# AMR Financial Market Review

*Summer Report July 2017*

## Review – Equities & Bonds

2017 started with a mixed performance from global equities in January, with Asia and Emerging Markets outperforming despite fears of Trump protectionist policies. Bonds were weaker and Oil fell over 3%. Sterling fell on 'hard Brexit' fears. The Q4 reporting season began, with M&S and Tesco reporting good Christmas trading, in contrast to Next who warned of tougher conditions ahead. A number of US banks reports were well-received. February was a good month for equities, with the S&P 500 and FTSE100 reaching all-time highs. The House of Commons approved the Brexit bill, and Sterling weakened further. European equities underperformed as good economic data was overshadowed by political concerns surrounding forthcoming elections. Q4 results continued, which were generally positive although HSBC profits plunged on write downs. Reckitt Benckiser announced a $6.7bn bid for Mead Johnson, and Kraft Heinz attempted an audacious £115bn bid for Unilever which was quickly rebuffed. March saw further highs for UK and US equities, led by generally favourable data. President Trump's keenly awaited inaugural speech to Congress was well received, but light on actual detail. Indeed, later in the month, Trump was forced to withdraw his healthcare reform bill, casting doubt on the likelihood of being able to progress his pro-growth economic policies. Oil fell sharply over the month, offset by a sharp end of month rally on hopes of further OPEC supply restrictions. As expected, the US Fed raised interest rates by 0.25% whilst remaining cautious on the pace of further increases. The much-awaited triggering of Article 50 began Britain's exit from the EU, though with no particular market reaction. In Europe, the Dutch election results headed off the recent "populist" political advances. In corporate news, Aberdeen Asset Management and Standard Life announced an £11bn merger.

Good Q1 corporate results drove markets in April, although politics also had an effect with a snap election called in the UK increasing the value of Sterling hence reducing the share prices of UK listed multinationals. Macron looked increasingly likely to win the French presidential election, which was viewed as positive for the Eurozone hence European equities performed well. Asian markets posted gains following generally good economic data. Trump's tax proposals were well received, but again light in actual policy announcements leading to a loss of confidence that he will be able to push through the anticipated stimulus measures. The oil price rose in May after OPEC members agreed production cuts needed to last until 2018, leading to stronger commodity shares. Macron won the French presidential election, with Eurozone equities cheering the result and global equities reaching multi-year highs. UK utility shares were hit by Conservative manifesto pledges to cap prices. The ECB (European Central Bank) and Fed kept rates on hold, citing that rate rises remained data dependent, leading to strength in Asian shares. However, in June, central bank commentary indicated that the ECB and Bank of England were close to becoming less accommodative on monetary policy, whilst the US Fed increased rates by a further 0.25%. This triggered good performances from bank shares, seen as beneficiaries of higher rates. In the UK, terror attacks in Manchester and London dominated the news whilst the general election unexpectedly ended in a hung parliament.

*Continued on next page*

## Key Indicators

| *Equity Market Indices* | *30/06/17* | *31/12/16* | *% change six months* | *30/06/16* | *% change one year* |
|---|---|---|---|---|---|
| UK – FTSE 100 | 7312.72 | 7142.83 | + 2.4 | 6504.33 | + 12.4 |
| UK – FT ALL Share | 4002.18 | 3873.22 | + 3.3 | 3515.45 | + 13.8 |
| UK – FT Mid 250 | 19340.15 | 18077.27 | + 7.0 | 16271.07 | + 18.9 |
| UK FT Small Cap | 5584.96 | 5143.22 | + 8.6 | 4471.55 | + 24.9 |
| USA – Dow Jones | 21367.30 | 19814.38 | + 7.8 | 17929.99 | + 19.2 |
| USA – S&P 500 | 2426.56 | 2238.83 | + 8.4 | 2098.86 | + 15.6 |
| USA – Nasdaq | 6153.53 | 5383.12 | + 14.3 | 4842.67 | + 27.1 |
| Japan – Nikkei 225 | 20033.43 | 19114.37 | + 4.8 | 15575.92 | + 28.6 |
| Europe – FT Europe ex UK | 201.28 | 188.28 | + 6.9 | 169.48 | + 18.8 |
| Asia – FT Asia Pacific ex Japan (£) | 597.95 | 538.13 | + 11.1 | 481.79 | + 24.1 |
| Emerging – FT Emerging (£) | 567.66 | 527.47 | + 7.6 | 470.16 | + 20.7 |
| Global – FT All World (£) | 350.83 | 334.71 | + 4.8 | 518.53 | + 19.9 |
| Currencies | | | | | |
| £ / $ | 1.299 | 1.236 | + 5.1 | 1.337 | – 2.8 |
| £ / Euro | 1.139 | 1.172 | – 2.8 | 1.203 | – 5.3 |
| £ / Yen | 145.951 | 144.12 | + 1.3 | 137.141 | + 6.4 |

*Sources: FE Analytics, returns shown in local currency unless otherwise stated, income withdrawn.*

This led to stronger defensives and multinationals, driven by a fall in Sterling, while the domestically focused mid 250 underperformed. Safe haven government bond yields increased sharply toward the end of the month as interest rate expectations increased although corporate bonds outperformed on positive economic data. During the month, the best performances were seen from Asian and US equities, with UK and European equities both giving back some gains.

## Outlook

The last six months have seen good performances from equities driven by a generally benign economic backdrop. We believe that the global economy should continue to perform well, a view supported by positive forward looking economic indicators. Central banks globally appear to have embarked on a concerted campaign of readying markets for tighter monetary conditions in an attempt to avoid a similar 'taper tantrum' in bond and equity markets that greeted the Fed's announcement four years ago that it would begin to scale down bond purchases and so far, it appears to be working, with a relatively muted rise in yields.

There should also be distinctions made within the various major economies; the US has embarked on a programme of raising rates and allowing bonds on its balance sheet to redeem rather than reinvesting the capital. US economic data remains positive, and Q1 corporate reporting was generally ahead of expectations. Trump's economic policies remain enigmatic and whilst tax cuts and infrastructure spending remain on the agenda there is still little known about the detail and little confidence in Congress sanctioning such major changes. Given that equities performed well after the Trump election victory in anticipation of these policies, there is scope for disappointment if any actual policy announcements fall below expectation. Nonetheless, equities were performing well before the Trump victory driven by better economic growth, so equities should remain well supported. The ECB has expressed satisfaction in the improvement in economic data and indicated that it will soon be time to cautiously reduce some of its stimulus measures. Political developments in Europe have been positive, with populist threats seen off in Holland and Italy and the landslide victory for Macron in France. This more stable political outlook should make for a good backdrop for confidence, supporting business and consumer spending. The UK looks rather more uncertain; there is some debate within the Monetary Policy Committee about the timing of rate rises, with some members favouring raising rates sooner following surprisingly good data following the Brexit referendum, whilst others remain concerned about the waning strength of the consumer in the face of higher prices. We believe it is right to be cautious on growth in the UK domestic economy; the political outlook is now even more uncertain since the June general election, with the Conservatives relying on a loose coalition to remain in government which has weakened the government's position in negotiations and legislature. This uncertainty may impact business and consumer confidence, reducing investment and spending. Exports should provide a source for growth, particularly with Sterling at relatively low levels vs other currencies. However, the one theme which unites all central banks is that monetary tightening will remain tentative and monetary policy still remains highly accommodative and supportive of growth.

Wage growth remains an issue for central banks; despite strong job creation and low unemployment, wage growth remains stubbornly low. In the UK, after inflation is taken into account, average real earnings growth has been negative for some time. In the US, wage growth remains muted although inflation is lower. Nonetheless, where the consumer accounts for a large proportion of global GDP, low wage growth will prevent inflationary pressures becoming embedded. A low oil price also reduces inflationary pressures, hence negating the need to raise interest rates aggressively; despite actions by OPEC to reduce oil output to increase the oil price, it has remained under pressure as output by non-OPEC countries continues to rise. In particular, the US shale producers have reduced costs and are profitable even at relatively low oil prices. This is positive for oil consuming countries, where cheaper commodities reduce costs of production. In particular, Asia and Japan are well placed to benefit, with only Malaysia a net oil exporter.

Thus, with a backdrop of generally good economic growth, we remain positive on equities although global indices have enjoyed a prolonged period of gains despite a more uncertain geopolitical environment. It is likely that markets will suffer periods of short term volatility as geopolitical events unfold, including the UK/EU Brexit negotiations. Those stocks which can benefit from global growth continue to remain well supported, but there are opportunities within 'value' stocks which have underperformed for some time, hence we continue to favour a balanced portfolio which includes exposure to both attributes. In the face of rising rate expectations, returns from Fixed Interest holdings are likely to remain muted but nonetheless provide an attractive yield and diversification away from equities.

# IFSL AMR Diversified Portfolio

FINANCIAL MANAGEMENT

*31 December 2016 to 30 June 2017*

## Objectives & Investment Policy

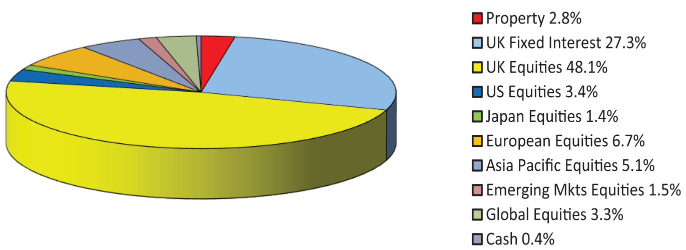
The objective of the fund is to provide income with prospects for capital growth over the long term, 5 to 7 years.

The fund will invest in a diversified spread of asset classes, both directly and/or via collective investments, including some or all of UK and overseas equities, fixed interest securities, property, deposits, cash and near cash.

## Portfolio Manager's Comments

Performance of the portfolio was very positive over the period, with returns coming from a broad range of sources. Within the overseas holdings, excellent gains were seen from the European funds, in particular J P Morgan European Income. The portfolio's Asian holdings performed very well, with Schroder Asia Total Return of particular note. Elsewhere, CC Japan Income and Growth Polar Capital Technology Trust made good gains, but returns from the US holdings were more muted. The property funds made a good contribution to overall returns, with both Schroder Real Estate and TR Property making double digit gains. Fixed Interest holdings all made modest positive total returns, driven by better economic data despite fears of higher interest rates. In UK direct equities, holdings in large multinational companies contributed positively, with good gains from Unilever, Reckitt Benckiser and RELX. AstraZeneca performed very well following US regulatory approval for a key new cancer drug. British Land and Land Securities underperformed on fears that property values may be affected by a weaker UK domestic economy, although Segro made good gains following its acquisition-led rights issue. Utility holdings such as United Utilities, National Grid and SSE gave up some of the gains of previous periods, as stocks sensitive to bond yields fell. Nonetheless, we continue to see them as a source of dependable yield. BT Group fell following poorly received results despite a 10% increase in its dividend. Over the period, we made a number of changes to the portfolio. We took part in two IPOs; firstly, the LXI REIT fund, which invests in properties let on long-dated and index-linked leases which has an attractive and inflation protected yield, and also the Jupiter Emerging and Frontier Income Trust, an income and growth strategy investing in emerging markets. These were funded by partial sales of Unilever, Segro, RELX and BT to reduce their stock specific weight, along with sales of Morgan Stanley India and Lazard Emerging Markets.

## Current Asset Allocation




## Charges

Estimated Ongoing Charge (OCF) – 1.38%

## Top Ten Holdings – 30 June 2017

| | % |
|---|---|
| Artemis High Income | 4.4 |
| Jupiter Strategic Bond | 4.3 |
| M&G Strategic Corporate Bond | 3.9 |
| Fidelity Extra Income | 3.7 |
| M&G Optimal Income | 3.7 |
| Vanguard FTSE UK Equity Income Index | 3.1 |
| Vanguard UK Investment Grade Bond Index | 2.9 |
| Fidelity European Values Ord GBP 0.025 | 2.6 |
| Vanguard US Equity Index | 2.4 |
| Perpetual Income & Growth Inv Trust Ord | 2.4 |
| **Percentage of Portfolio** | **31.0** |

## Portfolio Performance Report

| | *31/12/16 – 30/06/17 %* | *30/06/16 – 30/06/17 %* |
|---|---|---|
| IFSL AMR Diversified Portfolio | + 7.65 | + 16.41 |
| UT Mixed Investment 20%-60% Shares | + 4.09 | + 11.64 |

Please note that 5 years' performance data is currently not available for this fund, as the fund was launched on 12 October 2015.

*Sources: FE Analytics. The performance information is calculated using a single pricing method, net distributions reinvested.*

***It is important to remember that the value of investments and the income from them can fall as well as rise. Past performance is not necessarily a guide to future performance. Investors may not get back the amount invested.***

## Note

This fund is an authorised open ended investment company. See the Notice To Investors overleaf. Investors must read the Key Investor Information Document (KIID) prior to investing. This and other information can be obtained from IFSL at Marlborough House, 59 Chorley New Road, Bolton BL1 4QP. Tel 0808 145 2501 www.ifslfunds.com.

IFSL AMR Diversified Portfolio is managed by AMR Financial Management Ltd. Investment Fund Services Limited (IFSL) is the Authorised Corporate Director. IFSL and AMR are authorised and regulated by the Financial Conduct Authority.

## Key Indicators

| Equity Market Indices (£ Total Return) | % change six months | % change 2016 | % change 2015 | % change 2014 | % change 2013 | % change 2012 | % change 2011 |
|---|---|---|---|---|---|---|---|
| UK – FTSE All Share | + 5.50 | + 16.75 | + 0.98 | + 1.18 | + 20.81 | + 12.30 | – 3.46 |
| UK – FTSE 100 | + 4.69 | + 19.07 | – 1.32 | + 0.74 | + 18.66 | + 9.97 | – 2.18 |
| UK – FT Mid 250 | + 8.53 | + 6.66 | + 11.17 | + 3.66 | + 32.27 | + 26.11 | – 10.06 |
| UK – FT Small Cap | + 10.17 | + 14.29 | + 9.17 | + 0.89 | + 32.77 | + 27.82 | – 12.53 |
| USA – Dow Jones IA | + 4.02 | + 38.96 | + 6.02 | + 16.89 | + 27.25 | + 5.40 | + 9.19 |
| US – S&P 500 | + 3.70 | + 32.67 | + 6.58 | + 20.02 | + 29.10 | + 10.16 | + 2.23 |
| US – Nasdaq | + 9.12 | + 31.11 | + 11.04 | + 21.90 | + 37.50 | + 12.30 | – 0.10 |
| EU – FTSE Europe ex UK | + 12.74 | + 16.32 | + 9.54 | – 0.92 | + 26.00 | + 19.11 | – 15.54 |
| Japan – Nikkei 225 | + 3.49 | + 24.62 | + 13.29 | + 0.10 | + 26.90 | + 4.59 | – 13.02 |
| Asia – FT AW Asia Pac ex Japan | + 14.22 | + 26.88 | – 3.52 | + 9.74 | + 1.51 | + 15.90 | – 15.97 |
| Emerging – FT AW Emerging | + 9.18 | + 35.43 | – 10.31 | + 7.87 | – 5.29 | + 12.76 | – 18.36 |
| Global – FT AW World | + 6.29 | + 29.56 | + 4.04 | + 11.30 | + 21.03 | + 12.00 | – 6.57 |
| ***Unit Trust Sectors (£ Total Return)*** | | | | | | | |
| Mixed Inv 0%-35% Shares | + 2.70 | + 8.28 | + 0.20 | + 4.98 | + 4.17 | + 6.20 | + 1.18 |
| Mixed Inv 20%-60% Shares | + 4.09 | + 9.90 | + 1.12 | + 4.82 | + 8.57 | + 8.12 | – 1.90 |
| Mixed Inv 40%-85% Shares | + 5.30 | + 13.11 | + 2.31 | + 4.76 | + 13.77 | + 9.60 | – 5.62 |
| Flexible Investment | + 5.69 | + 13.54 | + 2.04 | + 5.00 | + 14.43 | + 10.02 | – 8.38 |
| UK All Companies | + 7.24 | + 10.71 | + 4.86 | + 0.46 | + 25.96 | + 14.96 | – 7.36 |
| Uk Equity Income | + 6.64 | + 9.05 | + 5.18 | + 2.81 | + 25.18 | + 13.61 | – 3.18 |
| UK Smaller Companies | + 13.97 | + 7.70 | + 14.68 | – 1.89 | + 37.17 | + 22.08 | – 8.82 |
| Asia Pacific ex Japan | + 14.22 | + 26.88 | – 3.52 | + 9.74 | + 1.51 | + 15.90 | – 15.97 |
| Europe Excluding UK | + 12.74 | + 16.32 | + 9.54 | – 0.92 | + 26.00 | + 19.11 | – 15.54 |
| Global Emerging Markets | + 12.69 | + 31.71 | – 10.47 | + 2.37 | – 4.06 | + 12.64 | – 18.73 |
| Japan | + 6.27 | + 23.88 | + 16.08 | + 0.66 | + 26.20 | + 3.37 | – 11.69 |
| North America | + 2.66 | + 31.15 | + 4.64 | + 17.63 | + 30.41 | + 6.32 | – 1.68 |
| Global Equity Income | + 5.99 | + 22.51 | + 2.11 | + 6.97 | + 20.74 | + 10.55 | – 2.78 |
| Global | + 7.19 | + 22.27 | + 3.09 | + 6.99 | + 20.68 | + 10.24 | – 9.14 |
| Technology & Telecoms | + 13.49 | + 25.05 | + 8.15 | + 14.40 | + 28.32 | + 10.60 | – 3.95 |
| Property | + 2.60 | + 5.54 | + 5.25 | + 12.01 | + 5.94 | + 9.61 | – 4.39 |
| Targeted Absolute Return | + 2.02 | + 0.02 | + 2.66 | + 3.01 | + 6.32 | + 3.09 | – 1.21 |
| Sterling Corporate Bond | + 2.76 | + 8.55 | – 0.41 | + 9.25 | + 0.48 | + 12.82 | + 4.10 |
| Sterling High Yield | + 3.92 | + 9.81 | – 0.45 | + 1.40 | + 6.49 | + 19.08 | – 3.15 |
| Sterling Strategic Bond | + 2.92 | + 6.91 | – 0.43 | + 5.76 | + 3.32 | + 13.67 | + 2.02 |
| Money Market | + 0.07 | + 0.25 | + 0.04 | – 0.02 | + 0.08 | + 0.15 | + 0.18 |
| UK Gilts | + 0.09 | + 10.03 | – 0.36 | + 12.62 | – 4.96 | + 1.65 | + 14.61 |
| UK Index-Linked Gilts | – 0.70 | + 21.64 | – 1.32 | + 17.31 | – 0.43 | + 0.09 | + 18.59 |
| Global Bonds | + 1.18 | + 12.69 | – 1.30 | + 4.08 | – 2.86 | + 6.06 | + 2.68 |
| Global Emerging Market Bond | + 3.45 | + 23.95 | – 3.71 | + 4.59 | – 9.58 | + 12.10 | – 0.81 |

*Sources: FE Analytics, returns in Sterling unless otherwise stated, net income reinvested.*

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## AMR Financial Management Ltd

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AMR Financial Management Ltd is authorised and regulated by the Financial Conduct Authority.

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