ARTORIUS WEALTH

INVESTMENT OUTLOOK

June 2017

LONDON MANCHESTER ZURICH

Another democratic test

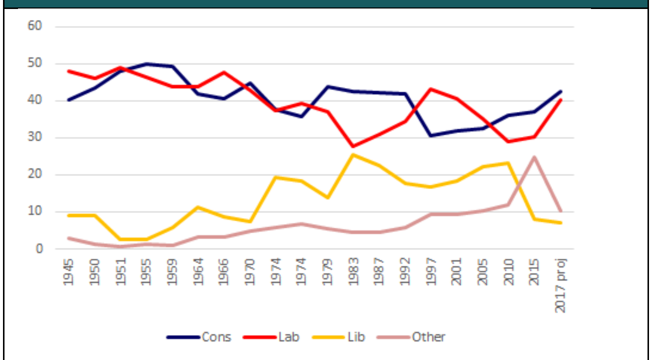
That wasn't in the script. A 'strong and stable' leader versus an 'old-school' socialist was meant to have resulted in a larger Conservative majority to provide greater stability heading into and through the Brexit negotiations.

Ahead of the final seats being declared, it looks like no overall party will be able to govern alone, although the Conservatives will remain the largest party. Together with the Democratic Unionist Party it is likely they can cobble together a 324-working government. Although there are 650 seats in Westminster, Sinn Fein (with an expected 7 seats) typically do not take their seats. This means that a government needs 322 seats to win a vote of confidence.

Two party state

The chart below shows the electoral share of the main parties since WWII. A projection for the 2017 election is also shown. The share of the vote going to the major 2 parties in this election is at the highest since 1970. The Conservatives appear to have captured the highest share of the vote since 1983.

Share of votes since WW2



Source: Wikipedia, BBC, Artorius Wealth

Investment impact and Portfolios

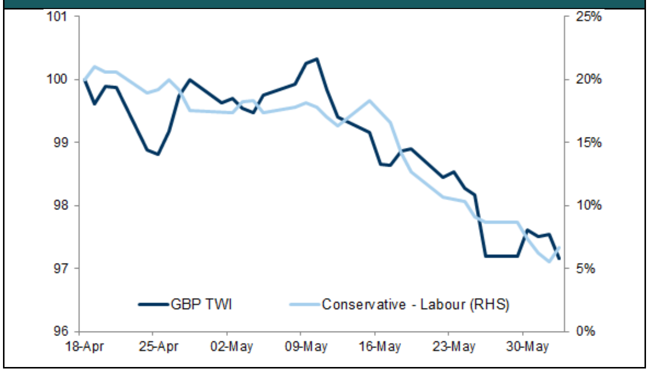
Client portfolios invested via the Artorius Wealth discretionary service should be relieved to know that only a small minority of their portfolio is exposed to UK equities. We invest into equities globally, so under 10% of the portfolio will be impacted directly. A fall in sterling is likely to lead to a rise in value (in sterling) for UK clients investing into overseas equities, as happened post the EU referendum last year.

For clients with individual UK equities selected using our Capital Discipline Process, although individual stocks may react to the news flow, we will be watchful and take considered action where appropriate.

For clients accessing UK equites via funds, we remain overweight FTSE-100, as our belief is that any weakness in sterling will benefit internationally diversified companies more than the constituents of the FTSE 250 companies, which tend to be more exposed to the UK economy.

Sterling fell ahead of the election as the Tory lead in the polls shrunk, and has fallen further since the result.

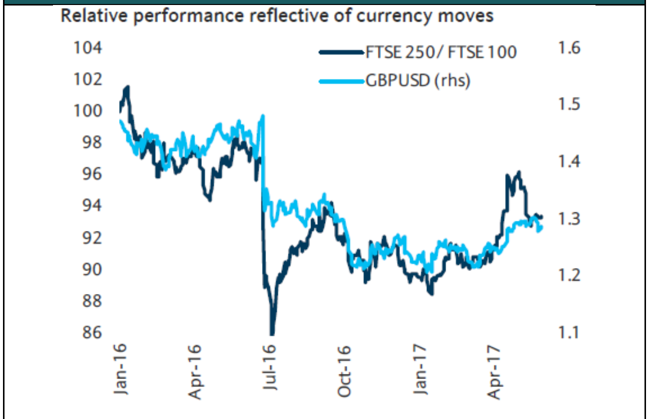
Sterling fell as polls narrowed



Source: Goldman Sachs, Artorius Wealth

Likewise, the FTSE 250 underperformance vs the FTSE 100 appears linked to Sterling. With the outcome of no overall majority, then we expect to see the continuation of the underperformance of the FTSE 250 index vs the FTSE 100 index, consistent with weakness in sterling.

The relative performance of FTSE 100 and FTSE 250 appear to be related to sterling



Source: Barclays, Artorius Wealth

UK Real Estate

The asset of challenge post the EU Referendum was the commercial real estate. Although there has been a return to some stability in subsequent months, the backdrop of uncertainty may result in further dislocations, especially in those parts of the market, such as office space, where business uncertainty may dampen demand.

Bonds

The gilt market is unlikely to react significantly as the Bank of England has previously acted to remove uncertainty. We remain underweight Government bonds and overweight Investment Grade bonds.

Brexit…. from Hard to Soufflé?

The lack of clarity over Brexit makes peering into the future more difficult than usual. Ranging from a chaotic Brexit where Parliament re-asserts some check on the executive powers could likely lead to a poor set of negotiations, as political point scoring in Westminster may replace the need for strategic silence. Alternatively, a 'soufflé Brexit…. so light we hardly notice' may result as the UK's ability to extract a good 'hard' Brexit on issues such as immigration and trading is damaged beyond repair.

Domestic issues remain unaddressed

Unless the Parliamentary parties cooperate on issues such as infrastructure, housing, education and social care, then it appears that the need for strategic solutions to address long-term productivity and life enhancing issues will remain absent.

Whilst the handling of the so-called 'dementia tax' can be criticised, the willingness to address a significant issue should have been welcomed, but we suspect that without the courage to take the political pain then these 'hard' issues will likely remain unresolved.

On guard

Our investment response is to do nothing for now but remain watchful of events. We will naturally share further insights with you and take decisions to take advantage of opportunities and avoid undue risk where warranted.

Asset Allocation Positioning

Equities	⊖
US	⊖
UK	⊜
Europe ex UK	⊜
Japan	⊜
Pacific ex Japan	⊜
Emerging Markets	⊕

Fixed Income	⊜
Government	⊖
Investment Grade	⊕
High Yield	⊜
Emerging Market	⊜
Cash	⊕

Alternatives	⊜
UK Real Estate	⊜
Infrastructure	⊜
Private Equity	⊜

⊕ = 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

	SAA	Commentary	TAA
UK -3 -2 -1 **0** 1 2 3	7%	In portfolios with direct equities, the Capital Discipline Process continues to be used to select stocks that are returning capital to shareholders without the use of leverage. For clients with fund exposure ahead of the General Election we have remain overweight in FTSE 100 exposure, that should perform better than the FTSE 250 given sterling's decline	-

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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