PCI
PRIVATE CLIENT INDICES

Navigating a steady course

February 2016

assetrisk.com suggestus.com

"I may not have gone where I intended to go, but I think I have ended up where I needed to be."
— Douglas Adams, The Long Dark Tea-Time of the Soul

2015 Private Client Portfolio Performance Review

2015 was a tough year for multi-asset class managers to make money as the earning driven momentum in the equity markets of the previous three years ran out of puff. The US equity market had been in the vanguard but, as statistics at the end of the year showed, the breadth of equity gains during the year was extremely narrow. Whilst, for example the S&P 500 was up around 1.4% for the year, excluding the so-called A FANTA portfolio of Apple, Facebook, Amazon, Netflix, Tesla and Alphabet (the new name for Google) it was significantly down. At the same time, bond markets gyrated as investors sought to anticipate the impact of not only a reversal of quantitative easing but the prospect of the Federal Reserve raising US interest rates for the first time in nearly a decade.

The table below sets out the performance data for the ARC Private Client Indices ("PCI") for 2015 for each of the four currencies and four risk categories. To compile PCI, actual private client portfolio performance data is used, net of investment management fees. The PCI universe comprises over 100,000 private client portfolios submitted by over sixty discretionary investment managers. Each portfolio is classified in terms of its relative risk to world equities (e.g. 50% relative risk = Balanced). Robust data checks are undertaken to ensure realistic results.

Private Client Index (PCI)	Risk relative to World Equities	GBP	USD	CHF	EUR
ARC Cautious PCI	0 – 40%	1.3	(0.8)	0.0	(0.1)
ARC Balanced Asset PCI	40 – 60%	1.9	(1.4)	(0.6)	1.4
ARC Steady Growth PCI	60 – 80%	2.3	(1.4)	(0.5)	3.0
ARC Equity Risk PCI	80 – 110%	2.1	(1.8)	(0.7)	4.8

The PCI figures generally reveal a muted return for investors in 2015 across all risk categories.

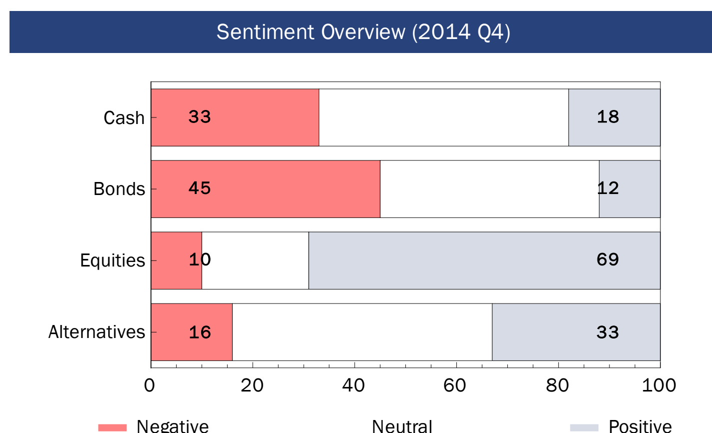
- Sterling denominated portfolios typically saw returns in the 1-2% range;
- US Dollar denominated portfolios experienced losses in the 1-2% range;
- Swiss Franc portfolios on average recorded losses in the 0-1% range; and
- Euro denominated portfolios on average saw Cautious portfolios record minor losses whilst equity oriented portfolios benefitted from Euro weakness and on average recorded gains of circa 5%.

Whilst the headline numbers might suggest all was calm sailing, the passage through 2015 was far from smooth with stormy equity markets, collapsing commodity prices, major currency moves and violent swings in sentiment. More volatile markets can offer opportunities to investors, but navigating a course through the choppy waters can be difficult, with plenty of opportunity of incurring losses.

To place performance for 2015 into context, it is useful to consider the performance of discretionary private client portfolios since the financial crisis. The financial markets began their recovery in early 2009 and the positive momentum was followed through into 2010. In 2011 financial markets corrected somewhat as investors began to worry about whether economic recovery, and corporate earnings growth, would justify lofty valuations. The next three years saw financial markets enter goldilocks territory as a combination of plentiful liquidity and increasing corporate earnings drove equity markets higher. 2015 saw investors once again worrying about the sustainability of economic growth and corporate earnings growth. With China growing more slowly; interest rates in the US on an upward path; emerging markets struggling with weak commodity prices; and increasingly negative investor sentiment it looks like there are storm clouds on the horizon.

What were the predictions going into 2015?

To set a course, the manager must have a view on which asset classes they think will perform as a basis for the tactical asset allocation for the year. Every quarter, ARC polls the views of the private client discretionary manager industry in a market sentiment survey. At the beginning of 2015 over 50 discretionary managers gave ARC their views on 38 asset classes and sectors. The results can give some insight into the predictive powers of the professionals. On the right is a chart summarising the headline views.



The chart shows that equities were the most favoured asset class, with positive sentiment from 69% of respondents. Conversely, bonds were the least favoured asset class (45% negative versus just 12% positive) and respondents were relatively neutral on alternative asset classes. Nothing surprising here – this type of pattern might be considered the default position when economic growth is positive and the interest rate cycle still accommodative. So let's look at the detail and the tactical asset allocation score card for discretionary fund managers in 2015.

Asset		Return 1 Year	Net Sentiment Jan '15	Hit or Miss
Currency	USD	5.1	82	✓
	EUR	(5.8)	(69)	✓
	JPY	4.4	(67)	×
Bonds	Conventional Govt	0.6	(45)	×
	GBP Hi Yield	5.4	(27)	×
	UK Corporate	0.3	0	✓
	EM Bond	6.4	(25)	×
	10yr US Treasury	6.0	(37)	×
Equities	UK	(1.4)	15	×
	US	6.5	49	✓
	Europe	1.1	21	✓
	Japan	15.2	35	✓
	Far East	(4.5)	15	×
	Emerging Mkt	(10.0)	(27)	✓
	Small Caps	11.2	(31)	×
Alternatives	Multi-strategy	(1.5)	(7)	✓
	Long/short	2.5	5	✓
	Global macro	3.6	21	✓
	Gold	(7.3)	(23)	✓
	Property	7.7	17	✓
	Commodities	(21.6)	(49)	✓

The scorecard reveals the following results:

- Discretionary fund managers were proved broadly right on the direction of both the US Dollar and Euro versus Sterling. The Japanese Yen surprised on the upside.
- Bonds performed rather better than expected as government bond yields remained low and the default rate on high yield bonds remained modest. The tactical positioning of many discretionary managers (short duration and favouring investment grade corporate bonds) was not particularly successful but did not carry any material return penalty.
- Equity market positioning was also broadly correct. Favoured markets (US and Japan) were the top performing markets and the negative sentiment surrounding emerging markets proved well justified. However, opportunities in small caps were missed.
- Alternative asset class positioning was spot on. Avoiding gold and commodities and favouring property and global macro hedge funds proved a winning strategy.

So the scorecard for 2015 is very encouraging. Discretionary fund managers predicted the economic weather conditions fairly accurately and should have been able to set up their client's portfolios to take advantage of opportunities and avoid significant dangers.

Has my portfolio performed well?

At the end of each calendar year, most private client investors ask themselves this question: Is my portfolio performance any good? PCI has been designed to assist private client investors in answering this question. Managers typically present performance versus one or more benchmarks (usually comprising one or more bond and equity market indices). Such comparisons answer the question of how well a portfolio has performed versus the financial markets. But most investors also want to know how well their portfolio has done versus other investors with similar portfolios. To answer that question, it is possible to use the PCI indices and associated data, available from www.suggestus.com.

The table below sets out the range of returns for Sterling-based portfolios for the period ended December 2015. Similar tables are available for the other PCI series (USD; Euro; Swiss Franc). Note that the ranges are relatively tight. For Sterling investors, two-thirds of all discretionary private client portfolios in the PCI universe have recorded returns for 2015 in the range of 0% - 3.5%. Reasons should be sought if returns are outside that range!

Sterling Private Client Index (PCI)		Cautious	Balanced Asset	Steady Growth	Equity Risk
2015	25th Percentile	1.8	2.5	2.9	3.5
	75th Percentile	0.0	1.1	1.4	1.6

Conclusions

- 2015 was a tough year for investors with muted returns across four PCI risk categories and all four PCI reference currencies. Evidence suggests that storm clouds are growing and it will require tactical asset allocation skills to navigate a steady course through 2016 and beyond.
- Discretionary fund managers generally did a good job in tactical asset allocation last year, generally avoiding areas of significant market disruption, such as commodities and emerging markets.
- The spread of returns in 2015 between discretionary managers was unusually low. To find out how a portfolio has fared against the professionals, visit www.suggestus.com (its free!).

For further information:

Graham Harrison, Managing Director, +44 (0) 1481 817777, graham.harrison@assetrisk.com

A full list of Data Contributors to PCI is available at www.suggestus.com