

The Managed Portfolios, Income Portfolio and Global Models have now been rebalanced, with changes to the Equity, Fixed Income, Infrastructure and Cash segments of the strategies. Depending on the strategy's risk profile, the portfolios have seen an increase to UK and Developed Market equities as well as UK Gilts, US Government Bonds and Cash. These purchases were funded by a decrease in weighting towards Real Assets, Emerging Markets, Inflation-linked Bonds and Emerging Market debt. Additionally, exposure to the BMO Global Equity Market Neutral v10 fund has now been closed

There were no changes to Global Models 3, 4 and 5 as these strategies have a 100% allocation to the Momentum multi-asset funds, Focus 3, 4 and 5 respectively. Any changes to our asset allocation views were implemented within the Focus funds.

The Managed Portfolio range has increased their UK Equity exposure via the Liontrust UK Smaller Companies, Merian UK Smaller Companies and Linsdell Train UK Equity strategies. Additionally, the lower risk portfolios saw a slight increase to Developed Market equities via the Troy Trojan Global Equity or/and the Evenlode Global Income fund. These purchases were funded by a reduction in the weighting to Emerging Markets via First State Stewart Investors Asia Pacific Leaders, Somerset Emerging Dividend Growth and the JP Morgan Emerging Market Income funds.

UK equity valuations are attractive again after a recent sell off due to the UK's ever evolving Brexit negotiations and continued political jockeying with the MSCI UK down 7.5% over the year. Additionally, Sterling is down 6.1% over the year, mostly due to the uncertainty surrounding Brexit negotiations. We do not anticipate Sterling falling much lower against the USD and this arguably adds additional upside to UK equities at their current level because they are cheap for international investors in local currency.

Nevertheless, our increases are only modest as we are cognisant of the overall risk levels in the portfolios. Furthermore, we are focusing on larger market cap constituents as they are globally focused businesses that are less sensitive to the UK's political outlook. Additionally, the larger cap market constituents derive a majority of their revenue from overseas which results in their earnings being shielded from FX swings. Emerging Markets have performed well in the short term with the MSCI EM up 10.3% since we topped up our position in October last year. Although we remain in favour of Emerging Market assets we have decided to trim back the overweight position to take some profits for investors as we reinvest the proceeds into UK equities. Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk. With the Sino-US trade war backdrop remaining a key risk to emerging markets, we believe it is a good time to bring the allocation of Emerging Markets closer in line with its strategic asset allocation.

The Managed Portfolios have decreased their allocation to Inflation Linked Bonds and Emerging Market Debt via the L&G Global Inflation Linked Bond Index and the L&G US Dollar Emerging Market Government Debt Tracker. The reduction in weighting towards these asset classes has been reinvested into UK Gilts, US Government Bonds and Cash (only in the lower risk portfolios).

Index-linked bonds offer some selective value but, like their nominal counterparts, they are expensive, particularly in the UK. Although the medium-term outlook for Developed Market (DM) government bonds remains relatively unattractive, government bonds remain one of the better diversifiers in a multi asset portfolio, even when they are optically expensive. With inflationary forces remaining somewhat muted we have taken the decision to switch from TIPS (inflation protected bonds) into DM government bonds as on any renewed concerns over global growth they would almost certainly underperform nominal bonds). Emerging Market Bonds remain attractive, but we have decided to somewhat trim back the current overweight position. The healthy running ~6% yield means the asset class remains a preferred credit allocation for us, however caution remains with our positioning as a resurgent Dollar would weigh on Emerging Market assets, with local bonds and FX likely bearing the brunt.

BMO Global Equity Market Neutral v10 Fund

We have decided to close our position in the BMO Global Equity Market Neutral V10 Fund following the departure of Erik Rubingh. With a tenure of almost 12 years at the firm, Erik was the Head of the Systematic Factors team and the key person behind the GEMN strategy, which he himself developed, managed and controlled. Despite us being confident in the remainder of the team's quality and capabilities, we viewed his departure as a strong headwind to the strategy's future as well as a risk we would not want our clients to be exposed to. The proceeds from the sale have been reinvested in the Merian Global Absolute Return fund, the existing Liquid Alternative holding, or the Fidelity Strategic Bond Fund depending on the risk profile of the portfolio.

Outlook

The big shift in monetary policy and the sharp falls in longer term interest rates provide strong support for valuations of risk assets. The policy backdrop will remain supportive through this year and we expect some of the major areas of uncertainty which have held back confidence and investment, notably US-China trade wars and possibly even Brexit, to begin to lift. We therefore expect further progress in markets during 2019. However, we also recognise the risks of an unfavourable outcome to some of these events resulting in extended uncertainty, as well as the longer-term problem of excess debt in many countries, which contain the seeds of a more serious economic slowdown. These uncertainties are enough to keep investors nervous and to trigger bouts of volatility, especially following the sharp rise in markets this year. Some period of consolidation is therefore quite likely, but we view the medium-term outlook as broadly positive and will use periods of weakness to accumulate risk assets.

Managed Portfolio

New Fund Selection - v34

momentum

April 2019

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

low risk ← → high risk

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

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