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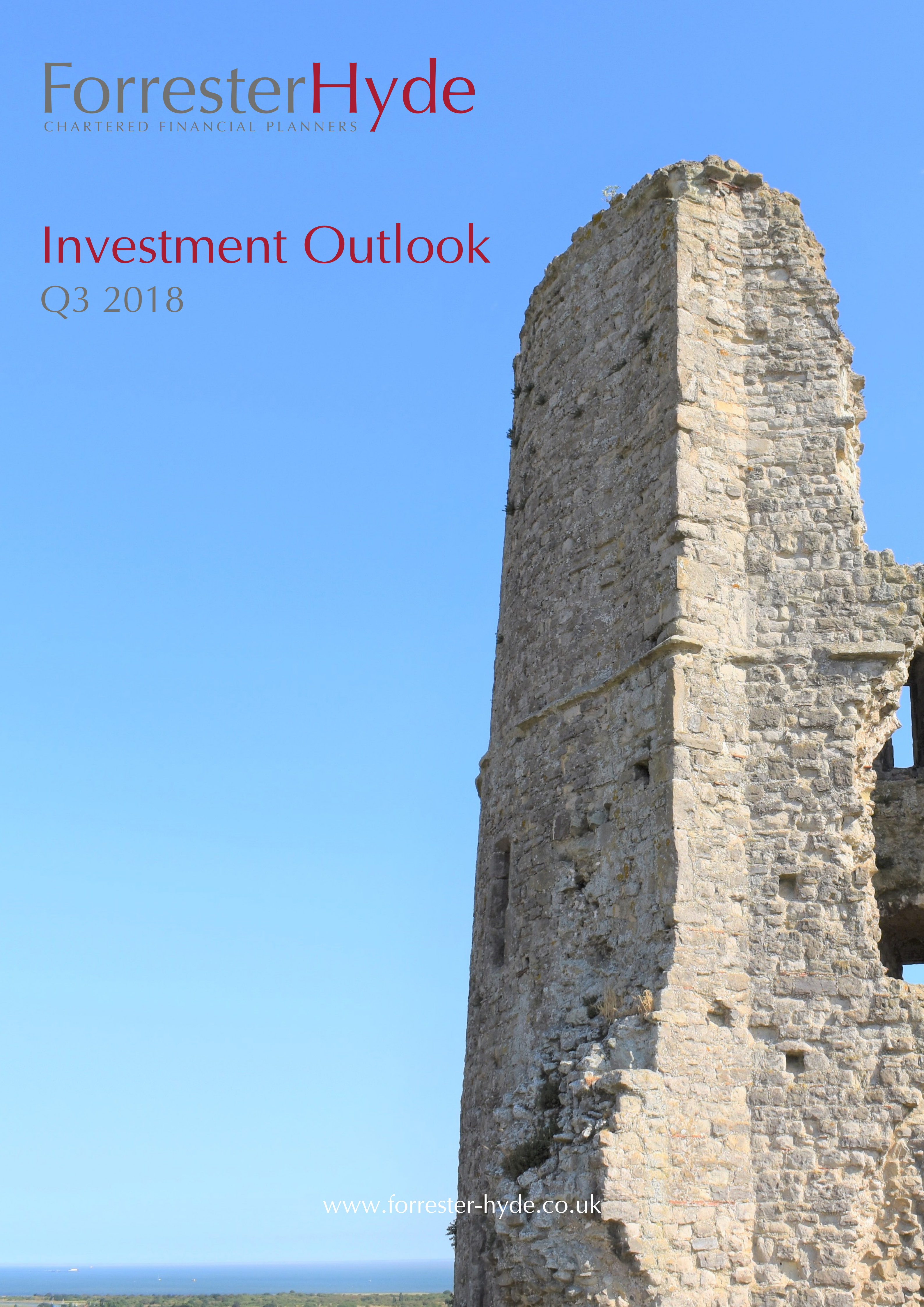
Investment Outlook
Q3 2018



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"The stock market is a device for transferring money from the impatient to the patient."- Warren Buffett

Key Points - Introduction

- The China v US Trade War has dominated headlines. Trump's tax cuts and reform have boosted the US economy.
- The UK exits Europe on 29 March 2019. Brussels will not allow the UK cherry pick.

Introduction

We closed Q2 Outlook saying there would be volatility over the summer. We were right.

Starting with the World's largest economy, Trump declared a trade war with China, Canada, Mexico and with Europe. Agreement with Mexico has now been reached and a truce with Europe was declared on 25 July, when Trump and Juncker agreed to cease hostilities and attempt to work out a Treaty that enshrined the rights of all nations to free and fair trade. Trump had aimed at Germany, criticising Merkel for defence underspending whilst relying on US tax payers to fund NATO in defence of Europe against an increasingly aggressive Russia. He had threatened to impose tariffs of up to 25% on Germany's auto sector, which directly employs 800,000 and earned £376bn last year, a substantial portion of which was from the sale of 494,000 virtually duty free vehicles to America. The EU agreed to import American LPG, a bonanza for US producers, at the same time reducing dependence on supply from Russia. The US and EU combined account for 50% of global GDP and the combination of this economic firepower is perhaps the key feature in the Presidential attempt to end the theft of intellectual property by China. At home, tax cuts benefited Corporations and wealthy Americans. Growth in the US economy accelerated from 2% to 4%, the S&P Index rose 30%, whilst unemployment fell to 3.9%. The booming economy is the result of tax cuts and relaxed regulation, as a result the Federal deficit, which was running at $669bn when Trump came to Office, will hit $1tn ($1,000,000,000,000) by 2020, a 50% increase.

Americans go to the polls on 6 November to elect all 435 members of the House of Representatives and 35 members of the Senate. The big question is how long can the tax cuts and regulatory reforms continue to positively impact the economy? The National Institute for Economic and Social Research in the UK suspects US GDP growth is peaking, rising from 2.3% in 2017 to 2.9% in 2020. This is supported by the OECD, whose analysis of 35 Countries covering GDP, commodity prices, consumer and business confidence, industry output, financial conditions and other data, says "indicators are pointing tentatively to easing growth momentum". Russia and Brazil are running at above their long term averages, whilst the major Asia five, China, India, Indonesia, Japan and Korea are forecast to accelerate. Source: JP Morgan.

China responded with a tit for tat tariff imposition on imported US goods. The Chinese Government allowed the Yuan to weaken against the Euro, Yen and the US Dollar, the latter by 4.25% since April. The PBOC (Peoples' Bank of China) holds $3.1tn of Foreign Exchange reserve, but chose not to support the Yuan, breaching China's pledge to stabilise the Yuan against a global currency basket, adding a currency war to the mix and triggering Trump to threaten a rise in tariffs on the next tranche of Chinese exports. For the first time the US National Security Strategy Report names China as an adversary that seeks to challenge American power, influence and interests, attempting to erode American security and prosperity. China is no longer the dynamic economy of yore and it is hard to call how this trade/currency war will play out.

The EU, in defiance of the US, signed an agreement with Japan creating the World's largest free trade zone, eliminating nearly all tariffs between the EU and the world's third largest economy.

The US Federal Reserve raised interest rates and switched off QE from September 2017, draining the pool of global liquidity which hit Emerging Market economies with Dollar denominated debt the hardest. The Foreign Currency debt of Turkish Companies, Banks, and the State, has reached 55% of GDP. The Country has become dangerously reliant on short term Dollar loans to cover a current account deficit of 6.5% of GDP. The Institute of International Finance believes Turkey is only the first of many Countries with Argentina, South Africa and Columbia next in line. European banks, principally BBVA, BNP and Unicredit, have exposure of $180bn to Turkey. This is unlikely to impact the Euro or have global repercussion, but is as a result in the cut in supply of ultra-cheap money.

The political reality in Germany is clear, German Banks may be happy to plough money into the Germany economy, but do not want to pay for non-Germans. Berlin has balked at Macron's Pan-European Deposit Insurance Scheme needed to make the Banking union work in Europe.

And so to Brexit – the EU has already stated in its Article 50 Notices on Brexit that it will not respect International Law. It has flagged a punishment strategy if the UK attempts to break free from its political and regulatory orbit. Theresa May's "Chequers" Proposal is in effect capitulation. Shanker Singham, a former WTO negotiator at the Institute of Economic Affairs says "nothing can be achieved whilst we cling to the EU's regulatory structure and are prevented from doing any deals until we have taken the Customs Union and Single Market off the table". "Nobody wants to talk to us, the moment 'Chequers' came out we ceased to be of any relevance to the US."

Over recent decades the EU's economic performance has been relatively poor. The Euro has robbed the Continent of the essential market mechanism to offset Germany's manufacturing and export success. Brussels' overwhelming ambition in pursuit of political objectives regardless of the economic cost and an obsession with integration and harmonisation have prevailed, but we are where we are with the Brexit cut-off date 29 March 2019 fast approaching. One can be pro Brexit and still consider "no deal" an unsatisfactory outcome. However, is there any likelihood the EU will allow us cherry pick. The "Chequers" Proposal ensures we remain subject to EU regulation and the European Courts without a vote – a vassal State – a disaster for both Remainers and for Brexiteers.

Heads of major UK Companies say their business will not be materially affected by a "no deal", James Dyson, Charles Bamford and Willie Walsh, IAG. The naysayers say a "no deal" will be an economic disaster. Certainly it is likely to increase consumer prices in the short term.

Following last year's election, the UK Government is in a weak negotiating position, highlighted by the UK conceding to Europe's demands to agree the exit bill before beginning free trade negotiations. In our opinion, the likelihood is the EU will offer a take it or leave it deal, which following the success of Gina Miller's legal challenge will require Parliament vote to accept or decline. It is highly unlikely a deal of any sort will be agreed in time for the UK Parliament to approve and the EU to ratify at this December's Council Meeting. In the event of a "no deal" exit, the UK would be the only developed nation to have no free or preferential trade deals in place with any of its trading partners. Consumer prices would rise in the short term, there may be shortages, but the world beyond these shores will go on. Companies who trade profitably with us will want to continue doing so. Brexit poses a threat, but there are currently far greater risks to the global economy.

Our portfolios are tactically benchmarked by Morningstar who published their asset allocation strategy at the end of July. Morningstar have zero exposure to Commodities and Property and have reduced the Cash weighting across risk profiles; in the Balanced Portfolio to 12%. The Forrester-Hyde Balanced Portfolio holds 8%. Further and ahead of Morningstar, we have gravitated from small/mid cap to large cap funds Holding Companies with a global reach.

We have looked long and hard at our asset allocation and fund selection across all portfolios. We are active Managers without the benefit of a crystal ball. Brexit is a challenge to UK citizens. Finishing on a positive note, Japan has the most accommodative monetary policy and the Yen remains undervalued. We see solid earnings growth in both the US and Asia Pacific. In the UK, average weekly earnings increased by 2.4%, unemployment fell with 32.4m people in work, the highest since comparable records began in 1971. Profits UK Companies made in the year to June jumped 86% to £210.8bn, the highest level for six years. The US and Europe unite to isolate China. EM valuations look more attractive. We expect global growth to recover over Q4 2018.

Key Points - UK

- GDP downgrade 2018, 1.4% to 1.2% and 2019 1.6% to 1.3%.

UK Equity

The economy appears to be close to capacity, unemployment is at the lowest rate for four decades and the economy's ability to grow has slowed to 1.5%, according to the Bank of England. The ONS confirmed inflation had edged up to 2.5% in July, but total pay grew by only 2.4% in the 3 months to June. The Bank's guidance on QE is that the reversal process will not begin until interest rates have risen to circa 1.5%. After that any further fiscal tightening will involve both raising rates and unwinding QE.

The budget deficit continues to fall, July's budget surplus of £2bn was the best for 18 years. Borrowing, the deficit, in 2017-18 was £39.4bn, the lowest for 11 years. So far, borrowing this fiscal year is the lowest for 16 years. The fiscal watchdog, the OBR, noted "substantial year on year improvements in the deficit". Whilst there is headroom, the Government have committed more money to the NHS and so far the Treasury shows little appetite for cutting taxes at a time when a radical Brexit budget might be needed. A no deal is undesirable. Even a British assertion of full self-government requires a deal to avert cliff edge stupidities. The £39bn exit fee should be contingent on Brussels applying common sense to Landing Rights, Medicines, Visas, Euratom, etc. If the EU refused our legal right to trade on WTO terms it would be a declaration of economic and political war. The "Chequers" deal locks us into the EU's legal and regulatory framework on terms that are unappetising.

What would a radical budget look like? Cut Corporation Tax to 12.5% in line with Ireland, cut the Banking Levy, scrap the Apprentice Levy, cancel all other planned tax increases and deregulate. Reduce Stamp Duty, (revenues are down 9.9% this year) and cut Capital Gains Tax.

Brussels' stance on Greece, and their attitude to the UK to date, suggests we are not going to achieve a satisfactory settlement. Whatever your opinion, Brussels dances to Germany's tune and Angela Merkel is seeking to further tighten her Country's grip by ensuring a German succeeds Mario Draghi as Head of the ECB. She is also promoting Peter Altmaier, her Economic Minister to succeed Jean-Claude Juncker as Commission President. France has shown it will support the German Automobile Industry and in return Germany will protect French Agriculture whilst both Countries covet London's pre-eminence as the Global Financial Capital. In a speech to French Ambassadors in Paris, Emmanuel Macron said "preserving the European Union was more important than forging a close relationship with post Brexit Britain" – he went on to say "France wants to maintain a special relationship with Britain, but not if the cost is the European Union's unravelling". Michel Barnier on the 30th changed his tone saying the UK would have an EU Partnership "such as there never has been with any other Third Country". The EU cannot afford a collapse of the Cross Border Payment System. A no deal would see European firms cut off from their main capital markets. The shock could send the Eurozone into recession.

The UK has already ensured European Banks and Companies can continue operating in London. There has been no reciprocity from Brussels, and Felix Hufeld, President of the German Regulator Bafin, has read the Riot Act to complacent EU officials in Brussels demanding action to avert Mayhem in the Derivatives market post-Brexit. The Bank of England has been warning for months of the risk to £100 trillion of monthly interest rate swaps and other derivatives. Germany's intervention in support of the Bank of England is a welcomed change in German policy.

The outcome of negotiation may not be ideal, few compromises are! Will our economy fall off a cliff – why should it? How can the EU legitimately seek to prevent our right to trade on WTO terms. After the posturing the hope is common sense will prevail.

UK inflation has come in lower than expected in recent months. The Pound has fallen against both the Dollar and the Euro. Household consumption and investment improved in the second quarter. Schroders have downgraded UK growth this year from 1.4% to 1.2%, and for next year from 1.6% to 1.3%.

We have moved from neutral to negative, in practice Morningstar increased exposure to the UK, we have increased to a lesser extent, placing us in negative territory.

Key Points - US

- Tax cuts and regulatory reform have positively impacted Corporate Earnings – the sting in the tail is the burgeoning budget deficit.

Key Points - Europe

- Eurozone GDP growth downgrade from 2.4% to 2.0% 2018 and from 2.1% to 1.7% 2019.

US Equity

Jay Powell, the newly appointed Federal Reserve Board Chairman, asserted Fed independence from Congress and is expected to raise interest rates, with two further hikes this year and two in 2019, raising Base Rate to 3%. This is counter to Trump's view. Powell went further to say he intends preventing inflation from under or overshooting the 2% inflation target and declared the Federal deficit due to exceed $1tn in the coming fiscal year is unsustainable.

The Atlanta Fed estimates GDP growth is running at 4.3% for the third quarter having hit 4.2% in Q2. Wage pressures are rising, inflation is on target and unemployment is below 4%. The S&P 500 hit a new high and a second injection of fiscal stimulus is expected.

Nadia Grant, Head of US Equities at Columbia Threadneedle, believes valuations are fair and in line with long term historical averages with the S&P trading at 16.7 x forward earnings. She expects earnings to grow by 20% this year and 10%-12% next year, with tax cuts accounting for 5%-7% of this year's growth, the balance produced by the strong fundamentals for US Companies. The 10 Year Treasury yield remains well below 3%, an influence on the cost of US home loans and long term borrowing costs. This is despite a significant increase in the sale of Treasury Bills to help finance the burgeoning US budget deficit.

History suggests investors look through political turmoil and focus on the economic and market fundamentals instead. A bull market does not die of old age, this is especially true when valuations are far from over optimistic and when sentiment is notably lacking the euphoria that typically marks the end of a bull cycle. What kills a bull market is a fear of recession, usually triggered by Federal Reserve zeal. The message from Jay Powell at the annual gathering of Bankers in Jackson Hole, Wyoming, was that there is nothing to deflect the Fed from steady normalisation of monetary policy.

Our investors gain exposure to the US via the following funds:-

- Old Mutual North American Equity
- Schroder US Mid Cap
- LF Miton US Opportunities Fund - New entrant 01/09/2018

We are increasing exposure in the higher risk Portfolios and have further diversified within the Conservative, Cautious and Balanced Portfolios by introducing the LF Miton US Opportunities Fund. The Fund launched in 2013, has £526m under management by Nick Ford, who is a bottom up stock picker seeking undervalued Companies with a competitive advantage. The fund targets downside protection, which we want late cycle.

We remain positive and have diversified and increased exposure relative to benchmark.

European Equity

The ECB has become increasingly confident it can wean the Eurozone off QE and remains on track to end its €2.5tn QE Programme by the end of this year, initially reducing from €30bn to €15bn from September and ending December. Draghi said "the ECB would keep interest rates on hold at record lows at least through the summer of 2019". This confidence is not shared by the Chairman of the Italian Budget Committee, who is on record as saying that "without the ECB as a lender of last resort, Italy's Bond market will spin out of control". Whilst Italy remains the EU's second biggest manufacturer, with a Current Account surplus of 2.8% of GDP, growth has stagnated over the past 20 years and public debt has only just stabilised at 132% of GDP, Greece 180.8%, Germany 68.1%. This does not, however, include Bank of Italy's Target 2 liabilities of €400bn, which increases the ratio of debt to GDP to 160%. The Country has to roll over more than €600bn of debt in the next three years. This will be challenging post QE and may require Italy resort to the EU Bail-Out Fund under draconian terms, see Greece, and subject to a vote in the Bundestag.

The fate of the Eurozone hinges on how this plays out. Matteo Salvini, the Lega strongman, has denounced austerity and EU budget limits. There is no point in Brussels-Frankfurt-Berlin threatening to eject Italy from monetary union, Germany could expect to lose €2tn. Salvini is quoted as saying "the Euro is a crime against humanity".

Professor Charles Wyplosz, the expert brought in by the IMF to review the Greece bail-out, reported "what the Europeans have done is put Greece to sleep under anaesthesia, but when the people wake up and feel the pain they are going to be very angry. Economically, it is nonsense, and politically it is shameful". When the crisis began in 2010, the Greek debt ratio was 120% of GDP, it is now 180%. The economy has shrunk by a quarter, unemployment is above 20% and hundreds of thousands of Greeks have migrated. The country needs 50% debt relief to restore viability. Italy will not walk into this trap, this poses a significant threat to the Eurozone, more significant than Brexit.

The Eurozone is more geared to external trade than most advanced zones, meaning it will be more vulnerable to trade wars.

Second quarter GDP data shows a rebound in economic activity for most member states, excepting Austria and Spain. Italy and France saw growth slump to 0.2%. The Eurozone aggregate for the second quarter was 0.4% in line with the UK. Forecasters have downgraded Eurozone GDP growth for 2018 from 2.4% to 2.0%. Ongoing trade tensions are expected to restrain external demand and forecast growth for 2019 is scaled back from 2.1% to 1.7%. The Euro's continuing depreciation against the US Dollar has led to a forecast increase in Eurozone inflation up from 1.6% to 1.8%.

We are neutral in line with benchmark.

Japanese Equity

Key Points - Japan

- GDP growth is forecast to slow to 1.0% in 2018-19.

Growth is expected to slow from 1.7% in 2017 to 1.0% in 2018 and 2019, as inflation almost doubles to 0.9%, owing in no small part to higher Oil prices. The BofJ tweaked Yield Curve Control Policy in the summer, but is not expected to move further again this year. Back in January Haruhiko Kuroda, the BofJ Governor said his most important goal was to achieve a 2% inflation target. By December last year the BofJ held a total of ¥521.6tn in assets, to include Government Bonds, Gold, Corporate Bonds, REITS, Equity ETFs, Loans, etc, amounting to 96% of Japan's GDP, its holding of Government Bonds alone amounted to ¥443.6tn. By this measure, the BofJ's Balance Sheet dwarfs the Feds Balance Sheet, which amounts to 23% of US GDP.

We remain positive.

Emerging Markets

Key Points - EM

- US Dollar indebted EM countries are struggling as liquidity tightens and borrowing costs increase, particularly when their currency collapses – see Turkey.

EM Countries that borrowed in a foreign currency – the US Dollar - expose the debtor Country if their own currency collapses. Turkey is clear evidence of this with accumulated corporate debt of $250bn in Dollars and the Euro. If the currency halves as has the Turkish Lira the cost of servicing and repayment doubles in local currency terms. Turkey's problems are entirely of its own making. Ultra-loose monetary conditions sustained the unsustainable much longer than it might otherwise have. Tension between the US and Turkey, both NATO Countries, will make it much harder for Erdogan to accept IMF assistance, which he most certainly needs and may turn him to Russia and China for assistance.

Brazil

Got off to a bad start in 2018 with a highly disruptive truck drivers dispute in May halting all road freight for 10 days. Retail Sales and Industrial Production contracted sharply and the Central Banks GDP Forecast for the month fell by 1.5% YonY. 2017 weakness is unlikely to be reversed and the disappointing start to 2018 has led to a GDP growth downgrade from 2.7% to 1.8%.

Russia

Growth has struggled following the imposition of tariffs. However, higher Oil prices, over $75pb compared to $50pb, have helped. From 22 August, Trump introduced additional sanctions, which focus on stopping US exports to Russia of "national security sensitive goods", which according to the US State Department will cover hundreds of millions of Dollar trades. The bigger risk is the threat of escalation if Russia does not comply with monitoring processes in the next three months. Separately, pressure is building in the US congress for action against Russia in retaliation for electoral meddling. Interest rates are forecast to rise to 6.5% next year and Putin's popularity at home is waning with only 46% saying they would vote for him.

We have moved from positive to neutral.

Asia ex Japan

South East Asia, to include India and China is expected to achieve growth of 6.5% in 2018 according to the IMF. This compares with the global average at 3.9% and 2.4% for the world's advanced economies.

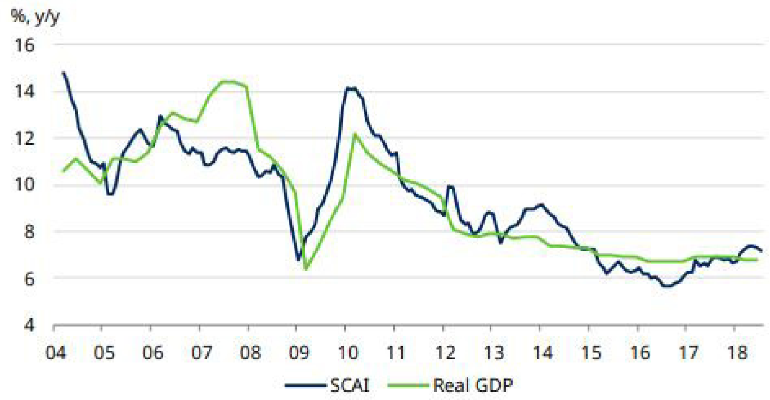
India

Is the one economy to receive a growth upgrade this year and avoid a 2019 downgrade. India's limited exposure to global trade shelters it in global downturns. The domestic economy is gaining strength, and credit should become more supportive of activity given ongoing efforts to clean up the banking system. We expect the headline bank rate to rise to 6.75% this year. Inflationary pressure is expected to decline limiting the need for additional tightening.

As an aside, the 2016 Goods and Services Act is beginning to positively impact the economy involving 10m businesses, making it impossible to charge GST (Goods and Services Tax) when you sell, or reclaim GST when you buy. The more recently introduced Electronic Waybill Act further reduces the opportunity to avoid tax as goods travel between States. It is estimated the combined effect could add 1.5% to Indian GDP over time.

Schroders China Activity Indicator shows more cyclicality

Thomson Reuters Datastream, Schroders Economics Group, 14 August 2018



Key Points - Asia

- GDP Growth 6.5% 2018 – source IMF Compared with the global average 3.9%
- Schroders forecast adjusted GDP growth of 6.2% 2019.

Key Points - Commodities

- BHP announces record dividend and forecasts strong growth.

China

Forecasters find it difficult to reconcile the official GDP growth figures. The economy grew steadfastly at 6.8% YonY, but activity seemed finally to slip in Q2 2018. Industrial production was stable at 6.4%, retail sales growth slowed to 9% from 9.9%, investment to 4.8% from 7.5% and exports to 11.4% from 17% YonY.

Schroders have constructed a China activity indicator to include Retail Sales, Fixed Asset Investment, Industrial Production, Exports and Imports, all in inflation adjusted terms. The aim being to distil this data into a single measure, which can then be compared with the officially reported GDP figures, see above.

The SCAI suggest economic slowdown was underway from as early as 2015. Tariffs are expected to negatively impact and policymakers have already begun shifting to a more dovish stance, suggesting an easier monetary policy. The impact of tariffs is expected to reduce real GDP growth to 6.2% in 2019. In practice, the Companies in the MSCI China Index derive less than 5% of their revenues from the US. The majority of these Companies focus on innovation and domestic consumption. The Government are promoting the 'Made in China 2025' strategy alongside the "Belt and Road" initiative aimed at fostering connectivity and co-operation between China and over 60 Eurasian Countries, which will boost intra-Asia trade and reduce reliance on developed markets.

China's Onshore Equity Market (A Shares) has moved into 'Bear' territory, hitting early 2016 levels and is now trading at around 10-11 x Forward Price Earnings. As China turns from the West to re-balance trade, and domestic consumption continues to expand, this activity creates a myriad of investment opportunities. The Canada Pension Plan Investment Board plan to more than double the proportion of assets it allocates to China, up from 7.6% to 20% by 2025. Mark Machin, CPPIB's Chief Executive, spent more than 20 years in Asia primarily working for Goldman Sachs.

South Korea

The export led growth model has run out of steam, growth this year is forecast to be just under 3%, while exports remain buoyant and unemployment below 4%. However, exports of goods and services have fallen from a 2012 peak of 55% of GDP to 43% in 2017. The twin threats of growing Chinese competition in the Technology sector and an aging population, the proportion of over 65s is forecast to rise from 13% to 60% by 2060, requires the Country quickly transition to a new growth model. The Country's share of global shipbuilding has fallen from 35% to 24% of global output. The decline extends to Automobiles, Steel and even to Mobile Phones. Seoul sees a potential economic boost from North Korea and the President announced a plan to establish rail and road links with North Korea, which will link the South with transport networks in China and Russia. The Plan is expected to add 1% to South Korean GDP and create more than 700,000 jobs.

We remain neutral.

Commodities

Morningstar excluded Commodities as an asset class from 2016, citing the fact that "their philosophy is the belief that asset class returns are intrinsically linked to the Cash returned to investors". They go on to say "Commodities do not fare well in this framework and, as such, their confidence in the valuation model is lower than for other asset classes".

After a turbulent period, BHP Billiton announced a record dividend and forecast strong earnings growth. The price of a barrel of Oil has risen above $75pb to reward Oil investors. Notwithstanding, the price of Industrial Metals fell. An index of future prices for Aluminium, Copper, Zinc and Nickel bounced back in July, but still stands 18% below its April high. Emerging economies are forecast to see growth largely unchanged at 5.0% over 2018, before slowing to 4.8% in 2019 and we believe demand will be sustained.

The delayed listing of the Saudi State Energy Group leaves an $11bn hole in the Saudi budget and the Saudi Sovereign Wealth Fund is seeking to borrow from a range of International Banks to fund Crown Prince Mohammed Bin Salman's ambitious economic reforms.

Exposure to this sector is via the Investec Enhanced Natural Resources Fund.

We retain exposure and are positive to a zero benchmark.

Key Points - Property

- We are increasing exposure and diversifying adding the Threadneedle UK Property effective 1 September.

Property

We retain and propose increasing our Portfolio's exposure to Property contrary to Morningstar, who retain zero exposure for the reason "Given the narrowing of yields on offer from UK Commercial Property and the limited capital growth prospects, the asset class was deemed less attractive and removed". In our view well managed UK Commercial Property offers a return over and above the return from Cash and Fixed Interest Security.

In the past six months our investors were rewarded by this contrarian stance with the F&C UK Property Fund returning 2.07%. We met with the Fund Manager, Guy Glover, on 20 July. He advised 99.1% of property held was let over a diversified portfolio of 54 properties. He targets to hold between 10-12% in Cash, is currently overweight, but on completion of properties under contract with a value of £64.23m, that will fall but remain above target at 16.9%. As a result, F&C will reduce the effective AMC by 65bps on net Cash in excess of 15% via a rebate to the Fund.

We propose increasing exposure to this sector, but diversification is key and after shortlisting a number of funds and conducting one to one interviews with the Managers, we are introducing a second fund, The Threadneedle UK Property Authorised Investment Trust. This is an entirely different animal, the net fund value is £1.53bn, with 13.1% in Cash. The fund invests in multi-occupancy with 199 properties hosting 1,347 tenants. The net initial yield is 6.2% and the vacancy rate 7.9% and whilst this is above the Index average it is explained by two substantial properties undergoing refurbishment before re-letting. The top ten assets and tenants are:-

TUKPAIF Top 10 Assets and Tenants

Columbia Threadneedle Investments, as at 30 June 2018.

	Asset	% of Fund value
1	Southport, Ocean Plazza	2.7%
2	Fareham, Solent Business Park	2.4%
3	Reading, Reading Retail Park	2.3%
4	Aylesford, Larkfield Mill Ind Est	2.3%
5	Cardiff, City Link Retail Park	1.9%
6	Bristol, Prudential Buildings	1.6%
7	Reading, Broad St & Friar St	1.6%
8	Luton, Capability Green	1.5%
9	Peterborough, Peterborough Bus. Park	1.4%
10	Brentwood, Baytree Centre	1.4%
Total		**19.2%**

	Tenant	% of rents passing
1	Travis Perkins	2.4%
2	Halfords Holdings	2.0%
3	Norton Group Holdings	1.9%
4	JD Sports Fashion	1.8%
5	Missouri Topco Ltd (T/A Matalan)	1.4%
6	Co-Operative Group	1.3%
7	Wilkinson Hardware Stores	1.2%
8	Lloyds Banking Group	1.2%
9	WBA Investments Inc	1.1%
10	Amazon	1.1%
Total		**15.3%**

The top ten tenants account for only 15.3% of rents passing significantly lower than peer funds where the average is 35%.

We propose introducing this fund from 1 September 2018 with our portfolio exposure in this sector as follows:-

Portfolio	F&C (%)	Threadneedle (%)
Conservative	6	5
Cautious	5	4
Balanced	4	3
Assertive	6	-
Aggressive	3	-

Property is not correlated to Equity. Our decision to invest in this sector is yield driven. We accept Property is a relatively illiquid investment, but the selected funds target to hold 10%+ Cash.

We are increasingly positive to a zero benchmark.

Fixed Interest

Government Bonds

2018 has presented investors with a very different framework from that of the last six years. The aggressive injection of liquidity by way of Central Bank QE enabled investors ignore just about every type of risk secure in the knowledge there was a bigger less price sensitive buyer, the Central Bank of Last Resort. This year's volatility is a product of the reversal of this process, an untested withdrawal of Central Bank liquidity coupled with a stronger US Dollar leading to tighter fiscal conditions globally.

The Fed are following the intended interest rate path moving to 'normalisation' regardless of the impact and this coincides with the ECB winding down asset purchase.

This presents three major hurdles to investor confidence, which we have highlighted in this issue of 'Outlook'.

- Italy – The Country's populist Government is pushing for change, risking confrontation with the EU on budget deficit rules. This raises the question of Italy's EU membership and with it €2tn of debt. Italy will push for a higher deficit to facilitate infrastructure investment and tax reform, which is exactly what Spain and to a lesser extent France have done – do Brussels have any choice despite this being contrary to EU regulation.

- Turkey – The world's 17th largest economy by GDP, but still $900bn. The problems are of Turkey's making. The problem can be resolved quite quickly by restoring the credibility of the Central Bank and improving bilateral relations with the US – Erdogan sees high rates as the "mother and father of all evil", will he back down?

- Trade – US v China – Another $16bn of goods from China now suffer a 25% tariff, small beer but another $200bn is being considered. We see this playing out, but for the moment US Treasury Markets reflect uncertainty.

All three headwinds are politically motivated and, therefore, difficult to predict and even harder to time - and then we have Brexit to add to the mix. These issues have contributed to holding down longer dated Government Bond yields. If political hurdles are resolved to the satisfaction of the market we should see a rise in longer Government yields, with 10 Year US Treasury yielding 3.25% - 3.50% by the year end.

We are increasing but remain negative to benchmark, which increased exposure.

Corporate Bonds

July is Corporate half-year reporting month. With trade tariffs having minimum impact, Bank lending surveys suggest that while Central Banks are tightening, consumer lending is not effected.

Twenty Four Asset Management report a positive earnings season in the Dynamic Bond Fund. The Fund was tilted to better performing sectors. The main uncertainty remains the possibility of a full blown trade war between China and US, whilst brinksmanship continues it will keep the lid on any risk asset rally, as will rising interest rates.

We remain negative to benchmark.

Cash

Morningstar have marginally reduced Cash exposure in favour of Fixed Interest +2% and Equity +1%. We struggle to find anything new to say on this asset class. UK Base Rate increased to 0.75% and is set to rise to 1.5%, but still below the current rate of inflation. We retain exposure as detailed in Q3 Outlook 2017.

We retain exposure but are negative to benchmark.

Key Points - Fixed Interest & Cash

- 2018 volatility stems from tightening liquidity.
- Looming higher interest rates and trade tariffs negatively impact.

Conclusion

The population of the UK at 65.64m is 0.9% of the total population of our planet 7.442bn (2016). Brexit, hard or soft, will impact the UK economy, the ripple will spread to Europe, but will not trigger a global recession.

Our exposure to the UK is underweight benchmark. In the Balanced Portfolio 28% is invested in the UK in mainly Large Cap Companies, most with a global reach. A total of 30% is held in Cash and Fixed Interest Securities and 7% is held in Properties. The balance invested around the globe. Overall, this portfolio is invested in a total of 23 well managed funds to provide diversification.

Brexit is a political issue, difficult to predict when we are seeking to leave a union of 27 Nation States each with their own agenda but centrally regulated by Brussels.

The "Chequers" proposal satisfies neither Remainers nor Brexiters. Remainers would be better served by the UK remaining in membership with a vote at Council to protect our National interest. The Country voted for exit regaining our Sovereignty. In practical terms, the UK should be released from EU strictures, free to trade with the rest of the world without harming trade with our European partners with whom we should continue to be closely aligned on matters of Security, Medical Research, Technological Development, etc. However, we have seen the small minded protectionist position adopted to date by Brussels; one of many examples is seeking to exclude the UK from Gallileo, the European GPS initiative that the UK has to date contributed to financially and technologically.

Our Portfolios are globally diversified, multi-asset and geared to the medium to long term.

"If all the Economists were laid end to end, they'd never reach a conclusion" – George Bernard Shaw.

Fund Panel Update

FH Core

Allocation Increased | Allocation Decreased | Fund Added | Fund Removed

Fund Name	Conservative	Cautious	Balanced	Assertive	Aggressive
AXA Sterling Credit Short Duration Bond Z Acc	-2	-1	-1	-3	
Baillie Gifford Japanese B Acc		1	1	1	1
BlackRock Corporate Bond D Acc	1		-1		
F&C UK Property 2 Acc	-2	-2	-2	1	
Fidelity Emerging Markets W Acc		-1	-1	-2	-1
Franklin UK Equity Income W Acc TR	1	1	2	1	1
JPM Europe Dynamic Ex UK C Acc			1		
JPM US Equity Income	-3	-6	-3		
Kames Absolute Return Bond C Acc GDP	6	4			
LF Lindsell Train UK Equity Acc			-2	-1	2
Man GLG UK Income C Professional Acc	-1				
Man GLG Undervalued Assets Professional C				1	
Miton US Opportunities B Acc	3	6	5		
Newton Global Dynamic Bond	-4	-4			
Old Mutual North American Equity R Acc GBP				1	1
Rathbone Total Return Portfolio	-5	-3			
Royal London Cash Plus Y Inc TR	-1	-1	-3		
Schroder Asian Income Z Acc			-1	-1	-2
Schroder Small Cap Discovery				-1	-2
Schroder US Mid Cap Z Acc			-1	1	
Threadneedle Sterling Bond ZNI GDP	2	2	3	2	
Threadneedle UK Property Authorised Trust	5	4	3		

The Threadneedle UK Property fund avoids lower-yielding trophy buildings and focuses on purchasing higher yielding properties across the various sectors, the highest weighting currently being Industrials. Threadneedle look to deliver good stock selection and diversification and to achieve a level of consistent income to investors. The target is to yield at least 25% more than the market.

The LF Miton US Opportunities fund is primarily invested in North American equities and managed by Hugh Grieves and Nick Ford. They each have over twenty years' industry experience. Using bottom-up stock selection they identify undervalued companies with a competitive advantage within the Russell 3000 Index. they prefer to look for low analyst coverage as they are more likely to be mispriced.

The Kames Absolute Return Bond fund aims to generate positive absolute returns over a rolling three year period regardless of market conditions. This is achieved via investing in global debt instruments in any currency, ranging from AAA government bonds through to high yield and emerging market bonds. The fund benefits from an experienced team and a strict structured investment process.

Fund Panel Update

FH Passive Plus

Allocation Increased | Allocation Decreased | Fund Added | Fund Removed

Fund Name	Cautious	Balanced	Assertive
JPM Global Macro Opportunities C Fund Acc			1
F&C UK Property 2 Acc	1	1	
Fidelity Index Emerging Markets P Acc	-2	-2	-4
Fidelity Index Pacific ex Japan P		-1	-1
Fidelity Index US P Acc	5	9	11
HSBC European Index C Acc	4	6	8
iShares 100 UK Equity Index (UK) D Acc	2	1	1
iShares Continental European Index (UK) D	-5	-7	-9
iShares North American Equity Index (UK) D	-5	-8	-10
iShares Overseas Corporate Bond Index (UK) D	1		
Rathbone Total Return Portfolio S Acc	-5	-3	
Royal London Cash Plus Y Inc	-1	-1	
TwentyFour Dynamic Bond	1	1	
Vanguard FTSE UK Equity Income Index Acc	1	1	
Vanguard UK Government Bond Index Acc	5	3	3
Vanguard UK Investment Grade Bond Index Acc	-2		

We have conducted a review of our Passive allocations and have made the following like for like switches; iShares Continental European Index to HSBC European Index, iShares North American Equity Index to Fidelity Index US. We have also introduced Vanguard UK Government Bond Index for Gilt exposure. We use a wide range of criteria to assess Passive funds, such as tracking error, performance, FE Passive Crown Rating, fund size and charging.

Performance

Portfolio	3 Month %	12 Month %
Forrester-Hyde Aggressive Model Portfolio	0.82	8.07
Forrester-Hyde Assertive Model Portfolio	0.96	7.29
Forrester-Hyde Balanced Model Portfolio	0.98	5.11
Forrester-Hyde Cautious Model Portfolio	0.66	3.21
Forrester-Hyde Conservative Model Portfolio	0.31	1.91

Portfolio	3 Month %	12 Month %
Forrester-Hyde Passive Plus Assertive Model Portfolio	0.36	4.89
Forrester-Hyde Passive Plus Balanced Model Portfolio	0.58	4.01
Forrester-Hyde Passive Plus Cautious Model Portfolio	0.44	2.81

Asset Class	3 Month %	12 Month %
Euro STOXX 50	3.19	0.00
FTSE 100	-2.05	4.13
FTSE Actuaries UK Conventional Gilts All Stocks	-0.76	-0.45
IBOXX UK Sterling Corporate All Maturities	0.19	-1.00
MSCI Emerging Markets	-2.43	-1.54
MSCI World	6.83	12.13
S&P 500	10.17	17.95

FINANCIAL PLANNER CII CHARTERED

ForresterHyde
CHARTERED FINANCIAL PLANNERS

Forrester-Hyde Limited
19 Clifftown Road Southend
on Sea, Essex SS1 1AB.

Tel: 01702 432532
Fax: 01702 431446