



ARTORIUS WEALTH

INVESTMENT OUTLOOK

April 2017



LONDON



MANCHESTER



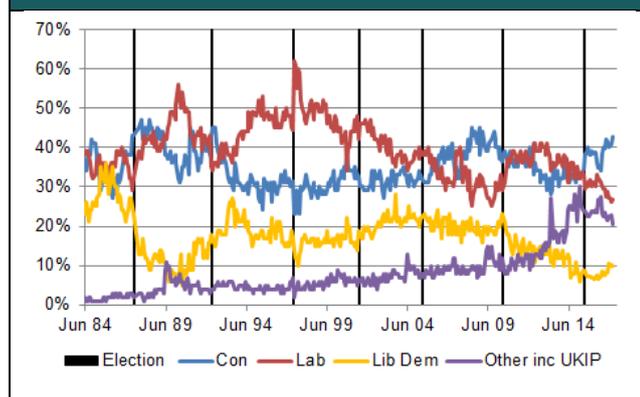
ZURICH

May goes for June

The bastion of political stability remains elusive. The French Presidential election, a contentious Turkish referendum and increased tension in Korea all contribute to a heightened level of cumulative concern. Throw into the mix an early snap General Election in the UK and investors may be surprised that we have only experienced declines of 4% in the FTSE 100 and 2% for the S&P 500 in the US, as of 18 April 2017 from recent record highs.

The return from Easter holidays was enlivened by Prime Minister May's announcement of a General Election in the UK on June 8th, 2017. This will need to be ratified by Parliament but the leaders of all major parties have committed to approving the step.

UK Opinion Polls: Conservatives growing lead in the polls



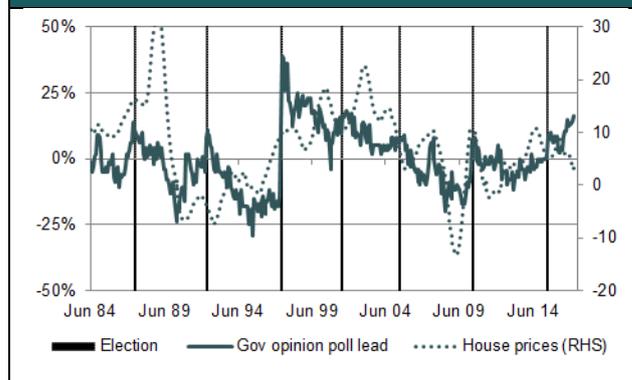
Source: Artorius Wealth, ukpollingreport.co.uk

Why now?

It was obvious, we are now told. Well looking at it dispassionately things could almost not get any better for the Prime Minister. Labour may suffer further electoral embarrassment in the local elections on May 4th, which might have triggered a Labour leadership change. The opinion poll lead tends to be correlated with how consumers and business are feeling, so a robust CBI Order Book and elevated levels of Consumer Confidence tend to bode well for the incumbent government when it comes to elections.

The economic backdrop is positive, but with signs of the housing market stalling and real wages stagnating. This is yet to be reflected in consumer confidence or opinion polls, as the Conservatives have a 20-percentage point lead.

Has May called the election whilst the feel good factor in the economy and house price inflation remains positive that tend to bode well for the incumbent Government?



Source: Artorius Wealth, Bloomberg, ukpollingreport.co.uk

With a potential embarrassing situation of criminal cases being brought against 30 Conservative MPs accused of electoral expenses fraud in the 2015 General Election, the economic and polling backdrop was perhaps too tempting.

The opinion polls suggest that the Conservatives could have a 100-seat majority, although the ramifications of elector exhaustion may mean that these projections are less accurate than normal.

Opinion poll projections suggest a large Conservative majority

Party	2015 Votes	2015 Seats	Pred Votes	Pred Seats
CON	37.8%	331	43.5%	381
LAB	31.2%	232	25.7%	182
LIB	8.1%	8	9.8%	8
UKIP	12.9%	1	10.5%	0
Green	3.8%	1	4.0%	1
SNP	4.9%	56	4.7%	56
PlaidC	0.6%	3	0.6%	4
Minor	0.8%	0	1.3%	0
N.Ire		18		18

Source: Artorius Wealth, electoralcalculus.co.uk

The lead that the Conservatives have built in recent polls coincide with a slide in the fortunes of the Labour Party. Given the lacklustre leadership of the Labour Party (trying to be generous) may mean that disaffected traditional Labour voters may abstain or switch to UKIP or Liberal Democrats.

Redrawing the political map?

Martin Baxter on electoralcalculus.co.uk has analysed the political map of the UK. Rather than the traditional 'Left' vs 'Right' labels, which mainly focus on the size and role of government, the added dimension of nationalism can be added to the analysis.

Viewing the right vs left political debate alongside the nationalistic leanings of the electorate		
	Left-wing	Right-wing
Nationalist	<p>Left-wing nationalist</p> <p>Traditional working class, hostile to immigrants and globalization.</p> <p>Strength: Newcastle, S.Yorks, Midlands</p>	<p>Right-wing nationalist</p> <p>Believes in the British way-of-life, doesn't like generous welfare benefits or trade unions</p> <p>Strength: Essex, East of England</p>
Internationalist	<p>Left-wing internationalist</p> <p>Middle-class liberal, likes welfare state and EU freedom of movement</p> <p>Strength: Scotland, Wales, east London</p>	<p>Right-wing internationalist</p> <p>Free marketeer, likes globalization and low taxes</p> <p>Strength: London, South of England</p>

Source: Artorius Wealth, electoralcalculus.co.uk

Using the two-by-two (Noah's Ark) framework, the electorate has been crudely subdivided into quadrants. Left-wing internationalism, which is the hallmark of the current Labour leadership, is concentrated in Scotland, Wales, Merseyside, Manchester and some parts of London.

Left-wing nationalism, whose voters have perhaps been relatively ignored, is strong around other northern areas such as Newcastle, South Yorkshire and the Midlands. This may be the traditional Labour seats where UKIP are trying to appeal to the nationalism of the electorate.

Right-wing internationalism is particularly strong in most of London, and other parts of southern England.

Right-wing nationalism is predominant in Essex, the east of England up to Lincolnshire, and rural "middle England", old fashioned UKIP target territory.

Analysed by Electoral Calculus and SMF/Opinium, Labour wards tend to be left-wing, and Conservative wards tend to be right-wing, unsurprisingly. The Lib Dem wards are mildly left-of-centre but internationalist. UKIP wards are economically

centrist, but clearly nationalist. SNP wards in Scotland which are left-wing and internationalist. Both Labour and Conservatives have a proportion of nationalist and internationalist wards across the country.

The London wards are generally more right-wing and internationalist than the main group of wards. In the EU referendum, London voted 60pc to Remain and this is reflected in these wards' political positions, even though London voted Labour in the last General Election, and tends to be the greenhouse for Labour party leadership and MPs, and thus may be at odds with the natural Labour voter outside of London.

Labour's political problem is that its current membership and leadership is strongly in the left-wing internationalist category. But this appeals only to relatively small parts of the country, like London, Wales and Scotland. And of those, Scotland has already rejected the Labour party for the SNP. This leaves a dangerously narrow base of support for the Labour party nationally.

Given the movement in the polls have the traditional UKIP voters switched back to the Conservatives, and the non-London Labour vote switched in part to UKIP? Whilst not expected in this election will the political map need redrawing in future years to accommodate the political views of the regions.

Investment impact

The outcome of the election is likely to bring greater political clarity domestically for the UK, with a larger Conservative majority. This is already being viewed more positively for sterling, reducing potential inflationary pressure and hence positive for gilts in the near-term. The rise in sterling may weaken the outlook for the FTSE 100, given the negative impact on profits a rise in sterling tends to bring.

Clients' portfolios which tend to be invested in a global equity market have performed robustly rising around 3% year to date, despite the rise in sterling. Over time a strong currency tends to weaken the earnings, so a weak sterling in 2017 contributed to a robust earnings backdrop for the UK equity market. If sterling was to continue to recover, this may weaken the backdrop for UK equities, although UK bonds should perform well in such an environment.



Asset Allocation Views

Equities	⊖	Fixed Income	⊖	Alternatives	⊖
US	⊖	Government	⊖	UK Real Estate	⊖
UK	⊖	Investment Grade	⊕	Infrastructure	⊖
Europe ex UK	⊖	High Yield	⊖	Private Equity	⊖
Japan	⊖	Emerging Market	⊖		
Pacific ex Japan	⊖	Cash	⊕		
Emerging Markets	⊕				

⊕ = Positive view
 ⊖ = Negative view
 ⊖ = Neutral

Source: Artorius Wealth

Our **Tactical Asset Allocation (TAA)** tilt vs the **Strategic Asset Allocation (SAA)** reflect our shorter-term views. Actual client portfolios will vary according to mandate, benchmark, risk profile and the availability of individual asset classes in different regions.

ASSET CLASS OVERVIEW

Equity	SAA	Commentary	TAA
US -3 -2 -1 0 1 2 3	22%	We increased our negative stance on US equities from 'slight' to 'moderate' in early December 2015. Overvaluation and risk of policy mistakes in the US make us seekers of higher returns elsewhere	-7%
UK -3 -2 -1 0 1 2 3	7%	Post the BREXIT referendum we have switched from our long standing exposure to domestic FTSE 250 to FTSE 100 which is likely to benefit from the fall in sterling, as the larger companies have most of their profits derived from overseas.	-
Europe ex UK -3 -2 -1 0 1 2 3	7%	European economic growth has been robust, and the ECB appears to be moving on from providing stimulus via QE to thinking about tightening policy	-
Japan -3 -2 -1 0 1 2 3	0%	Following the Yen's depreciation, the earnings growth of Japan has been robust but challenges remain longer term (i.e. demographics).	-
Pacific ex Japan -3 -2 -1 0 1 2 3	5%	Global economic growth prospects have brightened which should benefit the region so as of December 2016, we closed our underweight.	-
Emerging Markets -3 -2 -1 0 1 2 3	5%	Whilst China weighs on the universe the use of an active fund manager gives clients' portfolios access to relatively undervalued asset class. Similar to Asian equities the brighter global economic prospects should favour the region so we moved overweight in December 2016.	+2.5%
Global -3 -2 -1 0 1 2 3	3%	We have global equity themes of water and healthcare. As the global population grows, water resources are stretched and the water industry should benefit from increased expenditure. The Healthcare sector benefits from similar themes of larger, more prosperous and aging populations requiring higher levels of spending.	-



Fixed Income	SAA	Commentary	TAA
Cash -3 -2 -1 0 1 2 3	0%	We opt for cash in the face of unattractive opportunities in other asset classes. Long term we look to deploy cash holdings in higher return generating assets, but in times of turbulence cash offers a safe haven.	+4.5%
Government -3 -2 -1 0 1 2 3	14%	We have turned negative on government bonds post the recent BREXIT inspired rally. Rising interest rates in the US is likely to push yields higher and bond prices lower.	-7%
Investment Grade -3 -2 -1 0 1 2 3	9%	In the UK and Euro bond markets a new buyer of last resort (the respective Central Banks) will keep yields lower for longer. The yield pick-up and slight reduction in volatility makes it a compelling place to invest proceeds in comparison with the underlying government bond market.	+7%
High Yield -3 -2 -1 0 1 2 3	4%	High yield markets in the UK and Euro area are shielded to date from the US high yield bond market links with the volatile oil price	-
Emerging Market -3 -2 -1 0 1 2 3	3%	We believe that valuations are attractive and sufficient to outweigh the potential volatility caused by the Fed's rate rises.	-
Alternatives	SAA	Commentary	TAA
UK Real Estate -3 -2 -1 0 1 2 3	10%	UK real estate may struggle in the face of BREXIT. It is a sector that offers both long-term opportunities, but near term risk depending on policy and investor response. However, for longer term investors, the income generation should prove resilient.	-
Infrastructure -3 -2 -1 0 1 2 3	5%	Valuations remain full, with limited scope for disappointment, but cash flow generation is drawing fund flows.	-
Private Equity -3 -2 -1 0 1 2 3	6%	The asset class most correlated to the economy, in terms of risk. PE houses are expected to deliver positive returns until the economy slows markedly or credit costs rise to curtail private market activity.	-

Source: Artorius Wealth

Key: The numbers reflect a quantitative description of our tactical positions relative to the strategic benchmarks. Our Strategic Asset Allocation (SAA) solutions offer a blend of assets that over a medium term (5-7 years) will, in our view, provided the optimal mix of returns and risk at a given level of risk tolerance. Our Tactical Asset Allocation (TAA) tilt vs the Strategic Asset Allocation (SAA) reflect our shorter-term views. Actual client portfolios will vary according to mandate, benchmark, risk profile and the availability of individual asset classes in different regions. The SAA and TAA positions reflect a medium risk sterling on-shore based client portfolio. Views are subject to change and implementation in portfolios will reflect specific client requirements.



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