

August 2018

Dear Client

Welcome to my periodic newsletter updating you with our market review, changes at Altorfer and some thoughts on the future. It has been over a year since I last wrote, so my apologies for the long wait. Thank you for completing our questions regarding communication over this period, which means that around a quarter of clients are now receiving this newsletter by email. If you would like to update your preference, please let us know.

So, what has happened in the past year? Global stock markets went through a period of remarkable stability during 2017, something not seen since 1997 (which was just before the technology boom and bust). This stability came to an abrupt end in late January of this year, with many major markets falling more than 10% due to Donald Trump's announcement of trade sanctions on many worldwide partners. We have since seen a recovery and most markets are now trading at levels higher than the start of the year and moving within a fairly narrow band as uncertainty reigns. Interest rates have risen in both the UK and US, although little benefit has yet been seen by UK savers. In Europe, the ECB had announced that its Quantitative Easing programme will reduce from September and end completely at the end of this year. In the UK and US, this has had a similar effect to raising interest rates. Inflation has also started to increase in the UK, which, along with the change in the interest rate, has caused fixed income yields to rise as values have fallen. Property price growth has stalled in many areas, possibly due to the expectation of higher mortgage rates and the elephant in the room called Brexit.

I would love to tell you what Brexit will mean for the UK economy, stock market and, most importantly, your own financial well-being. However, negotiations are dragging on and a hard Brexit is being talked about as a serious option. We are monitoring this closely as a hard Brexit could see sterling continue to fall against other major currencies, which is good for exports but makes imports and foreign holidays more expensive. It would, however, boost the profits of many large UK companies as these are made overseas and converted back to sterling for UK investors. On the other hand, there could also be supply side issues for some companies, caused by delays in receiving raw materials or items such as perishable produce, so there is no certainty that everything will be positive.

Across the Pond, we keep a close eye on The White House as Donald Trump's 'disruptor' personality continues to cause shockwaves internationally. They have mid-term elections in November which could lead to the Republicans losing control of one or both Houses. I believe that a lot of the recent bravado and sword waving has been a way of boosting popularity in the run up to these elections. As we saw in the last years of Barack Obama's presidency, not having control of both Houses means that passing any legislation is much harder.

We continue our strategy of building diversified investment portfolios so that you are not overly exposed to any one stock market or type of investment. This means that the effect of any fall in the UK stock market due to Brexit or any other changes should be offset by an increase in the value of another asset. We have also been holding back cash that can be invested to take advantage of any downturn.

All portfolios are managed in line with each individual client's risk profiles and objectives, so it is possible that some will rise in value and others fall due to the effects of the same piece of news. For those clients living outside the UK, legislative changes could result in us having to complete additional regulatory checks to ensure we comply with the rules of both the UK and your country of residence, but we hope that these will not be too onerous or effect our relationship.

Since my last newsletter there have been significant changes to legislation. Most of you will be aware of the General Data Protection Regulations (GDPR) and I am pleased to confirm that we continue to protect your data in both physical and electronic form and that we comply with the legislation. There has been less public awareness of the second Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD). MiFID II, among other things, increases the transparency about what you are being charged for the service we, your selected platform (Transact and/or AJ Bell in most cases) and the fund managers are providing, and means that we, and the platforms, will provide you with more information both when a transaction is processed and via the regular platform provider reports which are now quarterly. Unfortunately, MiFID II also means that we will no longer be able to accept your instructions to buy or sell shares or other 'Reportable Assets' within your discretionary portfolios. This is because we have to confirm that we have provided advice and confirmed the suitability of the asset for every transaction processed. The IDD increases consumer protection when buying insurance products, including investment bonds (which is our main involvement) and pure life insurance such as that linked to a mortgage.

The increased regulation means that we will shortly be providing you with new Terms of Business and Key Facts Documents at your annual review meetings. There will also be a new Discretionary Management Agreement for portfolios managed in this way. Finally, we will be undertaking another round of Risk Questionnaires and Information Sheets before meetings as it has been several years since we last completed these exercises, and it is important to regularly review your positions. The information sheets relate to your income, expenditure, assets and liabilities and enable us to build an accurate picture before we provide you with any recommendation or make changes to your portfolio. We would be grateful if you could complete both forms before you meet with your adviser and have them available for them to collect. Thank you in advance for your assistance in these areas.

We have also seen changes at Altorfer. Many of you have dealt with Mark Chaplin in his roles as accountant and investment manager. After twenty years, Mark has stepped back from both of these roles and become a Non-Executive Director of the company, which means that we still have access to his accumulated knowledge at the end of the telephone or email. Mark's responsibilities have been taken on by myself, Helen Wake and Louisa Bracey. Louisa has been with us for seven years and has gone above and beyond to help with the running of the company in many areas behind the scenes. She continues in her role as Head of Paraplanning and was promoted to the Board as a Director in January with, among other things, responsibility for both Human Resources and Information Technology. Due to our additional responsibilities, Helen and I will unfortunately need to reduce the number of clients we look after. We have therefore recruited Mohamed Faamy from Santander as a Trainee Financial Adviser and he will join us on 3<sup>rd</sup> September. Once Mohamed has completed his training he will be looking after some of you, but we will let those affected know in good time.

We are sorry to see Katy Massey leave us at the end of August to move to Scotland - apparently the commute is too far! Katy has been with us for eleven years and will be greatly missed. Katy's replacement, Kay Martinez, will join the administration team on 1<sup>st</sup> October, having previously worked in the general insurance side of the industry.

The other main change since July is in the ownership of the company. For many years, Roger owned all of the shares in the company. In 2007, he set up an Enterprise Management Incentive (EMI) Scheme, designed to incentivise and retain key staff, which matured last year. Nine employees are now shareholders in the company and we have already set up the next EMI scheme so that our newer staff can also benefit in the future. Roger maintains a key interest in the company as Non-Executive Chairman and retains 35% of the company's shares. He is currently sailing in the North Atlantic and Arctic Oceans on another of his single handed voyages.

The next few months will include the US mid-term elections, a presidential election in Ireland and, hopefully, some resolution to Brexit. We will continue to monitor both the political and market situation and make changes to our asset allocations as appropriate.

Kind regards

A handwritten signature in black ink, appearing to read 'Daniel Wackett', with a stylized flourish at the end.

Daniel Wackett  
Managing Director  
Altorfer Financial Management Limited