TRUE

INSIGHT

Managed Portfolio Series | Spring 2016

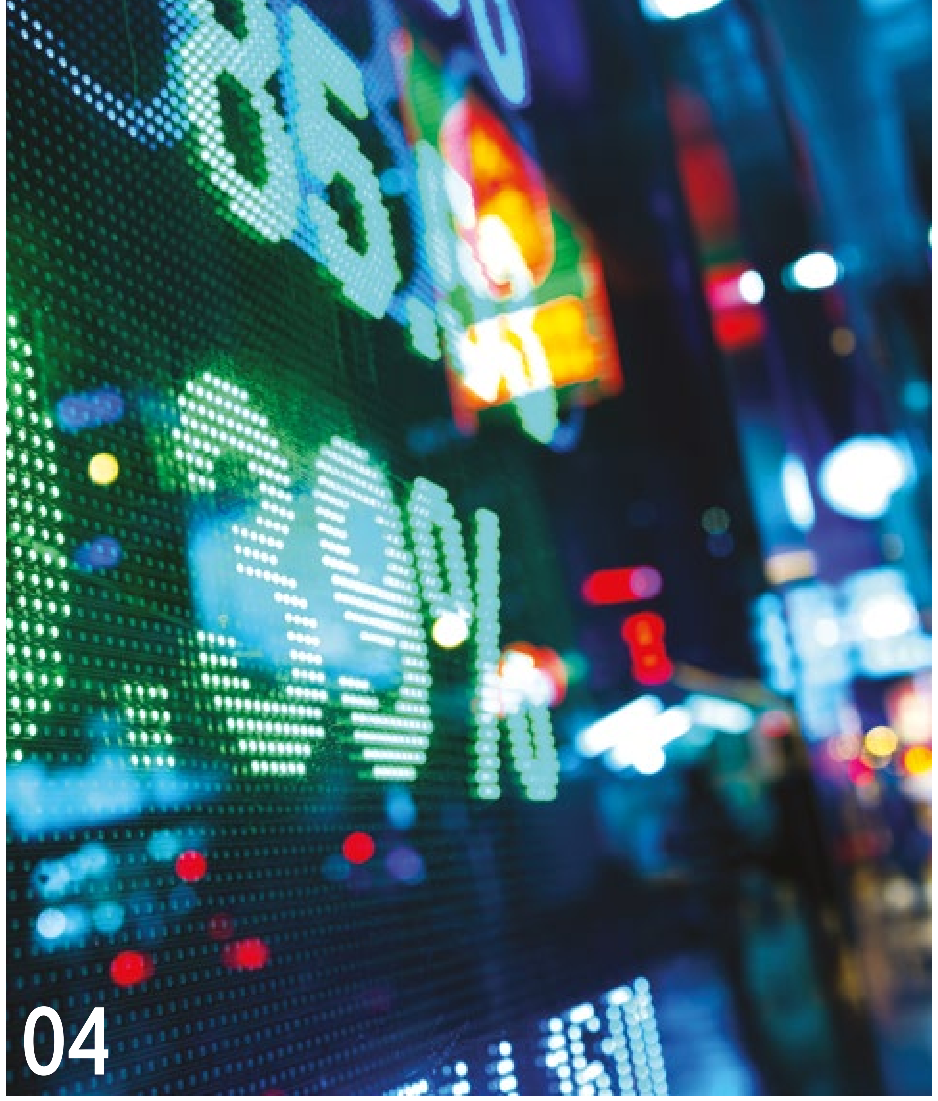
PAGE 06

Focus on BREXIT

An in-depth feature about the implications of staying in or going it alone.

true potential investments

CONTENTS



A WORD FROM OUR CHIEF INVESTMENT OFFICER

Colin Beveridge, Chief Investment Officer.

Our Managed Portfolio Series is now in full flow. This month we will surpass our expectations as we will have over a third of a billion pounds invested in our portfolios just six months after launching. The more we talk about the Managed Portfolio Series concept, the more advisers and clients are catching onto its merits.

Our four optimisation factors - risk, cost, expected return and risk-adjusted return - are focused on what clients desire, low fees which don't eat into returns and managing volatility effectively. Demonstrating a range of management styles within our Managed Portfolio Series and an approach whereby we actively oversee the allocations using forward-looking manager engagement, complements the systematic nature of the models.

It is increasingly evident to everyone who partners with us, that managing client money in True Potential Investments' segregated funds, sub-managed by world-class managers, works best for clients as the scale effect helps lower fund costs. It also puts our investment team in a privileged position to gather market intelligence and to put this information to best use when creating a Portfolio with a blend of investment styles. There are no additional charges here to eat into client wealth. As a result of this, we consistently deliver competitive funds.

For example, we compared our Balanced Income Portfolio to a similar income fund launched recently by Hargreaves Lansdown. Hargreaves Lansdown's average Ongoing Charges Figure (OCF) comes in at 1.33%, whereas the True Potential Balanced Income Portfolio average OCF is 0.84%. To put this another way, their fund is 58% more expensive.

It is obvious to me what clients really care about- the ability to realise their financial aspirations, at a reasonable cost. Using our platform technology we're enabling clients to translate their personal aspirations into real financial 'goals', which can be monitored throughout their life.

Goals are important and what is particularly exciting for me is the opportunity to announce the development of our new multi-asset GoalSmart fund range, to be launched shortly, in partnership with UBS Asset Management. Our client-first ethos, which is shared by UBS, has made it possible to negotiate a low-cost fee arrangement and we intend to add some unique features. The fund range will include a goal-beating performance feature which provides us with an extra reward which we hope to pass on to the client.

Crucially, our GoalSmart approach means that we intend to refund the investment management fee if the client does not see a positive return, after fund costs, this aligns the interests of the client and the investment manager perfectly. We will reveal more about this exciting new opportunity in due course.

Please look through the rest of our True Insight magazine. Our intention is to present new ideas and to expand on our thoughts about markets, breaking down complex investment matters on your behalf. We think you'll find the outlook section is particularly compelling. It is here where we distil the investment views of our top-class managers. The intention is to keep you informed of our views and our actions. On a topical note, our feature article looks at some of the issues surrounding Brexit. As this is a source of uncertainty, I would also encourage you to look through what has been written on the subject of risk and how it can be managed.

I hope you enjoy reading this collection of articles and here's to what we hope will be another successful quarter.

REVIEW OF THE MARKETS

The first quarter of 2016 was an eventful one, demonstrating heightened volatility levels.

It started very negatively marking one of the worst starts to the year on record, but recovered quickly. Despite some very bleak assessments by the media, investors have received strong returns from some asset classes. Those that took advantage of the weakness to buy, rather than sell, have seen their efforts rewarded.

So what was causing such heartfelt concern? From the start of the year up until mid-February, equity markets and commodities were in freefall. Investor concerns were wide ranging, with lack of growth in China and commodity-related Emerging Market economies dominating the agenda.

Having been hindered by a strong currency, there were also concerns about US manufacturing dipping into recession. The worries escalated and started to spill over into Europe, with questions once again being asked about the soundness of certain sections of the financial sector in Europe.

So why did markets recover? As sentiment soured, central banks took action. First, Japan's central bank moved to negative interest rates and the European Central Bank followed with an extension to their monetary stimulus package. The US Federal Reserve bank intimated that interest rate increases would be constrained (possibly only two increases in rates this year rather than four).

The actions taken are seen as being supportive of growth, but many investors remain sceptical that the actions are akin to pushing on a piece of lengthening string. The sceptics note that actions taken by Japan and Europe were designed to weaken their respective currencies to boost exports. However, their actions had the opposite effect and their currencies strengthened against the US dollar. This brings with it an unhappy side-effect of investors now calling into question the credibility of the Bank of Japan and the European Central Bank.

One strange phenomenon guiding the direction of investments has been the oil price. This is being looked upon now as a barometer for risk assets in general. As the quarter continued, the oil price started to recover to historic levels. In theory, the oil price is dominated by supply-side considerations (80% of new production now operating at a loss), rather than final demand so its new role as a proxy for growth is an interesting feature.

We cover Brexit in our feature article and show the decline of Sterling, which depreciated significantly over the quarter against all main currencies, particularly the Euro. This is actually a key positive feature for UK-based investors holding international assets as it helps to boost returns and mitigate losses – see table of market moves below.

In our next section we consider the future outlook in more detail.

Q1: Market Movement

Category	Local Currency % Change (3M)	GBP % Change (3M)
UK Equities	-1.1%	-1.1%
US Equities	+0.8%	+3.2%
European Equities	-7.6%	-0.9%
Japanese Equities	-12.9%	-3.9%
Asia Pacific Ex Japan Equities	+1.4%	+3.8%
Emerging Markets Equities	+5.4%	+7.9%
UK Bond Index (10 years)	+3.9%	+3.9%
Oil Price	+0.2%	+2.5%
CRB Commodities	-3.2%	-0.9%

Source: Bloomberg, 31 March 2016

INVESTMENT OUTLOOK

In our last round of discussions with our investment manager partners there were some interesting opinions expressed about the markets. We have listed the key insights below:

- After the recent rally in stock markets, our fund manager partners have been reflecting on the scope for further positive progress. The consensus is one of optimism with a hint of caution, but as one manager pointed out "the path to stability and growth remains precarious".
- Whereas previously markets appeared to be ignoring current positive data, focussing instead on unrealised fears, investors have started to regain some much needed confidence that the many problems that exist can be addressed. However, there is a real sense that volatility will persist for some time. The main conclusion across our manager partners is that they must remain vigilant and nimble to deal with threats, and take advantage of opportunities.
- At the stock level, managers are increasingly favouring value over growth. In maturing stages of an economic cycle, a value style is expected to outperform growth, but with the caveat that 'value traps', investments that look good value but continue to underperform, can easily destroy performance.
- Emerging Markets and Commodities have recovered, but remain well below their previous high levels. One of the key questions put to our managers is whether the recent strength in Emerging Markets and Commodities will continue. Currently, managers in general are very much underexposed to these areas and lack conviction to meaningfully increase positions. However, Emerging Market and Resource Stocks are amongst the areas most favoured by 'value managers', who are more inclined to take positions earlier in a recovery cycle.
- Within fixed interest, Emerging Market Bonds are finding buyers again, having been unloved during 2015. Issuance has improved compared to 2015, boosting liquidity levels and some of our investment manager partners are accessing this asset class as a way to benefit from the theme of US Dollar weakness.
- Because of their historically low yields, Government Bonds are increasingly viewed as a source of portfolio insurance rather than a source of return. However, if economies struggle in their battle against deflationary forces, yields will stay low and could go lower.

After pulling all of the information gathered from manager interviews, we assess what this means for our Managed Portfolio Series. Ideally, we reflect as many of these ideas as possible through the fund allocations in each Portfolio. Alongside this, we remain focussed on our four optimisation factors (risk, cost, expected return and risk-adjusted return) - as they help ensure an objective and systematic approach right across our Portfolio range.

To illustrate the allocations, we provide a monthly factsheet for each Portfolio. This is where we document changes to the Portfolio compositions and explain the reasons behind our actions. On the next few pages, we feature a number of key market, technical and fundamental indicators.

Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance. Tax rules can change at any time.

FOCUS ON: BREXIT

The possibility that voters in the UK may vote to leave the European Union has to be one of the most widely discussed topics of 2016 so far.

Brexit, which is the term coined to describe the upcoming event, has stimulated a lot of debate and the arguments are becoming increasingly heated. At a political level, the UK Prime Minister, David Cameron, is strongly in favour of voting 'yes' to stay in the EU, whereas the Mayor of London, Boris Johnson, is campaigning for an 'out' vote.

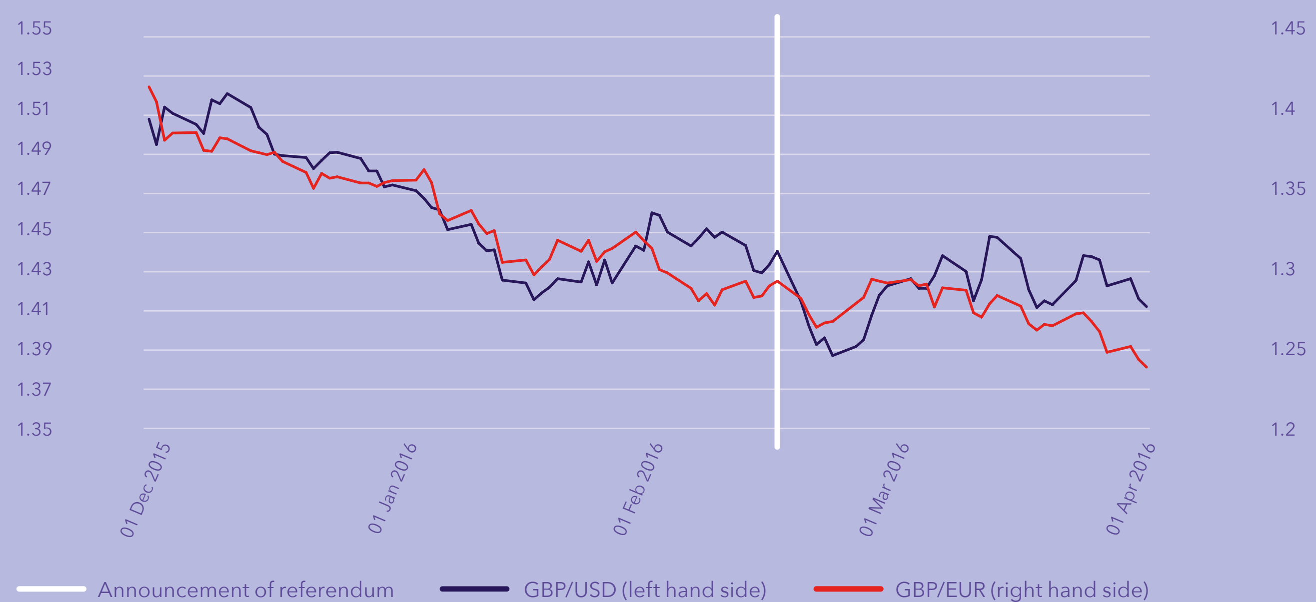
The difficulty surrounding an assessment of the proposition is that no country has exited from the EU, so there isn't a precedent upon which to judge what may or may not happen. We do have one signal however, which is that the debate has already caused the UK pound to weaken.

Clearly there is a lot at stake here for the UK, and the rest of Europe. At True Potential Investments, it is the outlook for savers and investors that is at the forefront of our minds. While we cannot predict the outcome, we know that a leave vote is what markets fear the most, so whilst we give some consideration to a 'leave' scenario, it is not a prediction.

What has been established already is that the Bank of England (BOE) would be at the forefront of calming markets if UK voters vote to leave the EU. The BOE would seek to ease monetary policy, and as already indicated by Mark Carney the BOE Governor, they will provide liquidity to the banking system to make sure savers and businesses are protected. They may also reintroduce quantitative easing as a proactive measure to keep bond yields low and to keep interest rates at historically low levels. They may even cut interest rates from their already low levels. This won't be helpful for cash savers, but quantitative easing has been shown to boost returns in areas where investors have taken risk (which we helpfully explain later).

It is also worth mentioning here that the risk level is something investors can choose for themselves through our different multi-asset funds, so it needn't be high risk.

Exchange Rates (September 2015 – April 2016)



Source: Bloomberg, April 2016

Your capital is at risk. Investments can fluctuate in value and you may get back less that you invest

As trade lies at the core of the Brexit debate (we are side-stepping sovereignty, which is what politicians argue about most), it is worthwhile looking at the UK's trading position.

One of the primary concerns expressed is that the UK would be in a worse position to negotiate a new trade agreement with the EU, if we were to leave it. Of course, we cannot say if this is true or not. As such, we thought we would look at the current trading position of the UK to see if there are any clues. The trade data is shown in Figure 1 below.

The data shows that the UK is importing more goods than it exports to the EU. In fact, this deficit in trade with the EU is running at twice the level of trade with non-EU countries. This picture on trade plays more into the hands of the 'Out' campaign as they can argue that the UK is more important in trade terms to the EU than the EU is in trade terms to the UK. In other words, if the UK did leave, there would be a strong vested interest for the EU to re-establish a workable trading relationship with the UK, and to do so quickly.

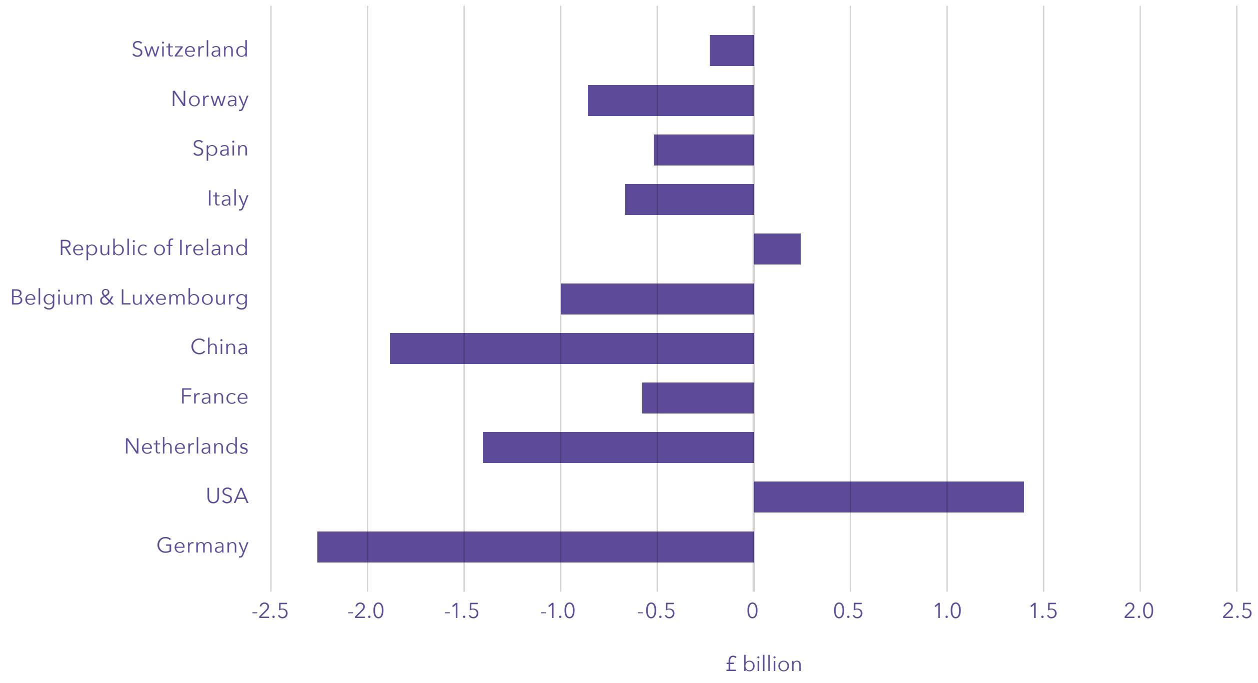
When the data is broken down further, the position is even more revealing.

Figure 1: Trade Balance (£ billion)

		Balance of trade in goods			Balance of trade in services	Total trade balance
		EU	Non-EU	Total		
2015	Jan	-7.2	-3.9	-11.1	7.9	-3.2
	Nov	-8.0	-3.5	-11.6	6.9	-4.7
	Dec	-7.4	-3.0	-10.5	6.8	-3.7
2016	Jan	-8.1	-2.2	-10.3	6.8	-3.5

Source: Office for National Statistics, Jan 2016.

Figure 2: Terms of Trade by Country



Source: Office For National Statistics, Jan 2016.

The trading position shown in Figure 2 shows the importance of the UK to the EU, with eight of the UK's twelve trading partners being EU members and with Germany being of particular importance. This demonstrates the importance of stable trade agreements between the UK and the EU, regardless of Brexit.

Finally on trade, it is evident that the UK needs to continue to place greater emphasis on being competitive in order to grow. As a business, we understand the strictures of regulation and how it can stifle innovation and growth. The reality is that businesses have to be sufficiently robust to rise above the minimum thresholds set by regulation. Escaping certain rules and strictures may not be sufficient in its own right to make matters better on trade.

Data taken from the World Economic Outlook (October 2015), shows the UK economy 5th in the world rankings. This is a tremendous achievement for a small nation, but cannot be taken for granted and there are no quick fixes associated with escaping regulation.

UK investors can take comfort as we look to previous trends during times of uncertainty . First, multi-asset funds offer a route through the uncertainty as some assets react negatively, others will rise. Previously, when the pound has weakened, investments made overseas have risen in value. International investors often look to uncertainty as an opportunity to invest at cheaper prices, not just a threat. They are objectively driven by an economic return on capital and, in this respect, the UK has shown itself capable of producing world-class businesses and attracting inward investment.How likely is a UK exit? We leave the last word on this to the polls.

They show 43% of respondents want to stay in the EU, 41% want to leave, and 16% of people are undecided on this matter (Financial Times Poll of Polls, April, 2016).

A GLOBALLY CONNECTED WORLD

For those who work in finance, market fluctuations become a part of daily life. The ups and downs can be extreme and often at odds with what is actually happening in the economy. For ordinary UK investors it is not uncommon to wonder why events in different parts of the world have such a large impact. One reason is that globalisation has increased and so everything is much more connected.

In this article we take a look at key measures outside of the UK and those looked at closely by professional investors. We explain why they matter to us in the UK and what it can mean for you as an investor.

Markets are responsive to a whole host of factors, particularly economic data. By one estimate, the US government alone produces data on 45,000 economic indicators each year. Worldwide as many as 4 million statistics are tracked by professional investors. To narrow it down, our focus is on the US economy and how its performance is an unavoidable element of consideration to an investor in say, Basingstoke.

> When the US sneezes, the rest of the world catches a cold.

The US economy has weakened and markets have struggled in the last 12 months.

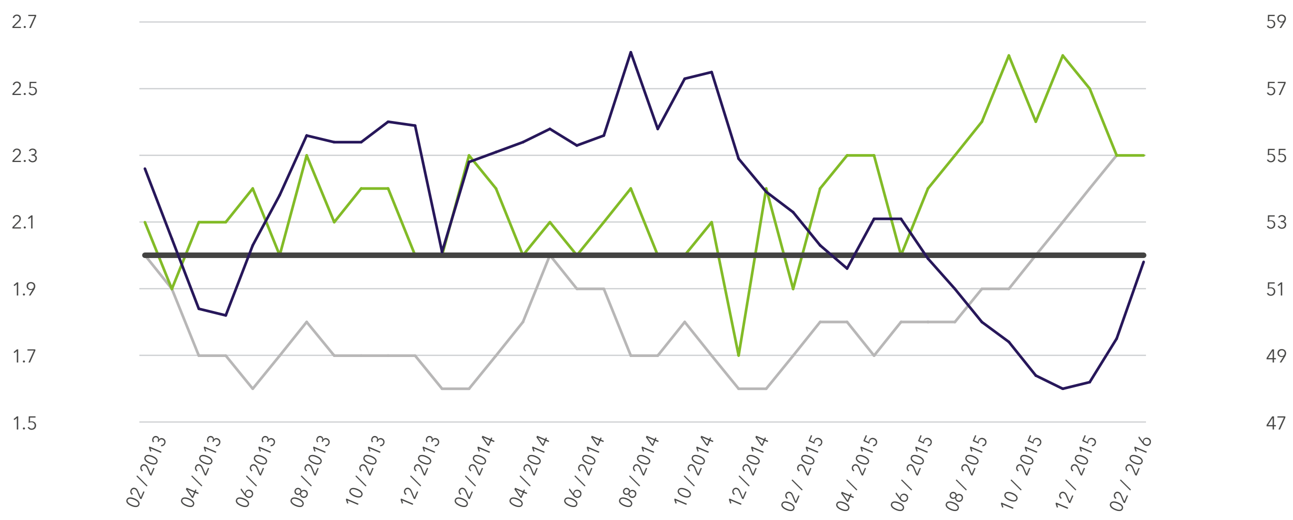
Therefore, two questions to think about are, 'why is the US economy slowing?' and 'should we be worried?' Rather than attempting a prediction, we are giving recognition to the general concern that cycles end with recessions and it is important to look for clues as to the probability of it happening anytime soon.

There have been 11 recessions in the US since World War II and so far the US Central Bank has steered the economy forward successfully. Central bankers are like ship's captains. They must navigate choppy waters and avoid icebergs where danger lurks, often their full extent hidden below the surface. This isn't always clear to the ordinary investor.

With good fortune, the US expansion phase has lasted 7 years. It started after the US authorities acted aggressively to encourage growth, first with a fiscal stimulus package, 'The Economic Stimulus Act of 2008', in the immediate aftermath of the 2008 credit crisis. After this, they incorporated a large quantitative easing programme. Today, both actions are being judged critically by investors.

In addition to being responsible for growth and stability, the US Federal Reserve Bank also has an explicit inflation target of 2% and their policy is currently constructed to avoid deflation. This means they must meet this target or their policies will be judged to have failed. So, to what extent is this policy working? In Figure 1, we look at data on wages and expected manufacturing activity and we explain their relevance and importance to inflation.

Figure 1: Inflation/Wages/Manufacturing (Sentiment)



US Inflation CPI excl. Food & Energy YoY NSA (left hand side)
ISM Manufacturing PMI (right hand side)
US Average Hourly Earnings All Employees Total Private Yearly Percent Change SA (left hand side)
2% Target (left hand side)

Source: Bloomberg, 31 March 2016

Average hourly earnings have started to increase, which is symbolic of policy working. It can be predicted that higher wages will create a better opportunity for future growth in spending.

The blue line in Figure 1 represents a survey of manufacturing purchasing managers (PMI). As a general rule, a reading below 50 is an indicator of recessionary conditions. Tellingly, the reading has been falling, dropping below 50 in the last few months but bouncing back above 50 and taking away some concerns. Although manufacturing is not the largest part of the US economy, making up 12.1%, it is a key indicator of its overall health. If manufacturing contracts, the concern is that this decline in demand for goods will reverberate through the rest of the economy and put downward pressure on growth and inflation.

Having been stubbornly resistant for some time, inflation, excluding food and energy, is now climbing, moving above the Federal Reserve's 2% target.

The Value of the Dollar

We move our attention onto the US Dollar because the direction of the dollar impacts perceptions about US and global growth prospects. The level it reaches upwards or falls towards plays a pivotal role in the ability of US manufacturers to export goods to the rest of the world.

We note from Figure 2 below that as the dollar was strengthening, particularly in the rapid rise phase from 2014, US manufacturing was beginning to struggle (see Figure 1). It's level acts with a lag, because the direction of travel takes time to feed through into business decisions. From recent trends the dollar appears to have lost its clear upward direction, perhaps weakening again and giving some assistance to exporters.

Figure 2: US Dollar Trend and Relationship to the Gold Price
Gold Spot vs USD Index

Dollar Currency Index (Right hand side) Gold Spot Price (Left hand side)

Source: Bloomberg, 31 March 2016

Alongside the dollar we include the gold price. This may seem strange, however, investors look at the dollar and gold as being inversely correlated, i.e. if the dollar rises, gold falls and vice versa. This isn't as straightforward a relationship as many suggest and there are three distinct phases, two whereby this inverse relationship works and a third where the direction of the relationship is not so clear-cut.

Phase One

In the first strong gold price phase, from 2009 through to 2012, the US began experimenting with Quantitative Easing. Many investors believed this was debasing the currency (losing its credentials as the world's reserve currency), the primary trend for the dollar was down (with rallies along the way), and gold appreciated strongly, peaking at $1,900 per ounce.

Phase Two

However, as currency debasement worries waned and the US economy showed positive growth, the dollar strengthened and the gold price fell, shown in the second phase from 2012 through to 2015.

Phase Three

More recently, and in the third phase, the signals have been mixed, although some argue that the dollar is set to weaken (not for reason of debasement, but as a way to support US manufacturing) encouraging gold to strengthen again.

In Summary

Our conclusion from the data is that the current economic cycle is maturing and the recent pattern of volatility has been influenced by the US economy slowing. In a globally connected economy we could show many more factors influencing the growth and inflation outlook. However, we know for sure that the US economy is pivotal and if recession is avoided, the fear of deflation will recede bringing better news for investors. We concur with our investment manager partners that there is room for optimism. A better outlook for growth will boost returns. Deflationary impulses weaken savings and investment and so avoiding deflation matters a great deal.

As mentioned at the beginning of our article, financial markets display ups and downs. This is why we offer multi-asset funds (and now Managed Portfolios investing across those funds) because diversification helps mitigate the risk of uncertainty. As with all forms of investment, you cannot make risk disappear altogether. This brings a silver lining in that the best opportunities tend to arise for long term investors after investment markets have fallen.

WHAT IS VOLATILITY?

Investment professionals continually talk about volatility as a measure of risk, but how many outside the financial services industry actually understand what volatility means? For example, if a fund has a volatility of 6%, what does this tell us and how much does this actually matter to your wealth? Let us explain how volatility can be managed and how we have incorporated this into our Managed Portfolio Series through diversification.

In very simple terms, volatility is calculated by a measure known as 'standard deviation', which is a measure of the difference between two sets of values. This single measure gives professional investors a clue about a range of possible outcomes. For example, if a multi-asset fund, let's call this Fund A, has a volatility of 6% and delivers an average return of 3%, the fund's daily price will deliver an outcome anywhere between -3% and 9%, with lots of smaller up and down movements along the way.

Day-to-day this means your pot of money moves up and down in value, but if you do not intend to draw on it anytime soon, then these price moves may not be of great concern to you. However, this isn't true for everyone and it is why our investment partners go to great lengths to manage volatility in a way that suits clients' specific requirements.

Single-manager multi-asset funds are very effective diversifiers of risk. They combine investments spread over many different asset classes to dampen down volatility. We are immensely proud to partner with the best multi-asset managers in the world. One thing is for certain, they truly understand the importance of managing risk on a forward-looking basis.

Volatility is most effective when comparing funds to one another. For example, if we extend our example to compare Fund A with another multi-asset Fund, Fund B, this time carrying the same measure of risk as Fund A (6%) but half the level of return, (1.5% rather than 3%) we get a different flavour for risk. In this instance the range of outcomes for Fund B show greater downside risk and less upside, i.e. between -4.5% and 7.5%.

Given this choice, most investors would want to own Fund A as it provides a greater chance of a good return, with less downside. However, how possible is it for you, or for any other investor, to feel confident that Fund A will maintain this comparatively better risk and return advantage in the future?

Your capital is at risk. Investments can fluctuate in value and you may get back less that you invest

The proposition that in the future the unit price of Fund A will be less prone to fall and rise than that of Fund B is not unreasonable. However, the future outcome of this cannot be predicted with certainty. This is because prices shift with changing investment conditions. It is possible that the manager of Fund A gets on the wrong side of deteriorating volatility conditions, whereas the manager of Fund B skilfully avoids this or just gets lucky. So what can you do to guard against a fund manager experiencing unpredicted volatility, and falling short of their objectives? Or, put another way, is being exposed to single-manager risk optimal or not?

For us, the answer is provided via our Managed Portfolio Series. Our Managed Portfolio Series combines multiple funds into Portfolios set up on our platform with clients then investing according to the Portfolios. To obtain an average outcome you would equally weight each fund i.e. holding four funds equally-weighted, you invest 25% in each one. However, with the Managed Portfolio Series, we tilt the fund weights away from being equally-weighted with the aim of getting a better than average outcome, with less risk.

Value vs Growth Investors

So what is the difference between a value investor and a growth investor? A value investor will seek to hold assets when the underlying value, also known as the 'intrinsic value', is greater than the current price. Whereas, growth stocks represent companies that have demonstrated better-than-average gains in earnings in recent years and that are expected to continue delivering high levels of profit growth.

Diversifying Across Asset Class

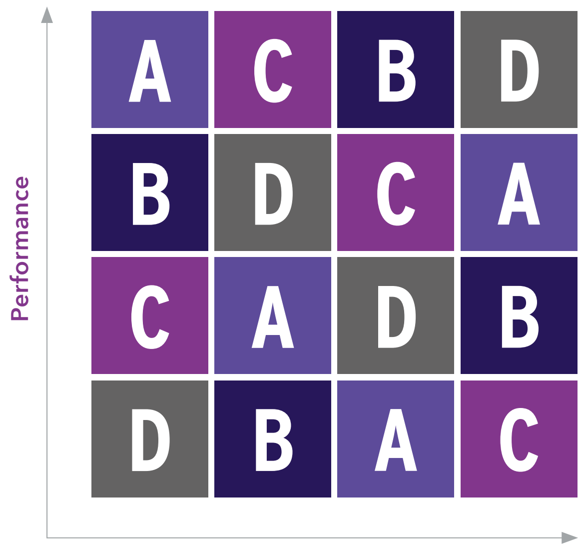
The rationale behind the Managed Portfolio Series approach can be explained by the following charts, where it is illustrated that predicting asset class returns is very challenging and that picking the best performing managers for the future is equally difficult.

Style Divergence

The tendency to do better or worse is not simply a matter of manager skill, or lack thereof, it can also be the result of style divergence. Across our fund range, managers employ different techniques such as active or passive investing, buying different funds or selecting managers to run funds in different ways. In each case, the money is typically invested according to a particular style of investing. This may be value or growth investing, momentum investing or picking large companies over small ones.

Our style box to the right illustrates how different asset classes move in and out of favour over time.

Style Consistency



Global Equities: Asset Class Returns

Figure 1: Predicting Asset Class Returns, True Potential, January 2016

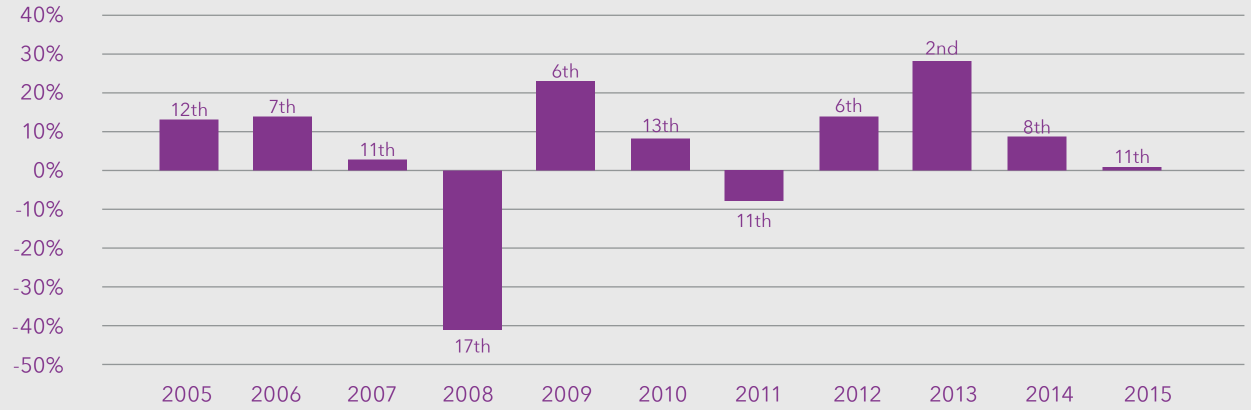
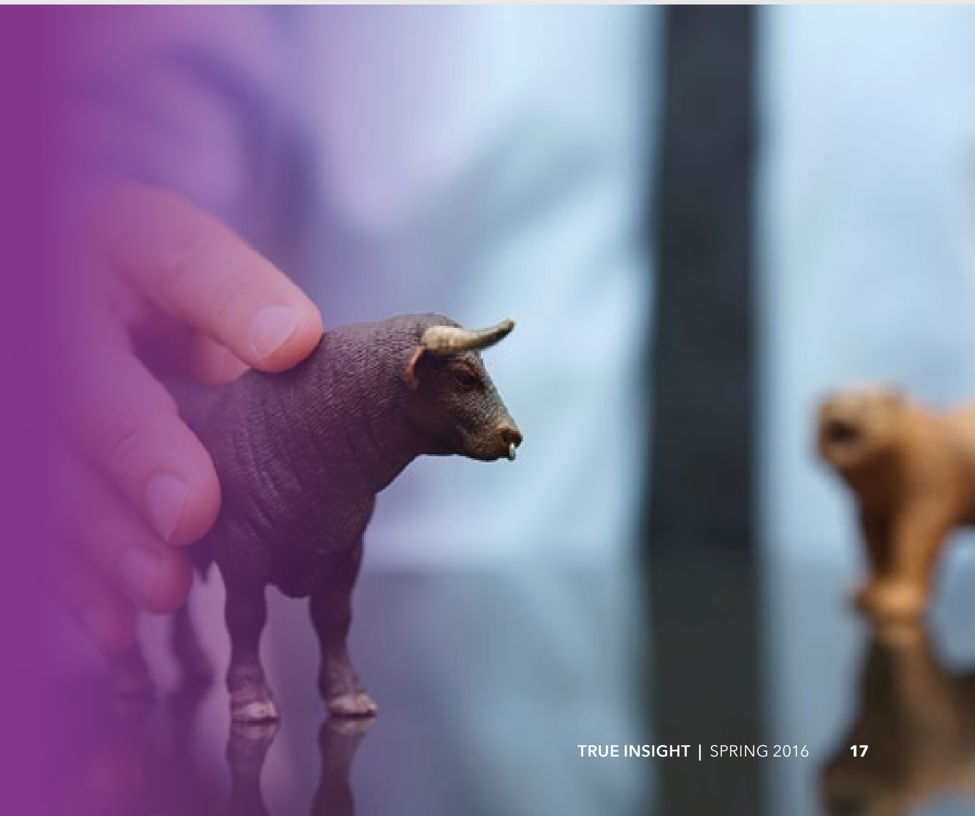


Figure 1 shows the potential for variation across global equities as a single asset class and how it has performed compared to the other asset classes since 2005. Taking, for example, Global Equities, the best ranking they have achieved in 11 years is second place, whereas they came in at a dismal 17th place, or last, in 2008.

For managers, navigating so many different variables, it is impossible to always be 'right', in the sense of consistently picking out the best markets, year on year. On page 25 of True Insight, we show the way manager returns diverge even if they operate within similar risk ranges.

For example, the range of outcomes delivered by our seven multi-asset balanced funds over the last 12 months is 5.15%. However, compared to the wider market, where the gap between the highest and lowest is 17.10%, our funds do not display the same degree of variability.

In conclusion, single-manager multi-asset funds offer excellent diversification and give investors a better shot at generating a higher return. Our multi-manager, multi-asset Portfolios add an extra layer of diversification that helps mitigate downside risks associated with a single-manager investment style going out of favour. In many cases, the benefits of actively managed portfolios are overturned by higher management costs of doing so, but with the Managed Portfolio Series we do not make any additional charges that would erode client wealth. Good news all round.



CHANGES TO PERSONAL TAXATION

This quarter saw the delivery of a new 2016 Budget, where the Chancellor, George Osbourne, outlined his planned changes, coming in to effect in April 2017. With all of the media frenzy, it's easy to forget what has changed now and how these changes will affect investors.

In this section, we highlight what changes came in to force on 6th April 2016 and how they might impact on your investments.

Dividends

Firstly, the Chancellor has changed how dividends are taxed. Previously, there was a notional 10% tax rate applied to all dividends at source. This meant that any dividend payments received would have already had 10% deducted from them. So for every £1,000 of dividend income it was assumed that £111 in basic rate tax had already been paid (the total dividend was therefore £1,111).

As of April 6th, this was abolished and all individual investors now have a new annual tax-free dividend allowance of £5,000.

Where dividends exceed £5,000, are now subject to new, higher, dividend tax rates. Dividends are taken as an individual's last source of income (in other words, after all other income and allowances, so taxable at the highest rate):

Tax Band	Last Year	This Year
Basic rate	Nil	7.5%
Higher rate	25.0%	32.5%
Additional rate	30.56%	38.1%

Source: HMRC

Applying the new allowances to the Income Portfolios in our True Potential Managed Portfolio Series, the Balanced Income Portfolio currently offers a yield of 4.23% and is our highest yielding Managed Portfolio.

Remember, we don't charge a fee for running the Portfolios, which adds further to the potential return. If this were your only investment, to receive £5,000 worth of income annually, you would have needed to invest just over £120,000. This means that any Portfolios that are smaller than this level would result in no income tax at all on your dividend income.

A higher-rate taxpayer could receive up to £21,667 in income before they pay more tax than they have paid previously. This means if you were solely invested in the Balanced Income Portfolio, you could have a Portfolio size of up to £525,000 before you pay a higher amount of tax then you would have paid last year. Of course, we have more than two Managed Portfolios and the table below shows the current income levels of each of the remaining eight Portfolios as well as an indication of how much capital could be invested to generate £5,000 of income, annually. We don't see why those seeking capital growth should not make use of this valuable tax allowance.

Note: The figures below are based on current yield figures, which are liable to change over time.

Portfolio	Yield	Portfolio size needed to generate £5,000 of income
Defensive	0.98%	£510,204
Cautious	1.43%	£349,650
Balanced	1.29%	£387,597
Growth	1.42%	£352,113
Aggressive	1.29%	£387,597
Cautious Dynamic	1.06%	£471,698
Balanced Dynamic	1.43%	£349,650
Growth Dynamic	1.60%	£312,500
Cautious Income	4.05%	£123,457
Balanced Income	4.23%	£118,203

Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance. Tax rules can change at any time.

What's the Impact of these Changes?

These changes to personal taxation may, at first glance, appear to make the protections from tax offered by ISAs and Pensions less relevant, but nothing could be farther from the truth. ISAs still offer the opportunity for tax-free income and so remain a valuable tool to generate retirement income, as a supplement to Pensions, such as SIPPs.

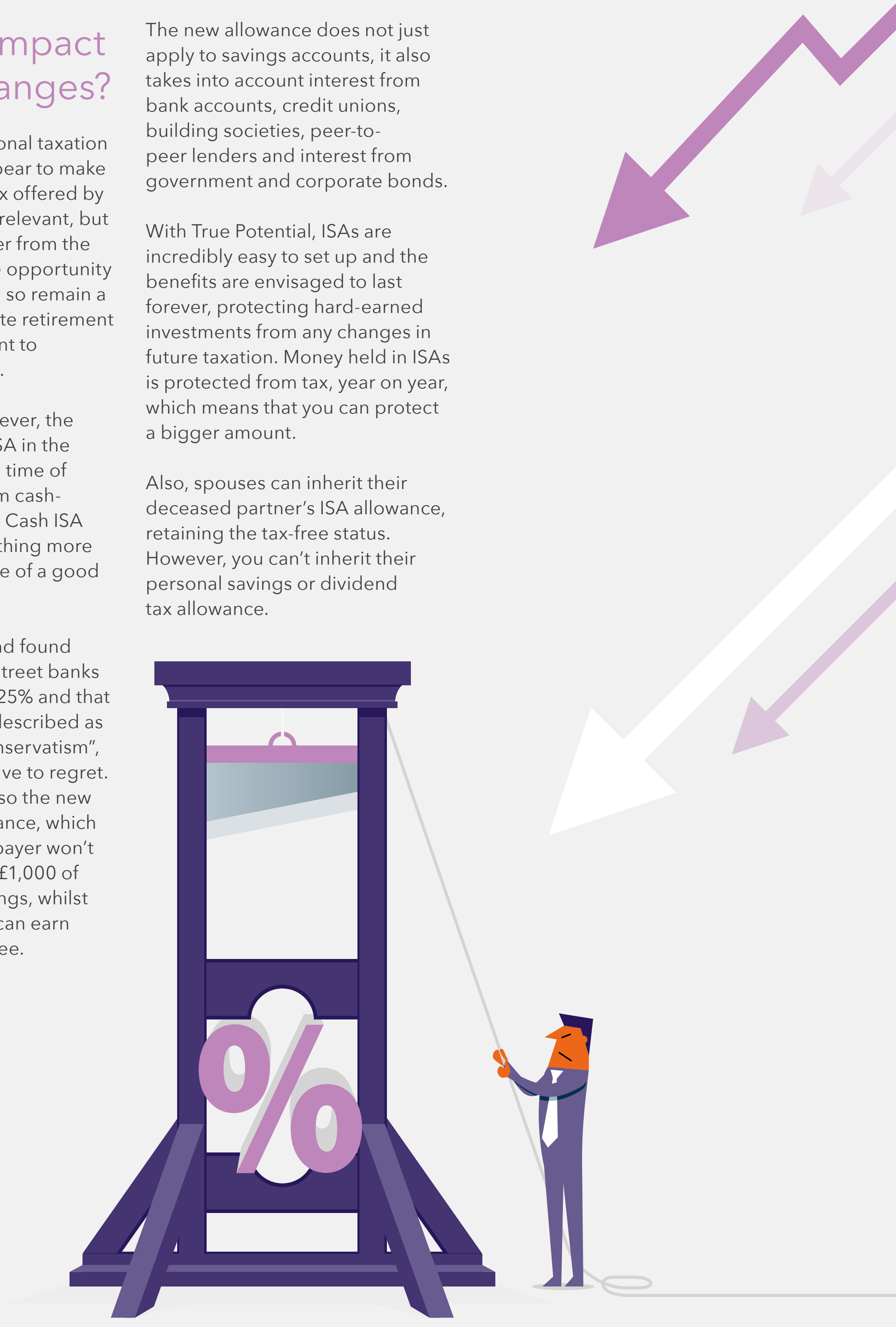
A word of warning however, the most popular form of ISA in the UK is the Cash ISA. At a time of historic low returns from cash-based investments, the Cash ISA would appear to be nothing more than an expensive waste of a good opportunity.

We scoured the web and found that, on average, high street banks returns were around 0.25% and that many savers could be described as exhibiting "reckless conservatism", something they could live to regret. Don't forget, there is also the new personal savings allowance, which means a basic-rate taxpayer won't pay any tax on the first £1,000 of interest earned on savings, whilst a higher-rate taxpayer can earn £500, completely tax free.

The new allowance does not just apply to savings accounts, it also takes into account interest from bank accounts, credit unions, building societies, peer-to-peer lenders and interest from government and corporate bonds.

With True Potential, ISAs are incredibly easy to set up and the benefits are envisaged to last forever, protecting hard-earned investments from any changes in future taxation. Money held in ISAs is protected from tax, year on year, which means that you can protect a bigger amount.

Also, spouses can inherit their deceased partner's ISA allowance, retaining the tax-free status. However, you can't inherit their personal savings or dividend tax allowance.



THE SCIENCE BEHIND OUR PORTFOLIOS

How we optimise the Portfolios

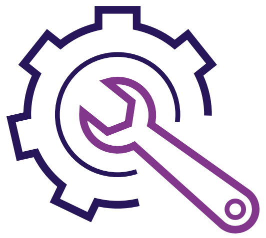
Optimisation of our Portfolios is conducted against equally-weighted portfolios mapped to five Morningstar risk categories.

For example, we offer seven funds within the Balanced category, therefore if no preference was given to one fund over another, an equally-weighted allocation to each fund is 14.3%.

When we build our Managed Portfolio Series, we tactically allocate away from the equally-weighted portfolios aiming for lower volatility, lower cost, higher expected return and a better risk-adjusted return than could be expected from choosing an equal allocation.

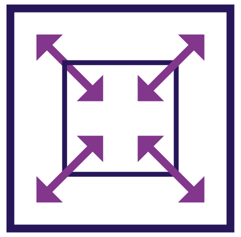
	Defensive	Cautious	Balanced	Growth	Aggressive	Cautious Dynamic	Balanced Dynamic	Growth Dynamic	Cautious Income	Balanced Income
Risk (Volatility)	✓	✓	✓	✓	✓				✓	✓
Risk (Mapped)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Cost		✓	✓	✓	✓	✓	✓	✓	✓	✓
Long-Term Expected Return		✓	✓	✓		✓	✓	✓	✓	
Risk-Adjusted Return	✓	✓	✓	✓	✓	✓	✓		✓	✓
Income									✓	✓

Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance. Tax rules can change at any time.



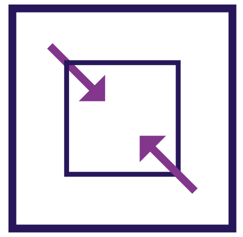
Risk (Managed Portfolios)

Risk is estimated using the asset composition of each Portfolio. The higher the measure of standard deviation, the more volatile the Portfolio will be. We construct separate Portfolios for each of the five risk categories containing all of the funds mapped to that risk category. When we optimise these Portfolios, we make sure they are lower risk than the equally-weighted Portfolios containing the same funds.



Risk (Dynamic Portfolios)

Our three Dynamic Portfolios use funds outside the Portfolio's own risk category. For example, the Dynamic Balanced Portfolio does not include any Balanced funds. When we optimise for the Dynamic Portfolios, we make sure that each Portfolio's measure of risk does not stray outside the risk band set for each risk category.



Risk (Income Portfolios)

Our two Income Portfolios use all available income funds from the Cautious, Balanced and Growth risk categories. We then allocate accordingly to create one Portfolio mapped to the Cautious risk category and one mapped to the Balanced risk category.

Cost

This is an important factor as costs negatively impact future returns. This is why we build our Portfolios with the objective of being lower cost than an equally-weighted Portfolio. However, it should be noted that at times the choice may lie between lower cost and higher risk. The impact from risk is disproportionate to the impact from cost. It is worth remembering that our funds are already amongst the lowest cost in the market.

Expected Return

An estimate of future expected risk is based on the future expected returns for each asset class. When our Fund Managers change the underlying assets in our funds, the Portfolio compositions change. The expected returns for each of our Portfolios will change with the composition of the underlying assets in each fund.

Risk-Adjusted Return

Risk-adjusted return is based on future expected returns for each Portfolio, minus the risk-free rate of return, divided by the level of expected volatility calculated for each Portfolio. Our objective over time is to manage toward a better risk-adjusted outcome.

PERFORMING AS DESIGNED

Although this is very much only a short track record (the Portfolios launched in October 2015), we are pleased with the results. You can see positive returns for all of the risk categories.

Portfolio	Performance Since Launch	Ongoing Charges Fee
Defensive	3.08%	0.82%
Cautious	3.79%	0.87%
Balanced	4.11%	0.91%
Growth	6.17%	0.84%
Aggressive	7.04%	0.85%
Cautious Dynamic	3.27%	0.86%
Balanced Dynamic	5.42%	0.86%
Growth Dynamic	5.56%	0.80%
Cautious Income	3.30%	0.77%
Balanced Income	4.34%	0.83%

Source: SEI Investments Company, 31 March 2016

Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest.
Past performance is not a guide to future performance. Tax rules can change at any time.

RANGE OF RETURNS

Below is a table showing the range of returns over one year for the best and worst performing funds in each Investment Association (IA) category. This highlights how our fund range compares against funds available in the wider market.

	IA Mixed Investment 0% - 35% Shares	IA Mixed Investment 20% - 60% Shares	IA Mixed Investment 40% - 85% Shares	IA Flexible Investment
Best Performer	1.30%	4.20%	5.90%	6.70%
Worst Performer	-8.80%	-11.10%	-11.20%	-16.50%
Difference	10.10%	15.30%	17.10%	23.20%

Source: Trustnet. 5 April 2016

You can see that, as you move up the risk spectrum, the difference between the best and worst performing funds tends to increase. Although the best lower-risk funds achieved a lower return than higher-risk funds, the worst performing lower-risk funds has dropped by much less than the worst higher-risk funds.

Although it is not possible to exactly map the IA categories to the five Morningstar categories, looking at the True Potential Wealth Strategy and Strategy Fund Range, which we have used to build our Managed Portfolios, you can see below that the range of returns is much lower.

	Cautious	Balanced	Growth
Best Performer	0.00%	-1.58%	-1.40%
Worst Performer	-6.40%	-7.14%	-6.58%
Difference	-6.40%	-5.56%	-5.18%

Source: Bloomberg. 5 April 2016

By choosing the True Potential Managed Portfolio Series, investors are diversified across investment styles, asset allocation and geographic region. This reduces risk and manages volatility within a single Portfolio.

Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest.
Past performance is not a guide to future performance. Tax rules can change at any time.

SERIES SPOTLIGHT: MANAGED PORTFOLIOS

Each Managed Portfolio contains all of the funds available within its risk category. The Portfolios in the Managed Portfolio Series have the greatest degree of diversification, meaning they are less prone to highs and lows relative to our Dynamic Managed Portfolios. We optimise the Portfolios with the objective of being lower risk than an equally-weighted Portfolio.

In addition, the Managed Portfolios do not have an income focus, which makes them very different to our Income Managed Portfolios. However, when investing in a Managed Portfolio some clients are happy to take income by selling units. Below are the optimisation results for the Managed Portfolio Series. As you can see, for Balanced, Growth and Aggressive we have optimised across all factors.

The Defensive Managed Portfolio is constructed from two underlying funds, which makes the task of optimising on each of the four factors impossible.

For Cautious, it is very difficult to optimise for long-term expected return without adversely affecting risk.

	Defensive	Cautious	Balanced	Growth	Aggressive
Risk (Volatility)	✓	✓	✓	✓	✓
Cost		✓	✓	✓	✓
Long-Term Expected Return			✓	✓	✓
Risk-Adjusted Return	✓	✓	✓	✓	✓

Below shows a cost comparison to see how each of the Managed Portfolios are positioned, compared to their equally-weighted portfolio equivalent.

	Defensive	Defensive equally-weighted	Cautious	Cautious equally-weighted	Balanced	Balanced equally-weighted
Cost	0.82%	0.81%	0.87%	0.92%	0.91%	0.94%

	Growth	Growth equally-weighted	Aggressive	Aggressive equally-weighted
Cost	0.84%	0.87%	0.85%	0.86%

Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance. Tax rules can change at any time.

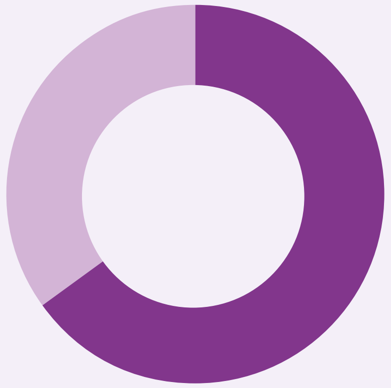
Asset Allocation

Asset Class	Defensive	Cautious	Balanced	Growth	Aggressive
UK Equities	6.5%	13.0%	17.7%	21.3%	24.5%
North American Equities	9.6%	15.3%	19.7%	21.7%	22.9%
European Equities	7.7%	10.5%	12.1%	13.7%	20.1%
Japanese Equities	2.4%	3.9%	5.8%	6.4%	9.4%
Asia Pacific Equities	0.4%	0.4%	0.9%	0.7%	1.4%
Emerging Market Equities	1.3%	1.8%	5.9%	12.6%	18.1%
Global Bonds	17.4%	10.5%	5.6%	2.1%	0.0%
Global Inflation Linked Bonds	4.4%	4.4%	2.6%	2.1%	0.0%
Emerging Market Bonds	0.0%	1.7%	2.5%	2.6%	0.0%
Global High Yield Bonds	7.7%	6.0%	6.1%	5.1%	0.0%
UK Gilts	8.6%	10.2%	5.1%	3.9%	0.0%
UK Credit	3.9%	8.5%	4.9%	0.9%	0.0%
Property	0.7%	1.9%	2.0%	3.0%	2.6%
Commodities	0.0%	0.2%	0.3%	0.0%	0.0%
Cash	29.4%	11.7%	8.8%	3.9%	1.0%

Source: Smith & Williamson, 31 March 2016

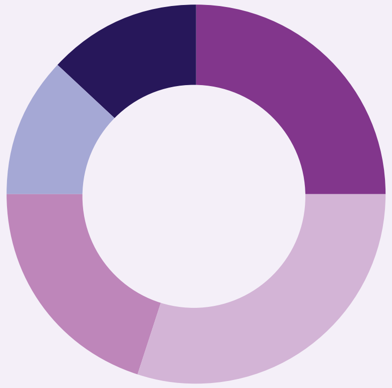
Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance. Tax rules can change at any time.

Style Allocation



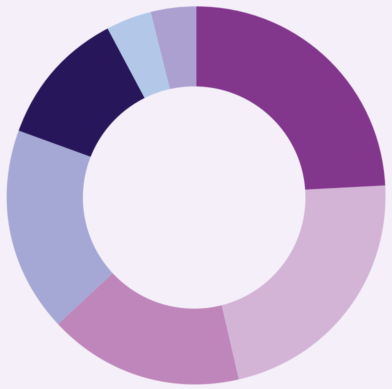
Defensive

Manager of Managers - SEI	65.0%
Actively Passive - 7IM	35.0%



Cautious

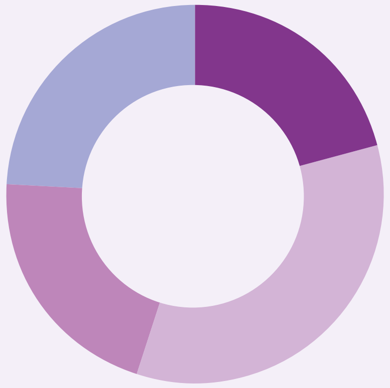
Manager of Managers - SEI	25.0%
Actively Passive - 7IM	30.0%
Directly Invested - Close Brothers	20.0%
Risk-Based - Allianz	12.0%
Fund of Funds - Schroders	13.0%



Balanced

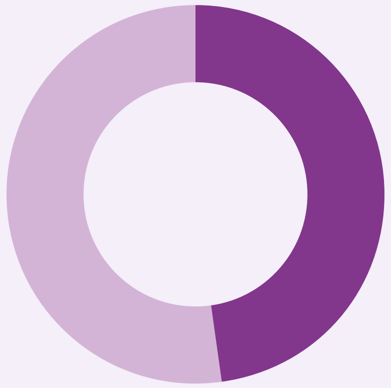
Manager of Managers - SEI	24.5%
Actively Passive - 7IM	22.5%
Directly Invested - Close Brothers	16.5%
Risk-Based - Allianz	17.5%
Fund of Funds - Schroders	12.0%
Dynamic - Goldman Sachs	3.5%
Income Builder - Goldman Sachs	3.5%

Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest.
Past performance is not a guide to future performance. Tax rules can change at any time.



Growth

Manager of Managers - SEI	21.0%
Actively Passive - 7IM	34.0%
Directly Invested - Close Brothers	21.0%
Risk-Based - Allianz	24.0%



Aggressive

Manager of Managers - SEI	48.0%
Actively Passive - 7IM	52.0%

Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest.
Past performance is not a guide to future performance. Tax rules can change at any time.

SERIES SPOTLIGHT: DYNAMIC MANAGED PORTFOLIOS

Each Portfolio in the Dynamic Managed Portfolio Series is more concentrated in its fund selection or contain larger fund positions compared to its risk category equivalent in the Managed Portfolio Series.

The Dynamic Managed Portfolios are constructed using funds from right across the risk spectrum, while staying within the risk band for their risk category.

The Dynamic Managed Portfolios do not include funds from the same risk category to which the Portfolio is mapped. In other words, the Dynamic Balanced Managed Portfolio does not select funds mapped to the Balanced risk category. Optimising the Portfolios in the Dynamic Managed Portfolio Series is less problematic as we can select from all the funds outside the Portfolio's respective risk category.

We were unable to optimise risk-adjusted return for the Growth Dynamic Managed Portfolio as three underlying funds have a risk-adjusted return lower than the Growth equally-weighted figures.

	Cautious Dynamic	Balanced Dynamic	Growth Dynamic
Risk (Volatility)	✓	✓	✓
Cost	✓	✓	✓
Long-Term Expected Return	✓	✓	✓
Risk-Adjusted Return	✓	✓	

Volatility is likely to remain for sometime, as our fund managers are targeting value rather than growth. Those exposed to Emerging Markets have benefited over the past quarter, however conviction in this area remains low, especially in commodity areas. The table below shows a cost comparison between our Dynamic Portfolio and their equally-weighted equivalents.

	Cautious Dynamic	Cautious equally-weighted	Balanced Dynamic	Balanced equally-weighted	Growth Dynamic	Growth equally-weighted
Cost	0.86%	0.92%	0.86%	0.94%	0.80%	0.87%

Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance. Tax rules can change at any time.

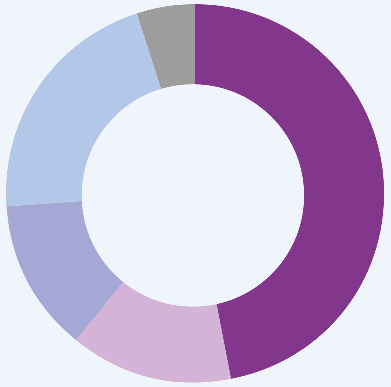
Asset Allocation

Asset Class	Cautious Dynamic	Balanced Dynamic	Growth Dynamic
UK Equities	10.6%	18.0%	20.3%
North American Equities	13.6%	21.0%	24.7%
European Equities	12.1%	13.2%	18.5%
Japanese Equities	5.8%	5.6%	8.1%
Asia Pacific Equities	0.5%	0.7%	0.6%
Emerging Market Equities	5.1%	7.7%	12.2%
Global Bonds	9.8%	6.2%	0.7%
Global Inflation Linked Bonds	1.6%	2.3%	0.0%
Emerging Market Bonds	0.3%	2.1%	0.0%
Global High Yield Bonds	5.7%	5.7%	0.0%
UK Gilts	6.2%	7.1%	6.8%
UK Credit	3.2%	2.0%	2.4%
Property	1.1%	1.7%	2.0%
Commodities	0.3%	0.0%	0.0%
Cash	24.1%	6.7%	3.7%

Source: Smith & Williamson, 31 March 2016

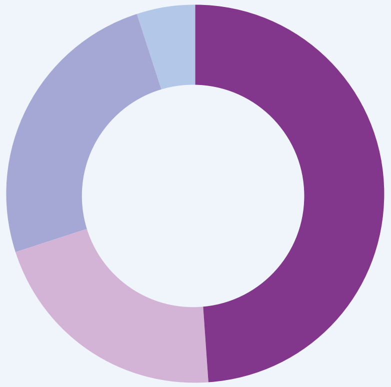
Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance. Tax rules can change at any time.

Style Allocation



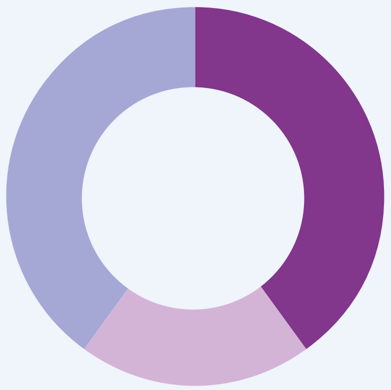
Cautious Dynamic

Manager of Managers - SEI	47.0%
Directly Invested - Close Brothers	14.0%
Fund of Funds - Schroders	13.0%
Actively Passive - 7IM	21.0%
Risk-Based - Allianz	5.0%



Balanced Dynamic

Manager of Managers - SEI	49.0%
Directly Invested - Close Brothers	21.0%
Actively Passive - 7IM	25.0%
Risk-Based - Allianz	5.0%



Growth Dynamic

Directly Invested - Close Brothers	40.0%
Manager of Managers - SEI	20.0%
Actively Passive - 7IM	40.0%

Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance. Tax rules can change at any time.

SERIES SPOTLIGHT: INCOME MANAGED PORTFOLIOS

Each Portfolio in the Income Managed Portfolio Series is focused on yield and income sustainability, therefore we have income as an additional optimisation factor.

Given that investors in the Income Managed Portfolio Series are seeking income above capital growth, the income optimisation factor is our primary consideration. Despite not being able to optimise on long-term expected return for Balanced Income this quarter, we are comfortable given that we have optimised on risk, cost and income.

One interesting point to note about the Income Portfolios is that the equally-weighted Portfolio of all income funds is risk assessed as being Balanced. For the first time since launching the Income Managed Portfolio Series, some adjustments have been made to both Portfolios. Allocation was reduced to the True Potential Close Brothers Cautious Income Fund and True Potential Schroders Cautious Income Fund by 5% in each, primarily driven by the lower income levels that they currently produce.

10% extra was allocated to the Threadneedle Monthly Extra Income Fund, consequently increasing the monthly distribution levels. Threadneedle are proven stock pickers within the UK and offer both an excellent yield and capital growth.

The Cautious Income Managed Portfolio is currently yielding 4.05% and the Balanced Income Managed Portfolio 4.23% with the equally-weighted Portfolio yielding 3.81%.

Source: Bloomberg, 31 March 2016

	Cautious Income	Balanced Income
Risk (Volatility)	✓	✓
Cost	✓	✓
Long-Term Expected Return	✓	
Risk-Adjusted Return	✓	✓
Income (Income funds only)	✓	✓

Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance. Tax rules can change at any time.

We were able to optimise on cost for both Income Managed Portfolios. We've compared the portfolios below to equally-weighted equivalents.

	Cautious Income	Cautious equally-weighted	Balanced Income	Balanced equally-weighted
Cost	0.77%	0.92%	0.83%	0.94%

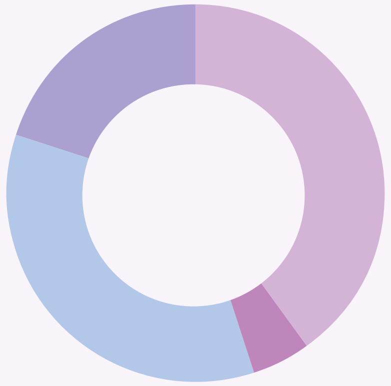
Asset Allocation

Asset Class	Cautious Income	Balanced Income
UK Equities	27.0%	36.5%
North American Equities	10.1%	12.6%
European Equities	6.0%	6.6%
Japanese Equities	1.3%	1.3%
Asia Pacific Equities	0.5%	0.2%
Emerging Market Equities	0.1%	0.2%
Global Bonds	8.8%	10.7%
Global Inflation Linked Bonds	0.1%	0.0%
Emerging Market Bonds	0.4%	0.6%
Global High Yield Bonds	10.2%	14.5%
UK Gilts	1.8%	0.6%
UK Credit	21.6%	9.4%
Property	2.4%	0.3%
Commodities	2.3%	0.4%
Cash	7.4%	6.1%

Source: Smith & Williamson, 31 March 2016

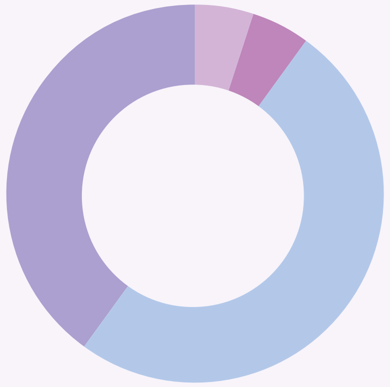
Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance. Tax rules can change at any time.

Style Allocation



Cautious Income

- Directly Invested - Close Brothers 40.0%
- Fund of Funds - Schroders 5.0%
- Dynamic - Goldman Sachs 35.0%
- Income Strategies - Threadneedle 20.0%



Balanced Income

- Directly Invested - Close Brothers 5.0%
- Fund of Funds - Schroders 5.0%
- Dynamic - Goldman Sachs 50.0%
- Income Strategies - Threadneedle 40.0%

Your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance. Tax rules can change at any time.

For more information on our
Managed Portfolio Series, contact us at
investmentmanagement@tpllp.com.

true potential
investments

www.tpllp.com

Your capital is at risk, investments can fluctuate in value and investors may not get the amount back they initially invest. Past performance is not a guide to future performance. Tax rules can change at any time.

Registered Head Office: Newburn House, Gateway West, Newburn Riverside, Newcastle upon Tyne, NE15 8NX
London Office: 42-44 Grosvenor Gardens, Belgravia, London, SW1W 0EB

Spring 2016