R.C. BROWN
investment management plc

APRIL 2015 NEWSLETTER

(For Professional Advisers only)

Contents

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Market Commentary

The FTSE 100 index recently closed at an all time high and many pundits have been happy to write about how the market must crash back to more reasonable levels. But this misses the point that corporate profits are now much higher than when the market was last close to the 7000 level and the multiple of earnings needed to buy a share in a company (the p/e ratio) is in many cases not stretched, particularly when investors can look forward to a reasonable yield on their equity investments and get real dividend growth. So although we are very aware of risk and seek always to manage the investment risk we take in line with expected returns, we feel it important to highlight that with slow economic growth and persistently low interest rates, equity investing continues to be relatively attractive for long term investors who can ride out short term volatility.

Looking forward, we are considering how best to position our portfolios ahead of the repercussions of a UK election, deflation in Europe, ongoing currency swings, the threat of rising US interest rates and geopolitical risks in the Middle East and North Africa and in Eastern Europe and Russia. In truth, many of these risks are unquantifiable in investment terms and those that can be quantified, such as interest rate and currency movements, have been thought about and dealt with by investors for generations. It is expected that the general election will cause some market volatility, not least because it is likely that a small party will have a disproportionately large influence on the policy of a minority government. But history has taught us that while governments tend to be elected according to a party manifesto, once in power they have to govern according to the state of government finances when they come into office. Undoubtedly changes will be made early in the next parliament but policy will be constrained by the need to stimulate economic growth and stem the rise in government borrowing. There will be winners and losers within this but a well diversified portfolio should be able to adjust to the changes in a reasonable time period.

Over the last six months we have made relatively few asset allocation changes but have been active in rebalancing portfolios, taking further profits in North America and reinvesting into areas which had lagged on a relative basis.

Fixed interest investments continued to perform well during the period but with increased volatility and we have actively traded bond exposure to secure profits when yields fell to unsustainably low levels and bought back on more realistic yields. We also reduced the interest rate sensitivity of government bond investments by selling out of the Treasury 4.25% 2039 stock and reducing exposure to the Treasury 4.25% 2027 stock to buy Treasury 2.25% 2023. Although this stock has both a lower coupon and a shorter period to redemption we feel the lower volatility and pull to maturity will be beneficial if interest rates begin to rise unexpectedly soon

Having made a number of changes in the previous period we have been less active in the last six months, although we reduced exposure to the M&G Recovery fund and increased exposure to Miton UK Value Opportunities fund, where the fund managers, George Godber and Georgina Hamilton, continue to impress with their ability to find attractively valued stocks across the market capitalisation range. And it is pleasing to note that having retained confidence in the managers selected to manage exposure to small and mid cap stocks portfolios have benefitted from a recovery in these areas after last year's rotation into the biggest FTSE 100 companies.

The overseas exposure in portfolios saw a number of changes in the last reporting period and as a result this time there is less activity to report, but we did sell Templeton Latin America fund after a period of poor performance and little

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prospect of imminent recovery in the face of low oil prices and political instability in Brazil and Venezuela. In its place we bought Templeton Global Emerging Markets fund after global emerging markets had been impacted by US$ strength and in expectation of good long term economic growth for these markets and the potential for further benefit from structural reform in India.

I fear that we are beginning to sound like a broken record when we reiterate our policy on bond investing, but in truth the fundamentals haven't changed neither have our views and we remain stuck in an elongated period of historically low interest rates with significant risks to capital when interest rates rise. As the return for taking the risk of investing in bonds is very low we continue to believe that the main purpose of holding bonds in portfolios is to diversify risk and to dampen volatility. However, as we get closer to the time when interest rates start to rise we expect volatility to increase. and liquidity risks to rise (the inability to sell at a fair price) We do not expect interest rates to rise imminently but we plan to minimise exposure to illiquid and long dated corporate credit ahead of rates rising.

By comparison with bonds equities are still relatively attractive despite the UK stock market having recently hit an all time high valuations are not unrealistically expensive. We believe that Europe has the potential to deliver good returns as a result of the ECB's stimulus package and Japan similarly should benefit from the drive to get inflation up to 2%. By contrast the US market looks relatively expensive and we are likely to continue to take profits from here to fund investment in Europe. UK equity markets are treading a middle ground in valuation terms between the US and Europe and although we have no immediate concerns that the market will crash we are alert to signals of a loss of investor confidence and are prepared to reduce portfolio risk when necessary. In the meantime we expect that an increasing proportion of the total return on portfolios will come from stock selection.

Commercial property investment we still see as being a relatively attractive area of investment, mainly for the growing rental yield. And despite seeing very large inflows into property funds which suggests that we are nearing the end of the property cycle and need to be watchful for signals that suggest we should start reducing exposure, we believe that liquidity in the sector is likely to remain better than at the end of the last cycle when a number of funds were gated and investors had to wait to get out. In the short term this is unlikely to be the case because managers have been struggling to invest inflows into their funds and so have plenty of cash to repay any sellers that may come along. We will be more concerned when funds are fully invested having bought property on disappointingly low yields.

With regard to alternative asset classes we still have no current intention of introducing total return funds or commodity investments to portfolios, not for any inherent bias against these investments but simply because we continue to believe that better returns for the risk taken can be earned elsewhere.

Historic Performance

Private Client portfolio past performance data to end March 2015

Risk Category		3mths RCBIM*	3mths Benchmark	6mths RCBIM*	6mths Benchmark	12mths RCBIM*	12mths Benchmark	24mths RCBIM*	24mths Benchmark	36mths RCBIM*	36mths Benchmark	48mths RCBIM*	48mths Benchmark
Cautious	Managed Funds	4.18%	3.64%	7.67%	7.70%	9.22%	12.03%	17.64%	14.19%	34.15%	24.05%	37.31%	30.86%
(WMA Conservative)	Direct	3.96%		6.91%		9.08%		17.65%		34.07%		39.22%	
Cautious Balanced	Managed Funds	4.97%	4.26%	8.06%	7.65%	9.85%	11.49%	20.51%	15.92%	38.31%	29.07%	45.50%	36.56%
(WMA Income)	Direct	4.66%		7.24%		9.32%		19.15%		37.49%		42.71%	
Balanced	Managed Funds	5.43%	4.91%	8.15%	8.01%	8.99%	11.95%	18.99%	18.19%	36.07%	33.93%	44.03%	38.86%
(WMA Balanced)	Direct	5.14%		7.40%		9.01%		19.52%		37.95%		41.51%	
Balanced Growth	Managed Funds	5.85%	4.91%	8.10%	8.01%	9.30%	11.95%	20.85%	18.19%	39.84%	33.93%	44.85%	38.86%
(WMA Balanced)	Direct	5.39%		7.31%		8.40%		19.83%		37.92%		39.54%	
Growth	Managed Funds	5.97%	5.49%	8.37%	8.25%	9.39%	12.13%	21.90%	19.39%	41.60%	36.63%	46.04%	39.24%
(WMA Growth)	Direct	5.54%		7.24%		9.32%		19.13%		37.22%		42.24%	

(* After all underlying fund charges, but before RCBIM fees)
(The benchmark is the relevant corresponding WMA Index)

Product partners list

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Over the past few months we have developed connections with a number of additional SIPP, SSAS and Bond providers, the up to date list is shown below. For those of you who use Offshore Bonds, we can now manage money within the Dublin based Offshore Bonds for both AXA and Canada Life, which has the added client benefit of our fees being VAT exempt.

SIPP / SSAS

Cabot Trustees	Lifetime SIPP Company
Curtis Banks	London & Colonial
DA Phillips & Co	LV=
Dentons Pensions	Pointon York
DP Pensions	Sanlam Investment & Pensions
Hartley SAS	SippCentre
Hornbuckle Mitchell	Suffolk Life
Intelligent Money	Talbot Muir
IPM SIPP	The Company SSAS Ltd
IPS Pension Trustees	Tower Pension Trustees
James Hay	Xafinity

OFFSHORE BOND

AXA (IoM & Dublin)	Friends Provident International
Canada Life (IoM & Dublin)	Sanlam Investment & Pensions

ONSHORE BOND

Sanlam Investment & Pensions

If you use any product providers not listed above, we are happy to establish a link to them.

CONTACT US

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