R.C. BROWN
investment management plc

MARKET COMMENTARY NEWSLETTER

Spring 2016

HOW INFORMED DO YOU FEEL?

No matter what your own opinion, there are some basic fundamentals that we should all be employing with regards preparing / protecting client portfolios for the brave new world after 24th June. Please read Glenn's article to see what R C Brown have already done, and maybe ask the question of whoever you have placed client money with......

THE WORLD ACCORDING TO GLENN…….

GLENN MEYER
HEAD OF MANAGED FUNDS

glenn.meyer@rcbim.co.uk

Should I stay or should I go. If I stay there will be trouble, if I go it will be double. (The Clash – how aptly was that band named?)

Come June I would hope that each and every reader of this newsletter will have had chance to have read literature from both the Remain and the Leave camps and will be in a position to make an informed judgement before going to cast their vote in the referendum. I do not intend to make any claims for either side in the debate, nor do I seek to influence anyone in their exercise of a free vote, despite the provocative headline, but a song title from the formative days of my youth was just too good not to use. But because, whatever the result, stock market volatility is likely to be elevated in the period running up to June 23rd and in the weeks and months that follow so I wanted to set out our planned investment strategy during this period of turmoil. Our job is to look through the distractions of the vote and to focus on investment fundamentals. We thought long and hard about the likely implications for investment fundamentals, developed a strategy and wrote about it in a letter to clients. Some of you may not have had the chance to read this letter so I have included a large chunk of it for your reference.

In June the UK is to have a referendum on whether or not we should leave the European Union. Opinion is divided on the merits of such a move and ahead of the vote the UK stock market is likely to see a rise in volatility because markets do not like uncertainty. We believe this uncertainty will be made worse because of political differences and opinion polls and the vote itself will be driven more by sentiment than fundamentals. In view of this unusual event we have planned an unusual strategy and we hope that, by sharing this with you, you will be reassured. Firstly; our personal opinions on the merits or otherwise of Brexit are immaterial. What does matter is which way the vote goes. Secondly; taking a bet on an event with a binary outcome is hugely risky in investment terms and we will not risk your capital by positioning your portfolio one way or the other. Thirdly; whatever the result of the referendum, after a period of sentiment driven volatility fundamental value will begin to reassert a leading influence on the market. These fundamentals may be changed by the vote but this change will be rather more nuanced than the immediate knee jerk reaction and will take time to develop, enabling us to adjust our future strategy as needed. How-

WHY ADVISERS & CLIENTS TRUST US

- Our portfolios are managed on an 'individual client' basis, with direct access to the Investment Manager making the decisions
- Our minimum portfolio size is only £15,000
- We have a clean, transparent fee structure free from transaction & custody charges (starting from 0.625% for actively managed portfolios)
- We have our own money, and that of relatives, invested in the same strategies as our clients
- We have our own NISA, at no additional cost, and we can manage portfolios within SIPP, SSAS and Bond wrappers
- We are here to support the Adviser with THEIR clients, as we only provide discretionary portfolio management services

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ever, during this period we do not propose to sit idly by with our eyes closed and our fingers in our ears. Instead we have begun buying some limited portfolio insurance in the form of a Put on covered warrants on the FTSE 100 index which, despite the high proportion of international earnings of the index constituents, is expected to be the most volatile part of the whole UK market. We have taken some (and plan for more) cover for two instruments which run to September and December respectively. The price of these Puts should rise on a fall in the market, which will enable your portfolio to profit from a short term market fall without unwinding our long term investment strategy. Like all insurance we have tried to keep the cost of the premium to an affordable level by not covering all risks and we do not propose becoming full time hedge fund managers but, as mentioned, the referendum is an unusual event.

Sterling is also likely to be affected by the referendum, but opinions are rather divided on the likely exchange rate move against the € and the US$. Logically exchange rate movements ahead of the referendum will reflect the balance of opinion on whether the UK stays in or leaves the EU and the movement in sterling against other major currencies will partly reflect whether what is predicted is regarded as being beneficial for the country or not. Over recent months sterling has been weak against both the € and the US$, which suggests that sentiment on the outlook for the UK economy has turned negative. However, this also makes UK exports relatively more affordable and, more importantly, makes the overseas investments in your portfolio go up in value in sterling terms. Against this background we are unlikely to reduce the proportion of foreign investments in your portfolio in the near future. In the US the equity market recovered strongly from the weakness at the year end and recent developments suggesting that US inflation may tick up make it more likely that the Fed will again push up interest rates in coming months. In Japan there has been concern that the Central Bank's imposition of negative interest rates is an indication that Abenomics is failing. However, whilst inflation has been noticeably absent, the strength of the Yen (bought by international currency investors as a reserve currency) and domestic buying of equities in the face of international selling resulted in the market being almost unchanged in sterling terms in February. We continue to regard Japan as an attractive market for long term investment because many companies trade at below liquidation levels, price earnings multiples are low and dividends are well covered and growing.

Meanwhile in Europe, whatever the outcome of the UK referendum, the rising tide of Euroscepticism in longstanding members of the EU such as Italy, France and Germany, is likely to have to be addressed both by national governments

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and at a Europe wide level. This could well place pressure on the stability of the single currency and whilst we are not planning for a breakup of the Euro we are aware that this is a possibility and is something we have discussed with the managers of the funds that make up our European exposure. Most of these are bottom up stock pickers who do not manage money from a macro economic standpoint and they will continue to seek out companies with predictable costs, good market share for their products and high barriers to entry. Of more concern is the lack of growth which is being addressed by ongoing QE and negative interest rates. Japan too is struggling with a lack of growth and is using the same unorthodox monetary policy to stimulate the economy. But more importantly, from an equity investor's perspective, these macro factors are considered to be discounted in company share valuation metrics which represent good long term value.

I am sure that in the coming weeks much will be written on Brexit by pundits with a partisan view, facts will be selected for their ability to support an already formed opinion and arguments will rage. Whatever your view point I would urge to read some of the arguments from the opposing camp to help you reach an informed opinion. And if that doesn't help remember you have in your pocket a very handy tool to help you decide how to vote in an either or referendum, all you need to decide is whether it's Heads or Tails for in or out.

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Private Client portfolio past performance data
As at end March 2016
(FOR PROFESSIONAL ADVISERS ONLY)

Risk category		3mths	12mths	3 Years	4 Years	5 Years
Cautious	**Managed Funds**	**-0.18%**	**0.68%**	**18.44%**	**35.06%**	**38.25%**
	Direct	**1.30%**	**-0.19%**	**17.42%**	**33.81%**	**38.95%**
	***WMA Conservative**	*2.48%*	*0.79%*	*15.08%*	*25.01%*	*31.87%*
Cautious Balanced	**Managed Funds**	**-0.37%**	**0.24%**	**20.81%**	**38.65%**	**45.85%**
	Direct	**0.91%**	**-1.44%**	**17.43%**	**33.81%**	**40.65%**
	***WMA Income**	*2.00%*	*-0.04%*	*15.89%*	*33.25%*	*36.52%*
Balanced	**Managed Funds**	*-0.63%*	*-0.22%*	*18.72%*	*35.77%*	*43.71%*
	Direct	*0.88%*	*-0.75%*	*18.29%*	*36.33%*	*39.54%*
	***WMA Balanced**	*1.59%*	*-0.54%*	*17.56%*	*33.25%*	*38.13%*
Balanced Growth	**Managed Funds**	*-0.83%*	*0.10%*	*20.97%*	*39.98%*	*44.99%*
	Direct	*0.75%*	*-1.13%*	*18.66%*	*42.16%*	*43.78%*
	***WMA Balanced**	*1.59%*	*-0.54%*	*17.56%*	*33.25%*	*38.13%*
Growth	**Managed Funds**	*-1.05%*	*-0.50%*	*21.29%*	*40.88%*	*45.29%*
	Direct	*0.47%*	*-2.18%*	*16.97%*	*35.06%*	*36.89%*
	***WMA Growth**	*1.27%*	*-1.15%*	*18.01%*	*35.49%*	*37.63%*

Market data	3mths	12mths	3 Years	4 Years	5 Years
FTSE 100	*0.07%*	*-5.26%*	*7.46%*	*24.06%*	*25.60%*
FTSE All Share	*-0.41%*	*-3.92%*	*11.42%*	*30.10%*	*31.91%*
IMA UK Equity Average	*-1.72%*	*-2.34%*	*18.41%*	*39.78%*	*45.38%*
IMA outperformance vs FTSE All Share	*-1.31%*	*+1.58%*	*+6.99%*	*+9.68%*	*+13.47%*

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

All correspondence to Head Office

Head Office:
1 The Square, Temple Quay, Bristol BS1 6DG
tel: 0117 925 6073

South East Office:
The Officers' Mess, Coldstream Road, Caterham CR3 5QX
tel: 01883 283 105

fax: 0117 925 3790 email: enquiries@rcbim.co.uk www.rcbim.co.uk

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HEAD OFFICE
1 The Squsre
Temple Quay
Bristol
BS1 6DG
tel: 0117 925 6073

SOUTH EAST OFFICE
The Officers' Mess
Coldstream Road
Caterham
CR3 5QX
tel: 01883 283 105

fax: 0117 925 3790
email: enquiries@rcbim.co.uk
www.rcbim.co.uk

We are extremely proud to have won a number of awards over the past 12 months, the latest of which is a **5 star rating from Defaqto**

Defaqto 5 stars
defaqto 2016
DFM Bespoke

"Best for Tailored Portfolio Management Services – UK"
Wealth & Finance Intl Awards
financeawards twothousand&fifteen
R C Brown Investment Management
Best for Tailored Portfolio Management Services - UK

"Discretionary Fund Management Business of the Year – UK"
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R C Brown Investment Management
Discretionary Fund Management Business of the Year - UK

"Discretionary Fund Management Firm of the Year – UK"
CorporateLivewire Global Fund
GLOBAL FUND Awards 2015
CORPORATE LiveWire
- WINNER -

"Private Client Portfolio Manager of the Year"
Wealth & Money Management Awards
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Private Client Portfolio Manager of the Year - UK

IT'S OUR EXPERIENCE THAT COUNTS.

R C Brown Investment Management is a multi award winning firm, owned and managed by an experienced team of successful City fund managers who, having managed large funds for financial institutions to good effect, have built a business that opens up the potential for individuals, charities and pension funds to have their long term investments run in a rigorous, well diversified and risk aware manner.

Our skills in asset allocation, stock selection, and portfolio construction are focused on building well diversified portfolios where a careful watch is always kept on managing the downside risk, and have been recognised with several industry awards. We are supported by a high quality administration team and everyone takes pride in ensuring all our clients get the high levels of client service we would expect to receive from a professional investment manager.

We have been told that people come to us because we are approachable, with no hard sell and no jargon. Clients appreciate the ability to speak directly to their named investment manager whenever they wish and they like our transparent fee scales, which have no hidden charges for things such as dealing, custody, compliance or reporting. When people become clients they appreciate the friendly personal service and a good number of clients have been sufficiently pleased by the service they receive and the good performance of their investment funds that they have recommended us to friends and family.

When you join R C Brown you know that we will care for your money as well as we care for our own, as each of our investment managers and a high proportion of other members of the team have portfolios run alongside our clients' investments.