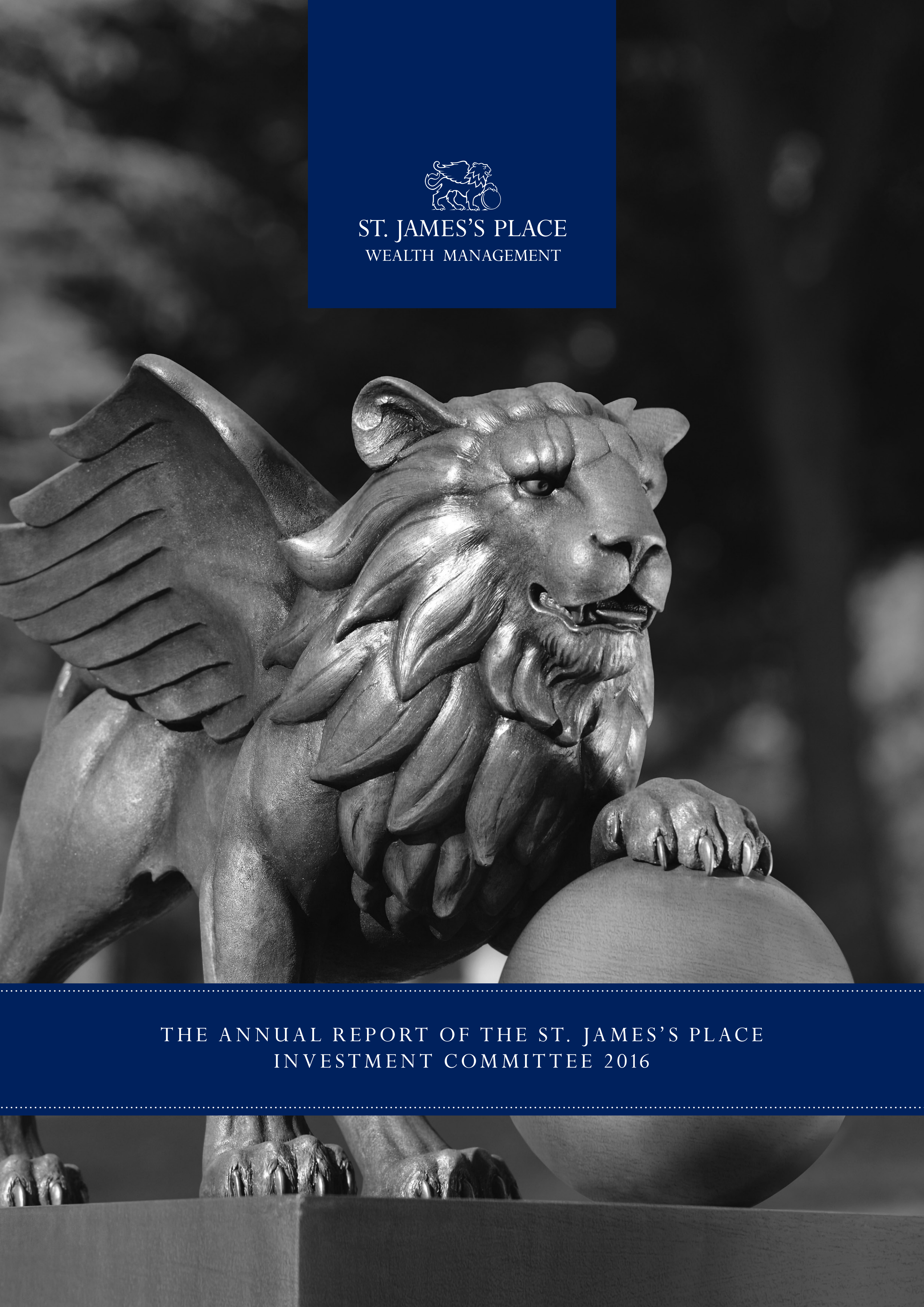


ST. JAMES'S PLACE
WEALTH MANAGEMENT

THE ANNUAL REPORT OF THE ST. JAMES'S PLACE INVESTMENT COMMITTEE 2016

CONTENTS

CHAIRMAN'S STATEMENT

Welcome to *The Annual Report of the St. James's Place Investment Committee 2016*.

I can't help but revisit my opening statement from the 2015 report, "over the short term, markets are liable to surprise investors… success in the short-term prediction game remains as elusive as ever." In 2016, we saw only too clearly how difficult it is to get short-term predictions right.

Few predicted the outcome of the UK's EU membership referendum or the US presidential election. And few were right about what these outcomes would mean for markets. Looking back on the year, it is striking that pundits, pollsters and even bookmakers were wrong in their forecasts for both those historic events. This serves as a reminder that investment decisions should not be based on making predictions about future events, still less future political events. Perhaps the biggest surprise, however, was the sustained performance of leading stock market indices, which moved ahead during the year, taking everything in their stride.

In financial terms, 2016 saw further challenges as central banks continued to push interest rates lower in a quest to boost global economic growth. Low rates inevitably make it more difficult for those seeking regular income from fixed-income assets, such as government and corporate bonds, and make it impossible to earn any interest on cash. Just how long this low-growth, low-income environment will persist is impossible to know. The rise in US interest rates announced in December may be welcome news that, in the US at least, there are signs of a move back towards 'normal'; but it may not yet be the turning point for the rest of the world.

The challenges seen in 2016 highlight the important role fulfilled by the Investment Committee, which remains committed to selecting and assessing the best managers available to look after our clients' funds. Above all, it seeks managers whose judgement and perspective enables them to achieve the best outcomes over the medium to long term irrespective of the short-term shocks along the way.

In his Chief Investment Officer's Report, Chris Ralph describes how events in the major markets unfolded during 2016. It proved to be a year in which leading stock markets performed strongly, but it is also a year in which geopolitics has become a bigger influence on, and risk to, markets than perhaps at any time in the last 20 or 30 years.

Chris also explains how we have incorporated the principles of responsible investment into our process.

The Committee places a very high value on the specialist knowledge and expertise of a number of external resources, counting both Stamford Associates and Redington among its closest and most trusted advisers. In this year's report, I've asked Nathan Gelber, Chief Investment Officer of Stamford Associates, to lift the lid on their manager research process, using this year's exercise as a case study.

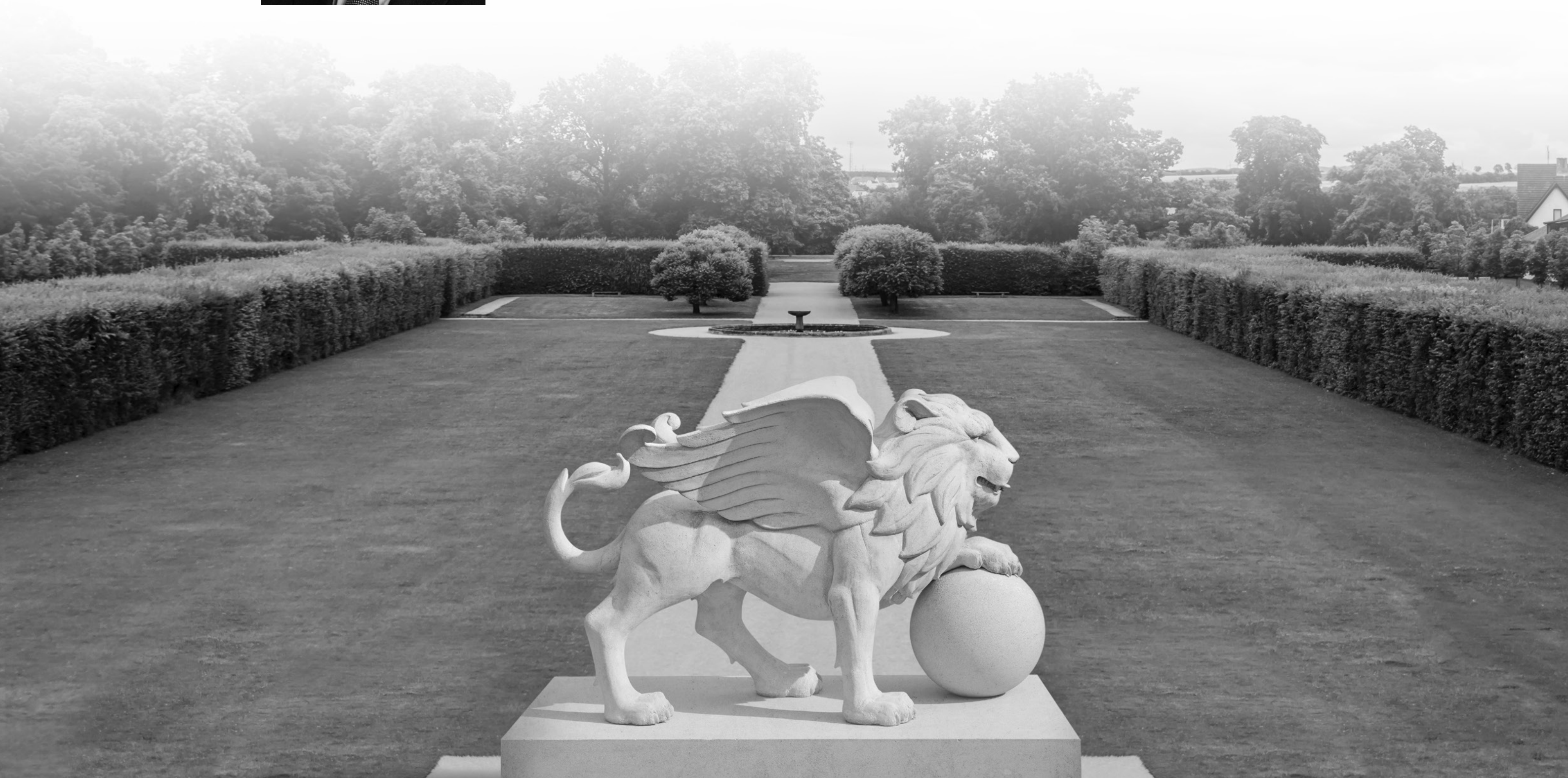
In his report, Rob Gardner, Co-Founder and Lead Investment Consultant of Redington, reflects on the importance of planning for investors in order to achieve their long-term financial objectives, using lessons learnt from Redington's work advising some of the UK's largest pension funds. I hope you find this both interesting and helpful.

Looking ahead, we fully expect 2017 to offer plenty for investors to contend with, not least in politics. In the US, Donald Trump will begin his presidency; while in Europe, there will be significant elections in France, the Netherlands and Germany. In the UK, Theresa May has promised to trigger Article 50 of the Treaty on European Union by 31 March 2017, signalling the start of exit negotiations.

Even with advance notice of these events, their unique characteristics mean that they carry with them the potential to increase political uncertainty and market volatility. For our part, the Investment Committee will continue to avoid making predictions about short-term outcomes, however tempting. Instead, we will continue to hold to our investment philosophy, which has served our clients so well over the years. We will seek out and retain the best fund managers – those able to identify opportunities across all asset classes – and maintain our longer-term perspective.

It only remains for me to thank you for your continued support and to reaffirm our commitment to fulfilling our duty of care in 2017 and beyond.

David Lamb
Chairman
December 2016



CHIEF INVESTMENT OFFICER'S REPORT

In last year's report I warned of a year of political risks ahead, but the scale and number of political turnarounds over the past 12 months has exceeded all expectations. Yet amid the apparent turmoil, stock markets have since proved not just resilient, but buoyant.

FTSE 100 INDEX

Source: Financial Express. Performance data to 31 December 2016.

Please be aware that past performance is not indicative of future performance.

1. Fears of China slowdown see $4 trillion wiped off value of global stock markets.
2. ECB announces further stimulus measures to lift eurozone economy.
3. UK equities rally as Remain campaign edges ahead in the polls.
4. FTSE 100 opens 8% lower after the UK votes to leave the European Union.
5. Sterling tumbles, pushing UK equities higher than pre-Brexit levels.
6. Theresa May appointed as prime minister.
7. Bank of England cuts interest rates to 0.25%, their lowest level ever.
8. Theresa May announces UK will invoke Article 50 no later than the end of March 2017.
9. Donald Trump elected 45th president of the United States.

The FTSE 100 gained 19.1% in total return terms, helped in great part by the ramifications of political changes, if not fundamentals and movements in the exchange rate. The result of the EU membership referendum in June took markets by surprise and precipitated a rapid drop in the value of sterling. Subsequently, this afforded a significant boost to investors in UK equities, particularly mining and energy companies, as the value of earnings generated overseas were inflated when translated back into sterling terms.

MARKET RETURNS IN 2016 (%)

1 US equities

£	$
32.7	11.2

2 Gilts

£
10.1

2 UK equities

£
19.1

2 UK corporate bonds

£
10.6

3 European equities

£	€
21.2	4.6

4 Japanese equities

£	¥
24.6	0.4

5 Asia Pacific equities

£	$
26.0	5.6

6 Emerging market equities

£	$
32.6	11.2

7 Global equities

£	$
28.2	7.5

Source: Financial Express; performance figures to 31 December 2016, on a total return basis and expressed in sterling and local currency terms.

Please be aware that past performance is not indicative of future performance.

In the US, the S&P 500 rose 11.2% in dollar terms, helped by strong headline growth and improving unemployment figures. The unexpected victory of Donald Trump in the presidential election in November triggered a stock market rally as investors concluded that his proposed tax cuts, energy sector de-regulation, and infrastructure investment would offer a boost to corporate America, which had already seen corporate profits stage a third-quarter recovery after six months of negative earnings growth.

European stocks experienced two bouts of extreme volatility over the course of the year – in February due to worries over China and in the early summer due to the Brexit vote. It was otherwise a relatively muted year for European indices, in part due to sluggish growth in the eurozone. The election of Donald Trump triggered only a momentary period of market turbulence while the decisive referendum loss suffered by Matteo Renzi, the Italian prime minister, barely registered.

Japanese stocks ended a quiet year only marginally higher than where they began, while emerging market indices enjoyed a strong 12 months, having recovered from China-related fears early in the year.

Many investors expected 2016 to be the year in which the world finally started moving away from the monetary policies introduced in the wake of the financial crisis. Instead, several central banks held interest rates in negative territory, notably the Bank of Japan and European Central Bank. In December, however, the US Federal Reserve raised interest rates for only the second time since the global financial crisis, perhaps signalling the start of a new chapter. By year-end, inflation was beginning to make itself felt in both the US and UK.

At least some of the anti-establishment anger expressed in the UK and Italian referendums, and in the election of Donald Trump, was targeted towards the forces of globalisation, especially in as much as those forces were seen to increase the migration of labour and capital. By the end of the year, momentum appeared to have turned in the direction of protectionism – as early as April the World Trade Organization forecast that 2016 would be the sixth consecutive year of below-par growth in international trade.

Despite these politically-driven headwinds, it is reassuring that our Growth and Income Portfolios have performed in line with our expectations and delivered strong returns to investors in 2016.

Whilst equity markets may have dominated headlines, other asset classes have played their part over the course of the year. Commercial property in the UK suffered in the aftermath of the Brexit vote, especially in London, although there are signs of stability returning. The continued support of central banks prolonged the fixed-income bull market and squeezed yields to historic lows, although some of this has begun to reverse in the last month or two as yields pick up in the US.

The year ahead looks set to see continuing political risks, with the related challenges investors must weather. The Transatlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership (TPP), both painstakingly negotiated under Barack Obama with multiple partners in Europe and the Asia-Pacific region, look set to be immediate casualties of a Donald Trump presidency, which begins on 20 January. Events in Continental Europe may also be a source of further headwinds in the year ahead, given major elections in the Netherlands, France and Germany. And, of course, in the UK we will see Prime Minister Theresa May trigger Article 50 of the Treaty on European Union by the end of March, starting the countdown on the UK's two-year exit negotiation window.

The Investment Committee's responsibilities continue to grow, not only in terms of the value of the assets under management but also the number of investment solutions available to investors. Inevitably, this means a greater focus is required to ensure that our proposition remains fit for purpose and delivers the results we, and our clients, expect.

In an environment of low growth and low interest rates, the search for income continues to be a major challenge for savers and investors alike. The challenge of maintaining the spending power of our money looks set to be made harder as inflation begins to nudge upwards in 2017. Against this, equities are a proven source of long-term income, and equity income strategies remain an important part of our proposition for investors.

In October, the Committee introduced a number of changes to our range of funds, including the launch of the new Worldwide Income fund. Managed by Clyde Rossouw of Investec Asset Management, this fund further increases our ability to meet growing demand for additional income-focused strategies.

Beyond the aims of preserving or growing capital, or generating income, we are aware that our clients have a number of other concerns too, among them the place of investment ethics in our investment process. At St. James's Place, we emphasise the principles of responsible investment and integrate environmental, social and governance factors into our investment process, both for their own sake and because they are crucial to risk management and to generating sustainable returns. In 2016, we developed our responsible investment governance group to promote these principles across the fund range and covering all asset classes. In 2017 we will continue to engage directly with our fund managers on these issues, and also plan to publish our first dedicated responsible investment client report.

In this, as in many areas, the Investment Committee remains focused on ensuring that the resources and processes that underpin our investment approach continue to evolve. And through all these changes we remain steadfastly committed to the three tenets of our investment approach: select, monitor, change.

We know that the year ahead will present headwinds for investment markets. However, despite the challenges there will continue to be opportunities for talented investors. We believe that our investment approach retains the consistency, rigour and flexibility to adapt to these opportunities, and to provide the investment solutions to help you achieve your long-term investment goals.

Chris Ralph

Chris Ralph
Chief Investment Officer
December 2016

STAMFORD ASSOCIATES' REPORT

As Chris alluded to in his Chief Investment Officer's Report, the Investment Committee has overseen significant changes to the range of investment funds and managers in 2016. For our part, these changes were the culmination of over a year of research and analysis.

We search for evidence rather than accepting statements at face value, we have patience and will seek out critical information to provide carefully considered advice to the Committee and, above all, we seek to avoid knee-jerk reactions.

Our manager research and monitoring process has been developed over the last 30 years, by embracing thorough and meticulous investment analytics alongside wide-ranging behavioural observations, supported by regular manager meetings. At Stamford, our approach is designed to be forensic in nature and relentless in its application. It is a function of following a consistent and diligent approach and the application of common sense.

By way of providing an example of the way we operate, we have been invited to explain the depth of our analysis in the recommendation of Glen Finegan of Henderson Global Investors, who was appointed as the lead manager of the St. James's Place Global Emerging Markets fund in October 2016. Clearly, our process outlined applies to each of the eight changes on which we advised the Committee this year.

The first stage of our research is to conduct a review of the eligible manager universe. Over the years we've built a database of about 5,000 managers who we've researched and this forms our starting point. Some we have already selected to work with and others will continue to be monitored and may be introduced in the future should the Committee decide to introduce new strategies.

The majority of our research and assessment of Glen Finegan was conducted over a six-month period which involved 17 meetings. This included on-site meetings with Glen and his investment team, his superiors and Henderson's business managers, including the chief executive officer and chief finance officer. We also met and interviewed ex-colleagues, obtained references, attended Glen's internal investment meetings and observed him meeting with senior executives of one of the companies in which he invests. All of these meetings are documented and cross-referenced within our database.

Our due diligence included the review of over 750 pages of documentation from Henderson. Our own pre-meeting internal notes amounted to more than 100 pages and 40,000 words.

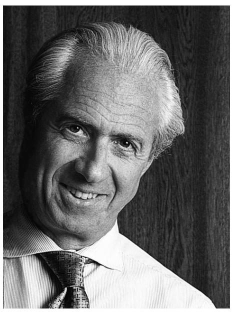
Our analysts devoted many days to assessing Glen's investment footprints, by studying his portfolios and transactions whilst he worked at Henderson and also in his previous employment. Using the results from that analysis, we prepared case studies as a basis for testing Glen's investment process and observing it in action. This, together with telephone conversations, emails and internal discussions, led to our formal manager recommendation to the Investment Committee. The Committee's subsequent assessment of the proposition, which included a meeting with Glen, ultimately resulted in the addition of him and his team to the platform. We estimate that we invested over 500 hours on this particular manager research and evaluation exercise.

Whilst no two managers and, therefore, no two manager assessments are identical, our process does follow a carefully designed and well-trodden path to ensure that our due diligence is comprehensive. Knowing that the past is not a reliable guide to the future, we look for evidence of the efficacy and repeatability of the investment processes of the manager, and therefore their prospects of delivering attractive returns over the longer term. This involves gathering and analysing intelligence on their portfolio transactions. We also focus on the experience, talent and working environment of the key investment professionals and the manager's behaviour. This all allows us to form a clear view of a manager which is not simply backward-looking or influenced by past performance.

While the eight managers we recommended to the Committee in 2016 represent a diverse group in terms of location, size, background, investment strategy and mandate, they all share the fundamental long-term investment philosophy that is one of the cornerstones of the St. James's Place approach to investment management. The managers also share a passion for investment that, although unquantifiable, represents in our opinion a prerequisite for investment success.

In our experience, the higher the quality of input the more informed the output, especially when the output is in essence a binary decision by the Committee to either appoint a new manager or not, or to retain an incumbent manager or make a change. These decisions are never taken lightly and are based on considering all conceivable evidence that is available at the time. Whilst there can never be absolute certainty about the future, our role and efforts ensure that the Committee is well-placed to continue to safeguard the utmost integrity of the St. James's Place investment offering.

We very much look forward to working with the Investment Committee during 2017.



Nathan Gelber
Chief Investment Officer
Stamford Associates
December 2016

REDINGTON'S REPORT

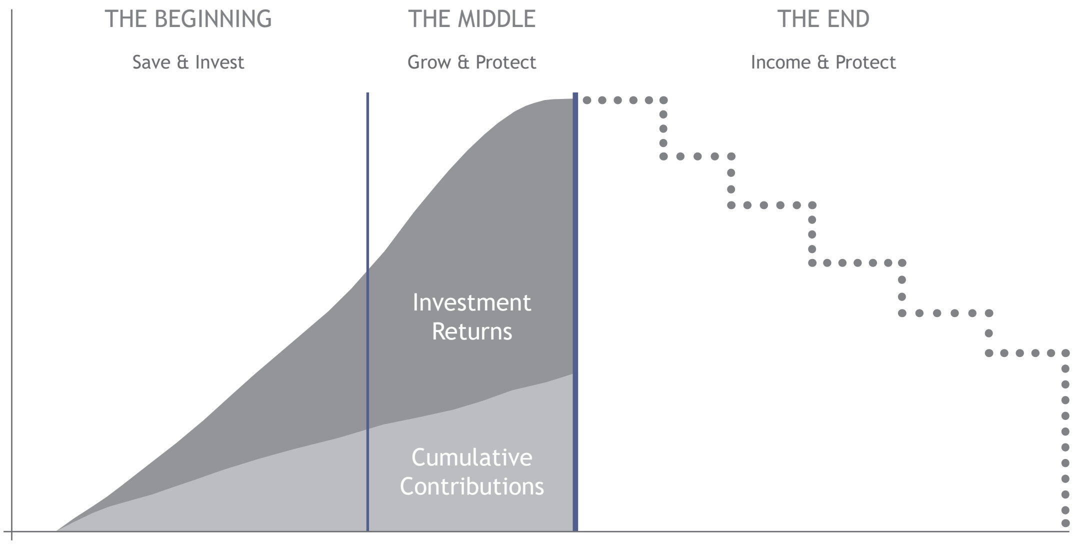
IF YOU KNEW YOU WOULD LIVE LONGER, WOULD YOU SAVE MORE?

In 2016, we witnessed unexpected and unprecedented political and economic events. Such market uncertainty and volatility presents challenges for investors.

Trustees of defined benefit (DB), also known as 'final salary', pension schemes are all too aware of these challenges. The ultimate goal of any DB scheme is to pay pension benefits in the future to its members. Given the low yields from assets typically favoured by these schemes, the impact of people living longer and concerns of rising inflation, the cost of providing these pensions has increased considerably. This is a difficult environment for trustees of pension schemes to navigate. For certain companies and their pension schemes, this challenge has proved insurmountable. Yet other schemes have weathered the storm. They have managed to achieve full funding of their liabilities and are confident in their ability to pay their members' pensions.

A radical shift is taking place. As more DB schemes close, the responsibility for providing a retirement income now rests with the individual. As this shift in responsibility takes place, investors need to ensure they've made adequate provision to be confident of a secure income in retirement.

Whether you are the trustee of a pension scheme or an individual investing to achieve your own financial health in retirement, your strategy can be split into three stages: beginning, middle and end.



At each stage, it is important to understand what you are trying to achieve, the investment risk you can afford to take, and how much you need to save to get there. With that in mind, there are some simple concepts, based on the advice we provide to trustees, which apply equally to individual investors considering their own objectives, that can act as a guide.

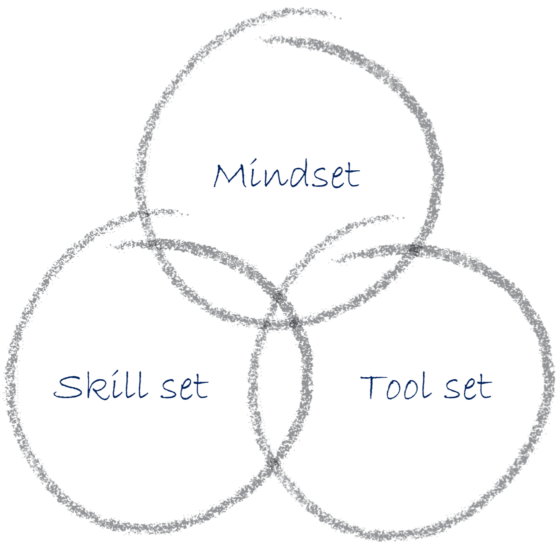
1. Set your long-term goal

In terms of investing, and other matters, the reality is that most people focus on the present rather than their future needs.

The key to well-informed decision-making is beginning with the end in mind, and being clear on what you are trying to achieve. This will inform what you need to do today and whether this target is realistic.

For a pension scheme, the target would be meeting all of its commitments. For individuals, it could be to accumulate enough assets to provide a desired level of income in retirement.

Once you are clear on the end goal, you can work backwards to calculate how much to save, and decide the right investment strategy, taking advantage of available tax incentives.



2. Take the right risks at the right time

Managing risk is key to achieving your financial goals. It is a careful balancing act. Not taking enough risk in the beginning and middle stages of your investment journey is as bad as taking too much at the end.

Typically, the further from the end you are, the greater your potential risk tolerance. It doesn't matter if markets have a bad year next year if you have 10 to 15 years to invest before reaching your retirement age. Hence the beginning and middle stages are opportunities to grow your wealth by taking more risk to enhance your investment returns. As you approach the end stage, protecting your accumulated wealth is as important to meeting your goal as investing for future growth.

This is where advice is so important.

3. Start early

More than anything else, the key to securing your financial future and meeting your goals is starting early. The power of compounding investment returns can be incredibly rewarding over the long term.

While the end goal may appear daunting, starting early and saving often is the foundation to long-term wealth. It's the same as learning a new skill; little things done often, and well, create extraordinary results.

Despite today's challenges and difficult times, you can live the financial life you aspire to live. The key lies in adopting the right mindset, acquiring the right skill set and using the right tool set. By saving early and consistently, taking advantage of all available tax allowances and seeking trusted advice, the future can be one of financial security.

Rob Gardner
Co-Founder and Lead Investment Consultant
Redington
December 2016

The value of an investment may fall as well as rise and you may get back less than you invested.

Funds referred to in this publication may not be available to our clients in Asia. For information on the funds available, please speak to your St. James's Place Partner.

ST. JAMES'S PLACE
WEALTH MANAGEMENT

The 'St. James's Place Partnership' and the titles 'Partner' and 'Partner Practice' are marketing terms used to describe St. James's Place representatives.
Members of the St. James's Place Partnership in the UK represent St. James's Place Wealth Management plc, which is authorised and regulated by the Financial Conduct Authority.
St. James's Place Wealth Management plc Registered Office: St. James's Place House, 1 Tetbury Road, Cirencester, Gloucestershire, GL7 1FP, United Kingdom.
Registered in England Number 4113955.

SJP975-VR14 (12/16)