TRUE INSIGHT

True Potential Portfolios | Issue 5

A Glimpse into the Future

Inflation, interest rates and a new US President. What has 2017 got in store and what will it mean for your investments?

true potential investments

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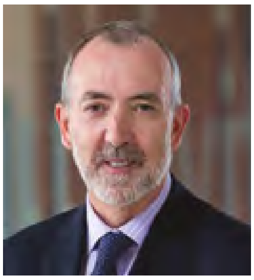


A WORD FROM OUR CHIEF INVESTMENT OFFICER

Most of us probably identify with the idea of objective truth. This is what is observable, evident and present. It's what we refer to as the 'facts'. Across financial markets, however, we encounter multiple perspectives where different truths are formed, for example:

- **Normative truth** – where culture dominates a group;
- **Subjective truth** - what we as individuals choose to believe; and
- **Intersubjectivity** - group thinking and a tacit understanding of what serves the group best.

At True Potential Investments, we have our own four truths. The 'truths' revolve around **cost, risk, return and timing** and are the essence of our True Potential Portfolios (TPP) investment proposition. We believe that:

- Excessive fund costs will eat into investors' returns and should be avoided;
- Risks are inevitable and require a rational risk-based approach;
- Returns cannot be predicted with exacting precision;
- Market timing, buying and selling with perfect foresight, is not at the disposal of mere mortals.

Twenty percent of financial advisers across the UK use our services and we have over two million clients. This leadership in distribution allows us to lower fund costs and to do so exclusively for investors using our funds.

Our relationship with independent investment research company, Morningstar, helps us set out a clear risk and return framework, allowing investors greater insight into what risks they face.

We are advocates for a diversified approach using multi-asset investing because selecting the asset classes with best returns consistently every year may be impossible. By extension, picking the best and avoiding the worst manager is equally difficult. This is why we pioneered Advanced Diversification, promoting the use of different investment styles in the portfolios that our clients have invested £2bn in since we launched them, just over 12 months ago.

Our range of True Potential Portfolios represents a step change from single manager multi-asset investing. It improves the opportunity set giving clients access to a wider range of investments and different manager styles to seek better long term risk-adjusted returns. We are strongly in favour of regular saving and investing, encouraging investors with long term goals to look on uncertainty as an opportunity not a threat.

Our world-first mobile top-up technology, impulseSave®, increases the flexibility to exploit uncertainty in a convenient manner in an increasingly digitised world.

In this edition we provide as much useful information as we can about a wide range of investment topics and, of course, the True Potential Portfolios. Politics is a big talking point in the media right now but inflation poses a clear threat to future wealth preservation.

Despite history highlighting the dangers of inflation, central bankers are currently keen on creating it because in their eyes deflation creates a very different set of challenges. They know that high debt levels evident today cannot be serviced adequately out of income if tomorrow's income levels fall through deflating prices. Pushing prices up is an antidote.

It is also interesting how markets fixate on a few key issues at a time while others shift out of the spotlight. For example, talk of China has receded from the main headlines but the risks associated with too much debt in China alongside their slowing economy have not magically disappeared. No one knows whether or not a large devaluation of their currency can be avoided.

All of this highlights the importance of Advanced Diversification because even if risks have disappeared from the headlines you can be reassured that our managers have not forgotten about the threats and that they are constantly looking for the new opportunities.

Colin Beveridge, Chief Investment Officer.

PERFORMANCE UPDATE

The True Potential Portfolios are a suite of fully-diversified, discretionary-managed investment solutions. With wide exposure to world-class investment managers, as well as diversifying investment by asset class and geographic region, our clients benefit from having more potential to grow their money and manage volatility, all in one Portfolio.

And, as we're committed to helping our clients reach their financial goals, we continually monitor our Portfolios to make sure they perform as expected and remain within the chosen risk profile. We also rebalance for the future, rather than the past, taking an active approach to allocating your money where we see the greatest potential for growth. We call this approach 'Advanced Diversification'. The results below show the performance of each portfolio between January 2016 and December 2016.

Portfolios	Since launch*	Last 12 months**
DEFENSIVE	8.87%	7.90%
CAUTIOUS	13.31%	11.03%
CAUTIOUS +	12.52%	10.09%
CAUTIOUS INCOME	13.96%	11.46%
BALANCED	17.53%	13.83%
BALANCED +	18.25%	14.22%
BALANCED INCOME	16.45%	13.41%
GROWTH	21.69%	16.39%
GROWTH +	19.24%	13.84%
AGGRESSIVE	24.21%	17.70%

* 1 October 2015 to 30 December 2016
** 1st January 2016 to 30 December 2016

With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance.

REVIEW OF THE MARKETS: Q4 2016

If 2016 taught us one thing, it is that we live in interesting times that are increasingly hard to predict. The US election, Italian referendum, EU referendum and a myriad of other challenges have left markets and investors pondering the future.

Similar to the previous quarter, market returns in the final three months of 2016 were influenced by currency movements. Over the period Sterling appreciated 3.3% against the Euro but weakened 2.3% against the US dollar.

In the context of Global equities, where the majority of currency exposure is through the dollar, we can see a positive effect. Global equities rose by 2% in local terms but in Sterling the capital return was 4.2%, boosted by dollar strength against Sterling.

Higher risk assets over the quarter have performed reasonably well, with positive returns from most developed markets, but bonds went into reverse gear. The 10 year UK Government bond, which is a useful benchmark for bonds generally, drifted up from a historic low yield of 0.5% to 1.4%. When bond yields rise, prices fall, forming negative returns for bond investors in the very short term. However, when bonds mature they do so at face value giving investors who bought at issue price their money back.

The divergence in returns from equities and bonds is being fuelled by a shift in the growth and inflation outlook. A new presidency under Trump is expected to shift away from monetary policy in the form of central bank spending to a fiscal policy built on federal government spending and tax reductions.

In November, UK Chancellor Philip Hammond announced a calming of austerity, with measures targeting infrastructure and innovation investment. Meanwhile, Japan's Prime Minister, Shinzo Abe, also announced $45bn of fiscal stimulus in August. The intention is to deliver greater economic growth and provide optimism for stock markets.

The outcome of the US election saw equity markets drop initially before strongly recovering. At the sector level, Financials produced strong returns on prospects of de-regulation under a Trump presidency and on the back of strong third quarter corporate earnings results. Energy stocks also produced healthy returns from improving commodity prices.

In particular, the Oil and Gas sector received a boost in December as the Organisation of Petroleum Exporting Countries, (OPEC), agreed a deal to curtail oil supply - its first limit on oil output since 2008.

Agreement from some non OPEC members like Russia and Mexico sent the price above $55, a gain of over 20% since the announcement.

Investors have been surrounded by a cocktail of political and economic events, which continue to shape markets. Regardless of the outcomes which many feared, markets have continued to be resilient and provide investors with attractive returns.

We set out in this edition many of the aspects that investors are thinking about for 2017 and despite the risks there are also many reasons for optimism. Continued support from central banks and pro- growth government strategies should be constructive for investors wanting this cycle to be prolonged and durable.

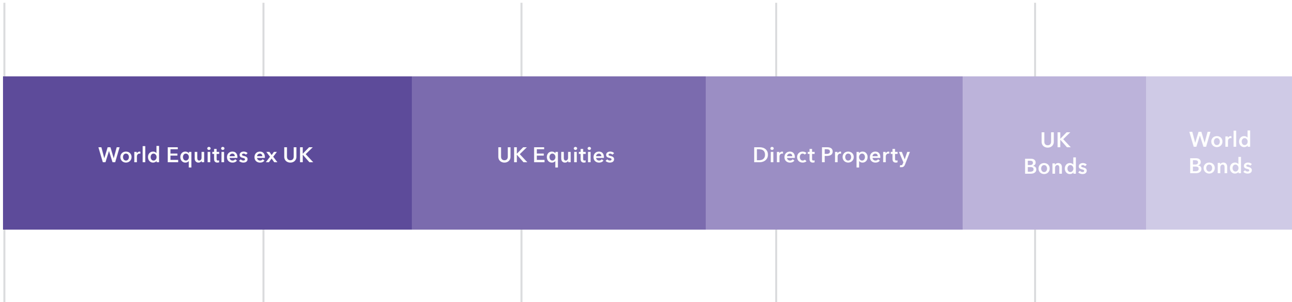
By holding well-diversified portfolios, investors will help dampen some of the price volatility that is inevitable.

INVESTMENT OUTLOOK

At True Potential, we partner with some of the world's best known fund managers. We ensure UBS, Goldman Sachs, Allianz, Schroders, SEI, Seven Investment Management, Close Brothers and Columbia Threadneedle have a clear goal: to help you reach yours.

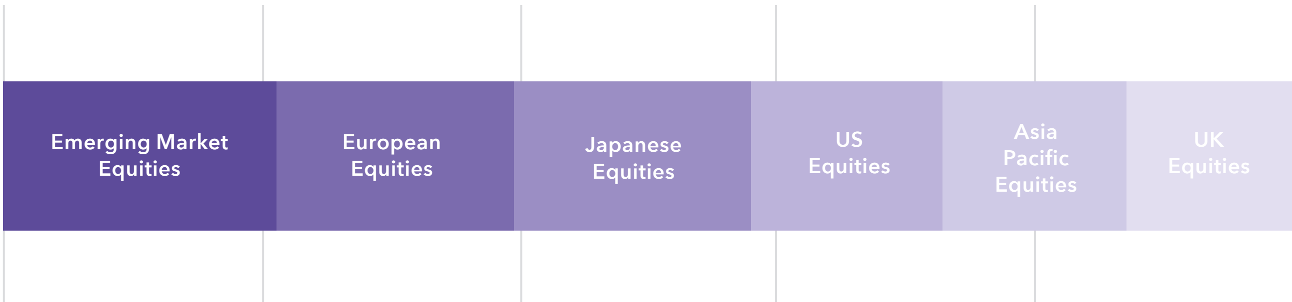
For this edition of True Insight, we asked our fund manager partners for their predictions for the year ahead and where they believe the best potential for returns may be. These opinions will change and evolve over time and should not be taken as advice.

Which asset class do you think will perform best in 2017?



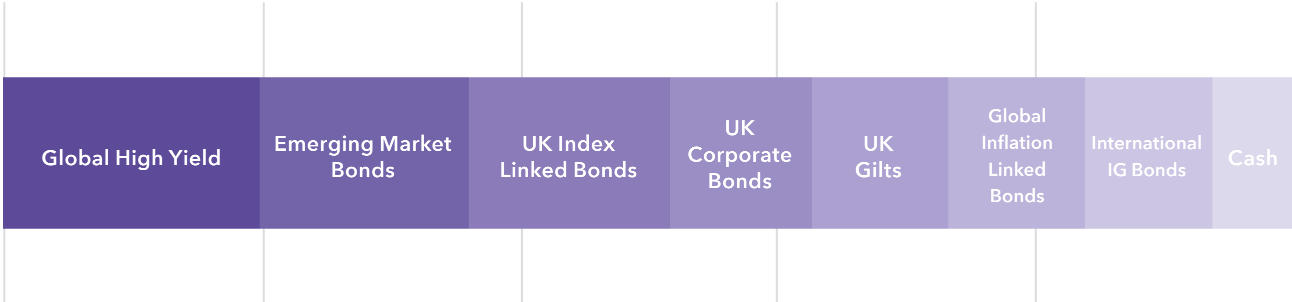
Uncertainty over how the UK's departure from the EU will play out is prompting managers to favour overseas markets. Any recovery in Sterling is likely to make UK equities more expensive for overseas investors and this is also undermining confidence while the prospect of rising interest rates, globally, has made bonds around the world unpopular.

Which equity market will be most popular among investors in 2017?



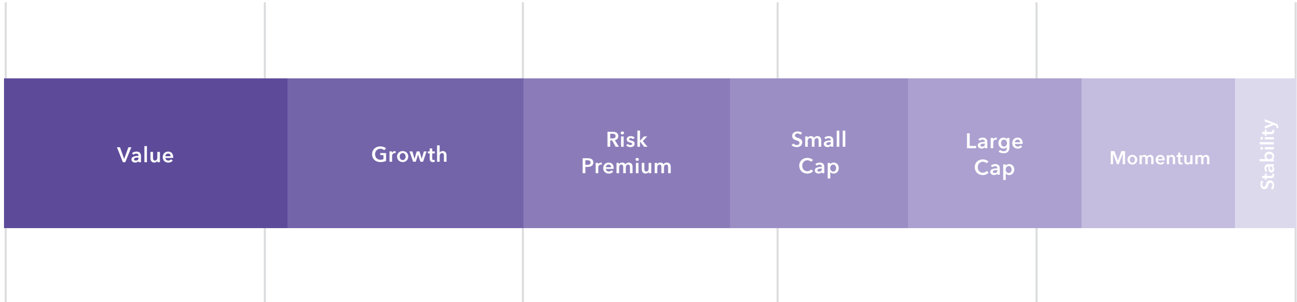
As Central Banks around the world begin to withdraw liquidity from global markets, attention will once again focus on traditional growth drivers. With stronger growth, less debt and healthier demographics the Emerging Markets are regarded as offering the greatest potential for growth, albeit with higher levels of volatility.

Which type of bond do you think will perform best in 2017?



The United States has already edged up interest rates which in turn has fed through to dollar denominated Global High Yield and Emerging Market bonds making them more attractive than jurisdictions where interest rates remain at depressed levels.

Which type of investment style do you think will perform best in 2017?

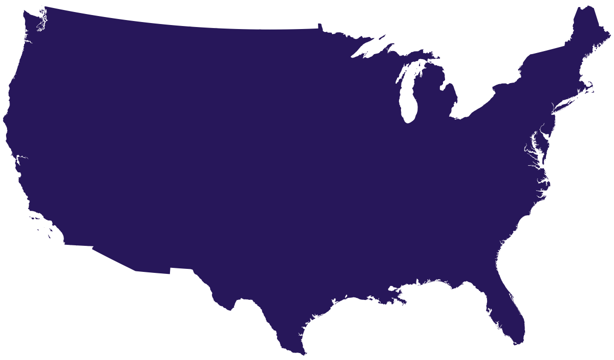


With real growth being harder to come by in the years ahead, investors are turning to 'Value' situations, those unloved companies that may have underperformed for one reason or another, where they perceive a clear gap between the intrinsic worth of a company and the value placed upon it by the stock market. Conversely, the large, multinational, blue chip companies that benefitted most from the Quantitative Easing cash injection are seen as potentially vulnerable as this monetary stimulus is gradually withdrawn.

GLOBAL ECONOMIC OUTLOOK

After looking at individual investment categories and the return potential of each one, we asked our fund manager partners about interest rates, bond yields, currency and inflation globally in 2017.

Their analysis of trends and external factors has led to a wide range of views, indicating uncertainty about the outlook.



UK

Current Rate	Fund Manager Predictions
Interest rates (0.25%)	0% - 0.5%
10 year bonds (1.38%)	0.5% - 3.5%
Inflation CPI (0.9%)	0.9% - 2.5%

The results here are really interesting because it indicates that managers' views encapsulate the possibility of interest rates falling to zero, but with little prospect that rates will rise much at all from current levels.

However, the scope for bond yields to rise and for inflation to rise is much more significant. The inference is that cash savers may be about to suffer even more pain in inflation adjusted terms with the Bank of England exercising restraint even though inflation could rise.

US

Current Rate	Fund Manager Predictions
Interest rates (0.5 - 0.75%)	1.0% - 1.5%
Inflation CPI (1.7%)	1.6% - 2.5%

For the US, our managers expect inflation to rise higher, towards the Federal Reserve's target of 2%, with low unemployment and pressure for higher wages the primary drivers. Expectations are that this will give the US Federal Reserve the confidence to raise interest rates further, which our results support.

Rising interest rates signal a strengthening of the US economy, which is gathering momentum and is expected to prosper from further stimulus if Trump implements his planned tax cuts. The knock-on effect from higher US interest rates will be higher bond yields, which would be welcomed by income investors.

Eurozone

Current Rate	Fund Manager Predictions
Interest rates (0.0%)	0%
Inflation CPI (0.9%)	0.6% - 1.5%

Unlike the UK and US, the consensus is for interest rates in Europe to stay at 0%, an indication that our managers feel the region needs further economic growth, which is being stimulated by the ECB's current Quantitative Easing program.

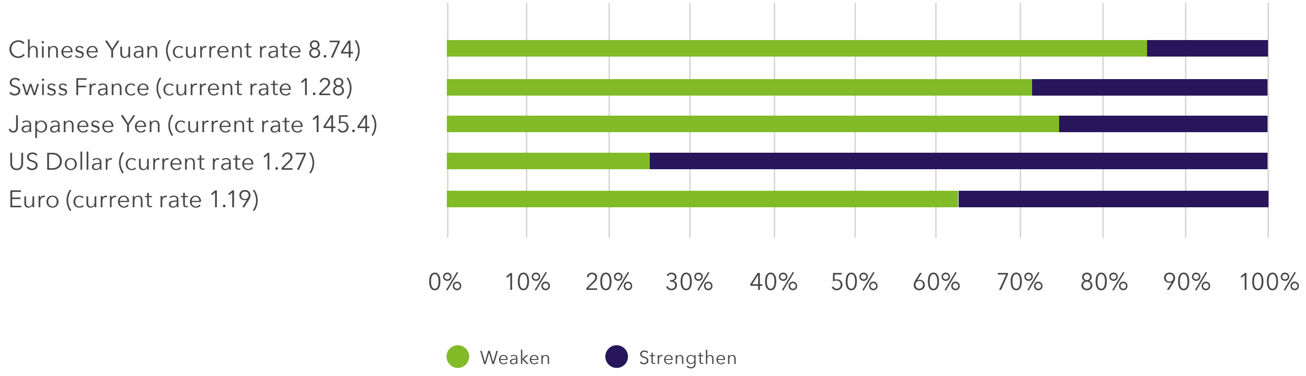
The forecasts for inflation indicate that it will remain relatively stable but does have the potential to drift up or down marginally. Relative to the UK and the US, the potential for rising bond yields looks to be more subdued with political risk dominating investor sentiment.

Japan

Current Rate	Fund Manager Predictions
Inflation (0.1%)	0.1% - 1%

Inflation represents the central plank of Government policy. However, our managers anticipate that price rises will remain subdued and will not gain much traction. One area that is particularly difficult to forecast accurately is the movement of currencies. Multi asset funds invest internationally making this a very important decision to get right. We asked our managers about their views on major currencies and how Sterling is expected to perform this year. As you can see from the table on the next page, the only area where managers expect Sterling to depreciate is against the US dollar.

Currencies (2017 Expectations)



Currencies are notoriously hard to predict and are subject to innumerable variables ranging from trade flows to capital flows, interest rate policies to inflation forecasts, and geopolitical events to foreign exchange speculation. However, the consensus of opinion is that, having fallen significantly in the aftermath of the Brexit vote in June, Sterling should rebound against the currencies of China and Japan, the Swiss Franc and the Euro.

With the election of Donald Trump in the United States the Dollar is expected to appreciate against the Pound in response to forecasts that under his Presidency interest rates will go up and the economy should enjoy a boost from pro business policies and increased spending on infrastructure.

Themes for 2017

Finally, we asked our managers to list some broader aspects where multi asset investing will present opportunities and areas where they are looking to guard against threats.

Threats:

- Expectations surrounding US fiscal spending prove disappointing.
- Currency crisis in the Eurozone caused by Italian Banking Crisis.
- Trade tensions between the US and its major trading partners.
- Political and geopolitical risks – unexpected election results in France, Italy or Germany.
- Unexpected monetary tightening in the US or Europe as inflation targets are achieved.

Opportunities:

- Fiscal expansion, tax cuts and infrastructure spending in the US.
- Continued supportive monetary policy globally by central banks.
- Eurozone continues to heal.

The information contained in this publication does not constitute a personal recommendation and the investments referred to may not be suitable for all investors. Opinions, interpretations and conclusions represent the fund managers' predictions as of this date and are subject to change. The forecasts in this article should not be relied upon as an indicator of future performance.

DONALD'S TRUMP CARD

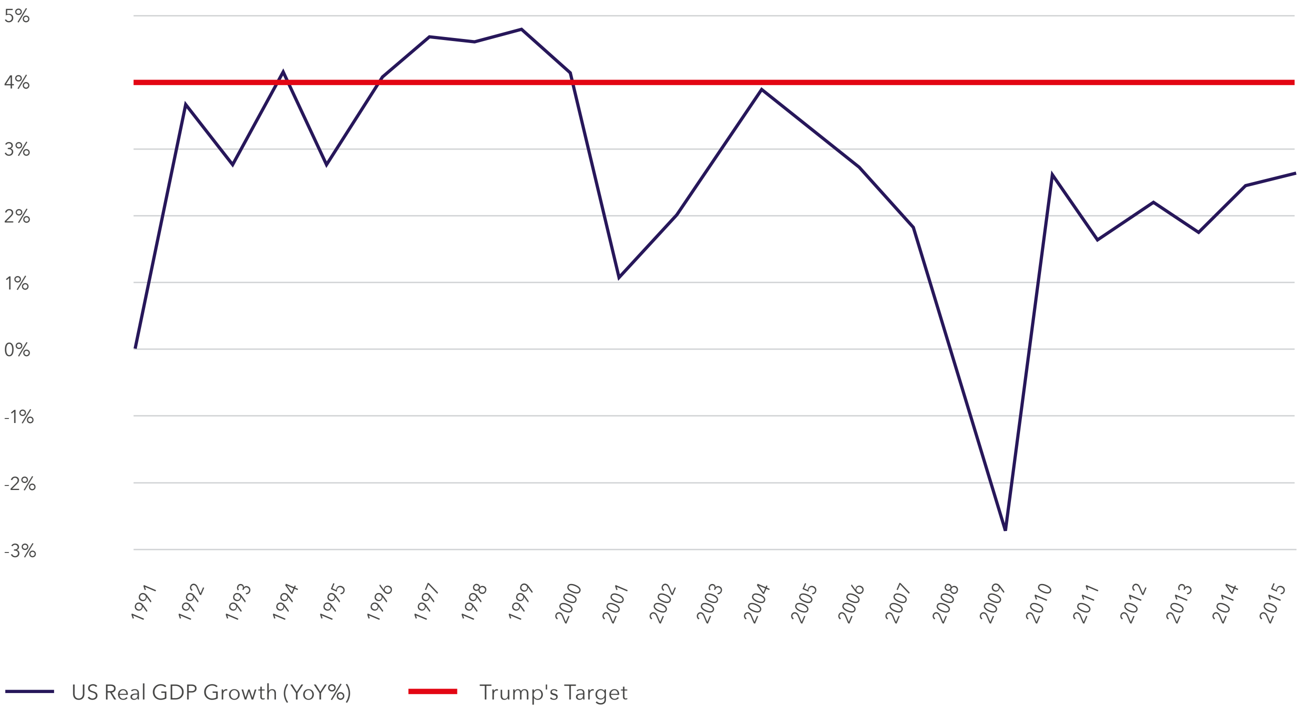
It has been said that the media interpreted Mr Trump literally and failed to take him seriously. This has changed dramatically. Financial media commentators and professional investors are now focusing on his policy initiatives and they are taking him very seriously.

Donald Trump begins his presidency with possibly the highest controversy ratio around topics that inflame passions, such as immigration and climate change. For investors, the main focus will be on his economic aims.

Republican values are synonymous with cutting taxes and being business friendly, and so are generally assumed to favour investors. The real GDP growth target of 3.5% on average with the potential to reach 4%, stated by Mr Trump, represents higher activity than has been experienced in recent times. It is very ambitious for a developed economy that is mature relative to the likes of China.

In order to deliver this key policy initiative, the new president will need his trump card - a fiscal (tax) stimulus, led by cuts in corporate taxes and increased infrastructure spending.

US Real GDP Growth (YoY%)



Source: Bloomberg, 14 December 2016

What will be the effects of Trump's fiscal stimulus?

The general view, supported by our fund manager partners, is that US construction and engineering companies will be principal beneficiaries of increased infrastructure spending.

It is also expected that commodity prices (such as copper and aluminium) will pick up due to higher demand.

There is little doubt that the USA has underinvested in infrastructure and one estimate suggests that 60,000 bridges are in need of repair otherwise they are at risk of collapse.

The estimated $1.5 trillion fiscal stimulus package envisaged is not just about spending tax revenues or spending money that is borrowed, the other initiative is to cut corporate taxes to encourage businesses to spend and invest. Tax rates as low as 15% for businesses have been mooted.

One of the aims of lowering the corporate tax rate is to lure back big multinationals such as Apple, Cisco, Google or Johnson & Johnson, something previous administrations have struggled to achieve.

Most of their profits are reported overseas in countries that offer corporate tax-free shelters and then they bring home these cash balances by purchasing government bonds such as US Treasuries.

For example, most of Apple's $216 billion in overseas profits are sent to its subsidiaries in Cork, Ireland, despite the headquarters being in the US. Then Apple's investment firm (Braeburn Capital) is buying US Treasuries which generate interest payments that flow back to Irish accounts.

Emerging markets exporting goods to the US are obvious beneficiaries of a thriving US economy.

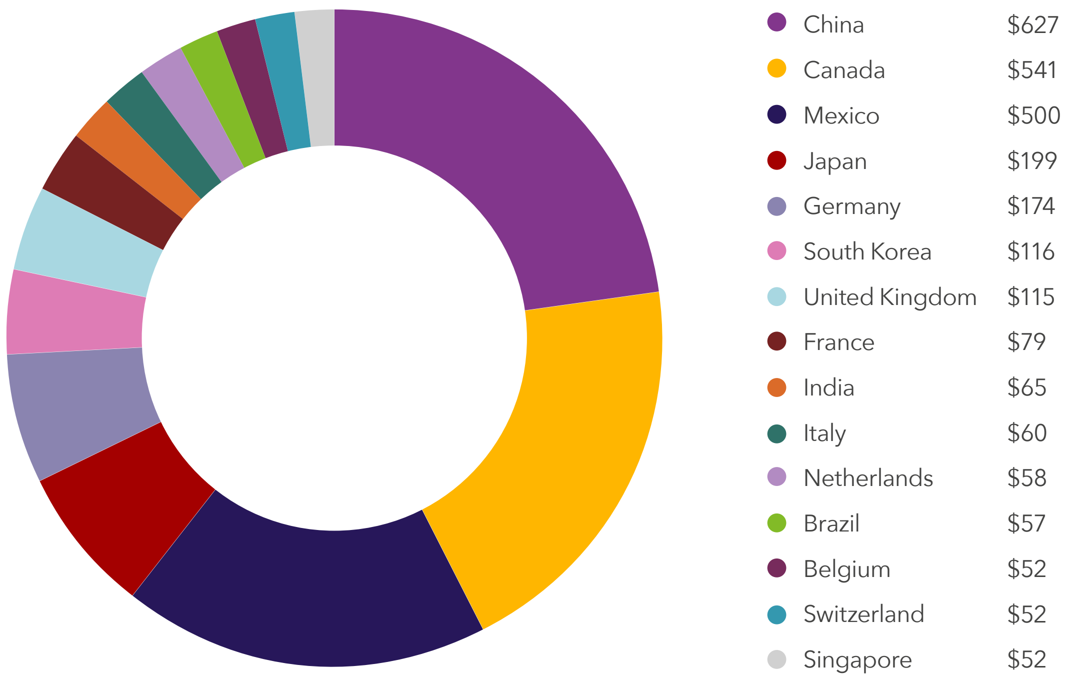
The table below highlights the extent to which the US conducts trade with its major trading partners, and the numbers are huge. However, there is now a catch in the form of a threat to impose tariffs on goods in areas where American jobs are at risk. No one knows just what is at stake with this bargaining chip but Donald Trump is a businessman and his views may be adjusted as time passes.

The extent to which the US will continue to act as a growth transmission mechanism to the rest of the world is a very interesting and demanding proposition for investors to contemplate.

It is complicated by concerns that rhetoric favouring an inward looking US could harm global growth. Nevertheless, there is an increasing consensus towards inflationary pressures building.

We show on the next page the switch across sectors already underway favouring cyclical areas such as Energy, Materials, Banks and Consumer Discretionary over the more defensive stable areas like Health Care, Consumer Staples and Utilities.

US Trading Partners (Total Trade $B)



Source: Bloomberg, 14 December 2016

MSCI US Sector Total Return since US Election

Sector	Return
Banks	23.16%
Energy	8.98%
Materials	5.86%
Consumer Discretionary	3.84%
Health Care	1.24%
Consumer Staples	-1.17%
Utilities	-0.22%

Source: Bloomberg (Performance between 8 November 2016 - 31 December 2016)

SUMMARY

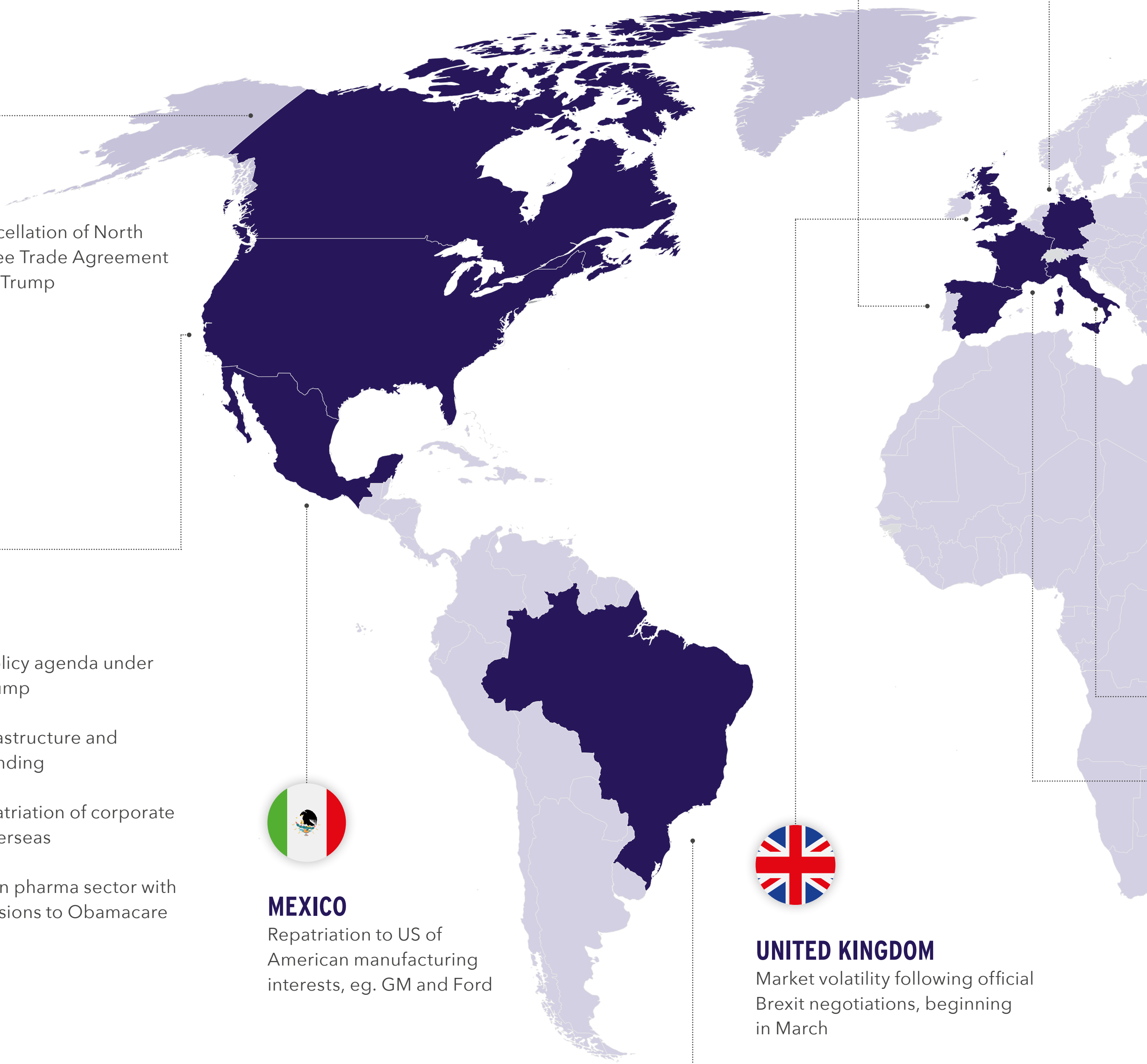
Donald Trump has ambitious plans to **'Make America Great Again'** through lower taxation, plans for increased investment and less emphasis on regulation to get the job done.

Some of our managers have been repositioning to take advantage of these pro-growth initiatives and many of our managers already hold assets that are inflation linked, such as inflation linked bonds or infrastructure assets with inflation linked pricing contracts.

Agility, investment expertise and an ability to take rational risk-based judgements are now more important than ever for investors.

WORLD OF INFLUENCE

The global factors that could affect your wealth in 2017.



CANADA

Possible cancellation of North American Free Trade Agreement by President Trump

USA

Emerging policy agenda under President Trump

Boost to infrastructure and defence spending

Possible repatriation of corporate cash held overseas

Uncertainty in pharma sector with possible revisions to Obamacare

MEXICO

Repatriation to US of American manufacturing interests, eg. GM and Ford

UNITED KINGDOM

Market volatility following official Brexit negotiations, beginning in March

Improving economy

Rising inflation

Interest rates remain at an historic low but are expected to rise

BRAZIL

Falling oil price and impeachment of Brazilian President leave the country politically unstable and economically fragile

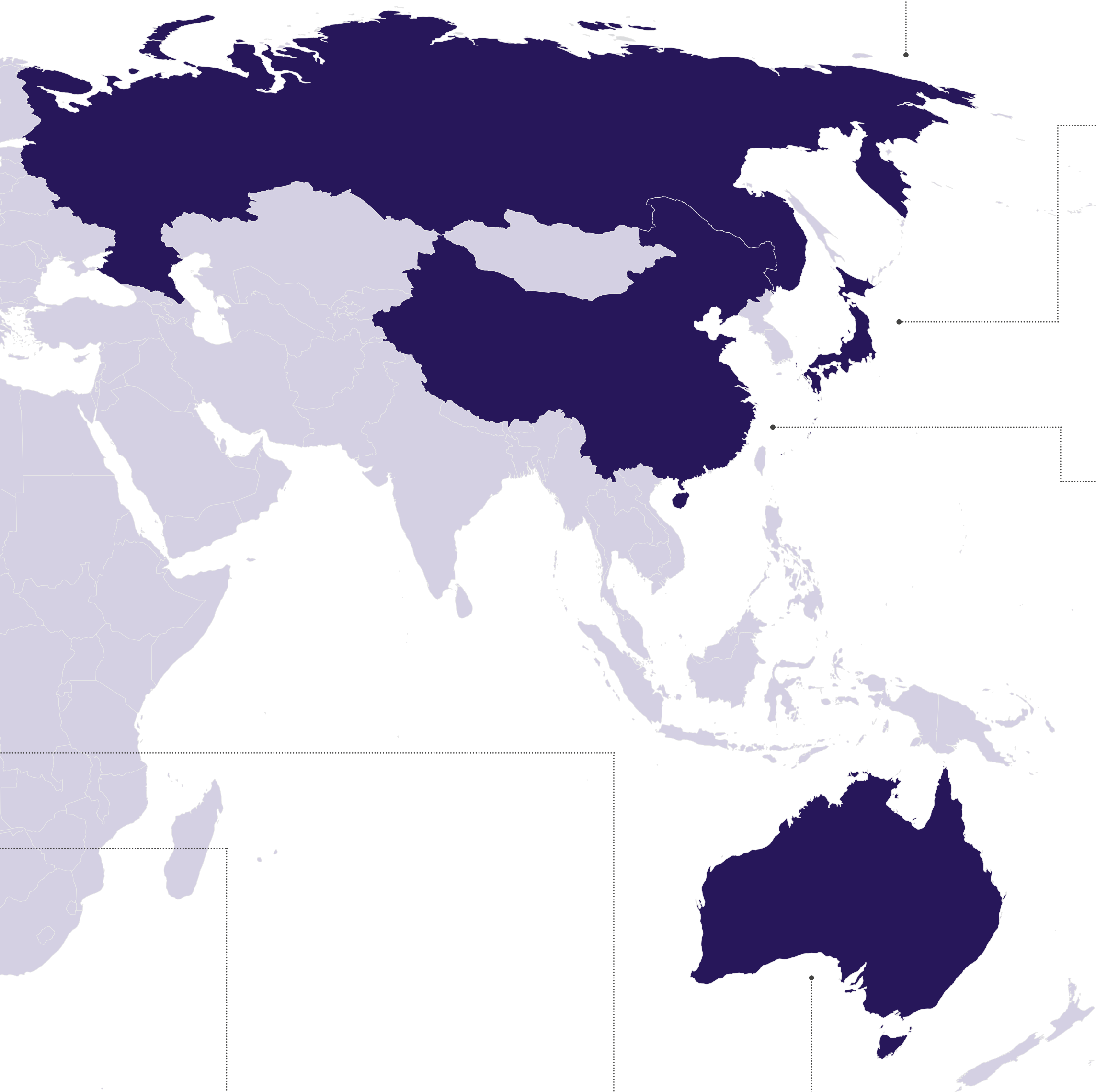
SPAIN
Economic recovery and strong job creation

GERMANY
German federal elections by 22nd October

Strong economy but Angela Merkel remains under pressure due to domestic immigration policies

RUSSIA
New relationship with US under President Trump

Economy continues to be negatively affected by low oil price



JAPAN
Politically stable and supported by continued Quantitative Easing

CHINA
Potential tension with US as Trump reviews trade agreements

FRANCE
French presidential elections (7th May)

Increasing influence of parties opposed to the EU

ITALY
Continued political uncertainty following Italian referendum in December could further destabilise the EU

AUSTRALIA
Likely to benefit from increasingly self-reliant Asia-Pacific trading bloc

THE INVISIBLE FORCE ERODING YOUR WEALTH

Since the last edition of True Insight, the rate of inflation in the UK has risen from 0.9% to 1.6%.

But what is inflation and what does it mean? The simple answer is the increase in prices paid for goods and services in our economy. Measuring inflation accurately, however, and gauging its direction of travel, are both troublesome elements.

In the UK we use two different measures for examining inflation, Consumer Price Inflation (CPI) and Retail Price Inflation (RPI); the former excluding housing costs. From March 2017, the Office for National Statistics (ONS) will introduce a new measure that will include housing costs, which make up a large proportion of household expenditure. It will be termed CPIH.

The calculation of CPI and RPI differs. The method used for the former typically, but not always, produces a lower number.

Therefore, the authorities choose to use CPI and RPI differently and sometimes interchangeably. Currently, for example, successive governments have used the lower CPI number for setting our income tax allowances but applied the higher RPI number when raising excise taxes each year on tobacco and alcohol.

In the UK prices for goods and services get pushed and pulled by a range of factors, many of them global. If the value of the pound weakens or strengthens it will generally push up or push down prices respectively.

The international price of oil will directly and indirectly impact on inflation and domestically speaking the level of interest rates influences prices too.

These different components are compounded by supply and demand factors. Increasing the money supply can lead to rising demand for goods and services, pushing prices up. If we have ‘bottlenecks’ on the supply side the situation is exacerbated.

Often the most visible example of these forces at work is the fluctuating price we pay for petrol at the pump.

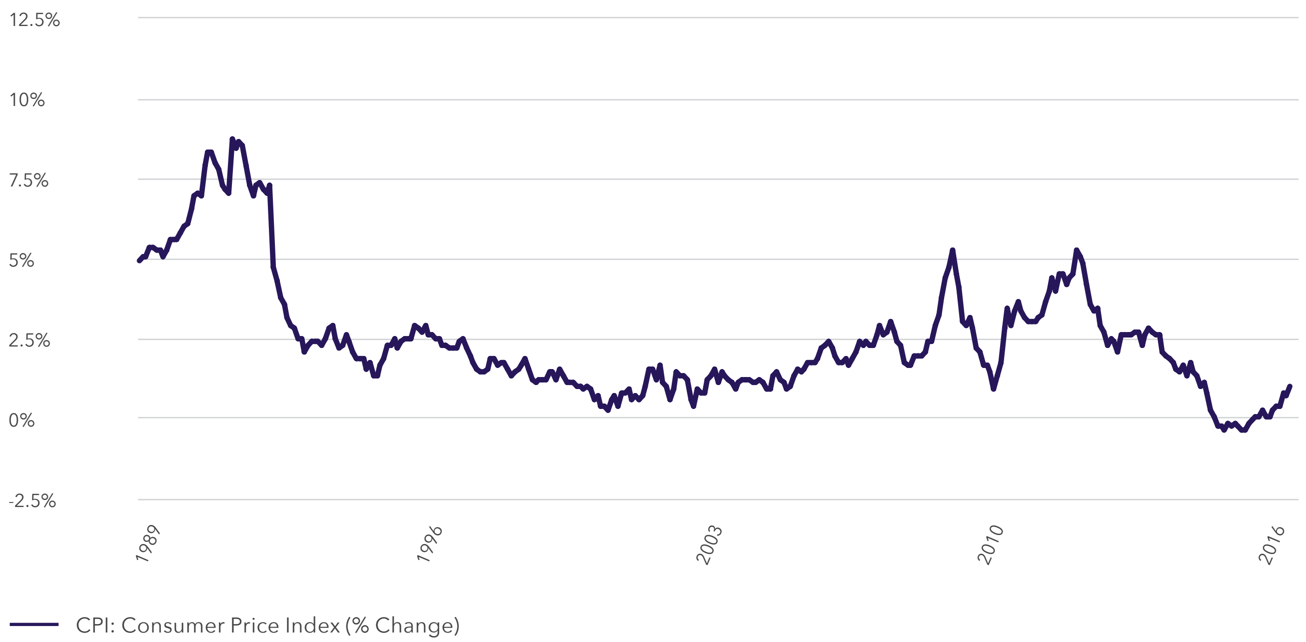
The chart below shows the inflation backdrop in the UK since the 1990s through to today. Inflation hit a peak of 8.5% in 1991.

It fell significantly and remained relatively muted into the new millennium, which some explain by reference to the twin effects of downward pressure exerted by better supply-side management of the economy and the effects of globalisation transferring lower prices from the developing to the developed economies.

Inflation rose again in the run up to the 2007/08 credit crisis, fuelled in large part by a boom in commodity prices.

It then collapsed after the credit crisis only to stage a recovery helped along by increased monetary stimulus (Bank of England cutting interest rates and buying bonds) and a subsequent boost in economic growth.

Consumer Price Index (YoY%)



Source: Office For National Statistics, Data as of 31 October 2016

With investing your capital is at risk. Investments can fluctuate in value and you may get back less than you invest.

Today, inflation is low compared to recent history, so what's the problem?

If we take cash deposits as an example, where an Easy Access Cash ISA offers at best 1.1% per annum. Currently, if you invest £100,000 today you will earn a return of £1,100 in a year's time.

However, if inflation is 2.8% at the end of next year, your return needs to be £2,800 to preserve spending power. The effects of inflation will have left a shortfall of £1,700.

The Bank of England (BOE) points to CPI of 2.8% and 2.7% in 2017 and 2018 respectively. This would mean that UK consumers may pay 5.58% more for the same basket of goods over a two-year time frame compared to what they are paying today.

This is, therefore, a crucial time for long term savers to reassess their perception of the risk and reward trade-off. To take advantage of growth opportunities in a world of heightened risks, diversification is more important now than ever.

The principle of Advanced Diversification, which forms the basis of our investment process, stratifies investment across a variety of fund managers, each with their own style and method of fund construction.

The strategies our managers employ are often only accessible to high or ultra-high net worth clients but we make them available to everyone.

The inflation journey will likely have many twists and turns that only professional investors can manage properly. When you hear and read bad news headlines, remember that every one of our managers is looking for an opportunity to exploit.


AT DOES
VE MEAN?
TELL ME ABOUT
ACTIVE INVESTING
WHAT IS AN
INDEX TRACKER?
ACTIVE OR PASSIVE
WHICH ONE?
WHY USE
TRUE POTENTIAL
PORTFOLIOS?
WHAT DOES
PASSIVE MEAN?

THE BEST OF BOTH WORLDS

You can tell when markets are enjoying an extended run because the Active versus Passive debate strikes up again.

Active investing is the researching of financial markets with the aim of picking those stocks that will outperform the wider market. In contrast, Passive investing involves tracking an index or market as a whole and is a lower cost "buy and hold" approach which aims to keep trading to a minimum.

The old argument has been given a new twist by the Financial Conduct Authority (FCA). In a 200 page report the regulator has found that while charges on passive trackers have come down markedly, fees on actively managed funds have not. This time the question is not so much which approach gives the best returns, (it depends upon the market) but more of a risk/cost based debate.

Traditional trackers attempted to recreate an established, recognisable index, for example the FTSE 100, but the problem with that was that from time to time the index got top heavy with certain sectors (20 years ago it was Utilities then Banks, then Oils, then Miners).

As the index went up and attracted more money, passive investing meant that a larger and larger proportion of that money went into the biggest companies until, inevitably, the bubble would burst. Investors in tracker funds found that, far from having a broadly diversified portfolio, they had 20% of their fund invested in a single sector that had collapsed.

FTSE 100 is still little changed from its 1999/2000 peak of 7000 when the FTSE 250 is up over 180%.

This flaw in index trackers has prompted a new strain of passive investments based not only on a more diverse range of assets (gold, silver, industrial metals, soft commodities, short dated gilts, long dated gilts, corporate bonds – pretty much anything). It has also spawned the whole new wave of 'Smart Beta' investing.

For example, it is possible to analyse the FTSE 100 and find the companies that over the last 10 years have exhibited the lowest volatility and then create an index that gives the biggest weighting to the least volatile.

Alternatively, you could screen the FTSE All Share Index for those companies that have increased profits or improved the dividend each year for the last 10 years, choose the best 100 and create an index around this selection.

This "Smart Beta" is passive investing but with active initial selection criteria. The benefit is that it gives you diversified exposure to a certain type of company.

Without the need to pay expensive analysts, the cost of passives can be brought right down and, particularly in an environment of lower returns, this is very attractive.

There are areas where, for various reasons, passive investing is proven to work (the US market) and areas where it does not work so well (the FTSE 100).

Given the plethora of passive options available, the lines between active and passive investing have become blurred and several of our active sub fund managers use passive instruments as a means of gaining exposure to particular markets or strategies they feel offer attractive opportunities.

The beauty of the True Potential Portfolios is that they combine the best attributes of both passive management (low cost, smart beta investment discipline) and active management (flexibility and management expertise) with the aim of providing the optimum investment outcome for the client.

One hopes that the FCA doesn't focus entirely on cost reduction but, rather, on ensuring investors get value for money.

THE SCIENCE BEHIND OUR PORTFOLIOS

We strive to ensure that our portfolios give the optimum performance by basing them on five equally-weighted portfolios, structured to fit into each TPI Morningstar risk categories.

For example, we offer eight funds within the Balanced category, therefore if no preference was given to one fund over another, an equally-weighted allocation to each fund would be 12.5%.

When we build our True Potential Portfolios, we tactically allocate away from the equally- weighted portfolios aiming for lower volatility, lower cost, higher expected returns and a better risk-adjusted return than could be expected from choosing an equal allocation.

	Defensive	Cautious	Balanced	Growth	Aggressive	Cautious +	Balanced +	Growth +	Cautious Income	Balanced Income
Risk (Volatility)	✓	✓	✓	✓	✓				✓	✓
Risk (Mapped)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Cost	✓	✓	✓	✓	✓		✓		✓	✓
Long-Term Expected Return	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Risk-Adjusted Return	✓	✓	✓	✓	✓	✓	✓		✓	✓
Income									✓	✓

With investing your capital is at risk. Investments can fluctuate in value and you may get back less than you invest.

Risk (Portfolios)

Risk is estimated using the asset composition of each Portfolio. We use 'standard deviation', a measure to show how volatile the portfolios are. Where the measure of standard deviation is higher, the more volatile we judge the portfolio to be. We construct separate portfolios for each of the five risk categories containing all of the funds mapped to that risk category. When we optimise these Portfolios, we try to ensure they are lower risk than an equally-weighted Portfolio containing the same funds.

Risk (+ Portfolios)

Our three + Portfolios use funds outside the Portfolio's own risk category. For example, the + Balanced Portfolio does not include any Balanced funds. When we optimise for the + Portfolios, we are aiming for an improvement in the long term performance, accepting that volatility at times may be at the higher end of the risk bands applicable to each risk category.

Risk (Income Portfolios)

Our two Income Portfolios use all available income funds from the Cautious, Balanced and Growth risk categories. We then allocate accordingly to create one Portfolio mapped to the Cautious risk category and one mapped to the Balanced risk category.

Cost

This is an important factor as costs reduce future returns. This is why we build our Portfolios with the objective of being lower cost than an equally-weighted Portfolio. However, it should be notedthat at times the choice may lie between lower cost and higher risk. Statistically/historically the impact from risk is disproportionate to the impact from cost. We are also proud to say that our funds are already amongst the lowest cost in the market.

Expected Return

When our Fund Managers change the underlying assets in our funds, the Portfolio compositions change. We analyse the expected returns for each of our funds and may rebalance the portfolios in order to help generate the best returns.

Risk-Adjusted Return

Risk-adjusted return is based on future expected returns for each Portfolio, minus the risk-free rate of return, divided by the level of expected volatility calculated for each portfolio. Our objective over time is to manage the portfolios to achieve the best risk-reward trade off.

TRUE POTENTIAL PORTFOLIOS

Each True Potential Portfolio contains all of the funds available within its risk category. The True Potential Portfolios have an enormous degree of diversification, meaning they are less prone to highs and lows relative to our + portfolios. We optimise the portfolios with the objective of being lower risk than an equally-weighted portfolio.

In addition, the True Potential Portfolios do not have an income focus, which makes them very different to our Income Portfolios.

However, when investing in a True Potential Portfolio, some clients are happy to take an income by selling units. Below are the optimisation results for the True Potential Portfolios. We always aim to optimise across all factors where possible. However, sometimes we may place more emphasis on one factor over another.

Strategy Allocation

Defensive

Manager of Managers - True Potential SEI Defensive	40.0%
Active Management with Passive Implementation - True Potential 7IM Defensive	26.0%
Agile, Low-Cost Value Investing - True Potential UBS Defensive	34.0%

Cautious

Direct Equity & Bond Investing - True Potential Close Cautious	12.5%
Manager of Managers - True Potential SEI Cautious	20.5%
Active Management with Passive Implementation - True Potential 7IM Cautious	18.0%
Momentum with Volatility Control - True Potential Allianz Cautious	15.0%
Fund of Funds - True Potential Schroders Cautious	15.5%
Agile, Low-Cost Value Investing - True Potential UBS Cautious	18.5%

Balanced

Momentum with Volatility Control - True Potential Allianz Balanced	16.0%
Direct Equity & Bond Investing - True Potential Close Balanced	13.0%
Alternative Dynamic - Goldman Sachs Dynamic	2.0%
Income Funds - Goldman Sachs Global Income Builder	3.5%
Fund of Funds - True Potential Schroders Balanced	13.0%
Manager of Managers - True Potential SEI Balanced	22.0%
Active Management with Passive Implementation - True Potential 7IM Balanced	12.0%
Agile, Low-Cost Value Investing - True Potential UBS Balanced	18.5%

Growth

Momentum with Volatility Control - True Potential Allianz Growth	22.0%
Direct Equity & Bond Investing - True Potential Close Growth	14.5%
Manager of Managers - True Potential SEI Growth	22.0%
Active Management with Passive Implementation - True Potential 7IM Growth	20.0%
Agile, Low-Cost Value Investing - True Potential UBS Growth	21.5%

Aggressive

Manager of Managers - True Potential SEI Aggressive	32.5%
Active Management with Passive Implementation - True Potential 7IM Aggressive	31.0%
Agile, Low-Cost Value Investing - True Potential UBS Aggressive	36.5%

TRUE POTENTIAL PORTFOLIOS

Asset Allocation

Asset Class	Defensive	Cautious	Balanced	Growth	Aggressive
UK Equities	5.1%	12.6%	16.1%	19.9%	19.5%
North American Equities	15.3%	20.8%	25.9%	33.9%	39.8%
European Equities	4.3%	7.0%	9.4%	9.9%	11.1%
Japanese Equities	1.8%	3.3%	5.6%	4.8%	6.0%
Asia Pacific Equities	0.7%	1.1%	1.9%	2.1%	2.2%
Emerging Market Equities	2.1%	3.2%	5.6%	9.7%	11.8%
Global Bonds	11.1%	7.8%	4.7%	1.7%	0.4%
Global Inflation Linked Bonds	0.8%	0.9%	0.7%	0.7%	0.0%
Emerging Market Bonds	1.5%	2.2%	2.7%	3.2%	1.6%
Global High Yield Bonds	7.3%	4.7%	4.8%	3.2%	1.8%
UK Gilts	6.7%	6.8%	3.9%	1.1%	0.7%
UK Credit	6.2%	10.5%	8.1%	4.7%	1.5%
Property	0.6%	1.3%	1.2%	2.0%	1.2%
Commodities	0.5%	1.5%	1.0%	0.6%	0.4%
Cash	36.0%	16.3%	8.4%	2.5%	2.0%

Source: Smith & Williamson, 31 December 2016

+ PORTFOLIOS

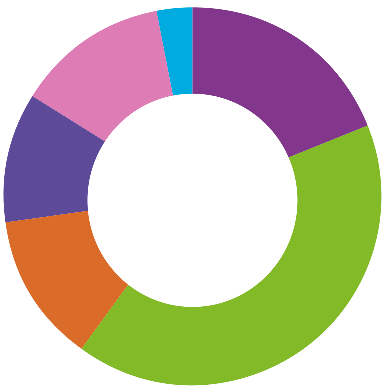
The + group of portfolios are more concentrated in their fund selection, containing larger fund positions than their risk category equivalents in the True Potential Portfolios. The + portfolios are constructed using funds from right across the risk spectrum, while staying within the appropriate band for their risk category. The + portfolios do not include funds from the same risk category to which the portfolio is mapped. In other words, the Balanced+ Portfolio does not select funds mapped to the Balanced risk category. To optimise the portfolios in the + category, we select from all of the funds outside of the portfolio's respective risk category. This approach enables us to optimise across all factors although sometimes we may place more emphasis on one factor over another.

Bloomberg, 30 September 2016 - 31 December 2016

Strategy Allocation

Cautious +

Direct Equity & Bond Investing - True Potential Close Balanced	12.5%
Fund of Funds - True Potential Schroders Balanced	16.0%
Manager of Managers - True Potential SEI Defensive	40.0%
Momentum with Volatility Control - True Potential Allianz Balanced	10.5%
Active Management with Passive Implementation - True Potential 7IM Growth	8.0%
Agile, Low-Cost Value Investing - True Potential UBS Growth	13.0%



Balanced +

Direct Equity & Bond Investing - True Potential Close Growth	19.0%
Manager of Managers - True Potential SEI Cautious	41.0%
Momentum with Volatility Control - True Potential Allianz Growth	13.0%
Active Management with Passive Implementation - True Potential 7IM Aggressive	11.0%
Agile, Low-Cost Value Investing - True Potential UBS Aggressive	13.0%
Fund of Funds - True Potential Schroders Aggressive	3.0%

Growth +

Direct Equity & Bond Investing - True Potential Close Balanced	24.0%
Manager of Managers - True Potential SEI Aggressive	32.0%
Active Management with Passive Implementation - True Potential 7IM Aggressive	20.0%
Agile, Low-Cost Value Investing - True Potential UBS Aggressive	24.0%

Asset Allocation

Asset Class	Cautious +	Balanced +	Growth +
UK Equities	11.3%	17.2%	20.2%
North American Equities	20.6%	29.3%	38.3%
European Equities	9.5%	9.7%	11.5%
Japanese Equities	5.2%	4.2%	5.1%
Asia Pacific Equities	1.5%	1.9%	2.3%
Emerging Market Equities	3.6%	5.9%	9.6%
Global Bonds	8.0%	5.7%	0.3%
Global Inflation Linked Bonds	0.8%	1.8%	0.0%
Emerging Market Bonds	0.8%	2.1%	1.1%
Global High Yield Bonds	4.5%	5.0%	1.2%
UK Gilts	5.0%	3.6%	2.9%
UK Credit	5.8%	4.4%	3.1%
Property	0.8%	1.3%	0.8%
Commodities	1.0%	0.8%	0.7%
Cash	21.6%	7.1%	2.9%

Source: Smith & Williamson, 31 December 2016

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INCOME PORTFOLIOS

Each Income Portfolio in the True Potential Portfolios range is focused on yield and income sustainability so we have income as an additional optimisation factor. Given that investors in these portfolios are seeking income above capital growth, the income optimisation factor is our primary consideration. We have optimised on all factors for both portfolios; income, risk, cost, long-term expected return and risk-adjusted return. During September, we made no alterations to the fund allocations within either Income Portfolio.

The Cautious Income Portfolio is currently yielding 3.82% and the Balanced Income Portfolio 4.01% with the equally-weighted Portfolio yielding 3.70%.

Bloomberg, 30 September 2016 - 31 December 2016

Strategy Allocation

Cautious Income

Direct Equity & Bond Investing - True Potential Close Cautious Income	32.5%
Income Focused - True Potential Threadneedle Monthly Income	17.5%
Income Funds - Goldman Sachs Global Income Builder	40.0%
Fund of Funds - True Potential Schroders Cautious Income	10.0%

Balanced Income

Direct Equity & Bond Investing - True Potential Close Cautious Income	5.0%
Income Focused - True Potential Threadneedle Monthly Income	35.0%
Income Funds - Goldman Sachs Global Income Builder	50.0%
Fund of Funds - True Potential Schroders Cautious Income	10.0%

Asset Allocation

Asset Class	Cautious Income	Balanced Income
UK Equities	24.1%	30.0%
North American Equities	12.2%	13.9%
European Equities	5.7%	5.9%
Japanese Equities	1.9%	1.8%
Asia Pacific Equities	0.7%	0.5%
Emerging Market Equities	0.1%	0.1%
Global Bonds	11.1%	12.2%
Global Inflation Linked Bonds	0.7%	0.1%
Emerging Market Bonds	0.8%	1.0%
Global High Yield Bonds	11.5%	14.3%
UK Gilts	1.8%	0.6%
UK Credit	18.0%	11.5%
Property	3.7%	1.4%
Commodities	2.6%	0.8%
Cash	5.1%	5.9%

Source: Smith & Williamson, 31 December 2016

Past performance is not a guide to future performance.

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