

Copia Capital Management

The art of portfolio construction



Quarterly Performance Update

31 December 2017

For professional investors only

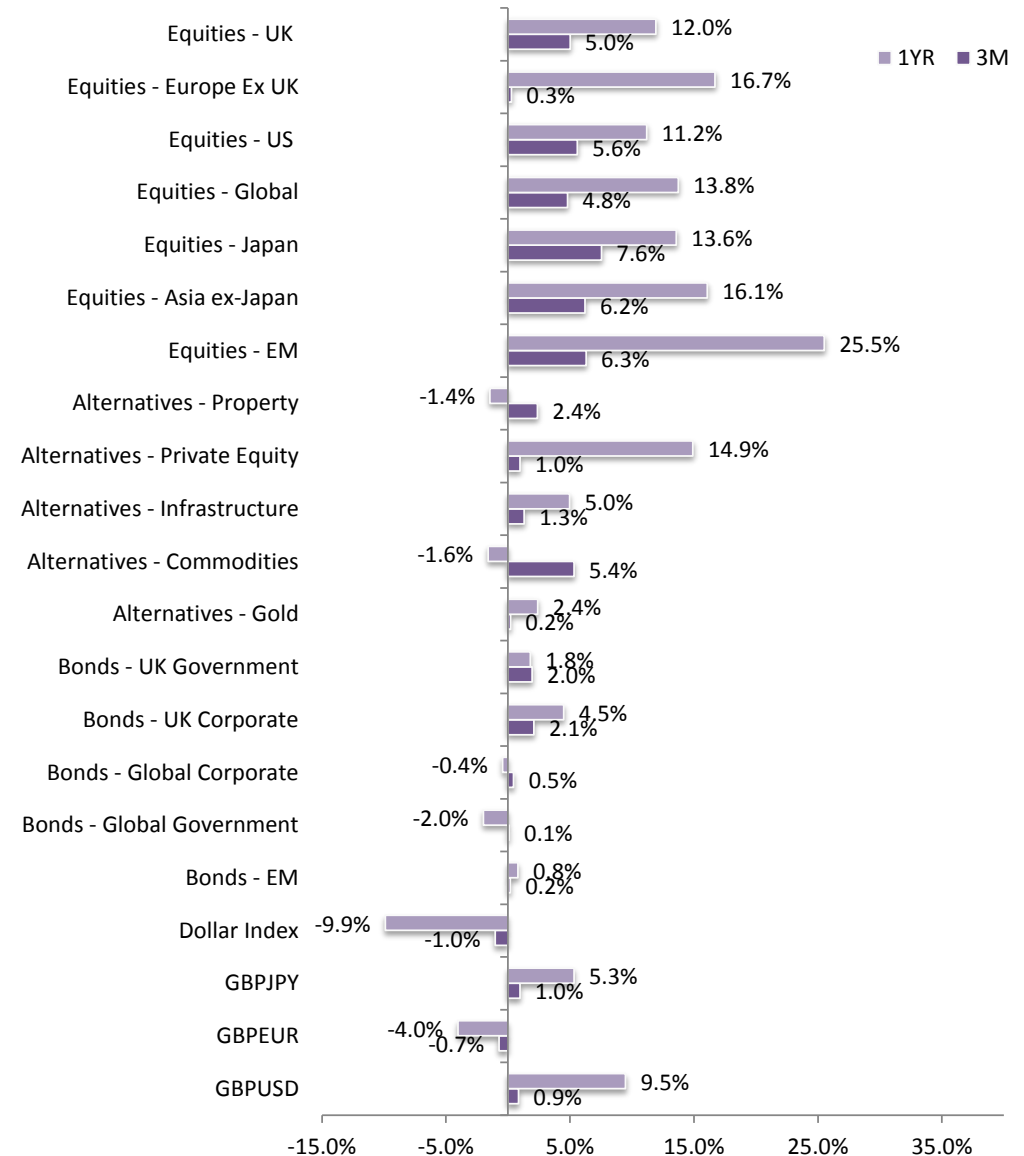
Market performance
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Market performance Q4 2017 and the year gone by

- ◆ Q4 2017 was a continuation of equity market rally across the globe as risk was rewarded exceptionally well over the quarter and over the year 2017.
- ◆ EM, the riskiest of equities, was the best performer in 2017 finishing over 25% total return followed distantly by Europe Ex-UK up 16.7%.
- ◆ With the exception of private equity, fixed income and alternative asset classes posted lacklustre performance as interest rates followed an upward trajectory.
- ◆ Q4 also saw the US Fed raise rates by 0.25% taking the Fed Fund rate up to 1.5%. The ECB also announced plans to reduce its QE program in a gradual and systematic manner.
- ◆ 2017 was rife with geopolitical risks, most significant of them being a face off between North Korean leader Kim Jong-un and US President Donald Trump, but none of these risks materialized and there were no impact on equity markets.

Source: Bloomberg, Copia Capital Management
All numbers expressed in GBP

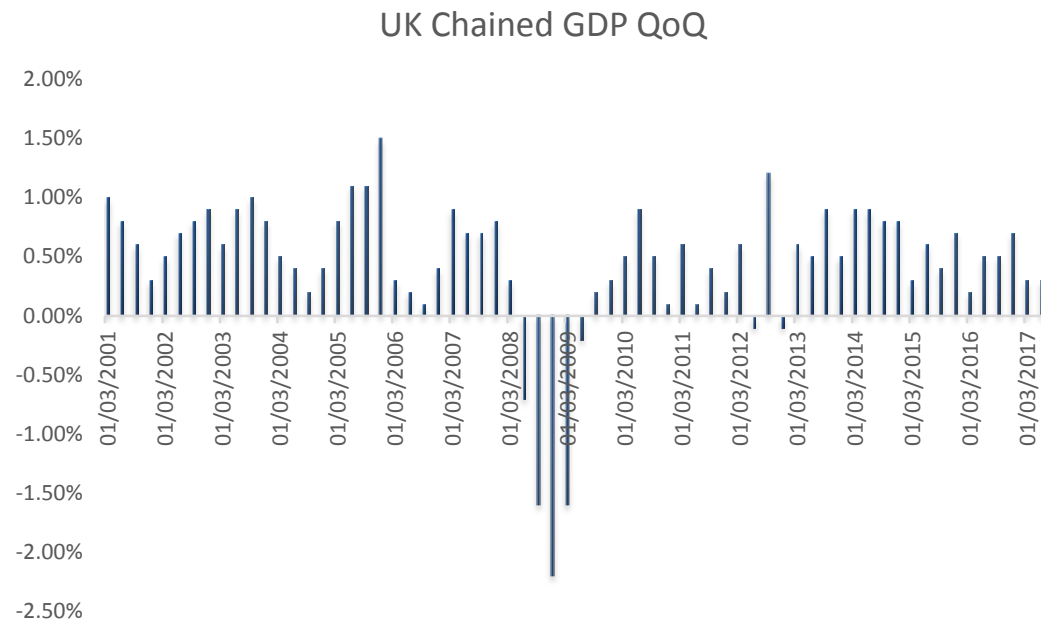
Market performance



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UK growth remains modestly strong

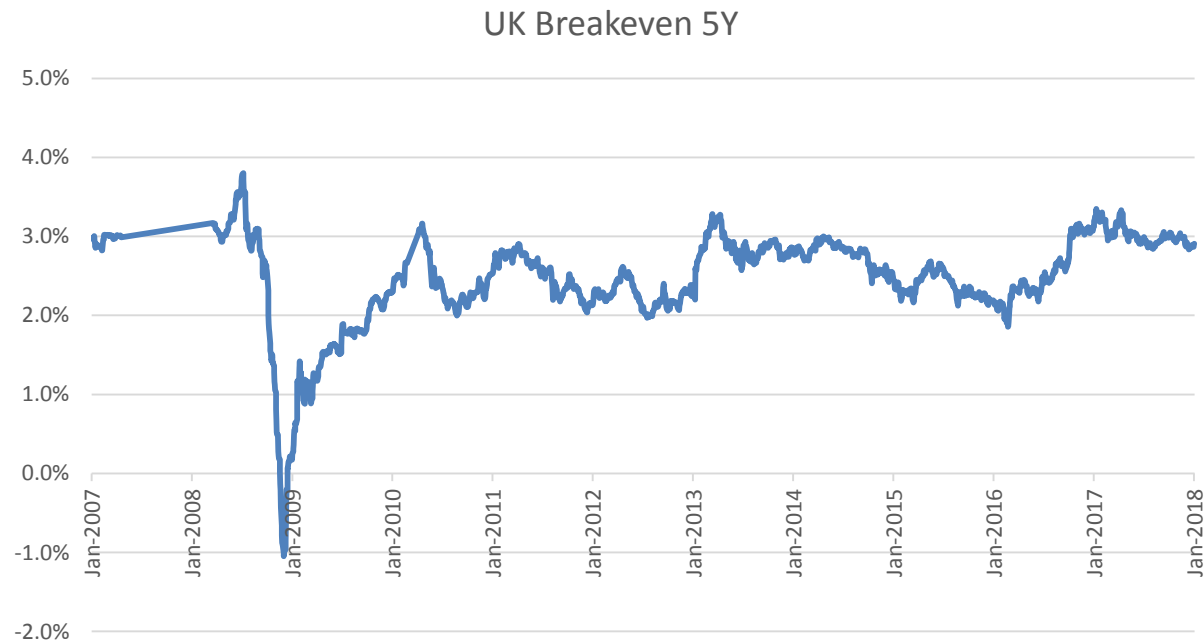
- ◆ Contrary to expectations about Brexit having a negative impact on the UK economy, UK GDP continued to expand at 1.5% YoY.
- ◆ Positive developments in Brexit negotiations has given UK businesses assurance that Brexit will not end in an abrupt exit from the Eurozone but rather a gradual phase out causing little disruption to the economy.
- ◆ Unemployment rate in the UK remained at its lowest since 1975 at 4.3% with industrial manufacturing and PMI remaining strong, pointing to a continued economic expansion in the UK.



Source: Bloomberg, Copia Capital Management

Inflation at a 5 year high

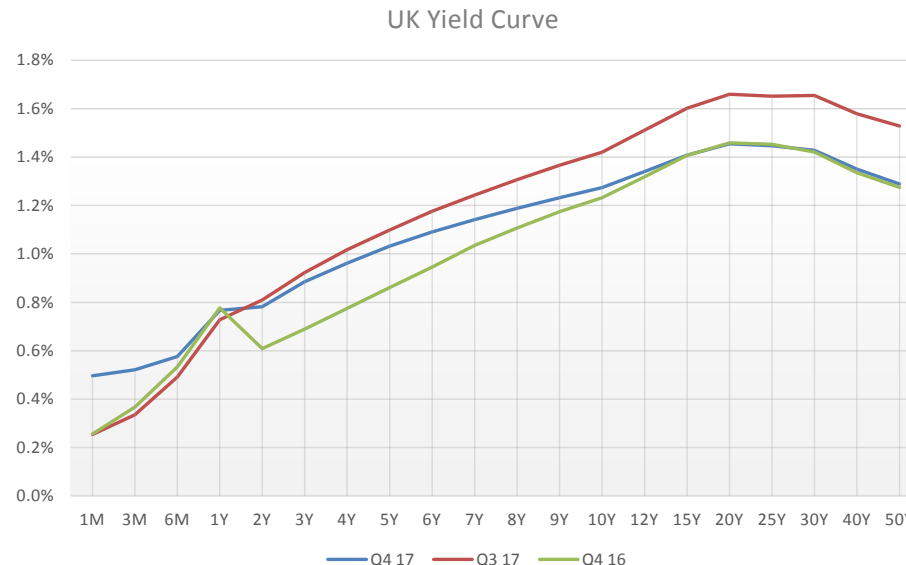
- ◆ Latest UK Inflation reading came in at 3.1% breaching BOE's 3% upper tolerance limit, forcing the Central Bank to raise rates by 0.25% in an attempt to control inflationary pressures.
- ◆ The UK 5 year Breakeven rate remains at 3% indicating inflation is expected to remain high over a 5 year period. A rally in commodity prices especially Crude Oil trading over \$60/bbl has led to increased inflation expectations.
- ◆ As the much expected reflation theme plays out globally, equities are expected to act as a natural inflation hedge while bonds tend to be least favoured.



Source: Bloomberg, Copia Capital Management

A flatter but normal shaped yield curve

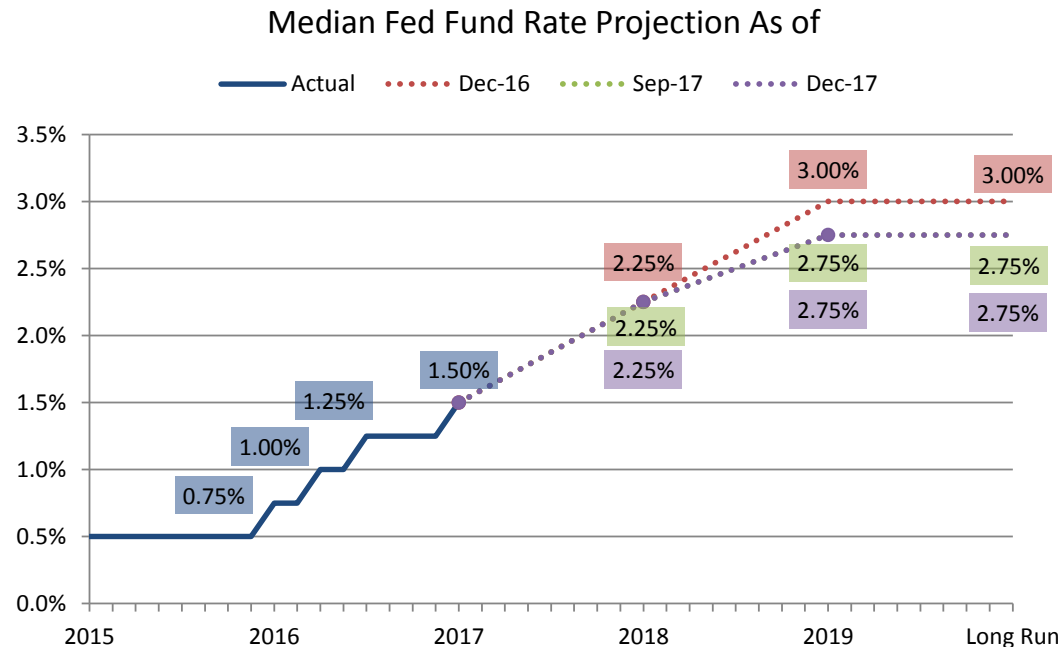
- ◆ The Bank of England raised rates in Q4 2017 and stated that if the economy continued to expand gradually, further modest rate increases would be warranted over the next few years, in order to return inflation sustainably to the target.
- ◆ The UK Yield Curve along with other developed economies experienced flattening in Q4, 2017 as long duration yields fell by 30 - 40 bps with the lower end remaining unchanged.
- ◆ Although curve flattening has not been significant, a flatter yield curve indicates investors are pricing in lower future inflation and even possibly a recession, contrary to other macroeconomic indicators that point to a continued global economic expansion. Nonetheless the curve still remains upward sloping supporting a positive outlook for UK equity markets and showing little to no signs of an upcoming recession as Brexit uncertainty remains.



Source: Bloomberg, Copia Capital Management

The Fed Rate Hikes continue

- ◆ The US Fed followed through with its guidance and raised rates by 0.25% lifting the Fed Fund Rate to 1.5% and has started to unwind its \$4 trillion balance sheet.
- ◆ Policymakers also kept forecasts unchanged from Sep-17 to Dec-17 and expect 3 rate hikes in 2018 and 2 hiked in 2019.
- ◆ With the most anticipated US Tax reform getting Senate approval, the increased fiscal stimulus will further strengthen the US economy, giving the Fed a green signal to continue with its rate hike trajectory.



Source: Bloomberg, Copia Capital Management

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Risk Barometer

Based on our proprietary Prediction Algorithm the Copia Risk Barometer is now reading +0.67 as of 31-Dec-2017, compared to +0.70 on 30-Sep-2017. Although a marginal drop, the global economic outlook continues to be positive.



The Risk Barometer is a measure of economic outlook across asset classes.

-1.0

A score of -1.0 indicates an extremely poor economic outlook, which is accompanied by a high probability of negative returns in risky asset classes like equities. These periods are typically recessionary periods in the business cycle. The Risk Barometer tilts our portfolios away from equities during such periods.

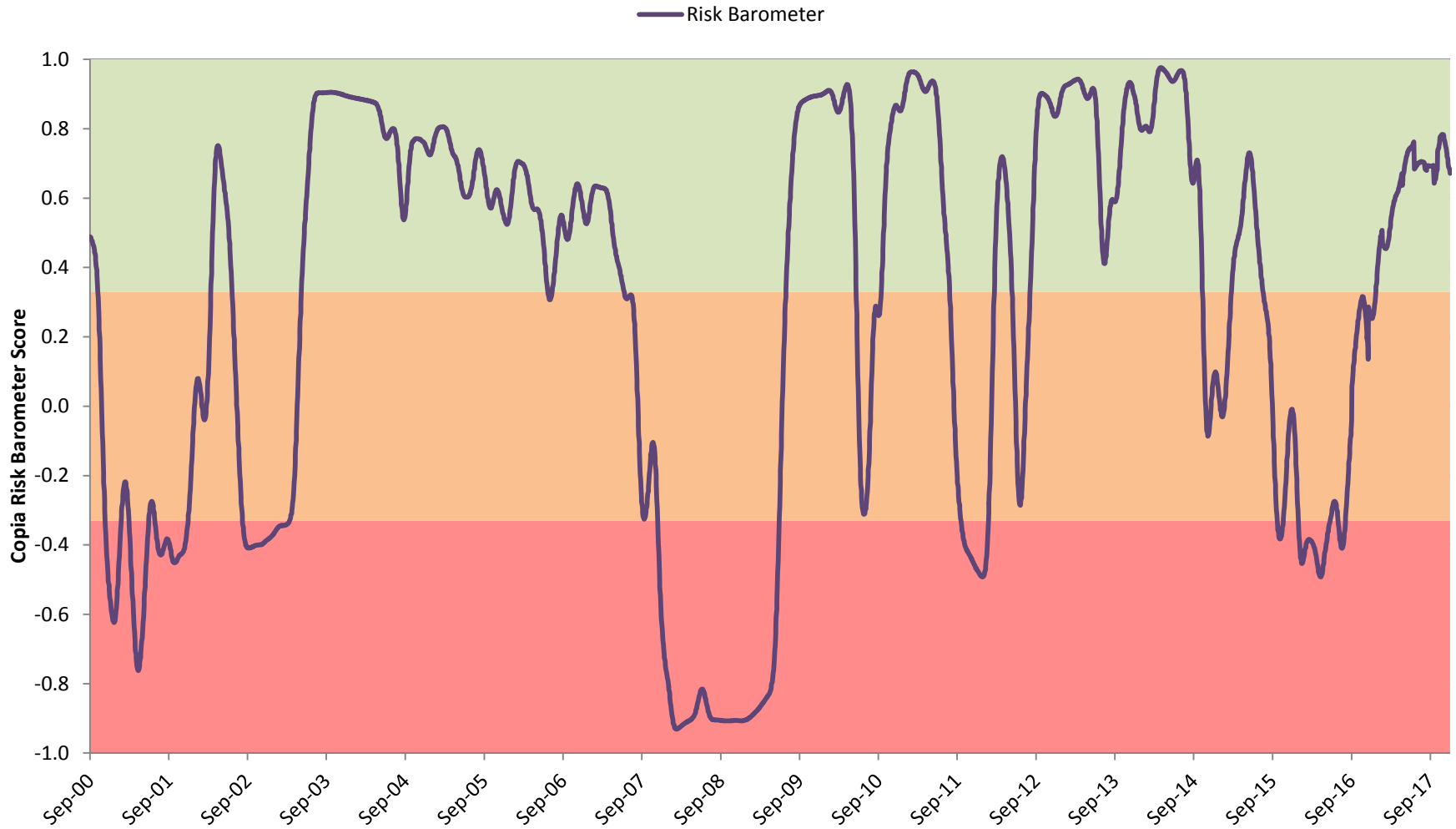
0.0

A score of 0 indicates a neutral economic outlook with almost equal probability of positive and negative returns in risky asset classes like equities. The Risk Barometer maintains a balance between equities and other asset classes during such periods.

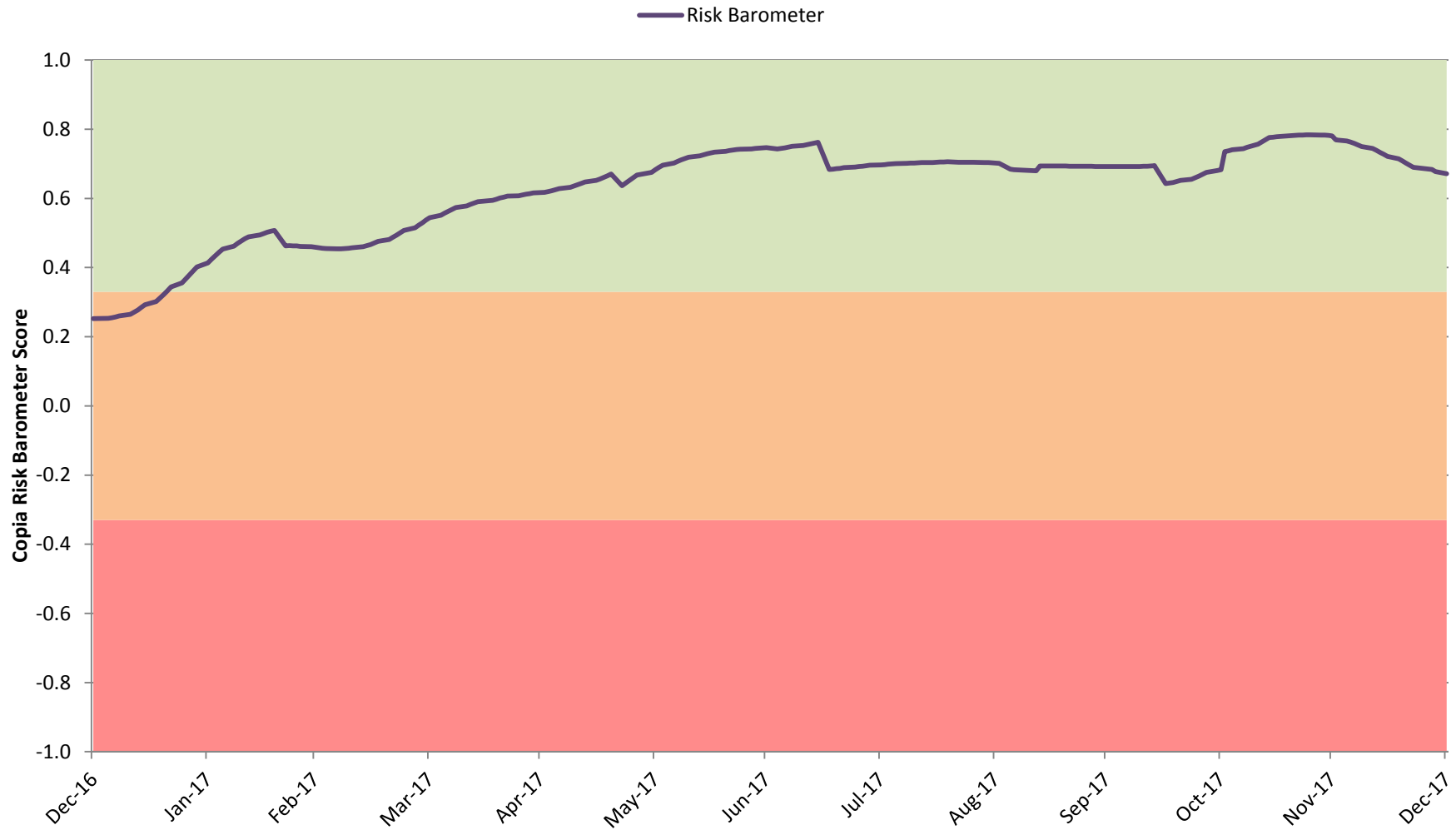
+1.0

A score of +1.0 indicates an extremely positive economic outlook, which is accompanied by a high probability of positive returns in risky asset classes like equities. These periods are typically expansionary periods in the business cycle. The Risk Barometer tilts our portfolios towards equities during such periods.

Copia Risk Barometer (long-term)



Copia Risk Barometer (last 12m)



Source: Copia Capital Management

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Volatility Focus performance table

Copia Volatility Focus					Since	Discrete				
	3 M	6 M	1 Yr	3 Yr	Since Inception (28-Oct-2013)	Year 1 30-Dec-13 to 30-Dec-14	Year 2 30-Dec-14 to 30-Dec-15	Year 3 30-Dec-15 to 30-Dec-16	Year 4 30-Dec-16 to 30-Dec-17	
Model 1	0.6%	0.3%	0.6%	4.0%	6.9%	1.6%	3.4%	-0.2%	3.6%	0.6%
Model 2	0.6%	0.3%	0.7%	3.9%	6.3%	1.5%	3.3%	-1.1%	4.4%	0.7%
Model 3	1.4%	1.9%	3.4%	7.4%	13.9%	3.2%	6.2%	1.5%	2.3%	3.4%
Model 4	1.6%	2.2%	4.0%	10.3%	18.2%	4.1%	7.1%	2.3%	3.7%	4.0%
Model 5	2.5%	3.6%	6.4%	12.7%	20.0%	4.5%	6.1%	3.5%	2.4%	6.4%
Model 6	2.9%	4.0%	7.2%	14.0%	20.9%	4.7%	6.0%	4.0%	2.3%	7.2%
Model 7	3.6%	5.0%	8.2%	16.3%	23.9%	5.3%	6.4%	3.6%	3.8%	8.2%
Model 8	3.7%	5.5%	8.7%	18.0%	25.0%	5.5%	5.8%	4.0%	4.4%	8.7%
Model 9	3.9%	5.7%	9.3%	20.7%	28.0%	6.1%	5.9%	4.2%	5.9%	9.3%
Model 10	4.0%	5.9%	9.6%	20.2%	27.6%	6.0%	5.9%	3.9%	5.6%	9.6%

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

Select performance table

Copia Select	3 M	6 M	1 Yr	3 Yr	Since Inception (31-Oct-2016)	Since Inception (31-Oct-2016) (Annualized)	Discrete
							Year 1 30-Dec-16 to 30-Dec-17
Cautious	2.2%	2.0%	3.1%	#N/A	2.6%	2.2%	3.1%
Moderate	3.1%	3.5%	6.1%	#N/A	6.5%	5.6%	6.1%
Balanced	4.2%	5.2%	9.0%	#N/A	10.4%	8.9%	9.0%
Growth	4.5%	5.7%	10.1%	#N/A	12.1%	10.3%	10.1%
Equity	5.0%	6.6%	12.1%	#N/A	14.4%	12.2%	12.1%

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

Smart Beta performance table

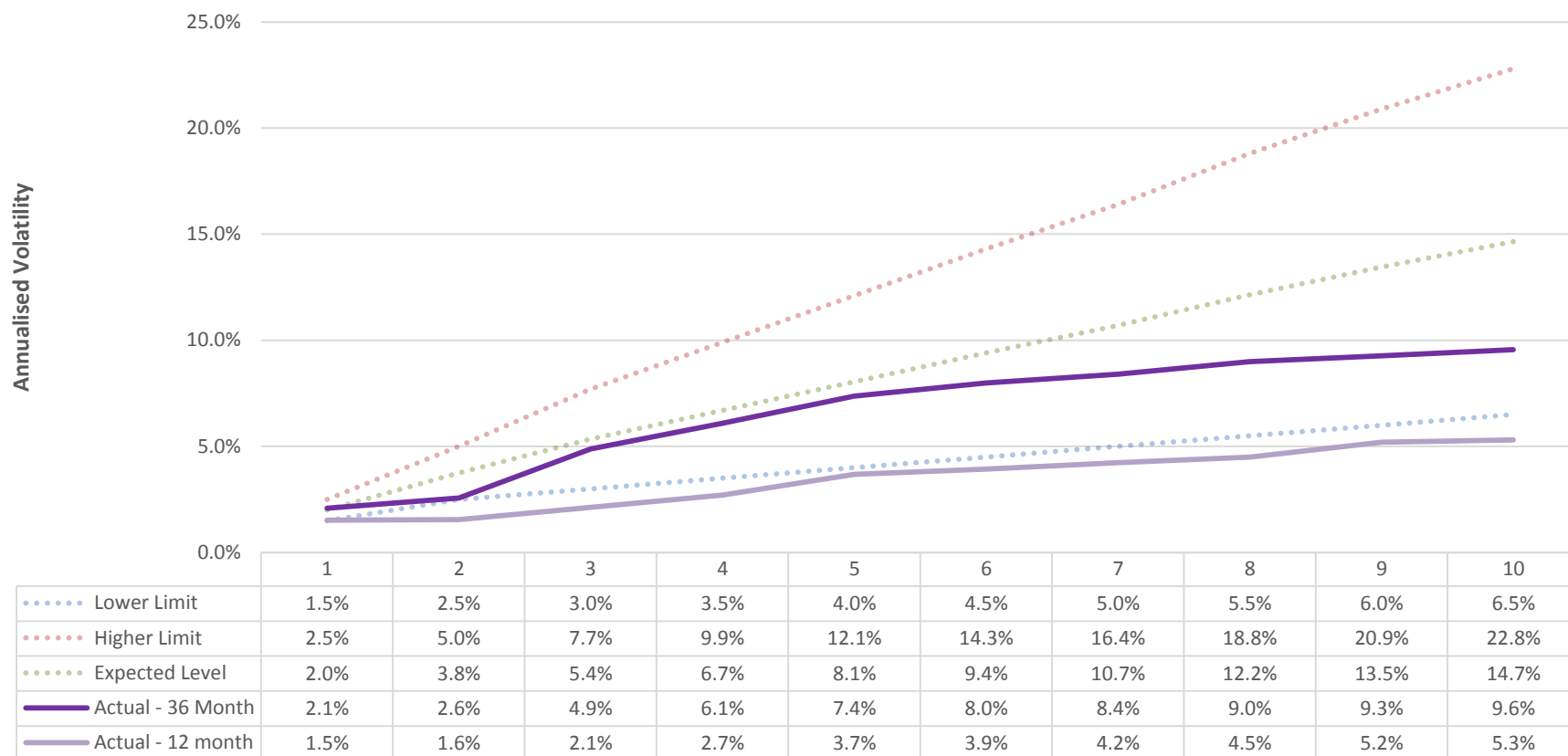
Copia Smart Beta	3 M	6 M	1 Yr	3 Yr	Since Inception (14-Mar-2016)	Since Inception (14-Mar-2016) (Annualized)	Discrete
							Year 1 30-Dec-16 to 30-Dec-17
First Trust	4.2%	8.7%	15.4%	#N/A	39.1%	20.2%	15.4%
Dorsey Wright	3.6%	7.2%	16.8%	#N/A	39.9%	20.5%	16.8%

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

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Volatility Focus: outcome chart

Outcome analysis as at 31 December 2017



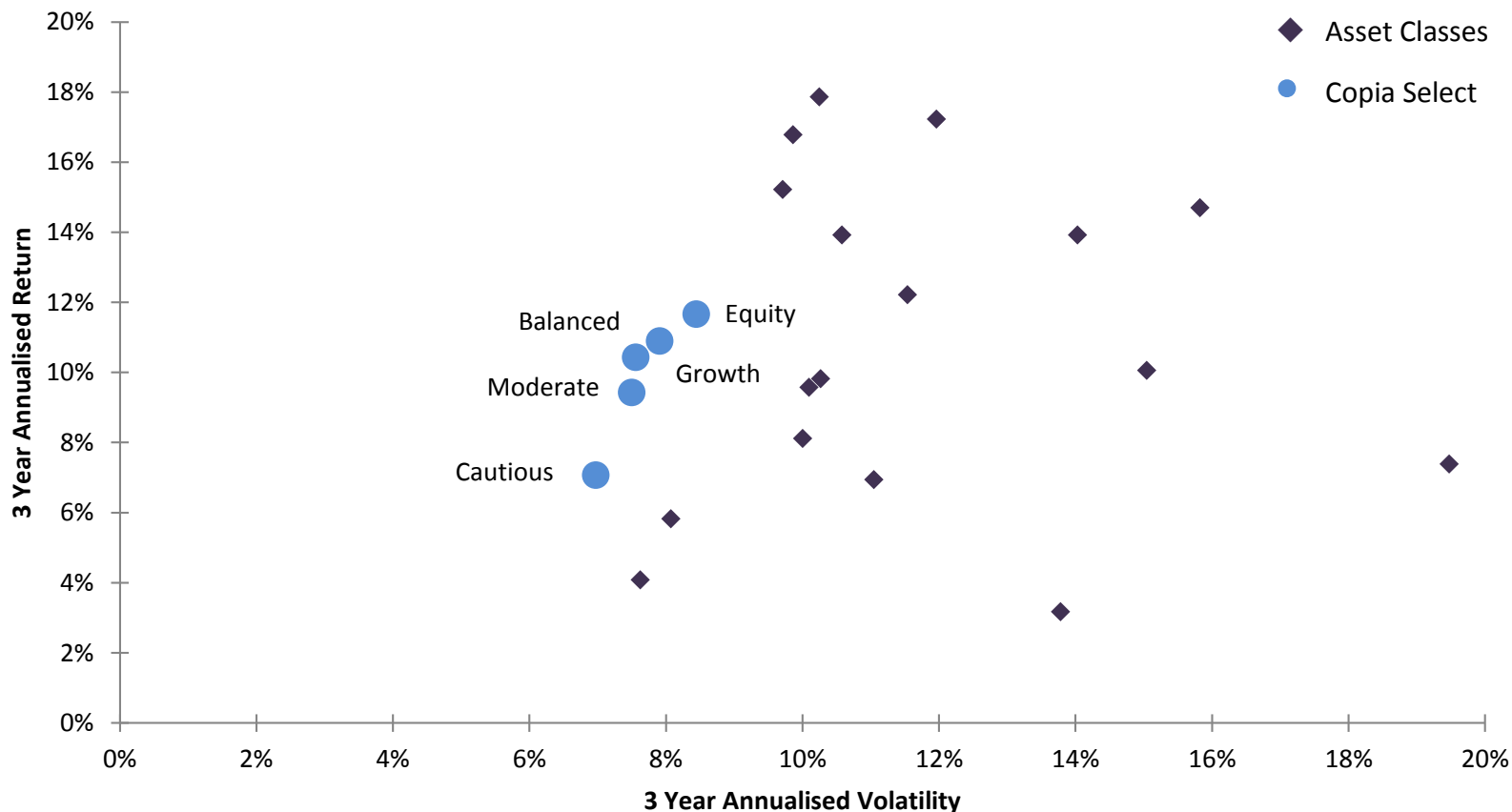
Copia Volatility Focus Portfolios

For illustration only:

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

Select: outcome chart

Outcome analysis as at 31 December 2017



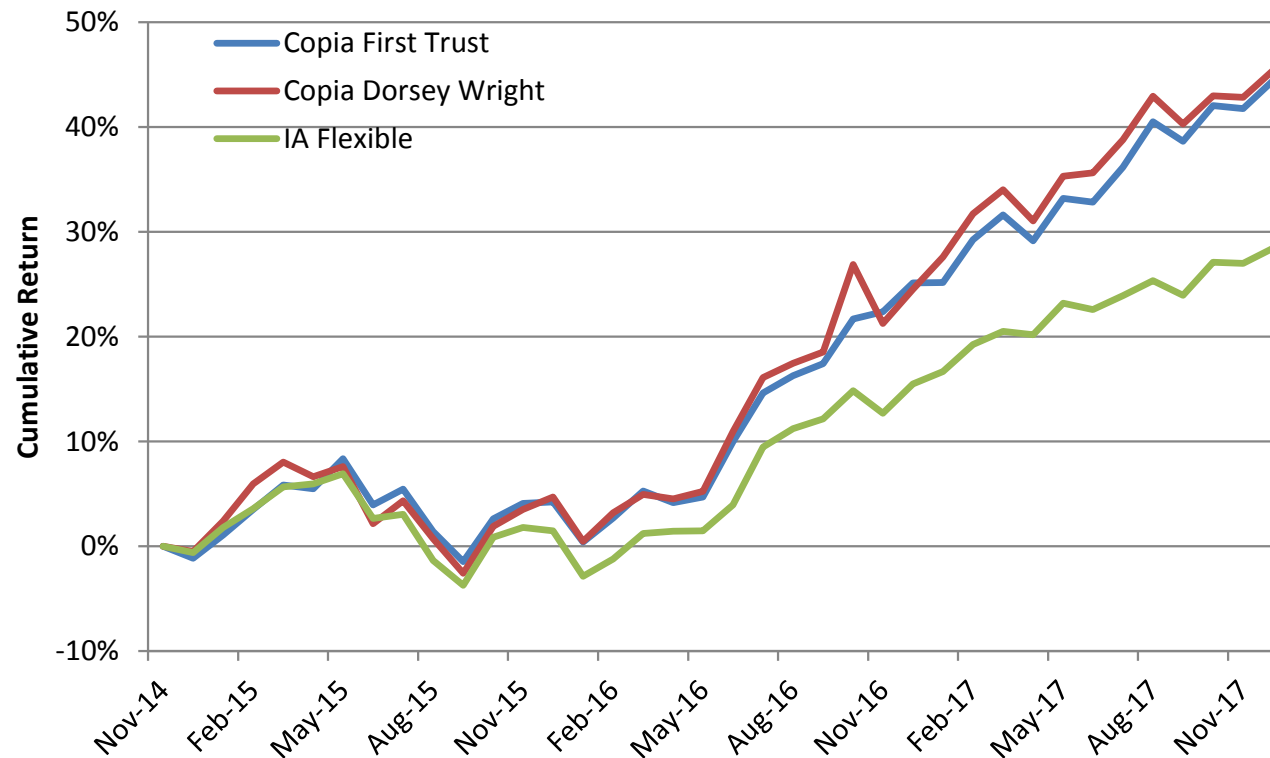
For illustration only:

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

Performance includes simulated performance from 31-Oct-2014 to launch date (31-Oct-2016). Live data is used from 1-Nov-2016 to Present

Outcome analysis as at 31 December 2017

Copia Smart Beta Performance Analysis



For illustration only:

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

Performance includes simulated performance from 31-Oct-2014 to launch date (13-Mar-2016). Live data is used from 14-Mar-2016 to Present



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