APT FUND UPDATE
Q4 2018

Overview of markets in Q4 2018

Global equities posted sharp declines in Q4 on persistent concerns over global trade and slowing economic growth. Government bond yields generally fell (i.e. prices rose), reflecting the broad uncertainty.

US equities declined, with especially steep falls in December. The Federal Reserve raised rates, as expected and warnings from several high profile IT firms fanned fears that earnings growth may slow.

European equities also declined, with trade tariffs, slower Chinese growth and Brexit combining to form a difficult environment. Data continued to point to slowing momentum in the eurozone economy.

In the UK the FTSE All-Share fell over the period, with global developments setting the tone for the market. Sterling fell in response to political noise around Brexit, with worries of a “no deal” departure from the EU coming to the fore again.

Japanese equities lost value, with weakness coinciding with periods of yen strength as the currency continued to be viewed as a "safe-haven" at times of increased uncertainty.

Emerging markets equities lost value with the familiar array of global trade and growth concerns weighing on returns. Brazilian equities and the real rallied ahead of the market-friendly election outcome; confirmed in late October.

Bond yields were lower (i.e. prices rose) over the quarter, broadly reflecting increased risk aversion and volatility amid continued macro uncertainty relating to trade tensions, Brexit and politics in Italy.

How Q4 ranks among the worst 20 quarters of the past half century

Global stocks suffered their worst quarterly fall in seven years at the end of 2018. The MSCI World Index fell 12.0% from the start of October to the end of December. It was the 11th worst quarterly fall since 1970.

Why did stocks fall?

US president Donald Trump's tax cuts had provided an added boost for investors heading into 2018, and US GDP growth accelerated to 4.2% on an annualised quarterly basis in Q2. However, economic growth elsewhere, notably in the eurozone, decelerated and global growth became less synchronised.

Meanwhile, the prospect of further US tax cuts in 2019 had faded while a range of other factors weighed on investors: an escalation in the US-China trade conflict, reduced monetary stimulus and global economic growth concerns.

The last quarter of 2018 was the worst quarterly performance for stocks since the third quarter of 2011, when the eurozone debt crisis saw stock markets tumble 17.1%.

A large proportion of the quarter's losses in 2018 came in December, when global stocks fell 7.7%. It was the worst December performance for stocks since 1970 and crushed any hope of a Santa Rally[1].

In the calendar year 2018 the MSCI World Index fell 10.4%, its worst yearly performance since the height of the global financial crisis in 2008. It was the eighth worst yearly performance since 1970 and one of only 14 of the last 48 years to end with a loss for the index.

The UK stock market had a particularly bad year because of Brexit concerns. The FTSE 100 fell 12.4%, it's worst yearly performance since 2008.

Has the stock market bull run ended?

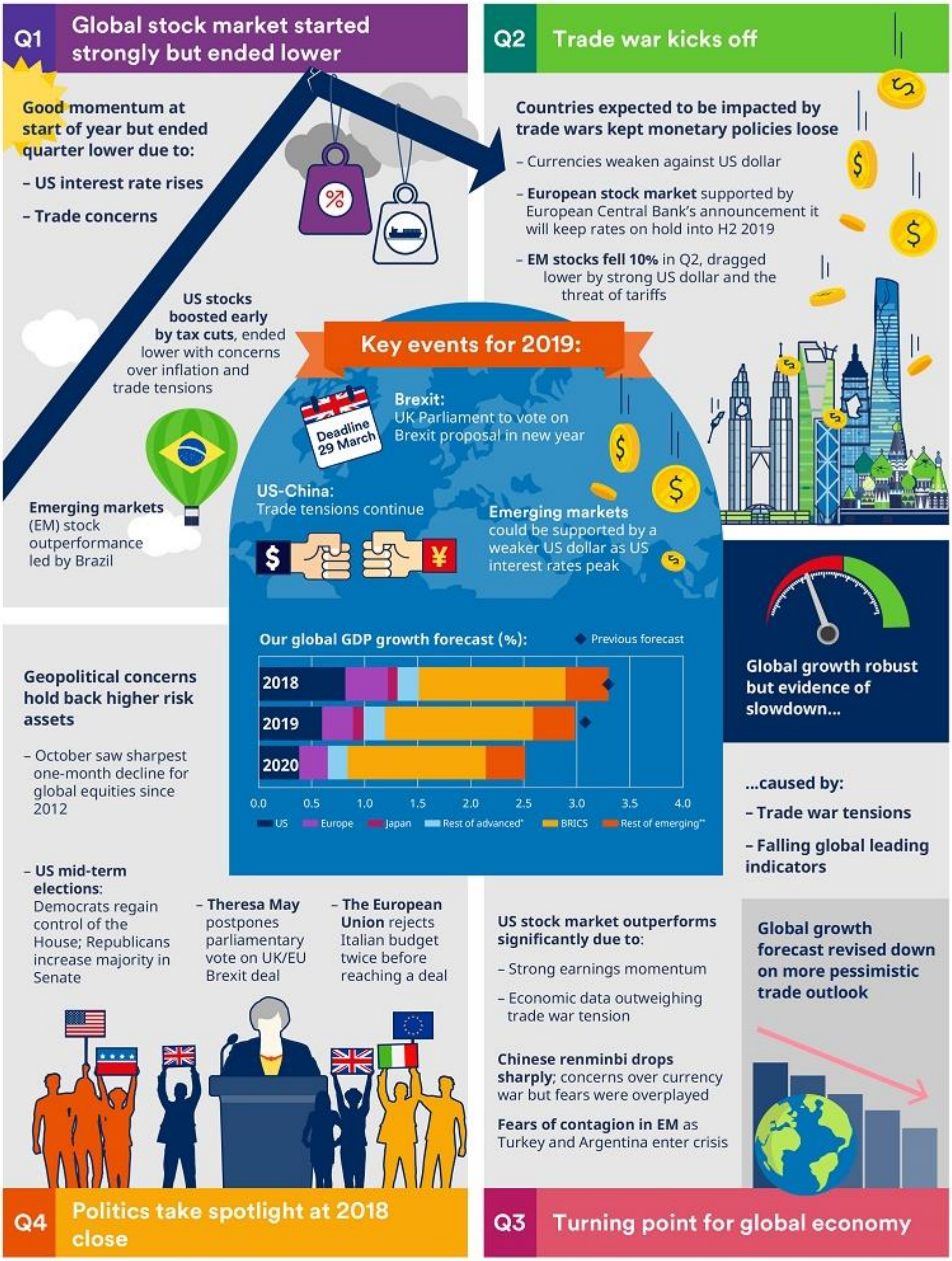
The MSCI World Index reached its current record closing high of 2248.93 on 26 January 2018. Since then the index has fallen to a closing low of 1795.28 on 25 December 2018, which is a fall of 20.1% from its peak.

While the market has recovered slightly, the fall of more than 20% from its peak technically means that the market entered bear territory.

If the market falls between 10% and 20% from its peak it is classified as a correction. A fall of 20% or more is classified as a bear market.

[1] Stock markets have risen in 79% of Decembers over the last three decades adding some substance to the myth of the "Santa Rally". The "Santa Rally" is a supposed effect of the Christmas feel-good factor, helping stock markets rise at the end of the year, although many seasoned investors remain unconvinced.

Market Events in 2018



apt wealth management

Quarterly markets review - Q4 2018

US

US equities declined materially in Q4 - with especially steep falls in December - due to fears over economic momentum and slower earnings growth. The US-China trade dispute also continued to hamper investor optimism. The large cap S&P 500 index outperformed the small & mid cap Russell 2500 index (-16.7%), but still declined by -13.5%.

The Federal Reserve (Fed) raised interest rates in December on continued stability in economic data. The labour market remained extremely strong. However, the central bank grew otherwise more dovish in tone, signalling a more cautious view for coming months. It has revised down its "dot plot" (median rate projection), meaning it now expects two interest rate increases in 2019 instead of three previously, reflecting more cautious economic forecasts. GDP growth forecasts were revised down in 2018 and 2019, with inflation projections also adjusted downwards.

Warnings from several high profile firms – particularly in information technology (IT) and most notably from Apple - also fanned fears that earnings growth may slow. IT was amongst the quarter's weaker sectors, while energy names struggled with expectations of softer China demand that weighed on oil prices. Less economically-sensitive sectors, such as utilities, generally performed better although most areas of the market lost ground.

Eurozone

It was a poor quarter for equities and Europe was no exception with the MSCI EMU index returning -12.7%. Worries over rising US interest rates, trade tariffs, slower Chinese growth and Brexit continue to combine to form a difficult environment for higher risk assets like shares. The defensive sectors of communication services and utilities – often perceived as safe havens due to their stable earnings throughout the cycle – were the only sectors to register a positive return. Materials and information technology were among the worst performing sectors. The period included the third quarter earnings season with company results greeted with sharp share price swings, even in cases where earnings met market expectations. Several carmakers warned that slower demand and delays to new emissions tests would weigh on their full-year results.

Data continued to point to slowing momentum in the eurozone economy. The flash composite purchasing managers' index[1] for December showed business activity slowed to the weakest level in over four years. The index came in at 51.3, down from 52.7 in November. The "gilets jaunes" protests in France and ongoing weak demand for new cars were among the factors weighing on activity. As expected, the European Central Bank confirmed the end of its bond-buying programme in December and reiterated that interest rates would remain on hold "at least through the summer of 2019".

December saw the end of the long-running dispute over Italy's 2019 budget. The Rome government agreed to delay some spending measures, meaning 2019's budget deficit will be 2.04% compared to the 2.4% initially envisaged. However, the agreement failed to quell concerns about the health of the country's banks and financials were weak in the quarter.

[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.

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UK

The FTSE All-Share retreated 10.2% over the period, falling sharply, inline with global equities. It was one of the worst quarters for global equities in many years as fears over the outlook for the world economy came to a head against the backdrop of tightening global monetary conditions, US-China trade tensions and European political uncertainty. Many UK domestic-focused sectors also performed poorly as worries of a “no deal” exit from the EU intensified after the UK published its draft EU Withdrawal Agreement (endorsed by EU leaders) which triggered another period of intense political uncertainty.

Several senior and junior ministers resigned in protest at the Withdrawal Agreement, raising questions over the stability of the UK government, and the final parliamentary passage of the deal. The prime minister struggled to gain sufficient support from parliament for the agreement in its initial form, with one of the main issues being the backstop arrangement to avoid a hard border between Northern Ireland and the Irish Republic. A “meaningful vote” on the agreement was deferred until January, in turn sparking a no confidence vote in the PM’s leadership of the Conservative Party, which she won by 200 to 117.

Despite the uncertainty, and the risk of a UK recession in the event of a “no deal”, the economy continued to recover from the very poor start to 2018. UK Q3 GDP growth came in at 0.6% quarter-on-quarter as expected, up from 0.4% in Q2 and the fastest pace since Q4 2016. More recent data, however, has been volatile: UK retail sales disappointed in October, falling -0.5% month-on-month, but bounced back very sharply in November, increasing by 1.4% month-on-month, which was significantly above consensus expectations. UK households enjoyed an acceleration in wage growth and lower inflation over the period.

Japan

The Japanese equity market reflected the deterioration in global sentiment, and ended the quarter down -17.6%. Weakness was particularly concentrated in October and late December, which coincided with periods of yen strength as the currency continued to be viewed as a "safe-haven" at times of increased uncertainty.

From Japan’s perspective, very little actually changed during the quarter. The Bank of Japan’s regular policy committee meetings resulted in no change to monetary policy, as expected. Economic news was somewhat mixed, but all the data needs to be viewed in the context of a succession of natural disasters in Japan which caused some slowdown in activity followed by a relatively strong rebound in subsequent months. After a long run of incremental positive data, there are now some signs that the rate of improvement in the labour market may be peaking out. One surprise during the quarter was the earlier than expected confirmation that the next increase in consumption tax will go ahead as planned in October 2019.

There was little fresh corporate news for investors after the quarterly results announcements. However, Softbank, the communications conglomerate, did complete a significant initial public offering of its Japanese mobile phone arm, despite the poor market environment. Nissan also grabbed the headlines following the arrest of Carlos Ghosn and his subsequent removal from his position as chairman of the company. Away from the spotlight, however, Japanese companies have announced record levels of share buybacks (i.e. companies repurchasing their own shares) in the wake of their interim results, as the trend towards better shareholder returns continues.

Asia (ex Japan)

Asia ex Japan equities extended their losses in a volatile quarter for world markets. The MSCI Asia ex Japan index recorded a negative return, though it outperformed the MSCI World index. Persistent concerns over the US-China trade conflict and the pace of US interest rate hikes dominated sentiment. The darkening global economic outlook further troubled investors. Notably, China's economy recorded its weakest quarterly growth since the global financial crisis. Industrial production and retail sales also slowed more than expected, heightening growth concerns. Policymakers responded with measures to support the economy, including cutting banks' reserve requirement ratios and boosting credit for small and private companies.

Across the region, export-oriented markets Taiwan, South Korea and China posted sharp declines. Taiwanese and South Korean stocks were dragged lower by steep falls in technology heavyweights. In China, healthcare and energy were the worst performing sectors. Hong Kong equities retreated but outpaced the region as strong gains in consumer staples stocks helped mitigate losses.

Meanwhile, the plunge in crude oil prices lifted some net oil importers; Indonesia, the Philippines and India bucked the downtrend to close higher. The Indonesian rupiah was also buoyed by Bank Indonesia's surprise interest rate increase. In India, a widening rift between the government and the Reserve Bank of India culminated in the unexpected resignation of the central bank governor. A former civil servant was appointed as the new head of the central bank.

Emerging markets

Emerging markets lost value in Q4 as the US-China trade dispute persisted and concerns over global growth increased. The MSCI Emerging markets index decreased in value but outperformed the MSCI World.

Mexico was among the weakest index markets as rising concern over the incoming government's policies, and the implications for investment, led to a sell-off in equities and the peso. A series of public consultations were held during the quarter, the most notable of which rejected the building of a new airport in Mexico City (which is already one-third complete).

The Asian EM of Taiwan, South Korea and China all underperformed with a combination of trade uncertainty, disappointing corporate earnings and technology cycle concerns a headwind. In China, Q3 GDP growth by more than expected to 6.5% YoY while higher frequency data continued to deteriorate and the authorities announced further measures to support the economy. Elsewhere, a sharp fall in crude oil prices was a headwind for several oil producing EM, notably Colombia but also Russia.

By contrast, Brazil posted a strong gain as equities and the real rallied in anticipation of a market-friendly election outcome, which was confirmed with Jair Bolsonaro's run-off victory in late October. Several markets sensitive to external pressures also posted gains, including Indonesia and India, which benefited from the decline in crude oil prices.

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Global bonds

Bond yields were lower over the quarter, broadly reflecting increased risk aversion and volatility amid continued macro uncertainty relating to trade tensions, Brexit and politics in Italy. Comments from Fed Chair Jerome Powell indicated a slightly dovish shift though the Fed implemented the fourth rate rise of the year in December. US 10-year Treasury yields fell from 3.06% to 2.68%.

In Europe, 10-year Bund yields declined from 0.47% to 0.24% as data remained lacklustre. At its final meeting of the year, the ECB confirmed it would end its bond purchase programme, but downgraded its growth and inflation forecasts for the year. Italian 10-year yields were volatile, but overall fell from 3.15% to 2.74% as the government reached an agreement with the EU on the budget, having reduced its fiscal deficit target to 2.04% (previously 2.40%).

Brexit uncertainty was heightened as the announcement of a Withdrawal Agreement between the UK and EU drew widespread criticism. Prime Minister Theresa May took a last minute decision to postpone the parliamentary vote on the deal and soon after survived a confidence vote. Ten-year gilt yields fell from 1.57% to 1.28%.

Corporate bonds had a challenging quarter and underperformed government bonds. A deterioration of risk sentiment led to the broad-based underperformance across investment grade[2] credit sectors relative to government bonds. High yield (HY) was weak, led down by the energy sector, particularly in the US.

Emerging markets (EM) bonds saw performance improve as the quarter progressed with US dollar strength waning and currencies of oil exporters benefiting from weaker energy prices.

The MSCI World index lost 13% over the quarter. Balanced convertible bonds, as measured by the Thomson Reuters Global Focus hedged US dollar index, ended the quarter with a loss of -4.7% and hence protected investors from 65% of the equity downside. With equity market losses, the characteristics of the convertibles market changed once more and many of these securities are trading much closer to par value with significant potential upside. At the same time, valuations of convertibles bonds cheapened slightly. European convertibles remain slightly overvalued while discounts can be found in Asia and Japan.

Commodities

The S&P GSCI Index fell sharply, primarily due to the large decline in the energy component. Crude oil prices declined heavily on concerns of oversupply in the face of a weakening outlook for global demand. The industrial metals component was also weaker, as deteriorating Chinese macroeconomic data weighed on demand expectations. Wheat and cotton prices fell but cocoa and sugar recorded positive returns. Precious metals prices posted solid gains as global growth concerns spurred demand for traditionally safe-haven assets.

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	Q4	1yr	3yr	5yr	2018	2017	2016	2015	2014
Friends First F&C International Equity	-11.0	-4.4	4.6	7.9	-4.4	11.5	7.4	8.2	18.0
Irish Life Pension Active Fund (MEQ)	-10.9	-4.4	6.0	8.9	-4.4	8.1	15.3	8.0	19.2
Merrion Global Equity	-15.1	-10.8	-2.2	4.6	-10.8	4.7	0.0	16.0	15.8
Canada Life (Grp) CL/Setanta Pension Equity	-11.0	-4.6	5.9	9.0	-4.6	7.9	15.3	8.2	19.7
Standard Life Inv Global Equity	-14.2	-12.8	-2.8	3.9	-12.8	6.9	-1.5	14.2	15.7
Zurich Life International Equity	-12.1	-5.5	4.4	8.2	-5.5	9.3	10.0	10.6	17.7
Navigate High Growth Fund	-11.4	-6.4	5.1	8.3	-6.4	10.3	11.2	10.2	16.7
Index: MSCI World Index	**-12.0**	**-4.1**	**4.5**	**8.5**	**-4.1**	**7.5**	**10.7**	**10.4**	**19.5**

Passive Global Equity Funds	Q4	1yr	3yr	5yr	2018	2017	2016	2015	2014
Navigate Low Volatility Equity Fund	-5.7	1.2	5.3	12.5	1.2	4.7	10.3	16.8	26.5
Navigate Quality Equity Fund	-11.6	-7.3	4.6	7.5	-7.3	6.7	14.9	6.7	17.4
ILIM Index World Equity - IWE	-11.7	-4.6	4.9	8.5	-4.6	8.5	11.5	9.4	18.8
SSgA World Index Fund	-12.0	-4.7	4.5	8.4	-4.7	8.1	10.7	10.3	18.8
Standard Life Vanguard Global Stock Index	-12.4	-5.7	4.0	8.3	-5.7	7.4	10.9	10.2	20.0
Index: MSCI World Index	**-12.0**	**-4.1**	**4.5**	**8.5**	**-4.1**	**7.5**	**10.7**	**10.4**	**19.5**

Active Managed Funds	Q4	1yr	3yr	5yr	2018	2017	2016	2015	2014
Acorn Life (Grp) Pension Managed Growth	-9.3	-7.6	1.4	5.8	-7.6	7.0	5.6	12.4	13.1
Canada Life (Grp) Setanta Pension Managed	-8.0	-3.1	4.8	7.7	-3.1	6.3	11.8	7.5	17.3
Friends First (Grp) Mixed	-8.7	-4.6	2.8	6.4	-4.6	8.2	5.2	7.4	16.9
Merrion IM (Grp) Managed	-11.7	-8.9	-1.9	4.6	-8.9	4.4	-0.7	13.6	16.7
New Irl (Grp) Pension Managed Net	-8.6	-7.3	2.8	5.2	-7.3	7.3	9.3	6.5	10.9
Standard Life Managed	-10.3	-7.7	0.7	5.4	-7.7	9.4	1.0	10.5	15.6
Zurich Life (Grp) Balanced	-8.4	-3.6	3.1	6.8	-3.6	6.3	6.7	10.0	15.3
# Average	**-9.3**	**-6.1**	**2.0**	**6.0**	**-6.1**	**7.0**	**5.6**	**9.7**	**15.1**

Passive Managed Fund	Q4	1yr	3yr	5yr	2018	2017	2016	2015	2014
ILIM Consensus Fund - PCF	-8.4	-4.1	3.3	7.0	-4.1	7.0	7.4	9.5	16.0

Target Return Funds	Q4	1yr	3yr	5yr	2018	2017	2016	2015	2014
ILIM Absolute Alpha - ABS	-0.9	-2.2	0.1	1.6	-2.2	3.1	-0.5	3.1	4.8
ILIM Managed Fund - MR1	-6.6	-2.1	4.2	7.2	-2.1	5.8	9.2	8.3	15.7
Merrion High Alpha	-8.7	-8.2	-6.6	0.4	-8.2	-2.4	-9.1	15.0	9.1
SSgA Dynamic Diversified	-4.0	-5.3	1.1	0.3	-5.3	6.6	2.2	-4.9	3.3

Bond/Fixed Interest Funds	Q4	1yr	3yr	5yr	2018	2017	2016	2015	2014
Zurich Long Bond Fund	1.3	1.0	1.9	6.8	1.4	-1.6	6.4	1.9	28.3
Merrion Long Bond Fund	1.3	0.4	1.5	6.7	0.4	-0.5	4.6	2.6	28.8
ILIM Passive Long Bond Fund - PPL	1.9	2.2	2.7	7.3	2.2	-0.6	6.7	2.0	28.5
State Street IUT Euro Gov Long Bond Fund	2.0	2.0	2.6	6.6	2.1	-0.8	6.5	1.7	29.5
Merrill Lynch > 10 year Index	**2.0**	**2.5**	**3.0**	**7.5**	**2.5**	**-0.4**	**7.0**	**2.3**	**28.9**

Cash Funds	Q4	1yr	3yr	5yr	2018	2017	2016	2015	2014
ILIM Cash Fund - PC2	-0.1	-0.6	-0.5	-0.4	-0.6	-0.6	-0.4	-0.2	-0.1
Merrion Cash Fund	-0.4	-1.0	-0.6	-0.3	-1.0	-0.4	-0.2	-0.1	0.1
Zurich Cash Fund	-0.2	-0.7	-0.6		-0.7	-0.7	-0.5		
Zurich Secure (Closed to New Business)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
# Euribor EBF 3 month rate	**-0.1**	**-0.3**	**-0.3**	**-0.2**	**-0.3**	**-0.3**	**-0.3**	**-0.0**	**0.2**

APT Multi Asset - Medium Volatility	Q4	1yr	3yr	5yr	2018	2017	2016	2015	2014
Fund Name	**%**	**%**	**% p.a.**	**% p.a.**	**%**	**%**	**%**	**%**	**%**
Irish Life Navigate Cautious	-5.8	-6.6	2.1	2.8	-6.6	7.6	5.9	1.2	8.5
Irish Life Navigate Moderate	-7.7	-7.0	3.0	4.6	-7.0	8.5	7.6	4.2	11.2
Aberdeen Global Diversified Growth	-5.5	-5.5			-5.5	8.5			
Amundi SF Absolute Return Multi-Strategy Control	-1.5	-3.5			-3.5	0.5			
Amundi II Multi-Strategy Growth	-2.2	-3.8	1.0	3.0	-3.8	3.0	4.0	4.3	7.6
Aviva AIMS Target Return	-6.5	-7.4	-3.5		-7.4	-3.1	0.1	4.0	
BlackRock Market Advantage Strategy	-6.4	-7.1	3.9	3.8	-7.1	10.7	9.1	-3.6	11.2
BlackRock SF Dynamic Diversified Growth	-4.9	-4.0	-0.0	0.8	-4.0	7.2	-2.9	-0.7	5.0
BNY Mellon Global Real Return	-1.9	-1.0	0.6	1.8	-1.0	1.5	1.3	1.9	5.2
Insight Broad Opportunities	-4.6	-6.6	1.7	1.6	-6.6	8.6	3.6	-2.4	5.5
Invesco Global Targeted Returns	-2.9	-5.0	-1.0	1.4	-5.0	-0.0	2.2	1.4	8.8
Investec Global Diversified Growth	-3.9	-11.4			-11.4	7.0			
Irish Life MAP 3	-4.7	-3.8	2.8		-3.8	6.5	6.1	5.5	
KBI Diversified Growth	-9.2	-8.7	2.0	2.9	-8.7	8.5	7.1	-0.1	8.9
Pimco GIS Dynamic Multi-Asset	-5.9	-5.6			-5.6	6.6			
Russell Investments Multi-Asset Growth Strategy	-5.3	-6.7	0.5	2.1	-6.7	5.0	3.5	2.6	6.8
Schroder Dynamic Multi Asset	-5.9	-8.2			-8.2	7.1			
Schroder ISF Global Diversified Growth	-6.7	-9.1	0.4	1.5	-9.1	7.3	3.8	-0.5	6.7
Standard Life GARS	-2.6	-7.5	-2.7	0.1	-7.5	2.1	-2.5	3.2	5.6
Standard Life EDGF	-7.6	-8.2	-0.6		-8.2	9.2	-1.9		
State Street IUT Dynamic Diversified	-4.0	-5.3	1.1	0.3	-5.3	6.6	2.2	-4.9	3.3 #
# Average	**-5.0**	**-6.3**	**0.7**	**2.0**	**-6.3**	**5.7**	**3.1**	**1.1**	**7.3**