

Investment Outlook

Summer 2019





“Money is like muck, not good unless it be spread” - Francis Bacon

Key Points - Introduction

- Equities rebound in Q1 2019.
- US Fed Reserve signals end to interest rate hikes.

Introduction

Equities rebounded in Q1 2019 with US Equities recording one of their best first quarter gains. China A-Shares recovered and were the best performer during this period on the back of PBoF stimulus. Whilst part of the recovery can be seen as a bounce from the significant fall in values last year the key driver was the reverse in US Federal Reserve policy, signalling an end to interest rate hikes and an earlier than expected stabilisation of its Balance Sheet. This spurred a rally in Bond Markets with yields falling as Investors priced in looser monetary policy. The fall in yields combined with the increase in risk appetite supported a strong rally in credit markets and underpinned the recovery in Equity.

Attention focused on the inversion of the US Treasury curve which in the past has been a reliable indicator of recession. However, Schroders believe Equities can continue to perform as interest rate expectations ease. In allocating risk, Investors need to balance policy easing against lower corporate earnings expectation.

China v US trade war rumbles on. At home Theresa May accepted her EU Withdrawal Agreement was dead in the water and resigned. The European elections proved to be a disaster for the Conservatives, but in practice the European Parliament has very little power and not much influence.

At home there are reasons to be cheerful when we look through the noise surrounding Brexit.

- Employment is at a record high, the unemployment rate at just 4% is the lowest since the seventies. The number of vacancies has risen to 870,000 and the proportion of workers in full-time employment has increased significantly with only 1 in 10 part-time workers seeking full-time employment.
- Average earnings grew by 3.4% over the past 12 months.
- Treasury receipts rose, by the end of January Income Tax receipts were £158bn higher this financial year. The deficit is back to levels last seen at the turn of the millennium.
- Inflation remains below the rate of pay growth, hovering around the BoE target rate 2%.
- Low inflation, low borrowing costs and rising wages, has eased pressure on households with the number reporting they could not make ends meet falling to 6.2%, the lowest proportion since 2007.
- The UK continues to attract net migration, with 283,000 coming to the UK last year.
- Under Mark Carney, Britain's banking sector has built-up considerable capital reserves.

It remains a tough world out there but let us not lose sight of the fundamentals which underpin our economy.

We are 10 years into the longest bull run in history beginning in March 2009, when the S&P500 bottomed at 677. It stood at 2,752 on 1 June, whilst the FTSE100 has risen from 3542 to 7,152. Diversification is critical to prudent investing. Diversify across markets, asset classes and across well established giant, medium sized and smaller businesses as well.

The consensus is global growth will be lower than previously forecast, down from 2.8% to 2.7%, 2019 recovering in 2020, up from a forecast 2.5% to 2.7%. Weaker growth and lower than expected inflation follow through to an easing of monetary policy. We now expect no further US rate increase this year, with the Fed likely to cut Base Rate twice in 2020. The UK may raise Base Rate this year by a quarter of one percent. No change with rates in Europe and Japan, whilst China is easing through a lower reserve requirement, which is now expected to reduce to 10%.

How does this translate? We retain our neutral view on Global Equities. Earnings growth will continue to support values, but we see a slowdown, in part following the recent recovery. Volatility will persist whilst political and policy uncertainty remains elevated. The softening of US Fed policy bodes well for EM yields, where valuations are attractive following the 2018 sell off. The potential for additional Chinese stimulus is also a supportive factor. The Fed's dovish stance has reduced the risk of recession in the near term, although earnings revisions have deteriorated our expectation for earnings and growth. In general we remain supportive of US Equity. How does this play out across markets and asset classes?

UK Equity

We expect the UK to continue facing headwinds and we remain negative. Brexit has delivered a potent cocktail of economic and political uncertainty, leading to a sell-off. On the upside, there are signs that for the first time since 2008-9, the three key elements of the economy, the Consumer, Government and Business could contribute to growth. For the third year the growth in tax receipts has materially exceeded that of nominal GDP with self-assessed Income Tax rising 15%. This growth is after the increase in Personal Allowance and Basic Rate threshold, which have both risen by approximately 10% over the last three years.

We have seen the Consumer return to real net earnings growth. The UK Government has had a difficult balancing act since the 2008 banking crisis which resulted in a record peacetime budget deficit. As a result, fiscal spending has been constrained making little incremental contribution to the economy. Over the past year, Government

receipts exceed day to day spending for the first time since 2002. The Government is now in a position to boost economic growth. Despite a reduction in Corporation Tax, receipts have increased 13%. However, Business investment as a share of GDP has disappointed, falling to 9.2%, the lowest since 2013. Further, many FTSE100 Companies are hampered by Pension deficit, BT Group alone has to pay more than £1bn every year to top-up its Pension Fund.

Since 2016, the story behind the UK Economy and Equities has been persistently downbeat – we do not think this is justified. Our Investors access the UK markets via a total of seven funds, to include Man GLG Undervalued Asset Fund managed by Henry Dixon. Henry is a value Investor, as demonstrated below, showing what you get for every £1 invested in the Man GLG Undervalued Asset Fund, as compared to the FTSE 100:

Relative metrics: what do you get for every £1 invested?

Man Group - April 2019

As at 31 Dec 2018 ²	Man GLG Undervalued Asset Fund	FTSE 100 ³
Sales	94.6p	99.5p
Earnings	9.4p	7.4p
Tangible Assets	41.6p	17p
Net Debt	11.6p	26p

In summary inflation is steady, close to 2%, and interest rates are going nowhere fast. Mark Carney has extended his term in office beyond the October exit date, Andrew Bailey, Head of the FCA is tipped to succeed him. In short, we see scope for economic growth, but our enthusiasm is tempered by political headwinds, with the threat of a Corbyn led Government leading to a flight of entrepreneurs from these shores. Their anti-Capitalist ideology coupled with extreme plans for the economy and taxes make Brexit induced uncertainty pale into insignificance. We have increased exposure, but remain negative and marginally underweight benchmark.

We remain negative in the short term.

US Equity

The US is home to many quality Companies – those boasting strong Balance Sheets and Cash Flow. Quality remains a key theme amid uncertainty.

Key Points - UK

- Government receipts exceed day to day spending for first time since 2002.
- Corporation Tax receipts have increased 13%.

Key Points - US

- Quality remains a key theme amid uncertainty.
- Unemployment falls to 3.6% in April, its lowest level for 50 years with wage growth behind forecast at 3.2%.

Key Points - Europe

- The EU's permanent machinery will reassert iron control once the noise of the election has subsided.
- The Germany economy stalls with new manufacturing orders down 8.4% in February.

Three factors could propel stocks further.

- Stronger than expected first quarter earnings and an improvement in Companies earnings guidance – possible but not certain.
- Fading of trade-related geo-political risks – beware complacency.
- Signs that Chinese policy stimulus is translating into higher consumption and economic activity – likely.

The US labour market is proving to be more flexible than expected with labour supply continuing to rise through a higher participation rate as more people return to the workforce. This extends the cycle by containing wages and inflation for longer allowing continued growth aided by the Fed reversing or at least deferring planned rate increases. Statistically, US unemployment fell to its lowest level in 50 years, falling from 3.8% in March to 3.6% in April, with annual wage growth of 3.2% slightly behind forecast of 3.3%. Non-farm payrolls have grown every month since October 2010.

Equities have historically performed well in late cycle periods, however, market sentiment and Investor positioning in global equities are far from euphoric. Investors have been pulling money from Equity funds in 2019, EPFR and ICI flow data shows. The recent decline in Bond yields – if sustained – makes Equity valuations appear more reasonable.

Treasury Bonds were down by 0.01% to 2.53%. The Dollar was roughly flat against leading currencies at 97.5190 and Gold was up by \$12.63 to \$1,282.33. The rush of Tech Companies to float on Wall Street makes 2019 already the biggest year on record. Analyst firm, CB Insight reports the total "exit value" of this year's floats so far to be \$130bn. We have introduced the Artemis US Extended Alpha Fund managed by Stephen Moore from launch. At 30 April 2019 the fund at £611m under management, with the top 10 long holdings as follows:

Top 10 Holdings	Weighting (%)
Microsoft Corp	7.63
Berkshire Hathaway	3.47
Visa	3.46
Alphabet	3.31
Zoetis	2.85
Boeing	2.80
Amazon.com	2.75
Pfizer	2.66
Qualcomm	2.60
Comcast Corp	2.59

We remain positive.

European Equity

"No European election ever deflects the EU deep state one inch from its rigid course" (Ambrose Evans-Pritchard). Evans-Pritchard, a Journalist, has reported from Brussels for over 30 years. His view is that the EU's permanent machinery will reassert iron control once the noise of the election has subsided. He reports day to day matters are conducted by Germany. German MEP's are career legislators promoted through a system by seniority and diligence. The two core groupings are run by Germans, Manfred Weber leads the Centre Right EFP block and Udo Bullman leads the Socialists. Klaus Welle is Secretary General of the Party, whilst his countryman, Martin Selmayr, operates in tandem as Head of the Commission apparatus. During the 2008 banking crisis, Klaus Regling led the bailout funds EFSF and ESM, whilst Wolfgang Schauble, the long serving German Finance Minister, steered the Eurogroup Star Chamber. He goes on to say that newly elected MEPs from the Green and Nationalist Parties will take their seats, salaries and expenses, but their influence will be scarcely greater than Sinn Fein at Westminster. In 2007 Giscard d'Estaing told Le Monde "Public opinion will be led, without realising, to adopt the proposals we dare not present directly".

By reporting this we are not making an anti-German point, but simply stating where control lies. The point is the elections are unlikely to change underlying European Union policy.

The battle for the top EU jobs has commenced. Five Heads must be appointed to Key Institutions in the coming months to include, Jean Claude-Juncker, President of the Commission, his likely successor is Manfred Weber, a 46 year old German MEP – this appointment will to be opposed by Macron, who is likely to put forward the Frenchman, Michel Barnier or Christine Lagarde, Head of the IMF. Jens Wiedmann, Head of Germany's Central Bank is tipped to succeed Mario Draghi as Head of the ECB.

Our latest Brexit date is 31 October. The European Union have repeatedly stated the only deal on the table is Theresa May's Withdrawal Agreement, which Parliament has rejected. Parliament will not vote for a No Deal Brexit, only if they did are the EU likely to return to the negotiating table. It is naive to think otherwise so the political and economic uncertainty continues. What is certain is that the internal workings within Brussels are controlled by Berlin and nothing of substance will change unless Germany loses faith in the Euro project or Italy's debt dynamics finally compel The Bundesbank to cut off Target 2 support for the Bank of Italy. Jean-Claude Juncker has just issued the first indictment letter of the revamped Debt and Deficits Regime, £3.5bn of fines on Italy for failing to tighten its belt,

Key Points - EM

- Narendra Modi and his BJP Party win the 2019 election, a landslide victory in India.

The Italian response “We are net contributors to the EU budget. We don’t need anything from anybody and we are in better shape than France”. Claudio Borghi, Lega Chairman of Italy’s House Budget Committee said. Brussels is ordering a country in slump to tighten budget policy significantly by 1.5% of GDP and doing this after withdrawal of ECB stimulus. Matteo Salvini’s response “Until unemployment falls to 5% we have a right to invest”. His plan is a €30bn boost led by a flat 15% tax.

The Germany economy has already stalled with non-manufacturing orders down 8.4% in February Year on Year. With Germany’s former European Commissioner, Gunther Verheugen, blaming Brussels for pushing Britain into an impossible position on Brexit, the uncertainty experienced in Britain is clearly being shared with our European neighbours.

Unemployment fell in all 28 EU states bar one, Luxembourg, last year, down from 7.6% 2017 to 6.9% 2018 - still well above the UK figure, 4.0%. Best performing location, Prague 1.3%, worst West Macedonia in Greece 27%. Youth unemployment across the EU remains stubbornly high at 15.2%.

Eurozone business confidence has declined with the Purchasing Managers Index falling to 51.6, indicating only 0.2% GDP growth in Q2 2019 (HIS Markit). Weak export orders were down for the eighth consecutive month. Italy’s lack of growth continues with the IMF reporting net public debt of \$2.6tn, equivalent to 120% of the economy. Italy is the third largest Eurozone economy and the eighth largest globally.

Savers, however, have moved £62bn out of British based funds and into European funds since 2016. Our Investors access the Eurozone via Threadneedle European Select Fund and the LF Miton European Opportunities Fund.

We move to negative.

Japanese Equity

We expect risk free interest rates globally will rise from the exceptionally low levels of the past 10 years, but are still likely to be relatively low by the standards of pre-global financial crisis levels. How will this influence households, are they likely to take on more risk seeking higher returns? In Japan, rates have been exceptionally low for over two decades. In 2016 the BoJ cut the Base Rate to -0.1%.

Notwithstanding a negative bank rate, there is little evidence to suggest Japanese households took additional risks. Japanese households remain incredibly conservative, of the \$17,000bn household assets, more than 50% is held in currency and deposits,

if insurance products are added this figure rises to 80%.

In summary, cheap valuations are supportive along with shareholder friendly corporate behaviour, Central Bank stock buying and political stability. However, it is earnings uncertainty that see us derisking moving from positive to neutral.

We move to neutral.

Emerging Markets

We continue to be neutral EMs, reflecting solid earnings, stimulus in China, improving liquidity and Greater China A-Shares inclusion in the MSCI EM Index. Valuations are attractive for EM Equities following a significant sell-off in 2018. Fundamentally, the market is set to benefit from the Fed volte face re interest rates. As with the Pacific ex Japan sector easing trade conflicts in 2019 will potentially facilitate upside potential for EM Equity performance. The question mark hangs over the China US trade war.

In India, Narendra Modi won a landslide election victory securing another 5 year term for the BJP Party at the expense of Rahul Gandhi’s Congress Party. 900m voters were eligible to vote in the largest democratic vote the world has seen with 2,000 Parties and 8,000 Candidates, contesting 543 seats. This stability will enable Modi pursue his Reform Programme which is having a profound impact on the Indian economy.

The downside risk of the China US Trade war prevents us moving from neutral to positive.

We remain neutral.

Asia ex Japan

China

We believe China is set to be a turnaround story this year, after being a drag on global growth in 2018, Beijing has started to ease fiscal and monetary policy. Market expectations of easing US v China trade tensions have increased even as we view the race for supremacy in the Tech sector. We anticipate Chinese growth has accelerated from Q2 2019. This is already visible in the Services sector (source BlackRock Investments). The recovery will positively impact global growth, particularly in Asia. China has accounted for around one third of global growth since 2011.

Following years of enforced austerity, Italy is flouting the EU’s tough new line on Beijing to be the first G7 country to sign up to President Xi’s \$1.2tn Belt and Road initiative. Some 50 deals are being negotiated to

Key Points - Japan

- Japanese households hold 80% of personal assets in Currency Deposits and Insurance products.

Key Points - Asia

- China has accounted for around one third of global growth since 2011.

include, customs engineering, telecoms, banking, infrastructure projects and above all, ports in Genoa and Trieste. Five star leaders are Eurosceptic and anti-American in equal measure. The US Ambassador in Rome has already warned Italy will be excluded from intelligence sharing if it embraces Huawei 5G technology.

In summary, the PBoF will remain accommodative and ease policy.

We remain neutral.

Alternatives

Our benchmark, Morningstar, moved out of Commodity and we followed providing diversification in “Alternative” markets, for which our Investors have been rewarded. Notwithstanding, we continue to monitor the Commodity sector. Gold is less attractive following last year’s rally. We are neutral Agriculture, the build-up of Inventories has limited the potential for a strong rebound in prices following a possible US-China trade deal. Oil prices are sensitive to Opec cuts as US production plays an increasingly important role in global supply. US is set to export 9m bpd. ExxonMobil, Chevron and other major Companies have joined the Permian Oil rush. Venezuela is no longer relevant to the world market. Lost Crude from Venezuela as well as the 1.3bpd of Iranian exports shut out by US sanctions sustain the price of oil up \$70pb July. Israel has moved closer to becoming a big Gas exporter after a major discovery in its offshore waters. Production is due on line from 2021 and will be sufficient to power 40% of Israel’s electricity needs for 10 to 15 years.

Martin Wetselaar, Shell Executive, stated the Company was targeting to become the world’s biggest Electricity Company within 10 years. The Oil and Gas majors are under pressure to change as environmental concerns gain traction.

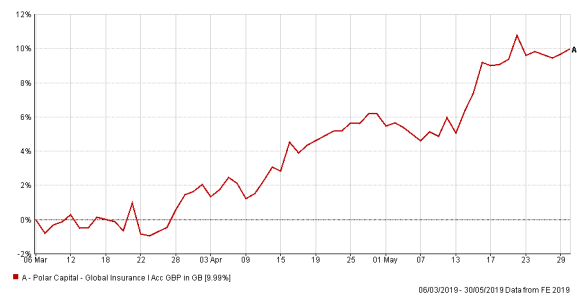
Last quarter we added the Polar Capital Global Insurance Fund, in the 3 months since introduction the fund has risen by 9.99% (06/03/2019 - 01/06/2019). whilst our second fund, the JPM Macro Opportunities Fund has risen by 1.77%. In comparison the FTSE 100 has returned 0.93%. Updated Fact Sheets for both these funds can be found on our website, in the client library.

To conclude, we will continue to monitor the Commodities sector, but for the foreseeable future we will mirror benchmark with zero exposure, preferring our alternative strategy to diversify.

We are positive to a zero benchmark.

Polar Capital Global Insurance Fund since Introduction to Forrester-Hyde Portfolios

FE Analytics: June 2019



Property

We invest funds on behalf of our clients for the medium to long term. The Committee view Property as an alternative to Equity with a potential yield significantly above the return from Cash. Morningstar, our benchmark, reduced exposure to both Commodity and Property to zero, we have maintained a contrarian stance. However, Threadneedle’s decision to alter their pricing structure has led the Investment Committee to re-think our strategy and from summer 2019, we are selling down the Threadneedle Fund. We retain the BMO UK Property Fund and Jakob Payne, our Investment Manager, has spent time with Guy Glover, the Fund Manager. Despite outflows in 2018, the fund remains overweight Cash and BMO will reduce the effective AMC by 65bps on net Cash in excess of 15% via a rebate to the fund.

The fund recently completed the acquisition of a Hotel in Bury St Edmunds for £95m, yielding £414,650 per annum, with index linked uplifts to Travelodge, lease term 25 years. The site also includes a drive-thru Starbucks let for 20 years at £63,000 per annum with index linked uplifts.

Whilst new sector investment fell in Q1 2019, we take the view that Property remains an attractive asset class due to its income return, offering a significant margin over fixed income investment, as well as the potential for further income growth, especially in the regional Office and Industrial sectors, with a potential post-Brexit bounce.

Whilst reducing exposure, we remain positive to zero benchmark.

Fixed Interest

The markets are known for a variety of sayings, “sell in May and go away”, “come back on St Leger day” being the most well known. Another saying is that “when Equities fall, Bond prices rise”.

Key Points - Alternatives

- Polar Capital reward Investors with growth of 9.99% in Q2 2019.

Key Points - Property

- BMO UK Property Fund acquires Bury St Edmunds site let to Travelodge and Starbucks yielding £477,650 p.a. index-linked.

Key Points - Fixed Interest

- We add Baillie Gifford Strategic Bond Fund to our Fund List.
- A switch into Threadneedle UK Fixed Interest Fund reduces the OCF from 0.53% to 0.36%.

Key Points - Cash

- We increase Cash weighting by 1% in Q2 2019.

Whilst charts indicate that the former would not have been the wisest course of action, until recently, the latter saying was true. However, in recent weeks we have seen this correlation unwind with both Fixed Income and Equities holding hands as they both suffer from low levels and this change has certainly worried Managers and ourselves. Happily, the saying is now back on track, but many did question their allocations. We took the view that we needed to be extra vigilant on the Managers in our universe and the Investment team visited a further three Fixed Income Managers since the last report. Of the three, two were new funds, which they felt warranted a visit on a view that they might be worth consideration in the future. The third, the Baillie Gifford Strategic Bond Fund so impressed that it is now on our fund list. The fund has no exposure to UK Government Bonds, preferring Supranational issues, which offer a higher return but are still well rated. Duration is pegged to the index meaning we will not see large moves chasing duration as with other funds.

The Strategic Bond Fund launched in 1999 is managed by Torcail Stewart and Lesley Dunn. At 31 March 2019, the fund size was £893.66m and the fund has outperformed the IA Sterling Strategic Bond sector with top quartile performance and bottom quartile charges, see below.

One of our largest allocations in this sector is with the BlackRock Corporate Bond Fund, which has been in our investment list since September 2016 and has had stellar performance. The FM Ben Edwards is one of our favoured Managers.

Turning to the Threadneedle Sterling Bond Fund, this in theory is being replaced.

In practice, we have negotiated an internal switch with Threadneedle to their UK Fixed Interest Fund. This is technically a different fund, but has the same Manager and the same investment strategy as the Sterling Bond Fund. The underlying holdings are almost directly comparable, but the OCF is lower, down from 0.53% to 0.36%, a significant cost reduction for our Investors.

As we reported in the last Outlook, high levels of lower rated issues cause concern, but believe Fixed Income remains an area to be invested in.

We remain negative to benchmark, both Corporate and Government Bonds.

Cash

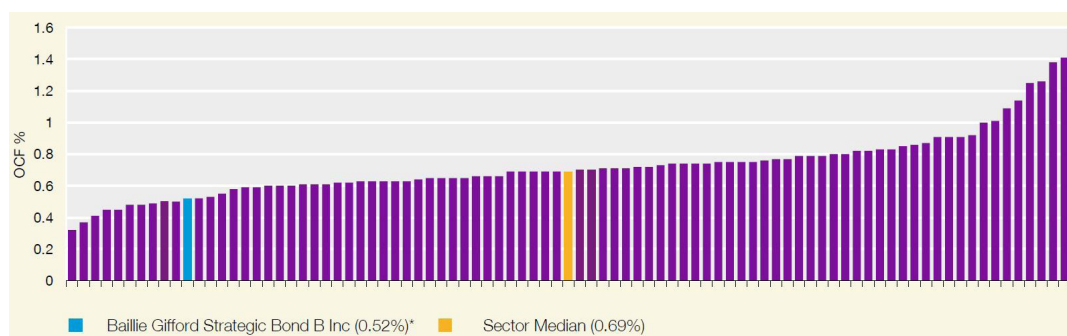
Funds are invested in the Royal London Cash Plus Fund and the AXA Credit Short Duration Bond. We are marginally increasing our Cash weighting by 1% in the Balanced Portfolio, allocating to the Royal London Cash Plus Fund, bringing us in line with benchmark.

Since inception, our AXA holding has returned 1.16% against the UT Short Term Money Market Trust average of 0.61%. We are minded of the need to generate positive returns for Investors, Cash figures in a diversified portfolio reducing risk. Whilst we are benchmarked to Morningstar, we are not adverse to deviating when opportunity arises.

We have moved from negative to neutral.

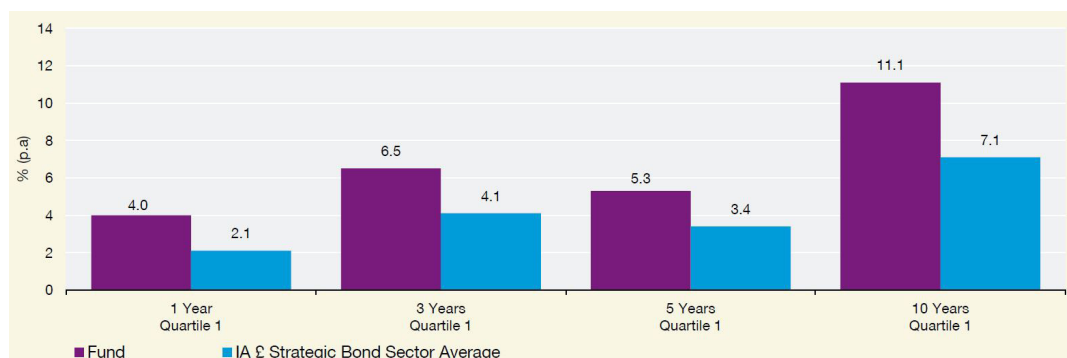
Cost vs Sector - IA Sterling Strategic Bond

Baillie Gifford: As at 31 March 2019.
B Inc share class.



Baillie Gifford Strategic Bond Fund Performance

Baillie Gifford: As at 31 March 2019.
B Inc share class.



Key Points - Conclusion

- 2019 global dividends from top 1,200 Companies to rise by 5.2% to \$1.43tn.
- Investors are taking risk chips off the table amid growth, policy and earnings uncertainty.

Conclusion

Always look on the bright side of life (Monty Python). Global dividends surge despite fears of war and economic slowdown. Dividends from the world's 1,200 largest Companies, which account for 90% of global dividends, rose 7.8% Q1 2019 YonY. UK dividend growth was more sluggish with pay-outs rising 4.8%, excluding the effect of Sterling depreciation and a bumper BHP Billiton dividend, which handed shareholders the proceeds of its £8.5bn disposal of US Shale assets. In 2019 UK shares are expected to yield 4.8%, compared to just 2% for US Companies, dividends from the world's 1,200 largest Companies will rise 5.2% for the full year 2019 to a record \$1.43tn, a new record (source Janus Henderson).

Research conducted for the Sunday Times records that Unit and Investment Trust Managers, who have been in charge for at least 10 years perform measurably better than Managers with a shorter tenure. Out of 1,400 Unit Trusts with a 10 year track record, 7 of the top 10 Managers have spent more than a decade in charge – dud stock pickers tend to get sacked sooner and may not last a decade. The average return from Managers with at least 10 years in charge of UK All Companies Funds was 258%, against an average for all Managers of 212%.

Global stock valuations opened 2019 at attractive levels, following the 2018 sell-off which delivered the third worst year of multiple contraction in three decades. A strong first quarter suggests limited scope for further growth in the near term and Since May 16 we have seen a 2.61% fall in the FTSE100 as Investors take profit against the continuing threat of the two Presidents, Trump and Xi.

Whilst dividends are forecast to surge this year, the number of downgrades exceed upgrades, which will impact returns in 2020. 10 years after the start of the bull market, Investors are taking risk chips off the table amid growth, policy and earnings uncertainty. Last week 10 year UK Government Gilt yields dipped below 1%, this is Cuckoo land. Investing in 10 Year Gilts at a 1% yield achieves a nominal return of 10% over the next decade, which assuming the inflation target of 2% is met, guarantees capital erosion. In France the equivalent yield is 0.26%, Spain 0.8% and Germany -0.16%, that was a minus, you did not misread. Greece can borrow 5 year money at a lower rate than the US Treasury.

The Conservative Party is in turmoil so far fielding 12 candidates to succeed Theresa May. The Hard Left look even more alarming. The Shadow Chancellor, John McDonnell, suggesting the way to solve the burgeoning National Debt is to impose a 20% Wealth Tax on the richest 10%. He estimates their wealth at £4tn to yield £800bn, enough to pay off 50% of the Public debt. The Labour Party also want to Nationalise Public Utilities and the Railways, all this from a Party whose leader refuses to condemn a regime that has reduced Venezuela from one of the richest Countries in the world to penury in 20 years. The Labour Party is now being formally investigated by the Equality and Human Rights Commission (EHRC) about allegations of anti-Semitism. Jeremy Corbyn is likely to be isolated as his Senior Ministers have been warning him that the Party's response to anti-Semitism has been woeful at best and Institutionally racist at worst.

Patience is a virtue – we are advocates of long term investing and have been involved in Financial Markets for nearly 50 years, passing through many Economic Cycles. We build our Portfolios using third party funds. We conduct intensive ongoing research to include the process the Fund Manager undertakes to achieve returns. We are constantly challenging Managers to demonstrate their ability to perform and where there is loss of confidence we do not shy from removing a fund from our investment panel.

We elect Politicians to provide a stable, secure platform in which Individuals, Business and Society as a whole can flourish. Am I alone in thinking Politicians have lost sight of their primary task and are merely self-serving, or am I merely getting grumpier as I get older? – A rhetorical question.

Fund Panel Update

FH Core

Allocation Increased

Allocation Decreased

Fund Added

Fund Removed

Fund Name	Conservative	Cautious	Balanced	Assertive	Aggressive
Artemis - US Extended Alpha I Acc GBP			3	4	4
AXA - Sterling Credit Short Duration Bond Z	3	2			
Baillie Gifford - Japanese B Acc - Jul 88	-1	-1	-1	-1	-1
Baillie Gifford - Strategic Bond B Inc - Feb 99	4	4			
BlackRock - Corporate Bond D Acc - Jul 95			1		
BMO - UK Property Feeder 2 Acc				-2	
Franklin - UK Equity Income W Acc - Aug 87			1		
Invesco - Global Targeted Returns (UK) Y Acc	-5	-4			
JPM - Europe Dynamic Ex UK C Acc - Sep 04			-4	-5	-6
JPM - Global Macro Opportunities C Acc	1	1	1	1	1
LF - Miton European Opportunities B Acc			3	4	5
Liontrust - Special Situations I Inc - Nov 05	1	1	1	1	
Man GLG - UK Income C Professional Acc	1	1	1	6	8
Man GLG - Undervalued Assets Professional C Acc				-4	-5
Marlborough - Special Situations P Acc				-1	-1
Royal London - Cash Plus Y Acc - Dec 12	1	1	1	1	
Schroder - Recovery Z Acc - Feb 92			-1	-1	-1
Schroder - US Mid Cap Z Acc - Jun 01			-3	-4	-4
Threadneedle - European Select ZNA GBP		-1			
Threadneedle - Sterling Bond ZNI GBP	-7	-6	-3	-2	
Threadneedle - UK Fixed Interest INI GBP	7	6	3	2	
Threadneedle - UK Property Authorised Trust	-5	-4	-3		
TwentyFour - Dynamic Bond I Gr Acc GBP				1	

Funds Introduced

Artemis US Extended Alpha - The fund uses a traditional long-only portfolio alongside smaller short exposures in order to generate additional alpha. This increases the potential to outperform the index, in both up and down markets. The long book contains 60-95 high conviction ideas, with the short book typically 50-95 names. They favour companies with good cash flow streams and conduct a macro framework to help identify risks. Stock analysis is used for the identification of key variables that have the greatest impact on the future valuation of the companies. Ideally each potential name in the long book will have twice the upside potential as downside.

Baillie Gifford Strategic Bond - This fund invests mainly in corporate bonds across the credit rating spectrum, with a focus on providing income. They believe corporate bond markets are inefficient and seek to benefit from opportunities by analysing the underlying company's creditworthiness and the characteristics of individual securities. The credit team identify bonds trading below their fair fundamental valuations and have a catalyst that will trigger a market evaluation. The fund also invests in steadier bonds which are not expected to re-rate in price, but which should produce a steady income. They focus on the BBB and BB rated parts of the markets as there is the greatest mispricing's given the line between investment grade and sub investment grade bonds gets blurred. The turnover of the portfolio is low as it takes time for the identified catalyst to occur and for the bond re-rate.

LF Miton European Opportunities - Miton filter the European universe of stocks for a 'quality growth' bias which leaves around 150 companies that demonstrate superior return on equity, substantial barriers to competition, substantial investment and growth opportunities. The managers take a bottom-up fundamental stock picking approach seeking to assess how company earnings will evolve over the medium-term and evaluate how the market is valuing these projections. The managers run beta in line with the market and do not try and forecast the macro, instead company meetings are a vital part of the investment process. As they are focused on the medium term, the fund typically has a low turnover, typically less than 25% over 3 years. The managers may reduce a position if they suspect a company will have a bad quarter or two and vice versa.

Threadneedle UK Fixed Interest - Technically a different fund from Threadneedle Sterling Bond Fund, but has the same Manager and the same investment strategy as the Sterling Bond Fund. However, the OCF is lower, down from 0.53% to 0.36%.

Fund Panel Update

FH Passive Plus



Allocation
Increased



Allocation
Decreased



Fund
Added



Fund
Removed

Fund Name	Cautious	Balanced	Assertive
HSBC - European Index C Acc - Oct 00	-1	-1	-1
iShares 100 UK Equity Index (UK) D Acc		1	3
JPM - Global Macro Opportunities C Acc - Feb 13			-1
Marlborough - Special Situations P Acc - Jul 95			1
Natixis - H2O MultiReturns N Gr Acc - Oct 13	1	1	-1
Royal London - Cash Plus Y Acc - Dec 12	-1	-3	-2
TwentyFour - Dynamic Bond I Gr Acc GBP - Apr 10	1	1	
Vanguard - FTSE UK Equity Income Index A - Jun 09		1	2
Vanguard - UK Government Bond Index Acc GBP			-1

Performance

Portfolio	3 Month %	12 Month %
Forrester-Hyde Adventurous Model Portfolio	4.31	-1.02
Forrester-Hyde Assertive Model Portfolio	4.21	-0.17
Forrester-Hyde Balanced Model Portfolio	3.53	0.70
Forrester-Hyde Cautious Model Portfolio	3.35	1.25
Forrester-Hyde Conservative Model Portfolio	2.80	1.47

Portfolio	3 Month %	12 Month %
Forrester-Hyde Passive Plus Assertive Model Portfolio	3.41	0.79
Forrester-Hyde Passive Plus Balanced Model Portfolio	3.35	1.47
Forrester-Hyde Passive Plus Cautious Model Portfolio	3.15	1.73

Asset Class	3 Month %	12 Month %
Euro STOXX 50	5.76	0.11
FTSE 100	3.47	-1.84
FTSE Actuaries UK Conventional Gilts All Stocks	4.26	4.05
IBOXX UK Sterling Corporate All Maturities	3.18	4.80
MSCI Emerging Markets	0.53	-3.37
MSCI World	5.44	5.78
Nikkei 225	4.84	-0.59
S&P 500	6.15	9.45

Glossary

Alpha - gauges the performance of an investment against a market index or benchmark.

ARC Index - A set of risk-based indices designed to be used by private clients and advisers in assessing performance of their portfolio. The index comprises of the performance of a series of private client investment managers.

BBB bonds - Credit rating of a bond considered to be of Investment Grade.

Bear Market - When a market shows signs of decline - prices go down.

Bull Market - When the prices rise consistently over a period of time.

Covenant Protection - Covenants are conditions tied to an indenture or loan agreement, usually in the form of forbidding certain actions of the issuer, put in place by lenders to protect themselves from borrowers defaulting.

Diversification - A risk management strategy that mixes a wide range of investments within a portfolio in order to reduce overall volatility.

Dividend Cover Ratio - Measures the number of times that a company could pay dividends to its shareholders.

Fiscal Stimulus - Combination of tax cuts and increasing government spending in order to increase aggregate demand within an economy.

G7 Countries - The seven largest IMF-described advanced economies in the world, comprising of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

Investment Sentiment - The general mood among Investors regarding a particular market or asset class.

Macroeconomics - The study of market behaviour and performance of an economy as a whole, examining general economic factors such as interest rates and national productivity.

MiFID II - A legislative framework instituted by the European Union to regulate financial markets and offer greater protection and transparency for Investors.

Monetary Tightening - When central banks increase interest rates and reduce the money supply within the economy to help control the rate of inflation.

Nominal - Very small or far below the real value or cost.

P/E Ratio - The relationship between the company's Stock Price and Earnings per Share.

Quantitative Easing (QE) - Is the introduction of new money into the money supply by a central bank, usually via a Central Bank purchasing Government and Corporate bonds.

Quantitative Tightening (QT) - The counterpart of QE. QT is used to decrease liquidity within the economy.

Transactional Charges - Expenses incurred when buying or selling a good or service.

Abbreviations

BofE - Bank of England

BofJ - Bank of Japan

CAPE Ratio - Cyclically-Adjusted Price-to-Earnings Ratio

ECB - European Central Bank

FDI - Foreign Direct Investment

GDP - Gross Domestic Product

IMF - International Monetary Fund

ISM - Institute for Supply Management Index

MIFID - Markets in Financial Instruments Directive

ONS - Office of National Statistics

PMI Index - Purchasing Managers' Index

R&D - Research and Development

The Fed - The US Federal Reserve

PBoFC - People's Bank of China

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