INVESTMENT OBJECTIVE
This portfolio aims to deliver the optimum return over any given investment period in order to provide a lump sum that will provide the optimum level of income by the end of the accumulation stage. The investment manager places each client in a risk adjusted portfolio that aims to optimise returns by ensuring that each client is taking the appropriate level of risk in accordance with the investment term available and then aiming to regularly reduce risk as the investment horizon shortens by managing down volatility and move the portfolio into an optimum income producing portfolio during the final years of accumulation. The portfolio provides full risk management, active asset allocation and investment management and uses passive underlying investments.

HISTORIC PERFORMANCE
£100,000 invested over 10 years into the underlying investments within this portfolio to 31st March 2015:

£191,120

The average annual return from these underlying assets over 10 years to 31st August 2014 was:

6.7% p/a

Please note, these returns are before charges and based upon the final ten years of an investment cycle when our portfolios are reducing risk to deliver a capital lump sum designed to produce an optimum level of income. Past performance is not an indication of future returns.

INVESTMENT MANAGER
Tim Horrocks
Tim runs the investment management and asset allocation models for Intelligent Asset Management on behalf of Quilter Cheviot, which he joined in 1999.

He has over 25 years of financial services experience having previously worked at Albert E Sharp and Henderson Crosthwaite.

Tim is a Chartered Fellow of The Chartered Institute for Securities & Investment and a Chartered Wealth Manager.

ASSET ALLOCATION/GEOGRAPHICAL LOCATION
Because of the evolutionary nature of IM Optimum Growth & Income it is not possible to show specific asset class/geographic exposure, as by definition this will be different from one investor to another at any given time.

Therefore we show below illustrative asset class/geographic exposure over different cycles based on current market conditions.

<table>
<thead>
<tr>
<th>Longer Investment Term</th>
<th>Medium Investment Term</th>
<th>Shorter Investment Term</th>
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<tbody>
<tr>
<td>Fixed Interest - UK Gilts</td>
<td>Fixed Interest - Overseas</td>
<td>Fixed Interest - UK Gilts</td>
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<td>Fixed Interest - UK Index Linked Gilts</td>
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<td>Cash</td>
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MARKET COMMENTARY

Escalating tension in Greece has diverted attention from what has been - and in our view remains – a broadly favourable background for financial markets. After a soft patch in Q1, global growth is expected to accelerate sufficiently in H2 for the US and UK central banks to consider raising interest rates for the first time since 2009. As a result, currencies and bonds have been relatively volatile. After appreciating steadily since the start of the year – especially against the euro – the $ has consolidated in recent weeks. As inflation passes the inflection point, bond yields appear set to increase but the timing and magnitude of rate rises is very uncertain. Markets are pricing in the first of a series of very small rises in the US this autumn and in the UK shortly thereafter. With the Eurozone, Japan and many emerging economies still in the midst of quantitative easing, they are unlikely to follow for some time.

Given the volatility elsewhere, equity markets have remained comparatively calm – possibly because modest rate rises as a result of more robust growth is not necessarily a bad omen. While June saw some profit taking, equities year-to-date have produced small positive returns and also a higher dividend stream than bonds. In many markets, mid and small cap companies out-performed their larger counterparts. After its stellar out-performance in recent years, Wall Street has made more modest progress with Japan and Europe taking over the leadership. The strong gains in commercial property values have abated but rents are rising and activity is buoyant. After a turbulent nine months, oil prices have surprised on the upside with Brent recovering to close H1 at $62 as unexpectedly strong demand outweighed continuing over-production but demand for other commodities has been weak.

Although the global expansion continues, GDP estimates are following the recent pattern of downward revisions as the year progresses. The largest downgrades have mainly been to emerging economies but both the US and UK experienced soft patches in Q1 from which they are only now beginning to recover. Notable upgrades are to mainstream European economies such as Spain, Italy and Switzerland as well as India. Official forecasts for China show GDP little changed at 7% but the higher real exchange rate, slowing credit growth and weakness in power production imply that real growth could be below 5%. This remains an economy in transition and continues to dampen global trade and activity in Asia. Global GDP overall is estimated to expand 2.6% this year and accelerate to 3.4% in 2016 as recovery in the US, Japan and the Eurozone gathers pace.

The US is already experiencing increased activity through stronger housing and capital goods orders as well as business and consumer sentiment surveys. A large proportion of the anticipated boost to consumer spending from lower energy prices appears to have been saved or spent on increased healthcare costs but better retail sales are likely to follow the housing market upturn. In the UK, strong industrial production, car and retail sales suggest the economy may be better retail sales are likely to follow the housing market upturn. In the UK, strong industrial production, car and retail sales suggest the economy may be

spending remains lacklustre reflecting the decline in the real purchasing power of pensioners who account for over 30% of the total population.

High debt levels, challenging demographics and excess global capacity support the consensus view of below average growth, inflation and interest rates. Central banks are also sceptical about the sustainability of the upturn and are likely to err on the side of caution but - unless there is another sharp downturn in oil prices – we expect headline CPI inflation to start moving higher this autumn. Including in this mix recent evidence of wage growth in the US, UK and parts of the Eurozone – albeit subdued so far – it is easy to see why bond investors could become increasingly nervous as the year progresses. While we think that the risk of broad-based overheating in the foreseeable future is very low and inflation will remain below central bank targets, any upside surprise on growth could be accompanied by an inflation scare. With buyers still seeking to match long-term liabilities, damage to longer-dated bonds should be limited but volatility is likely to continue.

The corporate sector has benefited from low interest rates in terms of economic recovery boosting sales and lowering borrowing costs. However, a global environment of overcapacity and low growth has made it difficult for companies to identify new ‘profitable’ investment opportunities with the notable exception of US shale energy. Those generating surplus cash have used it to fund higher dividends and share buybacks – particularly in the US where valuations have re-rated more than underlying profitability. As the business cycle matures and interest rates start to turn, we expect the buyback trend to slow leaving share price gains more reliant on organic sales growth. This is already evident in some sectors although others such as financials, which have been held back by regulators, still offer interesting opportunities.

Ahead of the half-year reporting season, corporate earnings estimates have once again been massaged down leaving scope for upside surprises. In view of the relatively good macro background, estimated global earnings growth of 4.3% in 2015 may be marginally on the low side after the 6% increase last year. UK earnings are expected to contract nearly 10% – largely due to the high exposure to resource stocks – but the US should show a modest upturn despite the impact of the stronger $. The overall numbers in both economies are likely to benefit from an improvement in financials. Boosted by the lagged impact of quantitative easing and low exposure to resources, earnings in Japan and Europe are expected to grow strongly. Merger and acquisition activity is also picking up, especially among mega cap companies, but as a percentage of GDP still lags the 2000 and 2007 bubbles. Valuations are fair at 17x earnings and cheaper in Europe and Japan than in the US. The UK stands out as offering the highest dividend yield (3.9%) as long as distributions from resource companies are maintained.

Most investors expect a last minute deal between Greece and its creditors but this looks increasingly unlikely despite opinion polls showing that the Greek population wants to stay in the euro. A disorderly Grexit is in no one’s interests and, given the European Central Bank’s considerable firepower, real contagion – as opposed to sentiment – can be contained. Our view remains that the background is favourable and, having reduced risk in March, further weakness should provide some interesting opportunities.

Intelligent Money is authorised and regulated by the Financial Conduct Authority. The underlying Investment Manager of our IM Optimum Portfolios is Quilter Cheviot. Quilter Cheviot Limited is registered in England with number 01923571, registered office at One Kingsway, London WC2B 6AN. Quilter Cheviot Limited is a member of the London Stock Exchange and authorised and regulated by the UK Financial Conduct Authority.

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