R.C. BROWN
investment management plc

MARKET COMMENTARY NEWSLETTER

May 2017

THE WORLD ACCORDING TO GLENN…….

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HEAD OF MANAGED FUNDS

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Hurrah! It's official! Analysis of the data shows that our good long-term results are down to more than just luck! The even better news is that recognition of this comes with the highest five star ratings from Defaqto for both our bespoke and managed funds services.

I can't tell you how good it makes me feel to write that, but it's true; since we set up our private client business it has performed better than the stockmarket, with lower volatility and with lower drawdown. Which is just what it is designed to do. So, hurrah for that and before we all go off to the pub to celebrate I want to share some of the detail with you. Normally in these newsletters I wax lyrical about some interesting facet of geopolitics, or macroeconomics or some such turgid nonsense. But this time, instead of spouting the lexicographic equivalent of the particulate matter from bull exhaust, I want to tell you some facts. Hard facts, with real nitty gritty supporting evidence that what we do has added value.

You will recall that in our last newsletter we introduced the newest member of our team, Neil Whelan, to you. Since then Neil has been earning his keep by getting to know some of our partner IFA's and managing portfolios alongside the rest of us. He has also done some work which shows that we have delivered what we set out to do, namely to produce above average returns over the long term with lower than average volatility. For those of you with aspirations to be pointy headed anoraks I am making a break with tradition by publishing some data in the very pretty table below. This should give you plenty of comfort when recommending our portfolio construction and management methodology to your clients, so please feel free to interrogate the data and marvel at the increments in both arithmetic and geometric average return from a Cautious portfolio to Cautious Balanced, to Balanced and all the way up to a Growth portfolio. Wonder also at how we have managed to fall less than the market in down periods and at the large maximum gains in up periods. In a future rebranding we may look to change our name to Ronseal Asset Management (not really) because we really do do what is says on the tin.

What is abundantly clear from the table is that, in addition to delivering incremental returns alongside incremental added risk, our lowest risk strategy has a lower volatility than the next lowest risk strategy and there is a gradual progression all the way up to our highest risk strategy. This suggests that the results are more than a "random walk" (having read this far those of you who are already getting into the fun bits of stochastic calculus will understand that for us to have delivered

	All-Share	DI - Growth	MF - Growth	DI - Bal Growth	MF - Bal Growth	DI - Balanced	MF - Balanced	DI - Caut Bal	MF - Caut Bal	DI - Cautious	MF - Cautious
No. of periods	81	81	79	76	75	72	80	81	80	73	71
No. of up periods	49	53	54	50	49	48	56	54	53	49	48
No. of down periods	32	28	25	26	26	24	24	27	27	24	23
Arithmetic Average Return	0.81%	0.79%	0.86%	0.77%	0.76%	0.73%	0.84%	0.74%	0.79%	0.64%	0.65%
Geometric Average Return	0.76%	0.76%	0.83%	0.74%	0.73%	0.71%	0.82%	0.72%	0.77%	0.63%	0.64%
Highest Period Return	7.9%	6.6%	6.4%	6.1%	6.5%	5.8%	5.9%	5.2%	5.1%	4.0%	4.5%
Lowest Period Return	-6.9%	-6.4%	-7.5%	-7.1%	-6.3%	-6.0%	-5.7%	-5.1%	-5.8%	-4.0%	-5.1%
Probability of period gain	60.5%	65.4%	68.4%	65.8%	65.3%	66.7%	70.0%	66.7%	66.3%	67.1%	67.6%
Average Return In Positive Period	2.8%	2.2%	2.2%	2.1%	2.0%	2.0%	1.9%	1.9%	1.9%	1.5%	1.6%
Probability of a Loss	39.5%	34.6%	31.6%	34.2%	34.7%	33.3%	30.0%	33.3%	33.8%	32.9%	32.4%
Average Return In Negative Period	-2.2%	-1.9%	-1.9%	-1.8%	-1.7%	-1.8%	-1.7%	-1.5%	-1.4%	-1.2%	-1.4%
Longest Negative Streak	5	6	4	4	5	5	4	5	4	5	3
Maximum Drawdown (Peak to trough)	-14.5%	-11.0%	-11.0%	-10.3%	-10.5%	-9.5%	-8.4%	-7.7%	-7.8%	-5.5%	-5.6%
Longest Positive Streak	12	12	12	12	12	12	12	12	12	12	12
Maximum Gain	30.1%	29.0%	27.8%	26.4%	27.9%	26.8%	23.9%	25.3%	23.7%	21.1%	19.8%
Standard Deviation of Annual Return	9.0%	9.0%	8.1%	7.5%	8.5%	7.6%	6.4%	6.9%	6.0%	5.0%	4.8%
Minimum One Month Return	-6.9%	-6.4%	-7.5%	-7.1%	-6.3%	-6.0%	-5.7%	-5.1%	-5.8%	-4.0%	-5.1%
Minimum Three Month Return	-13.5%	-10.6%	-10.7%	-9.9%	-10.0%	-9.0%	-7.9%	-7.0%	-7.1%	-5.0%	-5.6%
Minimum Six Month Return	-11.9%	-9.5%	-9.3%	-8.5%	-9.2%	-7.1%	-6.4%	-5.7%	-5.6%	-4.1%	-3.8%
Minimum Annual Return	-8.0%	-6.7%	-4.7%	-4.0%	-5.6%	-5.3%	-2.0%	-2.9%	-2.0%	-1.2%	-0.6%
Minimum Two Year Return	-2.2%	2.9%	5.4%	6.0%	4.5%	5.6%	5.6%	5.1%	7.0%	6.2%	6.8%
Minimum Three Year Return	9.6%	14.0%	18.1%	18.0%	15.7%	16.5%	16.9%	15.1%	17.8%	15.6%	17.2%
Minimum Five Year Return	28.3%	32.9%	42.5%	42.1%	37.3%	37.6%	40.6%	38.0%	42.5%	37.2%	40.7%
Maximum One Month Return	7.9%	6.6%	6.4%	6.1%	6.5%	5.8%	5.9%	5.2%	5.1%	4.0%	4.5%
Maximum Three Month Return	10.3%	10.9%	11.8%	11.2%	10.8%	9.9%	10.0%	9.1%	9.4%	7.1%	7.8%
Maximum Six Month Return	16.5%	17.1%	17.2%	16.1%	16.5%	15.4%	14.1%	14.3%	13.9%	11.4%	10.7%
Maximum Annual Return	30.1%	29.0%	27.8%	26.4%	27.9%	26.8%	23.9%	25.3%	23.7%	21.1%	19.8%
Maximum Two Year Return	41.6%	38.8%	40.7%	38.7%	40.4%	36.4%	35.2%	34.3%	34.3%	29.5%	29.7%
Maximum Three Year Return	52.2%	51.6%	55.9%	53.3%	51.5%	50.2%	47.7%	46.7%	48.8%	41.1%	41.5%
Maximum Five Year Return	68.8%	70.5%	73.3%	71.8%	75.4%	69.9%	66.6%	64.0%	63.9%	55.1%	57.2%

DI = Directly Invested UK equity allocation
MF = Managed Funds portfolio

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these results, with these levels of volatility, over the long term implies some element of skill and not just relied on luck). This should make it fairly easy for you to match a client's attitude to risk with the appropriate risk rated strategy. It's also comforting to know that clients are appropriately rewarded for the amount of risk they are willing to take. What's more, you can now not only find our propositions on Defaqto's Engage system but also how we meet your risk criteria when searching for discretionary fund managers to run managed fund portfolios. In my experience, systems such as Engage rarely deliver all that I would wish for but having met with a number of Defaqto's people and looked at their analysis, I think they are trying to do the right thing and that their results give a fair view. But then perhaps I would say that so don't take my word for it, take a look at the separate article for more information.

I should also point out that with inflation having recently jumped to 2.7% Mark Carney will be pondering whether he needs to write to the Chancellor to tell him what he intends to do to get inflation back to the 2% target. Much of the increase is down to one off and transitory effects (such as the timing of Easter) and with wage growth lagging price rises a rate rise is considered unlikely anytime soon. But as expectations of a return to normal interest rates begin to rise there will be an effect on bond yields and the pattern of returns between asset classes we have seen in the recent past may not persist. This does not mean (to misquote Henry Ford) that history is bunk, but it does mean that we will make changes to our tactical asset allocation to better suit our expectations of the likely risk/reward frontier of different asset classes. To this end, although markets have recently hit new all time high levels and there are significant political risks on the horizon, we do not expect a major correction in asset prices and the outlook for the medium term remains reasonably robust, as leading economic indicators are projecting accelerating economic activity worldwide. We also take some comfort from signs of a rebalancing of economic activity away from personal consumption to investment led expansion. Such a shift could well see markets continue to rise but they will need to be led up by different sectors. In such circumstances, where average multiples are high we will be looking to add value through stock selection, either from our own efforts in directly managed UK equity portfolios, or through the best efforts of the fund managers we put in to bat on behalf of your clients. In short, our tactical positioning will change to suit our expectations but we will always believe in building portfolios with effective diversification between asset classes and geographies. These weightings will change over time according to future expectations and not historic trends.

Having got my teeth into something meaningful for a change and trumpeted how the data confirms that we have achieved what we set out to do I have successfully avoided writing esoteric non-

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sense on a topic of pure ephemera, which would have been par for the course. But never fear normal service will be resumed next time when I will have returned from a sojourn in Sicily and no doubt will spout something inconsequential on the lessons from history on the mixing of cultures in a small island.

DEFAQTO ANALYSIS

Over the past 4 years, we are been working hard with Defaqto, to ensure that our portfolio services are fairly represented and assessed against our peers. We are very please to say that not only have we been awarded 5 stars for both 'Bespoke' and 'Managed Portfolios—Direct' this year, but we have also had our Managed Portfolios independently risk rated.

Full information can be found on Defaqto's Engage system (www.defaqto.com/advisers/solutions/engage/) or for a summary report please contact our sales directors, Robert or Wayne.

R.C. BROWN investment management plc

Private Client portfolio past performance data
As at end April 2017
(FOR PROFESSIONAL ADVISERS ONLY)

Risk category		3mths	12mths	3 Years	5 Years
Cautious	**Managed Funds**	**3.78%**	**12.37%**	**23.26%**	**53.31%**
	Direct	**3.74%**	**13.25%**	**22.41%**	**53.32%**
	**WMA Conservative*	3.40%	13.22%	26.40%	41.45%
Cautious Balanced	**Managed Funds**	**4.21%**	**14.99%**	**26.72%**	**60.60%**
	Direct	**4.00%**	**18.21%**	**27.04%**	**62.98%**
	**WMA Income*	3.39%	15.79%	27.73%	50.01%
Balanced	**Managed Funds**	**4.49%**	**18.72%**	**29.77%**	**62.81%**
	Direct	**4.46%**	**20.69%**	**31.20%**	**69.90%**
	**WMA Balanced*	3.29%	18.68%	31.11%	59.59%
Balanced Growth	**Managed Funds**	**4.74%**	**19.78%**	**31.66%**	**69.31%**
	Direct	**4.47%**	**21.54%**	**30.26%**	**74.33%**
	**WMA Balanced*	3.29%	18.68%	31.11%	59.59%
Growth	**Managed Funds**	**4.84%**	**19.99%**	**31.37%**	**70.95%**
	Direct	**4.49%**	**23.10%**	**30.41%**	**70.51%**
	**WMA Growth*	3.33%	21.36%	33.66%	66.13%
Market data					
ARC £ Balanced		2.48%	12.29%	20.93%	41.37%
ARC £ Steady Growth		3.29%	16.32%	26.22%	52.07%
ARC £ Equity Risk		3.90%	19.41%	28.57%	60.08%

ARC (Asset Risk Consultants) are an industry provider of research and peer group portfolio performance reporting. ARC returns have been adjusted to a "before fees" basis

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

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DISCUS (Discretionary Investment Coming Under Scrutiny)

We are very pleased to announce that we have partnered with the IFA forum DISCUS (www.discus.org.uk), to aid us spreading the word about our discretionary portfolio services.

DISCUS (Discretionary Investment Services Coming Under Scrutiny) pronounced 'discuss' is the brainchild of Gillian Hepburn and Abbie Knight (née Tanner). Their vision is to create a platform to deliver quality insight, discussion and debate on the UK outsourced investment market, particularly discretionary propositions. A single port of call for financial advisers to learn more about the solutions on offer and engage directly with investment providers – a first step toward finding the right partner for their clients and their business.

The key attraction for us is that the 2000+ members are already using (or at least interested in) discretionary management services, and the profiles & comparison tools on the DISCUS website give more than just data, they provide a feel for the culture of the DFM (which we believe is key to a successful relationship).

Please take a minute to have a look at the DISCUS website, and if you subscribe to their weekly eNewsletter, you will get thought provoking market insight, rather than sales pitches from DFMs.

Product Provider Partners

We regularly get asked with ISA / SIPP / Bond providers we can manage portfolios with, so here is the current list:

ISA - we operate our own ISA (at no extra cost to the client) and can auto-ISA each year, with the clients permission

SIPP/SSAS - we have agreements in place with the following firms, if you use someone else, then we are happy to discuss setting up an agreement with them also:

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

Bonds - we have agreements in place with the following firms, if you use someone else, then we are happy to discuss setting up an agreement with them also:

AXA (IoM & Dublin)
Canada Life (IoM & Dublin)
Sanlam Investment & Pensions