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Portfolio and Market Review
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We couldn't agree more with Paul Samuelson that an investment portfolio should aim for steady growth rather than taking risks for the chance of making gains, however exciting or tempting that may be. 2019 saw a continued trend for the UK retail market to adopt the same approach, with net outflows from active funds of £3.1bn and net inflows to passive funds of £21.5bn for the year to date at the end of October.[1]

"I tell people investing should be dull. It shouldn't be exciting. Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas".

- Paul Samuelson, Economist and Nobel Prize Winner 1970

Over in the US, the size of passive assets has surpassed that of their active peers.[2] The exodus of funds from active managers continued throughout the year and ended with an unwelcome early Christmas present for the active managers of the California Public Employees' Retirement System (CalPERS). In an unprecedented move, four of its five equity managers were fired, and the scheme cut its allocation to active funds from $33.6 bn to $5bn. CalPERS cited continued underperformance and will redistribute the funds to passive strategies.[3]

Both performance and pricing continue to drive this trend. Pricing competition in the UK remains strong, offering investors the opportunity to capture capital market gains at ever decreasing costs. Vanguard, the UK's largest provider of passive funds, cut fees on 36 ETFs and index funds in October 2019. The average OCF (Ongoing Charges Figure – the cost figure that all fund managers are required to publish for each fund) for a Vanguard index fund is now 0.2%, a third lower than it was 10 years ago.

1 Simfund (2020)
2 Bloomberg: End of Era: Passive Equity Funds Surpass Active in Epic Shift, https://www.bloomberg.com/news/articles/2019-09-11/passive-u-s-equity-funds-eclipse-active-in-epic-industry-shift
3 The Chief Investment Officer, CalPERS Fires Most of Its Equity Managers, https://www.ai-cio.com/news/exclusive-calpers-fires-equity-managers/

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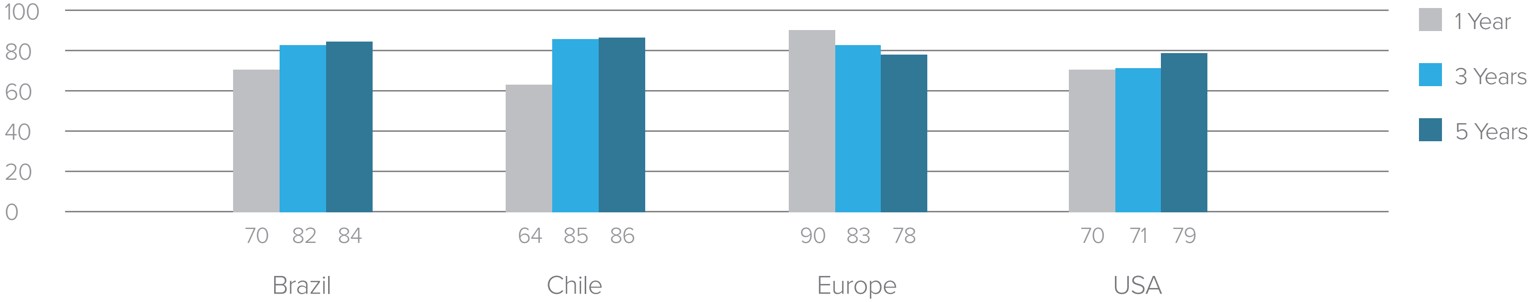
Active Equity Funds Underperforming their Benchmark[4]



Research evidences the failure of the stock picking masters of the universe to outperform the market on any consistent basis while charging fees, far in excess of their passively managed counterparts. 2019 was no exception, the chart above shows that poor performance remains prevalent in both developed and emerging markets.

When stating these facts in the past, we have often been presented with the question "well yes, but what about Woodford?". We would dare say that this question has answered itself in 2019, but we are not smug, and this is not something to gloat about. Significant sums of money, real people's savings, have been lost as a result of the collapse of Woodford's funds. This serves to remind us how important it is to have a deep understanding of the investments that we make and to ensure they are appropriate for our investment profile. "Watching paint dry" is likely to be all that we need to reach our financial goals. And without doubt, the loss of the UK's "Poster Child" for active management will certainly do nothing to stop the flow of funds towards passive investment.

Lastly, no review of 2019 would be complete without acknowledging the passing of the grandfather of passive investing, John C. Bogle, who created the first index fund in 1975. Bogle's notion that trying to surpass the market is a fool's errand, and that attempting to match the index is the most efficient way to deliver investment returns, was the acorn that in 2019 looks to have grown into an oak tree. As Warren Buffet noted on Bogle's passing and his contribution to investors:

"If a statue is ever erected to honour the person who has done the most for investors, the hands-down choice should be Jack Bogle".

4 Source: SPIVA 2019. Data as of June 2019 *Indexes: S&P Brazil BMI, S&P Chile BMI, S&P Europe 350, S&P 500.

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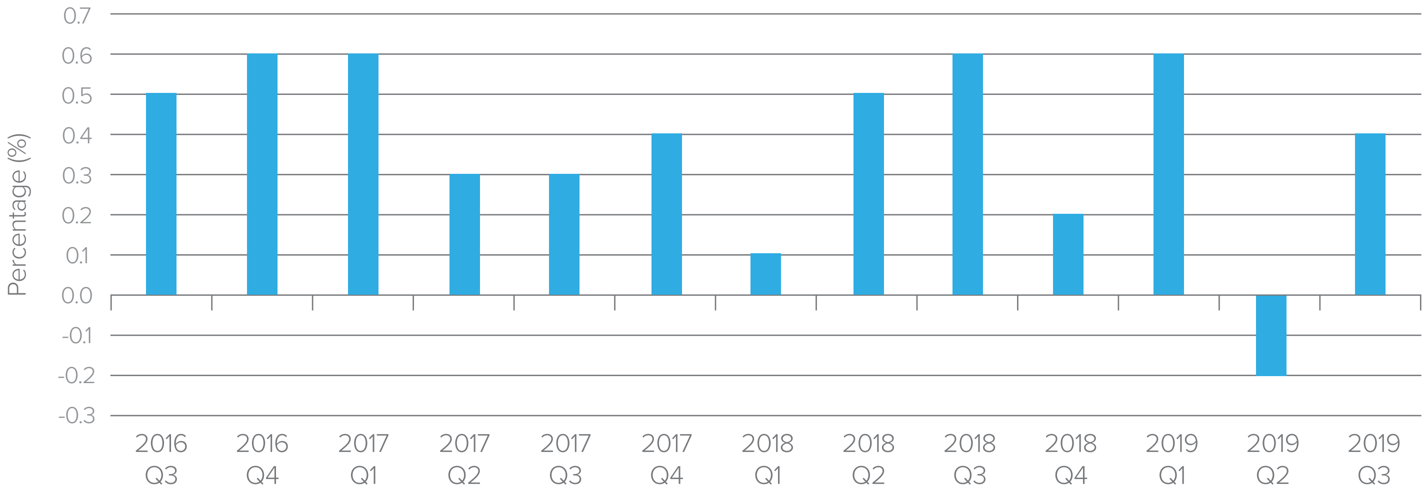
Brexit has been the UK’s proverbial Pandora’s box, for year upon year, the world looked on in wonder and some would say amusement as UK leaders fell and governments changed but no headway was made on whether the UK would actually leave the European Union. Journalists relished in the turmoil, the strong feelings on both sides of the argument made excellent headline material and the continuing political pantomime was a bonus.

However, the real issue for investors, is not whether the UK was to remain, but the prolonged period of uncertainty. Markets detest ambiguity, any event that can be predicted with some certainty can be managed. Brexit caused businesses to postpone investing and delay recruitment which ultimately inhibited economic growth and UK capital market returns. Data suggests that the UK economy has been in a somewhat stagnant state since the 2016 vote, with average growth over the period 2016 Q1 to 2019 Q3 of 0.37%.[5]

Gross Domestic Product: Quarter on Quarter Growth



UK equities have returned 43.47% since the EU referendum in June 2016, while the rest of the world has returned 61.12%.[6]

Behavioural biases mean investors are often tempted to put more money in their home market, but this cannot be relied upon to serve them well. The Brexit commotion serves to highlight the importance of our investment philosophy, that of holding a global asset allocation within our portfolio. By taking a global perspective, the uncertainty of Brexit on overall investor returns has been minimised, diversifying portfolios avoids being overly exposed to the geopolitical risk of individual markets.

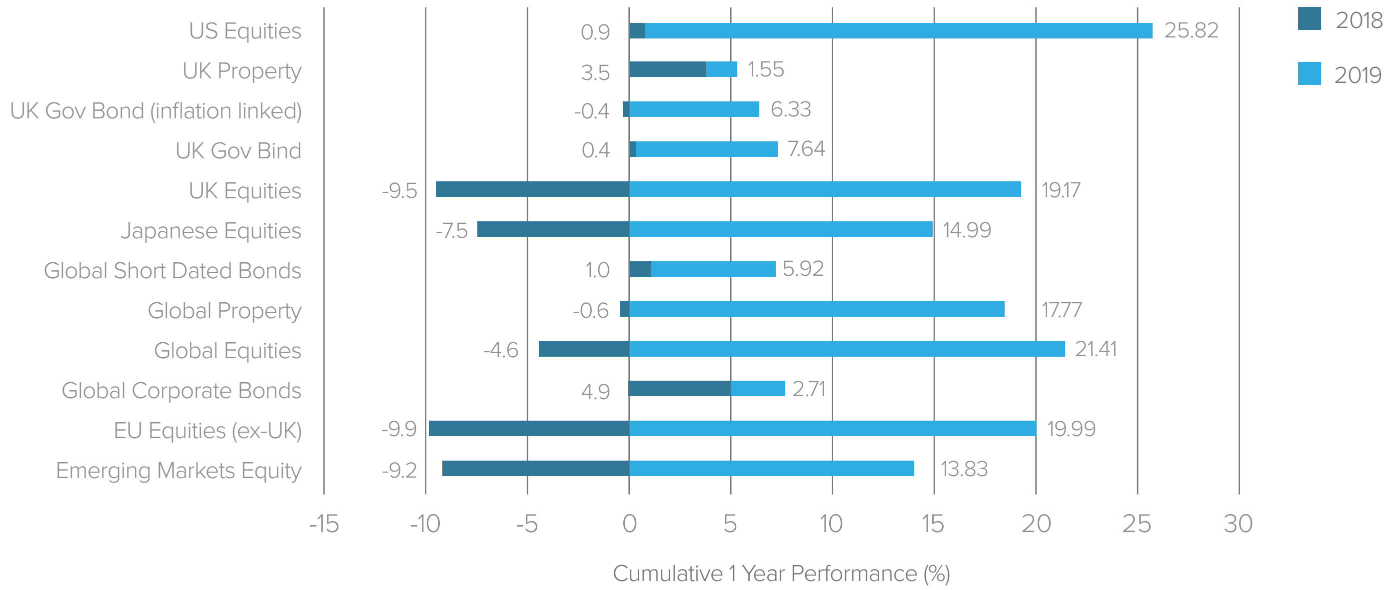
5 Office of National Statistics (2020)
6 Financial Express (2020). *UK: FTSE All Share, World: MSCI World.

Asset Class Returns 2019

The year began with the fearmongering masters of the universe predicting all manner of strife for capital markets in 2019. Indeed, 2018 had been a challenging year for investors, after almost a decade of fruitful returns, many asset classes fell in value. Indeed, the last quarter of 2018 saw the worst quarterly performance for global equity in seven years.[7]

But again, the experts and their crystal balls have been proved wrong. Forecasts of major market corrections, multiple US interest rate rises and a no holds bar trade war between China and the USA failed to come to fruition. Instead, forecasters, again have eaten considerable amounts of humble pie. Instead, both equity and bond markets in developed and developing rallied, this can be seen in the chart below. Even with the difficult conditions in 2018, returns for all asset classes over the longer 3 and 5 year periods are very strong (Major Asset Class Returns, Page 11).

Asset Class Performance 2018 and 2019[8]



7 MSCI ACWI All Cap
8 Source: FE Analytics (2020*)
* Emerging Markets Equity: MSCI Emerging Markets, EU Equities (ex-UK): MSCI Europe ex UK, Global Corporate Bonds: Bloomberg Barclays Global Aggregate, Global Equities: MSCI ACWI All Cap, Global Property: FTSE EPRA Nareit Global, Global Short Dated Bonds: FTSE WorldBIG Domestic Sovereign (WGBI) Hedge GBP, Global Value Equities: MSCI World Small Value, Japanese Equities: MSCI Japan, UK Equities: FTSE All Share, UK Gov Bond: Bloomberg Barclays Global Aggregate UK Government Float Adjusted Hedge GBP, UK Gov Bond (Inflation linked): Bloomberg Barclays UK Government Inflation, Linked Bond Float Adjusted, UK Inflation (RPI): UK Retail Price, UK Property: FE UK Property Proxy, US Equities: MSCI USA.

Entering 2019, a slowdown in China stoked fears of an impending global recession. Alongside the prospect of an increasingly bitter trade war between the USA and China, this created expectations that the Federal Reserve would make up to four interest rate hikes over the year. This proved thoroughly mistaken and the Fed actually lowered rates three times.

The reduction in borrowing costs for households and businesses and the increasing competitiveness of US exports, as the value of the dollar fell, providing stimulus to the US economy. Despite the Trump tariffs, the US economy appeared to remain remarkably unscathed by the continuing trade war. US unemployment fell to 3.5%[9], its lowest level for 50 years, in part helped by the fact most Americans work in fields such as professional services, healthcare and hospitality - areas unaffected by the trade war. By year end, China and the USA were making serious headway in reaching a trade agreement to remove the drag on both countries' economic performance. Despite the trade war, which is estimated to have reduced economic growth from 2.6% to 2% in 2019[10], US equity managed to return an impressive 26%.

Some may be tempted to reduce equity exposure following the bumper year for equities in 2019, in case 2020 results in a reversal of fortunes. Others may be subject to recency effect and expect the strength to continue. Either, or both, could prove wrong. The smart investor understands the key to investment success is to take a long-term perspective and remain diversified across the entire global market. The Asset Return Matrix on page 15 shows why, illustrating the unpredictability of asset class returns over time. As Neil Bohr the Noble Prize winner in Physics once said:

"Prediction is very difficult, especially if it's about the future!".

9 Bureau of Labour Statistics, US Department of Labour, www.bls.gov
10 The Wall Street Journal, Trade War with China Took Toll on U.S., but Not Big One, https://www.wsj.com/articles/trade-war-with-china-took-toll-on-u-s-but-not-big-one-11578832381

Mathews Comfort Portfolio Performance

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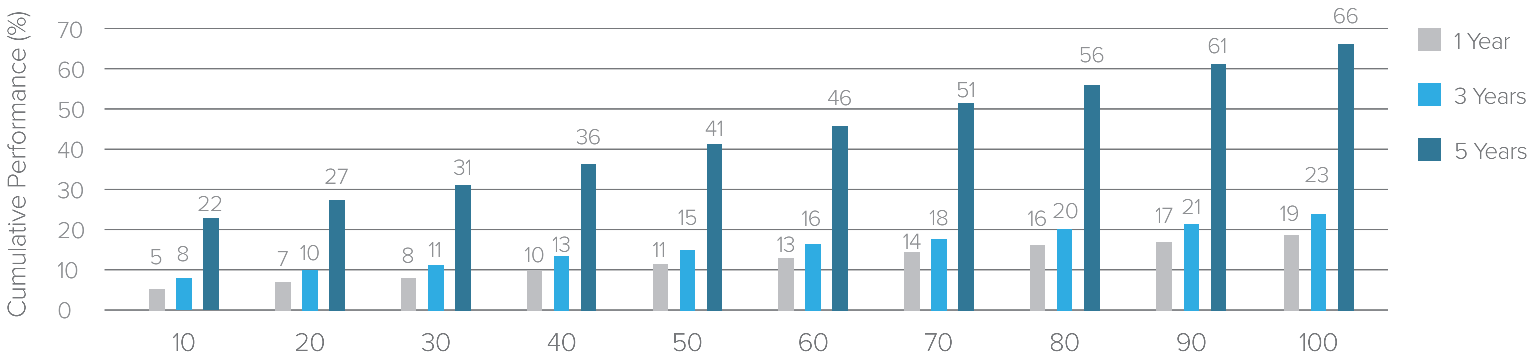
2019 did not deliver the widely anticipated market downturn. Many investors started the year concerned that the strong performance of capital markets seen since the recovery following the Financial Crisis, meant we could be due for a reversal, but this did not materialise. This only goes to emphasise the difficulty with calling short term market movements and reinforces the need for a long-term approach.

Our long-term, diversified investment strategy provided strong returns this year, capturing the performance of the capital markets. The following charts show the returns of our standard and ESG portfolio suites over the last 1, 3 and 5 years:

Mathews Comfort Performance[11]



As we see, the profile of performance reflects the risk profile of the portfolio range, with the higher equity allocations providing the stronger returns and the lower risk, fixed income-based portfolios, doing their job.

Performance over the last year for our 100% equity portfolio was strong, with a return of 18.6%, while its ESG counterpart performed slightly better, reaching 19.5%. This year has seen no sacrifice of return for ethical investing, but more on that later.

As always, we are not in the business of predicting where markets will go in the future, but we would not be surprised to see slowing of growth. We remain positioned to get the best outcome over the full course of a market cycle.

11 Source: FE Analytics (2020)

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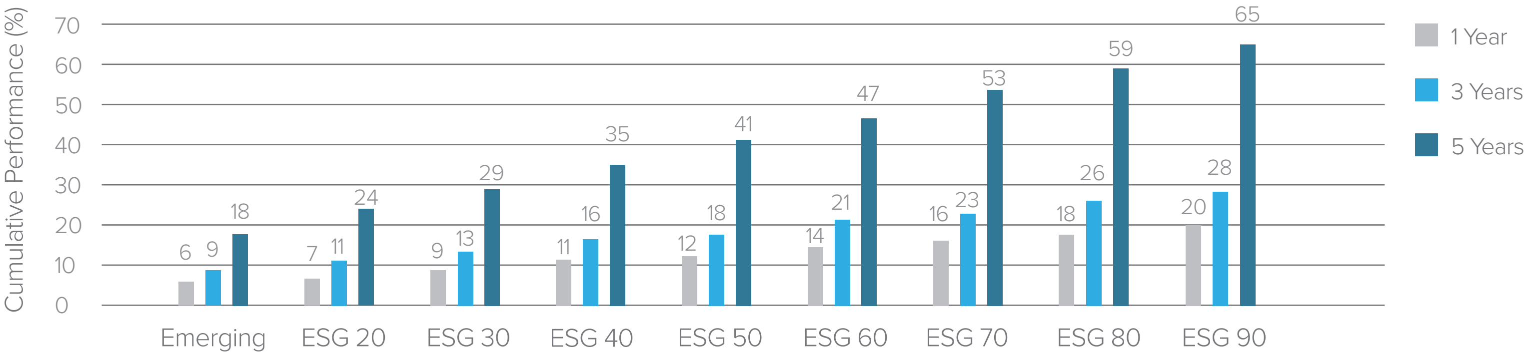
Mathews Comfort ESG Performance[12]



12 Source: FE Analytics (2020)

Mathews Comfort Portfolio Performance vs. Notable Multi-Asset Funds

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In this section we compare the risk-adjusted performance of Mathews Comfort models with a selection of notable multi-asset fund ranges and see that the portfolios performed better than their counterparts. The charts[13] show that for each unit of risk taken, Mathews Comfort captured a greater proportion of the market's return than most of the industry's "key players".

A large part of this is due to our globally diversified asset allocation. Most multi-asset funds tend to allocate a disproportionate amount to the UK. Global market capitalisation is the measure of the value of all shares held by investors globally. As of 30th December 2018, the global stock market was valued at £39.5 trillion, while UK stock markets accounted for just £2 trillion (~ 5%).[14] From our sample, many of the fund managers allocate significantly more than 6% of their portfolio to the UK, thereby missing out on global opportunities and over-exposing their portfolios to country-specific risk.

When looking at comparative global returns, we can see that having a UK bias hindered performance. US, European and overall Global equity has outperformed UK equity over the past year, not to mention over the past 5 years as well. Accordingly, allocating assets based on the global market provided a better result than trying to out-smart the crowd.

When comparing over 3 and 5-years, only one multi-asset family (Vanguard Life Strategy) achieved slightly better returns than Mathews Comfort. This can be attributed to the value tilt in the Mathews Comfort models, which is not featured in the Vanguard funds, as value has lagged in recent times.

Vanguard is the anomaly and overall the Mathews Comfort model range has been strong relative to its peers. We should stress that this discrepancy in performance is representative of our peer-group's underperformance (net of costs) rather than our ability to achieve abnormal returns. Nevertheless, the end result is that our portfolios have provided better management of the relationship between risk and return.

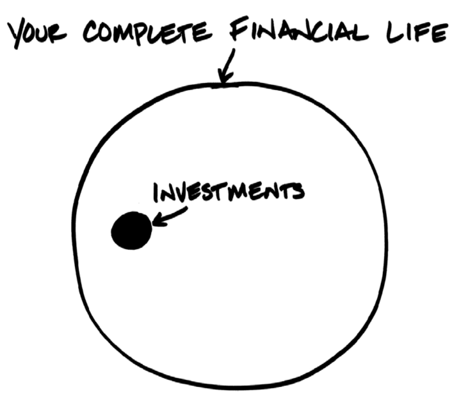
13 Please refer to the Betafolio Control Centre for the full range of efficient frontier charts
14 Dimensional Fund Advisors, Matrix Book 2019

Many obsess over what returns are going to be this year or next but forget the amazing power of compounding that happens over a decade. One does not have to look very hard to see any number of things that didn't work out quite so well in the last decade. The economy and society at large face countless problems, some of which may appear existential, especially if you listen long enough to economists. But if empirical evidence is anything to go by, we can take courage in our ability, as individuals and as a society, to overcome these problems.

The late Swedish physician Han Rosling encourages us all to be a possibilist, which he describes as:

"Someone who neither hopes without reason, nor fears without reason, someone who constantly resists the overdramatic worldview. As a possibilist, I see all this progress, and it fills me with conviction and hope that further progress is possible. This is not optimistic. It is having a clear and reasonable idea about how things are. It is having a worldview that is constructive and useful".

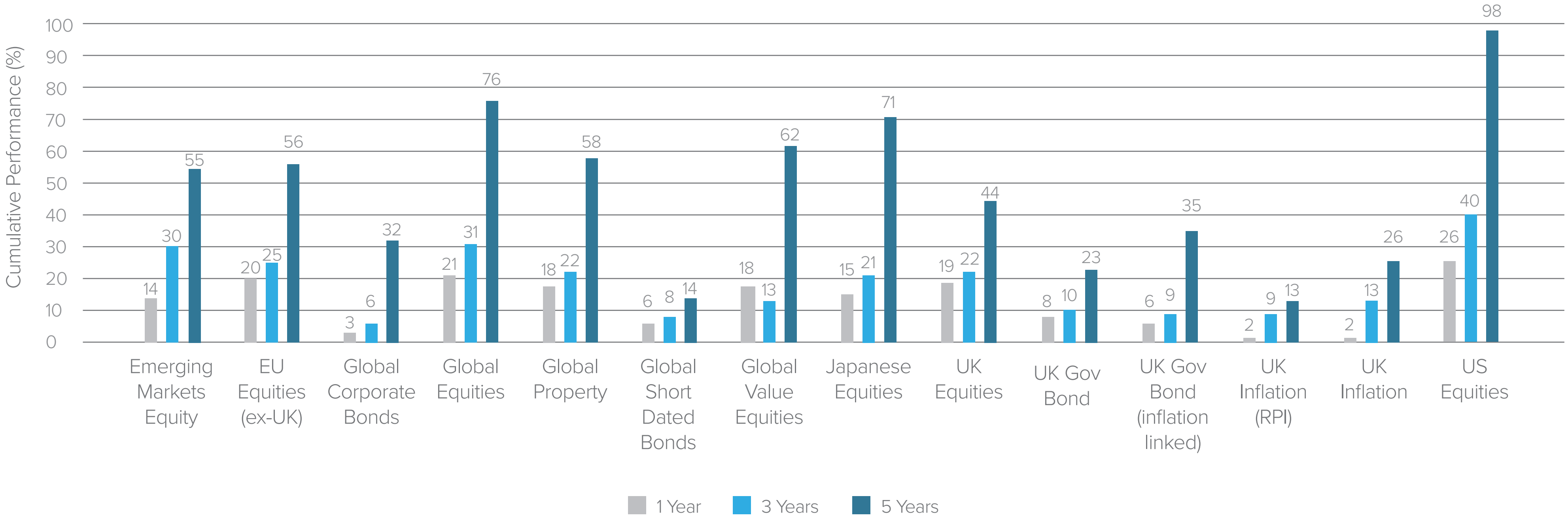
As your Financial Planner, we will continue to work alongside you in order to identify, work towards, and maintain your goals and investments. We must remember that investments form just a small part of your Financial Planning picture. The illustrations below sum this up nicely!



[15]

15 Behavior Gap 2013

Major Asset Class Returns[16]



16 Source: FE Analytics (2020*)
* Emerging Markets Equity: MSCI Emerging Markets, EU Equities (ex-UK): MSCI Europe ex UK, Global Corporate Bonds: Bloomberg Barclays Global Aggregate, Global Equities: MSCI ACWI All Cap, Global Property: FTSE EPRA Nareit Global, Global Short Dated Bonds: FTSE WorldBIG Domestic Sovereign (WGBI) Hedge GBP, Global Value Equities: MSCI World Small Value, Japanese Equities: MSCI Japan, UK Equities: FTSE All Share, UK Gov Bond: Bloomberg Barclays Global Aggregate UK Government Float Adjusted Hedge GBP, UK Gov Bond (Inflation linked): Bloomberg Barclays UK Government Inflation, Linked Bond Float Adjusted, UK Inflation (RPI): UK Retail Price, UK Property: FE UK Property Proxy, US Equities: MSCI USA.

Asset Class Returns - Ranked in Descending Order (Presented in Percentage, Annualised)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10 Years	15 Years	20 Years
Precious Metals 38.69	UK Gilts (Long Dated) 27.15	Global Property 17.91	Global Small 29.92	Global Property 30.88	Japanese Equity 15.91	Emerging Markets 34.79	Emerging Markets 17.76	Hedge Fund (All) 5.7	US Equity 25.65	US Equity 15.11	US Equity 11.04	Global Property 11.71
Global Small 30.09	UK Index Gilts 19.94	UK Corporate Bonds 15.61	Global Value 29.47	UK Gilts (Long Dated) 27.69	UK Property 10.82	Global Small 34.44	European Equity 14.64	Global Bonds 4.94	Global Equity (ex UK) 22.01	Global Small 12.75	Global Small 10.59	Global Small 9.54
Global Property 26.35	UK Gilts (All) 16.68	European Equity 13.89	US Equity 29.1	US Equity 20.02	Hedge Fund (All) 8.82	US Equity 32.67	Global Equity (ex UK) 13.34	UK Property 3.51	Global Small 21.32	Global Property 12.65	Emerging Markets 10.56	Precious Metals 8.99
Emerging Markets 23.79	Precious Metals 7.42	Global Small 12.39	Japanese Equity 24.8	UK Index Gilts 18.96	Global Property 8.09	Commodities 30.79	Japanese Equity 13.25	Inflation 2.7	Global Property 19.54	Global Equity (ex UK) 11.23	Precious Metals 10.23	Global Value 8.41
Commodities 21.3	Global Bonds 6.43	UK Equity 12.3	European Equity 22.91	UK Gilts (All) 14.64	US Equity 6.58	Global Equity (ex UK) 29.33	UK Equity 13.1	Precious Metals 2.42	UK Equity 19.17	Global Value 9.15	Global Equity (ex UK) 9.74	Emerging Markets 7.51
Japanese Equity 19.06	UK Corporate Bonds 5.4	Global Equity (ex UK) 11.11	UK Equity 20.81	UK Property 13.05	Global Small 5.46	Precious Metals 29.33	Global Small 12.04	Global Property 1.91	European Equity 18.99	UK Gilts (Long Dated) 9.05	Global Property 9.44	UK Gilts (Long Dated) 6.91
US Equity 17.97	UK Property 4.89	US Equity 10.16	Global Equity (ex UK) 20.71	UK Corporate Bonds 12.25	Global Equity (ex UK) 3.71	Global Value 28.98	Global Value 11.58	US Equity 0.96	Japanese Equity 14.99	Japanese Equity 8.72	Global Value 9.38	UK Index Gilts 6.9
Global Equity (ex UK) 16.59	Inflation 4.82	Global Value 9.26	UK Property 7.94	Global Equity (ex UK) 11.5	European Equity 2.78	Global Property 27.03	US Equity 10.62	Cash (90 Day) 0.76	Global Value 14.4	UK Equity 8.12	UK Equity 7.57	US Equity 6.48
UK Equity 14.52	Global Property 4.03	Emerging Markets 5.39	Inflation 2.67	Emerging Markets 10.46	Global Bonds 2.45	UK Index Gilts 24.33	UK Property 7.6	Cash (Instant Access) 0.61	Precious Metals 13.08	UK Index Gilts 7.71	UK Gilts (Long Dated) 7.43	UK Corporate Bonds 6.1
UK Property 12.53	UK Gilts (Short Dated) 3	Japanese Equity 3.43	UK Corporate Bonds 1.93	Global Value 10.45	Global Value 2.32	Japanese Equity 22.12	UK Corporate Bonds 5.01	UK Gilts (All) 0.5	UK Gilts (Long Dated) 12.83	European Equity 7.27	European Equity 7.38	Global Equity (ex UK) 5.62
Global Value 12	US Equity 2.23	Inflation 3.09	Hedge Fund (All) 1.65	Global Small 8.24	Inflation 1.2	Global Bonds 21.77	Inflation 4.12	UK Gilts (Short Dated) 0.28	Emerging Markets 11.92	UK Corporate Bonds 6.87	UK Index Gilts 7.16	UK Gilts (All) 5.56
UK Index Gilts 8.88	Cash (90 Day) 1.15	UK Gilts (All) 2.91	Cash (90 Day) 0.86	Hedge Fund (All) 7.06	UK Equity 0.98	UK Gilts (Long Dated) 20.31	UK Gilts (Long Dated) 3.41	UK Gilts (Long Dated -0.25	UK Corporate Bonds 11.03	UK Property 6.22	Japanese Equity 6.67	Global Bonds 5.49
Global Bonds 8.86	Cash (Instant Access) 0.5	UK Gilts (Long Dated) 1.97	UK Index Gilts 0.54	Global Bonds 6.84	Cash (90 Day) 0.75	Hedge Fund (All) 19.65	UK Index Gilts 2.34	UK Index Gilts -0.28	Commodities 7.44	Emerging Markets 5.73	Global Bonds 5.75	UK Property 5.4
UK Corporate Bonds 8.67	Hedge Fund (All) -3	Precious Metals 1.54	Cash (Instant Access) 0.5	Japanese Equity 1.95	UK Gilts (Short Dated) 0.6	European Equity 18.8	Precious Metals 2.29	UK Corporate Bonds -2.2	UK Gilts (All) 7.15	UK Gilts (All) 5.65	UK Corporate Bonds 5.46	UK Equity 4.83
UK Gilts (Long Dated) 8.41	UK Equity -3.46	Cash (90 Day) 1.29	UK Gilts (Short Dated) 0.03	Precious Metals 1.86	UK Corporate Bonds 0.57	UK Equity 16.75	UK Gilts (All) 1.95	Global Equity (ex UK) -3.48	UK Index Gilts 6.42	Global Bonds 4.53	UK Gilts (All) 5.42	European Equity 4.58
UK Gilts (All) 7.54	Global Equity (ex UK) -7.09	UK Property 0.91	Global Property -0.65	UK Gilts (Short Dated) 1.77	Cash (Instant Access) 0.5	UK Corporate Bonds 11.83	Cash (90 Day) 0.48	Emerging Markets -4.27	Global Bonds 2.71	Precious Metals 4.35	UK Property 3.77	Commodities 3.54
European Equity 7.14	Commodities -7.53	UK Index Gilts 0.63	Emerging Markets -2.02	Inflation 1.62	UK Gilts (All) 0.49	UK Gilts (All) 10.73	Cash (Instant Access) 0.29	Commodities -5.11	Inflation 1.89	Hedge Fund (All) 3.18	Hedge Fund (All) 3.02	Hedge Fund (All) 3.36
Inflation 4.77	Global Small -8.39	Cash (Instant Access) 0.5	UK Gilts (All) -4.22	UK Equity 1.18	UK Gilts (Long Dated) 0.03	Inflation 2.49	UK Gilts (Short Dated) -0.45	Japanese Equity -7.47	UK Property 1.55	Inflation 2.93	Inflation 2.89	UK Gilts (Short Dated) 3.29
Hedge Fund (All) 3.02	European Equity -10.39	UK Gilts (Short Dated) 0.42	Global Bonds -4.41	Cash (90 Day) 0.72	UK Index Gilts -0.97	UK Gilts (Short Dated) 1.46	Global Bonds -1.9	Global Small -8.5	Cash (90 Day) 1.01	UK Gilts (Short Dated) 1.04	UK Gilts (Short Dated) 2.48	Inflation 2.81
UK Gilts (Short Dated) 2.62	Global Value -10.91	Global Bonds -0.26	UK Gilts (Long Dated) -5.38	Cash (Instant Access) 0.5	Precious Metals -5.93	Cash (90 Day) 0.77	Global Property -2.4	Global Value -8.58	Cash (Instant Access) 0.75	Cash (90 Day) 0.88	Cash (90 Day) 1.69	Cash (Instant Access) 2.39
Cash (90 Day) 1.01	Japanese Equity -13.69	Hedge Fund (All) -3.55	Commodities -6.74	European Equity -0.34	Emerging Markets -9.76	Cash (Instant Access) 0.4	Hedge Fund (All) -5.56	UK Equity -9.47	UK Gilts (Short Dated) 0.7	Cash (Instant Access) 0.5	Cash (Instant Access) 1.66	Japanese Equity 2.33
Cash (Instant Access) 0.5	Emerging Markets -19.45	Commodities -7.53	Precious Metals -31.06	Commodities -12.79	Commodities -18.92	UK Property 0.36	Commodities -7.14	European Equity -9.57	Hedge Fund (All) 0.34	Commodities -1.65	Commodities 1.11	Cash (90 Day) 2.08