Market Background

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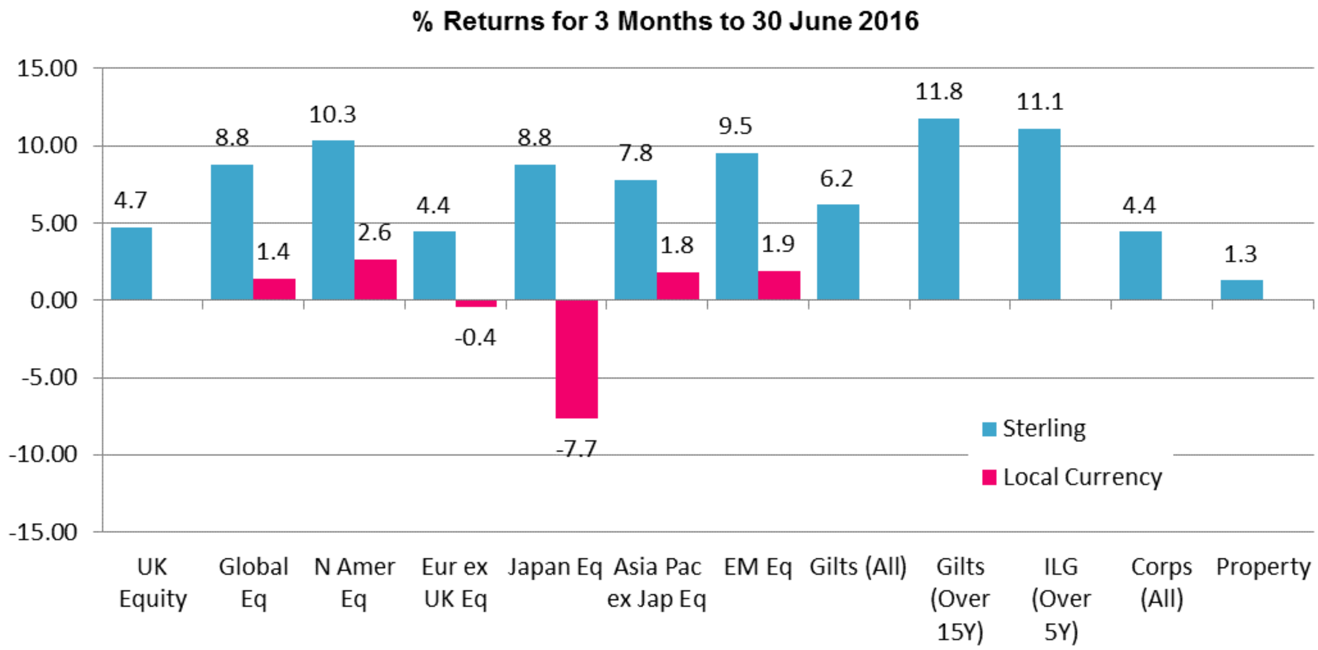
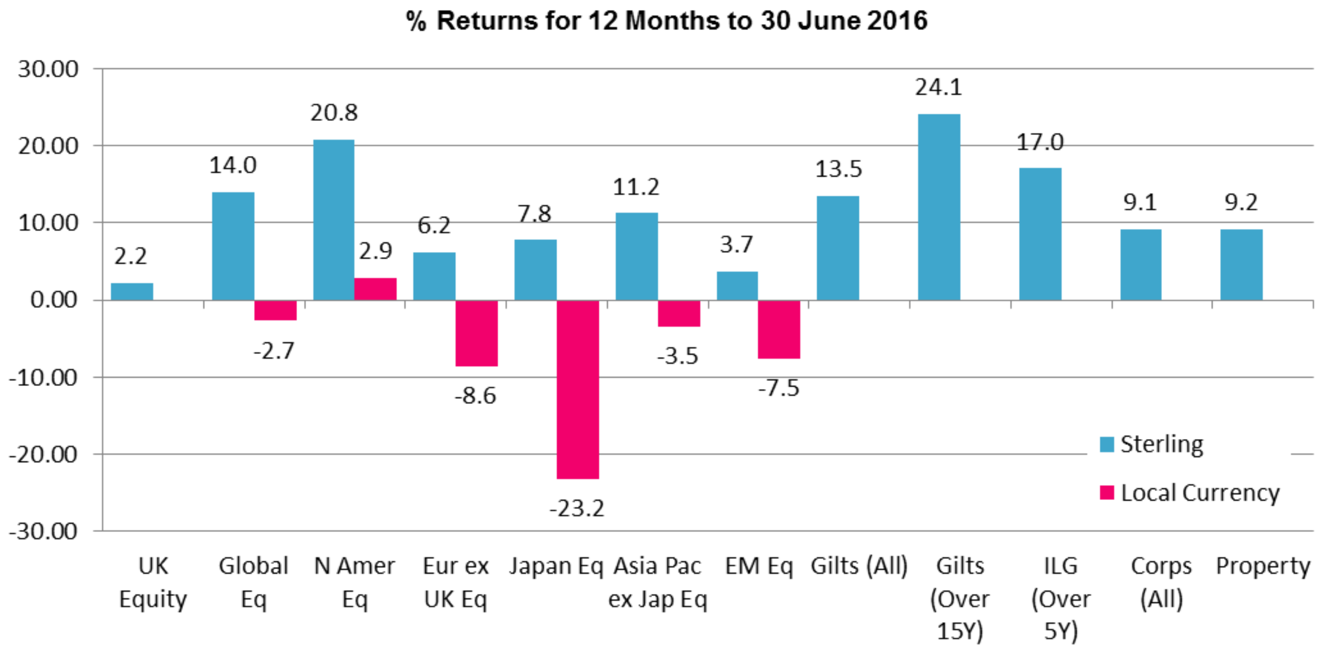
The following chart shows the market returns over periods to 30 June 2016:





Source: Datastream

Macroeconomic background

Economic data and business surveys suggested that global growth held up reasonably well in Q2. Oil prices continued to rebound from the lows of December 2015, with Brent Crude rising $10 over the quarter to finish June at just under $50 a barrel. However, the economic outlook was clouded by the UK's surprise vote to "Leave" the EU. The immediate response of forecasters was to revise down GDP growth expectations, particularly in the UK, where the consensus forecasts suggest next to no growth next year. The most significant market response to the vote was a collapse in sterling, which fell almost 10% in trade-weighted terms in two days.

In response, Governor Carney of the Bank of England shares the market's gloom about the short-term economic outlook for the UK and suggested that interest rates would be cut over the summer (which subsequently occurred in August). Elsewhere, major central banks held firm on their monetary policies over the quarter. In April the Federal Reserve voted to maintain interest rates at 0.5%, despite indicators suggesting an improving US labour market, while the Bank of Japan surprised markets by not adding to the current quantitative easing programme.

Global equity markets inched higher over the quarter, recovering quickly from an initial downturn after the referendum vote. In local currency terms the FTSE All-World Index rose 0.5%; the total return in sterling terms was 8.8%. In the UK, the relatively strong performance of the FTSE All Share reflected the substantial proportion of earnings that are generated overseas among the leading companies.

Key events during the quarter included:

- The "Leave" vote in the EU referendum and subsequent political fallout caught investors by surprise. Governor Carney hinted at possible cuts to UK interest rates over the summer.
- Oil prices continued to rebound from the lows of December 2015, with Brent Crude finishing June at almost $50 a barrel.
- Precious metals continued their strong start to 2016, benefitting from the threat of interest rates staying "lower for longer" and wider global economic concerns.

Equities

- The strongest sectors relative to the FTSE All World Index were Oil & Gas (+8.0%) and HealthCare (+4.8%); the weakest were Technology (-3.4%) and Financials (-2.7%).
- In local currency terms, the UK was the strongest performer during the quarter; while Japan was again the weakest.

Bonds and currencies

- UK gilt yields fell (prices rose) as demand for safe haven assets soared in the wake of the "Brexit" vote. US treasury and German Bund yields also fell, but lagged the rally in UK gilts.
- Sterling credit spreads widened a little over the quarter as an upward spike in the last week unwound earlier tightening.
- Sterling depreciated sharply in the week following the referendum after what had been a period of relative stability. The Yen was the strongest of the major currencies.

The tables below provide a summary of key financial indicators over recent periods:

	31.12.11	31.12.12	31.12.13	31.12.14	31.12.15	30.6.16
UK Equity yield	3.5%	3.6%	3.3%	3.4%	3.7%	3.7%
UK Equity P/E ratio	10.6	12.3	14.9	15.8	17.8	30.7
Over 15 year gilt yield (p.a.)	2.9%	3.0%	3.6%	2.4%	2.6%	1.6%
>5 year index linked gilt yield (p.a.)	-0.2%	-0.1%	0.1%	-0.8%	-0.7%	-1.4%
iBoxx >10 year Non-gilt yield (p.a.)	4.9%	4.1%	4.6%	3.6%	3.9%	3.1%

	Year to 30.6.12	Year to 30.6.13	Year to 30.6.14	Year to 30.6.15	Year to 30.6.16	Quarter to 30.6.16	30.6.16 to 30.8.16
FTSE All Share	-3.1	17.9	13.1	2.6	2.2	4.7	6.6
Global Equity	-4.0	21.4	9.6	10.2	14.0	8.8	7.2
Over 15 year gilts	27.9	-4.6	5.3	16.3	24.1	11.8	9.8
Over 5 year index linked gilts	16.9	2.7	4.3	15.8	17.0	11.1	12.2
All Stocks Non-Gilts	9.0	6.5	6.8	6.5	9.0	4.3	7.1
IPD Monthly Index	4.8	4.1	17.7	16.8	9.2	1.3	-

Equities

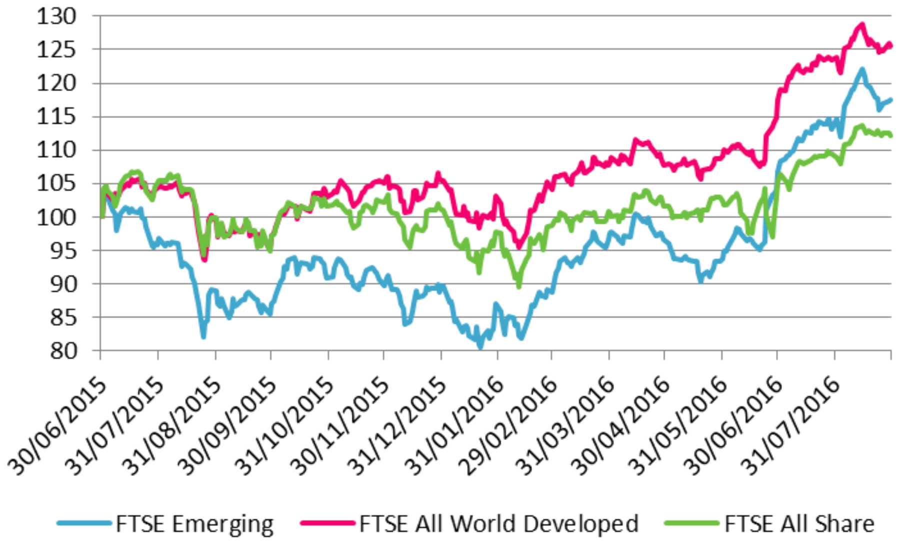
In sterling terms, global equities returned +8.8% over Q2 (as measured by the FTSE All World index). The strongest returns came from North America (+10.3% in sterling terms) followed by Emerging Markets (+9.5%). Other major equity markets were also positive with the UK returning 4.7%, Europe ex UK 4.4%, Japan 8.8% and Asia Pacific ex Japan 7.8%. In local currency terms, returns were lower although mostly positive, with the exception of Japan (-7.7%) and Europe ex UK (-0.4%). North America was strongest with a return of 2.6%. Weakening sterling, a feature of 2016, was exacerbated by the further sharp sterling slump post the referendum. Weaker sterling has enhanced the returns from overseas equities for UK investors.

Over the 12 month period ending 30 June 2016, global equity returns were strongly positive (+14.0%) in sterling terms but more mixed in local currency terms. North America was the strongest performer in both sterling and local currency terms (+20.8% and +2.9% respectively). Other overseas markets were negative in local currency terms with Japan performing worst (-23.2%). UK equities were positive over the year, up 2.2%.

Over the quarter, the strongest sector return relative to the All World index came from Oil & Gas (+8.0% relative). The weakest relative sector return came from Technology (-3.4% relative). Over the 12 months, Utilities continued to provide the strongest returns (at +16.7%), with Basic Materials the weakest (-8.5%). Globally, value stocks outperformed growth over the quarter (+8.5% v +4.4%).

The following chart plots the performance of the global equity market since the end of Q2 2015.

Chart 1: Global equity markets

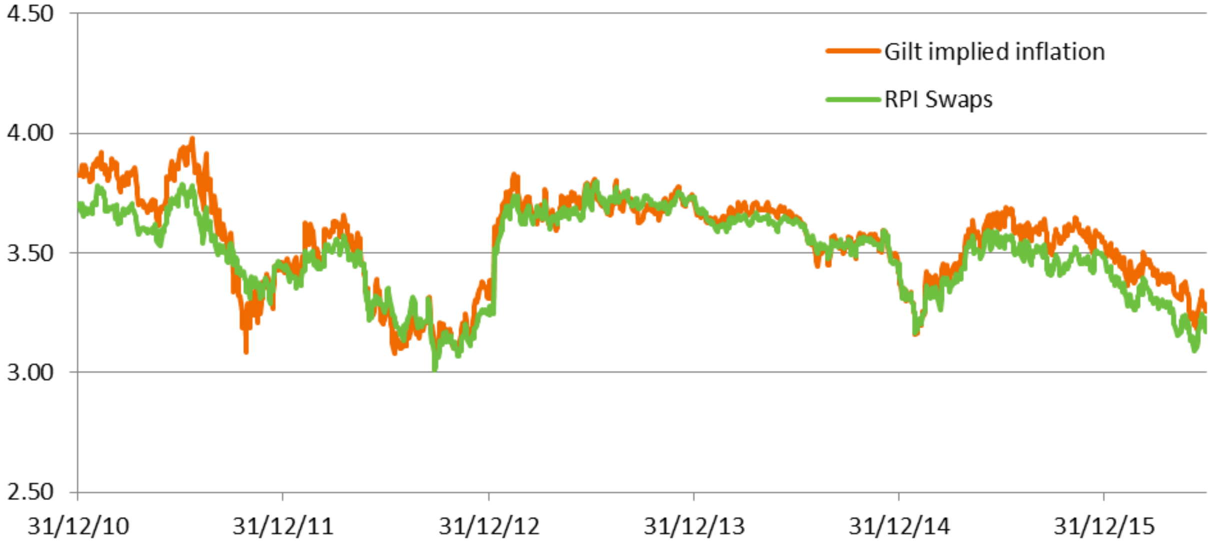


Source: Datastream

Fixed Income

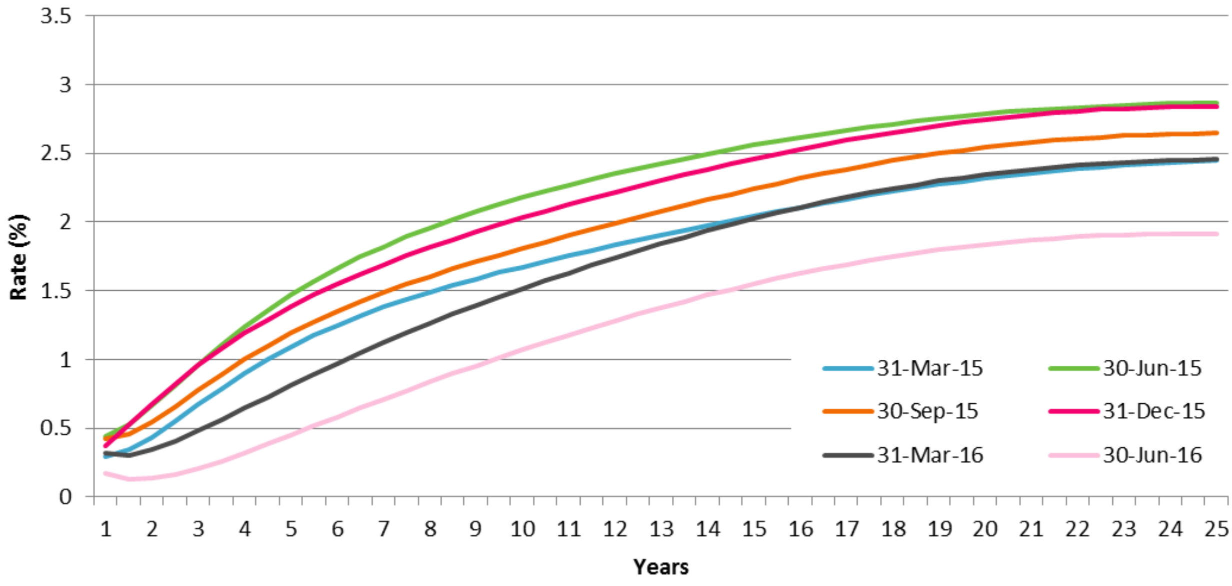
Long term inflation expectations have generally declined since the second half of 2015 and now are at a similar level to the most recent low point at the end of January 2015.

Chart 2: Long term implied inflation



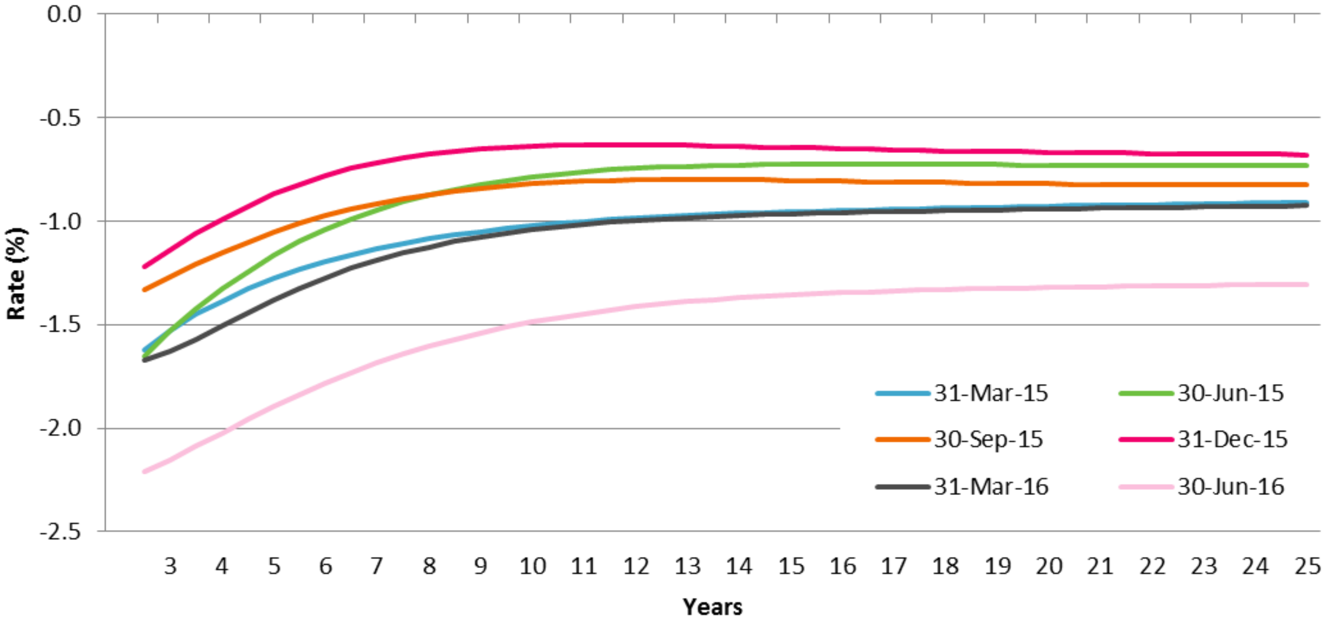
Prices of conventional gilts increased over the quarter as yields fell, with the All-Gilts index returning 6.2% and the long-dated index returning 11.8%. Index-linked gilts also provided positive returns, with the >5yr Index Linked index returning 11.1%, as real yields fell. Over the 12 month period ending 30 June 2016, the All-Gilts index returned 13.5% and >5yr index-linked gilts delivered 17.0%.

Chart 3: Nominal gilt yields



Source: Bank of England

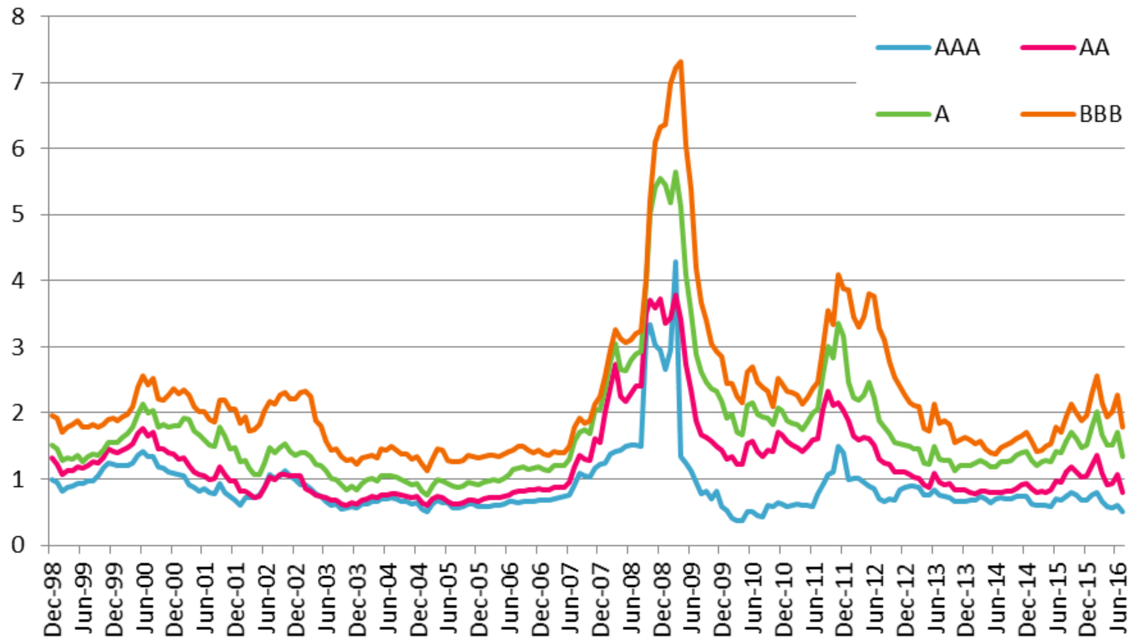
Chart 4: Real gilt yields



Source: Bank of England

Corporate bond prices underperformed gilts over the quarter although both performed strongly (4.4% v 6.2%). The strongest area within corporates was AAA issues (9.3%). Corporate bonds returned 9.1% over 12 months, with AAA-rated issues producing the strongest returns (20.1%).

Chart 5: Corporate bond yield spreads over gilts (% p.a.)

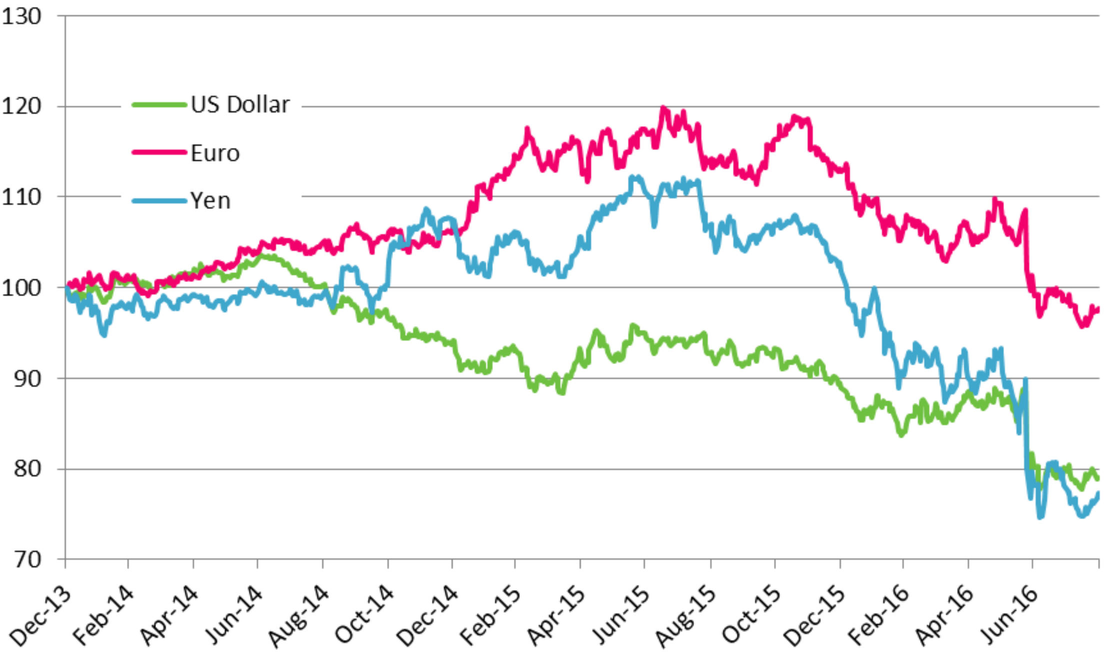


Source: Datastream

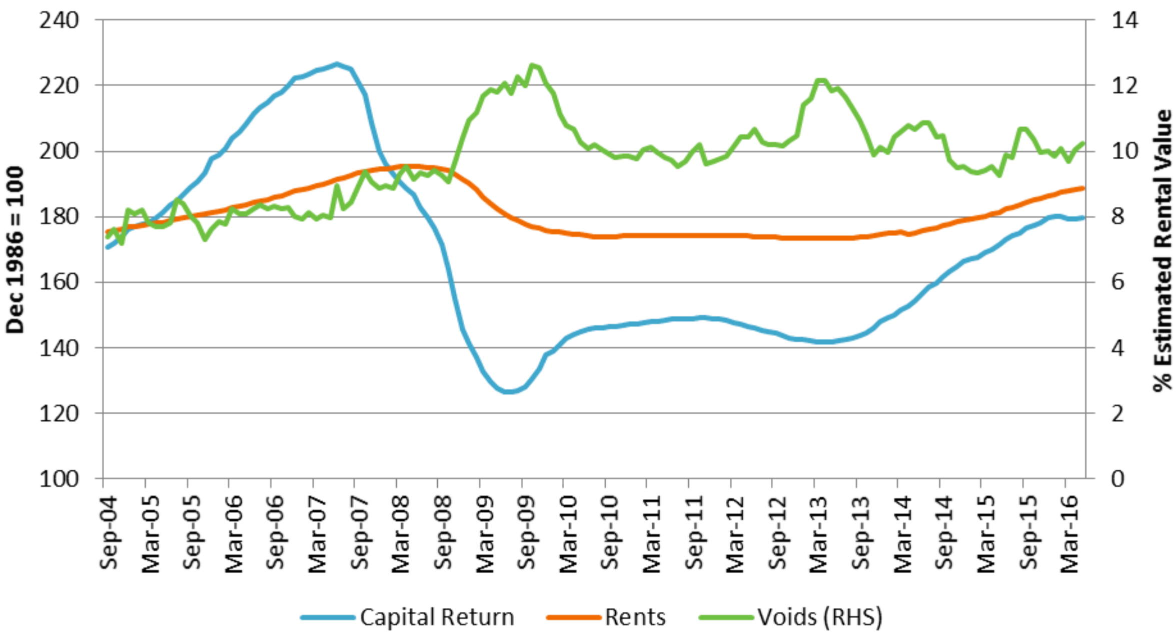
Currency

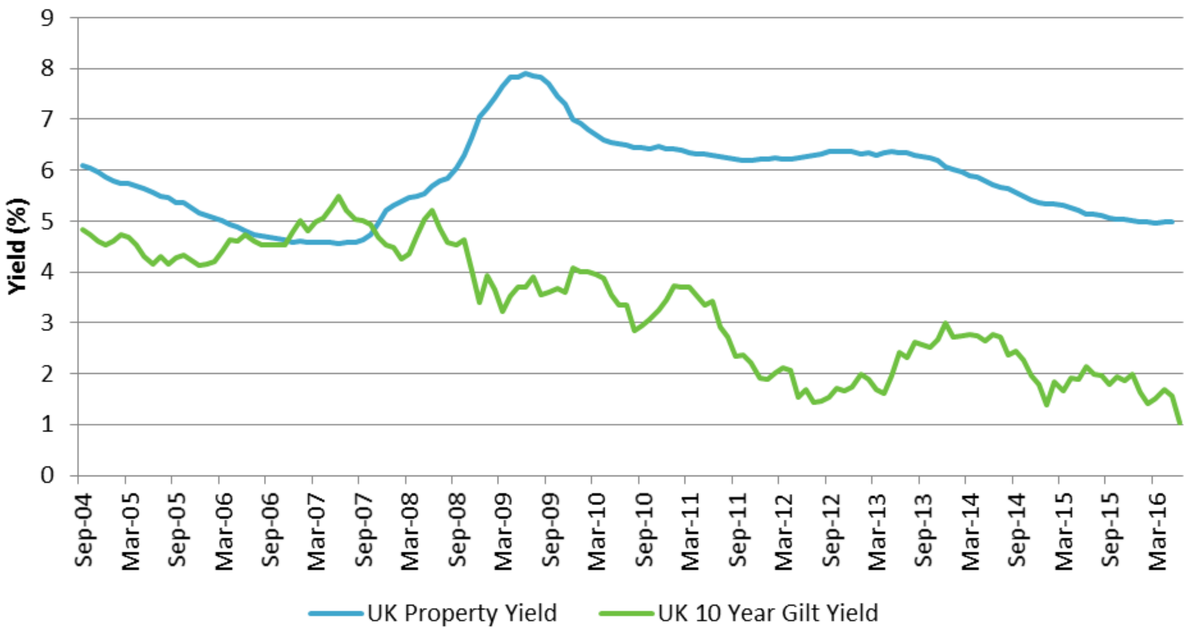
Over the second quarter of 2016, in the run up to the EU referendum, Sterling weakened against the Dollar, Euro and Yen. Post the referendum and since quarter end it has continued to weaken (falling sharply) against the Dollar, Euro and Yen.

Chart 6: Sterling performance to 30 August 2016 (%)



UK Property





- Following the result of the Referendum, property valuations are being caveated by valuers in light of the short-term uncertainty and lack of transactional evidence, suggesting they are a less reliable indicator of the price that could be achieved. The caveats are expected to remain for at least a few months.
- UK property delivered a return of 0.6% over the quarter. Over the last 12 months the overall property return was 10.4%.
- Over the 3 months to end June 2016, returns were positive across all sectors (retail +0.6%, office +0.9% and Industrial +1.4%). Over the twelve month period, Office (+12.6%) and Industrial (+13.7%) outperformed Retail (+7.1%). However, all sectors returns remain strong.
- Over the quarter, total returns from property were derived mainly from the income return with capital growth being marginally positive.

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For and on behalf of Hymans Robertson LLP