

The Managed Portfolios have now been rebalanced, with changes made to the Equity, Fixed Income, Liquid Alternatives and Property segments of the portfolios. In addition to adjustments made to existing manager's weightings to exploit the best risk-adjusted opportunities within the sub-asset classes, there was one change to the manager line-up within liquid alternative / absolute return managers.

## Momentum Managed Portfolios 3, 4 and 5

All major economies posted strong economic growth in 2017, unemployment rates have continued to decline and we have started to see the first signs of wage increases. As such, we believe that we have now entered a monetary tightening environment and central bankers will be more willing to increase rates going forward. This environment will benefit short duration asset classes as well as dynamic management within fixed income.

Consequently, the Momentum lower risk Portfolios have increased exposure to the **MI TwentyFour Dynamic Bond Fund**. This Fund provides the Portfolios with access to niche asset classes within fixed income, which are not easily available as stand-alone investments, i.e. Asset-Backed Securities (ABS), Mortgage Backed Securities (MBS) and other short duration credits that are still displaying some value. In addition, Portfolios 4 and 5 will also see an increase in short duration high yield, which should fare better as interest rates increase. To fund these trades, Property and Convertible Bond overweights were reduced to bring them more in line with their long-term asset allocation.

Additionally, the Portfolios have seen a manager upgrade within the Liquid Alternatives segment of the strategies. **The Kames UK Equity Absolute Return Fund** has been sold across all Portfolios and replaced by the **Old Mutual Global Absolute Return Fund** with similar weighting. The Old Mutual Global Absolute Return Fund has a systematic market neutral strategy with the aim to deliver high single-digit returns and a volatility target of 6% with low correlation to global equities and bonds. In order to achieve positive returns, the fund exploits market inefficiencies such as overreaction (momentum), neglect (valuation), framing (momentum), under-reaction (analyst signals), and naive extrapolation (growth). They use a proprietary quant model for each of these five market inefficiencies. The model is dynamic and the allocation across the different factors will change given the market environment as defined by market sentiment and market risk indicators. The strategy commenced in July 2009 and is managed by an experienced team led by Ian Heslop. In comparison to the Kames UK Equity Absolute Return strategy, we prefer Old Mutual's systematic nature which should increase the consistency and robustness of returns.

The Portfolios previously held US Government Bonds hedged to GBP. Due to an increase in the differential between US and UK interest rates and the cost of hedging becoming increasingly more expensive, the advantage of holding US Government Bonds has been eroded. The lower risk Portfolios have therefore seen a switch from **US Government Bonds (via the Vanguard US Government Bond Index) to UK Gilts (iShares UK Gilts All Stock)**.

## Momentum Managed Portfolios 6, 7 and 8

There were slight changes to the higher risk Portfolios. Each Portfolio saw their overweight to Property reduced by 2% via the **L&G Global Real Estate Fund**. This reduction has been re-allocated to the **Old Mutual Global Absolute Return Fund** in order to increase diversification within the Liquid Alternative segment which previously only held the **F&C Global Equity Market Neutral Fund**. In addition, the Portfolios will see a slight increase in Japanese Equities via the **Fidelity Index Japan Fund**. Japanese equities remain attractive and we acknowledge the government's proactive policies to improve working practices and governance. Furthermore, the Yen has historically performed well in risk-off environments, which should further benefit the Portfolios diversification.

In the short to medium term, it will be particularly important to monitor movements in US Treasury yields, which have risen rapidly over the past six months. A more rapid rise in yields in the short term could undermine equity markets and cause a more significant period of consolidation, although we would view such a move as an opportunity to add equity risk to the Portfolios. Despite the recent setback in markets, we are of the firm view that this cycle has further to run and we see this short-term setback as a healthy correction. We do not see evidence of overheating or a premature downturn and believe opportunities for returns outweigh the risks; hence it is important to stay invested.

# Managed Portfolio New Fund Selection

## v31

momentum

March 2018

The Managed Portfolios have now been rebalanced. As part of this, there were changes to the Equity, Fixed Income and Property segments of the portfolios.

↑ Increase Allocation  
 ↓ Decrease Allocation  
 → No Change  
 ● New Allocation

low risk high risk  

←
→

	3	4	5	6	7	8
<b>EQUITIES</b>						
<b>UK EQUITY</b>						
CF Lindsell Train UK Equity Fund	1.0→	1.5→	4.5→	5.5→	3.0→	3.0→
Evenlode Income B Acc	3.5→	7.5↑	10.5→	8.0→	8.0→	4.0→
Liontrust UK Smaller Companies ACC	-	-	-	-	2.0→	3.0→
Old Mutual UK Smaller Companies R Acc	-	-	-	3.0→	2.0→	3.0→
Schroder UK Recovery Z	6.0→	11.0→	14.0→	9.0→	11.0→	10.0→
<b>GLOBAL EQUITY</b>						
Veritas Global Focus Fund	2.0→	6.0→	7.0→	7.0→	5.0→	7.0↓
Trojan Global Equity O Acc	-	6.5→	8.0↓	8.0→	6.0→	4.0→
Fidelity Global Index	-	-	-	6.0→	6.0→	-
FP Crux European Special Situations Fund I Acc GBP	1.5→	1.5↓	2.0→	4.0→	5.5→	6.0→
Fidelity Index Japan W	1.5→	1.5→	2.0→	3.0↑	4.0↑	5.0↑
<b>EMERGING MARKET EQUITY</b>						
JPM Emerging Markets Dividend	3.5→	4.0→	5.0→	5.0→	9.0→	11.5→
Fidelity Emerging Markets Index Acc	-	-	-	-	-	9.0→
First State Asia Pacific Leaders B Fund Acc	-	3.0→	5.0→	7.5→	11.0→	13.0→
Somerset Emerging Dividend Growth Fund Acc	-	-	-	5.0→	6.0→	8.5→
<b>FIXED INCOME</b>						
<b>INFLATION LINKED GILTS</b>						
L&G Gbl Infln Lkd Bd Index I Acc	13.0→	9.0→	5.0→	2.0→	-	-
<b>GOVERNMENT BONDS</b>						
Vanguard US Government Bond Index	0.0↓	0.0↓	0.0↓	-	-	-
iShares UK Gilts All Stock	6.0●	5.0●	2.0●	-	-	-
<b>INVESTMENT GRADE</b>						
Vanguard UK STInvGrdBd Idx A£	5.0→	-	-	-	-	-
<b>CORPORATE BONDS</b>						
Fidelity Strategic Bond Fund	4.0→	-	-	-	-	-
Jupiter Strategic Bond Fund	4.0→	-	-	-	-	-
MI TwentyFour Dynamic Bond Fund I Acc	10.0↑	8.0↑	6.0↑	4.0→	2.5↓	-
<b>HIGH YIELD</b>						
AXA US Short Duration High Yield Fund ZI Gross Acc	7.0→	6.0↑	4.0↑	2.0→	2.0→	-
<b>CONVERTIBLES</b>						
RWC Global Convertibles B GBP Hedged	2.0↓	2.0↓	2.0↓	3.0→	2.0→	-
<b>EMERGING MARKET DEBT</b>						
L&G Em Gov Bd (USGBX) Index I Acc	5.0→	6.0→	6.0→	2.0→	-	-
<b>LIQUID ALTERNATIVES</b>						
F&C Global Equity Market Neutral Fund Share Class 3 Acc	5.0↑	4.0↑	4.0→	3.0→	2.5↓	2.0↓
Kames UK Equity Absolute Return B Fund Acc	0.0↓	0.0↓	0.0↓	0.0↓	-	-
Old Mutual Global Absolute Return	5.0●	4.0●	3.0●	3.0●	2.5●	2.0●
<b>PROPERTY</b>						
First State Global Listed Infrastructure GBP B Acc	3.0→	3.0→	4.0→	5.0→	5.0→	5.0→
L&G Global Real Estate Dividend Index Fund	3.0↓	3.0↓	3.0↓	3.0↓	3.0↓	3.0↓
<b>CASH</b>						
Cash	9.0→	7.5↑	3.0→	2.0→	2.0→	2.0→

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