ST. JAMES'S PLACE
WEALTH MANAGEMENT

ST. JAMES'S PLACE INVESTMENT COMMITTEE

THE ANNUAL REPORT – 2019

PARTNERS IN MANAGING YOUR WEALTH

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The Investment Committee is the cornerstone of our approach to investment management. We select fund managers from around the globe and monitor their performance to make sure you receive the highest standards of investment expertise.

The Committee's work is supported by independent investment consultants Stamford Associates and Redington, alongside our own in-house analysts at our head office in Cirencester. Together, their work deepens our understanding, to help ensure our funds continue to meet our clients' requirements and look after the increasing wealth they have entrusted to us.

This report gives you an overview of the Committee's work over the past year.

WELCOME FROM THE CHAIR OF THE COMMITTEE

Welcome to The Annual Report of the St. James's Place Investment Committee 2019.

When I wrote my introduction to last year's report, I began with "the past year has been dominated by significant uncertainty around Brexit." One year later, and despite a very clear outcome from the general election, there remains considerable uncertainty.

Overall, 2019 turned out to be a positive year for investors. However, it wasn't all plain sailing for markets – the economic and political backdrop has provided a challenging environment against which progress has been bumpy at times.

Looking ahead, we can expect to see further volatility in the run up to the US presidential election in November. So political uncertainty is never likely to be far away. Chris Ralph covers these developments in more detail in his report.

This year's report is the last from Chris as he stood down from his role as Chief Investment Officer at the end of 2019, to be succeeded by Deputy CIO Tom Beal. I would like to thank Chris for his contribution to the Investment Committee over the last decade and to welcome Tom to his new job.

Continuing uncertainty, leading as it does to volatility and surprise outcomes, is an inevitable part of the investment environment today. The challenge for investors is to carefully determine, from amongst all the noise, what information is important and what is merely providing a distraction. It is far better to delay a rushed decision and avoid making the wrong one. We have held true to this philosophy for many years, over a wide range of market conditions, and we still believe in it today. The value of holding your nerve, despite the noise, is demonstrated by looking back at previous market disruptions on page five.

During 2019, as well as monitoring and reviewing all of our current managers, the Investment Committee met with a number of potential new managers and we expect to make a number of appointments in the coming year. The first of these will see Somerset Capital Management appointed as the new manager of the Global Emerging Markets fund in mid-February.

The work of the Committee this year is demonstrated in the graphic below.

OUR INVESTMENT MANAGEMENT APPROACH IN NUMBERS – 2019

627	22	63	250+	19
FUND MANAGER MONITORING MEETINGS CONDUCTED IN THE UK AND OVERSEAS	INVESTMENT COMMITTEE MEETINGS HELD DURING 2019	INVESTMENT PROFESSIONALS WORKING EXCLUSIVELY ON BEHALF OF ST. JAMES'S PLACE CLIENTS	YEARS' INDUSTRY EXPERIENCE OF THE INVESTMENT COMMITTEE MEMBERS	FUNDS AVAILABLE EXCLUSIVELY TO ST. JAMES'S PLACE CLIENTS

The Committee's work also involves replacing existing managers, and in 2019, we parted company with Woodford Investment Management. Making the decision to change a manager is never straightforward; all managers will have periods when their style is out of favour and hence their performance can suffer. Furthermore, there can be no guarantee that a new manager will perform better, whatever you might read in the press. However, it is a strength of our investment approach that once we have decided to change, we can execute the decision for all clients immediately, without charge and with no tax consequences.

We continue to use our influence and scale to lower management fees. In 2019, we negotiated reduced fees on a number of existing funds across the range and have passed on the benefits of these reductions to all our clients.

The focus on responsible investing as a key element of our investment management approach strengthened in 2019. In his article, Sam Turner demonstrates how our monitoring in this area has evolved, and highlights some of the key achievements of the team.

In her first contribution to our annual report, Kirsteen Morrison of Impax Asset Management outlines how a focus on identifying opportunities in a more sustainable global economy can benefit investors over the long term.

I hope you find the content of this year's report interesting and helpful. The Investment Committee remains focused on the task of protecting and growing the wealth of our clients. We look forward to the challenges of doing so again in 2020.

David Lamb
Chairman
December 2019

HISTORY REWARDS INVESTORS WHO FOCUS ON THEIR LONG-TERM OBJECTIVES

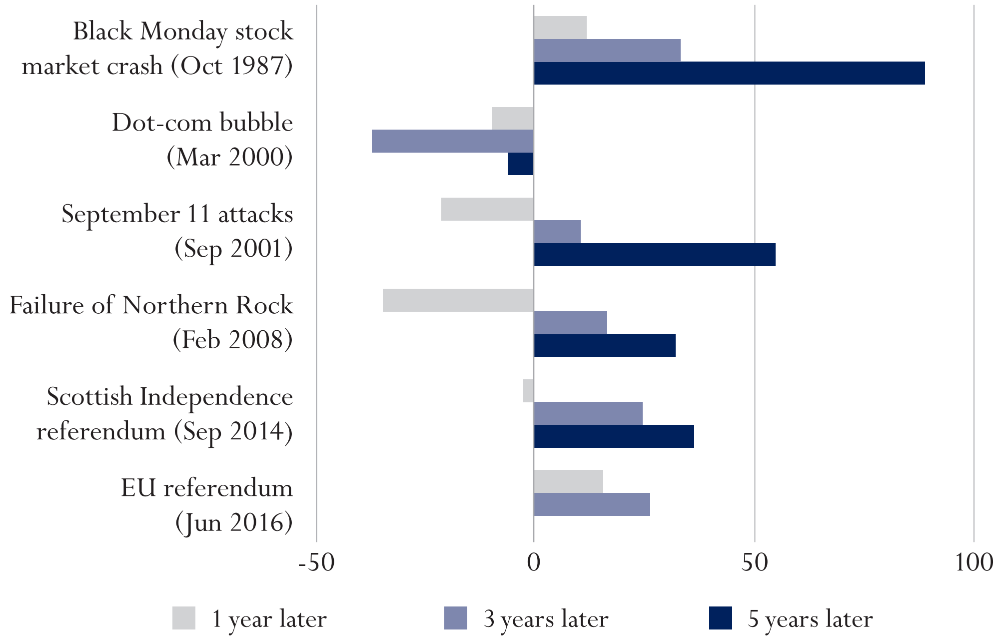
Uncertainty has been no stranger to investors over the last twelve months. Market sentiment has been driven by the ongoing negotiations over Brexit. Tensions have simmered between the US and China. Global growth has slowed.

It is often said that past performance does not guarantee future performance. But, just as historians study the past, investors can learn from it.

History shows us that political and macro events, such as those that dominate the global economy today, tend to affect markets only briefly. Over time, markets typically recover, rewarding patient investors. Time in the market is an investor's friend, allowing them to ride out the ups and downs of short-term stock market volatility, whilst keeping a keen eye on the horizon.

The chart below shows how the UK market has performed in the years following significant events in politics and trade:

PERCENTAGE RETURNS



Discrete annual	Nov 15	Nov 16	Nov 17	Nov 18	Nov 19
Performance	0.5%	8.6%	13.5%	-1.7%	10.5%

Source: Thomson Reuters DataStream, returns are shown for the Datastream UK Index for 1, 3 and 5 years (cumulative) subsequent to each month end date, GBP.

Looking at the chart, a pattern emerges. Whilst the drivers of market sentiment may vary, periods of sharp volatility are quite normal, but they tend to be short-lived.

Investors who focus on their long-term objectives and remain calm, are likely to see their strategy rewarded.

STAY YOUR COURSE

THE CHIEF INVESTMENT OFFICER'S REPORT

THE INVESTMENT HEADLINES FOR 2019

- It's been a strong year for global equities and bonds. The S&P 500 Index rose by more than a quarter and China's CSI 300 jumped by a third. Meanwhile, the yield on 10-year US government debt dipped from above 2.5% to end the year close to 1.9%, reflecting concerns of slowing growth in the US economy.
- Plenty of stocks offered strong returns, not least some technology companies – despite several international trade disputes.
- More broadly, corporate troubles were evident. Expedia and TripAdvisor shares fell by nearly 25%, with both companies blaming competition with Google for the drop. In the retail sector, Mothercare and Debenhams both went bust, and WeWork, the troubled shared workplace provider that lost three quarters of its valuation, was obliged to postpone its IPO.

Below, we take you through the global events that affected investments in 2019.

US

Despite a tough end to 2018 on markets, many companies reported positive earnings in early 2019, including Chevron, Exxon Mobil and Apple. Hopes for growth were further boosted when the US reported its 100th consecutive month of economic expansion.

Conversely, the worst trading week of the year for both the S&P 500 and the Nasdaq came when Donald Trump warned of a 10% tariff on $300 billion of Chinese imports, and the Chair of the Federal Reserve warned that long-term interest rate plans hadn't changed. While trade disputes sometimes provided a headwind, the US-China deal in December gave a late lift for US stocks and corporate earnings through the year came in better than expected.

UK

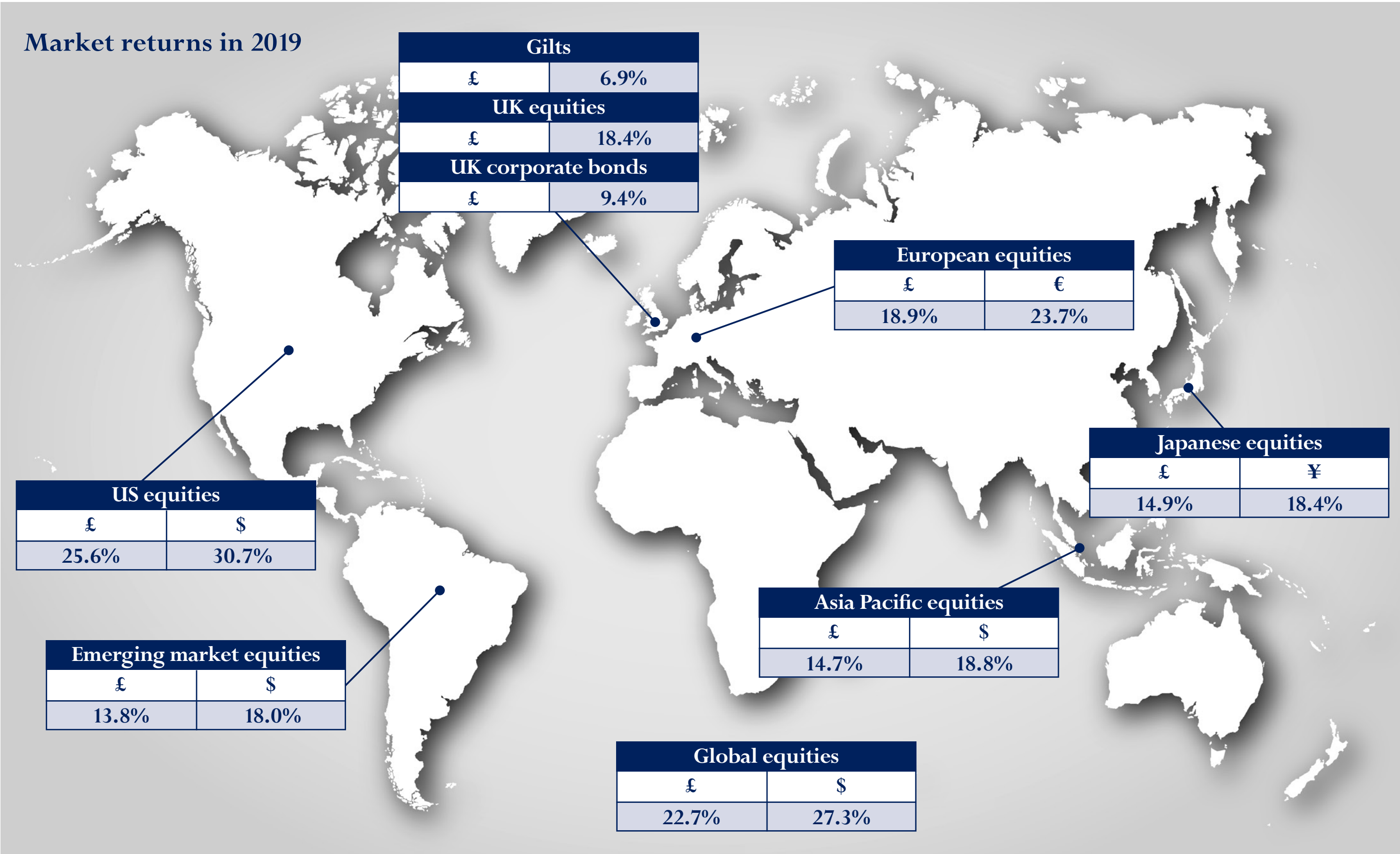
The failure of Theresa May to get her Brexit deal through parliament was quickly forgotten as Boris Johnson secured the largest Conservative majority since 1987. Brexit uncertainty held back the UK market for much of 2019 relative to the other major world markets. However, a late December rally in small and medium sized companies, on the back of the election result, helped make up most of the lost ground.

EUROPE

At the beginning of the year, prospects looked troubling as German growth stalled, but sentiment had shifted by the third quarter. The European Central Bank (ECB) took rates down to -0.5% and removed a deadline for its programme of quantitative easing – the resulting open-ended round of easing was soon dubbed 'QE-infinity'. The ECB's decision both reflected and extended the extraordinary shift of global debt into negative yield, which rose at one point during the year to over $17 trillion, according to Bloomberg.

ASIA PACIFIC

Japan's central bank continued to play a leading role, becoming the leading shareholder in 20 major Japanese companies. Elsewhere, a Japan-Korea trade dispute weighed on sentiment, but not enough to prevent a strong year for the TOPIX.



Source: FE; performance figures to 31 December 2019, on a total return basis and expressed in sterling and local currency terms (US dollar terms for Asia Pacific, Emerging Market and Global equities).

It was also a positive year for Chinese stocks, despite huge disruption in Hong Kong and ongoing fears over growth, which is forecast to dip below 6% in 2020. The rally was thanks in part to China's ever-greater weighting within mainstream MSCI indices, which effectively oblige many fund managers to buy more Chinese stocks. The number of Chinese-listed companies even surpassed US-listed companies for the first time, even though they are still worth far less on aggregate.

Chris Ralph

Chris Ralph
Chief Investment Officer
December 2019

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested. An investment in equities will not provide the security of capital associated with a deposit account with a Bank or Building Society.

WHAT DOES RESPONSIBLE INVESTING MEAN AT ST. JAMES'S PLACE?

We believe responsible investing means making decisions about where to invest by considering the many environmental, social and governance – or 'ESG' – factors that affect a company's, or an investment's, success.

Since 2018, flows into responsible investing strategies have more than doubled as they become more widely recognised alongside mainstream investment approaches. Today, a quarter of professionally-managed assets – around $20 trillion[1] – integrate ESG factors.

Here at St. James's Place, we recognise that investors view their investments as a key part of a sustainable lifestyle, and want their money to be used as a force for good, whilst still generating strong returns. Fundamentally, responsible investing is not only about social responsibility, it makes investment sense.

WHAT HAVE WE DONE OVER THE PAST 12 MONTHS?

Last year represented a milestone year for St. James's Place. We now fully integrate ESG factors into our investment management approach and the monitoring of our fund managers, observing the United Nations-supported Principles for Responsible Investment (PRI). Some key figures are shown in the graphic below.

34/38

OF OUR INVESTMENT MANAGERS ARE NOW SIGNATORIES TO THE PRI

A+ RATING

WE WERE AWARDED AN A+ RATING BY THE PRI

90%

OF OUR ASSETS ARE MANAGED IN ACCORDANCE WITH THE PRI

60+

MEETINGS HELD WITH FUND MANAGERS, CONSULTANTS AND ESG PROVIDERS

Alongside developing the in-house responsible investing team, our third-party investment consultants, Redington and Stamford Associates, also now consider ESG factors in their process when searching for managers.

This greater engagement with responsible investing in the selection of managers has also been reflected at an Investment Committee level. Ratings of fund managers, according to their responsible investing attributes, are now a formal factor of consideration in our selection criteria. This was evidenced when, for the first time, a fund manager was not appointed, in part, due to their lack of commitment to responsible investing.

Responsible investing considerations are incorporated within the legal agreement we hold with our managers. Future changes to our range of funds and portfolios will include a formal review of ESG profiles to ensure that we have a level of accountability when it comes to the integration of responsible investing across our range.

Finally, we have also shown our commitment to tackling the risks posed by climate change by signing up to the Task Force on Climate-related Financial Disclosures. This is sponsored by the Financial Stability Board and supported by over 800 organisations as we look to lower the impact that we, and the companies in which our funds are invested, have on the environment.

We believe money only matters in a world worth living in. As custodians of your wealth, it's our role to act in your long-term interests and to respond to the world and to the marketplace as they change. Responsible investing is part of this commitment.

Sam Turner
Responsible Investment Consultant
St. James's Place Wealth Management

[1] Source: MSCI (2019)

THE CASE FOR SUSTAINABLE INVESTMENT

For the past couple of decades, the fund management industry has been developing an ever-increasing range of funds that aim to benefit from the growth of environmental markets. There were, and still are, opportunities for investing into companies developing solutions to address significant economic, demographic and environmental challenges:

- People living longer
- Rising living standards
- Pressure on finite natural resources
- Increasing regulation to combat climate change

Today, interest in sustainable and responsible investment is growing. The weakness of an economic model in which unsustainable polluters do not face consequences for their lack of environmental, social and governance (ESG) considerations is becoming more visible. Meanwhile, evidence is mounting that human activity is disturbing the world's delicate balance.

AWARENESS IS GROWING

David Attenborough's *Blue Planet II* documentary series was a wake-up call for consumers, highlighting the negative repercussions of our throw-away culture.

Record temperatures, caused by human activity, are resulting in more frequent and intense forest fires in countries such as Australia and Brazil. Poor air quality also means large urban centres across the globe face hazardous air pollution.

Greta Thunberg transformed herself from a lonely figure outside the Swedish parliament building campaigning for stricter environmental policies to Time magazine's 'Person of the Year', as she became identified with action for change. Consumer demand for access to more sustainable products and services is now beginning to disrupt existing business models beyond environmental markets, impacting sectors such as finance, healthcare, food and technology.

FINDING NEW OPPORTUNITIES

There are many layers within this wider transition to a more sustainable economy and in each there are winners and losers. We analysed different parts of the economy and found that risks and opportunities are not evenly distributed. Our proprietary investment process allows us to rank companies based on their risk and the investment opportunity, enabling us to avoid high-risk companies with limited potential. Our view of the world today provides a number of areas which we're finding most interesting.

- **Specialty insurance companies**

  The increased frequency and severity of natural catastrophes is driving higher demand for reinsurance cover. Insurance companies which are monitoring the effect of climate change on wild-fires, storms and rising sea levels, as well as adjusting their prices and exposures, should outperform their peers.

- **Electric vehicles**

  A combination of factors is driving the growth of electric vehicles, including rising air pollution levels, regulatory tailwinds, improved technology leading to better affordability, and increasing consumer demand. Subsequently, we're finding interesting opportunities in selected auto companies who provide key parts and components for the transition to safer, cleaner and better-connected vehicles.

- **Healthcare**

  The sector is dominated by companies pursuing what we believe to be unsustainable business models. Complex, inefficient parts of the system which fail to deliver improved patient outcomes are at risk of disruption as a value-for-money approach is adopted. This is creating opportunities for companies facilitating increased longevity and an improved quality of life, or that enable a reduction in overall healthcare system costs.

- **Cloud storage**

  The development of cloud-based IT solutions is democratising computer power. Ten years ago, an early-stage IT innovation company would have to pay $1 million to buy servers to provide computer power. Today, they can rent servers through a web provider. The cost of failure for a start-up is therefore much lower, which has led to a surge in creativity. Consequently, there are some exciting investment opportunities presented by IT infrastructure companies which benefit from rising demand as work patterns shift to the Cloud.

SUSTAINABILITY MATTERS

Sustainability refers to what a company does; but it is also important to integrate analysis of environmental, social and corporate governance factors. In other words, how a company operates. This ensures that the material risks you are exposed to as an investor are well understood by the company and well managed by a board which looks after minority shareholder interests. We share the view of Alan Jope, CEO of Unilever, who recently stated that there is “no paradox” between sustainable business and better financial performance.

In short, ignoring the changing world makes companies vulnerable to business disruption, the loss of market share or obsolescence. For investors, the systematic analysis of the transition risks and opportunities facing a company, combined with the analysis of how a company manages those risks, should deliver better returns over the long term. There are many challenges ahead and it promises to be a dynamic and exciting journey.

Kirsteen Morrison
Senior Portfolio Manager
Impax Asset Management

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For information on the funds available, please speak to your St. James's Place Partner.

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