EB WEALTH

QUARTERLY REPORT
Q3 2018

The effects of the summer heatwave and World Cup on the Economy

This summer will be remembered by many for two reasons: the prolonged heatwave and an unexpected World Cup performance from England. As the days shorten, we reflect on how the economy has performed this summer.

The prolonged lack of rainfall in June and July had a serious negative impact on crop yields. The fall of between 10% and 15% in the production of wheat and other cereals led to the price of wheat soaring to over 20%. Even though the price increase more than compensated farmers for the fall in output, it raised the costs for food manufacturers and consumers. The price of consumer staples, such as bread, rose accordingly.
While tourism in the UK has particularly benefitted from the warm summer, travel agents have experienced a downturn in business as many holidaymakers swapped sunny Spain for sunny UK. The weakness of sterling was probably a mitigating factor too.

With the increase in consumers utilising online platforms as their preferred method of shopping, many high street retailers have not been performing well with fewer people purchasing clothes in store. House of Fraser, Debenhams and Marks & Spencer have had to close stores owing to poor recent performance in sales in their clothing departments.

On a more optimistic note, England's performance in the World Cup has had a positive impact on the economy. The service sector in particular thrived as a result of England's success. In the lead-up to England's quarter-final clash with Sweden, the Centre for Retail Research (CRR) recorded that an additional £2.7 billion was spent on food and beverages, televisions, sportswear and entertainment.

In the retail sector, sales of beer and cider were up by more than 40% – while Asda's total sales of beer throughout England's campaign were enough to fill Wembley Stadium! As for the UK wider economy, CityAM reported UK GDP expanded by 0.2% while sterling rose to above $1.32 during England's run. The CRR added: "Every goal scored by an England footballer was worth up to £165.3 million to England's retailers and an extra £33.2 million to pubs, hotels and restaurants." All in all, the taxman is expected to receive an extra £4.5 million from beer duties alone.

The summer heatwave has undoubtedly played its part by helping to thaw British consumer spending after the 'Beast from the East' froze consumers in their tracks earlier in the year. However, by outperforming expectations, the English national team helped to create a spending boom across the services sector, with pubs, restaurants and retailers reaping the benefits of England's success.

Despite the positive impact of the warm weather and England's football success on the economy, the UK markets have mostly been subdued. At EB Wealth, we recommend investing into various asset classes throughout the world in order to diversify investment risks and take advantage of opportunities that apply to certain regions. This strategy of diversification has allowed us to take advantage of continued exceptional performance of the US markets, which is reflected across all of our portfolios.

Global Overview

Global sector performance for the period 01/06/2018 to 31/08/2018.			
Markets	**Country**	**Index (ex div) / sector**	**Quarterly Performance**
North America	USA	S&P 500	7.25%
		Dow Jones	6.34%
		Nasdaq	8.97%
UK	UK	FTSE 100	-3.20%
		FTSE All share	-2.75%
Europe	Germany	Xetra DAX	-1.91%
	France	Paris CAC 40	0.16%
	EU Countries	FTSEurofirst 300	-0.29%
Asia	Japan	Nikkei 225	2.99%
	China	Hang Seng	-8.47%
	India	Nifty 50	8.80%
South America	Brazil	Sao Paulo Se Bovespa	-0.10%
	Mexico	SE IPC	10.94%
Other Markets	Africa	JSE FTSE ALL SHARE	4.47%
	Australia	S&P AUST	5.12%
	Russia	RTS	-6.08%
	Canada	S&P/TSX COMPS	1.25%
Commodities	N/A	Gold	-7.34%
		Silver	-12.75%
		Brent crude oil	0.19%
		Copper	-14.38%

Following the strong performance in the last quarter, worldwide markets had a mixed performance this quarter. American markets rose, benefitting from a very strong corporate earnings session. European markets had a relatively muted performance whilst UK markets fell. In Asia, India led the gains, whilst Chinese markets fell sharply. Mexico's main index posted the strongest gains, whilst Russian equities and many commodities posted significant losses over the quarter.

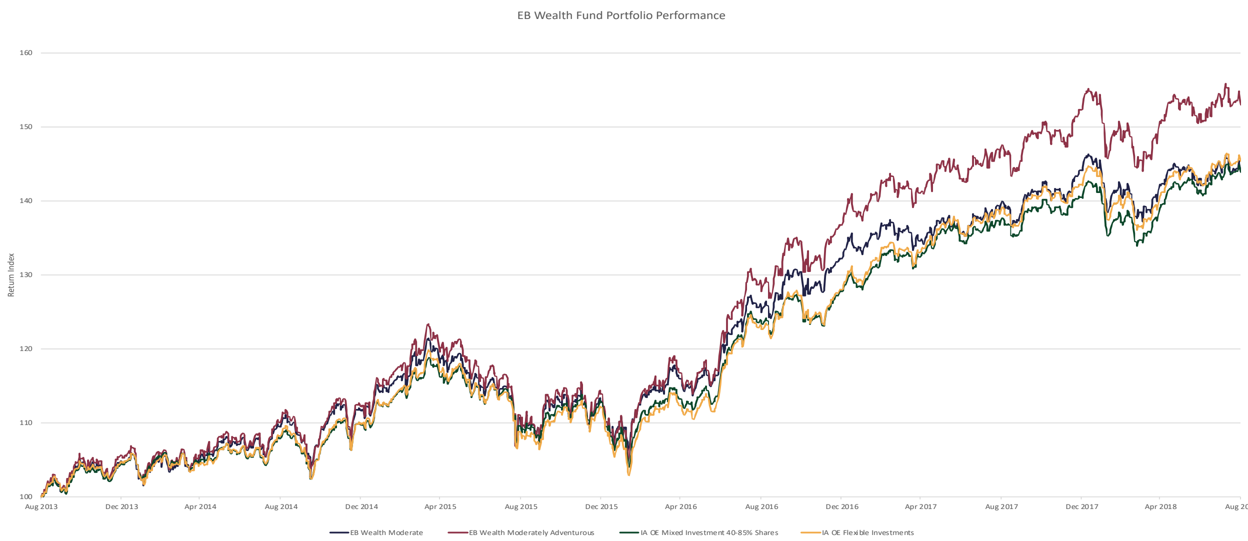
The main events that impacted markets over the quarter were:

- President Trump imposing further tariffs of 25% on an additional US$200bn worth of Chinese imports.
- The Turkish Lira significantly weakening.

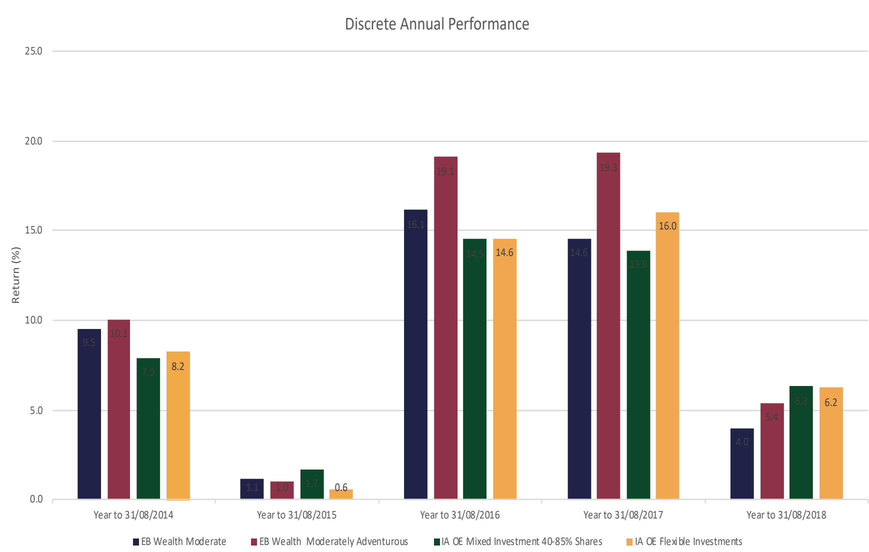
US markets have benefitted from Trump's tax cuts and the US economy is performing well as a result of this. The Federal Reserve is expected to increase interest rates twice more this year. Trade negotiations between US and China are heating up and China is likely to retaliate over the next quarter in response to Trump's recent import tariffs.

In August, UK interest rates increased to 0.75% as expected, but the main focus is on Brexit, with the lead up to the negotiations likely to impact on UK and European markets in the short term.

EB Wealth Portfolio Performance



The chart above shows year to date performance of our Moderate and Moderately Adventurous fund portfolios over the last five years. We have also included the IA OE Mixed Investments 40-85% returns and IA OE Flexible Investments as benchmarks. Please see the last page for more information in relation to the benchmarks along with further information on our portfolio returns.



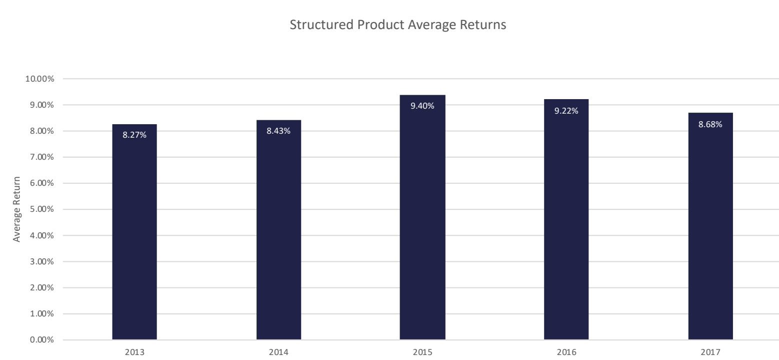
Discrete Annual Performance

This chart shows the discrete annualised performance of our Moderate and Moderately Adventurous fund portfolios over the last five years.

We also run Cautious, Moderately Cautious and Adventurous portfolios and information on these portfolios can be obtained upon request.

Structured Product Average Return

This chart shows the average return achieved on our structured products recommendations on a discrete annualised basis.



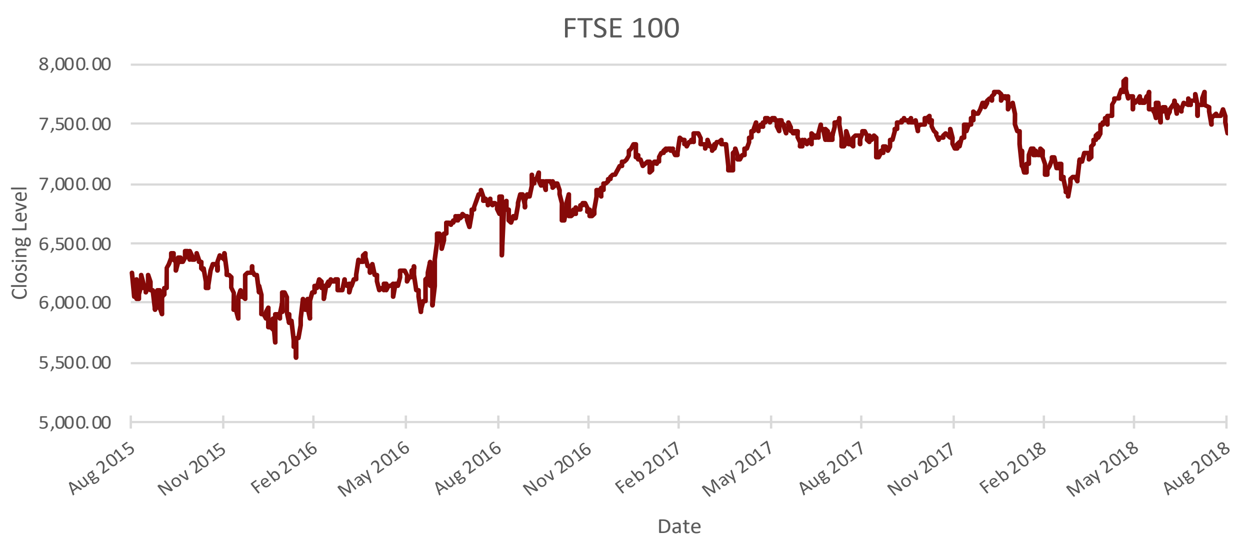
Market Commentary UK

Macroeconomic Highlights 01/06/2018 to 31/08/2018		
	Latest Reading	**Compared to previous quarter**
GDP Growth	0.4%	Increased from 0.2%
Inflation	2.5%	Increased from 2.4 %
Wage Growth including bonuses	2.5%	Fell from 2.8%
Unemployment rate	4.0%	Fell from 4.2%
Interest rates	0.75%	Increased from 0.5%

UK equity markets fell over the quarter with the FTSE 100 down 3.2% and the FTSE All-Share down 2.7%. In July, committed 'Brexiteer, David Davis, resigned from his office as the Secretary of State for Exiting the EU; and subsequently Foreign Secretary, Boris Johnson, resigned, which had a negative impact on sterling over fears that a leadership challenge could materialise. Meanwhile, weaker-than-expected retail sales data added to downward pressure on sterling, as the World Cup and extended hot weather kept consumers at home. The Bank of England voted to increase interest rates to 0.75%, which was highly anticipated by markets. August also proved another challenging month for the UK high-street with House of Fraser forced to appoint administrators after failing to find a buyer, until a last-minute deal with Sports Direct boss, Mike Ashley, kept the company from closing its doors. Elsewhere, Homebase agreed a deal to close 42 of its UK stores in a bid to keep the company from insolvency.

UK markets have been very volatile in 2018. Although macroeconomic data is positive with GDP growth increasing and employment rates on the rise, inflation is still above the Bank of England's 2% target; and, as a result, wage growth is struggling to keep pace. With the struggles of the high street giants well documented, we could see an impact on UK employment rates over the year.

The deadline for the UK to officially leave the EU (29th March 2019) is also getting closer, and currently, we do not know whether the UK will be able to negotiate a deal. Given the degree of uncertainty over Brexit, we remain underweight for the region.

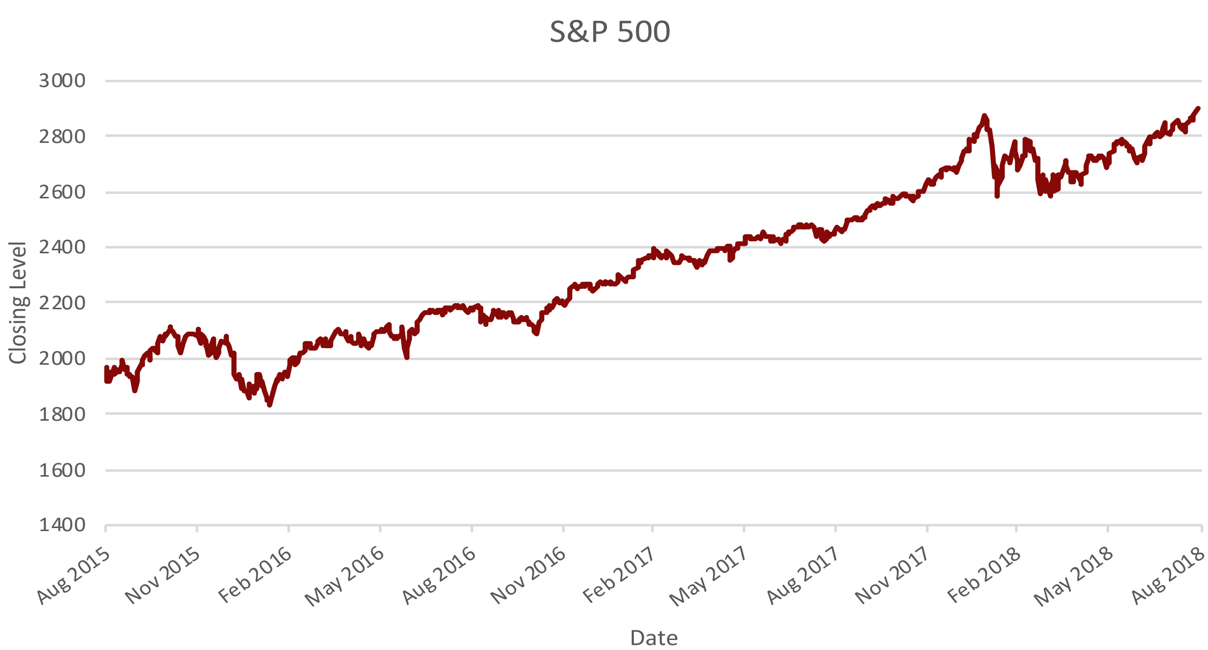


Market Commentary US

Macroeconomic Highlights for 01/06/2018 to 31/08/2018		
	Latest Reading	**Compared to previous quarter**
GDP Growth	2.9%	Increased from 2.2%
Inflation	2.9%	Increased from 2.8%
Wage Growth	2.9%	Increased from 2.6%
Unemployment rate	3.9%	Increased from 3.8%
Interest rates	2.0%	Remained at 2%

US equity markets rose strongly over the quarter with the S&P 500 increasing over 7%, the Dow Jones up over 6% and the NASDAQ up just under 9% - which are all-time highs. The markets were buoyed by news that the Federal Reserve signalled a gradual (rather than fast) pace of interest rate rise, the revival of the US-Mexico trade deal, double digit corporate profit growth and a strengthening US dollar. Consumer confidence also surged to an 18-year high, and the overall outlook on the jobs market was strong, given the recent corporate tax cuts. The US economy also recorded its strongest pace of annual growth since 2014. Reports of efforts by the US and China to also come to an agreement on trade only added to the positive sentiment. Technology stocks performed particularly well, with Amazon and Apple releasing strong quarterly results.

Up to this point, American markets, have performed very well overall in 2018. Macroeconomic data is currently very strong, with GDP growth providing signals that the economy continues to perform well. However, given the current high level of the US markets and the likelihood of further rate rises, we still remain underweight for the region. This quarter, we will be reducing our US tracker exposure and replacing it with an additional US active fund with the aim of trying to protect some of the gains achieved by the index.



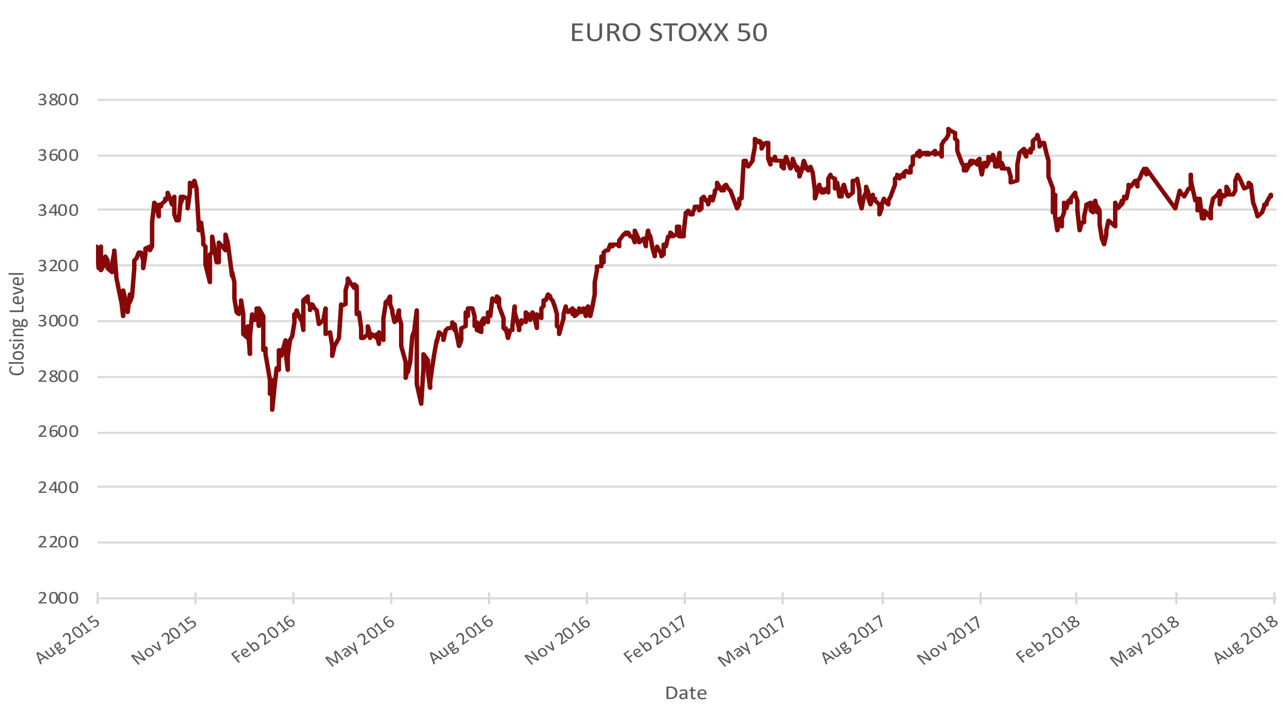
Market Commentary Europe

Macroeconomic Highlights for 01/06/2018 to 31/08/2018		
	Latest Reading	**Compared to previous quarter**
GDP Growth	0.4%	Fell from 0.6%
Inflation	2%	Increased from 1.9%
Wage Growth	1.8%	Remained at 1.8%
Unemployment rate	8.2%	Fell from 8.4%

European equities were little changed this quarter with the Paris CAC up 0.16%, while the German DAX (down 1.9%) and FTSEurofirst 300 (down 0.3%) reflecting the highest down-turn. Although an agreement was reached in July between the EU and the US to work together to reduce tariffs related to non-auto industrial goods, President Trump repeated his threat to impose a 25% tariff on car imports from the EU, despite the supposed tariff ceasefire while the US and EU negotiate cutting trade barriers.

Turkey also experienced market volatility resulting in the Turkish Lira falling sharply, most notably owing to sanctions from the US and Turkey's subsequent reaction. Relations between Italy's populist government and the EU continued to worry markets due to concerns over the Italian budget. With plans to meet budget pledges that some estimate to be over €100bn, the government is on a collision course over its fiscal plans. Deputy premier Luigi Di Maio also indicated that Italy may breach the EU's deficit limit to increase investment spending to boost the economy.

Although European markets have fallen slightly in 2018, valuations across the European markets still look very attractive, and macroeconomic data is continuing to provide encouraging signals with employment increasing and inflation being controlled. For these reasons, we are maintaining our overweight exposure.

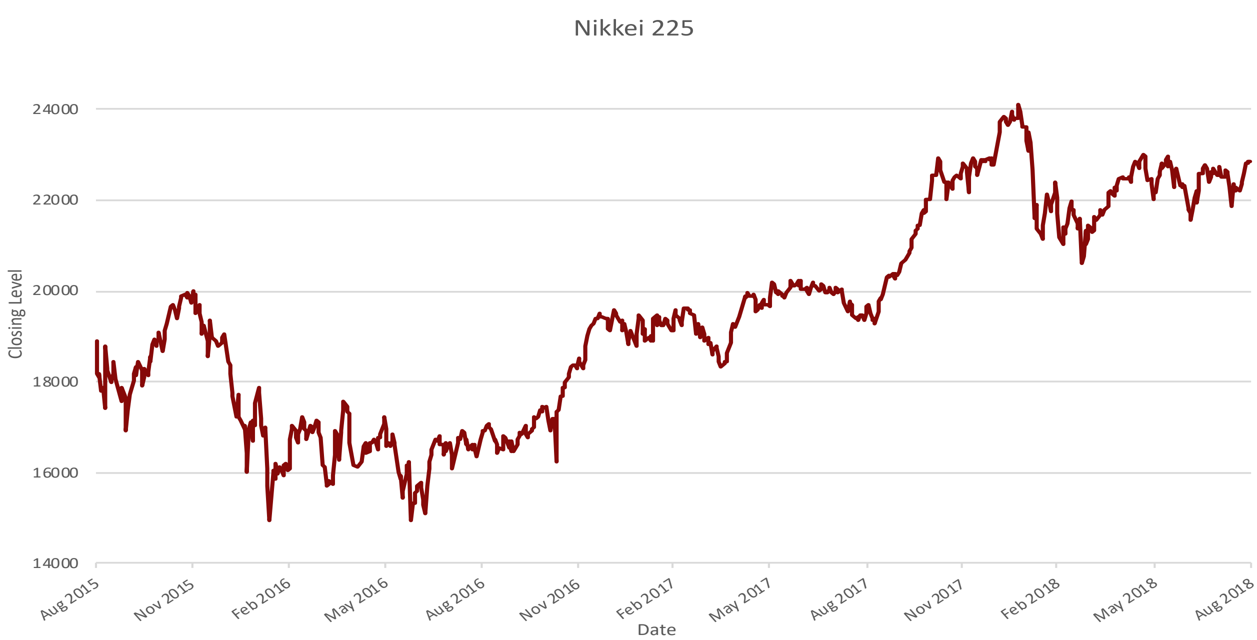


Market Commentary Japan

Macroeconomic Highlights from 01/06/2018 to 31/08/2018		
	Latest Reading	**Compared to previous quarter**
GDP Growth	0.5%	Increased from -0.2%
Inflation	0.9%	Increased from 0.7%
Unemployment rate	2.5%	Increased from 2.2%

Japanese equities continued to rise over the quarter with the Nikkei 225 rising just under 3%. Positive quarterly corporate earnings were the main driver, with many companies delivering high single digit earnings growth. Sentiment has also been helped by the yen continuing to weaken against the US dollar since late-March, which is expected to provide a boost to earnings for the numerous Japanese exporters. GDP growth recovered from a decline of 0.2% in the first quarter of 2018, which was underpinned by strong domestic demand, specifically consumption and investment. Lower-than-expected inflation led the Bank of Japan to make only small adjustments to its policy, and the bank confirmed that the current low interest rate policy would be maintained for "an extended period of time". On the political front, the ruling Liberal Democratic Party announced that a leadership election would be called on 20 September 2018.

Japanese equities are continuing to slowly recover after correcting at the start of the year. Escalating trade tensions between the US and China are continuing to dampen investor sentiment in the short term. However, the Federal Reserve is continuing to increase interest rates in the US which in turn is devaluing the yen and we believe this will help the many large exporting companies in Japan. Therefore, we maintain our overweight allocation to the region.



Market Commentary Emerging Markets

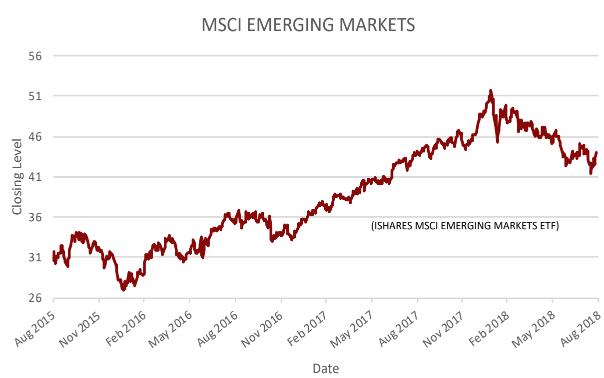
Emerging markets had a mixed performance over the quarter. In Asia, India led the way with strong gains, whilst Chinese equities significantly dropped. Mexico's main index rose strongly, whilst Argentina's main market fell. Within the Europe, Middle East and Africa (EMEA) region, Russia and Turkey had further significant losses over the quarter.

In Asia, Chinese equities continued to fall as trade tensions escalated between the US and China, which dampened investor sentiment. This resulted from the US's US$34bn worth of tariffs against China taking effect and, in addition, the US initially announced a 10% tariff on an additional US$200bn of Chinese imports. In August, President Trump raised tariffs from 10% to 25% on the additional US$200bn worth of Chinese imports. Monthly economic data in China was also weaker than expected and suggested slower growth in industrial production and fixed asset investment, while retail sales also eased modestly. Slowing growth, trade tensions and financial deleveraging all contributed to a weaker Chinese yuan. Elsewhere, India's main equity market rallied partly due to a decline in the crude oil price, a reduction in goods and services tax bill rates on select products, and a defeat of the no-confidence motion against the incumbent Government.

In Latin America, Mexico's presidential election dominated the headlines as anti-establishment candidate, Andres Manuel Lopez Obrador (Amlo), convincingly won the popular vote. The final outcome was not a surprise given the commanding lead Amlo had in the opinion polls leading up to the ballot. Mexico's new leader will not be inaugurated until 1 December 2018. In other developments in Mexico, following the hike in US interest rates, Mexico raised its policy rate by 0.25%, to 7.75% resulting in the peso and the local equity market posting strong gains. Economic news from Mexico was generally positive as retail and services continued to rise in line with resilient household demand. In Argentina, President Macri's request to the International Monetary Fund to speed up the release of its US$50bn bailout to shore up next year's budget unnerved financial markets, prompted a plunge in the peso and led the country's central bank to aggressively raise interest rates to 60% from 45%.

The EMEA region was dragged down by Turkey, where heavy losses in its equity markets reflected the depreciation of the lira. Confidence towards the country was knocked by the imposition of sanctions and trade tariffs by the US, with diplomatic relations between the two countries remaining strained. Qatar pledged US$15bn of direct investments in Turkey in support of its economic recovery effort amidst the currency crisis. South African equities rose over the quarter despite a proposal from the ruling ANC party to put through parliament an amendment to the constitution that would permit the seizing of land without expropriation. Emerging Europe equities fared better, with Hungary and Poland posting small gains over the period, whilst Russia continued to fall despite energy prices rising owing to ongoing political concerns.

Emerging markets have performed poorly again this quarter, negatively impacting our more adventurous portfolios. The poor performance has mainly been due to ongoing trade tensions between the US and China as well as the Turkish Lira falling in value and ongoing political issues in Russia. Despite this, we believe that the macroeconomic data is strong in many areas and that the medium- to long-term prospects remain strong; therefore, we maintain our overweight position in emerging markets.



Market Commentary Fixed Interest

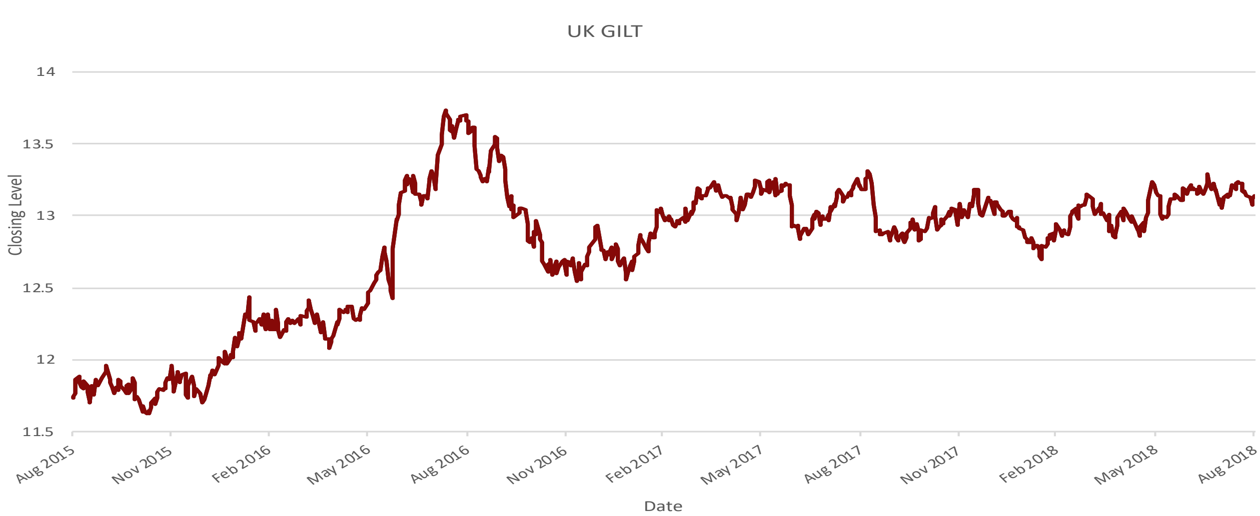
Both corporate and government bond prices rose over the quarter due to the continued worldwide uncertainty on various issues, which led to an increase in demand for their perceived safety of bonds. Corporate bonds continued to outperform government bonds with many companies' credit risk reducing due to strong quarterly reports reducing default risk.

Emerging market uncertainty was focused on Turkey and Argentina, with concerns spilling over to the wider emerging market sector. In Turkey, trade tariffs imposed by the US Government added to pressure on the lira. President Erdogan's insistence that Turkey would not hike interest rates to support the currency, exacerbated concerns, resulting in the lira falling some 25% over the period. The Argentinian peso also sold off aggressively in August and, like the lira, the Argentinian peso has been weakening for much of 2018. The latest sell-off was sparked by the Argentinian President, Mauricio Macri's request that the International Monetary Fund speed up the release of its US$50bn bailout. In response to the currency weakness, the Central Bank of Argentina hiked interest rates to 60%. The negative sentiment from both Turkey and Argentina overshadowed the news that the US and Mexico had made a breakthrough in the North American Free Trade Agreement talks. Sterling had another volatile month as Brexit negotiations remain a key source of the uncertainty. After falling to US$1.27, the £ recovered to end August at US$1.30.

US treasuries were under pressure due to the impact of this year's tax cuts becoming evident in the latest economic growth figures, which posted its best quarter annualised growth since 2014. Against this backdrop, the US Federal Reserve maintained the interest rate at 2%. Fed Chairman, Jerome Powell, noted that the Fed will continue with a gradual pace of interest rate rises. However, in a highly unusual move, President Trump appeared to challenge the independence of the Fed suggesting that the US should not be raising interest rates now. In Europe, Italian Government bonds (BTP's) continued to come under pressure with the yield on the 10-year BTP increasing to 2.96% at the end of August. Concerns over the Italian Government's spending plans were compounded by the negative sentiment surrounding emerging markets.

On the corporate bonds side, US, euro and sterling corporate bond markets all posted positive returns. High yield bonds outperformed investment grade bonds amid an improvement in sentiment. It was also a relatively strong month for financials with the ICE Bank of America Merrill Lynch Contingent Capital Index posting its highest monthly return since October 2017. At a sector level, the best performing area of the high yield bond market was utilities, while in investment grade, the industrial sector outperformed.

Bond prices have come under pressure this year with interest rates rising in the US and the UK. Our strong underweight position on fixed interest and gilts has worked well across all our portfolios, and we plan to remain underweight for a while longer.



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	Favourable	Overweight	13	+2	15
Japan	Favourable	Overweight	7	+2	9
Asia	Fair	Neutral	4	0	4
Emerging Markets	Favourable	Overweight	9	+2	11
Property	Unfavourable	Underweight	5	-1	4
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	Favourable	Overweight	2	+1	3
Cash	Favourable	Overweight	3	+4	7

Notes on EB Wealth Performance Statistics

Previously, we have included the FTSE 100 performance as a comparison against our portfolios. In April 2018, we replaced this with more relevant (and industry standard) benchmarks. These benchmarks are widely accepted and represent the average return of all 'mixed' or 'managed' investment funds. As our portfolios fall within the industry standard mandates for these two benchmarks, we feel that they are a more useful indicator of relative under - or over - performance.

Our Benchmarks

1. **IA OE Mixed Investments 40-85%** - this shows the average performance of all funds which qualify for the 'Mixed Investments 40-85%' sector which have the following characteristics:

- Include a range of different investments
- Maximum 85% equity exposure (including convertibles)
- Minimum 40% equity exposure
- No minimum fixed income or cash requirement
- Minimum 50% investment in established market currencies (US dollar, sterling & euro) of which 25% must be sterling
- Sterling requirement includes assets hedged back to sterling

This is broadly in line with what the industry used to refer to as a "Balanced Managed" fund, and is broadly in line with our Moderate as well as Moderately Adventurous portfolios. However, our portfolios have no set mandates as to the amount of exposure we hold in any specific asset class.

2. **IA OE Flexible Investments** - this shows the average performance of all funds which qualify for the 'Flexible Investments' sector which have the following characteristics:

- Include a range of different investments
- No minimum equity requirement
- No minimum fixed income or cash requirement
- No minimum currency requirement

This is broadly in line with what the industry used to refer to as "Specialist". Since we do not impose any asset allocation restrictions on our portfolios, this benchmark is relevant; however, currently our Moderate and Moderately Adventurous portfolios would also fall within the mandate to be considered IA OE Mixed Investments 40-85%.

Structured Product Returns

The performance data provided is the average of all structured products we have recommended to clients over the last six years where the return of the product is known i.e. where a product has matured, or an income payment has been received. We have also weighted the performance figures based on the level of investment we have made – i.e. if we recommended a greater level of investment in one particular product over another, we have weighted the performance figures accordingly.

As structured products are close-ended investments, clients will only benefit from returns on the products they own personally rather than the average figures published in this report. The average figures are provided to highlight the general benefit of using structured products to reduce the volatility of a portfolio without necessarily impacting the total return.

The structured product returns quoted in this report may change in subsequent reports due to the fact that products which we have recommended, but are yet to mature, have not been included in the returns quoted above. (For example, a five-year product with the potential to pay 6% a year which has not yet matured, will not be included in the figures above. Depending on the outcome of the investment, when the product matures, we will allocate either 6% or 0% a year to the preceding five years).

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