Market Background

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

Chart 1a:

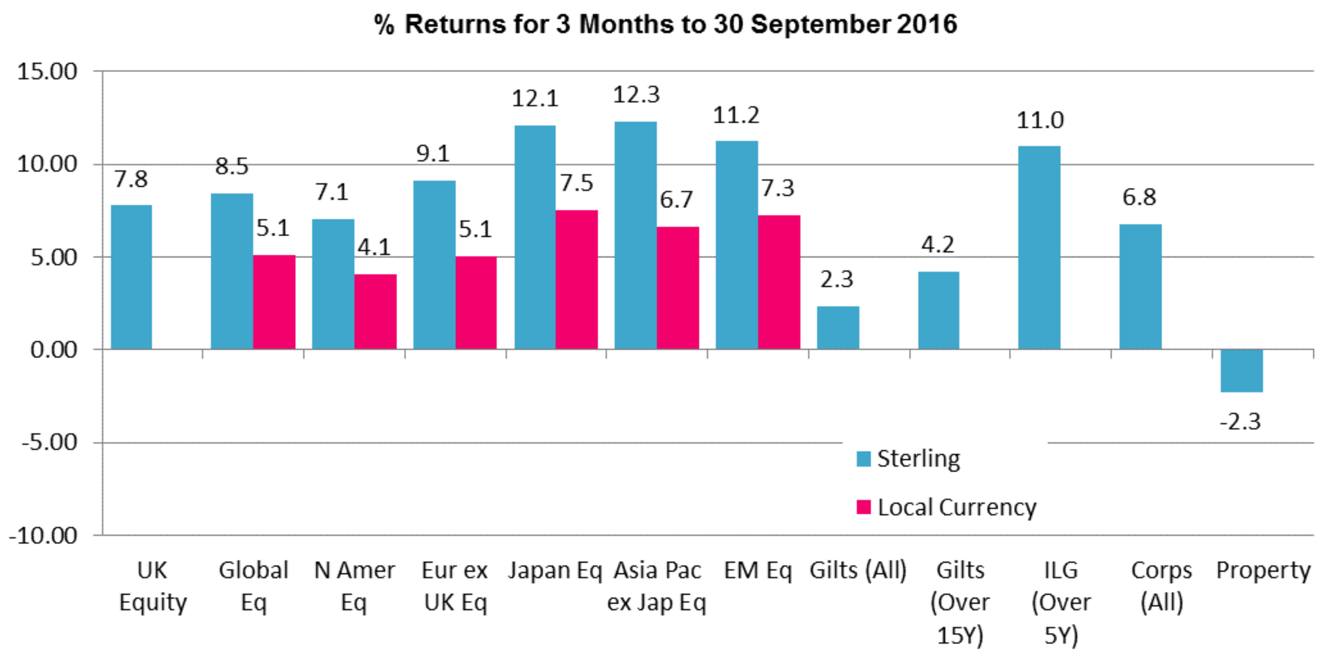
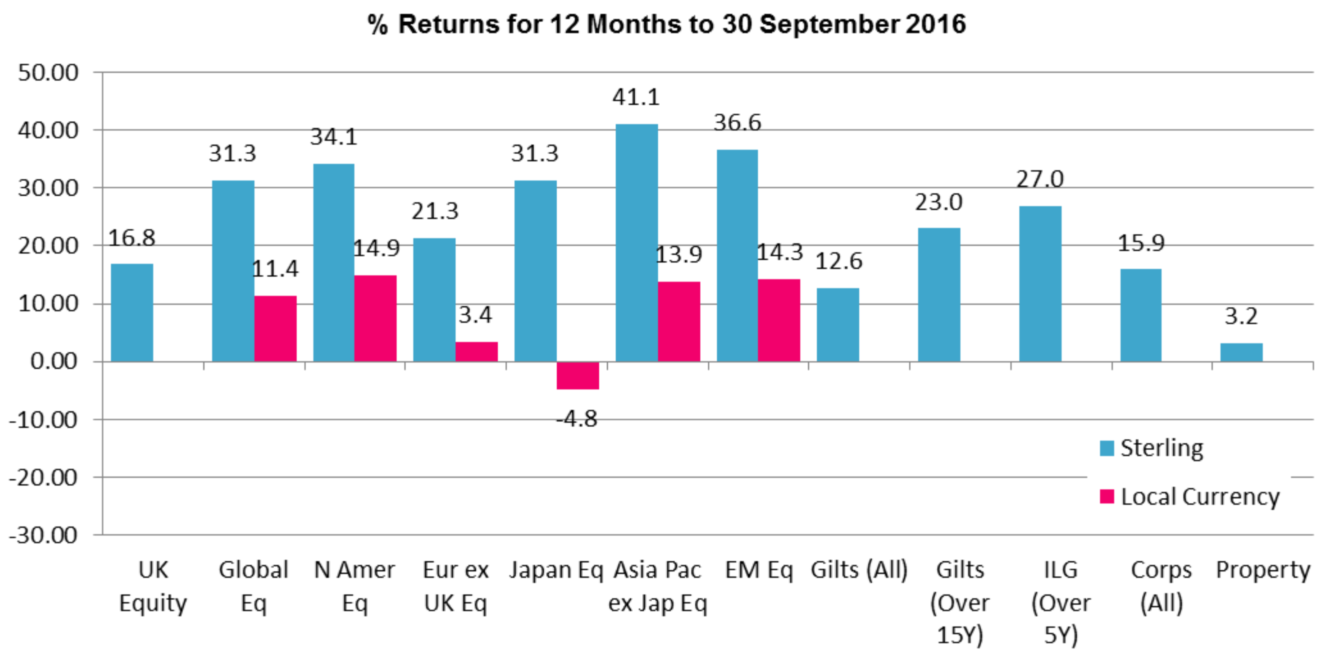


Chart 1b:



Source: Datastream

Macroeconomic background

Global equity markets rose over the quarter – the FTSE All World index returned 5.1% in local currency terms. In the UK, the FTSE 100 rose by 7.8%, boosted by weak sterling and robust UK economic data.

Equities continued to be supported by accommodative monetary policy, although the direction of policy of the major central banks is diverging. Despite forecasting above-target inflation in the next couple of years, the Bank of England cut interest rates from 0.5% p.a. to 0.25% p.a. and extended its quantitative easing (QE) programme. Responding to intensifying deflation, the Bank of Japan reaffirmed its 2% p.a. inflation target and beefed up its own QE programme. In the US, following some signs of flagging economic momentum, the Fed voted (not unanimously) to leave interest rates unchanged in September, but left open the possibility of a rise before the end of the year.

Government bond yields reflected these divergences. 10-year US Treasury Bond yields rose over the quarter as investors priced in an above-evens chance of a rate rise in December. In contrast, the growing expectation that UK rates will not rise for several years saw 10-year gilt yields plunge as low as 0.6% p.a. in August.

UK property valuations, as measured by the IPD Monthly Index took a post-referendum hit in July. They drifted lower at a more modest rate in August to stand around 4% below year-end levels.

Key events during the quarter included:

- The UK's manufacturing PMI reached its highest level since June 2014 in September.
- Oil prices rallied at the end of the period as OPEC reached an agreement to cut production. Brent Crude finished the quarter little changed at $49 per barrel.

Equities:

- The strongest sectors relative to the FTSE All World Index were Technology (+7.6%) and Basic Materials (+4.2%); the weakest were Telecommunications (-6.5%) and Utilities (-7.6%).
- In local currency terms, the UK and Emerging Market equities were the strongest performers during the quarter whilst US equities lagged.

Bonds and currencies:

- UK gilt yields fell (prices rose), with real yields falling further than nominal yields.
- UK investment-grade credit spreads continued to tighten, narrowing to their lowest levels for over a year.
- Sterling continued to weaken against the other major currencies, finishing close to its lowest trade-weighted level since Q1 2009.

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

Table 1a:

	31.12.13	31.12.14	31.12.15	30.9.16
UK Equity yield	3.3%	3.4%	3.7%	3.5%
UK Equity P/E ratio	14.9	15.8	17.8	31.4
Global Equity P/E ratio	17.9	18.0	19.0	21.5
Over 15 year gilt yield (p.a.)	3.6%	2.4%	2.6%	1.4%
>5 year index linked gilt yield (p.a.)	0.1%	-0.8%	-0.7%	-1.8%
iBoxx >10 year Non-gilt yield (p.a.)	4.6%	3.6%	3.9%	2.5%

Table 1b:

	Year to 30.9.12	Year to 30.9.13	Year to 30.9.14	Year to 30.9.15	Year to 30.9.16	Quarter to 30.9.16	30.9.16 to 4.11.16
FTSE All Share	17.2	18.9	6.1	-2.3	16.8	7.8	-2.8
Global Equity	17.3	18.2	11.8	0.6	31.3	8.5	0.0
Over 15 year gilts	13.0	-4.4	11.4	14.0	23.0	4.2	-5.0
Over 5 year index linked gilts	5.0	6.6	9.9	11.8	27.0	11.0	0.1
All Stocks Non-Gilts	13.3	3.0	7.5	4.5	14.0	5.6	-2.6
IPD Monthly Index	3.3	6.6	19.8	15.4	3.2	-2.3	-

Equities

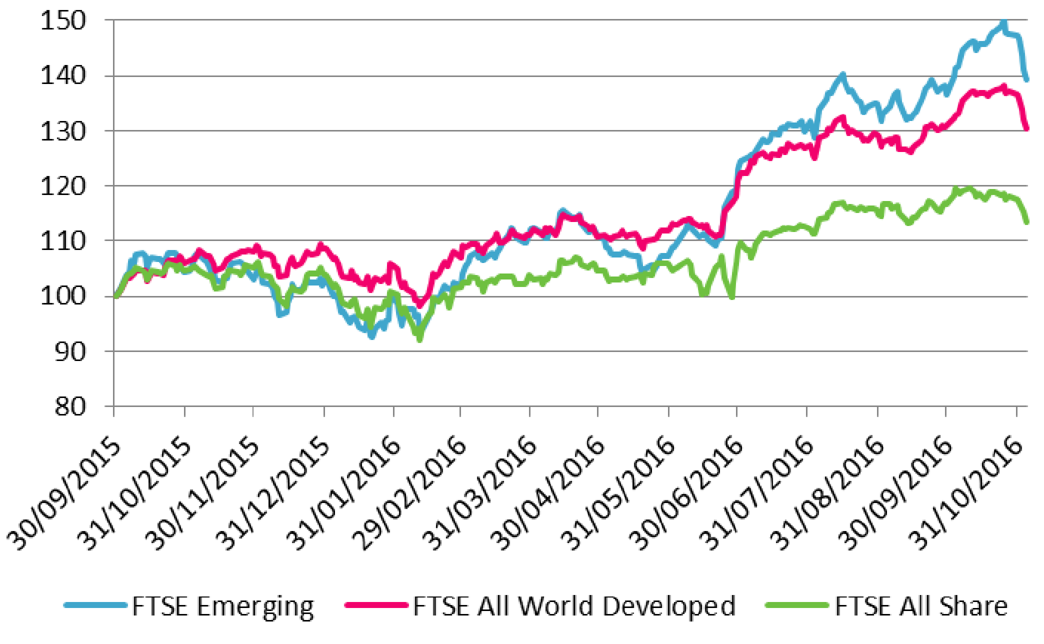
In sterling terms, global equities returned +8.5% over Q3 (as measured by the FTSE All World index). The strongest returns came from Asia Pacific ex Japan (+12.3%) followed by Japan (+12.1%). Other major equity markets were also positive with the UK returning 7.8%, North America 7.1%, Europe ex UK 9.1%, and Emerging Markets 11.2%. In local currency terms, returns were lower although still positive. Japan was strongest with a return of 7.5%. Weaker sterling has enhanced the returns from overseas equities for UK investors.

Over the 12 month period ending 30 September 2016, global equity returns were strongly positive (+31.3%) in sterling terms but more mixed in local currency terms. Asia Pacific ex Japan was the strongest performer in sterling terms (+41.1%) and North America was strongest in local currency terms (+14.9%). The weakest region in sterling terms was Europe ex UK (+21.3%) whilst the weakest return in local currency was Japan (-4.8%). Weak sterling has been a feature throughout the year. UK equities were positive over the year, up 16.8%.

Over the quarter, the strongest sector return relative to the All World index came from Basic Materials (+4.2% relative). The weakest relative sector return came from Utilities (-7.6% relative). Over the 12 months, Technology provided the strongest returns (at +9.4%), with Financials the weakest (-6.7%). Globally, value stocks marginally outperformed growth over the quarter (+8.6% v +8.4%).

The following chart plots the performance of the global equity market since the end of Q3 2015.

Chart 2: Global equity markets

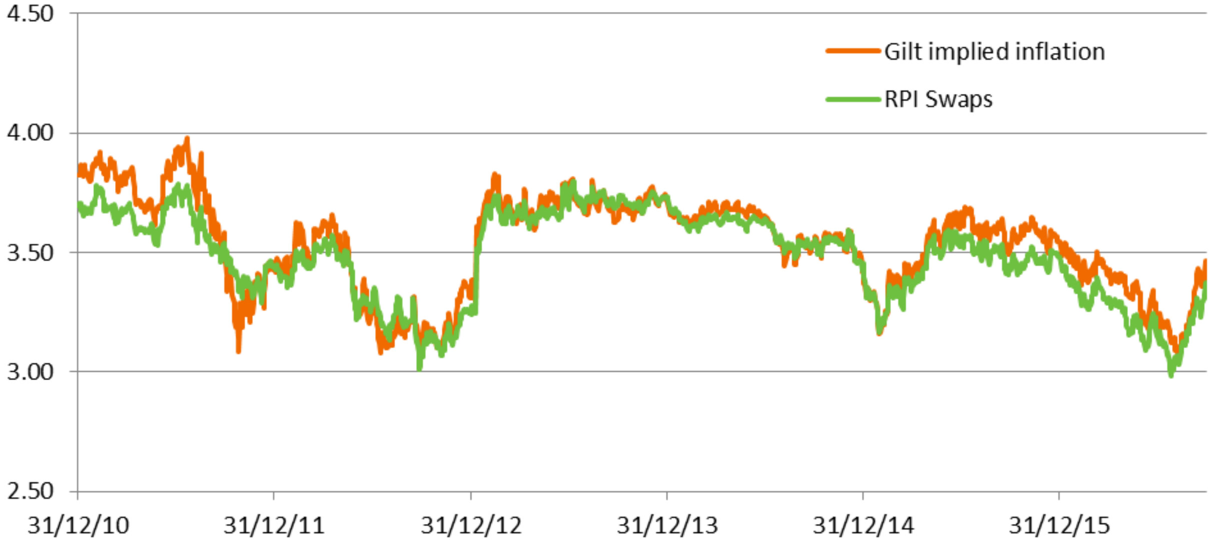


Source: Datastream

Fixed Income

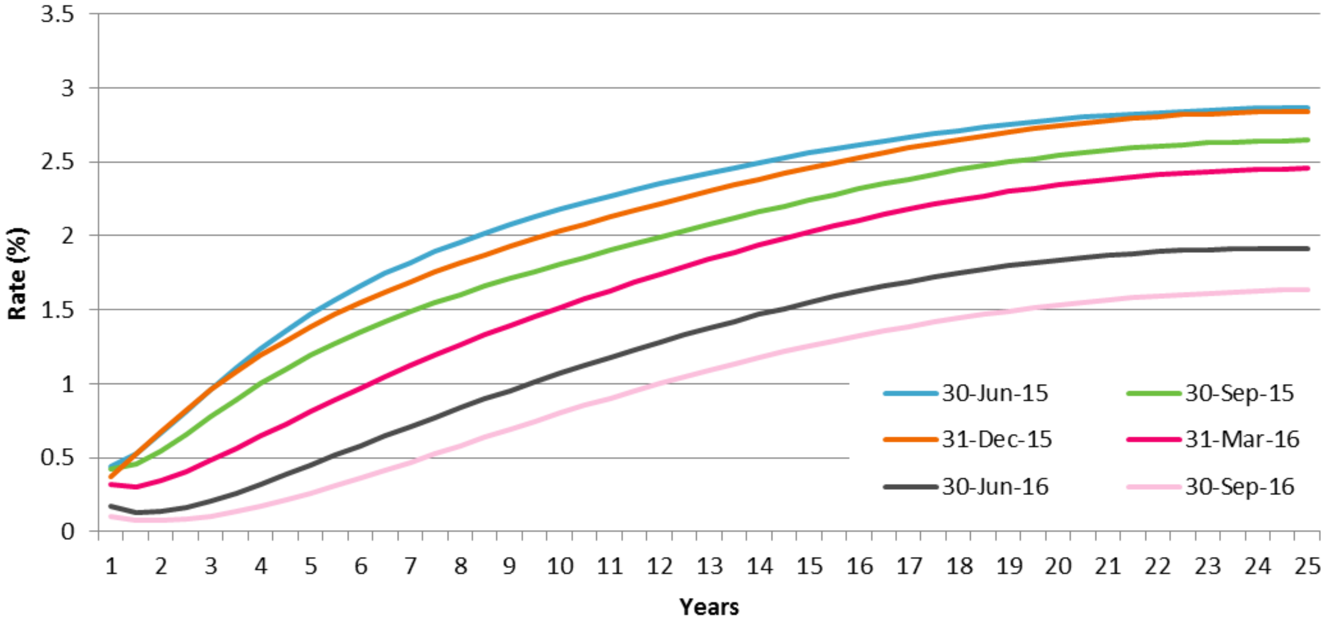
Long term inflation expectations have generally declined since 2015 but have spiked upwards in Q3 2016.

Chart 3: Long term implied inflation



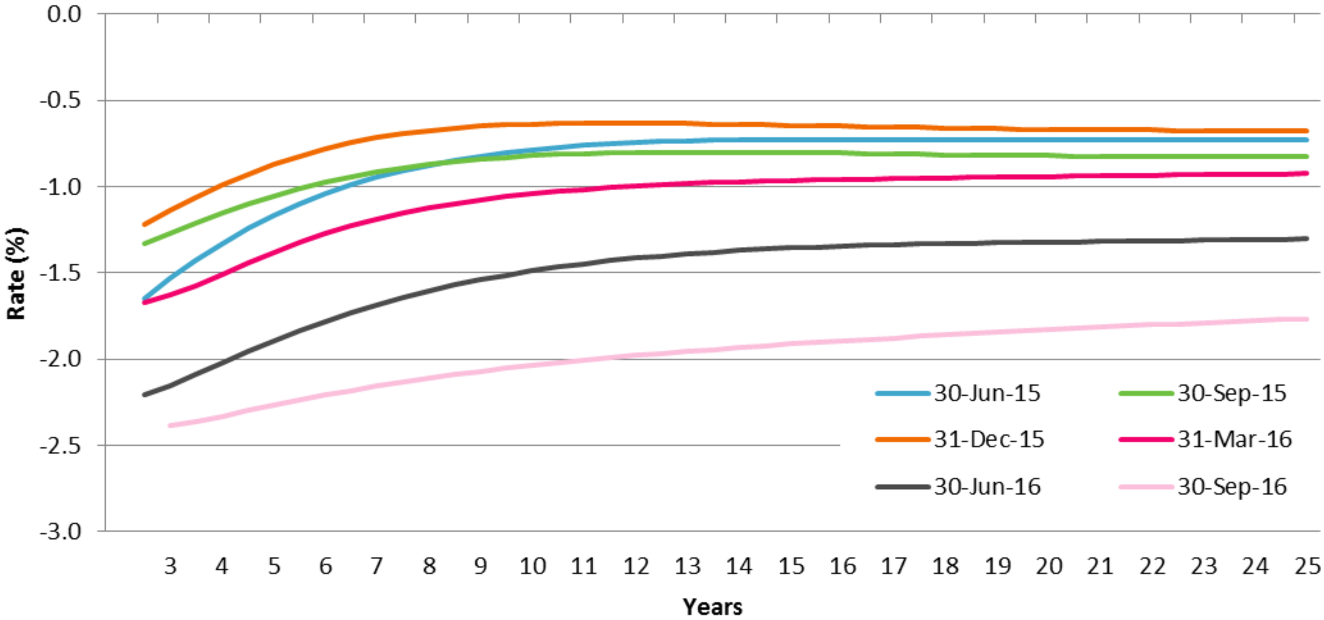
Prices of conventional gilts increased over the quarter as yields fell, with the All-Gilts index returning 2.3% and the long-dated index returning 4.2%. Index-linked gilts also provided positive returns, with the >5yr Index Linked index returning 11.0%, as real yields fell. Over the 12 month period ending 30 June 2016, the All-Gilts index returned 12.6% and >5yr index-linked gilts delivered 27.0%.

Chart 4: Nominal gilt yields



Source: Bank of England

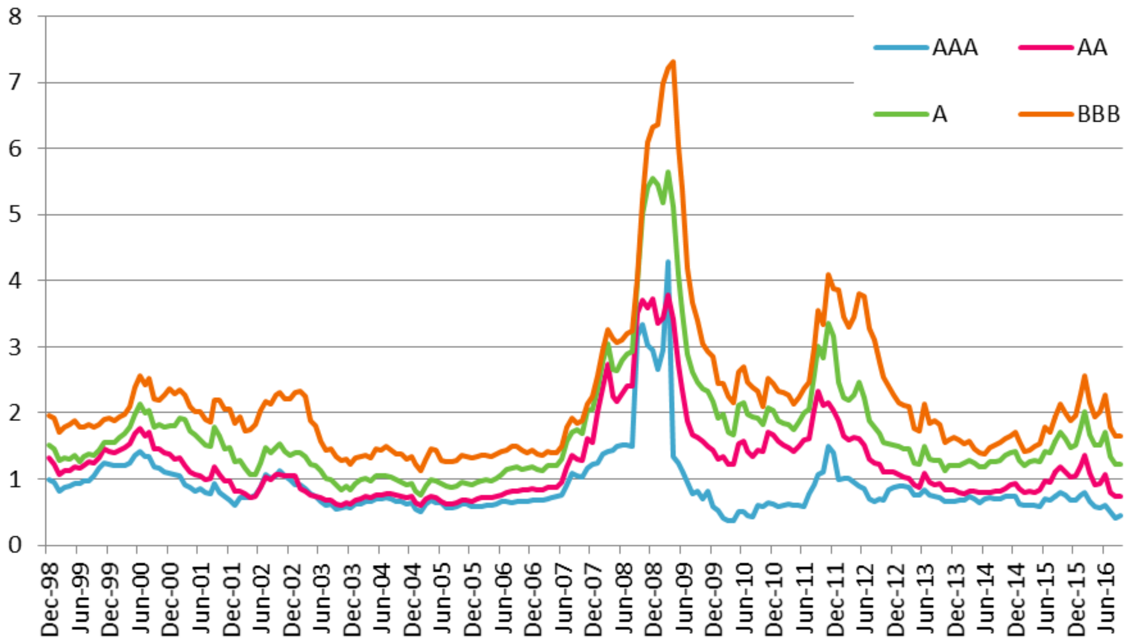
Chart 5: Real gilt yields



Source: Bank of England

Corporate bond prices outperformed gilts over the quarter although both performed positively (6.8% v 2.3%). The strongest area within corporates was A-rated issues (7.1%). Corporate bonds returned 15.9% over 12 months, with AAA-rated issues producing the strongest returns (23.3%).

Chart 6: Corporate bond yield spreads over gilts (% p.a.)



Source: Datastream

Currency

Over the third quarter of 2016, despite some periods of strengthening, sterling has again weakened against the dollar, yen, and euro.

Chart 7a: Sterling performance to 4 November 2016 (%)

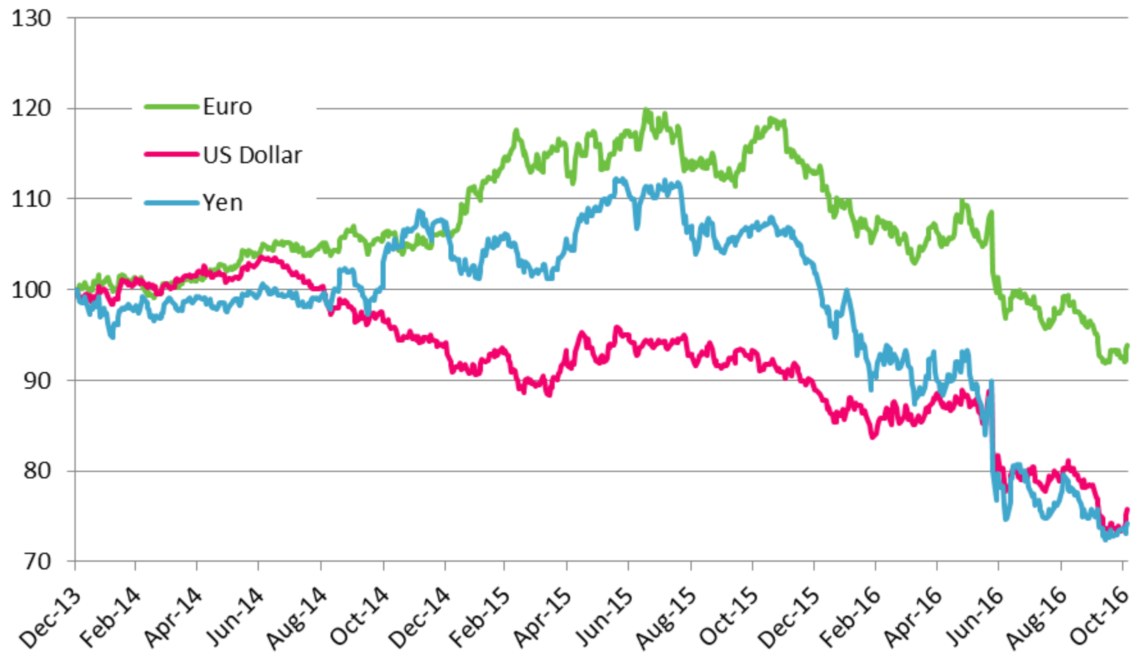
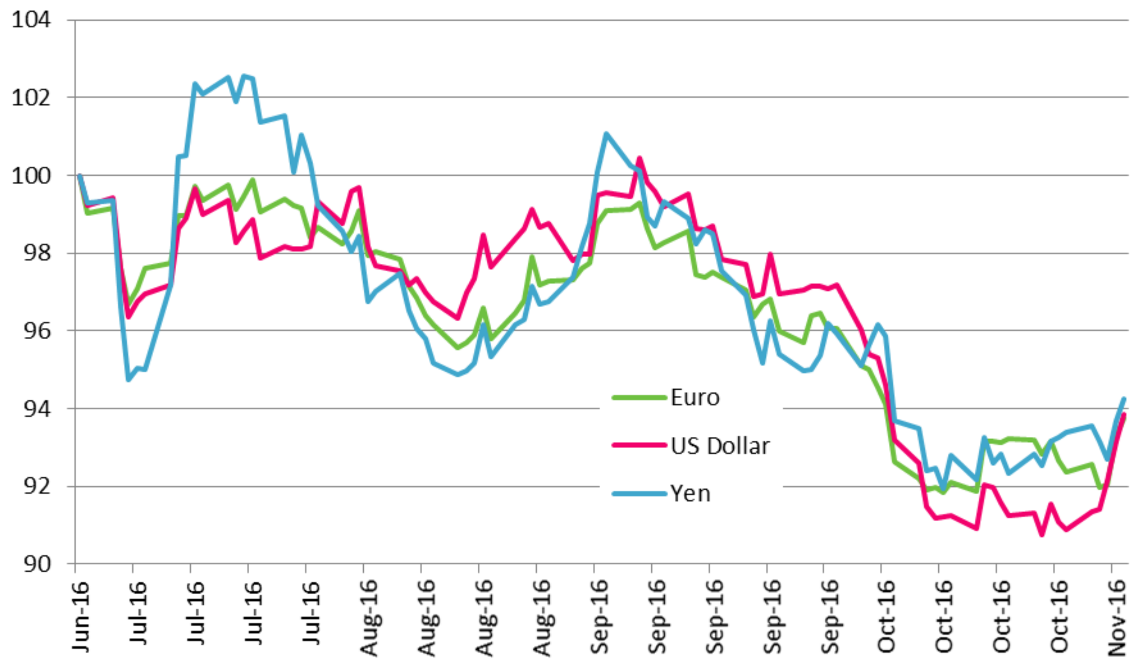


Chart 7b: Sterling performance since 30 June 2016 (%)



UK Property

Chart 8a: Breakdown of returns on property

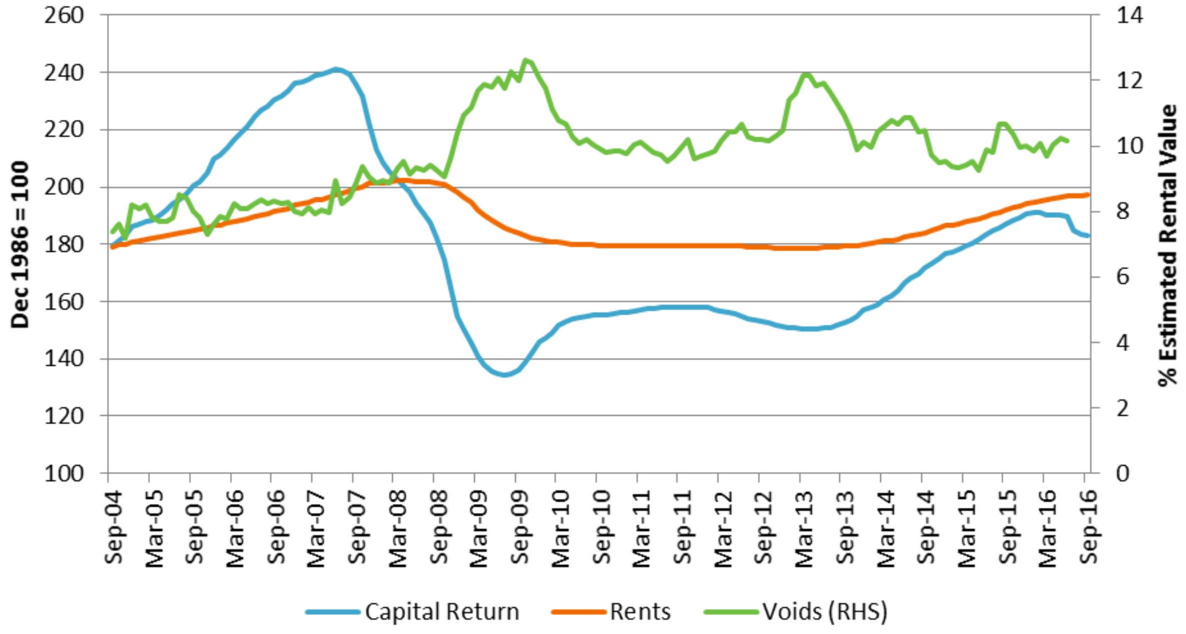
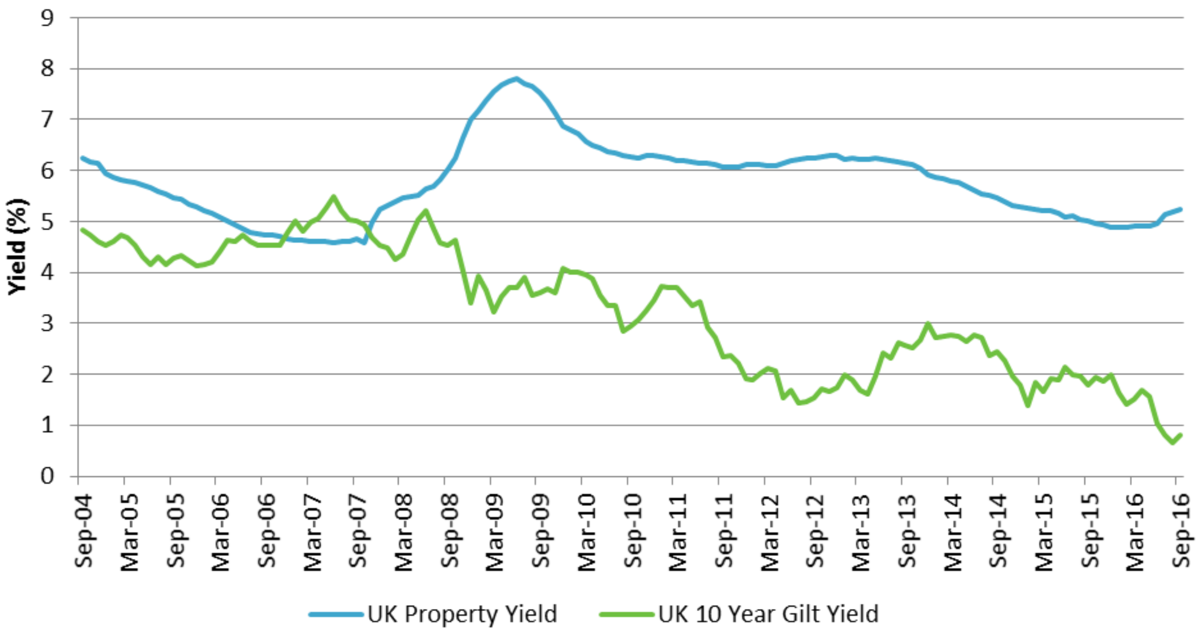


Chart 8b: UK Property yield vs UK gilt yield



- Following the result of the Referendum, property valuations were 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. These caveats have now, in the main, been removed.
- UK property delivered a return of -2.3% over the quarter. Over the last 12 months the overall property return was 3.2%.
- Over the 3 months to end September 2016, returns were negative across all sectors (Retail -2.4%, Office -3.5% and Industrial -0.7%). Over the twelve month period, Industrial (+6.6%) outperformed Retail (+1.5%)

and Office (+2.5%). Returns over 12 months have been impacted by market reaction to the EU referendum.

- Over the quarter, total returns from property were derived from the income return (+1.4%) with capital growth being negative (-3.6%).

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For and on behalf of Hymans Robertson LLP

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.