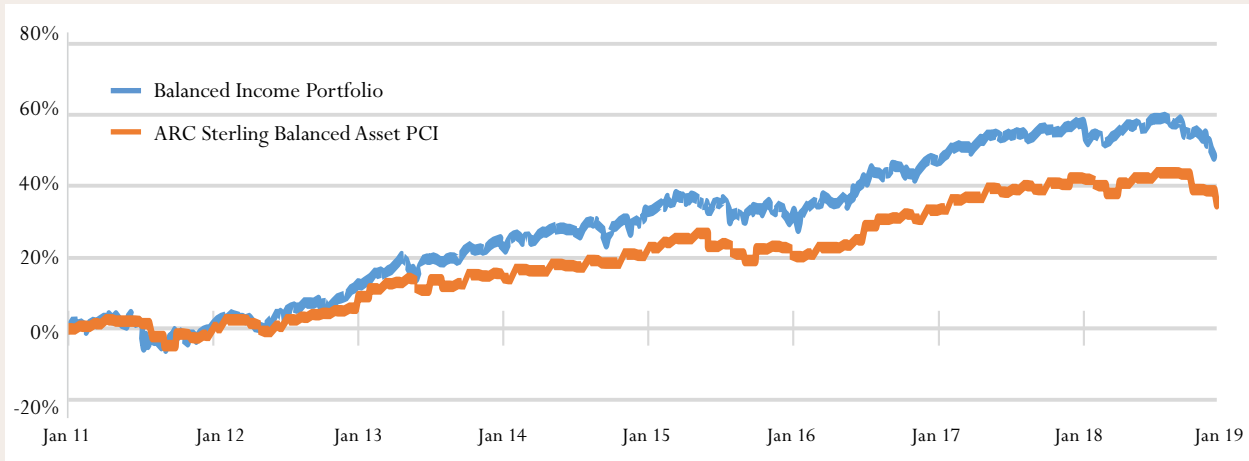


Source: Financial Express. Performance figures to 31 December 2018, expressed in sterling on a total return basis. The investment returns in the table above, reflect the performance of the relevant market indices. Please be aware that past performance is not indicative of future performance. The value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



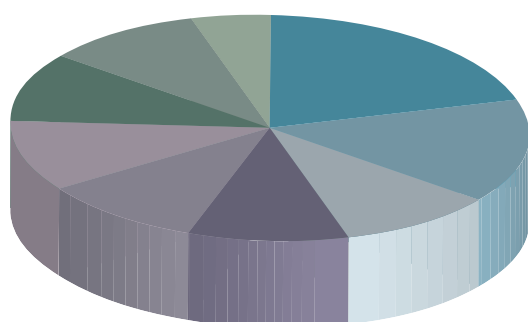
Source: Financial Express/St. James’s Place. Data to 31 December 2018. Performance figures shown assume investment into the Portfolio was made on 31 January 2011. Investment returns are based on the performance of the underlying funds and reflect the St. James’s Place Investment Committee’s recommended 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 Income 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 Income Portfolio was launched 31 January 2011

CUMULATIVE PERFORMANCE						
	3 months	6 months	1 year	3 years	5 years	Since launch (AGR)
Balanced Income Portfolio	-6.13%	-4.97%	-5.14%	10.69%	20.24%	5.16%
ARC Sterling Balanced Asset PCI	-5.90%	-5.14%	-5.14%	9.95%	17.06%	3.87%

BALANCED INCOME PORTFOLIO FUND ALLOCATION



Strategic Income	20%
Diversified Bond	15%
Property	15%
Worldwide Income	10%
Global Equity Income	10%
Investment Grade Corporate Bond	10%
UK & International Income	10%
UK High Income	5%
Equity Income	5%

PORTFOLIO COMMENTARY

Having performed positively across the first nine months of 2018, the Balanced Income Portfolio delivered a negative return in the fourth quarter.

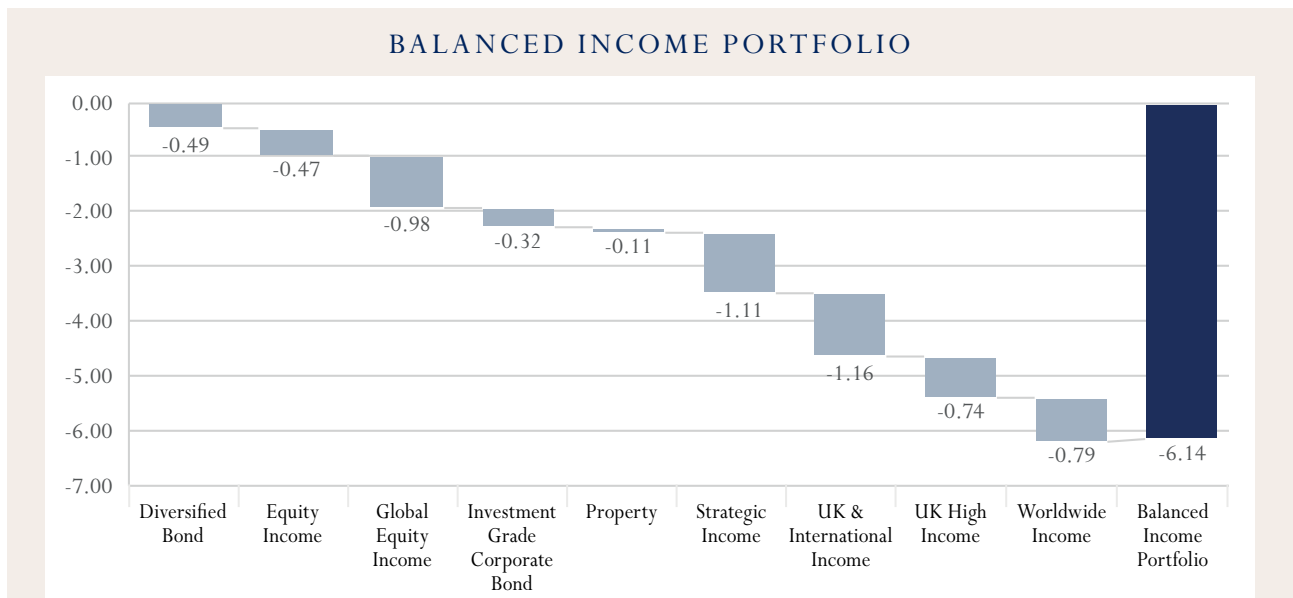
Many asset classes struggled through the quarter, as investors grew increasingly nervous about both headline growth and the outlook for a range of key sectors, among them retail. Retail figures in the UK showed a surprise fall early in the period, and numbers released since Christmas suggest a far-from-festive period for several major High Street names. Despite these headwinds, the UK commercial property market was relatively stable through the quarter and showed only a limited decline for 2018 as a whole. The Property fund, managed by Orchard Street, did slip in the final quarter, but only marginally relative to both the wider property market and to risk assets more broadly. The fund was also helped by its relatively high allocation to out-of-town retail assets.

“The fourth quarter did see out-of-town dragged into the wider malaise affecting the town centre market, but vacancy rates in out-of-town retail are still significantly lower than in town centres, and the occupancy rate for the retail component of the fund stood at 97% at year-end,” said John Humberstone of Orchard Street. “Notably, UK institutions were net investors over the year, following two years of disinvestment.”

The UK equity market continued to disappoint over the period. Although UK employment remained elevated, growth was sluggish and there were signs of business investment slowing. The UK High Income fund, managed by Woodford Investment Management, detracted from Portfolio performance, hit by both sectoral and stock-specific issues. Capita, the outsourcing company, saw its stock price decline yet further in the final quarter, largely due to receiving a public rebuke from the British Medical Association for its failure to send more than 48,000 letters to women to inform them of the dates and results of cervical cancer screening.

Another detractor was the Strategic Income fund, a multi-manager mandate. MidOcean manages the US high yield bond component of the fund, which suffered from a broader sell-off of US high yield bonds in October. TwentyFour Asset Management, which manages the European high yield bond component, suffered due to investor nervousness over Italy’s budget and, later in the quarter, social unrest in France, which led the government to slacken its timeline for reducing government indebtedness.

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



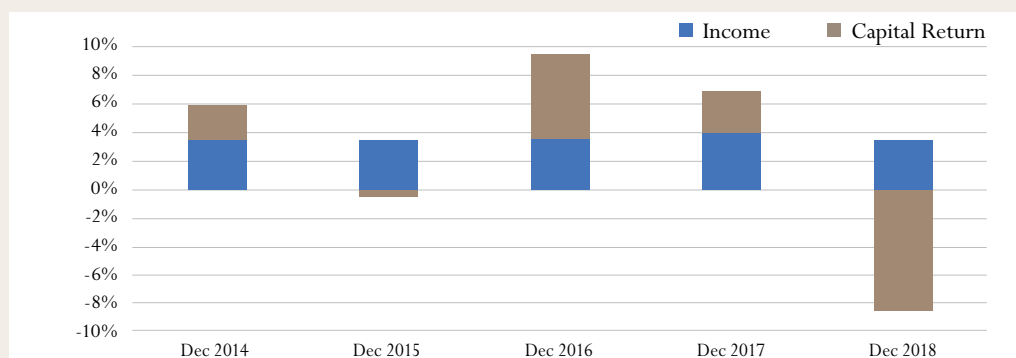
Source: Financial Express. Performance figures to 31 December 2018, expressed in sterling terms. Please be aware that past performance is not indicative of future performance. The value of an investment may fall as well as rise. Returns on equities cannot be guaranteed. Equities do not provide the security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

FTSE International Limited (“FTSE”) © FTSE 2019. “FTSE®” is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE’s express written consent.

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

© S&P Dow Jones LLC 2019. All rights reserved.

BALANCED INCOME PORTFOLIO –  
INVESTMENT RETURNS FROM INCOME AND CAPITAL GROWTH



Source: Financial Express. This chart shows the proportion of total returns from income and capital growth over the previous five rolling 12 month periods to the 31 December 2018. 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.

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
Diversified Bond	11/15	-3.5	4.2	8.2	-	-
Equity Income	02/97	-2.6	5.0	10.7	0.4	0.6
Global Equity Income	04/12	-6.4	7.9	27.4	1.9	7.3
Investment Grade Corporate Bond	04/09	-3.4	4.0	4.7	-1.3	6.9
Property	01/07	2.1	6.5	1.6	7.6	10.9
Strategic Income	11/15	-7.2	7.6	13.7	-	-
UK High Income	01/92	-19.7	5.7	-0.8	7.3	8.9
UK & International Income	10/10	-11.6	11.6	8.3	3.8	3.7
Worldwide Income	10/16	-2.9	6.9	-	-	-

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.

The 'St. James's Place Partnership' and the titles 'Partner' and 'Partner Practice' are marketing terms used to describe St. James's Place representatives. Members of the St. James's Place Partnership in the UK represent St. James's Place Wealth Management plc, which is authorised and regulated by the Financial Conduct Authority. St. James's Place Wealth Management plc Registered Office: St. James's Place House, 1 Tetbury Road, Cirencester, Gloucestershire, GL7 1FP, United Kingdom. Registered in England Number 4113955.