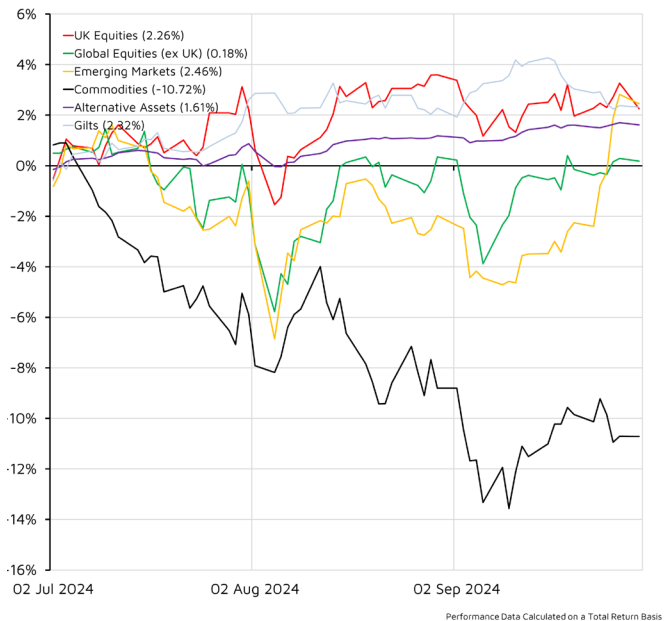


REVIEW OF THE PAST QUARTER:

Global stocks experienced volatility this quarter as they weathered declines in US tech and Japanese equities. However, most regions ended the quarter with small gains following central bank rate cuts. Canada outperformed other developed markets, while the US lagged due to weakening economic activity and a slump in major tech stocks. In addition, a slowdown in the job market caused the Federal Reserve to switch its attention from inflation to promoting growth as it cut interest rates by 0.5%. Meanwhile, China, the world's second largest economy, remains mired in problems. The People's Bank of China finally announced a wave of stimulus in response to low consumer demand, deflation, declining house prices and distressed debt within its economy.

The Eurozone experienced minimal growth due to reduced Chinese demand. UK economic growth slowed, but the FTSE has outperformed other developed markets although lower commodity prices towards the end of the period limited the gains. Japanese equities surprised investors with a strong rally in the first half of the year, but a sharp sell-off in early August rocked markets around the world as weaker US economic data, strengthening Japanese yen and fragile investor confidence triggered a correction. However, most of these losses were recouped quickly, and the US and Indian markets approached the end of the quarter at all-time highs. Central bank rate cuts and the potential for further reductions led to gains in long-dated bonds, and fixed-income funds performed admirably during the quarter, in turn taking the edge the weakness in global equity markets.



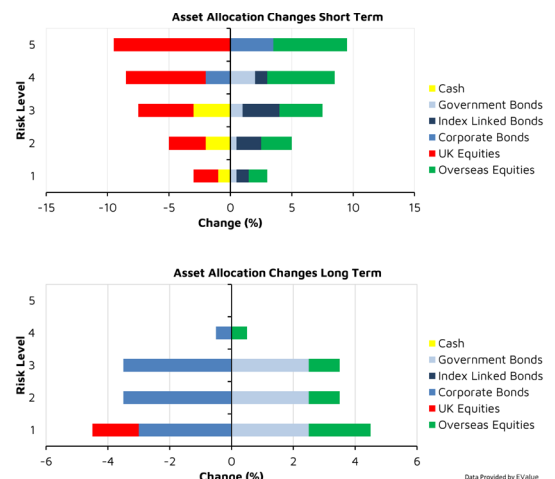
ASSET CLASS RETURNS

Cash	Government Bonds	Index Linked Bonds	Corporate Bonds	UK Equities	Overseas Equities	Emerging Markets	Property
+1.05%	+2.32%	+1.42%	+2.28%	+2.26%	+0.18%	+2.46%	+1.61%

THE ACTUARIAL VIEW:

Despite inflation falling steadily over the second and third quarters, the long-term outlook for inflation hasn't really changed. The start of rate cutting cycles in the UK, the US and Europe has slightly reduced the potential for fixed income. In addition, bond markets, particularly in the US, are pricing far more aggressive rate cuts than those currently projected by the US Federal Reserve. The US economy is still delivering solid growth, and the outlook currently favours a 'soft landing', where inflation returns to target with only a modest slowdown of growth. Recent US rate cuts appear to be designed to address the cooling jobs market, rather than prevent recession. Some bond markets appear to be tilted too far in favour of recession and may adjust if rate cuts fail to meet their expectations.

The current environment, with falling interest rates and economic growth, appears favourable for risk assets in general. A weaker US dollar may provide support for emerging markets, while equity markets may broaden to benefit small and mid-cap stocks.



WHAT TO LOOK FOR IN THE NEXT QUARTER:

- UK:** The new Labour government's first budget is to be delivered on 30 October. The Monetary Policy Committee (MPC) announcements and minutes are set to be released on 12 November. Preliminary GDP growth for Q3 will be available on 30 October. September CPI inflation is to be published on 16 October.
- US:** The US presidential election is to be held on 5 November. There will be interest rate decisions from the US Federal Reserve on 7 November. Minutes will be published three weeks after the decision. GDP growth for Q3 is to be released on 30 October. Changes in Nonfarm Payrolls are expected to be available on 4 October. September's CPI inflation rate is set to be released on 10 October.
- Eurozone:** Quarterly GDP flash data is set to be published on 30 October. The next European Central Bank interest rate meeting is to be held on 17 October. September's inflation rate is to be published on 1 October.
- Other Data:** Data on Chinese GDP growth and house prices is to be released on 18 October. Japanese inflation for September is due on 18 October and the Bank of Japan's interest rate decision is to be announced on 31 October.

ASSET CLASS SCENARIOS:



UK EQUITY

Most Likely: Disinflation continues as the Bank of England reduces interest rates. The UK economy picks up, but consumer sentiment and business activity remain weak. There will be less of a performance gap between small and large companies due to the relative sell-off the former endured over the past two years. Housebuilders, technology and other interest-rate-sensitive sectors will benefit from lower rates.

Worst Case: War keeps commodity prices elevated, leading to higher UK energy bills and rising inflation. The US presidential election leads to the dollar's devaluation as inflationary pressures from trade tariffs drag down global markets. Monetary tightening pushes markets into recession, and stocks and bonds plummet while unemployment soars. UK equities may be more defensive than other regions, given lower relative valuations.

Best Case – Central banks cuts rates as inflation falls without harming unemployment and growth. From its low valuation base, the UK outperforms other markets as high-sustained growth returns. Peace returns to Ukraine and the Middle East keeping inflation subdued. With more bullish sentiment, money flows into UK equities. Such a sustained bull run will benefit smaller companies the most.



GLOBAL EQUITY

Most likely: Lower inflation helps the Federal Reserve cut rates and this benefit smaller companies and the dominance of US technology stocks diminishes. Energy prices remain volatile due to geopolitical tensions and mixed demand. In Europe, inflation remains grounded and the European Central Bank cuts rates to drive up economic activity.

Worst case: War in the Middle East escalates while Russia makes headway into Ukraine. Geopolitics and poor weather lead to supply shortages, and energy and food prices soar. Central banks hike rates as they fight stagflation and banks lending falls as they reduce their risk exposures. Energy and defensive sectors will be safe havens, while Europe suffers due to reliance on food and energy imports.

Best case: Peace returns to Ukraine and the Middle East which eases inflationary pressures and China's economy rebounds. Disinflation continues and central banks continue to cut rates and this lifts markets. US and European economies regain momentum led by cyclical sectors like industrials and consumer discretionary. Technology stocks rise as the artificial intelligence revolution improves productivity and earnings.



EMERGING MARKET EQUITY

Most Likely: The People's Bank of China's recently announced stimulus has a minimal, yet beneficial, impact on China's growth. And a forceful fiscal policy will be needed to stabilise the weak property market and bolster domestic demand. US-China tensions will escalate. Also, the US Federal Reserve cuts rates again this quarter, with favourable results for emerging markets.

Worst Case: China's stimulus fails to achieve its goals and weaker economic growth is exacerbated by escalating US-China tensions. US inflation creeps up, forcing the Federal Reserve to hold rates, which would be unfavourable for emerging markets. Volatility continues in tech stocks hurting markets such as Taiwan and South Korea.

Best case: China's stimulus stabilises its economic growth and Chinese equities recover. US elections provide more clarity on future US-China relations improving sentiment. Further rate cuts by the Fed helps emerging markets. Indian growth accelerates, fuelled by foreign direct investment. The tech-heavy markets of Taiwan and South Korea, both continue to attract inflows on the back of AI related optimism.

Data Sourced from FE Analytics, and FactSet

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CASH

Most Likely: Money market yields are kept steady, with the Bank of England taking a cautious approach, with moderate rate changes as inflation gradually eases and the economic environment remains stable.

Worst Case: If economic indicators signal a significant growth slowdown, the Bank of England may aggressively cut interest rates, lowering yields on money market funds and making government bonds more attractive, thus reducing the appeal of cash instruments for investors.

Best Case: Money market instruments continue to provide attractive yields as the Bank of England holds rates steady or enacts small increases in the face of a resilient economy. Returns adjusted for inflation improve as inflation falls.



FIXED INCOME

Most likely: The Federal Reserve either makes a small cut or pauses rate cuts depending on state of the US economy and the Bank of England is likely follow Fed's lead. Assets will continue to price in negligible recession risk. High quality corporate bonds perform strongly with potential for prolonged improvement in UK government bonds if the BoE makes an additional cut.

Worst Case: Inflation resurges in developed markets. Markets slash optimistic cut expectations and central banks pause their rate cuts. 'Higher for longer' interest rates hit credit issuers struggling to refinance, and mortgage rates remain high, stifling consumer spending. Stagflation ensues and government bond prices decline. Defaults soar and investors suffer capital losses in riskier and emerging markets.

Best case: The BoE and ECB follow the Fed and cuts rates further this year. Inflation remains close to target. Short term government bond yields fall while longer term rates gradually rise. Defaults in global corporate bonds remain at long-term average levels. Company profit margins remain stable, and a 'soft landing' materialises.



ALTERNATIVES

Most Likely: Economic growth moderates with stable inflation, allowing liquid alternatives to provide steady returns. Liquid real assets maintain appeal as a hedge against inflation, while hedge-fund strategies perform well by benefiting from increased market dispersion and hedging their risks in case of market volatility.

Worst Case: More benign conditions where equity markets rally, led by large US technology stocks, would likely lead to relative underperformance of liquid real assets and most hedge-fund strategies.

Best Case: Solid fundamentals allow most real asset sectors to perform well, while increased market dispersion and volatility provide profitable trading opportunities for hedge fund managers.