EB WEALTH

QUARTERLY REPORT
Q1 2016

GLOBAL OVERVIEW

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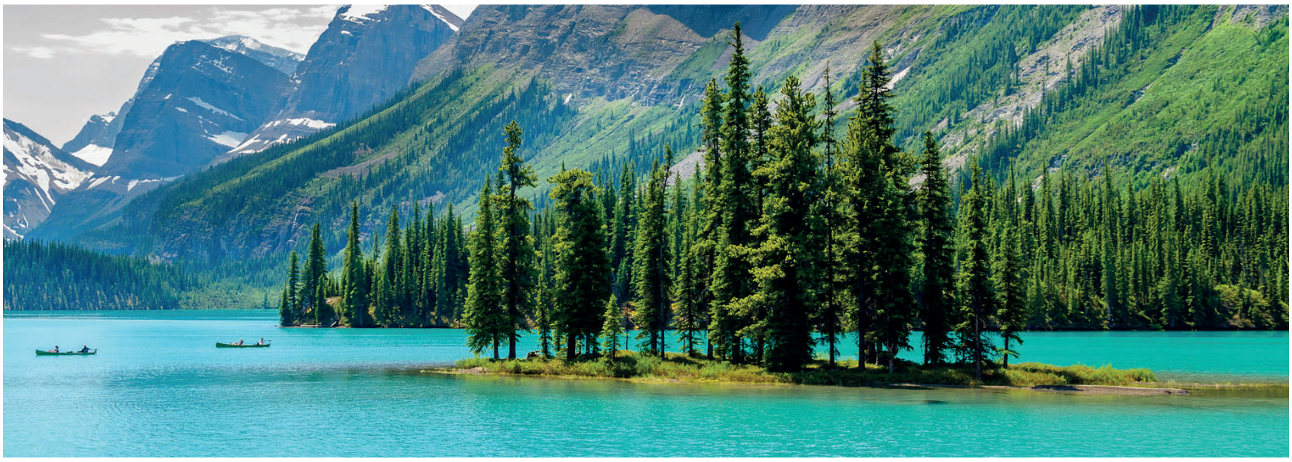
The first quarter of 2016 followed a similar agenda to the last quarter of 2015: a continuation of extraordinary monetary policy and market sentiment not knowing which way to turn. The 'lower for longer' environment looks like it's here to stay as the Bank of Japan adopted negative interest rates and the European Central Bank also introduced a number of measures in order to stimulate growth. On the one hand, markets are appeased by the actions of central banks and their ability to avert deflationary pressures. On the other, there are real fears that there's not a lot left that they can try.

Fears over a potential Chinese collapse continued as the oil price slump continues to hurt producers, emerging markets and their financial backers. Concerns over US growth were also raised as well as the Federal Reserve's ability to diverge from the actions of other central banks and act independently from the pressures of a Chinese slowdown. The potential exit of Britain from the EU also caused some turbulence, affecting both sterling and potentially the Bank of England's decision to move interest rates.

It looks like the biggest challenge for the coming quarter will continue to be the prospects for global growth as oil prices and interest rates remain low. Whilst equities look to be recovering from their January and February lows, further volatility and another market correction are certainly not out of the question.



How might the EU Referendum affect your pensions and investments?

UK Prime Minister David Cameron has announced that a referendum on whether Britain should remain in the European Union (EU) will be held on Thursday 23rd June. The battle lines have been drawn as campaigners on both sides of the fence argue over which outcome would be best for the country. One key claim of the pro Europe campaign is that the economy will suffer if Britain decides to leave the EU. To what extent is this a valid argument? How might a decision to either stay in or leave the EU impact on your investment portfolio?

The EB Partnership is of the opinion that there is no valid long-term economic argument either for or against Britain leaving the EU. There could be serious economic consequences but we just don't know for sure. Along with fund manager Neil Woodford, we believe that the debate is more of a political argument about issues such as immigration and sovereignty. However, with respect to the referendum's effect on the economy and financial markets, although the long term outcome of a 'Brexit' is highly debatable, the short term uncertainty of a potential 'Brexit' would almost certainly have a negative effect on short term market volatility and performance.

Both equity and currency markets would prefer the stability of staying in the EU. As the date of the referendum was announced, the pound hit its lowest level against the dollar in almost seven years. On top of the decline in the exchange rate, there would seem to be some delay in planned investment in the UK by domestic and foreign businesses whilst they await the outcome of the vote.

Despite the long-term economic consequences of a 'Brexit' not being known, a vote to leave the EU would prolong the uncertainty. Equities would most likely fall and it is anticipated that economic growth and interest rates would be somewhat lower over the next one or two years than if we voted to remain in the EU. These effects would be expected to fade as the post-EU landscape became clearer and Britain's new relationship with Europe was defined, particularly in respect to securing new trade deals and maintaining access to the single market.

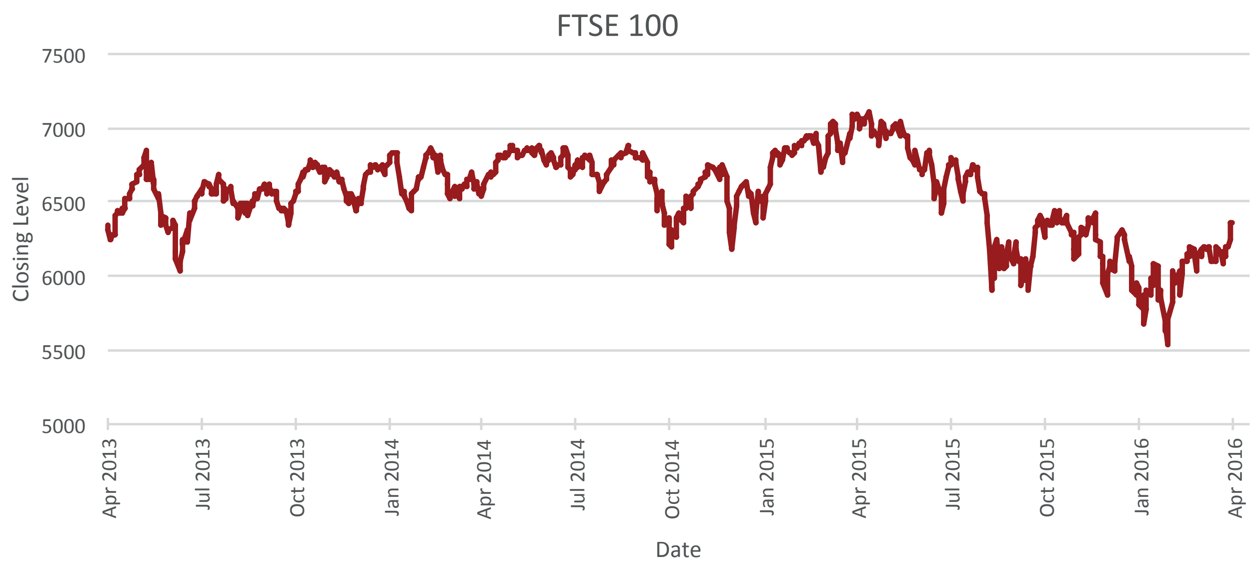
Overall, costs and potential benefits of 'Brexit' to the UK economy are probably exaggerated by those on both sides of the argument. If the UK votes to leave the EU, The EB Partnership thinks that there could be a knee jerk reaction pushing both financial markets and economic growth downwards. However, they would then likely recover when the effects of leaving are not as bad as expected, similar to what we had anticipated happening if Greece had ended up exiting the Euro last year.

It is difficult to avoid the fact that politics will affect market valuations. As we get closer to the vote – if opinion polls show the UK to be leaning towards a 'Brexit' - or even if it looks like a close race – we would expect there to be some stormy times in the financial markets. Although any downturn is unlikely to be a protracted affair we would consider "buying in" to any short term losses which equity markets might experience should 'Brexit' occur.

As always, The EB Partnership is monitoring events closely and is ready to make amendments to our portfolios should they be required.

MARKET COMMENTARY

1. UK



The Office for National Statistics (ONS) estimates that UK GDP grew 0.5% during the fourth quarter of 2015, unrevised from its previous estimate. The unemployment rate dropped again to 5.1% for the November to January period. This quarter has also seen inflation, as measured by the Consumer Prices Index (CPI), increase by 0.3% for February 2016.

UK equity markets rallied towards the end of the quarter with high levels of volatility, caused by a continued weakness in commodity prices and concerns about the domestic economy.

Confirmation of the date for a referendum on EU membership had little impact on the markets but did cause further sterling weakness. Expectations of the first UK rate rise has also been moved out as the Bank of England voted 9-0 in favour of keeping rates at 0.50% for the first time since July 2015 and cut its forecast for UK growth in 2016 from 2.5% to 2.2%.

Whilst market volatility has reduced somewhat in recent weeks, the general market apprehension has not completely subsided and another market correction in the coming months would not be unexpected. For this reason, The EB Partnership will maintain its underweight position in UK equities this quarter.

2. US

In March, the US Commerce Department announced that it had revised its latest estimate of GDP for the fourth quarter of 2015 to 1.4%, from previous estimates of 0.7% and 1%. This was still much lower than the growth recorded for the second and third quarters of the year causing some concern and making another interest rate rise look unlikely in the near term. The US Federal Reserve (Fed) chair Janet Yellen gave a 'dovish' speech at the end of March reminding everyone that the central bank needed to 'proceed cautiously'. At the beginning of the year the Fed thought that 4 hikes were likely in 2016 but markets are now of the opinion that interest rates are unlikely to move higher for the rest of this year.

With regards to US equities, sentiment drove the market lower in February on the back of uncertainty over the outlook for the US economy and concerns about the health of the global economy. However, the S&P 500 staged a strong recovery in March to end the quarter 1.3% higher. This was partly due to expectations of a further rate rise being pushed back. Whilst markets recovered somewhat in the latter half of the quarter, The EB Partnership is still concerned about some of the US economic data that has been released recently and we will therefore maintain our underweight position for the upcoming quarter.

3. Europe

Like many other regions, Europe suffered high levels of market volatility this quarter. March experienced a partial recovery but the Euro Stoxx 50 still ended the period down approximately 0.8%. Sharp sell-offs in January and February were caused by concerns over weakening global growth, falls in the oil price and non-performing loans, particularly in the Italian banking sector.

On a macroeconomic front, the Eurozone maintained its recovery momentum at the end of 2015 although there were divergences across the region. GDP expanded 0.3% in the fourth quarter of 2015, driven by Germany but growth slowed in Italy and Greece slipped back into recession. In better news, the unemployment rate declined to 10.3% in January, the lowest since August 2011.

In response to concerns about slowing growth, the European Central Bank (ECB) also introduced a new, unprecedented package of measures at their March meeting. The ECB cut interest rates further, expanded its quantitative easing (QE) programme and announced new ultra-cheap four-year loans to banks, allowing them to borrow from the ECB at negative interest rates.

Whilst we wait to see what impact these new measures will have in the months to come, The EB Partnership thinks that it is sensible to maintain our 'neutral' tactical position for this quarter.

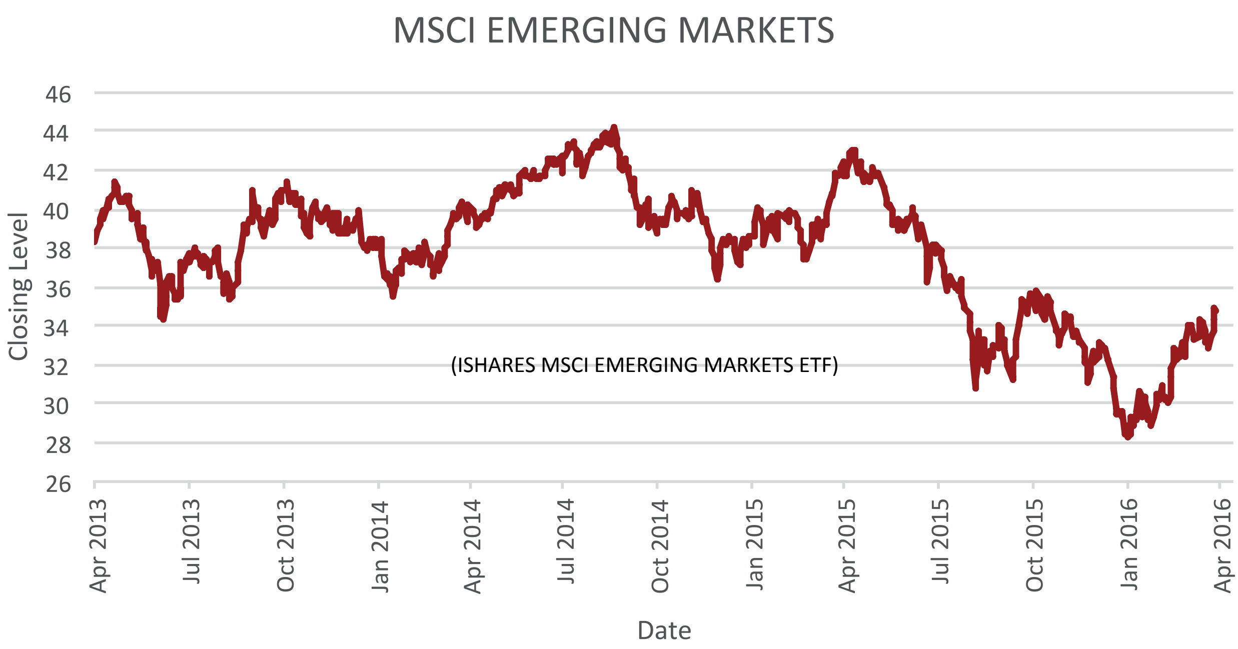
4. Japan

Japan's equity markets followed much the same pattern of other developed markets, falling sharply in January and February followed by a slight rebound in March. However, the Nikkei 225 still ended the period down 3.4%. The common culprits of China's economic slowdown and the weak price of oil and other commodities were somewhat to blame but announcements made by the Bank of Japan (BOJ) also played a part.

The BOJ surprised markets in January by announcing a negative interest rate policy on excess reserves held at the central bank. After equity markets dropped significantly as a result, the BOJ stressed that they had no doubts about easing monetary policy further if required, to support growth and keep the momentum going. Other recent economic data has been mixed. The unexpected rising Yen is having an effect on exporters' earnings and the impact of negative interest rates on bank balance sheets is weighing on the outlook for Japanese corporate earnings. However, 30,000 new jobs were added between January and February and consumers appear to be increasingly optimistic with real consumer spending in February rising 1.2% year-on-year.

Despite recent turbulence, The EB Partnership is reassured by the recent measures taken by the BOJ and thinks that the strong long-term investment potential is a compelling reason to maintain our overweight position.

5. Emerging Markets

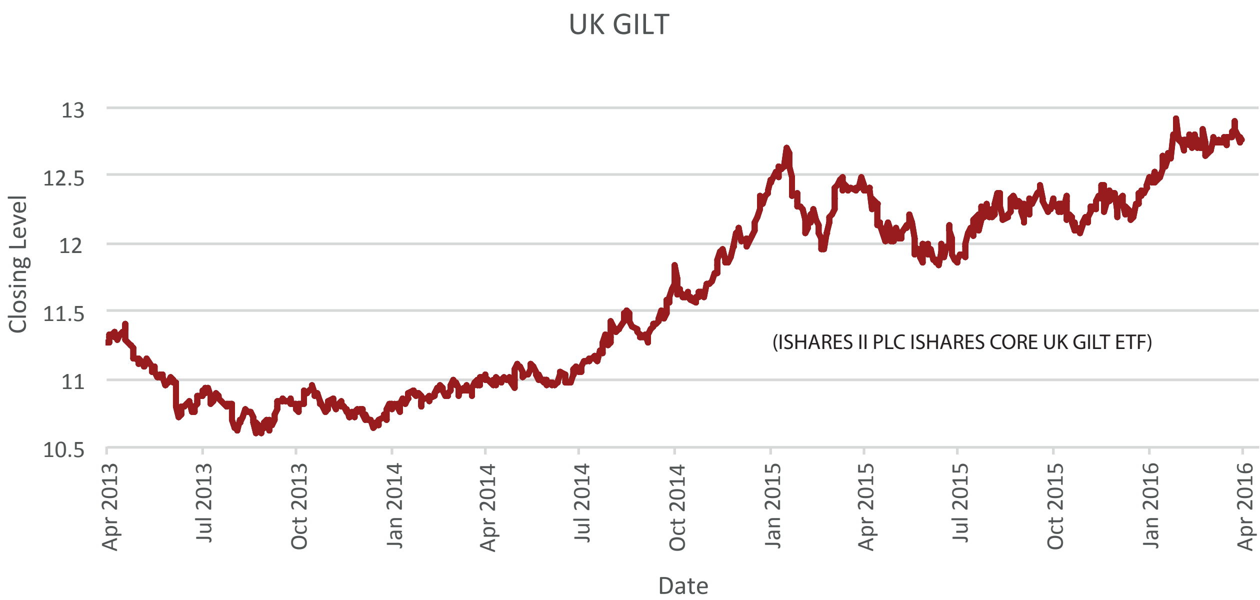


Despite a difficult start to the year, emerging market equities rebounded to post solid gains over the first quarter of 2016. They also outperformed developed markets, supported by a delay in expectations of a further interest rate rise in the US and an easing in US dollar strength. The difficult start was mostly due to renewed instability in the Chinese equity market as performance was negatively affected by a series of headwinds, including ongoing yuan weakness, struggling economic growth and the spill over effect from the removal of selling restrictions in mainland stock markets.

The performance of other emerging markets was mixed. Latin America was the best performing region with Brazil benefitting from increased expectations of political change on the horizon. Thailand also generated positive returns as the Government announced that it was considering the launch of a new stimulus package to boost the rural economy. In contrast, equity performance in India was impacted by waning confidence over the government's reform agenda.

Whilst 2016 has so far been more positive for emerging markets, the Chinese economic slowdown and a renewed tightening of US monetary policy could cause some problems in the months to come. The EB Partnership will therefore maintain its underweight position this quarter.

6. Fixed Interest

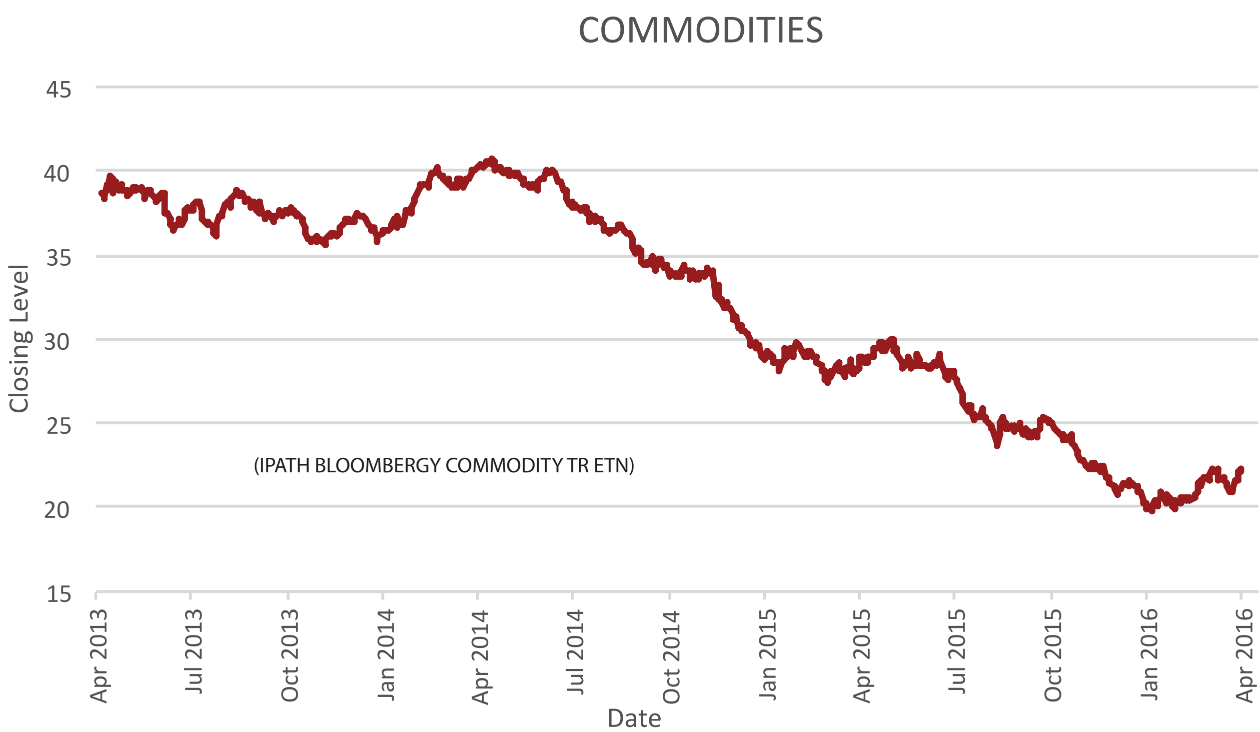


In contrast to equity markets in January and February, bond markets rallied as investors sought perceived 'safe havens'. This market volatility, along with increasingly dovish statements made by central banks meant core government bond yields were lower over the quarter. The 10-year US Treasury yield fell from 2.27% to 1.77% and the 10-year UK gilt yield decreased from 1.96% to 1.42%, with the addition of 'Brexit' fears.

In the corporate bond sector, riskier parts, such as high yield, were generally lower as investors took a more cautious route. The announcement of a referendum on EU membership added uncertainty to the sterling bond market and interest rate expectations have been pushed out. The futures market is now predicting that the UK won't raise rates until 2020!

The performance of fixed interest holdings continues to swing from one quarter to another. Taking a longer term view, The EB Partnership is still negative on the global bond market as a whole and as per previous quarters, we will maintain our overall underweight position.

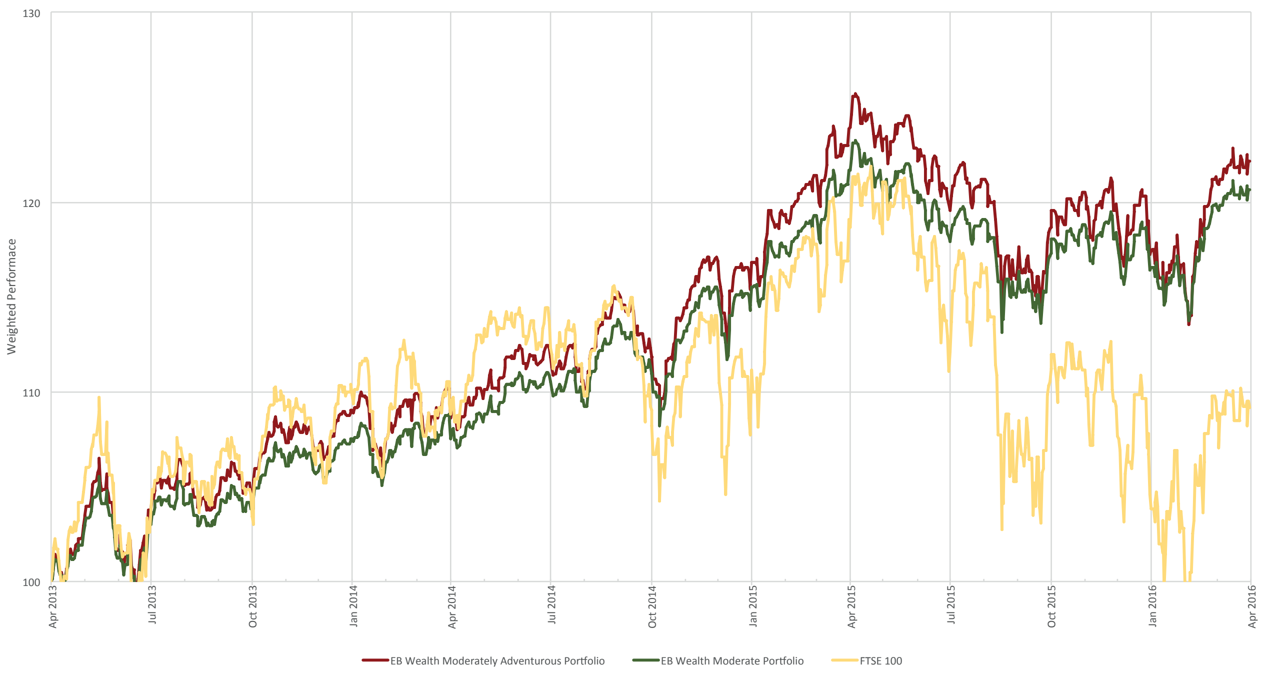
7. Commodities



The start of 2016 saw little respite for commodities as the oil price fell to its lowest level in a decade and copper prices also slid to a six year low. However, the latter half of the quarter saw an oil price rally of almost 50% as Saudi Arabia and Russia both agreed in February to temporarily freeze oil output at January levels. This optimism was to be short lived though as the price fell again at the end of March over fears that output will not be curbed at a meeting of oil producers later in April. Iran has reportedly insisted that they will continue to increase production and exports and Saudi Arabia will only freeze production again if other major producers do the same. In contrast, gold posted large advances over the quarter as a perceived 'safe haven'.

There are some who argue that the negative sentiment is beginning to bottom out and now is the time to invest in oil and other commodities. Whilst The EB Partnership agrees that there could now be some value opportunities for investors, as evidenced by our already overweight position, we think that the oil price could still see some significant volatility to come as major producers continue to refuse to limit supply.

EB Wealth Portfolio Performance



The above graph shows the performance of our Self Invested Personal Pension (SIPP) portfolios including a 25% weighting into a basket of structured products which were recommended to clients over the same period.

Due to the close ended nature of structured products, not all clients can be invested into the same products and will therefore not have received the same returns. The graph above shows the average returns our clients would have received were they to have invested in our moderate or moderately adventurous portfolio, including the average returns they would have received from the structured product element of their portfolio.

OUR TACTICAL ALLOCATION

Sector	Forecast	Action	Morningstar Moderately Adventurous Allocation %	Tactical Overlay %	Final Allocation %
US	Unfavourable	Underweight	11	-1	10
UK Large Cap	Unfavourable	Underweight	22	-1	21
UK Mid Cap	Unfavourable	Underweight	8	-1	7
UK Small Cap	Unfavourable	Underweight	5	-1	4
Europe	Fair	Neutral	13	0	13
Japan	Favourable	Overweight	7	2	9
Asia	Unfavourable	Underweight	4	-2	2
Emerging Markets	Unfavourable	Underweight	9	-1	8
Commodities	Favourable	Overweight	5	1	6
Global Fixed Income	Unfavourable	Underweight	2	-1	1
UK Gilts	Unfavourable	Underweight	2	-1	1
UK Corporate Bonds	Unfavourable	Underweight	2	-1	1
UK Inflation-Indexed	Unfavourable	Underweight	2	-1	1
Property	Favourable	Overweight	5	1	6
Cash	Favourable	Overweight	3	7	10

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