For professional advisers only

Date:

30th June 2020 - 30th September 2020

Cornerstone Asset Management Investment Report

WAVERTON

INVESTMENT MANAGEMENT

Contents

defaqto 2020 DFM MPS on Platform

defaqto 2019 DFM MPS on Platform

defaqto 2018 DFM MPS on Platform

Introduction

Thank you for your investment in the Cornerstone/Waverton MPS on Platform. We are pleased to provide our report for the third quarter of 2020.

Our Portfolio Range

We manage portfolios across the risk spectrum. This platform based portfolios are available exclusively to clients of Cornerstone Asset Management to provide a cost effective and efficient means of investment.

Our portfolio range is shown below:

Portfolio	Investment Objective	Risk Category
Cornerstone Active Growth | 5	CPI+5%	High
Cornerstone Active Growth | 4	CPI+4%	High / Medium
Cornerstone Active Growth | 3	CPI+3%	Medium
Cornerstone Active Growth | 2	CPI+2%	Low / Medium
Cornerstone Active Income | 2	CPI+2%	Low / Medium

More details of each mandate, including the benchmark, volatility range and risk category explanation can be found on page 10.

Our investment approach

The portfolios invest in a diversified range of assets which seek consistent, less volatile returns when compared to the market. This involves blending a variety of different asset classes so that the portfolio participates in some of the upside in rising equity markets, but also aims to limit some of the downside when markets are falling.

Waverton has an active approach to investing both at the asset allocation and fund selection level. In terms of asset allocation the strategic positions are constantly reviewed and tactically adjusted according to market conditions. Our tactical asset allocation is driven by the Waverton Asset Allocation Committee which meets every six weeks or more frequently, if required, and ensures portfolios are managed in accordance with their long-term objectives but also with a degree of latitude, particularly important as Waverton is a house which is flexible and pragmatic and does not seek to 'hug' benchmarks.

The portfolio's asset allocation is implemented by weightings to our asset class wrappers specifically created and managed for this purpose. Each fund provides focussed access to one of the major asset classes of global equities, fixed interest and alternative investments. Importantly, the funds are managed on a complementary basis with the aim of controlling the duplication of underlying holdings and risk of the overall portfolio. The use of these funds provides diversification benefits, with a broad range of holdings within each fund, and tax efficiencies.

All portfolios are constantly monitored to ensure that they are consistent with the original mandate, our house view and the risk parameters of the portfolio.

Market Perspectives

September 2020

THE LAST QUARTER...

- Shares continue to rally, led by Asia and Emerging Markets, with the UK being the laggard (down 3.5%).
- The S&P 500 sees its best August since 1986.
- Bond yields stay very low: 0.23% on the UK ten-year gilt.
- Gold reaches an all-time high, touching $2,074 an ounce.
- Apple is worth $2 trillion – more than the whole of the FTSE100 index.
- Ocado attains the same market cap. as Tesco.
- Australia enters recession for the first time since 1991.
- Argentina emerges from default following a $65bn debt restructuring.

> "Physicians of the utmost fame
> Were called at once; but when they came
> They answered, as they took their fees,
> 'There is no cure for this disease'"
>
> **Hilaire Belloc,** *Cautionary Tales for Children* (1907).

The US Federal Reserve is signalling higher inflation...

At the Economic Symposium, Jackson Hole, in August, the Chairman of the US Federal Reserve, Jerome Powell, delivered the conclusions of the Fed's Monetary Policy Review, a process that was started in 2019. The new regime will involve two key changes in the parameters which govern the way in which the Federal Reserve sets interest rates. First, the Fed will target inflation which averages 2% over time, rather than always aiming at 2%; second, it will use monetary policy to address specifically "shortfalls of employment" instead of using "deviations" in employment both above and below the theoretical maximum level to determine interest rates. Thus the Fed has moved to "average inflation targeting" whereby periods of inflation above 2% will be encouraged in order to counterbalance those periods when the rate is below 2% (i.e. for most of the last 12 years – see chart below), and it will no longer consider full employment as a precursor to tightening monetary policy. High employment has traditionally been seen as a leading indicator of rising inflation, but the relationship hasn't held true in the present economic cycle.

…which could have a meaningful impact on long-term expectations.

Although these changes may sound fairly inconsequential, and the reaction of financial markets was muted, we think the announcement is significant because it deliberately skews inflation risk to the upside and marks an implicit shift in priority from controlling price levels to maximising economic growth. This should lead to rising inflation expectation among investors rippling through the economy in a way which might fundamentally change psychology and see an end to the present stagnation – once the immediate deflationary effect of the pandemic is behind us.

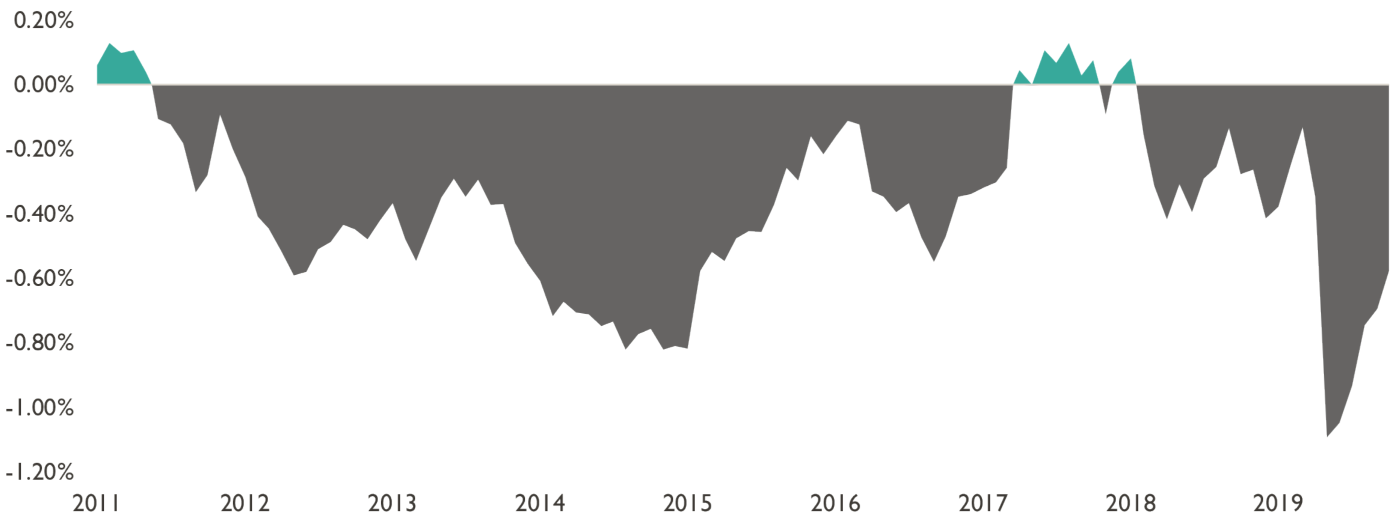
Central banks are acting in cahoots with governments to avoid deflation and permanently low growth.

It is widely accepted that deflation is injurious to employment and wealth; ever since the financial crisis of 2008-09 policy makers throughout the developed world have been doing their utmost to avoid its entrenchment. Nonetheless, ultra-low interest rates have failed to stimulate reflation and now even a long-sceptical Bank of England is considering joining Japan, the Eurozone and Switzerland in cutting rates below zero. People can therefore be forgiven for believing that the Fed's new policy will merely prove to be the latest in a long line of special measures announced by central banks (going back almost 30 years if you consider Japan) which have consistently failed to generate 'escape velocity'. However, this is the first time we have seen extremely loose monetary policy coupled with wholesale abandonment of fiscal prudence by governments – and, far from exercising their traditional role as disciplinarians on this front, central bankers now seem to be encouraging governments to play their role in stimulating reflation. Governments would not be able to borrow on anything like the current scale if the central banks weren't willing to mop up the debt regardless of price. It seems that the so-called 'independent' central banks are in fact willingly complicit in the accelerated debasement of fiat money.

Traditional index-linked bonds are not a panacea for inflation.

All this has significant implications for investment returns. Traditional bonds, as we have long said, offer minimal reward for considerable risk – which for good credits chiefly means a loss of long term purchasing power if inflation returns. Investors customarily look to index-linked bonds (or TIPS, as they are known in the US) to protect themselves from the effects of inflation. However, the real yields on offer have already moved well into negative territory. UK index-linked gilts provide a real yield of -3% over 10 years, so are at risk of negative duration effects (i.e. significant price falls) if yields rise. Another way to buy inflation protection is to invest in inflation swaps or 'swaptions'. These derivatives are traded off-exchange but can be wrapped in notes issued by investment banks, making them more accessible to Waverton clients. Current levels of expected inflation in US dollars and euros remain well below the policy targets of the Federal Reserve and the European Central Bank – which makes them interesting in our view. Importantly, the payoff on these instruments is not subject to negative duration effects – but being derivatives, they are appropriate only as components within a wider portfolio strategy. Our bond funds have exposure to US dollar and euro inflation-linked notes.

US Inflation Overshoot/Undershoot vs. 2% Target



Source: Bloomberg. Data to 30.09.20

Outlook for Equities

Index funds may have had their day.

Just as fixed-interest investment today is a lot more complicated than it was in the days when you could buy gilts yielding 5%, prudent equity investment requires more than blindly following an index tracker fund. If you were fortunate enough to have invested in a market-cap weighted global equity index fund you will have done well on the back of the extraordinary technology boom in the US; if, however, you followed the prevailing fashion of a few years ago and opted for a FTSE100 tracker fund, you would be sitting on a 21% loss this year, and have underperformed the world index by 73% over the last five years. Stories abound in British newspapers of legions of workers having to delay their retirement because their pension funds were largely invested in the FTSE100 index.

A few very large companies are distorting the indices.

Waverton have always believed in the merits of picking 'best of breed' stocks from around the world. We have therefore not been especially exposed to the vagaries of the UK stock market and have participated usefully in the US boom, even if clients haven't been rewarded quite as handsomely as if they had invested in the MSCI World index. However, we believe that it is just as dangerous to rely on excessive exposure to mega-cap technology stocks as it is to centre one's equity allocation around large weightings in oils and financials (which have dominated the UK market). We have participated in the growth of Apple, Amazon, Microsoft etc., but we do not wish to rely on the premise that these very large companies will go on delivering super-normal returns, and nor do we wish to be exposed to other large index constituents like Saudi Aramco or Tesla – some of which look extremely expensive on fundamentals. They are also apt to have highly volatile share prices and would be exposed if fashions changed or in the event that chasing indices fell out of favour as the default mode of investment. Broadening portfolios' equity exposure is not as simple as exchanging 'growth' for 'value' or, say, reducing technology & healthcare in exchange for resources & hotels – although there may be an element of that if our focus on companies which offer a sustainable business model at an attractive cash flow multiple lead us that way. Rather, it may simply direct us into different technology stocks – for example away from Facebook and towards TE Connectivity.

Japan looks interesting…

Japan has been a useful hunting ground for growth stocks (e.g. Keyence and Hoya), more traditional compounders like KDDI & Asahi, and restructuring plays like Hitachi. We were therefore interested to see in August that Berkshire Hathaway, 90 year-old Warren Buffett's listed investment vehicle, has invested $6bn in Japan's five biggest trading houses – Mitsubishi Corp., Mitsui & Co, Itochu, Sumitomo Corp. and Marubeni Corp. Also of interest is the fact that this is a 'wholesale' purchase of a 5% stake in each of these names, rather than a highly targeted company-specific exercise, which would be more typical of Warren Buffett. That could be because this is simple a call on value, backed by Berkshire Hathaway's 2019/2020 issuance of several bonds worth Y625bn with an average maturity of 10.5 years costing only 0.7% p.a.; or it could suggest a positive view on energy and commodities (where Mitsubishi, Mitsui and Sumitomo have significant exposure). Either way, it is positive for active investors in Japan and feels like a constructive view regarding the outlook for inflation.

…as the Tokyo stock exchange sees one of its largest ever takeover deals.

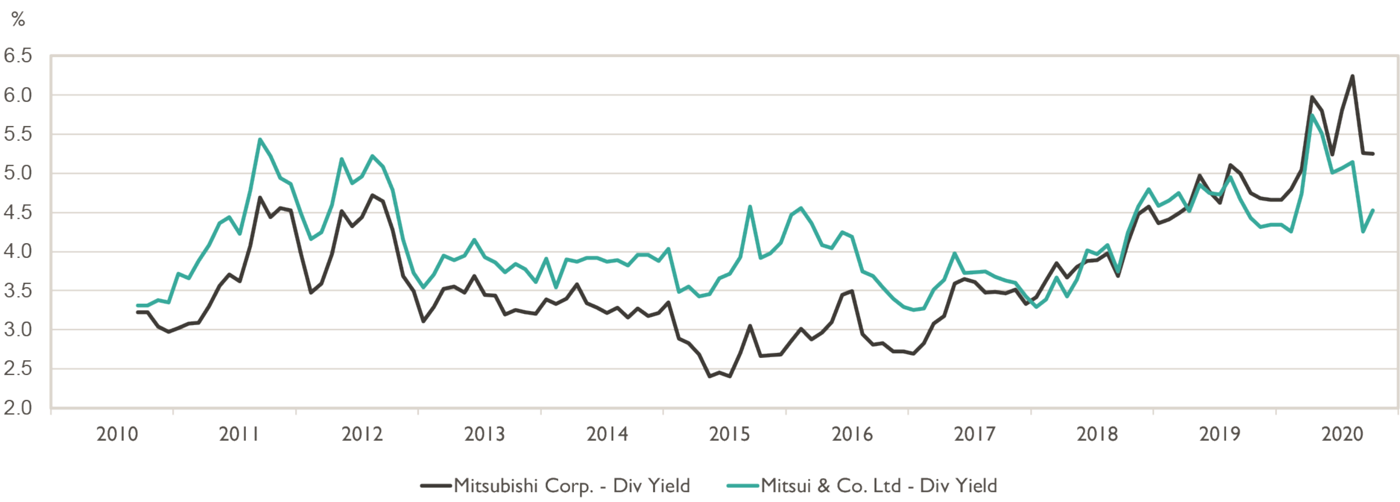
The Tokyo stock exchange hit the financial headlines again at the end of the quarter when the part government-owned Nippon Telegraph and Telephone Corp. (NTT) agreed to buy out its remaining stake in mobile operator, NTT Docomo. It is too early to say whether this is at the behest of the new Prime Minister Suga, who has a special interest in telecoms, or just another example of ongoing corporate consolidation and restructuring in Japan as the challenges presented by COVID-19 concentrate minds.

We continue to focus on businesses' sustainability above all else.

In a low growth world, looking optically cheap may not be a reliable indicator of value; much more important is going to be the durability of the underlying business and the ability of management to adapt to changing circumstances.

Algernon Percy

Japanese Trading Houses' Dividend Yields



Source: Factset. Data to 30.09.2020

Portfolio Commentary

The third quarter was a positive one for all of the MAP portfolios, with returns of between +1.4% and 4.1%.

Fixed Income

The fixed Income component performed well with most funds up between 2% - 3% in a period that the gilt index fell by the same amount. Inflation expectations fell during September, particularly in Europe, as Covid-19 cases started to rise again. This brought government bond yields back down after the August rise.

We see both deflationary and inflationary risks ahead, which is likely to make fixed income positioning very challenging. We will continue to look to diversify across the fixed income markets with managers who we believe should be able to managed the risks appropriately.

Equities

Major global stock markets were more muted after the second quarter's dramatic recovery, but still posted positive aggregate returns in sterling terms. The MSCI ACWI benchmark (covering major developed and emerging markets) rose +3.8%. However, within this there was a wide geographical dispersion, with the UK and many European markets falling, and the US once again proving robust.

This proved somewhat of a tailwind for us relative to many of our peers as we continue to invest on a global basis with most of our equity exposure in the US rather than the UK. Where we have invested in the UK, has been in more mid-sized growth companies that have outperformed the overall FTSE 100 index which has been held back by its significant exposure to oil companies and banks. The standout region was Asia Pacific ex Japan with the Veritas Asian fund now up around 10% since we added it. Our global equity funds also performed well, with, in particular, the Smith & Williamson Artificial Intelligence fund up over 7.5% as it continues to benefit from the integration of artificial intelligence across many companies and sectors.

Alternatives

Across our alternative exposure, we saw continued positive contribution from the JP Morgan Global Macro Opportunities fund which is now up almost 5% over the last year. In contrast, the property exposure has been mixed as concerns remain over the current situation and the long term effects.

Outlook

As with the last quarter, the market recovery may seem surprising given the ongoing Covid-19 crisis. Indeed, the pandemic has had clear negative impacts on corporate performance, which in some cases look to be structural rather than a shorter, cyclical hit. However, the monetary and fiscal responses have been equally dramatic, and have driven down equity discount rates to over 20-year lows.

The outlook remains uncertain and more turbulence is to be expected. The path of the virus, the US Election and Brexit are just three of the issues that can all individually have a major impact on the direction of risk assets and none are easy to call. However, we believe we are appropriately positioned and adequately diversified to be able to deliver returns in a variety of market environments. We are carrying additional cash, ready to deploy swiftly and appropriately, should our conviction increase.

The above should be used as a guide only. It is based on our current view of markets and is subject to change. As at 30th September 2020.

Portfolio Performance

Performance to 30th September 2020

Model	Q3 20	1 Year	3 Years	12m to Sep 19	12m to Sep 18	Since Inception*
Active Growth | 5	4.1%	4.4%	20.2%	4.4%	10.3%	87.2%
CPI+5%	1.7%	5.6%	21.3%	6.9%	7.5%	67.1%

Model	Q3 20	1 Year	3 Years	12m to Sep 19	12m to Sep 18	Since Inception*
Active Growth | 4	3.4%	3.3%	17.3%	4.8%	8.3%	76.2%
CPI+4%	1.5%	4.6%	17.9%	5.9%	6.5%	54.8%

Model	Q3 20	1 Year	3 Years	12m to Sep 19	12m to Sep 18	Since Inception*
Active Growth | 3	2.4%	1.7%	13.2%	5.2%	5.9%	60.1%
CPI+3%	1.2%	3.6%	14.5%	4.9%	5.5%	43.2%

Model	Q3 20	1 Year	3 Years	12m to Sep 19	12m to Sep 18	Since Inception*
Active Growth | 2	1.4%	0.1%	9.7%	5.7%	3.7%	45.3%
CPI+2%	1.0%	2.6%	11.2%	3.8%	4.4%	32.5%

Model	Q3 20	1 Year	3 Years	12m to Sep 19	12m to Sep 18	Since Inception*
Active Income | 2	1.5%	-0.7%	11.8%	7.2%	5.1%	63.3%
CPI+2%	1.0%	2.6%	11.2%	3.8%	4.4%	32.5%

*Inception date: 30.09.2012
Source: Waverton, Morningstar.

These performance figures are based on the performance of the Cornerstone ACTIVE Growth portfolios available through the Ascentric Platform. Performance is taken from internally derived Waverton figures. It is based on the underlying holdings for each portfolio and takes into account any asset allocation changes made during the period. Performance is gross of Waverton fees.

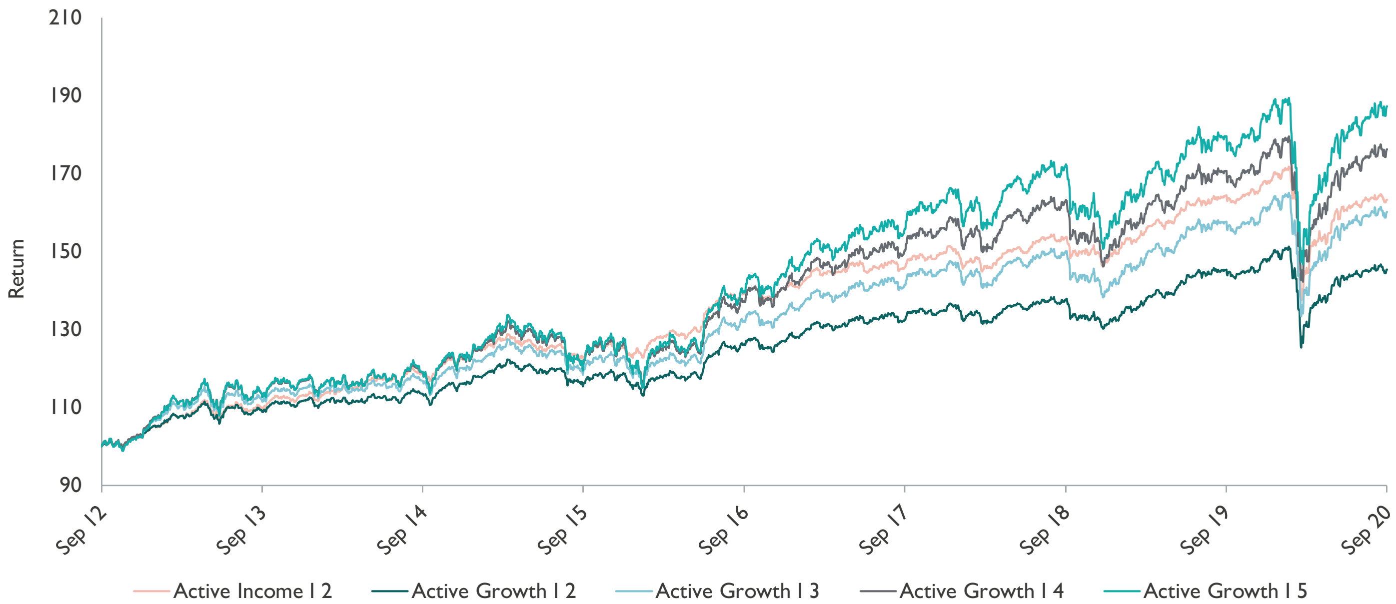
The performance does not allow for the management fee charged by Waverton or platform charges. Deduction of these fees will impact on the performance shown.

Risk Warning: The figures are for illustration purposes only. Past performance is no guarantee of future results and the value of such investments and the income from them may fall as well as rise. Investors may not get back their initial investment. Capital security is not guaranteed.

Performance Summary

Performance one year to 30th September 2020

Performance since inception to 30th September 2020



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Portfolio Holdings

Fund Name	Portfolio				
	Cornerstone Active Growth | 5	Cornerstone Active Growth | 4	Cornerstone Active Growth | 3	Cornerstone Active Growth | 2	Cornerstone Active Income | 2
Fixed Income	10.2%	17.1%	23.9%	28.0%	50.4%
MI TwentyFour Dynamic Bond	1.5%	2.9%	4.5%	5.3%	8.9%
M&G Global Floating Rate High Yield Fund	1.4%	2.6%	4.1%	4.8%	4.0%
Henderson Strat Bond	1.6%	3.0%	4.7%	5.5%	9.3%
iShare UK Gilt	2.3%	3.6%	6.0%	7.2%	13.3%
Threadneedle Credit Opportunities Fund	3.4%	4.9%	4.6%	5.4%	3.9%
Hermes Multi-Strategy Credit F GBP Inc H	–	–	–	–	6.9%
TwentyFour Income Ord	–	–	–	–	4.2%
Equities	73.3%	58.9%	42.7%	28.7%	25.8%
Chelverton UK	4.1%	3.4%	2.5%	1.8%	-
Evenlode	3.1%	2.6%	2.0%	1.4%	1.4%
MI Chelverton UK Equity Income B Inc	–	–	–	–	1.2%
BlackRock Continental European	5.0%	4.2%	2.6%	-	-
Crux Special Sits	4.9%	4.1%	3.1%	3.1%	4.5%
T Rowe Price US Small Cap	9.3%	6.7%	4.7%	3.5%	
iShares S&P 500	14.2%	12.7%	10.1%	6.6%	11.2%
Morgan Stanley US Advantage Fund	7.8%	6.3%	4.5%	2.2%	-
Lindsell Train Japan	4.3%	2.9%	1.9%	2.1%	–
Nikkei 400 Tracker	4.1%	3.0%	1.9%	2.0%	1.6%
Schroder Oriental Income Ord Shares	-	-	-	-	1.9%
Veritas Asian Fund	6.8%	5.1%	3.3%	2.0%	-
Somerset Emerging Markets Dividend Growth Fund	–	–	–	–	0.8%
RWC Global Emerging Markets	2.9%	2.4%	1.8%	1.3%	-
Guinness Global Equity Income Fund	2.8%	2.3%	1.7%	1.2%	1.5%
Fundsmith Global Equity	–	–	–	–	1.6%
Smith & Williamson Artificial Intelligence Fund GBP Z Acc	3.9%	3.2%	2.4%	1.7%	-
Alternative Investments	9.6%	16.4%	26.8%	37.2%	14.0%
JPM Global Macro Opportunities Fund C Inc	-	1.9%	5.3%	8.1%	–
BMO Property Growth & Income I Inc	0.9%	1.6%	3.5%	6.7%	3.6%
Schroder UK Dynamic Absolute Return P2 GBP Acc	-	1.8%	4.8%	7.3%	–
MontLake DUNN WMA Institutional UCITS GBP Inst A Pooled Acc Hedged	1.0%	1.7%	3.8%	7.2%	–
Invesco Physical Markets Plc Secured Gold Lkd Nts 31/12/2100 P ETC	2.6%	3.2%	3.2%	2.7%	–
Starwood European Real Estate Finance Limited	1.7%	2.1%	2.1%	1.8%	3.5%
GCP Student Acc	1.5%	1.9%	1.9%	1.6%	3.1%
3I Infrastructure Plc Ord Shares	1.8%	2.2%	2.3%	1.9%	3.8%
Cash	6.9%	7.6%	6.6%	6.1%	9.9%
GBP	6.9%	7.6%	6.6%	6.1%	9.9%

As at 30.09.2020. Risk warning: The above is for example purposes only and should not be considered a solicitation to buy or an offer to sell the above fund. Source: Waverton.

Mandates and Risk Category

Mandate	Long Term Investment Objective	Benchmark			Risk Category ‡	Indicative Volatility of Returns*
		Equity	Bonds	Cash ‡		
Cornerstone Active Growth | 5	CPI+5%	80	20	0	High	7 - 18
Cornerstone Active Growth | 4	CPI+4%	65	35	0	High / Medium	5 - 11
Cornerstone Active Growth | 3	CPI+3%	50	50	0	Medium	4 - 10
Cornerstone Active Growth | 2	CPI+2%	30	70	0	Low / Medium	3 - 8
Cornerstone Active Income | 2	CPI+2%	30	70	0	Low / Medium	3 - 8

*Historic volatility of returns are based on returns since January 1986. bands reflect the potential range of volatility as a result of asset allocation changes within the indicated limits. For example, the lower end of the Growth volatility band reflects the fact that there is flexibility to reduce Equity exposure to as low as 55% in exceptional circumstances in favour of Bonds and Cash.

‡The definition 'High', 'Medium' and 'Low' risk refer to the relative risks on the scale of mandates we offer, with volatility being the primary determinant. The extremes on our scale of low to high do not correspond with the extremes of low and high risk in terms of all possible investment strategies.

Risk Description*	Explanation
High	The possibility of periods of significant loss whilst making a higher level of longer term returns
Medium	The possibility of periods of material loss whilst making a medium level of longer term returns
Low	The possibility of periods of modest loss whilst making a lower level of longer term returns

Index Benchmark - Indices

Weighted according to mandate type	
Fixed Income	FTSE All Stocks Government Gilt Index
Equities	FTSE All World Index
Cash	GBP LIBOR 1 Month

The above is for example purposes only and should not be considered a solicitation to buy or an offer to sell a security.

Source: Waverton

About Waverton

Waverton is an independent investment management house dedicated to providing high quality investment outcomes through bespoke discretionary portfolios and a platform based portfolio service. We are single minded in our approach - dovetailing with the financial and tax planning advice provided by financial planners.

Founded in 1986, the headcount of the firm today stands at over 150 members of staff, of which a quarter are portfolio managers with responsibility for over £6.5bn of assets (as at 30th September 2020).

Multi-Asset Team

John Bellamy
Director & Portfolio Manager
38 Years Investment Experience

Tomislav Satchell
Director & Portfolio Manager
35 Years Investment Experience

Jim Mackie
Portfolio Manager
23 Years Investment Experience

Jeff Keen
Director - Fund Manager
36 Years Industry Experience

James Mee
Fund Manager
8 Years Industry Experience

Luke Hyde-Smith
Head of Fund Selection
16 Years Industry Experience

Benjamin Jenkins
Senior Analyst
17 Years Industry Experience

James Carter
Portfolio & Credit Analyst, Fixed Income
4 Years Industry Experience

William Dinning
Chief Investment Officer
35 Years Industry Experience

Matthew Parkinson
Multi-Asset Analyst
5 Years Industry Experience

Risk Warnings

Past performance is no guarantee of future results and the value of such investments and their strategies may fall as well as rise. Your client may not get back your initial investment. Capital security is not guaranteed.

The opinions expressed are based on current market conditions and are subject to change. The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon.

The portfolio may invest in assets which are not readily realisable or where there is counterparty risk. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment.

The information contained within this document relating to 'yield' is for indicative purposes only. Advisers should note that yields on investments may fall or rise dependent on the performance of the underlying investment and more specifically the performance of the financial markets. As such, no warranty can be given that the expressed yields will consistently attain such levels over any given period.

There is no guarantee of a return on Absolute Return Funds held. The returns for structured products may fluctuate according to different market conditions; your client may get back less than they originally invested.

Further Information

Waverton Investment Management Limited has been appointed by Cornerstone to manage the Active Growth MAPs under the terms of a delegation agreement. Your professional adviser is not responsible for decisions as to which securities and other investment products should be purchased and sold in order to replicate the model portfolio.

Where Waverton's advice is given it is restricted to discretionary investment management services. We do not provide advice on the use of tax or financial planning products (even if the service which we are managing is held within such a product) or non-discretionary investment.

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All materials have been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

If you require any further information in respect of the information included in this report please address all enquiries to:

Mark Barrington, Waverton Investment Management Limited, 16 Babmaes Street, London, SW1Y 6AH
mbarrington@waverton.co.uk
T: 020 7484 2058

Copies of the each Fund's Prospectus and Key Investor Information Documents (KIID) are available from Waverton and the administrator:
Waverton Sterling Bond Fund, Waverton Alternatives Fund, Waverton Tactical Equity Fund and Waverton Global Core Equity Fund
c/o RBC Investor & Treasury Services Ireland Limited
Georges Quay House
43 Townsend Street
Dublin 2