



ARTORIUS WEALTH

INVESTMENT OUTLOOK

Pre-Autumn Statement Briefing

November 2016



MANCHESTER



LONDON



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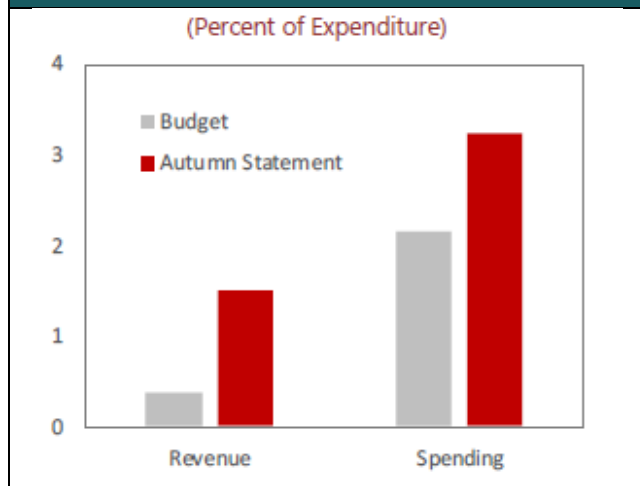
Regime change?

Economic backdrop: a new set of rules?

The bonfire of predictions around BREXIT and Trump doesn't prevent the humble city commentators to put pen to paper ahead of this week's fiscal event in the UK: The Autumn Statement.

Regarded by some as a mid-term fiscal review and mini-Budget, the Autumn Statement has become the fiscal event of the year, with more meaningful decisions than in the spring Budget. According to the IMF, in their review of the UK's Fiscal Transparency (a sure fire read to conquer insomnia), the Autumn Statement has focused on announcing medium-term policy changes in order to meet the fiscal targets. The quantum of policy decisions announced in the Autumn Statement exceed those announced in the Budget by a considerable margin, particularly on the tax side.

Topsy Turvey Timing: The Autumn Statement matters more than the official Budget with regard to the timing of fiscal announcements in the UK:

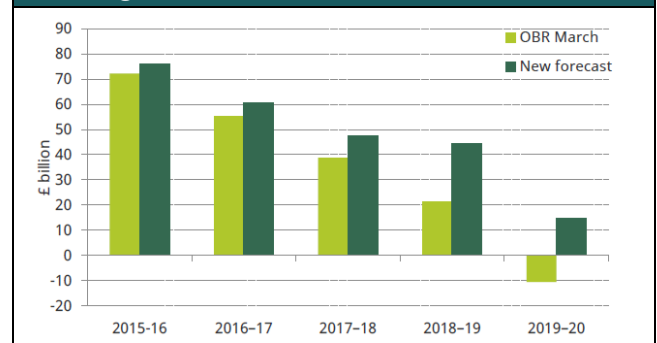


Source: IMF, Artorius Wealth

This poses a challenge to the universality of the budget. It has led to complaints from business and commentators on the frequency of changes to the tax system, and a call to move to a single fiscal event to provide greater certainty and stability, to release resources for better consultation, and to produce higher quality legislation.

New government, new policies? Since taking office, both PM May and Chancellor Hammond have been eager to distance themselves from the Cameron-led government's policies. In particular, the government appears to be open to new wealth redistribution policies and infrastructure spending programmes. The government's focus on new investment spending in relation to the UK's productivity gap is a welcome change, but we await details on policies to assess whether this could have any meaningful impact. At this stage, and given the government's limited fiscal wiggle room, none of these proposed policies are expected to be an economic game-changer.

UK Public Sector Borrowing forecasts: higher for longer



Source: Institute for Fiscal Studies, Artorius Wealth

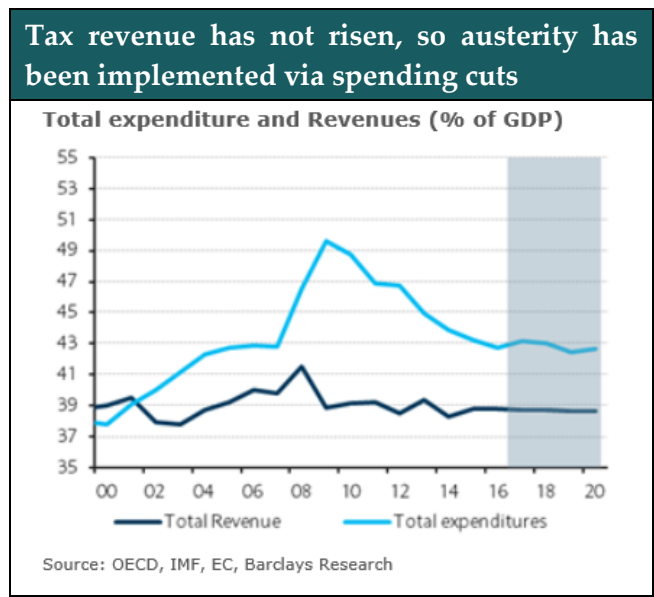
Post 2010 government (Coalition and Conservative) managed to reduce its deficit, albeit at a much slower pace than originally planned, and often with the goal posts moved further and further back. With 2017 economic growth in the UK likely to be closer to 1% rather than the 2% expected at the time of the Spring Budget, we should expect borrowing to be higher and last longer than previously forecast. The overall debt level of the UK public sector is likely to remain at c 84% of National Income until 2020, rather than falling to 77% of National Income as forecast back in May 2016.

The previous Conservative regime had failed to meet any of its fiscal targets. The commitment to reduce debt as a share of national income every year was breached as debt rose between 2014-15 and 2015-16. The commitment to eliminate the deficit by 2019-20 has been abandoned in 2016, three years before it was first due to be tested. Likewise, the commitment to keep forecast spending on welfare within a cap was

breached in Autumn 2015. How politically wise it will be for Chancellor Hammond to announce additional targets will be seen, but given the scale of the known-unknowns (i.e. what BREXIT means) we would suggest that such targets will be meaningless and likely to be forgotten, if and when missed.

The government had put in place significant fiscal tightening to be enacted in 2017-2020, both via spending cuts and tax increases. It is in the gift of the new Chancellor to reshape or delay this fiscal drag on the UK economy.

A well targeted temporary fiscal stimulus might help the economy through a period of uncertainty. But if long-run growth is lower because of BREXIT we should also prepare for further austerity in the next parliament.



Source: Barclays, Artorius Wealth

Government receipts appear broadly stagnant, having hovered around 39% of GDP since end-2013. Revenues from VAT and social contributions have remained broadly unchanged, in percentage of GDP terms, over the same period. If the government is to raise the income tax allowance and higher rate threshold to gain political favour with the electorate, this will put further downward pressure on revenues.

Fiscal detail

Whilst not tax advisors, we have an appreciation of the tax environment for clients in presenting wealth and financial advice. The potential to create tax raising measures have been seized by most Chancellors (e.g. pasty tax etc.) but we suspect that many would welcome a simplification of the rules rather greater complexity.

The government's hands are somewhat tied on tax policy to increase tax revenue by the tax lock put in place by George Osborne, under which the government pledged not to increase income tax, national insurance or VAT over its current term.

There would be a risk of upsetting the business community if the journey to lower corporation tax was reversed, as the rate of 17% from April 2020 has been preannounced by the previous Chancellor. A reversal that could be welcomed by investors and entrepreneurs are the changes to the Entrepreneurs' Relief by the previous Chancellor.

The Resident Non-Domicile (RND) taxation reforms have come in for a lot of criticism and the consultations on them have dragged on for a long time. There has been a lot of discussion and lobbying behind closed doors. How the final legislation is drafted, scheduled to be revealed on December 5th, may reveal that the RND tax regime may not turn out to be so stringent after all, especially in the face of the need for foreign capital post-BREXIT.

A potential change in pensions relief is an oft mooted option for the Chancellor to gain tax, with a simple fixed rate relief for all taxpayers.

Act with knowledge not speculation

A well targeted temporary fiscal stimulus might help the economy through a period of uncertainty. But if long-run growth is lower because of BREXIT we should also prepare for further austerity in the next parliament.



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 verses the Strategic Asset Allocation (SAA) reflect our shorter-term views. Actual client portfolios will vary per 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. The risk of tighter credit conditions, threaten the subdued economy, especially the Small Cap sector which accounts for most of the underweight view.	-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%	We believe that the ECB's commitment to its asset-purchase programme will remain supportive of the region's recovery.	-
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%	We remain concerned over the Asian equity universe. An economic slowdown in China and collapse in commodity prices weighs heavily. Growth risks and monetary conditions in the US cause us to reduce exposure in clients' portfolios.	-2.5%
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.	-
Global -3 -2 -1 0 1 2 3	3%	In contrast to our regional asset allocation we have a global equity theme of water. As the global population grows, water resources are stretched and companies in water industry should benefit from increased expenditure.	-



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.	+9.5%
Government -3 -2 -1 0 1 2 3	14%	The fall in bond yields in 2016 has benefitted portfolios. with a change in dynamic as the Bank of Japan look to support the economy via Helicopter Money and a concentration of risk in the financial markets we have de-risked the bond exposure by moving to a shorter duration fund	-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.	-
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 verses 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.



IMPORTANT INFORMATION

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Past performance is not a guarantee of future performance and investors may not get back the amount originally invested. Investing involves risk, including possible loss of principal.

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