1825 Portfolio 5

Commentary First Quarter 2019

This summary provides market commentary from our investment experts, and details any changes made to Portfolio 5 during the first quarter of 2019. The commentary is intended to give you a general overview of the market, and does not constitute advice.

In brief:

- Optimism prevailed during the first quarter of 2019 – driving strong gains in global equities.
- In March, the Brexit deadline played a significant part in driving German bund and UK gilt yields to their lowest points since 2016 and 2017 respectively.
- As property values were reassessed, capital growth turned negative at an all-property level.

Environment

After a gruelling fourth quarter, optimism prevailed during the first quarter of 2019 – driving strong gains in global equities. Worries over slowing global growth, the US/China trade war and the impact of rising US interest rates caused the previous rout. These concerns subsequently abated. In particular, the US Federal Reserve's (Fed) adoption of a more patient approach to further rate hikes reassured investors. Indeed, bond markets expect the Fed's next move will be to cut rates. The US administration's decision not to impose further tariffs on Chinese goods was also encouraging. Investors are now hopeful both sides can strike a deal.

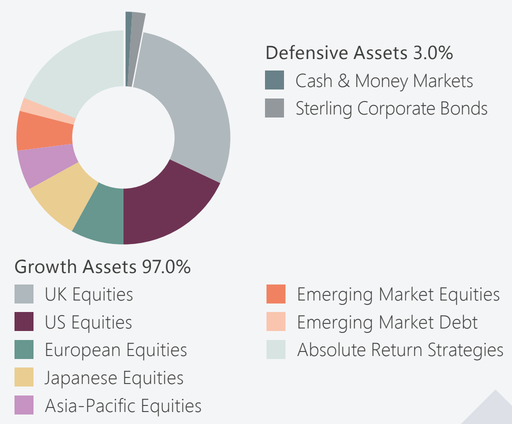
Global corporate bonds also bounced back strongly following a poor final quarter of 2018. In large part, this reflected the Fed's unexpected shift to a dovish stance. This led to investors pricing out any further US interest rate hikes for the remainder of 2019. The main factors influencing global government bonds were the outlook for world economic growth and US monetary policy. Unease as the Brexit deadline grew closer was also a key theme. In March, this played a significant part in driving German bund and UK gilt yields to their lowest points since 2016 and 2017 respectively.

It was a weak start to the year for UK commercial real estate. Monthly total returns continued to slow and were barely positive during February (the latest data available). As property values were reassessed, capital growth turned negative at an all-property level. This was largely a result of weakening values for large-scale retail assets (e.g. retail warehouses and shopping centres). Industrials in the South East remained the strongest sector and capital values continued to rise for these assets. Central London offices continued to slow having defied the odds i n the face of heightened levels of Brexit uncertainty.

Activity

We review the Strategic Asset Allocation (SAA) for each of the 1825 Portfolios every quarter with the aim of ensuring that we continue to meet investors' long-term interests. At the most recent review, we made no changes to the SAA model.

1825 Portfolio 5 Asset class breakdown



During the first quarter of 2019, we made the following Tactical Asset Allocation (TAA) changes:

- **We increased our overweight position in emerging market equities**
- **We reduced our overweight exposure to global high yield**
- **We reduced our overweight exposure to global real estate investment trusts (REITs)**
- **We increased our allocation to cash**

There were no fund changes over the review period.

Outlook

Global equity markets have made a strong start to 2019. However, given the drivers of this performance, we remain cautious. The initial boost came after the US Federal Reserve said it was putting interest rate-rises on hold. While good for asset prices, this also acknowledges that the US and global economies face challenges. Similarly, central bankers in China and Europe have sought to support their struggling economies. Meanwhile, European politics remain a source of tension, while Brexit is going down to the wire. On the upside, hopes of an eventual trade deal between the US and China have grown. This would provide a boost for markets around the world.

US and Japanese government bonds look expensive. US Treasury yields have fallen significantly in recent months, pushing them to unattractive levels. Yields on Japanese government bonds are very low compared with other markets. We are neutral on gilts and Eurozone bonds; while the UK economy is growing slowly, the Bank of England is still warning about future interest rate increases. Meanwhile, European Central Bank policymakers have become wary of recent economic weakness, further delaying their plans to tighten monetary policy. With government bond yields down sharply, the hunt for yield has supported corporate bonds. This should provide support for the rest of 2019.

Within UK commercial real estate, political uncertainty is contributing to greatly reduced market liquidity. We expect values to continue to fall during the second quarter of 2019. Our base case sees only marginally positive returns over the next three years. Uncertainty around Brexit adds further downside risk to those numbers in the short term. We also expect more evidence of changing risk appetites. Opportunities to add value are increasingly seen as a source of risk and the market is demanding that those risks are fully priced in.

Performance

The portfolio delivered a positive return over the quarter. Our SAA contributed to this, with allocations to UK equities, US equities and European equities being key drivers. TAA added marginally to performance. Fund manager selection contributed positively to returns, with absolute return multi-asset managers being a significant performer.

The comments above refer to the past. Past performance is not a reliable guide to future performance. As with any investment, the value of your portfolio can fall as well as rise - you may get back less than you pay in.

1825 Portfolio 5 breakdown	31 March 2019	31 December 2018	Change
Holding	**Weights**	**Weights**	**+/-**
Vanguard FTSE UK All Share Index	14.50%	14.50%	0.00%
Vanguard US Equity Index	9.15%	9.15%	0.00%
SLI Global Absolute Return Strategies (GARS)	7.76%	7.76%	0.00%
Majedie UK Equity	7.25%	7.25%	0.00%
Aberdeen European Equity Enhanced Index	6.97%	6.97%	0.00%
TM Fulcrum Diversified Absolute Return	6.79%	6.79%	0.00%
L&G Japan Index	5.25%	5.25%	0.00%
Invesco Perpetual Global Targeted Returns	4.85%	4.85%	0.00%
Merian North American Equity	4.58%	4.58%	0.00%
Fidelity Index US	4.57%	4.57%	0.00%
SLI UK Equity Income Unconstrained	4.35%	4.35%	0.00%
CF Morant Wright Nippon Yield	3.50%	3.50%	0.00%
Vanguard Emerging Markets Stock Index	3.28%	3.15%	0.13%
Artemis Global Emerging Markets	3.27%	3.15%	0.12%
Fidelity UK Smaller Companies	2.90%	2.90%	0.00%
Hermes Asia Ex Japan Equity Fund	2.90%	2.90%	0.00%
Mirae Asset Asia Sector Leader Equity	2.90%	2.90%	0.00%
L&G Emerging Markets Local Government Bond Index	2.00%	2.00%	0.00%
Lazard European Smaller Companies	1.23%	1.23%	0.00%
Cash (£)	1.00%	1.00%	0.00%
Aberdeen Liquidity Fund	0.50%	0.00%	0.50%
Nomura US High Yield Bond	0.50%	0.75%	-0.25%
First State Global REITS	0.00%	0.50%	-0.50%
	100.00%	**100.00%**	

Each client portfolio is reviewed and rebalanced regularly where necessary. Fund selection and asset allocation are monitored on an ongoing basis, and will be changed as considered appropriate by the Portfolio Managers.

Charges

The ongoing charges figure quoted below includes the ASC discretionary investment management charge (0.25%) and fund level management charges. It does not include product and adviser specific charges - speak to your 1825 Financial Planner for full details.

Ongoing charges figure	**0.75%**

NOTE: the Portfolio holdings,asset class breakdowns, and ongoing charges, figure shown on this page are correct as at 31/03/2019. They will change from time to time. Source: Aberdeen Standard Capital.