GDIM Discretionary Fund Managers

Issue 1 - January 2018

Investment Market Review & Outlook

As we look into the new year many assets look expensive compared to their historical valuations. A relatively calm year in markets brought us very positive overall performance in 2017, but with volatility hovering around all-time lows, will rocky markets return in 2018?

Investment Committee

Mark Denley, David Ellis, Simon Rees, Tom Sparke, Michael Bretherick, Craig Hilton, Benjamin Benson, Siobhan Cordery, Sean Pledger, Chris Adams

UK Economic Data

2017	RPI (%)	CPI (%)	Unemployment (%)	GDP Growth* (%)
July	3.6	2.6	4.3	-
August	3.9	2.9	4.3	Q3 +0.3
September	3.9	3.0	4.3	-
October	4.0	3.0	4.3	-
November	3.9	3.1	-	Q4 +0.4†
December	-	-	-	-

**Based on percentage change on previous quarter †TradingEconomics Estimate, 2017*

Economy

2017 was a much more rewarding year than expected, characterized by low levels of volatility and positive progress across all asset classes, with every major equity region and class of fixed interest producing a positive return, as they did in 2016. Although this has been a welcome series of events, we are not convinced that we will be celebrating a third year of it.

Inflation figures jumped to 3.1% (CPI) for the UK in November, the highest number in six years, but we expect this to fall away in 2018 as the shock of Sterling's post-Brexit devaluation dissipates. The pound was mildly weaker over the period, despite perceived breakthroughs in negotiations with the EU.

US tax reform was announced to a moderate reaction from the market. It is expected to contribute to GDP growth by around an additional 0.3% in 2018 and 2019. Arguably, the US doesn't need this additional boost at the moment as retailers hit record highs on 'Black Friday' and the consumer looks to be in a good position.

Europe is one of the most potent winners from ongoing global growth. Politically, Europe's biggest issue is the lack of a cohesive government in Germany. However, the economy is currently progressing well and any ongoing gridlock and repeated fresh elections should only prolong the introduction of any action which might change these circumstances.

Another big beneficiary of continued global growth is Japan, where another positive quarter saw the combination of good earnings and upgrades to forecasts pushing the main stock market index up to its highest level in nearly 26 years.

Good progress was made in most Asian markets over the quarter, and one of our most favoured growth stories, India, received a sovereign rating upgrade from leading ratings agency Moody's, it's first in 14 years. This was driven by the reforms implemented by Prime Minister Narendra Modi, whose policies are helping to stabilise the country's escalating debts.

Fixed Interest

The UK Government bond (gilt) market enjoyed a strong quarter as risk-averse investors took to the safety of AAA-rated assets. Despite having very little exposure to these assets our portfolios' bond holdings generally appreciated steadily and with low volatility.

Good prospects for global growth and a moderate inflation outlook should continue to drive solid returns from our selected fixed income funds. We expect inflation to gradually rise, driven largely by the US, which has growing wages, but also by the recent strength in the oil price and rising global demand. Against this backdrop and with continued quantitative easing from the European and Japanese central banks, we feel that default rates in bonds will remain low and that attractive returns can be found in globally diversified credit. While high quality credit should remain attractive, the domestic environment of a weaker consumer, high indebtedness (nationally) and wages rising slower than inflation will keep us limited in our UK assets for now.

We continue to be very selective in the assets we hold in this area and favour the safer end in terms of interest rate risk but hold a more constructive view on yields due to the current lower risk of default.

Equities

The final quarter of 2017 was generally a positive one for most regions with two of our highest conviction themes leading the way; India and Japan returned close to 10% to round off impressive years for both economies.

US indices achieved record highs despite mixed news throughout the quarter, from tax reform to former national security adviser, Michael Flynn, admitting lying to the FBI over contact with Russia. Technology stocks dominated again, despite their weakness directly after the tax reform announcement, and financials also did well, but all sectors recorded positive gains in a broad-growth quarter.

Our restrained positioning in the UK performed well in a quiet period but we continue to see limited potential here, especially compared with the opportunities elsewhere.

European assets were generally a little weaker as the November slump subdued previously strong progress. Major Eurozone nations, especially France and Germany, are pivotal to the region's success and leading indicators are pointing to further growth in these countries, with greater institutional investment being a key driver. One indicator, the Manufacturing Purchasing Manager's Index (showing the extent of intended investment), showed Germany's was the most positive rating since February 2011.

Our high quality Asian holdings did well over the quarter as Chinese giant Tencent (one of our largest holdings) added nearly 15%, and other online-focused holdings followed suit. Returns were also boosted by further strength in the Chinese Renminbi which joined the India Rupee and Hong Kong Dollar in appreciating over the period.

For the second consecutive quarter the strongest contributor to portfolios came from our (Yen-hedged) exposure to Japan. Our JP Morgan Japan fund added more than 14%, which brought its performance to over 30% in 2017.

As valuations moderate and growth cycles mature in developed markets we expect to receive more of our return in the markets that can cultivate higher growth. Geographically, that is likely to include Europe, Japan and Asia as well as technology, financial and industrial sectors.

Property

Our 'bricks and mortar' property element of portfolios added a further 1% in the last quarter and our more diverse multi-faceted property fund returned over 2% since its inclusion in late-October. The riskier end of property markets, populated by equities in the UK and Europe, returned nearly 5% as prospects improved on the continent.

There is some concern over the prospects for Real Estate Investment Trusts (REITs) when interest rates increase, as they share a similar characteristic to bonds, which can lose value as the cash rate goes up, as investors swap a risky asset for a safe haven. This risk is less concerning in the European high-demand, low-supply markets in which our fund operates.

Commodities

In commodity markets, the biggest news of the quarter was OPEC's announcement that it would extend oil production cuts to the end of 2018. Despite this, most stocks were little moved over the period.

Gold appreciated well over the last year but retreated back somewhat toward the year's end. Gold-related stocks enjoyed this rally much more fruitfully but ended the year only around 10% higher than they started it. Gold demand looks to be relatively flat for 2018, according to forecasts, but any equity shocks would fuel this considerably.

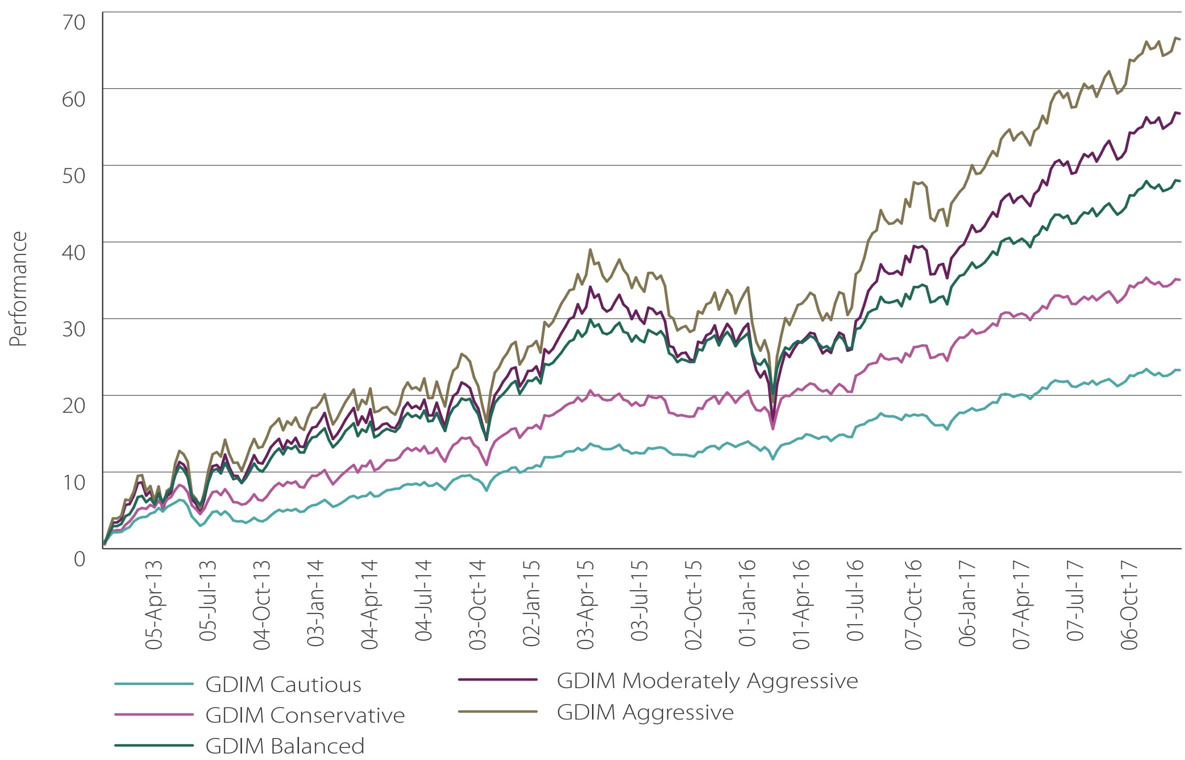
Conclusion & Outlook

The broad base of global expansion gives us confidence that maturing equity markets are less vulnerable to events in a particular location. Additionally, central banks have indicated small and predictable movements in the foreseeable future, which should prevent bond markets from capitulating. However, 2017 was a year of very low volatility and we feel that this will inevitably change in 2018, leading to shakier progress and lower overall returns.

Despite expecting some more difficult factors we are still confident in our highest conviction areas. Our out-sized investments in Europe and Asia have brought us excellent returns recently and we are optimistic for their prospects in 2018.

GDIM Investment Committee
January 2018

Five-Year Performance of GDIM Investment Model Portfolios



These figures are representative of GDIM's main 5 Investment Model Portfolios, initiated on the 17th April 2009 and re-balanced in-line with the latest portfolios whenever changes were recommended. Graph shows performance over 5 years to the 29th December 2017. Performance does not reflect trading in actual accounts (and is therefore gross of all management fees, except fund charges). Data provided by Financial Express 2018. Past performance is not representative of future returns. Capital may fall as well as rise and you may not get back the full amount invested.

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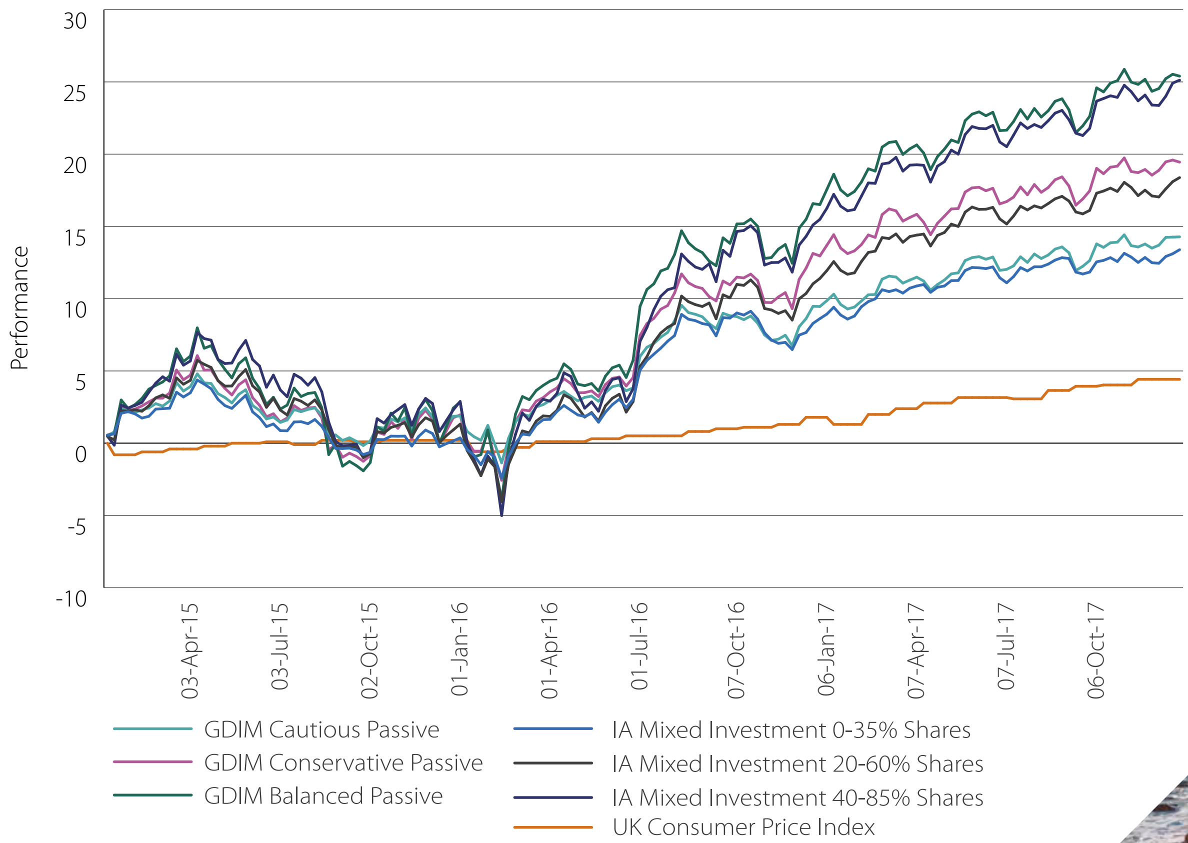
GDIM is a trading style of Gibbs Denley Investment Management Ltd
Crystal House, Buckingway Business Park, Swavesey,
Cambridge CB24 4UL Tel: 01954 233650
Email: info@gdim.co.uk | www.gdim.co.uk

	3 Month	6 Month	12 Month	3 Years	From Inception
GDIM Cautious Passive	1.64%	2.32%	4.88%	15.23%	23.56%
GDIM Conservative Passive	1.98%	2.88%	6.60%	21.22%	30.68%
GDIM Balanced Passive	2.78%	3.77%	9.13%	28.23%	38.42%
GDIM Moderately Aggressive Passive	3.87%	5.44%	11.87%	40.89%	51.95%
GDIM Aggressive Passive	4.71%	6.45%	14.74%	50.46%	61.10%

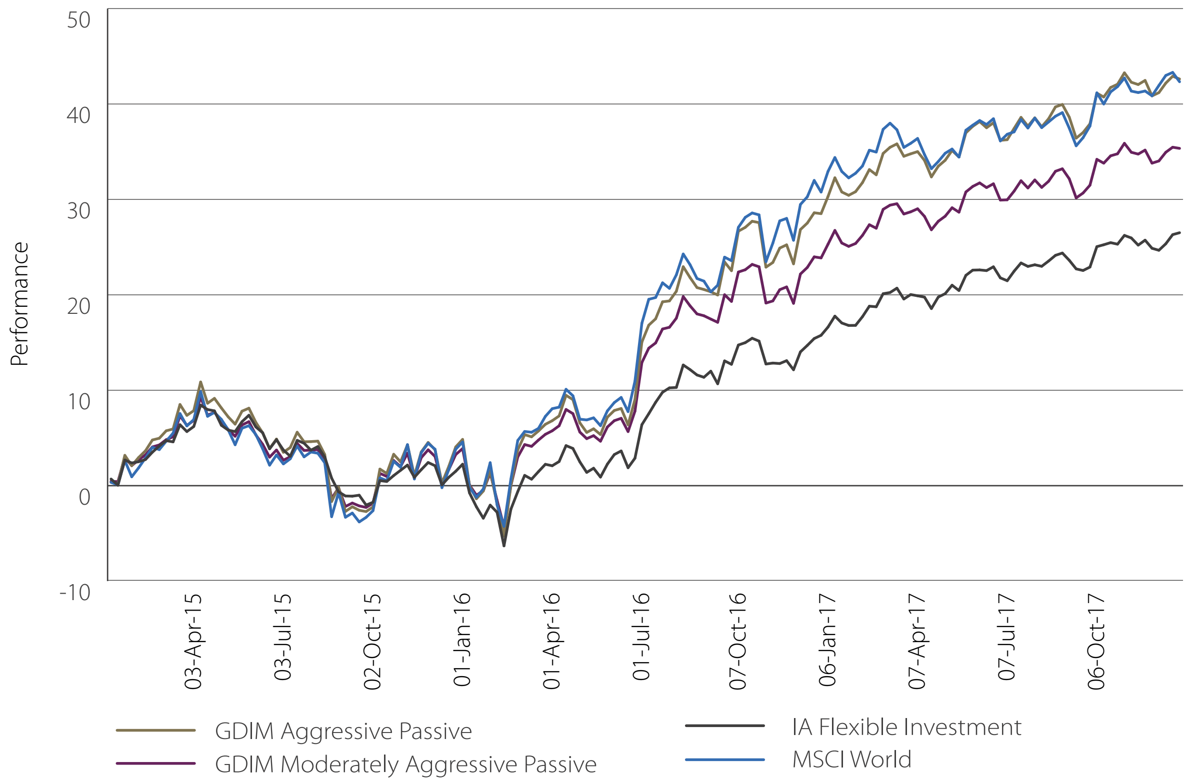
Figures up to 31st December 2017

These figures are representative of an Investment Model Portfolio initiated on the 17th April 2009 and rebalanced in-line with the latest portfolios whenever changes were recommended. Performance does not reflect trading in actual accounts (and is therefore gross of all management fees except fund charges) and is provided for information purposes to indicate historical performance on a Bid-to-Bid basis. Past performance should not be seen as a guide to future returns. Returns from investments of this type are not guaranteed. Capital can fall as well as rise. Data provided by Financial Express 2018.

Defensive Portfolios – 3 Year Performance



Aggressive Portfolios – 3 Year Performance



Benchmarking

The above graphs represent the performance of the GDIM Investment Model Portfolios against some relevant benchmarks over 3 years to 29th December 2017. We have split the data to show more relevant information for the risk levels associated with each portfolio, especially for the more defensive ones. The Cautious, Conservative and Balanced portfolios are shown against inflation and the relevant Investment Management Association (IMA) sector averages. The Aggressive and Moderately Aggressive portfolios are represented alongside the IMA Flexible Managed sector (which allows up to 100% in equities) and the 'MSCI All Country World Index', which shows the equity market performance from 45 Developed and Emerging Markets and is more representative of the geographically diversified nature of our portfolios. The IMA sector data is the average performance based on all funds within that group. Performance information is based entirely on the funds actually recommended to clients via Investment Model Portfolios.