Quarterly performance update

June 2016

Although most of the second quarter of 2016 was relatively range bound for global equity and bond markets, the last week saw a couple of sharp moves driven by the announcement of the EU referendum. We had last realigned our portfolios in April 2016 and were well positioned for either outcome of the referendum vote. Despite the volatility, all Copia model portfolios posted positive returns and beat comparators in Q2 of 2016.

The United Kingdom has chosen to leave the European Union

The UK's vote to leave the European Union sent shockwaves across global financial markets on 24 June as investors were gripped with the potential fear of a global economic recession. Some expect 'BREXIT' to trigger another global financial crisis but this still remains an unlikely scenario. The Global Financial Crisis in 2008 was triggered mainly due to lack of liquidity as Central Banks had not foreseen such a situation. But today, Central Banks keep a very close eye on liquidity in the market place and are well prepared to prevent a systemic failure. This implies that even if we dip into a recession it will not be of cataclysmic proportions.

Implications for the UK

- Although leaving the EU will impact trade and is most likely to throw the country into some kind of a recession, we believe that the risks may not be as bad as most people fear. Any large sell offs in risk assets in the UK could provide good buying opportunities
- Market participants are closely eyeing the political landscape and look forward to learning more about the negotiations that are set to take place
- Although tensions are high between the UK and EU at the moment, both parties understand that an amicable exit is the best solution for both sides during this period of recovery. It is important to remember that a "leave" vote was not pushing for trading/financial reform and it is very likely that the new trading rules will be along similar lines of current ones, leading to a smoother than expected exit
- The biggest threat to the UK from Brexit is a drop in business confidence and investment. As long as UK businesses are assured of a stable government and a smooth transition out of the EU, the confidence in making investments will remain. The Bank of England (BOE) has a monumental task ahead to ensure this confidence is not shaken. So far, the BOE has been impeccable in tackling the problem. The HM Treasury department is also taking steps to strengthen business confidence and attract foreign investment
- Financial and Property sectors in the UK face strong headwinds and the returns can be substantially negative. The property markets are set to take a hit as foreign investors pull out from the UK. This may be seen as a blessing in disguise for new home buyers
- Pound Sterling has already fallen substantially and may weaken further but the risk of any large falls is now limited as most of the impact is already priced in
- The risk of unemployment rising is high but if negotiations go smoothly, new jobs may be created in the UK as companies are forced to hire individuals to ensure compliance with new trading rules and regulations are met. This may even push the unemployment rate to multi-decade lows and result in higher than expected GDP growth
- Although most risks are skewed to the downside, BREXIT may turn out to be a better than expected outcome for UK, catching short any investors who are bearish on the UK.

Implications for the EU

- The EU currently faces much larger risks than the UK as now there is an increased probability that other EU members may vote to leave. This is the single largest risk currently not priced into the markets. Such an event may really dent the global outlook and will result in a sharp drop in risky assets. There is also the extra funding that will be required from the EU net contributors to make up for the UK net contribution which will contribute to the strains on the EU structure
- With the EU moving towards federalization, some countries may not appreciate that their opinions are not being implemented. This was part of the reason why the UK chose to leave
- The ECB may run out of tools to handle the contagion and this could send the Euro to fall sharply lower if the region fails to post good GDP growth.

Although 'BREXIT' is currently the most dominant event of the financial markets, it will soon fade away as the UK is yet to trigger Article 50 and even if it does, it has two years to officially leave the EU. Focus will soon be shifted to other global events such as the US election, macro-economic data from the US and the cleaning up of the Chinese shadow banking system.

Global Markets in Quarter 2 of 2016

Quarter 2 of 2016 started with the stop-start continuation of the rebound in developed equity markets from their mid-February lows. Market participants remained cautiously optimistic about the global economy leading to short sell-offs on the first sign of weakness, led by sharp rebounds upon a gain in confidence.

UK Equities

On home turf, until only a few days before the 'BREXIT' referendum, polls signalled that the UK was likely to remain in the EU. The markets had not priced in a "Leave EU" scenario, which resulted in big swings on the day the announcement was made. Mark Carney, Governor of the Bank of England (BOE) announced contingency and liquidity measures they had planned which helped calm the markets on the day after the vote. Pound Sterling fell by over 7% in Q2 against the Dollar, while the FTSE-100 has managed to wipe out all its losses from the 'BREXIT' announcement ending at a 10 month high, up by 6.5%. The rally can be attributed to an expectation of higher profits from UK exporters which are major components of the FTSE-100. On the other hand, FTSE-250 remained under pressure, losing 2.8% for the quarter.

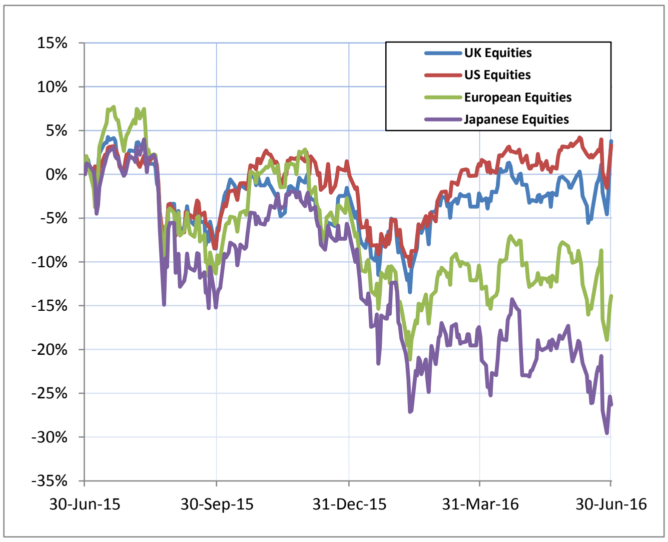

Figure 1: Continued volatility in equity markets in Q2
Source: Bloomberg

US Equities

In the US, the expectations that the FED may raise interest rates in June were vetoed early on in the quarter when the FED made a dovish announcement citing risks from overseas. The US jobs report released in May was one of the weakest in six years which solidified markets' expectation for the FED to leave the rates unchanged at 0.5% in

June. The S&P 500 ended the quarter fairly flat after much volatility, the NASDAQ-100 was less strong than the S&P 500 and ended the quarter slightly negative. As USD appreciated against GBP, our US Minimum Volatility ETF gained 13% while our NASDAQ-100 ETF was up 6%.

European Equities

Just as the ECB's additional Quantitative Easing (QE) programme to buy Corporate Bonds started to take effect, the markets were hit by the 'BREXIT' announcement. European Equities were hit harder than US and UK markets as risks of slowdown triggered by a 'BREXIT' increased. Markets have also been nervous about the possibility of other European countries following suit and demanding to leave the European Union, although we did not have any exposure to Europe by the end of the Quarter, as the EUROSTOXX 50 lost 2.6% in Total Return terms.

Japanese Equities

With increasing volatility, Japanese Equities suffered the most posting a fall of about 7% for the second quarter. The Japanese Yen continued appreciating against the USD and is up by 8%, which continues to hit profits of Japanese exporters. Given the country's large trade links with China, a Chinese slowdown has damaged business sentiment in Japan, compounding losses. The Bank of Japan also surprised the markets as it did not announce new measures for quantitative easing, leading to a substantial underperformance from Japanese Equities. We had sold all our Japanese Equity holdings in our April 13 realignment, so avoiding any of the losses as the ETF is down 9.4% since then.

Emerging Equities

With the worries about China somewhat alleviated and a healing commodity market, the emerging markets have stemmed its losing streak and is trading much in line with the US Equity markets, ending the second flat at 0.32% in USD terms. We had no exposure to emerging markets in the second quarter.

Fixed Income & Gold

With the FED holding off on rate hikes and the BOE announcing a high probability of a rate cut in the next meeting, Fixed Income markets rallied strongly in Q2. In our April realignment we had tactically allocated to UK gilts which saw the strongest rally among global bond markets rising over 6% in the quarter. The rally was also due to the safe haven nature of Government bonds as markets brace for an increased probability of a recession in the next few months. Bond yields that were at record lows plunged even lower with German 10 year (Bunds) trading at negative rates for the first time in history. Following the 'BREXIT' vote, Standard & Poor's cut UK sovereign bond rating from 'AAA' to 'AA' as it sighted a negative outlook for the UK economy and a depreciating GBP, but the downgrade did not stop the rally in UK Gilts. With the rise in uncertainty, pushing back the US interest rate hikes and chance of increasing inflation, Gold rallied through the quarter on a safe haven asset and an inflation hedge, touching levels last seen in 2013. Gold is now up 25% for the year.

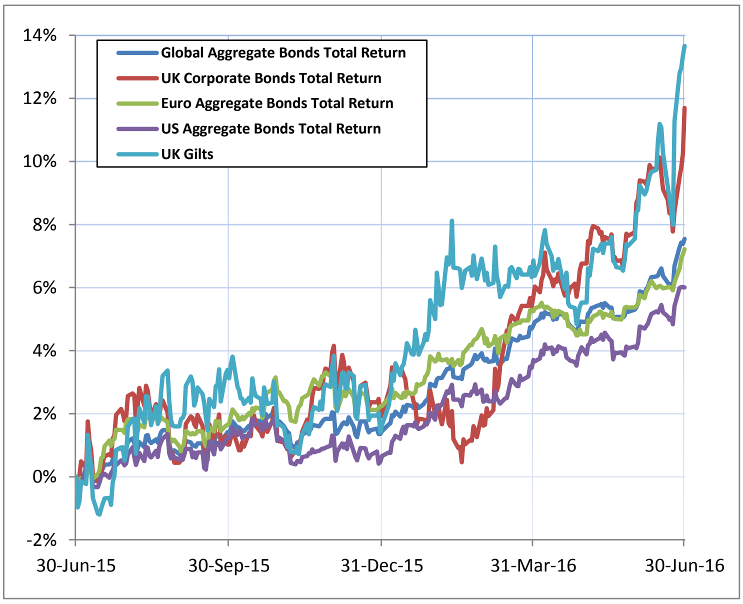

Figure 2: Fixed Income acted as a safe haven during quarter 1, 2016. Source Bloomberg

Quarterly performance update continued

Table 1: Performance of Copia portfolios in the last quarter from 31 March 2016 to 30 June 2016

Model Portfolios	Performance from 31-Mar-2016 to 30-Jun-2016			% Equity			Outperformance	
	Copia GIA Net	Copia GIA Gross	IA	Copia	IA	IA Sector	Copia GIA Net	Copia GIA Gross
Model 1	1.89%	1.83%	0.11%			Money Market	1.78%	1.72%
Model 2	2.39%	2.42%		0%			2.28%	2.31%
Model 3	3.86%	3.69%	2.54%	18%	0-35%	Mixed Investment	1.32%	1.15%
Model 4	4.11%	4.14%		40%			1.57%	1.60%
Model 5	4.25%	4.22%	2.17%	52%	20-60%	Mixed Investment	2.08%	2.05%
Model 6	4.61%	4.62%		56%			2.44%	2.45%
Model 7	4.97%	4.95%	2.43%	62%	40-85%	Mixed Investment	2.54%	2.52%
Model 8	5.37%	5.37%		66%			2.94%	2.94%
Model 9	5.17%	5.17%		73%			2.74%	2.74%
Model 10	5.37%	5.39%	2.71%	77%	100%	Flexible Investment	2.66%	2.68%
Copia First Trust Smart Beta Portfolio	4.47%			75%			1.76%	
Dorsey Wright Smart Beta	5.71%			98%			3.00%	

Returns based on Total return, assuming income is re-invested immediately and realigned on due dates

Table 2: Performance of Copia portfolios in the trailing 12 months prior to 30 June 2016

Model Portfolios	Performance from 30-Jun-2015 to 30-Jun-2016			% Equity			Outperformance	
	Copia GIA Net	Copia GIA Gross	IA	Copia	IA	IA Sector	Copia GIA Net	Copia GIA Gross
Model 1	4.46%	4.36%	0.22%			Money Market	4.24%	4.14%
Model 2	5.15%	5.20%		0%			4.93%	4.98%
Model 3	2.53%	2.51%	3.61%	18%	0-35%	Mixed Investment	-1.08%	-1.10%
Model 4	2.06%	2.30%		40%			-1.55%	-1.31%
Model 5	1.16%	1.19%	2.03%	52%	20-60%	Mixed Investment	-0.87%	-0.84%
Model 6	-0.37%	-0.22%		56%			-2.40%	-2.25%
Model 7	-0.97%	-0.98%	1.97%	62%	40-85%	Mixed Investment	-2.94%	-2.95%
Model 8	-1.79%	-1.74%		66%			-3.76%	-3.71%
Model 9	-1.52%	-1.45%		73%			-3.49%	-3.42%
Model 10	-1.50%	-1.60%	1.28%	77%	100%	Flexible Investment	-2.78%	-2.88%

Returns based on Total return, assuming income is re-invested immediately and realigned on due dates

Quarterly performance update continued

Table 3: Performance of Copia portfolios for year 1 – 30 June 2014 – 30 June 2015

Model Portfolios	Performance from 30-Jun-2014 to 30-Jun-2015			% Equity			Outperformance	
	Copia GIA Net	Copia GIA Gross	IA	Copia	IA	IA Sector	Copia GIA Net	Copia GIA Gross
Model 1	1.41%	1.22%	0.10%			Money Market	1.31%	1.12%
Model 2	0.46%	0.38%		0%			0.36%	0.28%
Model 3	5.81%	5.32%	3.68%	18%	0-35%	Mixed Investment	2.13%	1.64%
Model 4	6.69%	6.46%		40%			3.01%	2.78%
Model 5	6.52%	6.47%	4.95%	52%	20-60%	Mixed Investment	1.57%	1.52%
Model 6	7.44%	7.38%		56%			2.49%	2.43%
Model 7	7.95%	7.89%	6.94%	62%	40-85%	Mixed Investment	1.01%	0.95%
Model 8	8.40%	8.52%		66%			1.46%	1.58%
Model 9	8.39%	8.71%		73%			1.45%	1.77%
Model 10	8.66%	8.77%	7.08%	77%	100%	Flexible Investment	1.58%	1.69%

Returns based on Total return, assuming income is re-invested immediately and realigned on due dates

Table 4: Performance of Copia portfolios since launch – 28 October 2013 – 30 June 2016

Model Portfolios	Performance from 28-Oct-2013 to 30-Jun-2016			% Equity			Outperformance	
	Copia GIA Net	Copia GIA Gross	IA	Copia	IA	IA Sector	Copia GIA Net	Copia GIA Gross
Model 1	6.41%	6.10%	0.37%			Money Market	6.04%	5.73%
Model 2	5.46%	5.40%		0%			5.09%	5.03%
Model 3	10.22%	9.65%	9.52%	18%	0-35%	Mixed Investment	0.70%	0.13%
Model 4	11.70%	11.61%		40%			2.18%	2.09%
Model 5	10.90%	10.75%	9.86%	52%	20-60%	Mixed Investment	1.04%	0.89%
Model 6	9.94%	9.95%		56%			0.08%	0.09%
Model 7	10.40%	10.00%	11.40%	62%	40-85%	Mixed Investment	-1.00%	-1.40%
Model 8	9.44%	9.59%		66%			-1.96%	-1.81%
Model 9	9.76%	10.20%		73%			-1.64%	-1.20%
Model 10	9.85%	10.02%	10.64%	77%	100%	Flexible Investment	-0.79%	-0.62%

Returns based on Total return, assuming income is re-invested immediately and realigned on due dates

Quarterly performance update continued

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