R.C. BROWN investment management plc

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(For Professional Advisers only)

Contents

Market Commentary

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When marshalling my thoughts on how best to present our views for this market outlook I took myself off for a long walk on the North Downs with my dogs. In a remote part of the Pilgrim's Way I met another walker who asked for directions to a fairly distant pub. My answer "Well, it's not easy to get there from here. You have to go down the steep slope, through the woods and then it's a long climb up the other side and you'll see the pub some way in the distance" may be a metaphor for the current market outlook, as we believe that the long term prize of good investment returns may well be earned only after suffering periods of short term volatility when markets fall steeply, followed by times when there is so much conflicting information that it is difficult to see the wood for the trees. But ultimately we continue to believe that, relative to other asset classes, equities are attractively valued and are the asset class most likely to earn a long term return greater than inflation.

We come to this seemingly lukewarm view after having observed retail investor behaviour over many years and a belief that when the outlook appears bleak you should plan for the worst and hope for the best. This isn't a pessimistic or defeatist view, but rather is one that recognises that over the last few years decent profits have been earned during a period of recovery, when it was right to take lots of investment risk in portfolios and, now that many asset prices around the world have been inflated by central bank stimulus, it may be prudent to look to reduce some of the risk we take, reign in expectations of likely returns in the short term, and be pleased to earn a small, but above inflation, absolute return. However, one thing we won't do is to stop seeking that elusive positive real return, because experience has also shown us that if you sell everything and hold only cash you can become so afraid of bad things that might be lurking in the shadows and fail to get back into quality investments in order to claim that long term prize. We should emphasise that that we believe we have entered a period when investors really do need to be prepared to take a long term view and that market volatility may test everyone's nerve in the coming year . In the UK we have an election in May, which is likely to test the ability of the bigger parties to work with minority groups to form a government. In Greece the near absolute majority of Syriza could well have far reaching ramifications for all of Europe and particularly for the election in Spain in December. Further afield there are elections this year in Israel, Egypt and Turkey. While any of these may cause some short term upsets to markets they are unlikely to have major long term repercussions as in all cases the reality that parties are going to have to cooperate to get anything done will temper the rather more extreme rhetoric of some smaller parties.

So what are the factors that make us cautious and why do we still want to invest against such a background? First the negatives:

Geopolitics continues to shriek beware, Russia's posturing over Ukraine risks bringing war by another name (insurrection) close to the borders of Europe. The falling oil price makes Russia a more dangerous adversary, as it is being hit hard by the loss of foreign

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revenue from oil sales.

ISIS has established a proto twenty-first century caliphate in Syria from which it trains and funds international terrorism in the name of a religion which for the vast majority of its followers is about peacefully trying to understand the unknowable and which incidentally (as a result of the religious ban on depicting the human form) brought massive advances in the understanding of complex two and three dimensional geometry and raised mathematics to an art form. (This is not as tenuous as it sounds. Human beings doodle and if we can't doodle pictures of imaginary beings we will doodle patterns. We are also competitive, so the patterns became ever more complex and in order to replicate the patterns the mathematics of geometry, trigonometry and algebra were developed).

Global economic growth is slowing, driven largely by a slowdown in China which is having ramifications around the world, as seen by the fall in prices of energy and basic industrial materials. And concerns over growing inequality may be setting us up for a backlash from those who believe the system has not delivered their fair share.

On the positive side:

The ECB has come late to the money printing party and is to embark on a hybrid programme of quantitative easing, with the ECB controlling the printing presses and 80% of the risks being borne by national central banks. This could result in the purchase of European sovereign bonds to the value of €1.1tn. This will hold down, or drive down further, bond yields in Europe and pushes into the future the time when interest rates are likely to rise. Hopefully it will also encourage businesses to borrow for investment.

This increase in liquidity will be welcome and will drive down the Euro exchange rate making European exporters more competitive. It remains to be seen whether structural reform will encourage sufficient employment growth to raise sustained aggregate demand in Europe and not just inflate asset prices.

Although asset prices have already risen a long way the fear of financial Armageddon has driven many investors into buying bonds on very low yields. QE will drive down longer term bond yields and on this measure many good quality equity investments are good value. This is the mast to which we have nailed our colours. So, just as that able seaman who climbed the battle damaged mast of the flagship of the fleet and nailed the colours to the mast as a signal that they were not surrendering, we will keep fighting for long term positive real returns. We will use market falls an opportunity to put cash to work, we will not be greedy and will take profits when assets are looking fully valued and we will continue to regularly rebalance portfolios to keep risk within acceptable bounds.

Historic Performance

R.C. BROWN investment management plc

Private Client portfolio past performance data to end December 2014

Risk category		12mths RCBIM*	12mths Benchmark	24mths RCBIM*	24mths Benchmark	36mths RCBIM*	36mths Benchmark	48mths RCBIM*	48mths Benchmark
Cautious	Managed Funds	5.71%	9.47%	21.57%	15.07%	34.15%	21.37%	n/a	n/a
(WMA Conservative)	Direct	6.33%		21.03%		33.65%		n/a	
Cautious Balanced	Managed Funds	5.31%	7.72%	25.56%	18.50%	40.13%	27.74%	40.39%	31.75%
(WMA Income)	Direct	5.44%		24.09%		38.00%		36.08%	
Balanced	Managed Funds	3.63%	7.23%	23.82%	22.36%	38.82%	33.48%	37.29%	33.72%
(WMA Balanced)	Direct	4.51%		24.88%		38.69%		34.35%	
Balanced Growth	Managed Funds	3.48%	7.23%	26.93%	22.36%	42.51%	33.48%	37.88%	33.72%
(WMA Balanced)	Direct	3.48%		25.14%		38.90%		n/a	
Growth	Managed Funds	3.43%	6.48%	28.64%	24.58%	44.72%	37.02%	39.61%	33.85%
(WMA Growth)	Direct	2.97%		25.60%		39.85%		32.06%	

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

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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.

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