Moderately Adventurous Ethical Model Portfolio September 2016

Market Data to 15th August 2016	3m	6m	1yr	3yr
Ethical Moderately Adventurous Portfolio	6.69	11.01	11.25	26.24
FTSE 100 TR in GB	10.34	14.99	13.90	17.87
Moneyfacts 90 Days Notice 10K in GB	0.19	0.38	0.76	2.25
UK Consumer Price TR in GB	0.20	0.80	0.30	1.93

Market Commentary: Key Points for Last Period

This reporting period witnessed the historic decision of the British people, through the referendum held on the 23rd June, to leave the European Union. This decision has far reaching consequences for the UK economy, the European economy and the global economy. Stock markets experienced high levels of volatility in the run-up to the vote as the polls showed that the result of the referendum was too close to call. On the day of the referendum, global currency and stock markets appeared to price in a 'remain' outcome, as privately commissioned polls hinted to this scenario.

The initial market reaction was a significant fall in both sterling and UK equities shortly followed by a recovery in equity markets. This has resulted in strong performance for many assets over this reporting period.

Overseas assets have been boosted in Sterling terms by the currency devaluation, whilst UK equities had recovered on hopes that the Bank of England will provide further stimulus as a consequence of the Brexit vote. Fixed interest investments were also boosted in value as the expectation of future interest rate rises lessened dramatically.

Since the outcome of the referendum, events have moved quickly. The political landscape has changed considerably as the Labour party has disintegrated, with the majority of the shadow cabinet resigning triggering a new leadership contest, and the Conservative party electing a new lead in Theresa May. Scotland and Northern Ireland voted to remain part of the EU and the Scottish National Party are looking at options of independence once again, and also the possibility of blocking the UK exit from the EU in Parliament.

Standard & Poor's and other ratings agencies have reduced their view of the creditworthiness of the UK, warning of further downgrades due to lower economic growth expectations. This has not negatively impacted the value of UK Government debt, which has soared to record highs. 10 year yields have fallen below 1% on the expectation that UK interest rates will remain lower for longer.

The effect to date for investors has been generally positive and some investors will be surprised that their portfolios have risen sharply as a result of Brexit. Investors who hold overseas assets or UK fixed interest investments will have seen positive returns.

We feel there are more positives than investors perceive right now. The devaluation in Sterling is something which Western economies have being trying to achieve for many years. Japan, most notably, has engaged in the most aggressive money printing policy (relative to the rest of the world) combined with negative interest rates; but the Yen has remained stubbornly expensive.

The benefit of a weak currency is that exports become cheaper and imports more expensive, boosting demand for domestic goods and services. The Brexit effect has created a 10% price cut for UK exporters. Companies trading with the EU are unlikely to benefit due to the increased uncertainty with regard to future UK access to the free market, but export businesses trading internationally outside of the EU will be celebrating.

In the meantime, short term political uncertainty is very high. If or when will the Government trigger

'Article 50'? How long will the exit take and what will it look like? Who will lead the Opposition? Will Scotland and Northern Ireland remain in the UK?

It has already become clear that the pace of the UK withdrawal from Europe will be much slower than many of the ‘Leave’ camp initially expected. This is effectively a divorce where there is much at stake. The ‘children’ of the divorce are around 3 million EU nationals who live in the UK and around 1.2 million UK nationals who live in Europe, whose rights must be agreed. The financial implications are the £8bn per annum (£121m per week) net contribution to the EU budget (source: BBC) and the significant trade generated via our access to the single market, which is vital to both sides. There is also the additional burden of replacing or adopting European legislation once the UK has left the EU.

Given the size of the challenge and the need for Europe to agree our exit with the unanimous vote of the remaining 27 members, the prospect that this can be completed in two years is unrealistic, given the issues at stake and the previous pace of European negotiation (with the example of serious issues, such as the Greek debt crisis being negotiated to the 11th hour). If the EU does insist on the UK leaving within the two year timeframe, the exit will be rushed and poorly orchestrated, with significant economic damage caused to both sides.

Therefore we expect that a gradual exit programme will be agreed with the UK leaving the EU within the two year timetable, but moving to an EEA plus or minus (European Economic Area) position. This will continue our access to the single market whilst also requiring the UK to contribute to the EU budget and adopt EU legislation. This initial change will not result in any significant difference to the current position, except that we will lose our voice in Europe. But this is balanced by the UK gaining some control over EU immigration, with the ability to negotiate trade agreements outside of the EU.

From this position, further withdrawal may occur over the following years with access to the single market being reduced if we cease to contribute to the EU budget and/or impose significant restrictions on EU immigration. During this process, the door back into the EU will remain open, should the EU reform and become more compatible with the will of the British people.

From an investment perspective, the referendum result was a shock to global markets and initial thoughts were of a disorderly and rushed exit from the EU. As the initial shock subsided, it will become clear that this exit will be over a number of phases and on a glacial time scale. The uncertainty will continue and lead to market volatility and the EU may start to realise that reform is needed for its survival and this would be a positive outcome.

The outcome of the referendum is a path changing or 'sliding doors' event. Prior to this event we believed that economic progress was likely to exceed expectation with signs that the second half of 2016 could experience accelerating growth. This indication is no longer valid as the effects of the referendum are unknown. Post Brexit data has not yet started to come through and we expect that investors will place a high level of importance on economic data collected after the Brexit vote.

Initially signs of falls in confidence have been observed with downgrades to UK, European and Global growth being reported by many agencies. This reflects apprehension, which is understandable, but if indicators improve in the short term this will be positive; but sustained falls will cause concern and could reverse the recent upward momentum in markets.

In the meantime, we continue to believe that investors should accept the volatility of equity markets for modest medium and long term returns, rather than leaning towards the near-zero return of cash and bonds.

Investment Strategy

Due to the soft closure of some of the Asian market ethical funds, we are now unable to access the higher risk holdings in this sector as an ethical investor. This has forced us to review the risk of the moderately adventurous model portfolio, culminating in the risk level being slightly reduced.

Furthermore, we have found it prudent to reduce the weighting in equities slightly in order to bolster cash and fixed interest. This is in an effort to realise some of the gains while waiting for new themes to emerge and also locking in some profits. Last quarter we reduced our bond holdings due to the possible increase in interest rates. The opposite has happened with interest rates being cut, and further cuts in discussion, therefore we would deem it wise to keep our bond holdings as they are.

Fund changes this period

In line with the above comments we have reduced exposure to the equity market. We have also identified some funds that have been underperforming in the past 6 months, and have chosen to replace these funds in an effort to improve performance.

Holdings Reduced:

- Alliance Trust SF Absolute Growth (-2%)
- Alliance Trust SF Global Growth (-2%)
- Kames Ethical Equity (-1%)
- Jupiter Ecology (-0.5%)

In addition to the reductions mentioned above we have completely sold out of the following holdings;

- Standard Life UK Ethical Trust (-8.5%)
- SVM All Europe (-15%)
- Edentree Amity International (-2%)
- Sarasin Equisar Socially Responsible (-3%)

And purchased into the following holdings;

- Royal London Sustainable Leaders (7%)
- Standard Life European Ethical Equity (5%)
- Blackrock Cash D (5%)
- Vanguard SRI European Stock (4%)
- FP WHEB Sustainability (3%)
- Rathbone Ethical Bond (3%)
- Royal London Ethical Bond (3%)
- Threadneedle UK Social Bond (3%)

We have also increased our holding in;

- Kames Ethical Cautious Managed (1%)

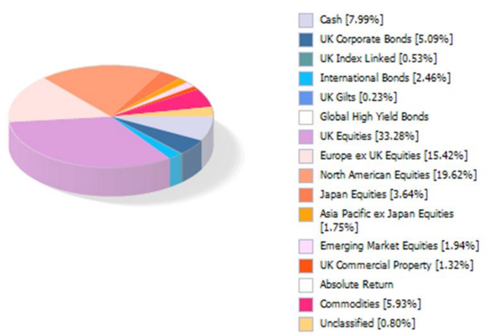
Portfolio Asset Allocation

Ethical Moderately Adventurous Portfolio Composition			1 yr	3 yr
Fund Manager	**Name**	**% Holding**	**Perf %**	**Perf %**
Alliance Trust	Sustainable Future Absolute Growth 2 Acc	5	24.07	30.71
Alliance Trust	Sustainable Future Global Growth 2 Acc	5	27.75	37.03
AXA	Ethical Distribution Z Acc	2	7.31	18.74
Blackrock	Cash D Acc	5	0.25	0.71
F&C	Responsible Global Equity 2 Acc	6	27.26	43.09
F&C	Responsible UK Income 2 Acc	6.5	8.45	24.50
Fund Partners Ltd	WHEB Sustainability C Acc	3	31.90	44.29
Henderson	Global Care Growth I GBP	6	26.45	43.09
Henderson	Global Care UK Income I Inc	6	10.25	30.96
Jupiter	Ecology I Acc	2	27.34	28.20
Kames	Ethical Cautious Managed B Acc	3	6.55	24.78
Kames	Ethical Equity B Acc	7.5	5.69	24.92
Pictet	Water I dy GBP	6	40.76	49.23
Rathbone	Ethical Bond Inst Acc	3	7.66	24.40
Royal London	Ethical Bond M Acc	3	11.60	29.25
Royal London	Sustainable Leaders Trust	7	17.88	38.59
Standard Life Investments	European Ethical Equity Ret Platform 1 Acc	5	22.78	26.92
Stewart Investors	Worldwide Sustainability B Acc	6	39.64	48.13
Threadneedle	UK Social Bond Z Ret Acc	3	12.43*	N/A*
Vanguard	SRI European Stock Acc GBP	4	15.42	19.84
Vanguard	SRI Global Stock Acc GBP	6	31.24	41.34

**Performance since launch.*

The Following charts represent the performance history compared to the composite benchmark based on sector averages since March 2009 and the asset allocation in connection with the above funds which aims to replicate your agreed risk profile.

Ethical Mod Adv Asset Allocation



Mod Adv Portfolio Since March 2009

Although the model portfolios are for clients with a particular attitude to risk, individual funds may be higher risk than the overall portfolio and some of lower risk; this is to achieve an overall portfolio in line with the risk. Data sourced through Financial Express (Analytics). All reasonable precautions have been taken to ensure that the information contained is correct. Past performance is based on a model and not an actual portfolio and should not be seen as a guide to future performance, the price of shares and the income from them can fall as well as rise. Please note that the actual performance of your portfolio may differ due to a difference in charges and timing of any investments, redemptions and switches.