
Quarterly Market Review

Second Quarter 2018

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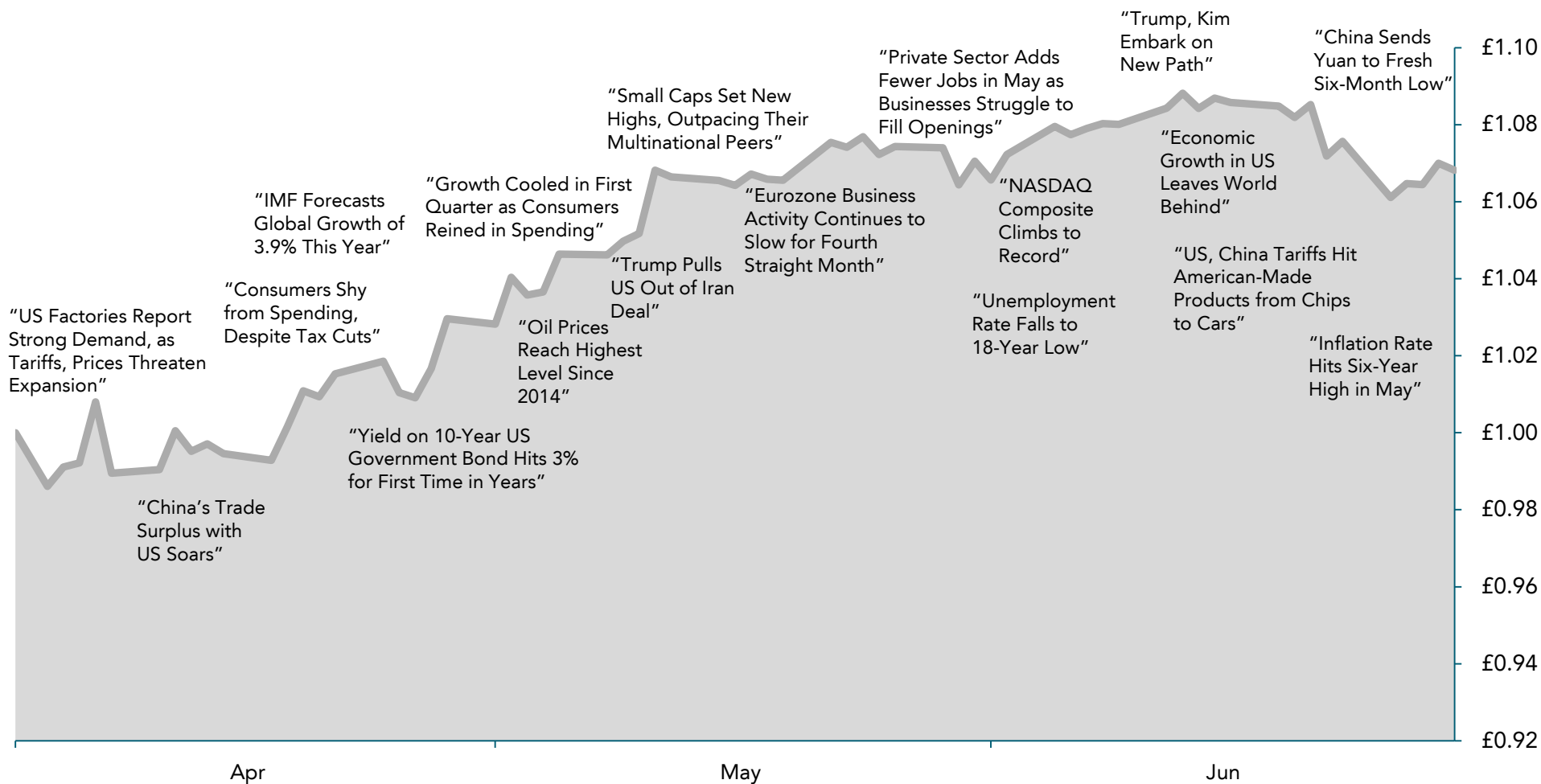
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World Stock Market Performance in Q2 2018

Growth of £1 invested in world markets with selected headlines and events



Past performance is not a guarantee of future results. Actual returns may be lower.

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World Stock Market Performance in 2017

Growth of £1 invested in world markets with selected headlines and events



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World Stock Market Performance 2012–2017

Growth of £1 invested in world markets with selected headlines and events



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Quarterly Market Review

Second Quarter 2018

Key Takeaways

- Looking at broad market indices, developed markets including the UK outperformed emerging markets during the quarter.
- The value effect was positive in the UK but negative in Europe, emerging markets and world developed markets.
- Small caps outperformed large caps in world developed markets and Europe but underperformed in the UK and emerging markets.
- Within fixed income, realised term premiums were generally negative in the developed markets. Realised credit premiums were generally negative across developed markets as lower-quality investment-grade corporate bonds underperformed their higher-quality counterparts.

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Past performance is no guarantee of future results.

This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets. The report also illustrates the performance of globally diversified portfolios.

Market Summary

Second Quarter 2018 Index Returns (GBP)

	UK Market	Europe Developed Market	Developed Market	Emerging Market		UK Govt. Bond Market	Global ex UK Govt. Bond Market	Global Credit Bond Market
Q2 2018	STOCKS					BONDS		
	9.38%	4.90%	8.10%	-2.21%		0.09%	-0.26%	-0.76%
								
Since January 2001								
Avg. Quarterly Return	1.4%	1.5%	1.6%	2.8%		1.4%	1.3%	1.4%
Best Quarter	22.0% Q3 2009	26.6% Q3 2009	20.9% Q3 2009	27.8% Q4 2001		10.6% Q4 2008	6.2% Q4 2008	7.0% Q2 2009
Worst Quarter	-19.8% Q3 2002	-25.2% Q3 2002	-20.9% Q3 2002	-25.0% Q3 2001		-3.9% Q2 2013	-3.0% Q4 2016	-3.1% Q3 2008

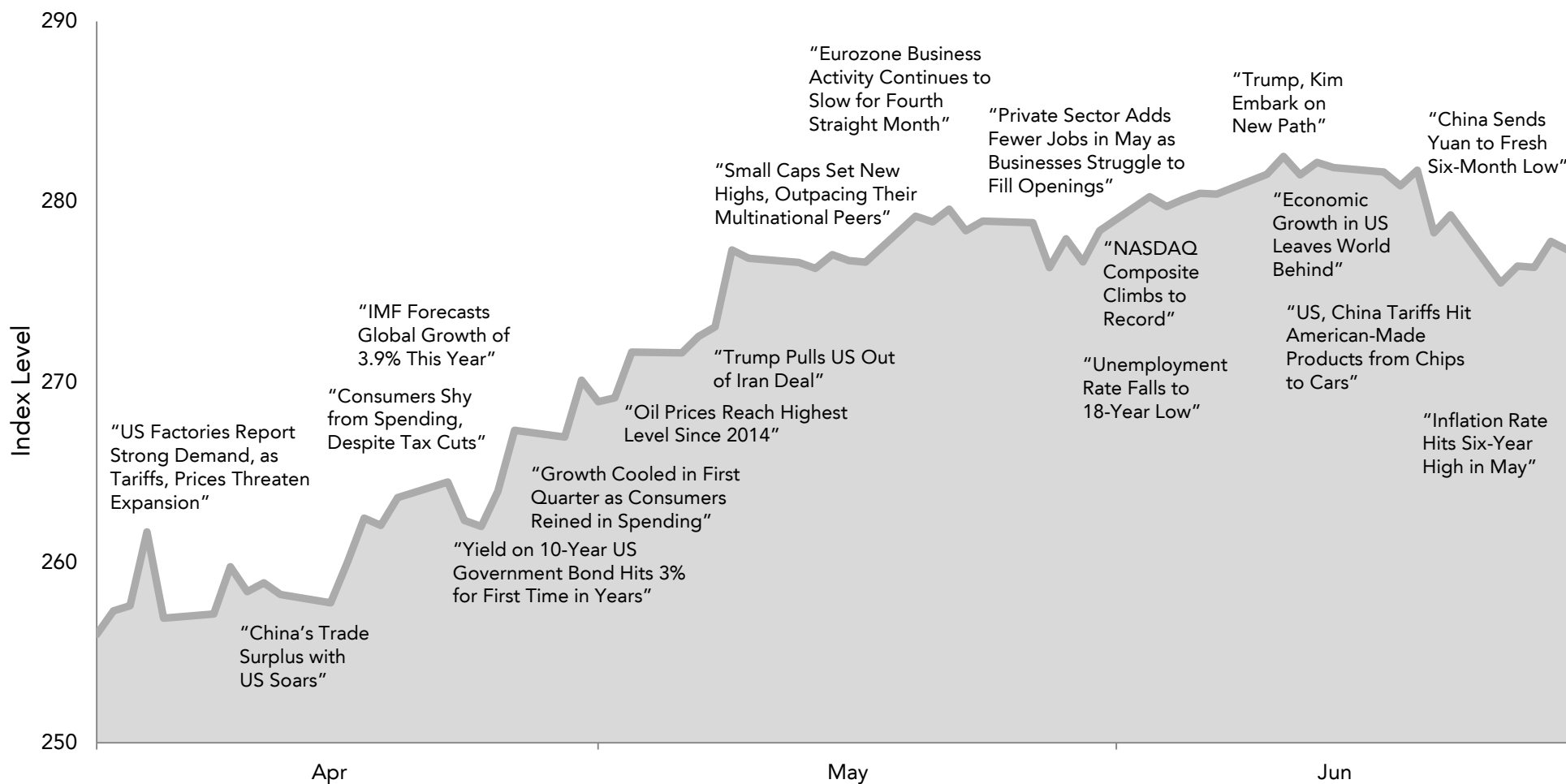
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Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Actual returns may be lower.

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World Equity Market Performance

Selected Headlines from Second Quarter 2018



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

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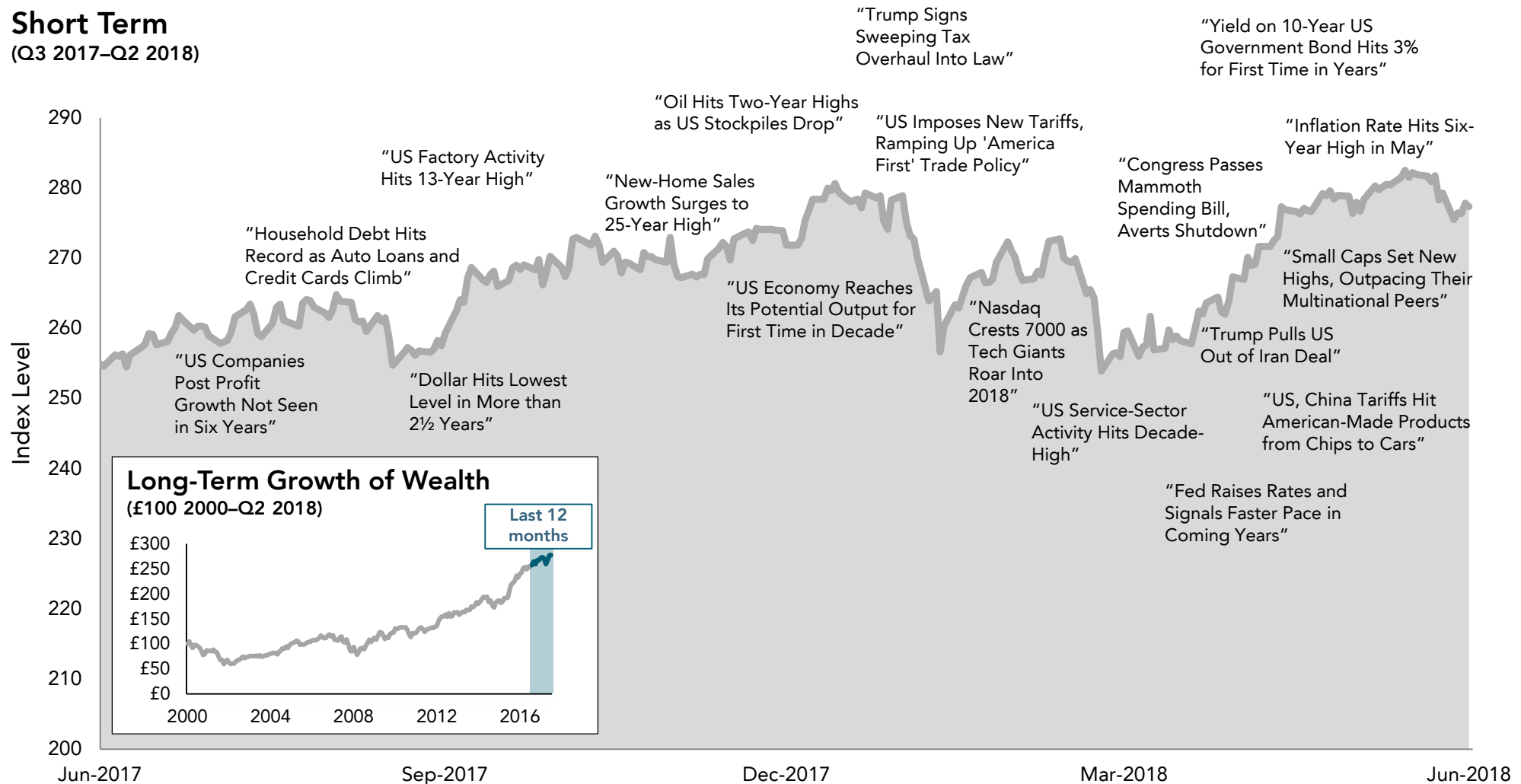
Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Actual returns may be lower.

Graph Source: MSCI All Country World Index (net div., GBP) MSCI data © MSCI 2018, all rights reserved.

World Equity Market Performance

Selected Headlines from Past 12 Months

Short Term (Q3 2017–Q2 2018)



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

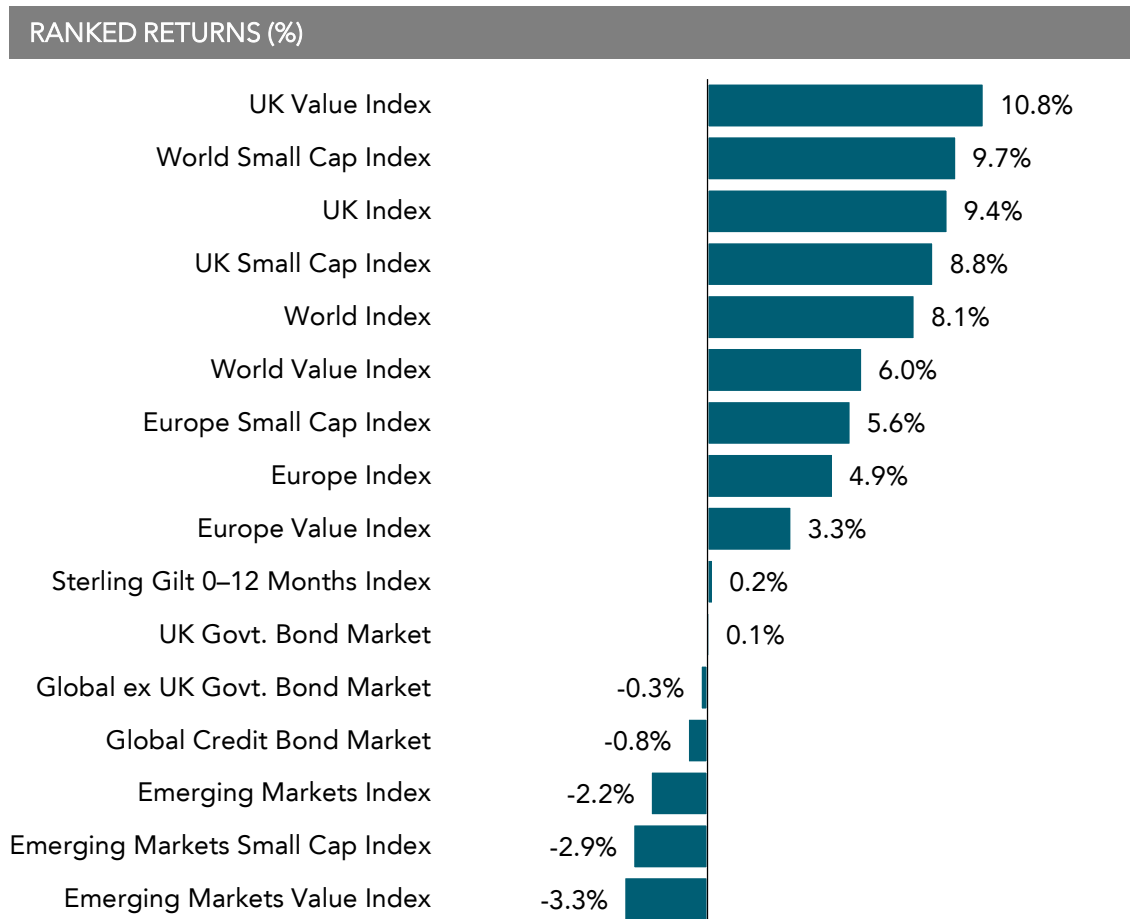
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World Asset Classes

Second Quarter 2018 Index Returns (GBP)



- In GBP terms, developed market equity returns were positive but emerging market equities were negative. Bond market returns were mixed for the quarter.
- The value effect was positive in the UK equity market but negative in Europe, emerging markets and world developed markets.

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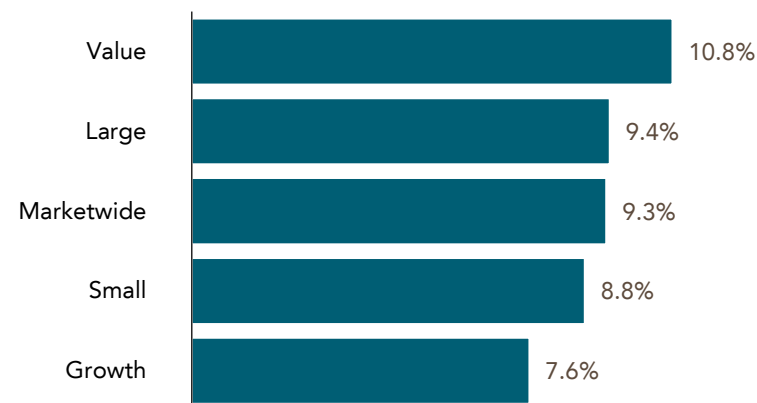
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UK Equities

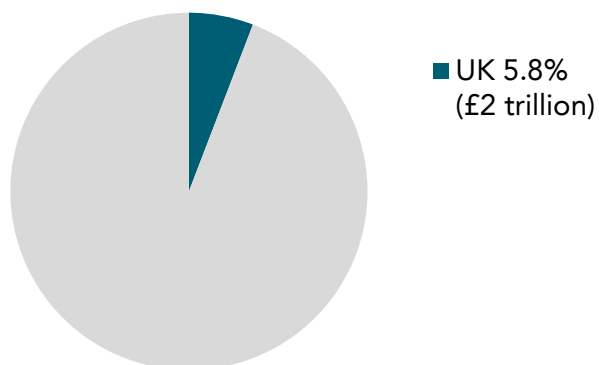
Second Quarter 2018 Index Returns (GBP)

- The broad UK equity market recorded positive returns.
- Value outperformed growth in the UK.
- Small caps in the UK underperformed large caps.

RANKED RETURNS (%)



WORLD MARKET CAPITALISATION—UK



PERIOD RETURNS (%)

* Annualised

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	1.7%	9.2%	9.6%	8.6%	7.6%
Large	1.4%	8.2%	9.3%	7.9%	7.0%
Small	3.4%	14.8%	10.8%	13.0%	12.6%
Value	2.6%	11.8%	9.4%	7.3%	7.0%
Growth	-0.2%	3.9%	8.9%	8.5%	6.8%

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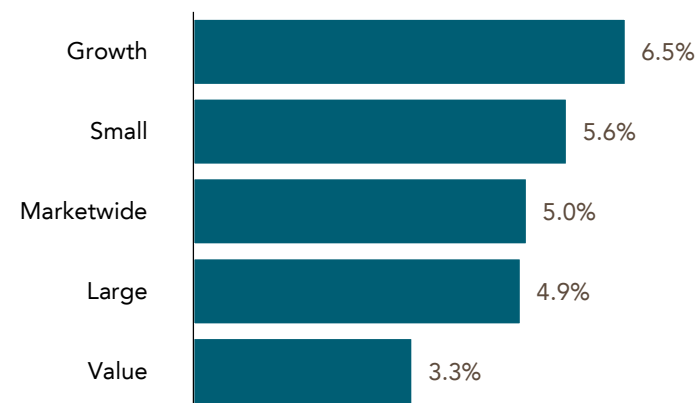
MSCI data © MSCI 2018, all rights reserved: Marketwide is MSCI United Kingdom IMI Index (net div., GBP), Large is MSCI UK Index (net div., GBP), Small is MSCI UK Small Cap Index (net div., GBP), Value is MSCI UK Value Index (net div., GBP), Growth is MSCI UK Growth Index (net div., GBP).

Europe Developed Markets Equities

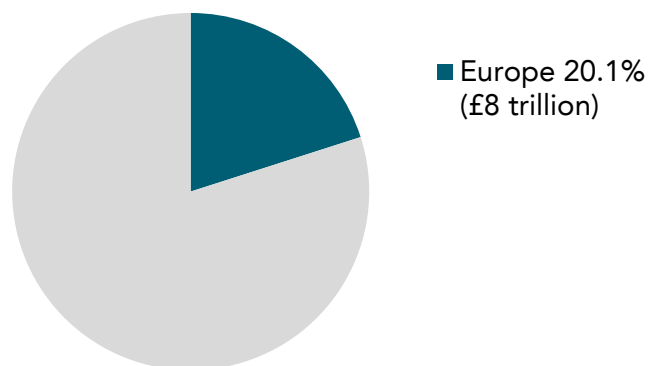
Second Quarter 2018 Index Returns (GBP)

- The broad European developed equity market recorded positive returns for the quarter.
- Value underperformed growth in European developed markets.
- Small caps outperformed large caps.

RANKED RETURNS (%)



WORLD MARKET CAPITALISATION—EUROPE DEVELOPED



PERIOD RETURNS (%)

* Annualised

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	-0.5%	4.5%	11.2%	9.9%	7.2%
Large	-0.9%	3.6%	10.5%	9.2%	6.7%
Small	1.5%	10.6%	16.2%	15.5%	11.7%
Value	-2.3%	2.3%	9.3%	8.3%	5.2%
Growth	0.6%	4.8%	11.6%	9.9%	8.0%

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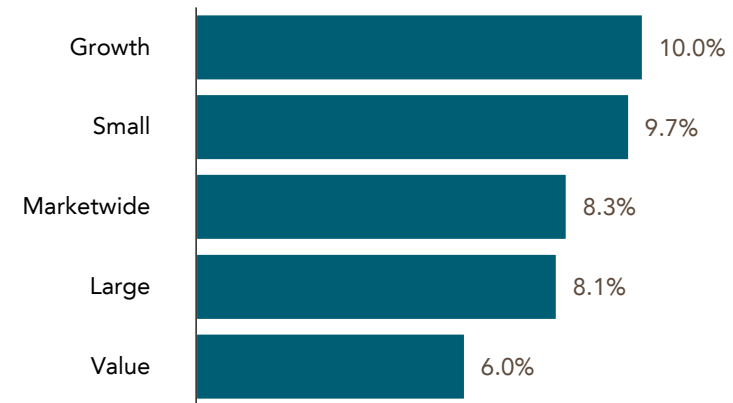
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World Developed Markets Equities

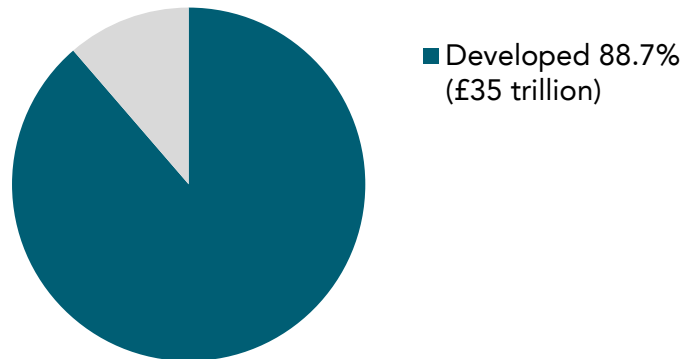
Second Quarter 2018 Index Returns (GBP)

- The broad world developed equity market recorded positive returns in GBP.
- Value underperformed growth in world developed market during the quarter.
- Small caps outperformed large caps.

RANKED RETURNS (%)



WORLD MARKET CAPITALISATION—WORLD DEVELOPED



PERIOD RETURNS (%)

* Annualised

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	3.2%	9.8%	15.2%	13.3%	11.1%
Large	2.9%	9.3%	15.0%	13.0%	10.7%
Small	5.2%	13.0%	16.7%	14.7%	13.6%
Value	-1.0%	3.9%	12.9%	10.8%	9.6%
Growth	6.7%	14.7%	17.1%	15.2%	11.8%

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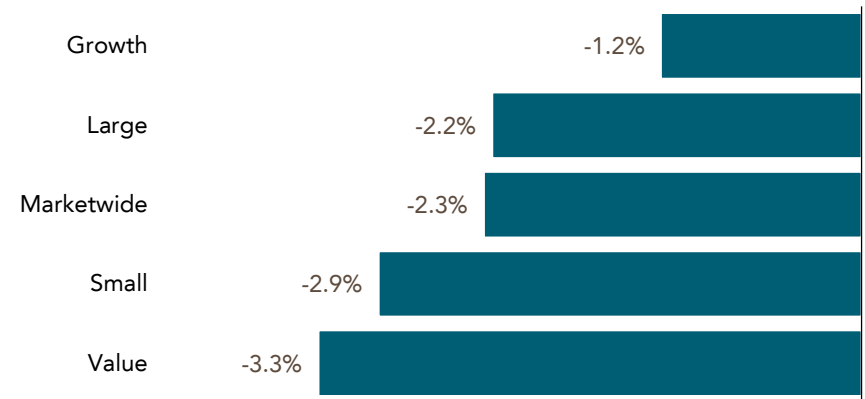
MSCI data © MSCI 2018, all rights reserved: Marketwide is MSCI World IMI Index (net div.), Large is MSCI World Index (net div.), Small is MSCI World Small Cap Index (net div.), Value is MSCI World Value Index (net div.), Growth is MSCI World Growth Index (net div.).

Emerging Markets Equities

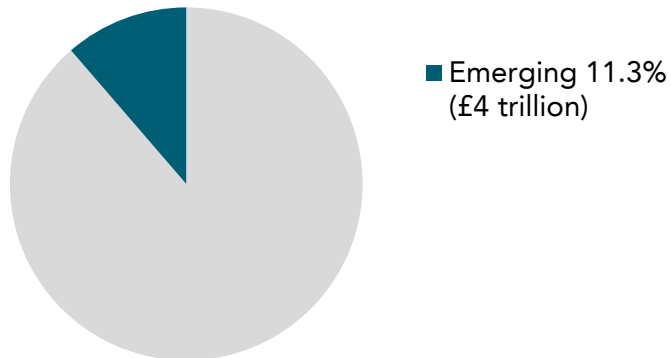
Second Quarter 2018 Index Returns (GBP)

- The broad emerging equity market posted negative returns in GBP terms.
- Value indices underperformed growth indices.
- Small cap indices underperformed large cap indices.

RANKED RETURNS (%)



WORLD MARKET CAPITALISATION—EMERGING MARKETS



PERIOD RETURNS (%)

* Annualised

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	-4.6%	6.2%	11.5%	7.9%	6.8%
Large	-4.4%	6.5%	11.9%	8.0%	6.5%
Small	-6.2%	3.9%	8.7%	7.3%	8.8%
Value	-5.2%	2.6%	8.9%	5.7%	5.4%
Growth	-3.6%	10.1%	14.8%	10.2%	7.6%

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Select Country Performance

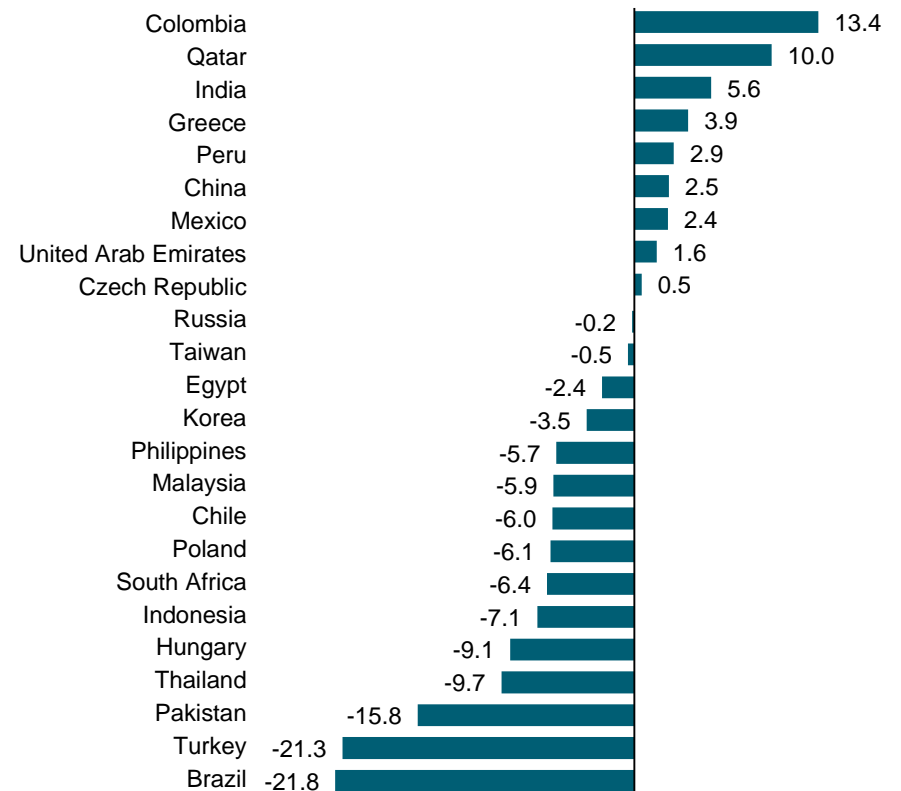
Second Quarter 2018 Index Returns

In GBP terms, Israel and New Zealand recorded the highest country performance in developed markets, while Austria and Singapore posted the lowest returns in developed markets for the quarter. In emerging markets, Colombia and Qatar posted the highest country returns, while Brazil and Turkey had the lowest performance.

RANKED DEVELOPED MARKETS RETURNS (%)



RANKED EMERGING MARKETS RETURNS (%)



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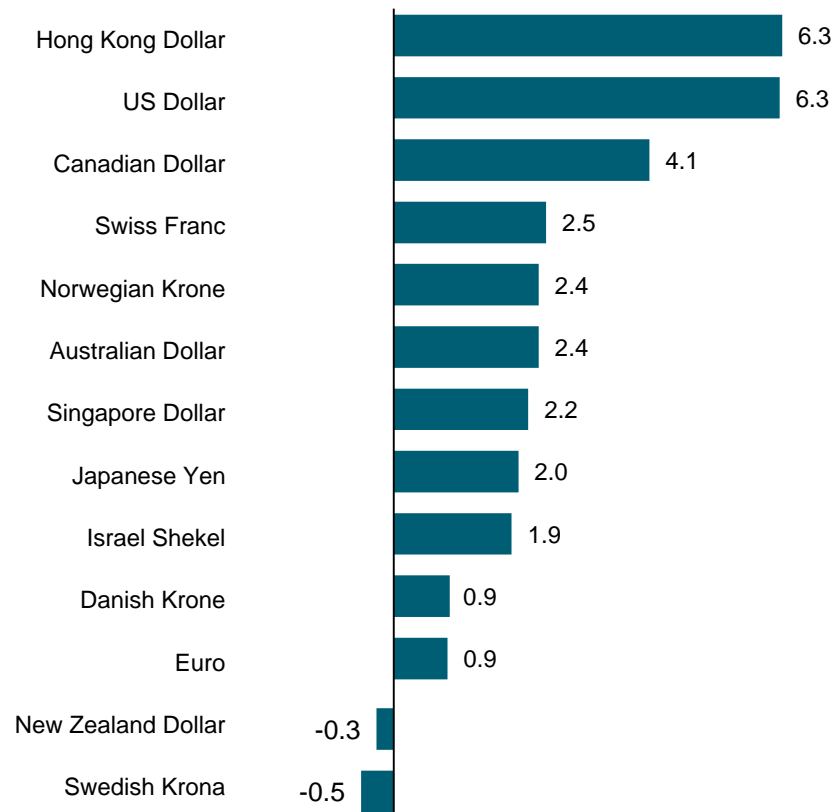
Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Actual returns may be lower. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), MSCI USA IMI Index (for US), and MSCI Emerging Markets IMI Index. All returns in GBP and net of withholding tax on dividends. MSCI data © MSCI 2018, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Select Currency Performance vs. GBP

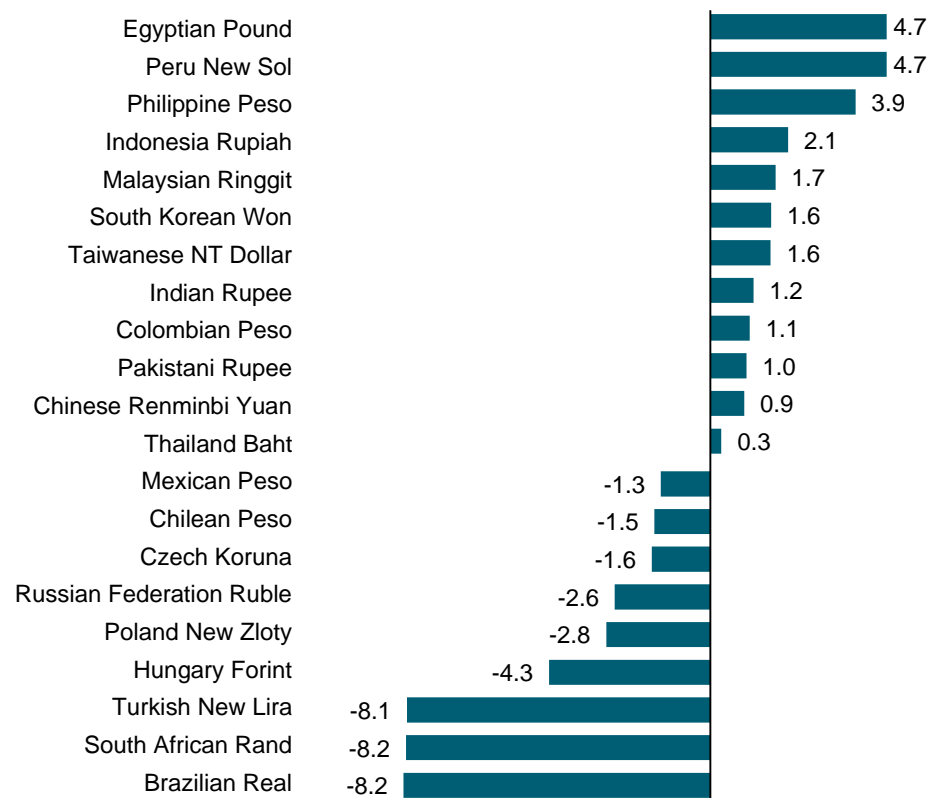
Second Quarter 2018

In general, the British pound depreciated against most currencies in developed markets during the quarter. The euro appreciated by 0.9% and the US dollar appreciated 6.3% against the British pound during the quarter. Currency performance in emerging markets was mixed. The Egyptian pound appreciated by 4.7% while the Brazilian real depreciated by 8.2%.

RANKED DEVELOPED MARKETS (%)

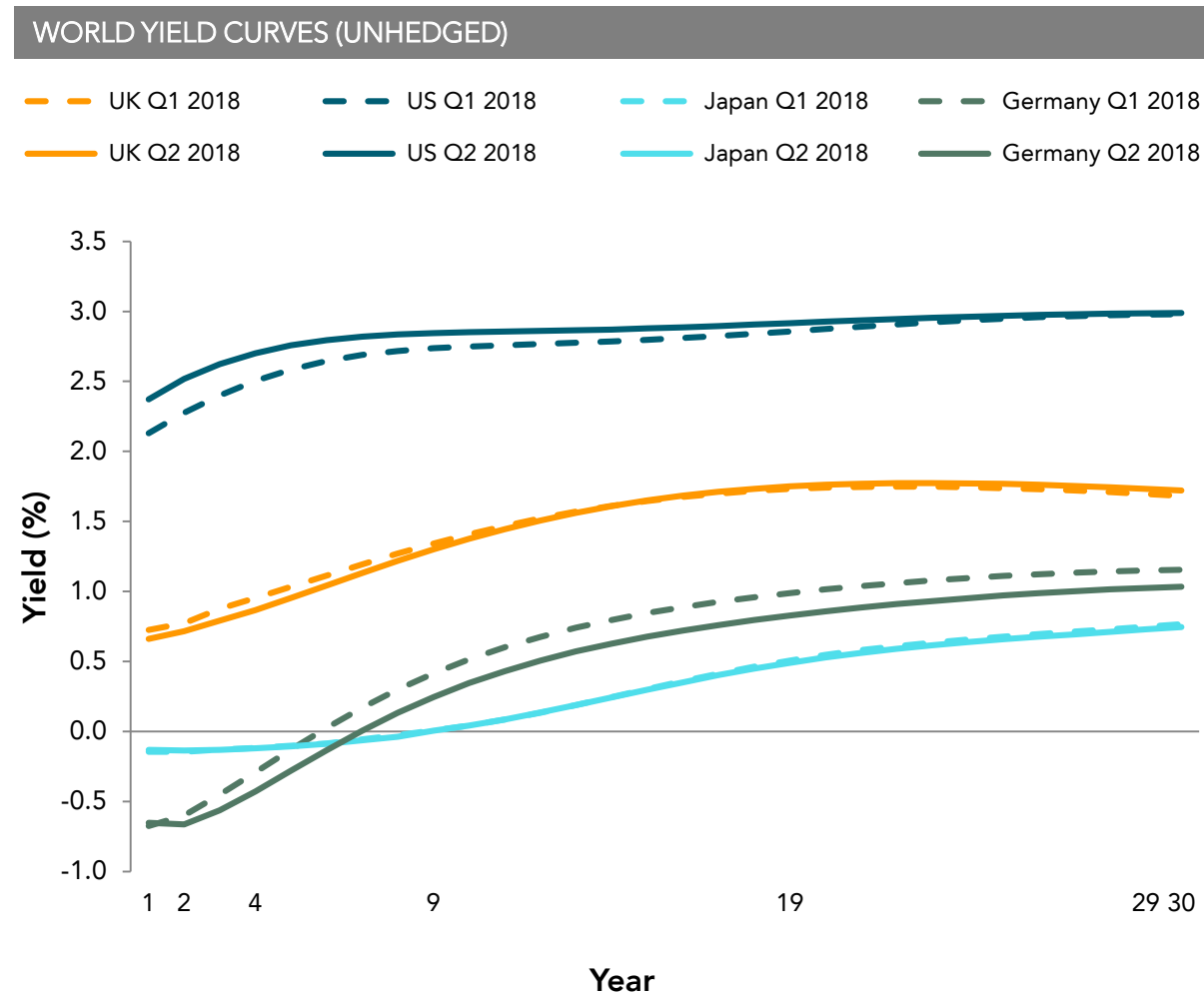


RANKED EMERGING MARKETS (%)



Fixed Income

Second Quarter 2018 Yield Curves



- Interest rate changes in developed market yield curves were mixed during the second quarter.
- Interest rates increased in the US while generally decreasing in Germany. In the UK, short-term interest rates decreased, while long-term interest rates increased. Interest rates in Japan were relatively unchanged.
- Short-term nominal yields continue to be negative in both Germany and Japan.

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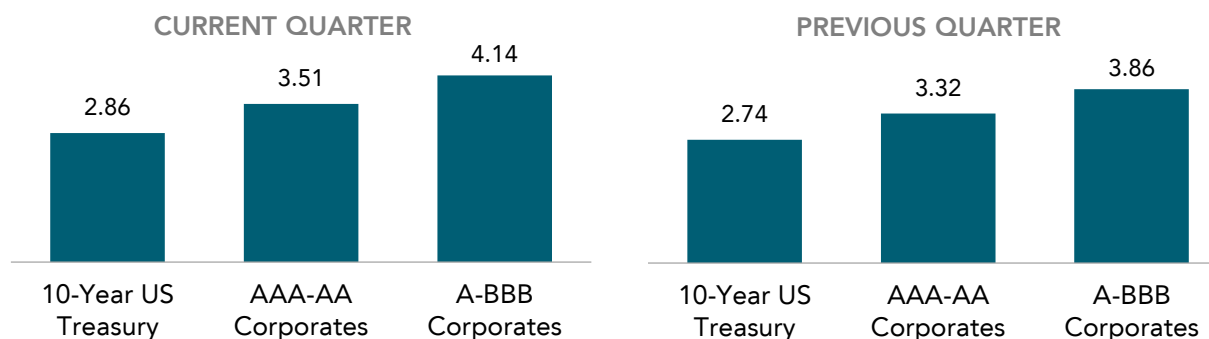
Source: Bank of America/Merrill Lynch government yield. ICE BofAML index data © 2018 ICE Data Indices, LLC. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Fixed Income

Second Quarter 2018 Index Returns

- Yields on short- and intermediate-term UK Gilts decreased while yields on long-term UK gilts increased.
- Realised term premiums were generally negative in the developed markets.
- Realised credit premiums were generally negative in the developed markets as lower quality investment-grade corporates underperformed their higher quality counterparts.

BOND YIELDS ACROSS ISSUERS (USD, %)



PERIOD RETURNS (GBP, %)

	QTR	YTD	1 Year	3 Years*	5 Years*
Government Bonds (Hedged to GBP)					
Bloomberg Barclays Sterling Gilt 0–12 Months Index	0.22%	0.25%	0.39%	0.31%	0.33%
FTSE UK Government Bond Index	0.09%	0.42%	2.20%	5.00%	5.36%
FTSE Non-GBP World Government Bond Index	-0.26%	-0.01%	0.67%	2.05%	3.01%
Corporate Bonds (Hedged to GBP)					
Bloomberg Barclays Global Credit Bond Index: Aaa	0.11%	-0.69%	-0.04%	1.49%	2.44%
Bloomberg Barclays Global Credit Bond Index: Aa	-0.14%	-1.14%	0.13%	2.05%	2.91%
Bloomberg Barclays Global Credit Bond Index: A	-0.68%	-2.53%	-0.92%	2.48%	3.36%
Bloomberg Barclays Global Credit Bond Index: Baa	-1.23%	-2.95%	-0.76%	2.92%	3.87%
Bloomberg Barclays Global High Yield Corporate Index	-0.18%	-1.22%	0.90%	4.57%	5.20%

* Annualised

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Yield curve data from: Federal Reserve, AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated.

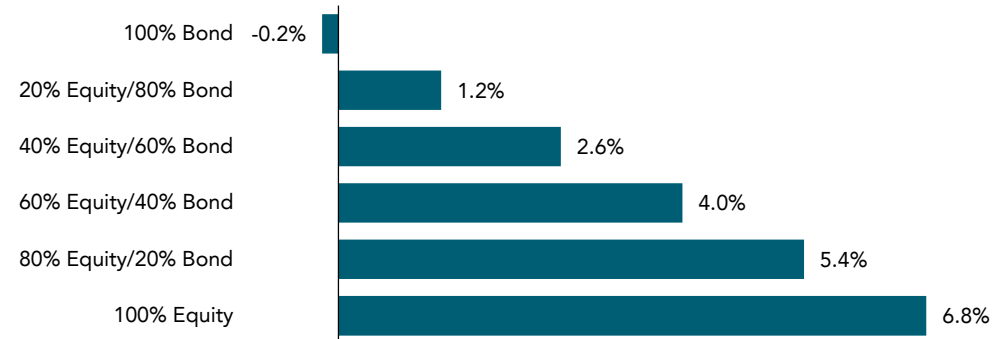
Return data: Dimensional Returns database. Bloomberg Barclays data provided by Bloomberg, FTSE fixed income indices © 2018 FTSE Fixed Income LLC. All rights reserved, ICE BofAML index data © 2018 ICE Data Indices, LLC.

Role of Diversification

Second Quarter 2018 Index Returns (GBP)

These indices illustrate the performance of different global equity/bond mixes. Mixes with larger allocations to equities are considered riskier but have higher expected returns over time.

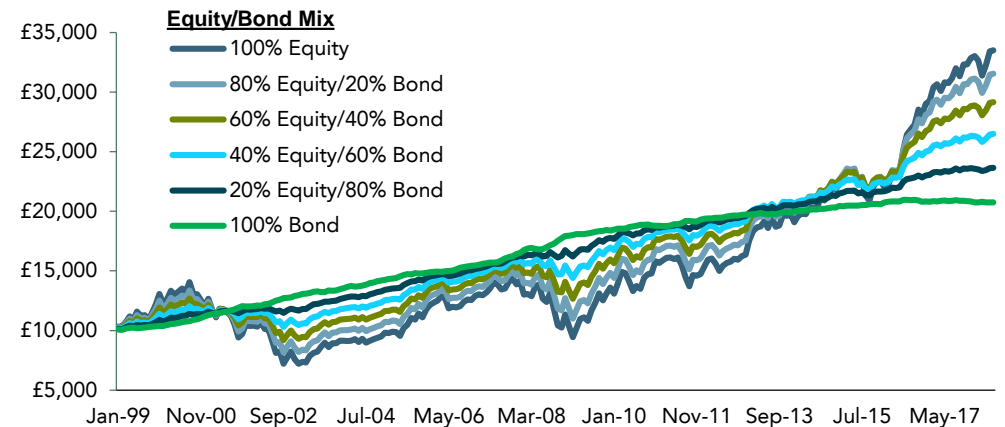
RANKED RETURNS (%)



PERIOD RETURNS (%)

Asset Class	YTD	1 Year	3 Years*	* Annualised	
				5 Years*	10 Years*
100% Equity	2.0%	8.9%	14.7%	12.5%	10.2%
80% Equity/20% Bond	1.6%	7.0%	11.8%	10.2%	8.7%
60% Equity/40% Bond	1.1%	5.2%	8.9%	7.9%	7.2%
40% Equity/60% Bond	0.6%	3.3%	6.1%	5.6%	5.5%
20% Equity/80% Bond	0.2%	1.4%	3.2%	3.3%	3.9%
100% Bond	-0.4%	-0.5%	0.5%	1.0%	2.1%

GROWTH OF WEALTH (£10,000)



Diversification does not eliminate the risk of market loss. Past performance (including hypothetical past performance) does not guarantee future or actual results.

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Summary

Quarterly Market Review

Trying to understand financial markets by tracking the daily media headlines can become a distraction for those who want to build long-term investment solutions.

Start with a strong philosophy and understand the drivers of return over the long term.

Emphasise broad diversification because it can help reduce issue-specific risk and increase consistency of outcomes.

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