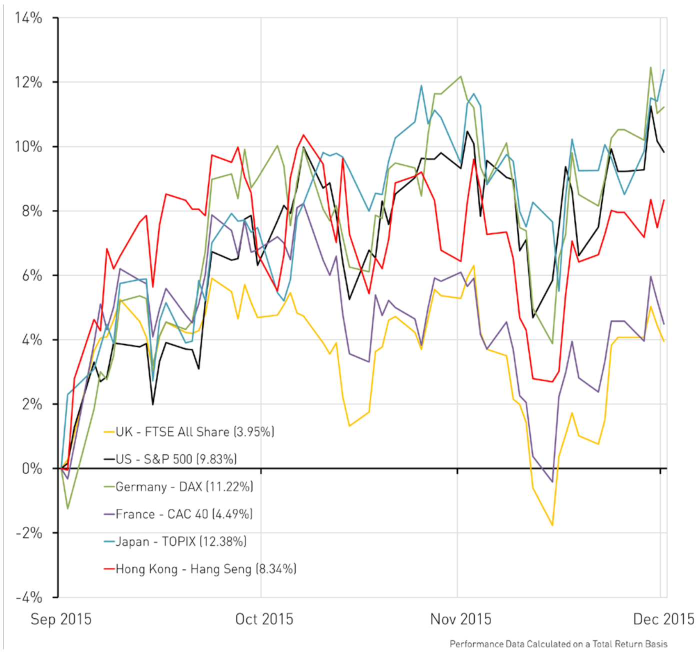
REVIEW OF THE PAST QUARTER:

The final three months of 2015 were characterised by two distinct periods. Taken in isolation the start of the quarter was good for investors with all equity markets rising strongly, however this was on the back of the previous quarter which had been dominated by fear of a China led financial crisis and the now infamous Black Monday which saw markets fall heavily. In reality the start of the quarter was therefore more of a bounce back as hopes grew that central banks would pursue looser monetary policy rather than an indication of economic progress.

Ultimately as the months progressed markets began to stagnate, and in some cases fall away dramatically, during the first weeks of December. The big event of the quarter was the long awaited decision from the Fed to raise interest rates for the first time in nine years. Although widely expected equity markets reacted positively to the news and rose in the following days. The Bank of England meanwhile adopted a wait and see approach regarding raising rates. It is said that where America leads the world usually follows and indubitably the Bank of England will be following events across the Atlantic closely for an indication of what to do. Next year will see the effects of falling oil prices drop out of the inflation calculation and this may increase pressure to raise rates if the stubbornly low inflation witnessed this year goes away. The European Central Bank meanwhile is still in monetary easing mode - meaning no rate rise is expected for some time.



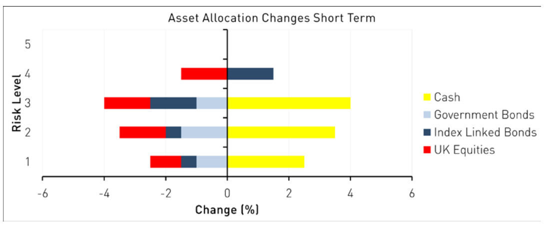
ASSET CLASS RETURNS

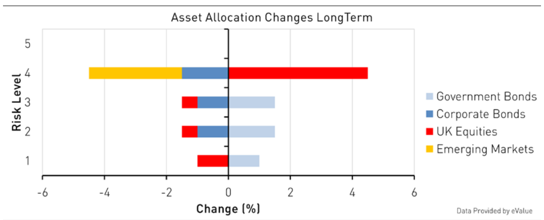
UK	US	Japan	Europe	Emerging Markets	Commodities	Property	Corporate Bond	Gilts	Cash
+3.95%	+9.83%	+12.37%	+6.47%	+3.45%	-10.87%	+1.92%	+1.08%	-1.20%	+0.12%

THE ACTUARIAL VIEW:

For the moment we seem to be left with a confusing mixture of signals regarding what will be happening with central bank rates. On the one hand although growth is slowing a little it remains robust, employment remains strong and we are beginning to see signs of wage growth. On the other hand however, inflation remains miles below target and the current account deficit is large by anyone's standards. This has generally stoked market uncertainty and large swings in bond yields and stock markets are becoming increasingly common. What we do seem to be able to say with reasonable certainty is that there is no sign of rates returning to pre-crisis levels anytime soon nor growth grinding to a halt.

Currently we are experiencing lower rates than in the summer and this leads to lower than expected returns, particularly for fixed income. Falling equity prices have increased the attractiveness of US and UK markets. This is not the case for the Europe and emerging markets where a worsening outlook wipes out the potential gains from lower prices.





WHAT TO LOOK FOR IN Q1:

- **BoE Monetary Policy Committee Announcements:** The next announcements are due on the 14th January, 4th February and 17th March. As already alluded to, there is a great deal of uncertainty over when any interest rate rise will happen. If wages continue to grow and we start to see inflation pick up it is likely that pressure on the bank will once again begin to grow, however at the moment only one member of the rate-setting committee is voting for a rise.
- **Fed Meetings:** The next meetings are scheduled for the 26th-27th January and 15th-16th March, December finally saw the long talked about rate rise from the Fed, the first time rates had increased since 2006. It has long been indicated that rates will only rise gradually so as not to stall the recovery. It seems unlikely therefore that rates will be increased again but there will be a great deal of interest both domestically and internationally on what the impact on the economy has been.
- **Governing Council of the ECB:** Unlike the Fed and the BoE, the ECB is quite clearly still pursuing a monetary easing policy. The next meetings are scheduled for the 21st January and 10th March, with press conferences to follow on the same day. Given the continuing weaknesses of the Euro zone there is unlikely to be any tightening of monetary policy, however further loosening could boost markets.
- **European Council:** David Cameron left the previous summit in December seemingly no closer to a deal on restricting immigration into Britain from the EU. The next summit is scheduled for the 18th-19th February when it is said a deal will be struck, the outcome of which is likely to have a large impact on the referendum regarding Britain's membership of the EU.

ASSET CLASS SCENARIOS:

UK EQUITY

Most Likely: The UK recovery continues, although with a slight slowdown in activity. Uncertainty surrounding interest rates following the US Federal Reserve's recent move, and a pending 'Brexit' vote are likely to hold markets back and introduce periods of market volatility as details emerge.

Worst Case: Data begins to signal a deteriorating growth outlook, implying that the economy has already peaked in its recovery, causing investors to revise down growth estimates and pull investments out of risk assets such as UK equities. This could be compounded by a reversal of the fledgling wage recovery.

Best Case: Uncertainty surrounding interest rates and the 'Brexit' vote turn out to be red herrings, with a rebound in oil and commodity prices driving a substantial rebound in the UK equity market's exposure to these sectors.

CASH

Most Likely: Cash returns continue to be significantly below appealing levels, sitting barely above the inflation rate. Nonetheless it would still provide safe haven appeal should investors have negative views on both equity and fixed income markets.

Worst Case: Global financial markets post a strong quarter in the absence of negative events, with the US interest rate rise being taken in its stride. This would see cash holdings significantly lag behind overall investment returns.

Best Case: A deteriorating global growth outlook combined with rising interest rates could create the situation whereby both equity markets and fixed income markets fall in tandem, meaning that in relative terms, the neutral positioning of cash would triumph.

GLOBAL EQUITY

Most Likely: A volatile period awaits as global investors wait nervously to see the post-holiday effects of the US Federal Reserve's interest rate rise. Volatility in regional equity markets will be driven by factors such as exchange rates, or indeed the diverging nature of central bank policies; just as the US enters a tightening of monetary policy, we still have the European and Japanese Central Banks providing stimulus measures, amongst others.

Worst Case: Deteriorating economic backdrops encourages investors to reduce risk. Countries may feel obliged to enter into competitive trade practices; for example using currency devaluation to stimulate growth. This combined with relatively high valuations in historical terms could result in global equities being sold-off heavily.

Best Case: Short term nerves blow over, and the economic recovery is sustained in the developed markets. Europe has shown promise and this could continue, particularly if issues such as a 'Brexit' or 'Grexit' are resolved without drama. Certain emerging markets may also survive the tough sentiment of 2015, and rebound if perceived to have hit rock bottom.

EMERGING MARKET EQUITY

Most Likely: A strengthening USD will put pressure on companies or indeed countries that are heavily exposed to exchange rate fluctuations, such as those bearing debt denominated in USD but receiving income in local currencies. This combined with diverging underlying growth dynamics will further separate the financially and economically robust from the weaker, more vulnerable.

Worst Case: Optimism priced into certain markets, such as Indian reforms, reverses as the global outlook deteriorates. Pressures brought about by adverse currency moves, or a rapid deterioration in growth forecasts from disappointing political and economic developments, could be just a few of the potential catalysts in this respect.

Best Case: Negative market shocks - such as the Chinese property bubble 'bursting' - fail to materialise, with underlying economic growth and rising wealth of the consumer driving corporate profits in exposed industries, taking corresponding sections of equity markets higher.

FIXED INCOME

Most Likely: Markets slowly adjust to upcoming central bank changes, with a key determinant being the future path for the US Federal Reserve's hiking cycle, which has been well telegraphed recently. Given the persistently low backdrop for inflation, yields could hover around current levels, with volatility introduced with any unexpected monetary policy announcements.

Worst Case: Unanticipated interest rate or inflation increases lead to a sell-off of historically low-yielding securities, as relative return and inflation-adjusted returns are impacted. Losses on principal could potentially erase years of future income return.

Best Case: Interest rates remain at historical lows as economic growth stutters or even declines, further compounded by falling inflation or deflation. This increases the relative return and inflation-adjusted returns on offer, driving yields lower and creating a sizeable capital gain for current holders of fixed income securities.

PROPERTY

Most Likely: Similar to fixed income markets, the evolution of property values will be determined by near-term projections for interest rates and inflation. Should both remain subdued, then markets can be expected to remain healthy at a broad level. Closer to home in the UK, recent tax and legal changes on residential property will begin to price into the market ahead of the new tax year.

Worst Case: Rising bond yields and inflation lead investors to reassess their property exposure, with yields rising – and therefore prices falling - in a parallel fashion. This may be offset somewhat by underlying economic strength driving rental demand, but capital losses could negate years' worth of income return.

Best Case: Economic growth remains robust, with rising corporate profits and household incomes driving demand for property at both commercial and residential levels. Rental yields could be further supported by a backdrop of low inflation and interest rates, maintaining the appeal of the return relative to traditional assets.

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