APT FUND UPDATE

Q3 2018

APT FINANCIAL SERVICES LTD.

Pension & Investment Consultants

Market sentiment has shifted markedly

The trade war between the US and China intensified in the third quarter with both sides announcing a second round of tariffs. So far the market response has been a striking divergence between the US and Chinese bourses with the S&P 500 powering ahead whilst the MSCI China has slumped. Clearly, investors see the advantage to the US and we discuss the trade wars in more detail in the Strategy note.

US outperformance also owes something to the cyclical picture with the economy rebounding strongly whilst the rest of the world generally disappointed on the growth front. the US Federal Reserve continued to tighten monetary policy as the economy strengthened and inflation picked up. Tighter liquidity impacted emerging market currencies and bonds with those countries with significant external borrowing requirements experiencing extreme volatility. However, increased volatility was not confined to the emerging markets as Italian bond spreads widened sharply following the budget announcement from the new government in Rome.

Quarter 3 Highlights

- Global equities made gains in Q3, primarily due to US market strength. Political uncertainty and trade concerns weighed on other regions. Government bond yields were broadly higher.

- US equities significantly outperformed other major regions. Economic growth and earnings data remained extremely robust, ultimately overshadowing concerns surrounding the escalating US-China trade war.

- Eurozone equity gains were modest. Banks were generally weaker amid concerns over exposure to emerging markets as well as worries over the Italian budget.

- The UK's FTSE All-Share fell over the period. The Bank of England increased base rates and sterling fell in response to political noise around Brexit.

- Japanese equities saw strong gains amid a weaker yen and greater clarity on the medium-term policy outlook following Prime Minister Abe's re-election as his party's leader.

- Emerging markets equities lost value, with US dollar strength and trade tensions weighing. China underperformed as the US implemented tariffs on a total of $250 billion of Chinese goods.

- In bond markets, core government bond yields rose (i.e. prices fell) over the quarter despite a bout of safe haven demand in August.

Overview of markets in Q3 2018

US

US equities advanced in Q3 to significantly outperform other major regions. Economic growth and earnings data remained robust, and this ultimately overshadowed simmering concerns around the escalating US-China trade war. The US initially targeted $34 billion of Chinese products with a 25% tariff in early July. Tariffs on another $16 billion began in late August, before a 10% tariff was implemented on a further $200 billion of Chinese goods in September (set to rise to 25% in January). Despite these measures, the US equity bull market became the longest in history on 22 August.

Stability in growth and employment figures allowed the Federal Reserve (Fed) to enact its widely anticipated increase in the federal funds rate by 25 basis points. The committee dropped its long-standing description of monetary policy as “accommodative”, and reaffirmed its outlook for further gradual hikes into 2019. Data released in September showed wages to be growing at the fastest rate since 2009, while additions to non-farm payrolls remain above 185,000 on a three-month average. As yet, industrial activity indicators show little impact from the trade wars.

Over the quarter, the information technology and healthcare sectors were boosted by a slew of robust earnings. The energy sector was weaker, with US oil companies hurt by uncertainty surrounding China’s inclusion of US crude oil in its tariff-targeted products. Materials companies struggled with potentially weaker demand associated with the trade war and some company-specific developments.

Eurozone

Eurozone equities posted a modest gain in the third quarter with the MSCI EMU index returning 0.5%. Energy and industrials stocks were among the leading gainers. By contrast, real estate, telecommunications and consumer staples were the main laggards. Financials made a positive contribution overall, but banks were weaker. August saw sharp declines for eurozone banks amid concerns over their exposure to emerging markets (notably Turkey) as well as worries over the Italian budget. These concerns eased in September but the last trading day of the month saw Italy propose a deficit of 2.4%. This is within the EU’s 3% threshold but higher than some had anticipated.

Worries over trade wars and potential US tariffs on cars were a feature of the period. Fears over direct impact on Europe were partly assuaged following a meeting in July between US President Trump and EU President Juncker. This resulted in an agreement to work towards zero tariffs on non-auto industrial goods, while new car tariffs will be put on hold while longer-term talks take place. Towards the end of the period, BMW warned that it would miss its Q3 profit margin target, due in part to the trade war between the US and China. The auto sector was weaker for the period overall

On the economic front, growth for the second quarter of 2018 was revised up to 0.4% quarter-on-quarter, compared to the initial estimate of 0.3%. Forward-looking activity indicators continued to point towards expansion, albeit at a more subdued pace than at the start of 2018. The flash eurozone composite purchasing managers’ index[1] for September fell to a four-month low of 54.2. Eurozone inflation was estimated at 2.1% for September, up from 2.0% in August. There was no change in policy from the European Central Bank who reiterated that interest rates would remain on hold “at least through the summer of 2019”.

[1] The eurozone purchasing managers’ index is produced by IHS Markit and based on survey data from around 5,000 companies based in the euro area manufacturing and service sectors. A reading above 50 indicates expansion.

Overview of markets in Q3 2018

UK

The FTSE All-Share fell 0.8% amid Brexit uncertainty and a tempering of the global growth outlook, as a result of the escalating trade war between the US and China. Any slowdown in global growth and trade tends to have an outsized impact on emerging markets (EM). EM-exposed areas of the UK stock market, including financials and miners, performed poorly as a consequence.

Closer to home, fears of a “no deal” Brexit weighed on the share prices of many UK domestic companies, driving a poor relative performance from the mid caps, with the FTSE 250 (ex investment companies) index falling by 2.7%. Fears for UK economy were also clearly reflected in the value of sterling, which resumed its downward trajectory over the period.

Notwithstanding this, the near-term outlook for the domestic economy improved, as growth recovered from the slowdown seen in the first quarter, prompting the Bank of England (BoE) to increase interest rates by 25 basis points to 0.75%. Merger & acquisition activity provided something of a counterbalance. Whitbread recommended an offer from Coca-Cola of the US for its Costa coffee chain, while John Laing Infrastructure Fund, Esure and Jardine Lloyd Thompson also recommended bid approaches.

Japan

Although trade tensions continued to escalate during the quarter, the Japanese stock market ended September above its recent range to show a total return of 5.9% for the quarter. The Japanese yen weakened against the US dollar during the period, which tended to improve sentiment in the equity market.

Company profits have continued to improve and the most recent quarterly results season was broadly in line with expectations. Investors’ concerns over the possibility of higher US tariffs on autos dampened sentiment across the entire auto supply chain but, near the end of September, the US agreed to defer any decision until after the current trade negotiations with Japan.

Economic growth rebounded strongly from the short-term weakness seen in January to March and corporate sentiment remained relatively firm given the tightness in the labour market and the uncertain global outlook. Data covering the summer months needs to be treated with some caution as extreme temperatures and a succession of natural disasters have caused economic disruption in addition to the human tragedy. Inflation data has actually slightly exceeded prior expectations in recent months and does appear to be on a more sustainable uptrend.

By September it became clear that Mr Abe would easily succeed in his bid to be re-elected as leader of the LDP and therefore retain his position as prime minister. The improved visibility on policy for the next three years has been positively received, especially by foreign investors. There has also been considerable debate over the Bank of Japan’s attempts to fine-tune the implementation of monetary policy without changing any of its headline objectives. This has been portrayed by Governor Kuroda as a transition to a more sustainable version of the same policy, but can also be interpreted as containing some elements of tapering the highly accommodative stance. Mr Abe has himself entered the fray with a speech which included reference to an “exit” from the current policies within his next term in office.

Asia (ex Japan)

Asia ex Japan equities lost value in Q3, primarily due to weakness in China. The MSCI Asia ex Japan Index generated a negative return and underperformed the MSCI World.

Chinese equities were negatively impacted by escalation in trade tensions with the US. The US moved ahead with several rounds of tariff implementation and China retaliated with measures of its own. Meanwhile, Chinese macroeconomic data disappointed. The authorities announced a range of targeted economic support measures, including a shift to fiscal stimulus and credit easing. The central bank also re-introduced macro prudential measures to stabilise the renminbi.

India underperformed by a small margin with rupee weakness a headwind amid rising inflation and concerns over the trade deficit given oil price strength.

Conversely, Thailand recorded a robust return with financials and energy stocks among the best performing names. The approval of laws required for a prospective election in 2019 was perceived as positive. Taiwan, where semiconductor stocks supported performance, and Malaysia also generated solid gains and outperformed.

Elsewhere, Australian equities posted a gain over the quarter in local currency terms, with communications and technology stocks driving returns. The utilities sector meanwhile proved a drag.

Emerging markets

Emerging markets equities lost value in what was a volatile third quarter, with US dollar strength and the US-China trade dispute weighing on risk appetite. The MSCI Emerging Markets index decreased in value and underperformed the MSCI World.

China underperformed as the US implemented tariffs on a total of $250 billion of Chinese goods, some of which are set to increase in January, and threatened tariffs on a further $267 billion of goods. There was little progress in bilateral trade negotiations and China responded with tariffs on $110 billion of US goods. Meanwhile, Chinese macroeconomic data disappointed.

Turkey was the weakest index market amid a sharp sell-off in the lira. The currency fell as geopolitical tensions with the US exacerbated ongoing concerns over its wide current account deficit, above-target inflation and central bank independence. South Africa also underperformed. The market is vulnerable to global liquidity tightening given the economy's twin deficits, and Q2 GDP growth disappointed, slowing to 0.4% year-on-year.

By contrast, Thailand recorded a strong gain and was the best performing index, with energy stocks among the strongest names. Mexico outperformed as the market rallied following general elections and an agreement with the US on NAFTA renegotiation. Taiwan, where semiconductor stocks supported performance, also outperformed. Despite ongoing risk of new US sanctions, Russian equities also finished ahead of the benchmark, benefiting from crude oil price strength.

Global bonds

Core government bond yields rose over the quarter due to positive economic data, particularly from the US. This outweighed a bout of safe haven demand in August caused by concerns related to emerging market instability, trade tensions and political issues in Europe.

The Fed implemented its third rate hike this year, removing references to “accommodative” policy and striking an optimistic tone. The BoE raised rates to 0.75% citing weather as the cause of a weak first quarter. US 10-year yields rose from 2.86% to 3.06%, with Bund and UK gilt 10-year yields rising from 0.30% to 0.47% and 1.42% to 1.57% respectively.

Italian 10-year government bond yields rose from 2.68% to 3.15% amid political concerns. Toward quarter-end the Italian government announced a 2019 fiscal deficit target of 2.4%. This was larger than expected and is likely to draw criticism from the European Commission. Italian 10-year yields rose sharply on the news, with Bund yields falling.

Corporate bonds saw positive total returns in local currency terms. Global high yield[2] (HY) returned 2.1%, led by a 2.4% return from the US dollar market. Global investment grade (IG) returned 0.6% as US dollar IG rose 1.0%, while the sterling market declined 0.2% and euro IG was flat.

Emerging markets (EM) experienced a tumultuous quarter, but this was largely centred on idiosyncratic factors. With the effects felt most keenly in currency markets, hard currency sovereign and corporate EM bonds made positive returns, but local currency was down. Additionally, some of the countries most affected started to take steps to address their problems.

Convertible bonds, as measured by the Thomson Reuters Global Focus Convertible Index, showed a positive return of 1% in US dollar terms. Convertible bond valuations cheapened slightly during the first two months, but then became more expensive again for US and European convertibles during September. Japan and Asia ex Japan remain cheap regions for convertibles.

Commodities

In commodities, the S&P GSCI Spot Index posted a marginally negative return in Q3 with US dollar strength weighing on prices. Industrial metals were weaker on global trade uncertainty. Copper was down 5.5%, while nickel (-15.6%) and lead (-15.9%) registered steeper declines. Precious metals were also weaker, with silver and gold down 8.9% and 4.8% respectively. By contrast, the energy segment posted a positive return as spot prices for Brent crude gained 5.5% and natural gas was up 2.9%. Prices rose amid supply concerns linked to the re-imposition of US sanctions on Iran, the first phase of which took place during the month.

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

[2] Investment grade bonds are the highest quality bonds as determined by a credit ratings agency. High yield bonds are more speculative, with a credit rating below investment grade.

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Active Global Equity Funds	Q3	YTD	1yr	3yr	5yr	10yr	2017	2016	2015	2014	2013
Friends First F&C International Equity	4.4	7.4	12.7	11.2	11.8	10.3	11.5	7.4	8.2	18.0	19.9
Irish Life Pension Active Fund (MEQ)	6.0	7.3	11.3	12.5	12.8	11.0	8.1	15.3	8.0	19.2	21.1
Merrion Global Equity	3.5	5.0	7.8	5.8	9.7	9.2	4.7	0.0	16.0	15.8	20.7
Canada Life (Grp) CL/Setanta Pension Equity	5.8	7.2	11.4	12.6	12.7	11.1	7.9	15.3	8.2	19.7	23.6
Standard Life Inv Global Equity	2.2	1.7	3.9	6.0	8.2	9.5	6.9	-1.5	14.2	15.7	24.1
Zurich Life International Equity	4.6	6.6	11.7	11.6	12.2	10.0	9.2	9.9	10.5	17.5	20.4
Navigate High Growth Fund	3.8	5.6	9.6	11.5	12.5		8.6	11.2	12.8	19.5	23.1
Index: MSCI World Index	**5.7**	**9.5**	**13.8**	**12.7**	**13.3**	**11.3**	**8.1**	**11.4**	**11.0**	**20.1**	**21.9**

Passive Global Equity Funds	Q3	YTD	1yr	3yr	5yr	10yr	2017	2016	2015	2014	2013
Navigate Low Volatility Equity Fund	4.6	7.3	10.2	11.3	14.3		3.7	11.4	17.9	27.6	14.2
Navigate Quality Equity Fund	4.3	4.8	8.7	11.5	11.5		6.7	14.9	6.6	17.4	24.3
ILIM Index World Equity - IWE	5.3	8.0	12.4	12.2	12.4	10.6	8.5	11.5	9.4	18.8	18.9
SSgA World Index Fund	5.3	8.4	12.9	12.0	12.5	10.6	8.1	10.7	10.3	18.8	20.5
Standard Life Vanguard Global Stock Index	4.7	7.7	12.7	12.7	12.2		7.4	11.0	10.2	20.0	21.9
Index: MSCI World Index	**5.7**	**9.5**	**13.8**	**12.7**	**13.3**	**11.3**	**8.1**	**11.4**	**11.0**	**20.1**	**21.9**

Active Managed Funds	Q3	YTD	1yr	3yr	5yr	10yr	2017	2016	2015	2014	2013
Acorn Life (Grp) Pension Managed Growth	1.6	1.9	4.8	7.3	8.7	8.3	7.0	5.6	12.4	13.1	17.1
Canada Life (Grp) Setanta Pension Managed	4.1	5.4	8.3	9.6	10.5	9.1	6.3	11.8	7.5	17.3	18.0
Friends First (Grp) Mixed	2.7	4.5	8.0	7.9	9.4	7.9	8.2	5.2	7.4	16.9	16.0
Merrion IM (Grp) Managed	2.1	3.2	4.5	4.3	8.3	7.8	4.4	-0.7	13.6	16.7	16.3
New Irl (Grp) Pension Managed Net	2.7	1.5	4.8	7.6	8.0	7.5	7.3	9.3	6.5	10.9	15.3
Standard Life Managed	2.1	3.0	6.2	7.0	9.0	9.2	9.4	1.0	10.5	15.6	20.7
Zurich Life (Grp) Balanced	3.0	4.7	7.7	7.7	9.6	8.5	6.2	6.6	9.8	15.1	15.9
APT Average	**2.8**	**3.7**	**6.6**	**7.4**	**9.1**	**8.3**	**7.0**	**5.5**	**9.2**	**15.4**	**17.0**

Passive Managed Fund	Q3	YTD	1yr	3yr	5yr	10yr	2017	2016	2015	2014	2013
ILIM Consensus Fund - PCF	3.1	4.7	7.5	8.4	9.8	8.4	7.0	7.4	9.5	16.0	15.5

Target Return Funds	Q3	YTD	1yr	3yr	5yr	10yr	2017	2016	2015	2014	2013
ILIM Absolute Alpha - ABS	0.8	-1.3	0.1	0.3	2.2		3.1	-0.5	3.1	4.8	3.8
ILIM Managed Fund - MR1	3.3	4.9	7.7	8.7	9.8	8.1	5.8	9.2	8.3	15.7	17.7
Merrion High Alpha	-0.2	0.5	-1.1	-3.3	3.3	8.1	-2.4	-9.1	15.0	9.1	12.8
SSgA Dynamic Diversified	0.2	-1.5	1.4	2.9	2.1		6.5	2.3	-1.8	3.2	2.1

Bond/Fixed Interest Funds	Q3	YTD	1yr	3yr	5yr	10yr	2017	2016	2015	2014	2013
Zurich Long Bond Fund	-0.5	-0.3	1.2	1.5	6.8	6.8	-1.6	6.4	1.9	28.3	1.6
Merrion Long Bond Fund	-1.6	-0.9	0.6	1.2	6.8	7.2	-0.5	4.6	2.6	28.8	2.2
ILIM Passive Long Bond Fund - PPL	-1.6	0.3	1.6	2.0	7.2	6.9	-0.6	6.7	2.0	28.5	1.2
State Street IUT Euro Gov Long Bond Fund	-1.8	0.0	1.3	1.8	6.9		-0.7	6.4	1.7	28.3	1.2
Merrill Lynch > 10 year Index	**-1.6**	**0.4**	**1.8**	**2.3**	**7.5**	**7.2**	**-0.4**	**7.0**	**2.3**	**28.9**	**1.6**

Cash Funds	Q3	YTD	1yr	3yr	5yr	10yr	2017	2016	2015	2014	2013
ILIM Cash Fund - PC2	-0.2	-0.5	-0.6	-0.5	-0.3	0.5	-0.6	-0.4	-0.2	-0.1	0.1
Merrion Cash Fund	-0.2	-0.6	-0.7	-0.4	-0.2	0.3	-0.4	-0.2	-0.1	0.1	0.3
Zurich Cash Fund	-0.1	-0.5	-0.6	-0.6			-0.7	-0.5			
Zurich Secure (Closed to New Business)	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
# Euribid 3 month rate	**-0.1**	**-0.3**	**-0.3**	**-0.3**	**-0.1**	**0.5**	**-0.3**	**-0.3**	**-0.0**	**0.2**	**0.2**

APT Multi Asset - Medium Volatility	Q3	YTD	1yr	3yr	5yr	10yr	2017	2016	2015	2014	2013
Irish Life Navigate Cautious	0.6	-0.9	3.5	4.9	4.5		7.6	5.9	1.2	6.9	5.4
Irish Life Navigate Moderate	1.8	0.8	2.8	7.2	7.3		8.0	7.7	5.3	11.3	6.0
Aberdeen Global Diversified Growth	1.5	-0.0	1.6				8.5				
Amundi SF Abs Return Multi-Strategy Control	-0.9	-2.0	-2.0				0.5				
Amundi II Multi-Strategy Growth	-2.1	-1.6	-0.9	1.3	4.4	2.9	3.0	4.0	4.3	7.6	5.2
Aviva AIMS Target Return	-0.3	-0.9	-1.7	-1.0			-2.8	0.4	4.1		
BlackRock Market Advantage Strategy	0.1	-0.8	3.3	6.0	5.5		10.7	9.1	-3.6	11.2	
BlackRock SF Dynamic Diversified Growth	1.4	0.9	2.2	2.3	2.5		7.2	-2.9	-0.7	5.0	7.1
BNY Mellon Global Real Return	1.7	1.0	1.0	1.6	2.4		1.5	1.3	1.9	5.2	3.8
Insight Broad Opportunities	1.6	-2.1	0.6	3.3	3.2		8.6	3.6	-2.4	5.5	6.5
Invesco Global Targeted Returns	-1.0	-2.2	-2.9	0.0			-0.0	2.2	1.4	8.8	
Investec Global Diversified Growth	-1.8	-7.8	-6.7				7.0				
Irish Life MAP 3	1.6	1.0	3.3	5.8			6.5	6.1	5.5		
KBI Diversified Growth	1.3	0.5	2.9	6.4	5.6		8.5	7.1	-0.1	8.9	5.8
Pimco GIS Dynamic Multi-Asset	1.8	0.4	1.8				5.0	3.5	2.6	6.8	8.5
Russell Inv Multi-Asset Growth Strategy	0.3	-1.5	-0.5	3.2	3.9		7.1				
Schroder Dynamic Multi Asset	-0.5	-2.5	0.5				7.3	3.8	-0.5	6.7	11.7
Schroder ISF Global Diversified Growth	-0.2	-2.5	0.6	3.6	3.6	5.1	1.7	-3.2	3.0	5.5	
Standard Life GARS	0.1	-4.9	-3.2	-1.7	1.0		6.6	2.2	-4.9	3.3	2.1
State Street IUT Dynamic Diversified	0.2	-1.3	1.4	2.5	1.5	3.0					
APT Average	**0.4**	**-1.3**	**0.4**	**3.0**	**3.8**	**3.7**	**5.4**	**3.4**	**1.1**	**7.1**	**6.2**