THORNTONS INVESTMENTS

Thorntons Cautious Q4 2018

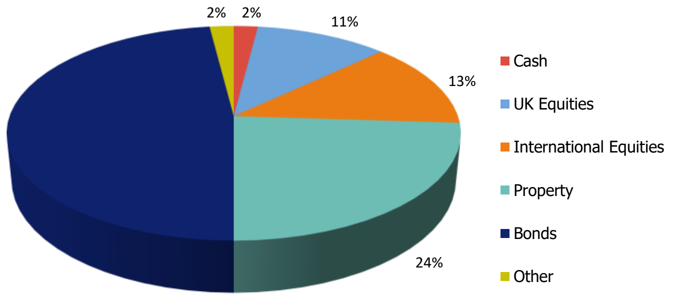
As at 31 December 2018

INVESTMENT OBJECTIVES

The cautious model aims to provide a low risk investment that preserves capital value and generates a sustainable income greater than that achieved from a deposit account over a three to five year period. Typically the majority of the portfolio will be invested in government and corporate bonds, with a smaller allocation to property and equities. The model is invested across a range of funds to achieve its aim.

Target 3 year volatility of 3 to 6.5.

ASSET ALLOCATION



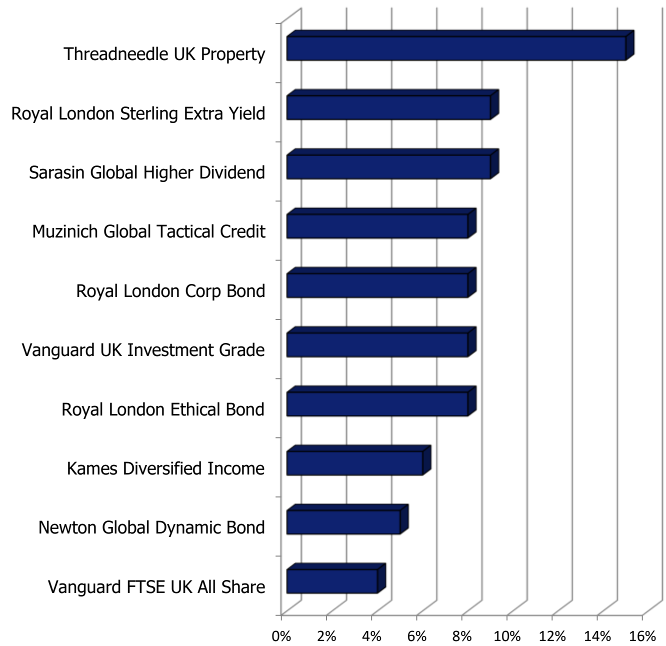
FACTS AND FEES

Historic Model Yield	3.6%
Volatility Since Inception*	3.5
Estimated OCF of model	0.67%
Investment fee	0.3% + VAT
Comparison benchmark	IA Targeted Absolute Return

Data sourced from Financial Express as at 31 December 2018

* Inception date 31 December 2014

TOP 10 HOLDINGS



MANAGERS

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Matt is the CIO at Thorntons Investments and has over 30 years of international investment management experience, including managing an OBSR rated N American fund.

Ciaran Garvey BSc Econ & Fin, MSc Fin, FCSI
Ciaran is an investment manager at Thorntons Investments, he has seven years industry experience after graduating from University College Dublin and Heriot Watt University.

MARKET COMMENTARY

The final quarter of 2018 proved to be tumultuous with some violent sell-offs in equity markets. Slowing global economic growth, tightening monetary policy in the US and a host of geopolitical risks combined to generate a violent return of volatility in financial assets and created bear markets (technically a fall of 20% from peak to trough) across much of the world. At the end of the quarter the UK stock market had a negative return, including dividends, of -10.3%. Other equity markets fell by more, but because of the weakness of the pound did not look quite so bad in sterling terms, the US -11.5%, Europe -10.8% and Japan -12.4%. Asian and emerging markets fell less, but they had already been weak for much of the year.

The strength of the US economy, in contrast to slowing growth across much of the rest of the world, led to the Federal Reserve Bank raising interest rates for a fourth time in 2018. Worries that hints of further tightening would hit economic growth in 2019 caused government bonds to rise (yields to fall) and a rush to 'safe' assets meant they were one of the few positive financial assets over the quarter, with UK gilts returning nearly 2%. However, corporate bonds did not perform so well as concern about increased default risk caused credit spreads over government bonds to widen.

Concern about weakening economic growth and the ongoing trade dispute between the US and China weighed on commodity prices, particularly oil. Its price dropped by 40% over the quarter as weakening demand and plentiful supply combined. Gold was the exception, up 10%, at last seeing demand in an environment of elevated risk. UK property values continue to remain firm, although there are obvious concerns about High Street retail property. However, worries over Brexit has seen investment demand wane, particularly international demand, and some property funds have moved to lower 'cancellation' pricing, although the underlying value has not changed.

2019 will see lower economic growth and a raft of political risks to overcome. Despite this we don't expect recession and the market falls have priced in a lot of risk and left some attractive investment opportunities.

Platform Availability:

nucleus ZURICH Standard Life ascentric novia

PORTFOLIO COMMENTARY Q4 2018

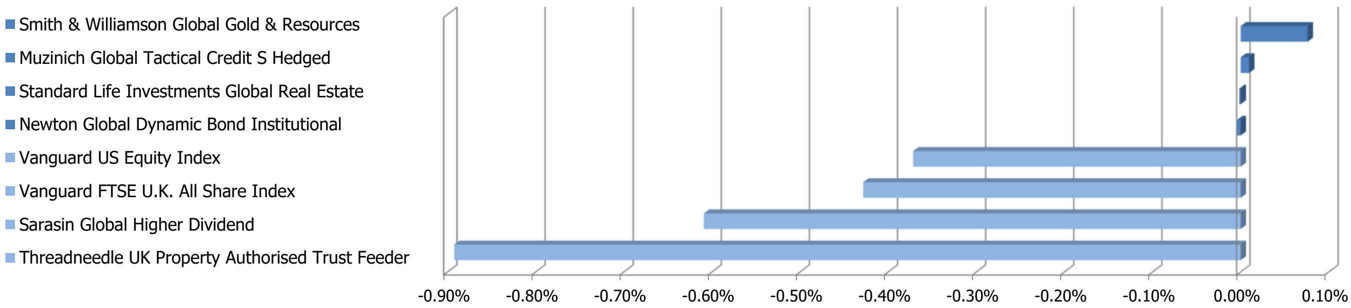
The Cautious portfolio did not escape the shambles in markets of the last quarter unscathed, with a return of -3.7%. Stock markets fell heavily as slowing economic growth, trade battles and tighter monetary conditions undermined confidence and valuations, especially for tech stocks. Smaller companies were particularly sensitive to this and the Chelverton UK Equity Income fund had the biggest fall with a -14.6% return. The Vanguard US Equity fund was the next biggest faller, -12.4%, but Sarasin Global Higher Dividend fund showed some defensive qualities with a -6.8% return. The biggest disappointment came from the UK property funds Threadneedle and Kames, -6.0% and -5.1% respectively after they both moved to cancellation pricing. The underlying value per unit is almost unchanged but had a 1% negative impact on the portfolio in December. The Standard Life Global Real Estate fund was down just 0.04%. Corporate bond funds felt the impact of widening credit spreads, but generally had limited falls with the Muzinich Global Tactical Credit fund just recording a positive return. Gold at long last rose as volatility increased, with the Smith & Williamson Global Gold and Resources fund +7.6%.

PERFORMANCE FROM INCEPTION

Cautious Model Total Return 31/12/14 - 31/12/2018

Performance	Cumulative					Discrete Calendar Years		
	Q4	YTD	1 Year	3 Years	Since 31-Dec-14	2017	2016	2015
Thorntons Cautious Model Portfolio	-3.7%	-2.8%	-2.8%	13.8%	16.3%	7.8%	8.5%	2.3%
IA Targeted Absolute Return Sector	-2.3%	-2.8%	-2.8%	1.5%	4.0%	3.4%	1.1%	2.4%

TOP AND BOTTOM CONTRIBUTORS TO PERFORMANCE Q4 2018



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