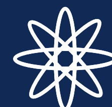

meridian

ASSET MANAGEMENT (C.I.) LIMITED

INVESTMENT MEMORANDUM

International equities have continued their advance over the last quarter, with strong gains in local currency, US dollar and euro returns but much smaller ones in sterling terms as a result of the currency's significant rise over the quarter. Bonds have tended to weaken with monetary policy gradually being tightened in most major countries, although it still remains highly accommodating. In the commodity markets, oil has been a feature as OPEC's supply constraints have made an impact.

The tables below detail relevant movements in markets :

International Equities 31.08.17 - 30.11.17

Total Return Performances (%)				
Country	**Local Currency**	**£**	**US$**	**€**
Australia	+5.4	-4.0	+0.9	+0.6
Finland	-1.1	-5.6	-0.9	-1.1
France	+6.0	+1.2	+6.3	+6.0
Germany	+8.3	+3.4	+8.6	+8.3
Hong Kong, China	+4.1	-0.7	+4.3	+4.0
Italy	+2.9	-1.8	+3.2	+2.9
Japan	+12.0	+4.9	+10.2	+9.8
Netherlands	+2.3	-2.4	+2.6	+2.3
Spain	+0.1	-4.4	+0.4	+0.1
Switzerland	+4.8	-2.3	+2.6	+2.3
UK	-0.6	-0.6	+4.4	+4.1
USA	+7.5	+2.4	+7.5	+7.2
All World Europe ex UK	+4.5	-1.2	+3.9	+3.6
All World Asia Pacific ex Japan	+4.5	-0.2	+4.4	+4.0
All World Asia Pacific	+7.5	+1.5	+6.7	+6.4
All World Latin America	-1.5	-9.6	-5.1	-5.3
All World All Emerging Markets	+2.0	-3.2	+1.7	+1.4
All World	+6.4	+1.1	+6.2	+5.9

Source FTSE World Indices

FTSE UK Government Securities Index All Stocks (total return) : -2.0%

International Bonds - Benchmark Ten Year Government Bond Yields (%)

Currency	31.08.17	30.11.17
Sterling	1.09	1.39
US Dollar	2.13	2.39
Yen	0.01	0.04
Germany (Euro)	0.36	0.38

Sterling's performance during the quarter ending 30.11.17 (%)

Currency	Quarter Ending 30.11.17
US Dollar	+4.8
Canadian Dollar	+7.9
Yen	+7.0
Euro	+4.7
Swiss Franc	+7.2
Australian Dollar	+9.8

Other currency movements during the quarter ending 30.11.17 (%)

Currency	Quarter Ending 30.11.00
US Dollar / Canadian Dollar	+3.0
US Dollar / Yen	+2.1
US Dollar / Euro	-0.1
Swiss Franc / Euro	-2.4
Euro / Yen	+2.2

Significant Commodities (US dollar terms) 31.08.17 - 30.11.17 (%)

Currency	Quarter Ending 30.11.17
Oil	+18.6
Gold	-2.4

MARKETS

International equity markets have been firm in local currency terms over the last quarter. For sterling based international equity investors, returns have been pared by the very strong recovery in the pound over the quarter. In local currency total return terms, the FTSE All Share Index has returned +6.4%, in sterling terms +1.1%, in US dollar terms +6.2% and in euro terms +5.9%. Looking at local currency returns first, the stand out area has been Japan with the FTSE Japan Index returning +12.0%. The FTSE USA Index also showed an above average performance, returning +7.5%. The UK had a slightly negative quarter, with the FTSE UK Index returning -0.6%, and there was also a negative performance from the FTSE All World Latin America Index which returned -1.5%. However, the position changed markedly in sterling terms as a result of the pound's strength. The best performer remained Japan, with the sterling adjusted FTSE Japan Index returning +4.9%, and the USA also showed an above average sterling adjusted return, with the FTSE USA Index returning +2.4%. Most other markets showed negative sterling returns although, within Europe, the FTSE Germany Index stood out with an above average return of +3.4%.

In the international bond markets, using ten year government bond yields as a benchmark, there was a 30 basis point rise in the UK government bond yield to 1.39%, a rise of 26 basis points in the US government bond yield to 2.34%, one of 3 basis points to 0.04% in the Japanese government bond yield to 0.04% and one of 2 basis points in the German Bund to 0.38%.

As indicated above, sterling made a dramatic recovery over the quarter. Against the Australian dollar, it rose by 9.8%, against the Canadian dollar by 7.9%, against the Swiss Franc by 7.2%, against the yen by 7.0%, against the US dollar by 4.8% and against the euro by 4.7%.

In the commodity markets, there was a strong performance from oil, with the price of Brent crude rising by 18.6% over the quarter as OPEC's supply discipline was effective. On the other hand, gold performed poorly, slipping back by 2.4% over the quarter.

ECONOMICS

How best to describe the current investment landscape? We appear to be in a phase of dull markets, steady economics and dramatic politics and, that being the case, it is certainly the best combination of those nouns and adjectives. Volatility remains low, economic growth is half a notch below good and the editors of this age's 24 hour media are very grateful to the current leaders of the world for their never-ending gift of material to sponsor opinion pieces and shift newsprint.

In this month's memorandum there are just two areas of focus, the United States and China, the largest and second largest countries in the world in economic terms and the largest contributors to growth. More accurately, we need to consider how what is happening in these two powerhouses is affecting asset prices. The differences between these two countries are more striking than their similarities. One sees expansion through free trade, although the detail may be different, a thriving middle class and building allegiances around the globe, but we will start with the United States.

The first paragraph, indeed, invites us to start in the United States where any description of how the country is faring can centre on the performance (or performances) of its President; here is a good example of a country where the politics can too easily eclipse the economics. It would be easy for the

ear to be drawn to Donald Trump's vocal output and the noise around his struggles with Congress, colleagues and other countries but the economic picture, however, is more harmonious with the most recent estimate of third quarter economic growth of 3.3% on an annualised basis being 0.1 percentage points higher than the post-war average. Unemployment is currently 4.1%, which compares with the post-war average of 5.8% and inflation sits at 2.0% as measured by the consumer price index - on target. This is not to say that all in the garden is rosy with underemployment and the low participation rate tainting the unemployment figure and the level of national debt being very high compared with recent history; this, in turn, is mitigated by it being relatively affordable due to such low interest rates, in many cases negative in real terms. There is also an element of doubt relating to the recent trend of annualised national economic growth above 3%, which we have seen over both the second and third quarters. The second quarter could well have been a recoil from particularly low seasonally depressed first quarter and the most recent quarter may well have been flattered by hurricane repair distortions. The fourth quarter figure should help to iron out these wrinkles but anywhere above 2.5% would be more than acceptable. Support for Trump's pre-election prediction of growth of 3% to 4% has lessened but not disappeared.

As President Trump approaches his first anniversary in power, others will reflect on how successful his tenure has been so far and if he has influenced the economy. The S&P 500 Index has risen by around 23% since 8th November 2016, when victory was secured. Has this been mis-placed frothiness or are these companies now worth that much more? The formula for re-valuing a company tends to follow a pattern. If, at any point, it becomes likely that profits in the future are going to rise more than previously thought, the share price will rise, all other things being equal. The opposite will, of course, apply when expectations suffer. An example would be Boeing, whose share price has risen sharply this year as it has built more planes than it had forecast, it has managed costs, bought back shares and it now forecasts that global demand for planes over the next 20 years will be much higher than it had estimated last year. All of these point to a higher share price and reflect a stronger business and greater optimism. Significantly, all three reporting seasons for the first three quarters of the year have seen resurgent earnings. First quarter earnings grew by 15.3%, second quarter by 12.3% and third quarter, a little less, at 7.0%. The mix of higher expected profits, an expanding economy and accommodating monetary policy are less about Trump's presidency but the promise of lower taxes will directly improve earnings due to the shareholder. President Trump lays claim to the market gains and they certainly have occurred on his watch; his most ardent supporters would claim a catalyst effect whilst his detractors would find it easy to ascribe these gains to more mechanical reasons. It's also worth noting that over the time it has taken for the S&P 500 to rise by 23%, the German, French, Italian, Spanish, South Korean and Hong Kong stock exchanges have risen more with Japan's market only slightly less. Copper, a key economic indicator has risen 29% and crude oil around 37%. All of these measures are in US dollar terms.

The breaking news at the time of writing is the Senate's passing of a wide ranging tax overhaul which now means that Trump's first significant piece of legislation is likely to be written into law and, with much focus of the changes on companies, markets are likely to accept it gladly. The economics still drives the markets. This will feed into already positive economic data; strong earnings against a backdrop of still low inflation with an expansionary Fed and fiscal policy is a recipe for higher markets. An improving global picture underwrites equity prices of all international companies and this is helped by stronger growth in Europe and in other trading partner nations.

Trump's intentions to lower taxes and cut bureaucracy are laudable in that they are likely to propagate economic growth. Bureaucracy is universally accepted as a curse of the modern age where adding legislation to the statute books is far easier than removing it. Mr Trump has frequently described his land as "the highest taxed nation in the world" but, according to the OECD, the reality is slightly different. By its analysis of its 35 member countries, the United States had the fifth lowest level of national, state and local taxes as a percentage of GDP in 2016. (Out of interest Mexico had the lowest and Denmark had the highest ratio.) The American model does differ from many other OECD member countries in that education and healthcare are funded less from taxation and more from private

expenditure with US spending on private healthcare as a percentage of GDP almost double that of the next biggest spender, Switzerland. The economic good of lowering corporate tax is dependent on how the money is redeployed. Companies could lower the prices of their goods and services, increasing consumer spending power, they could increase investment spending to raise productivity or sales reach, they could increase wages which would translate into higher consumer demand and they could improve the return to shareholders through dividends or share buy backs. There is a reasonable chance that the latter may prove an attractive option.

President Trump's policies on trade and the consequences for trading nations remains a concern. Trump may soon announce the exit of the US from the North American Free Trade Agreement, something he has referred to as "The worst trade deal ever". Canada and Mexico have united against the US. Trump wants a recurring 5 year sunset on NAFTA, half of duty free content in North American-built cars to be sourced from the US and to cancel the dispute resolution system which protects cross border investors against arbitrary contract-breaking. What Canada and Mexico are finding is that Trump does not like to move on his opening offer. Trump is seen as a negotiator who won't negotiate and his only tool, which may work well in property development, is to make sure you start in a strong position and refuse to budge. If they want the deal more than you do then you'll get your way. Trump's logic is that, now, he has ownership of the most prime piece of real estate - the United States, and others will always yield. If this is correct, and the evidence appears to be growing that this logic shapes his approach to many cross-border matters, then two outcomes are most likely. Either he succeeds and trade decreases due to tariff and non-tariff barriers - effectively taxes on free trade, or others refuse to yield, which may be equally disruptive. The greater hope is that those who surround and advise the President are successful in softening his approach.

In mid-October, we were given a close up view of the machinery of government in China courtesy of the 19th National Congress of the Communist Party. We learned of the vision for the next 30 years, that Xi Jinping will continue as General Secretary for another term and that the people of China will continue, compliantly, to be given economic freedom but perhaps not political freedom. The unique model of capitalist socialism will continue to apply and all will benefit from the highly structured management of the economy. Xi is commonly referred to by the Chinese as Xi Dada, or Uncle Xi and his confidence on the international stage and the consistent levels of high growth have endeared him to his people. Regular policy statements from him are rare but he is clear that he still has much to do and nobody was suggesting that someone else may do the job better.

His vision is clear. China will stand tall and claim its place as a leading nation of the world, reflecting its size, its populus, its ambition and its achievements. It is confident that its leadership model is robust and that its track record justifies this. It remains somewhat enigmatic, rich in the whole, poor in parts. According to the World Bank, GDP per head of the United States is $57,470 whilst China's is $8,120. More colour is added to the picture with some historic data. In 1960 America's GDP per capita was $3,010 whilst China's was $90. China's has increased by a factor of 90; America's has increased 7 times. The rate of growth remains impressively high and the day after Xi Dada spoke, it was announced that third quarter growth was an annualised 6.8%. This rate has fallen over recent years as the country's comparative competitive advantage of cheapness reduces but the contribution to the growth of the world economy made by its expansion is not to be under-estimated. If China achieves 6.8% growth in 2017 it will be the equivalent of adding an economy roughly the size of Turkey's to world GDP; Turkey is the 17th biggest economy in the world. Put another way, China's growth represents about a third of all world GDP growth at present. Going back to 1980s it was less than a tenth. It is clear that China can in no way be ignored, either strategically, politically or in investment terms. It represents a far bigger single contribution to growth than the Japanese economic miracle of the 1960s and 1970s and it's important to try to understand the factors that may shape its future pattern of growth.

It is not necessary to look too closely to see that China has two serious issues: credit and corruption. Looking at the credit situation first, nobody can fail to be aware of the level of debt, which is very high by any standards but, perhaps more importantly, has grown at a simply staggering rate. The government has condoned the leveraging of the economy to achieve ambitious growth targets. It set a long term plan to double the size of the economy between 2010 and 2020 and non-financial sector debt has risen fast to meet that aim. Since 2007 total debt has quadrupled to stand at $28 trillion at the end of 2016. The IMF has forecast that debt as a proportion of GDP would rise from around 220% to 300% by 2022. The point it makes here is that other countries that had a similar experience of credit growth have found it to be a "dangerous trajectory", which has ended either with a disruptive adjustment and/or a marked growth slowdown. The government's role is key here as its capital spend has been high on infrastructure projects such as roads, rail, airports, hydro-electric projects and ports. It has also been useful as government-controlled steel mills and cement plants which, in the main, produce more than is needed. The banking sector is another area where state-ownership affects behaviour. Here the IMF opines that private sector debt relative to GDP has risen by 80 percentage points to around 175%. Without this increase, the economy as a whole between 2012 and 2016 would have achieved 5.5% growth per annum rather than 7.25% per annum. At this point it is necessary to look at the other side of the (over-lent) coin and this involved understanding how much control over the situation the government has, and what is important here is gauging whether different rules apply compared with other countries. Firstly, this is an internal problem which doesn't involve the 'kindness of strangers' i.e. there is no risk of a buyers' strike where foreign investors abruptly absent themselves from the debt market creating a suddenly chaotic situation. Secondly, and overlapping with the first point, the government and the lending banks can be viewed as one and the same. Banks do not necessarily function and behave as our banks might but, rather, implement policy in the way they lend. Looking at this another way, there is usually a predictable range of culprits that cause the end of expanding credit in the developed world, albeit unpredictably. This forced deleveraging, or 'Minsky moment' as it was referred to by the respected Governor of the People's Bank of China, Zhou Xiachuan, in October, is started by jittery foreign investors taking money off the table, by weaker banks fearing the consequences of capital erosion, over-extended shadow banking participants fearing a fall in the value of their assets, over-valued exchange rates or low international reserves. Thinking of these in the context of the Chinese model it can readily be argued that those fingers are less likely to be hovering over their triggers.

Hyman Minsky was an economist who has been referenced on numerous occasions recently despite his central thesis being largely ignored during his lifetime. His particular area of analysis was financial crises, where a booming economy starts to turn into a failing economy. He argues that a large factor in defining when the turning point will be is the type of debt which the economy has accumulated. Lowest risk debt are the capital repayment loans typified by household mortgages where both capital and interest is paid off from the borrower's income; he called these hedge borrowers. Next are speculative borrowers. These may be borrowers who use the money for investment purposes and rely on the return from those investments to service the loans. Buy-to-let mortgages would fit in here. Finally, there are Ponzi borrowers who invest their loans in speculative high risk arrangements in the belief that the appreciation of the bought assets will be sufficient to eventually repay the loans. Minsky argues that there is an under-appreciated risk to the wider economy when there is an unhealthy build-up of Ponzi-type lending. There can be a house of cards effect where a fall in asset prices can cause a collapse in the viability of this lending, leading to impairment on banks' balance sheets which, in turn, may have an impact on the speculative borrowers as the availability of credit reduces and/or their underlying asset gets caught up in the market falls.

At the current time China is partly, but not entirely, insulated from experiencing a "Minsky moment" because of the control it exerts over many of the moving parts. The banking sector is heavily regulated and subject to much central influence. A portion of its lending is to local government and some to State-owned enterprises (SOEs), much to property developers and more to buyers of that property. It may be that Mr Zhou's words are aimed at those engaging in the over-heated housing market, where middle class Chinese have taken to property ownership thanks to the paper profits made on house

price gains over recent years. More flighty cash flows into this credit boom, such as from foreign lenders, are limited in value and the Chinese administration has been strong in managing risk in the local economy. It monitors closely, it assesses risk and it intervenes.

Of the two great threats to China's model, corruption and credit, the latter would seem to be the one which would be more likely to create sudden but lasting damage to the economy. Corruption corrodes an economy and can become pervasive over time; it doesn't however threaten a Minsky moment. The difficulty is in assessing whether China has the ability to keep taming the animal spirits of a free market economy. There is a range of views on this but, for the time being at least, it has enough levers to pull and rules to impose to keep the project on track. The credit rating agency, Moody's Investors Service, questioned this point, when it downgraded the country in May. Its assessment was dominated by the view that the total level of debt and the speed of accumulation of debt were reaching that point of inflection. China's rebuttal was instant and re-iterated in October after its treasury successfully sold $2 billion of dollar-denominated debt, the first sale in dollars since 2004. Demand was high for this Hong Kong issue and it yielded around 0.15 percentage points above similar maturity American government debt - a far smaller spread that the difference in their credit ratings would imply. China, justifying the success of the issue, said that its economy had grown faster than expected this year, the country's debt burden had stabilized - or even fallen by some estimates, due to slower credit growth and higher inflation.

It seems that General Secretary Xi's 3½ hour speech offered some detail on China's vision for the next 30 years. The Chinese should not expect much political freedom but he would allow them to grow rich. China feels that it can stand tall as a leading country of the world in every aspect. It will seek to build a new Asian powerhouse with itself at the centre. Its One Belt One Road project is key to its future expansion and its ample foreign exchange reserves will help facilitate this. China is not problem-free with slowing economic growth and the need to re-align its economy towards internal demand from external demand. These are the realities of the current situation and it must balance the risks of debt-fuelled growth against the possibility of sharp economic slowdown caused by taking its foot off the accelerator. The leadership's ambitious vision is underwritten by ongoing economic progress. Economic might will facilitate its plans and its leadership's credibility has been earnt by its habit of achieving the goals it sets out to achieve.

This economic behemoth needs economic growth for one important reason. Ongoing economic success defines the argument for the One Party state. China is sensitive to the voice of its people and is mindful of the need to carry rural regions along with the metropolitan explosion. The price of housing and food is always an issue and the party is aware that with wealth comes empowerment, at a citizen level as well as at a country level. The outcome of the party congress is that one party rule is even more strongly embedded in the present and the future of the country, and is certainly not hindered by the political disarray which it sees all around the western world. China is increasingly emboldened by this and economic might will define everything that it plans to do. At present its home built cars and aircraft cannot rival the best in the west but in certain technological areas - mobile payment systems for example, it leads, with eleven times the transaction value of the United States. The McKinsey Global Institute notes that one in three of the world's 262 'unicorns'- start-ups with a market value greater than $1 billion - are Chinese. An example of where its government uses technology in a way that would be difficult in a western country relates to big data on spending. E-commerce giants such as Alibaba and Tencent are obliged to share personal data and spending patterns on individuals with government agencies such as the central bank. This information on 400 million people is then disseminated amongst the country's state-controlled banks which build up a picture of payment history, credit-worthiness and even includes information on social contacts. The Chinese government associates this system with the reduction in household bad debts that has been seen recently. This success is leading to a similar parallel system for small and medium sized businesses. The Great Firewall prevents much western influence creeping in with Facebook, Google and Twitter inaccessible and it would be wrong to think that western technology will maintain an unsurpassable lead.

The expansion of China, in economic terms, in terms of voice and political weight will continue unabated. Our next generation will not know China as the sleeping giant it has been until very recently and is likely to be surprised that a country of such human dimensions could have been so economically insignificant so recently in its past. There will be a time when Meridian will feel more comfortable investing directly into Chinese listed companies but, for the time being, the current strategy will remain in place. In the majority of cases this will be to invest in international companies which manufacture, trade or partner in China and enjoy the benefits of doing so as another market in their dynamic model. It will be for the management of those companies to constantly finesse their strategy and benefit from opportunity as it appears and grows. In some mandates, it will be appropriate to allocate a small proportion of portfolios into a collective investment scheme, often an exchange traded fund. This may invest directly into Chinese companies but will invariably represent a small exposure relative to the whole portfolio. Fortunes have been made investing in small Chinese start-ups but those growth stories are heavily outnumbered by less exciting companies and a proportion whose performance has been dramatic, but for the worst reasons. The Chinese stock market is young and has been very volatile. Understanding companies can be difficult as external analysis can be thin, ownership and inter-group funding can be opaque and accounting standards are not what they are in developed markets. It remains our strong preference to either gain exposure to this and other developing markets either through ETFs, where the risk is spread across a large number of constituent companies within the fund, or by investing in western companies who have operations in those countries.

The leadership of China is attuned to its task and is increasingly vocal in recognising its shortfalls. It is increasingly optimistic and confident. China remains as enigmatic as ever. It charts its own course and, increasingly, exudes confidence about its future. It chooses ambivalence towards issues that the West may consider particularly important and prioritises its own goals. It is unlikely that this will change now that President Xi has embedded himself as leader with a more or less undated mandate. For readers of this economic memorandum this is not a bad thing as he sees himself as a spiritual continuation of Deng Xiaoping, who planted the seeds of economic transformation through market economy reforms 40 years ago. With economic might will come greater presence on the world stage and, increasingly, its goals and aspirations may start to conflict with other countries, particularly those that it borders. Its One Belt, One Road expansion policy may help to polarise those neighbours into those whom China can do business with and those with whom it can't. Given its capacity to continue growing in economic terms, the stability and direction of its current form of government and its ability to perpetuate it and its ability to influence its neighbours, it is probably fair to say that China is, or will very shortly become, the most influential country in the world. Its might will continue to grow relative to other countries and depending how it chooses to assert itself, may make the move from panda politics to tiger politics.

Intuitively, if one considered which country a British company would find it easier to do business with today - United States or China, the answer would be the United States, for a variety of reasons - language, legal frameworks and a shared past (which has gone much better in the last 100 years than some centuries before). President Trump's trip to China, as part of his Asia tour showed that there are leadership views in each country which contrast with the historic stance taken by those countries, which might influence our trade balance in future years, particularly if the United Kingdom is, increasingly, to look beyond Europe for trade partners. Trump, perhaps repaying loyalty to those rust belt workers back in Wisconsin and Minnesota, will bat only for his team. The blame for the problems of America lies with previous administrations, in his view, more swamp draining is necessary. The Chinese may be more forward-looking on any future trade agreement with the United Kingdom.

Aversion to risk shapes the human condition and, yet, judging risk could be described as a great human frailty. If we all consistently made the right assessment of risk, and behaved accordingly, then life expectancy would be longer, quality of life would be higher in many different ways and you would imagine, financially, we would be better off. This is no more than a thought exercise and

it is the fact that appetite to risk varies that creates the space for behaviour to differ and, in our field, market dynamics. Tolerance of risk took prehistoric man out of the cave, sent explorers of the Renaissance across far horizons and also allowed more recent giant leaps for mankind. From that list of achievements the net gain for humanity is unquestionable but many died in the pursuit of such lofty ambition and one is reminded that this is not a point that is backward looking as in October, for example, NASA detailed its plans for a manned mission to Mars in the 2030s.

Having the proverbial cocktail party conversation with an acquaintance could yield a wide variety of attitudes towards equity investing. More often than not, the most negative views will be from those who have had a bad experience and realised a loss. This may have been through investing speculatively on a tip from a previous cocktail party or holding more substantial positions and selling them at a low point in the market. Both of these outcomes are unfortunate and neither provides a conclusive argument for never investing in equities. Equally, a conversation could be had with an investor who has had a positive experience. Again, a speculative tip could have led to a realised gain but, ideally, the conversation, in our view, would be most reflective of the attributes of the asset class if the acquaintance had held equities for a very long period of time, had experienced the ups and downs of the markets but had enjoyed dividend income and long term capital gains. Our industry will always accent the importance of taking the long term view and there is a great deal of corroborating data to support the value in so doing.

As we sit in the autumnal glow of 2017 it is tempting to ask whether we also find ourselves in the autumnal glow of this long bull market. We are now in the ninth year of this rising market which is now second only in length to the period from 1990 to 2000 and the sense that we do not deserve the rises we have had lingers. A provocative question to ask investors is whether those who have taken profits at any point in the last 9 years and not reinvested have risked more than those who have remained in. The market has been very hard on those who have left. Reflecting on this point highlights the risks associated with taking profits in a market that continues to rise. Whilst any profit is welcomed the opportunity cost of sitting on the sidelines whilst asset prices improve distracts from the realised gain. In this respect, risk is a function of time. Nobody in their right mind would value their portfolio hour by hour or even day by day and interpret every influence and factor in terms of 'Yes, I remain in the market' or 'No, it's time to leave'. There is a need to assess the risk of being an equity investor in terms of the aggregated good. By this it is meant that to fixate on the handful of very poor performers within a portfolio that, overall, shows significant growth risks placing the investor closer to the cocktail party investor who was frightened by the fall in value and sold at a low point. All companies share a trait of inconsistency, to varying degrees. By deciding to disinvest under a cloudy sky is to believe that the economic weather for that company will never improve.

Where possible Meridian portfolios are, more or less, fully invested and that has remained the case for the last decade. A portfolio that perfectly tracked the FTSE World index (in sterling terms) and established in May 2008, the highest point before the financial crisis, would have lost around 35% and remained below book cost for just over its first two years. By remaining fully invested and measured from inception to November 2017 it would have made a very acceptable return of 145%. Presidents and prime ministers have come and gone and today, much like almost any point over the past nine years, a strong, logical argument to disinvest could be made. It remains our view that the possibility of negative quarters remains but that by maintaining a five year investment horizon at all times the impact of a fall back in portfolio valuations can be kept in perspective. We therefore retain our preference for equities as an asset class and consider fixed interest securities to be significantly overvalued. For sterling based investors, we believe that the big risk is political with the possibility of a different government following policies way beyond the extremes of what has been seen in the U.K. in the past. We regard this as a bigger risk than Brexit and, for that reason, give a very heavy emphasis to non U.K. equities in our clients' portfolios.

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