JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background 2014-15

The financial year 1 April 2014 to 31 March 2015 finally saw, in October 2014, the end of the US Federal Reserve policy of Quantitative Easing. However this did not represent a large scaling back of the interventionist role of the major Central Banks. March 2015 saw the launch of the long anticipated Quantitative Easing programme of the European Central Bank while the Bank of Japan continued and indeed increased its policy of radical monetary easing. In the Eurozone three years of progress in reforming the Greek economy and finances was suddenly thrown into serious doubt from January 2015 with the election victory of the anti-austerity Syriza party. However unlike in 2012 the new "Greek crisis" did not seriously undermine other Eurozone equity or bond markets. Falling inflation and indeed concerns about deflation exemplified by significant falls in the oil price were a clear theme of 2014-15.

The ongoing reduction in Quantitative Easing by the Federal Reserve during the period April to October 2014 when the programme finally ended and the consequent strengthening US $, which reduced the overseas earnings of US large cap equities, failed to halt the continuing overall upward movement of US Equities. The S&P 500 closed, for the first time at over 2,000 in August 2014 and overall the S&P 500 was up 10% by the end of the financial year at 2068 on 31 March 2015 compared to 1872 a year earlier. While Quantitative Easing may have ended the highly stimulative monetary policy of the Federal Reserve continued with the main interest rate (the Federal Funds Rate) remaining at 0% to 0.25% the level it has been held at since December 2008. The attractiveness of equities will also have been enhanced by the fact that during 2014-15 nearly a third of companies in the S&P 500 were paying dividends above the 10 year Treasury yield compared to a historic average around a tenth. Positive overall sentiment was undoubtedly also supported not only by generally positive business (particularly in respect of small cap companies) and consumer confidence but also by a further fall of over 1% in unemployment during the year to stand at 5.5% in March 2015, the lowest level since May 2008.

In the Eurozone 2014-15 was a period of clear and continuing gradual recovery with for example a slight reduction in unemployment together with some increasing demand for bank credit. However there were continuing concerns about the progress of economic recovery with generally weak growth and in particular the potential for deflation with the European Central Bank (ECB) progressively further loosening monetary policy with for example the introduction of a negative interest rate on bank deposits held with the ECB from June 2014. In August Mario Draghi the President of the ECB stated the ECB would use "all the available instruments needed to ensure price stability.” September 2014 saw further interest rate cuts by the ECB and the announcement of a programme to purchase asset backed securities and covered loans which began in November. Continuing concerns about very low inflation/deflation finally led to the ECB announcing a huge Quantitative Easing programme in January 2015 which commenced in March 2015. The QE programme will result in 60 billion Euro a month asset purchases during the period from March 2015 till at least September 2016. This exceeded market expectations and the FTSE Eurofirst 300 increased by 7.1% for the month of January.

In particular progressive monetary easing together with a related significant weakening of the Euro against the US $, slow but positive trends in confidence and employment combined did much to boost European Equity markets. Overall during the financial year the FTSE Eurofirst increased by approximately 19%. By March 2015 the Eurofirst 300 was trading higher than for seven years.

The near failure of the major Portuguese Bank Banco Espirito Santo in July 2014 was untypical of the continued progress made by Eurozone banks during 2014-15. The results of tests by the European Banking Agency and ECB announced in October 2014 indicated that overall European (including Eurozone) banks were clearly more financially robust than in 2011.

In January 2015 three years of co-operation by the Greek government with the “troika” consisting of the European Central Bank, European Union and International Monetary Fund ended with the election of the anti-austerity Syriza party and the appointment of Alexis Tsipras as Prime Minister. The new Finance Minister Yanis Varoufakis stated that Greece would no longer co-operate with the “troika.” The new government alarmed creditors and investors promising to freeze privatisations, re-employ state workers and abandon other reforms of the previous government. A temporary respite was however achieved when on 20 February 2015 Greece and its Eurozone bailout lenders agreed a deal including an extension to the Greek rescue programme by four months. The long term future of Greece in the Eurozone was, however, far from resolved by 31 March 2015. There was a sharp sell off in Greek shares. While Greek 10 Year bonds were yielding less than 7% on 31 March 2014 their price fell significantly after the Syriza victory and stood at over 11% at the financial year end.

2014-15 like 2013-14 was positive for the UK economy. In March 2015 the Office for National Statistics reported unemployment was 5.5% compared to 6.8% a year earlier. However, earnings increases and particularly inflation remained low (even though wage growth outpaced inflation in the latter part of the financial year) suggesting continued slack in the economy and the Bank of England maintained the Base Rate at 0.5% throughout the 2014-15 financial year. There was, overall, a lack of volatility in UK equity prices and the FTSE All Share advanced by only 3% over the financial year. For the second year in a row the UK equity market clearly lagged other major developed equity markets.

The huge Quantitative Easing programme of the Bank of Japan continued and was significantly expanded during 2014-15 and together with a consequential competitive yen, lower world commodity prices and improved real pay levels resulted in an overall positive year for both the Japanese economy and equity prices. Corporate earnings were clearly positive. However continuing concerns about low inflation/possible deflation resulted in the Bank of Japan announcing, in October 2014, an increase in the scale of its monthly purchases of Japanese Government bonds. In the same month the Government Pension Investment Fund announced that it would reduce its holdings of bonds and increase its holdings of domestic (and foreign) shares giving yet more impetus to Japanese equities. There were also clear signs of structural reform as indicated by government plans to increase female employment and the publication by Japan's Financial Services Agency, in December 2014, of a draft Corporate Governance Code seeking to address issues such as shareholders rights, cross-shareholding (where companies hold each others shares), whistleblowing and board composition. The General Election of December 2014 saw the re-election of Prime Minister Shinzo Abe and in effect endorsed the fiscal and structural reforms of the previous two years. The Nikkei 225 Index increased by approximately 30% during the financial year.

May 2014 saw a seismic shift in the politics of India and the expectations of markets. The Bharatiya Janata Party (BJP) led by Narendra Modi obtained an overall majority on a platform of major economic reform. During May 2014 the Sensex index gained over 8% and increased by 24% over the period 1 April 2014 to 31 March 2015 fuelled by optimism following Mr Modi's election victory and aided by falling commodity prices.

Although the Chinese equity market was positive the Chinese economy was subdued with weaknesses in industrial production, retail sales and the housing market. In November 2014 the People's Bank of China reduced benchmark interest rates for the first time since July 2012 and another rate reduction followed in February 2015 to provide further stimulus to the economy.

Though the US Federal Reserve ended it Quantitative Easing programme in October 2015 it did not increase its main interest rate and the 10 Year benchmark yield was 1.94 on 31 March 2015 0.8% lower than a year before. Low inflation, weaker than anticipated growth, and policy statements from the Federal Reserve resulted in market expectations regarding interest rate rises receding during the year. The UK 10 year benchmark reduced from 2.76% to 1.70%

During 2014-15 weak inflationary pressure together with the further and progressive loosening of ECB monetary policy, resulting in the announcement of a large Quantitative Easing programme in January 2015 and its implementation from March 2015 clearly supported German government bonds and government bonds of other Eurozone countries such as those of Spain and Italy which saw their yields very significantly compress (and therefore their value increase). The German 10 year benchmark yield reduced from 1.58% at the start of the financial year to only 0.18% on 31 March 2015. The Italian 10 Year bond closed the year at 1.29% (compared to 3.31% a year earlier) and the Spanish at 1.21% testimony not only to the influence of ECB monetary policy but also the failure of the ongoing Greek crisis which re-erupted after the Syriza election victory to significantly affect other Eurozone countries.

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