EB WEALTH

QUARTERLY REPORT
Q4 2017

GLOBAL OVERVIEW

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Worldwide markets ended 2017 on a high with many markets obtaining strong returns and some even reaching all-time highs. Asian equities continued to rise with the main indexes in Japan, China and India posting very strong returns. North American and UK equities also performed robustly whilst European markets were relatively flat over the quarter. Commodities also performed well with oil and certain precious metals continuing from its solid performance in the previous quarter. Oil markets and Japanese equities were amongst the best performing markets.

Over the quarter, we saw the Federal Reserve and the Bank of England increase their respective countries' interest rates by 0.25%. President Abe, the incumbent Japanese leader, called and won the snap election in Japan. In December, global markets responded well to Congress' approval of Trump's US tax cuts proposal, meaning that the domestic tax rate paid by companies will reduce from 35% to 21%.

Looking ahead to 2018, we can expect further interest rate hikes in the US, while nearer to home Brexit negotiations will continue for the UK and Europe. These events along with worldwide macroeconomic performance are likely to impact on markets throughout 2018.

Portfolio Performance in 2017

At the end of 2016 EB Wealth fund portfolios posted their 4th consecutive year of significant outperformance measured against a choice of benchmarks (FTSE 100, Global Equity, Inflation + 2% and Balanced Funds industry averages). Faced with major political and economic uncertainty such as 'Brexit' and the election of President Trump in the US, in 2017 we decided to do some profit taking and reduced our exposure to risk across all investment portfolios. Let's look back at how these decisions affected our fund portfolios for the year.

Our Adventurous portfolio returned just over 13.5%, Moderately Adventurous over 11.5% and our Moderate portfolio over 10.5% - not bad by any means!

Performance was largely driven from having overweight allocations in Japan and Emerging markets, with both regions obtaining surprisingly strong returns over the year. Additionally, many of the funds in our current portfolios have performed exceptionally well compared to their peers. 3 funds in our portfolio returned over 20%, 12 funds returned over 15% and 14 of our funds returned over 10% returns.

We were particularly pleased with the performance of these new fund additions to our portfolios this year:

Fund	Performance	Quartile ranking	Position in sector
UBS Global Emerging Markets Equity C	30.4%	1	12/95
Slater Recovery P	30%	1	5/261
Marlborough UK Multi-Cap Growth P	27.4%	1	10/261
Marlborough UK Micro Cap Growth P	31.7%	1	8/47
BlackRock Continental European D	19.1%	2	34/108
TwentyFour Dynamic Bond	8.8%	1	9/82

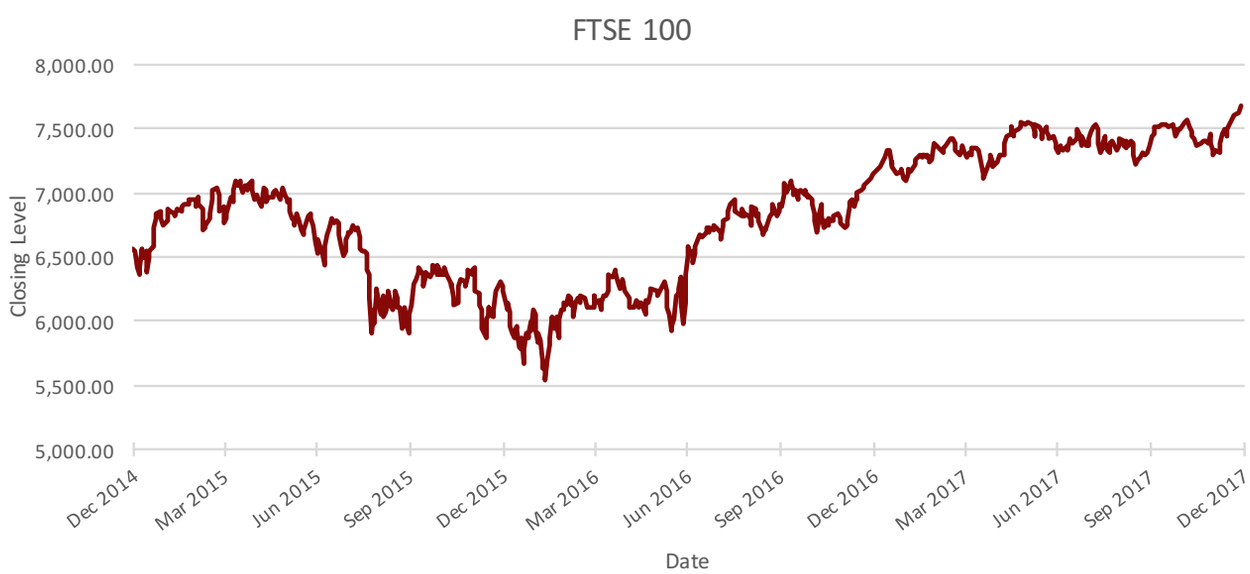
On a less positive note, Neil Woodford's Income fund posted yet another year of significant underperformance. Although we are loathed to sell out of this fund entirely we have made the choice to reduce our exposure to this fund across all of our portfolios in 2018.

Overall, we have once again posted strong returns, albeit lagging many overseas market indices. We are pleased with our double-digit performance which was achieved with significantly reduced portfolio risk and for clients who hold structured products, wherever possible we have locked into defensive return plans for the next 5 – 6 years so we are confident of providing excellent risk adjusted returns for the foreseeable future.

We will be releasing a new set of portfolios with our latest asset allocations before the end of January. Although fundamentals are pointing to many markets having high relative valuations (in particular the US), a good degree of the political risk we faced in 2017 has receded. We therefore plan to reduce cash holdings on our portfolios slightly but we will be watching carefully for signs of the economic outlook turning negative in 2018.

MARKET COMMENTARY

1. UK



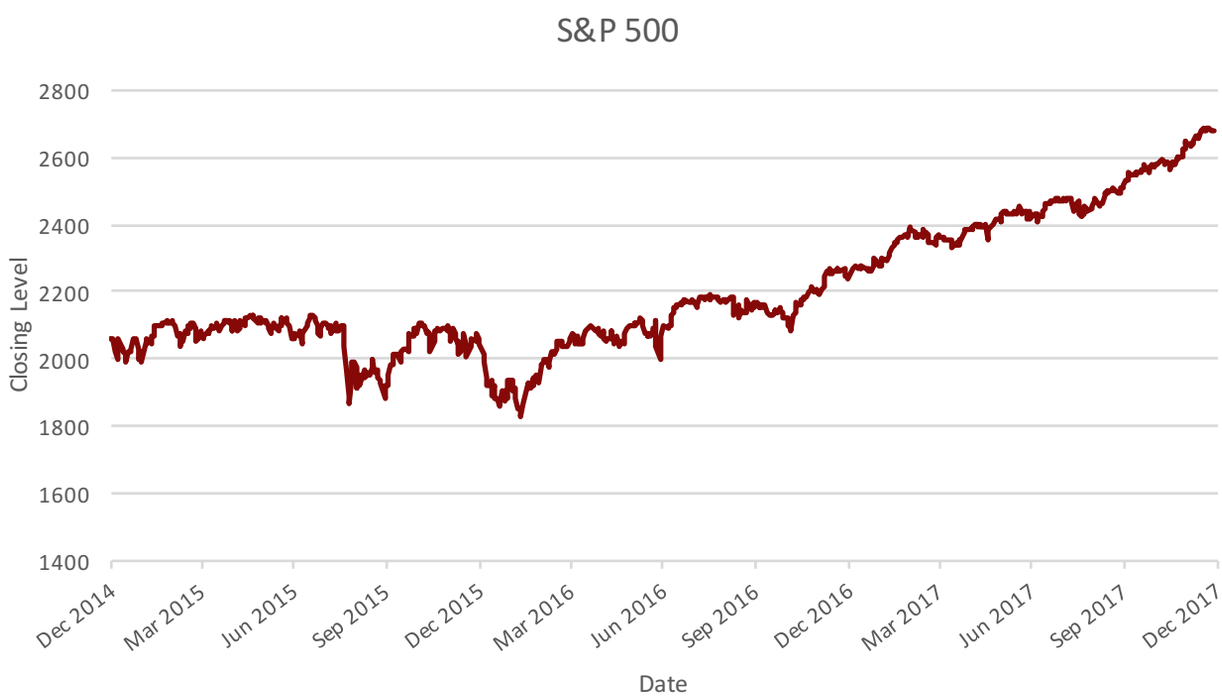
The Office for National Statistics (ONS) reported that UK GDP grew 0.4% for the July-September period, up from the 0.3% in the previous quarter and higher than the 0.3% predicted by city analysts. However, The IMF trimmed its forecast for UK growth this year from 1.7% in October to 1.6%, and said it expected the economy to grow by just 1.5% in 2018. UK unemployment fell by 26,000 in the 3 months to October, with the jobless rate remaining at 4.3%. However, evidence that Britain's long jobs boom has come to an end has emerged after official figures showed the number of people

in work fell by 56,000 in the 3 months ending in October. This quarter has also seen inflation, as measured by the Consumer Prices Index (CPI), increase by 3.1% year-on-year in November above the 2.9% reading last quarter. However, weekly earnings increases including bonuses increased to 2.3% in October which was faster than the 2.1% rise last quarter. The UK manufacturing sector performed strongly, with the Purchasing Managers' Index (PMI), a private sector activity survey and leading economic indicator, posting a 3 year high for the 3 months to December.

UK equity markets performed well over the quarter, with the FTSE 100 and FTSE All-Share both ending up 4.3%. Oil prices as well as some precious metals rocked up again this quarter which had a positive impact on the high concentration for commodity related companies that dominate the FTSE 100. Markets also reacted well to news of strengthening global economic growth and a raft of new US tax legislation, headlined by a major cut in corporation tax. Interest rates were increased as expected from 0.25% to 0.5%. There were some promising signs of progress in the Government's Brexit negotiations which was well received by the market. In December, Prime Minister May travelled to Brussels to finalise EU divorce terms. After 4 days of negotiations, a deal on the key issues was finally agreed and the European Council concluded that sufficient progress had been made in the first phase of negotiations to proceed to the second phase.

After fluctuating between 7200-7500 throughout the year, the FTSE 100 ended the year with confidence and reached all-time highs. The overall gain including dividends for the year was just under 12%. This has mainly been attributed to the £ falling in value to the US $ which has increased earnings for many of the large UK companies who generate returns abroad. However, inflation has been increasing at a fast pace and is far above wage growth. Additionally, growth forecasts have dropped for 2018 and we believe valuations are on the high in the UK at present. Therefore, we remain cautious on UK equities and will be retaining our underweight position in the new year.

2. US



The US economy grew at an annual pace of 3.3% in the third quarter of 2017, which was faster than the 3.1% rise in the previous quarter and far quicker than the economist consensus forecast of 2.5%. The rise marks the strongest consecutive quarters of GDP growth in 3 years. According to the Labour Department, 'non-farm payrolls' rose by 148,000 in December which was well below expectation of 190,000. However, the unemployment rate remained unchanged at 4.1% in December. Inflation as measured by CPI rose 0.4% in November and raised the year-on-year increase in the CPI back to 2.2%. The Fed also increased interest rates by 0.25% to 1.5% in December.

US equities ended the year with a rally with the S&P 500 up 6.1%, the Dow Jones up 10.3% and the NASDAQ up 6.3%. Markets drew confidence from President Trump's end-of-year tax-cutting package and promised infrastructure spending. The Fed also and raised its outlook for economic growth in 2018. The telecoms and energy sectors were the strongest performers with Utility companies underperforming.

2017 has been the best year for the US equity market since 2013. Economic growth has beaten forecasts in the last 2 quarters and growth forecasts have been raised. The Fed is planning a further 3 interest rate hikes in 2018 and unemployment and inflation is under control. Trumps' corporate tax cuts are thought to be positive for US company's revenue prospects. However, given the current high valuations, The EB Partnership believes that other regions could outperform in 2018 and therefore will remain underweight in 2018.

3. Europe

Eurozone equities were stagnant this quarter with the Paris CAC and German DAX and FTSEurofirst 300 little changed over the quarter. On a sector level, the basic materials sector was the best performer benefiting from a sharp improvement in copper prices. This was followed by the consumer services sector, particularly the travel and leisure sub-sector, boosted by an end-of-year increase in activity. Meanwhile, the utilities sector was the leading detractor amid a jump in government bond yields as sentiment towards more risky assets improved after the US senate voted to pass the US tax reforms.

On the macroeconomic front, the euro-area ended the year on strong footing with December seeing the fastest growth of business activity for nearly 7 years. The eurozone composite Purchasing Managers Index (PMI), a private sector activity survey and leading economic indicator, rose to an 82-month high and beat expectations. The economic uptick continued to be broad-based, driven by a booming manufacturing sector (eurozone Manufacturing PMI rose to a record in December) as well as a robust services sector. The eurozone consumer confidence indicator, as measured by the European commission, also rose to the highest level in more than a decade, reflecting the positive economic backdrop. Headline inflation increased to 1.5%.

Although European equities were flat this quarter, they have had the best year since 2013 with many of the euro zone countries obtaining strong returns in 2017. Economic growth has been strong and many of the smaller countries are complementing the larger countries with strong macroeconomic data and positive sentiments. The EB partnership notes that European equities did not keep up with US and emerging markets this year and believes that 2018 could see more added to European valuations. We will therefore move from neutral to overweight in Europe for Q1 2018.

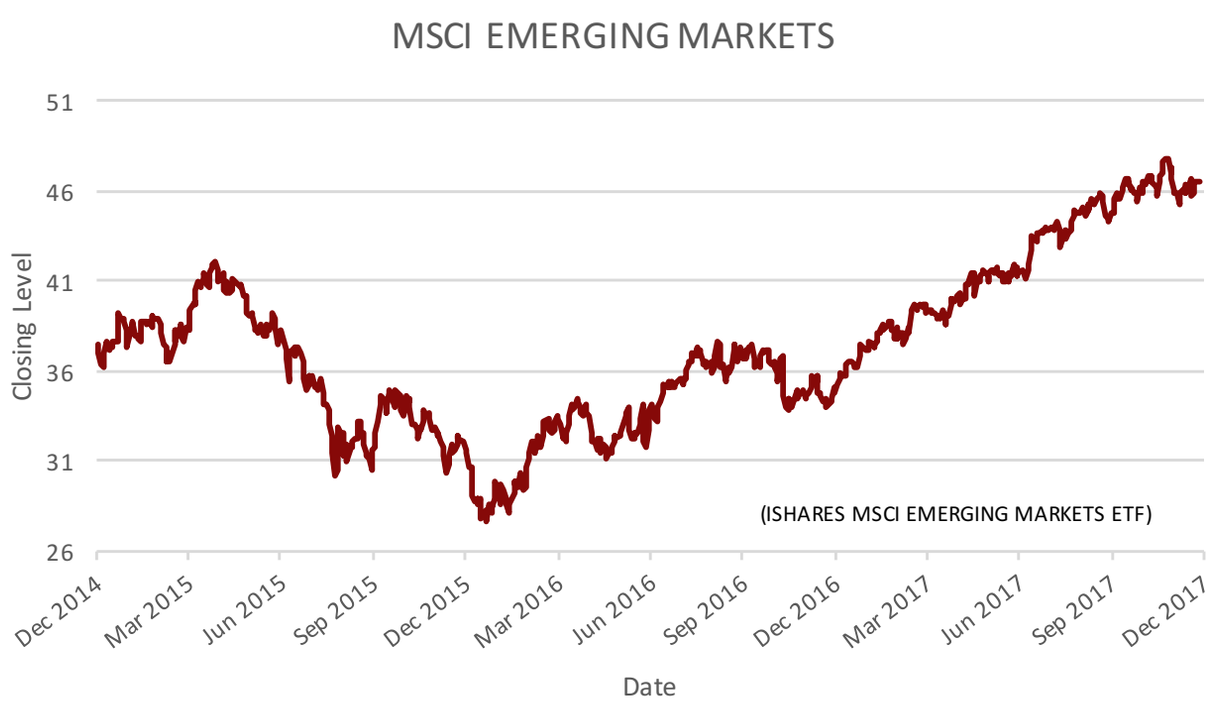
4. Japan

Japanese equities surged up in the last quarter with Nikkei 225 up just under 12%. President Abe and his ruling Liberal Democratic party won the snap election in late October which was positively received by the market. This win gave the President a fresh mandate for economic stimulus and Abe's economic policies, including monetary policies which have been supportive to the economy. The Yen continued to depreciate against the US $ given the view that Japan's monetary policy would remain accommodative, and with expectations that exporters would continue to benefit from the positive outlook for global demand. Furthermore, share prices have been supported by the quarterly corporate results which has provided more positives than negatives.

Japan's macroeconomic data continued to show a gradual improvement in the economy. On an annualised basis, third quarter GDP grew by 2.5%, which was stronger than the preliminary estimate of a 1.4% expansion. Recent data for November highlighted that households spent more than expected, helped by a 1.8% increase (year-on-year) in wage earners' disposable income, while the jobless rate hit a 24-year low. On the inflation front, the core consumer inflation index ticked up to 0.9% but continued to remain stubbornly below the Bank of Japan's 2.0% target despite a growing economy. The central bank decided to leave its accommodative monetary policy unchanged during the quarter, which was widely expected. Finally, the Bank of Japan Tankan Survey showed the large manufacturers' business confidence index achieving its highest level since December 2006, adding further evidence that the economy is gathering some momentum from exports and solid corporate profits.

Japanese equities have performed very well this year. The Fed are planning several further interest rate hikes in 2018 which is expected to further boost revenues for the many large exporters in Japan. Economic growth has beaten expectation this year and wages are rising faster than inflation which has meant more disposable income for people. The EB Partnership therefore will continue with its overweight position in 2018.

5. Emerging Markets



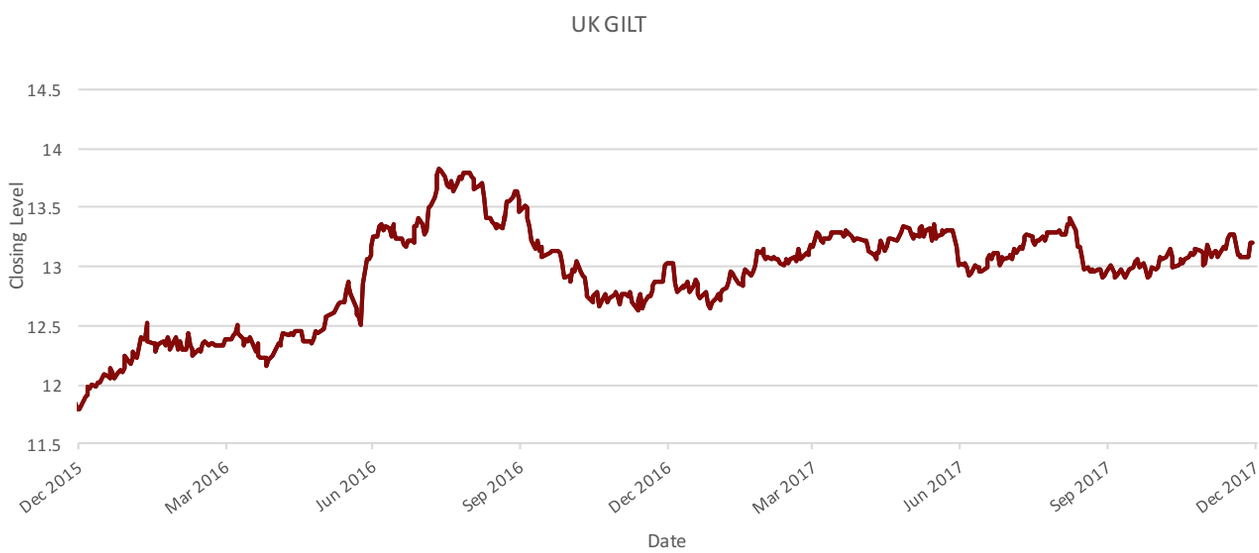
Emerging markets carried on its strong performance in the final quarter of 2017. Asian, European, Middle Eastern and African markets led the gains. China and India were amongst the top performers. Latin America underperformed the broader market, with Chile being the best performing equity market in the region and Mexico ending up with a loss over the quarter. Technology continued to be the best performing sector this quarter.

China's equity market made modest gains at the end of a very strong year, with economic data for November largely meeting expectations. Industrial production and fixed asset investment both saw a small pick-up in growth, as did exports growth. The equity market in India reacted warmly to news that the Government would inject US$32 billion into state-controlled lenders over 2 years, and plans to spend more on building roads. The South African main index was up over 7% over the quarter. Local stocks were lifted by encouraging news on the economy with reports of a sharp uptick in retails sales in August, increasing by 5.5% year-on-year. The strong reading is likely to boost real GDP prospects. South Africa's inflation rate also fell to 4.8% from 5.1%. While Moody's held fire on downgrading South Africa, S&P cut the country's local currency credit rating from BBB to BB+. The decision did not have a negative impact on both the local equity market and currency, with the South African rand gaining 3.1%. Turkey's equity market had a strong year-end rally and drew support from encouraging domestic economic data with third quarter 2017 GDP growth in at 11.1% year-on-year which was higher than consensus expectations. In Latin America, Chile led the gains as investors reacted warmly to Sebastian Pinera's victory in the Presidential elections. The conservative candidate pledged to jump-start Chile's economic growth and adopt more business-friendly policies than his predecessor. Brazil's main index was up just over 2% over the quarter which was impacted by its central

bank reducing its benchmark interest rate by 0.5% to 7.0% which is a historic low. By contrast Mexico's main index fell just under 2%, with a deteriorating inflation outlook prompting Mexico's central bank to raise interest rates by 0.25% to 7.25%. The Mexican peso lost ground during the month.

2017 was the best year for emerging markets compared to developed ones since 2009. Asia came top from a regional perspective, driven by China, Korea and India. However, the overall country winner for the year was Poland, which benefited from a strengthening recovery in the eurozone. The bottom three markets were Qatar, UAE and Russia. Technology was the best performing sector over the year. We therefore maintain our overweight position for 2018 and will consider increasing our allocation to emerging Europe.

6. Fixed Interest



US Treasury yields rose over the quarter, amid growing momentum behind a tax reform bill which is expected to stimulate growth and inflation. For the quarter overall, 10-year yields increased from 2.33% to 2.41%, 5-year yields rose from 1.93% to 2.21% and 2-year yields from 1.48% to 1.89%. In the UK, 10-year gilt yields were down from 1.36% to 1.19% with less pronounced decreases for 5 and 2 year maturities. A November rate hike by the Bank of England was well anticipated and was accompanied by dovish guidance. Economic activity remains subdued and political uncertainty continues. In Europe, positive economic momentum continued unabated, with manufacturing activity at multi-year highs. The ECB announced the reduction of asset purchases, but extended the programme, which proved a significant boost to bond yields. Government yields in Spain, Italy and France performed well on the announcement, but the moves were either reduced or undone later on due to political factors. In Catalonia, a snap parliamentary election called following the referendum vote for independence, saw pro-independence parties win 70 out of 135 seats. Spanish yields fell from 1.61% to 1.54% over the quarter. Italian 10-year yields were down from 2.12% to 1.99% over the quarter, they sold off in December as a general election was confirmed for March. French 10-year yields finished higher on the quarter after rising from 0.68% to 0.78% in December. The German Bund curve were mixed with 10-year yields dropping from 0.47% to 0.43%, 5-year yields rising from -0.26% to -0.19% and 2-year yields falling from -0.69% to -0.62%.

Corporate bonds capped a good year with positive total returns, outperforming government bonds. Investment grade credit saw stronger returns than high yield, aside from in Europe, as the latter experienced challenging conditions in November having reached elevated valuations. The Bank of America Merrill Lynch Global investment grade index total return amounted to +1.0%, and for high yield +0.5%. Sterling IG credit was the strongest, while Euro and Sterling high yield made good returns.

High yield corporate bonds continue to outperform within the bond space. However, the Federal Reserve is planning several interest rates increases in 2018 which are likely to have a negative impact on bond prices. Therefore, we will continue with our underweight position to fixed interest in 2018.

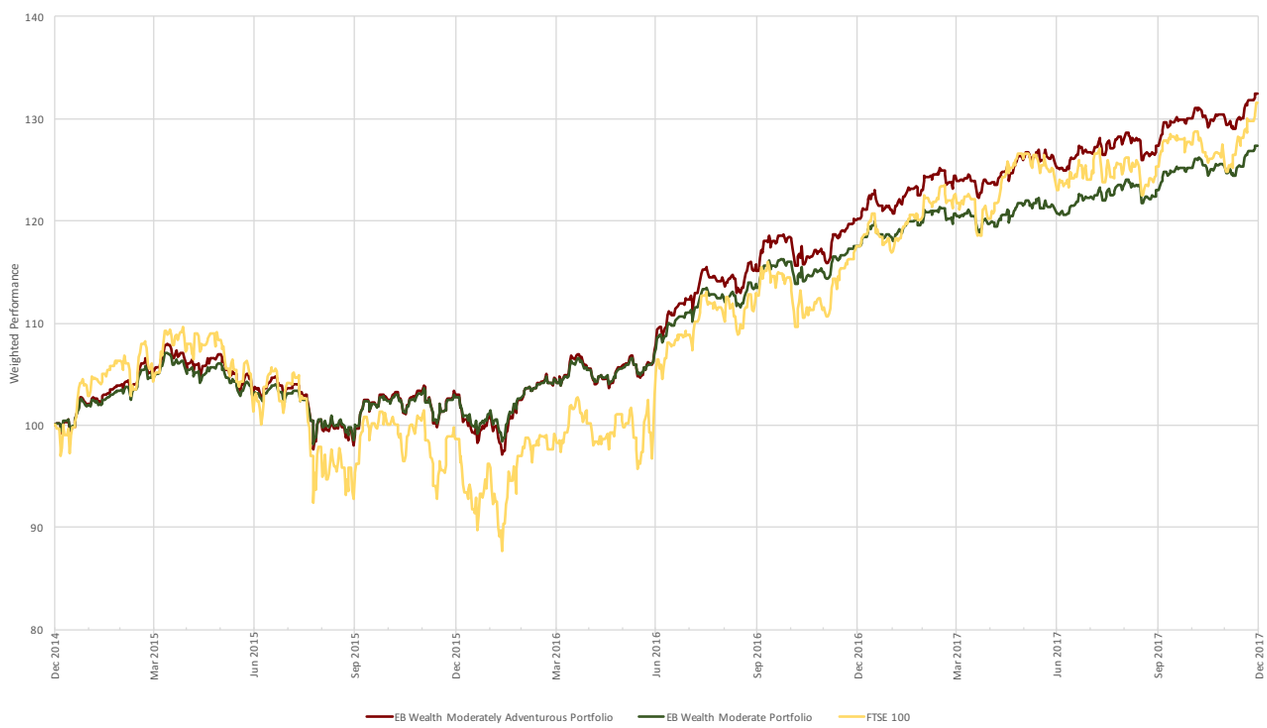
7. Property

Commercial property was little changed from the previous quarter. Investor and occupier demand hardly fluctuated along with near term capital values and rental growth expectations slightly more positive. Industrials continue to outperform on a sector level with the retail and office sectors continuing to struggle.

Tenant demand continued to increase across industrial space, and after falling in the office sector in the previous quarter it managed to stabilise this quarter. However, demand fell for a third consecutive quarter in the retail sector. Availability of leasable space declined over the quarter in the industrial sector, whilst hardly moving in the other sectors. Short term rent expectations point to firm growth in the industrial sector but are broadly flat for office rental values. In the retail sector, projections remain marginally negative for rents. Over the year ahead, rental expectations are positive for industrial space. The same is true for prime offices and to a lesser extent prime retail space. The outlook for secondary offices remains flat. Conversely, the results for secondary retail were firmly negative, with rents still anticipated to decline in 2018. With regards to the regional breakdown, all 3 sub sectors near term rent expectations are generally positive across most parts of the UK.

Although commercial property has performed better in the second half of this year, yields are low, and the expectations are that they will continue to stay low in 2018. Therefore, we maintain our current underweight position on property.

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	-2	9
UK Large Cap	Unfavourable	Underweight	22	-3	19
UK Mid Cap	Unfavourable	Underweight	8	-1	7
UK Small Cap	Unfavourable	Underweight	5	-1	4
Europe	Fair	Overweight	13	+2	15
Japan	Favourable	Overweight	7	+2	9
Asia	Unfavourable	Neutral	4	0	4
Emerging Markets	Fair	Overweight	9	+2	11
Commodities	Fair	Neutral	5	0	5
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	Overweight	2	+1	3
Property	Unfavourable	Underweight	5	-1	4
Cash	Favourable	Overweight	3	+4	7

Issue: January 2018

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