ST. JAMES'S PLACE
WEALTH MANAGEMENT

INVESTMENTS

DEFERRED 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 Deferred 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.

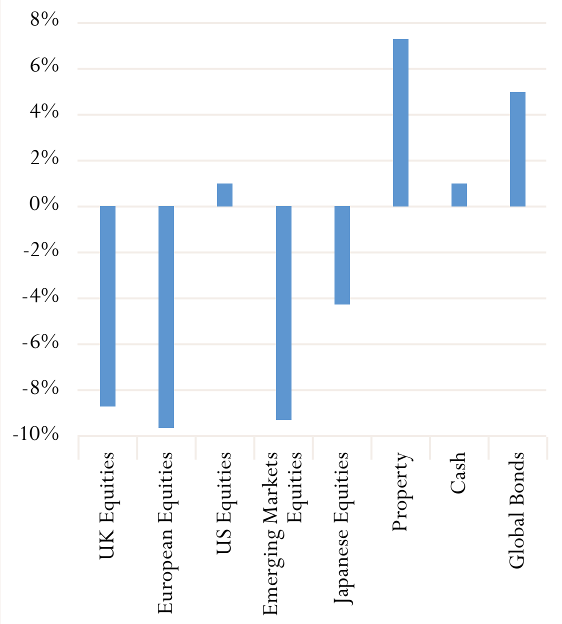
Geopolitics, diplomacy and trade loomed large. Among these, the falling price of oil was notable; a barrel of Brent crude dropped from $86 at the start of October to below $55 at year-end.

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.

MARKET RETURNS
(one year to 31 December 2018)



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.

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.

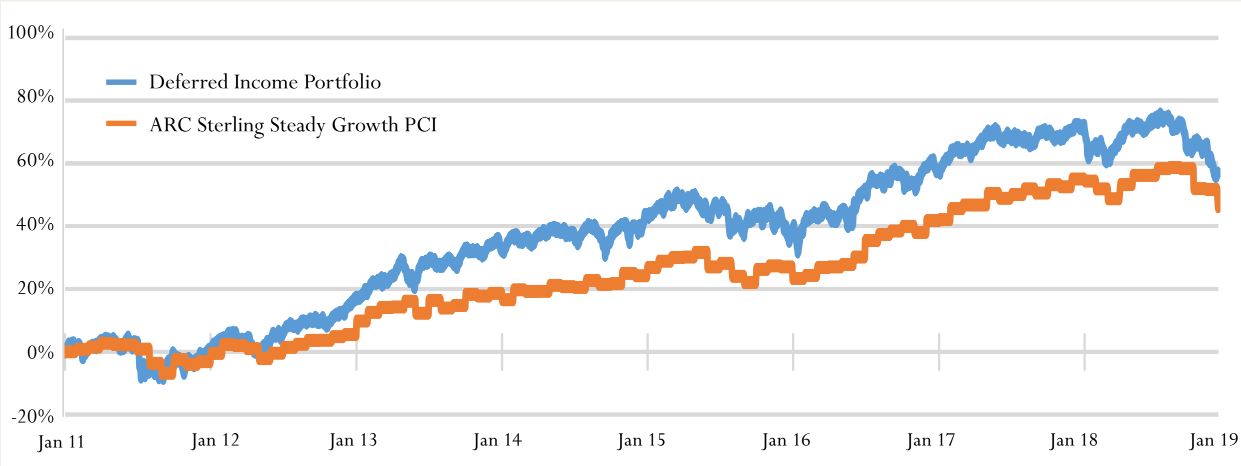
The Federal Reserve raised rates four times in 2018 as expected – against just once for the Bank of England – but was sounding more dovish by December. 2018 was also the year when markets started to feel the effects of quantitative tightening, as the Fed began to sell bonds back to the market.

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)



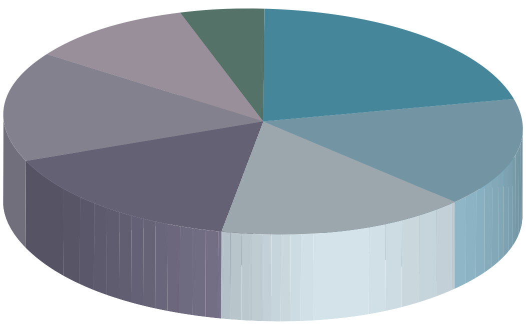
Source: Financial Express/St. James's Place. Data to 31 December 2018. Performance figures shown assume investment into the Portfolio was made on 31 January 2011. Investment returns are based on the performance of the underlying funds and reflect the St. James's Place Investment Committee's recommended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

CUMULATIVE PERFORMANCE						
	3 months	**6 months**	**1 year**	**3 years**	**5 years**	**Since launch (AGR)**
Deferred Income Portfolio	-9.22%	-8.40%	-8.03%	9.29%	17.05%	5.86%
ARC Sterling Steady Growth PCI	-7.64%	-6.44%	-5.71%	15.09%	23.19%	4.91%

DEFERRED INCOME PORTFOLIO FUND ALLOCATION



Strategic Income	20%
Equity Income	15%
Global Equity Income	15%
UK & International Income	15%
UK High Income	15%
Worldwide Income	15%
Corporate Bond	5%

PORTFOLIO COMMENTARY

The Deferred Income Portfolio declined over the quarter due to greater exposure to risk assets.

While there was no definitive cause of the fourth quarter downturn for global risk assets, many proximate causes were apparent, from slowing growth in China to the Federal Reserve's continuing programme of quantitative tightening. Earlier in the year, the S&P 500 had continued on its historic bull run, leaving indices in other leading economies far behind. In the fourth quarter, however, it took the world's equity markets down with it, including the FTSE All-Share. The falls buffeted the UK & International Income fund, managed by Artemis, leaving it down for the year.

"The UK remained a truly domestic affair and international investors continued to give our market a wide berth, as the cocktail of Brexit and politics continued to lack appeal, notwithstanding that it is a very cheap cocktail!" reported Artemis. "Within this difficult market, unsurprisingly, the more defensive shares such as pharmaceuticals and consumer staples proved more resilient."

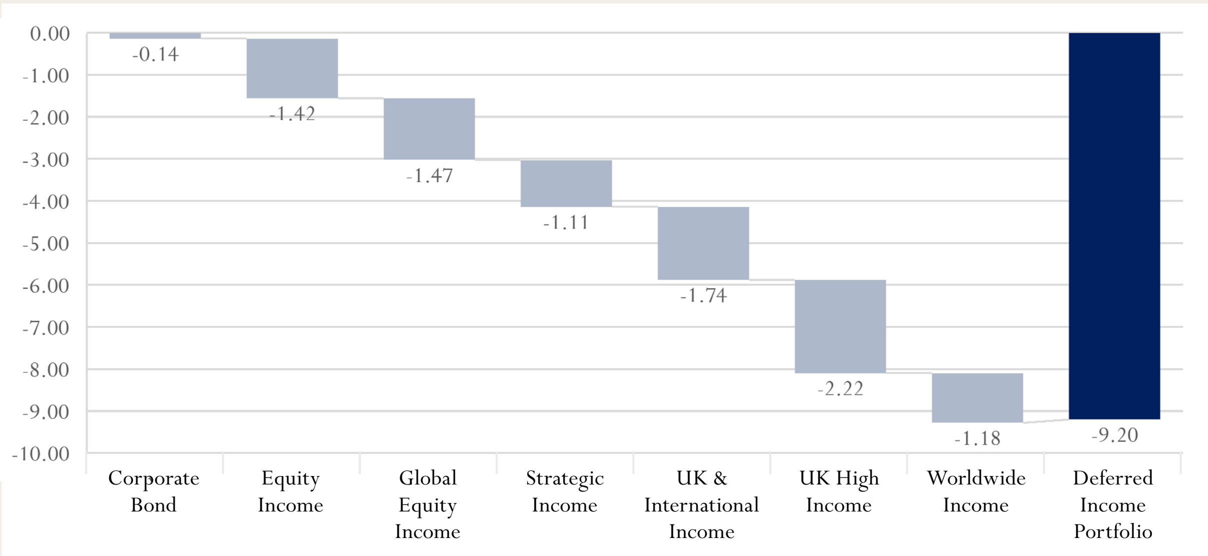
Another fund to suffer as a result of political uncertainty and market volatility in Britain was the UK High Income fund, managed by Woodford Investment Management. A range of holdings fell victim to negative investor sentiment towards the UK over the period. There were also stock-specific issues, among them a combination of rising regulatory pressure and upstart e-cigarette competitors for Bristol-based Imperial Brands, one of the world's largest tobacco companies.

"The UK economy is doing fine, with a strong labour market, the return of real wage growth and improved government finances all important ingredients for a benign backdrop," Woodford Investment Management reported in January. "However, these benefits have been overshadowed by continued negativity towards UK-exposed stocks. Most of the domestically-focused businesses we invested in did nothing wrong during the quarter … but this, of course, is exactly the sort of market inefficiency that we exist to exploit. We remain convinced we will ultimately be rewarded."

The Equity Income fund, managed by RWC Partners, also suffered from negative sentiment towards the UK, and detracted from broader Portfolio performance. In October, RWC was obliged to sell Sky, which accounted for 5.5% of the fund. The largest detractor, however, was Capita, the outsourcing company. Oil majors also weighed on the fund.

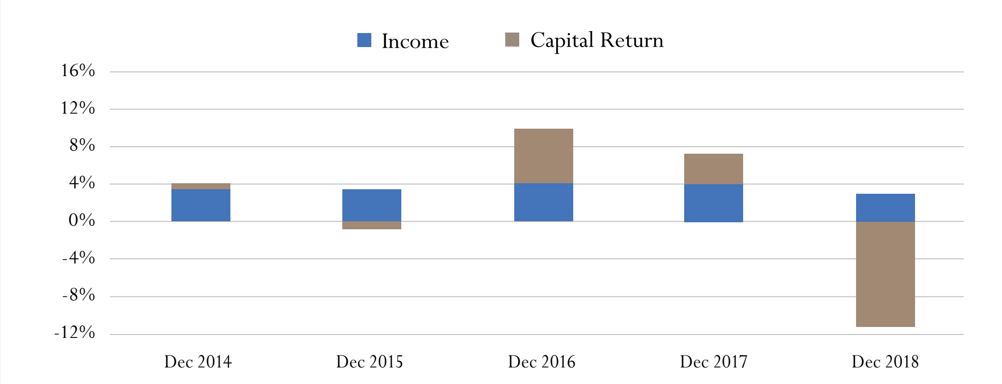
The chart below shows the individual fund contribution to the performance of the Portfolio over the quarter.

DEFERRED INCOME PORTFOLIO



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.

DEFERRED 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
Corporate Bond	09/95	-3.7	6.2	7.3	0.8	3.1
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
Strategic Income	11/15	-7.2	7.6	13.7	-	-
UK & International Income	10/10	-11.6	11.6	8.3	3.8	3.7
Worldwide Income	10/16	-2.9	6.9	-	-	-
UK High Income	01/92	-19.7	5.7	-0.8	7.3	8.9

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.

SJP4200 V22 (01/19) IO *