

G McCloskey Esq
Bespoke Pension Services Limited
Dawes House
33-35 Dawes Lane
London
NW7 4SD

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Dear Mr McCloskey

McGrane Occupational Pension Scheme 2 SSAS

I have pleasure in enclosing your portfolio valuation with holdings and prices as at the close of business on the 30th of June 2016.

This has been a challenging quarter and whilst the impact of the EU referendum result on markets always had the potential to deliver a wide range of outcomes very few anticipated what we have seen. The result of the referendum surprised us given the bookies and pollsters predictions immediately prior to the referendum, and as a result the headline UK stock market numbers fell on the day but recovered strongly in the following days. At a more granular level the internationally oriented FTSE 100 index rose sharply as Sterling weakened while the domestically exposed FTSE 250 index fell as investors worried about a possible recession or slowdown in the United Kingdom caused by Brexit.

The Governor of the Bank of England, Mark Carney, has suggested that interest rates may fall and will certainly be lower for longer. This inspired a rally in the Gilt market. It also led to the fall in the value of Sterling which is now down some 14% against a trade weight basket since its peak in November. Against this backdrop, the so called "bond proxy" sectors such as utilities are outperforming.

In view of Brexit, my thoughts below are a little more UK focused than normal. More than 70% of FTSE 100 company revenues come from overseas: those companies with a large proportion of their earnings generated outside the UK have outperformed as analysts forecast greater performance in sterling terms due to the weak currency. The greatest beneficiaries have been consumer defensives, healthcare, energy and materials companies; analysts have raised their profit forecasts by around 5%. In the uncertainty of a new post-Brexit world this group of names will remain in demand, despite the high valuations of some consumer defensive stocks.

The banking sector, however, will struggle. It is far from clear that London has any less regulatory zeal than Brussels, so regulatory restrictions are unlikely to ease. With low to zero interest rates for the foreseeable future, margins will remain under pressure. Within

financial services, fund management companies need to adjust to changes in regulation and compliance to continue selling their products into Europe. While demand for savings products should not diminish, increased regulatory costs could hit margins.

The FTSE 250 and the small cap index has dramatically underperformed the large-cap index, due to its much larger exposure to the UK economy (around 45% of revenues are domestic). The valuation multiple currently applied to this index is at an all-time low relative to the FTSE 100, implying a very large divergence between UK and non-UK economic growth. The areas of concern have been housebuilders, real estate, leisure, financial services and general retail: all consumer-facing to varying degrees. Real estate stocks had already underperformed ahead of the vote as investors worried the commercial property cycle was coming to an end. As a result a number of the investment trusts are trading at double-digit discounts. Similarly, housebuilders have fallen dramatically over the last few days. If one takes the view that the UK will not slip into a recession in 2017 and the medium-term demand for housing is strong, then any further setback in the sector could make it an interesting opportunity.

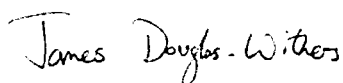
Over the medium term, the trend of Britons spending proportionally more of their income on dining out and other leisure activities should continue and we believe the sector is less susceptible to a tougher economic climate than some investors suggest. Meanwhile, retailers are still grappling with a sea change in the way consumers shop. Those retailers that have already adapted to the trend of greater online sales and a focus on value should do reasonably, as this trend is only likely to accelerate in a post-Brexit world.

Brexit may precipitate both a political crisis and an economic shock at home, but its immediate impact on the global business cycle is limited. Also, investors should remember that globally-oriented portfolios should be seen in a global context. In the months ahead, markets will continue to be buffeted by politics and economic uncertainty. Yet if asset markets are probability weighting mechanisms for all conceivable scenarios, investors looking for opportunity should consider the probability of recession and monitor how that may evolve.

Looking ahead, it is interesting to see that Mervyn King, a former Governor of the Bank of England, is ruminating on the potential breakup of the Eurozone and how capital is injected into various European banks. This situation, along with that in China, is one of our worries. However, I am pleased to note that global growth is trundling upwards and that some of the poorer stocks of last year (oils and miners) have performed well in 2016.

As ever, if you would like to discuss things please do not hesitate to contact me.

Yours sincerely



James Douglas-Withers

Investment Director

Tel: 0207 399 0810

Email: James.Douglas-Withers@rathbones.com