APPENDIX 5

JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background 2018-19

During the year 1 April 2018 to 31 March 2019 the world economy remained broadly positive although as the year progressed signs of an economic slowdown increased. United States – China trade tensions weighed against economic and financial markets. Equity markets, however, experienced a moderately positive year with the MSCI AC World index advancing by 3% although there were significant regional variances. April to September 2018 saw yet further advances in world equity markets. The Quarter October to December 2018 saw sharp declines with the MSCI AC World Index losing around 13% although most of the losses were regained in the period January to March 2019. Declining economic and financial market considerations led the US Federal Reserve, in particular and also the European Central Bank to move, in early 2019, back towards “looser” monetary policy in order to seek to support economic and financial markets.

The S&P 500 index rose by 7% over the period April 2018 to March 2019 to close at 2,834 continuing its long upward trend from the low of 666 of March 2009. On 20 September the S&P 500 recorded an all time closing high of 2,931 while on 22 August US stocks set a new record for the longest bull run – a period without a 20% fall – when it reached 3,453 days exceeding the 1990-2000 bull market. The increase in the S&P 500 over the financial year 2018-19 at 7% represented, however, a slowdown in equity price rises – in 2017-18 the S&P had advanced by 12% and in 2016-17 by 15%.

The US experienced another year of generally positive economic activity including good corporate results/earnings although the first half year results of 2018-19 were more positive than the second half. Unemployment fell from 4.1% in March 2018 to 3.8% by March 2019. Not since 1969 has the US seen a lower unemployment rate. Consumer sentiment (as measured by the University of Michigan) declined slightly over the year but remained at very favourable levels.

The United States Federal Reserve, the world’s most important Central Bank, continued, from April to December 2018 its policy of “tightening” monetary policy by raising interest rates (the target range for the federal funds rate) by 0.25% on three separate occasions (June, September and December). As late as its December 2018 meeting it was signalling two further likely rate increases in 2019 before making a significant policy shift in early 2019. The Press Release following the January 2019 meeting of the US Federal Reserve’s Federal Open Market Committee (FOMC) excluded the reference to *“some further gradual*

increases" in interest rates which appeared in the December 2018 Press Release as the FOMC put further rate rises on hold.
At a press conference following the January 2019 meeting the Federal Reserve Chairman Jay Powell while referring to the outlook for the US economy as *"solid"* also referred to *"crosscurrents and conflicting signals about the outlook. Growth has slowed in some major foreign economies, particularly in China and Europe……Financial conditions tightened considerably late in 2018 and remain less supportive of growth than they were earlier in 2018…"* Consequently, the FOMC determined that the cumulative effects of developments *"warrant a patient, wait-and-see approach regarding future policy changes."* That the Federal Reserve had significantly changed its future monetary policy approach and clearly moved away from further "tightening" was confirmed by the decisions of the March 2019 meeting of the FOMC. Firstly, the projections issued after this meeting indicated that there would likely be no increases in interest rates in 2019. Secondly a statement on "Balance Sheet Normalization Principles and Plans" stated that the policy of Balance Sheet reduction (introduced in 2017 as a fundamental policy shift towards monetary "tightening") will be slowed from May 2019 and then halted at the end of September 2019.

The MSCI EMU Index (which tracks the largest companies in the Eurozone) advanced by only 1% in 2018-19 which was a year of economic slowdown in the Eurozone. While the Eurozone seasonally adjusted unemployment rate fell from 8.5% in March 2018 to 7.7% in March 2019 (its lowest level since September 2008) other important indicators were concerning. Inflation figures indicated continuing failure to achieve the European Central Bank's (ECB) inflation target of below but close to 2% over the medium term. Although inflation as measured by the Harmonised Indices of Consumer Prices (HICP) which had been 1.3% in March 2018 was in the range 1.9% to 2.3% from May to November 2018 it was no higher than 1.5% from December 2018 and was 1.4% by March 2019. The IHS Markit Purchasing Managers Index for the Eurozone which was above 56 in April 2018 fell progressively, over the 2018-19 financial year, to 47.5 in March 2019 and well below 50 which indicates the boundary between expected contraction and expansion.

The Organisation for Economic Co-operation and Development (OECD) in their "Interim Economic Outlook" of March 2019 reported that *"GDP growth in the euro area slowed sharply through 2018 and is projected to remain soft at 1% in 2019."* There were clear concerns regarding weakness in German industrial activity which is noteworthy as the heavily manufacturing reliant German economy accounts for about a third of Eurozone output.

The ECB initially clearly "tightened" its Monetary policy stance by ending its net asset purchase programme in December 2018, following an announcement in June. However, in March 2019, in response to weaker economic data and indicators, the ECB took a step back towards "loosening" monetary policy by announcing that the key ECB (and presently very low) interest rates were now expected *"to remain at their present levels at least through the end of 2019"* rather than *"at least through the summer of 2019."*

During 2018-19 the FTSE 100 index of the largest UK listed companies (but which collectively earn over 70% of their revenues from overseas) increased by 3%. In contrast the more domestically focussed FTSE 250 index fell by 2%. Throughout 2018-19 there was ongoing uncertainty regarding the nature and timing of the UK's departure from the EU. Notwithstanding UK unemployment of 3.8% at March 2019 its lowest level since 1974 levels of business investment have reduced since the 2016 EU Referendum. During 2018-19 the BoE raised interest rates once - from 0.5% to 0.75% on 1 August 2018.

The Nikkei 225 Index declined by 1% over the 2018-19 financial year compared with a 13% gain in 2017-18 and 15% gain in 2016-17. Japan's export driven economy is particularly vulnerable to economic slowdown and trade disputes both of which were features of 2018-19. Throughout 2018-19 the Bank of Japan continued an ultra "loose" approach to monetary policy incorporating a policy of keeping 10-year bond yields at around zero percent and a continuation of its major asset purchase programme which began in 2013. Japanese Consumer Price Inflation and Core inflation were both below 1% at March 2019 compared with the Bank of Japan's inflation target of 2%.

Asian equities and Emerging Market equities generally had negative year with the MSCI AC Asia ex Japan index down (in $ terms) by over 5% and the MSCI Emerging Markets Index down by in excess of 7%. Global trade tensions centred on President Trump's approach to trade, US interest rates and the strength of the US dollar all weighted against these markets. Chinese growth of around 6.5% for the year 2018-19 was clearly lower than that achieved in the first five years after the 2009 crisis. Chinese stocks, however, received both a short term and likely long-term boost with the announcement, in February 2019, by the major index provider MSCI that it would more than quadruple the weighting of China listed shares in its "flagship" MSCI Emerging Markets Index from 0.7% to 3.3% by November 2019.

The 10-year Benchmark Government Bonds of the US, UK and Germany all finished the financial year with lower yields (and therefore higher prices) than at the beginning. The move away from monetary tightening by the ECB and particularly the US Federal Reserve, in early 2019, together with softening economic data were supportive of the major Government Bonds.

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