

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, as well as a marginal increase in cash levels for the lower risk portfolios and a decrease in cash levels for the higher risk portfolios. Managed Portfolio 4 & 4a have completed their transition to form one Dynamic Planner risk profile 4 strategy – Momentum Managed Portfolio 4.

Equity Allocation

Momentum will take this opportunity to marginally reduce the allocation by 1% or 2% within the equity component of Managed Portfolios 3 to 7. However, Managed Portfolio 8 will not see a reduction in equity allocation at headline level but will see a 1% decrease in UK equities. This reduction in UK equities will be allocated to emerging market equities. Indicated below are the details of which managers have seen a fall in weighting due to the marginal cut in equities.

Reducing – Veritas Global Focus Fund (Managed Portfolio 3 to 7), Liontrust UK Smaller Companies (Managed Portfolio 7 & 8) Over the course of the year Momentum took the decision to reduce its US equity allocation by selling 100% of the strategie’s holdings in direct US equity funds. The Managed Portfolios currently gain their US equity exposure through the Global managers, where the US weight is approximately 63.5%. With the US still the most expensive regional equity market in our valuation framework and profit margins having peaked, US equities require meaningful and sustained double digit earnings growth to justify today’s valuations. Consequently we have decided to continue this pattern of reducing US equities further by taking 1% or 2% from Veritas Global Focus Fund (dependent on risk profile of the strategy).

The higher risk strategies, Managed Portfolios 7 & 8, will see a slight reduction in UK equities. In Managed Portfolio 8 this reduction will be reallocated to emerging market equities. The UK continues to face uncertain times with regard to Brexit where progress remains slow. Managed Portfolio 7 & 8 will still have a substantial allocation to UK equities but at this stage in the cycle we believe there is value to be added elsewhere.

Increase – JP Morgan Emerging Market Income Fund (Managed Portfolio 8)

Momentum has decided to increase Managed Portfolio 8’s weighting towards emerging market equities by marginally increasing the weighting towards the JP Morgan Emerging Market Income Fund from the UK equity reduction. Emerging market equity valuations are attractive in absolute and relative terms. With slowly improving fundamentals and improving appetite for emerging market assets among investors we continue to like the prospective long term returns offered by the asset class today. Notably global policy action remains supportive towards riskier assets and with emerging market currencies, in aggregate, remaining cheap in real terms this should also be supportive for emerging market assets more broadly.

Fixed Income

Sell – Jupiter Strategic Bond Fund (Managed Portfolio 3 to 6), Vanguard UK Investment Grade Bond (Managed Portfolio 3 to 6) The Momentum lower risk portfolios have a sizable allocation to strategic bond managers, an investment strategy that, in aggregate, has tended to favour higher yielding credit strategies. Credit spreads, particularly in the high yield corporate debt market, are tight today having recently breached the levels reached in 2012. In addition with the credit cycle somewhat extended in the US we prefer short duration to core high yield as scenario analysis suggests a better risk return as they have lower sensitivity to rising interest rates. Managed Portfolio 4 to 6 have sold 100% of the Jupiter Strategic Bond fund whereas Managed Portfolio 3 will see the weighting reduced by half.

The lower risk portfolios will still have exposure to short duration investment grade however Managed Portfolio 4 to 6 have sold their full duration investment grade via the Vanguard UK Investment Grade Bond fund. Managed Portfolio 3 will see the weighting reduced by 4%. Investment grade duration remains near the highs meaning investors are more sensitive to rate moves today than in the past.

Buy – Legal & General Global Inflation Linked Bond Index (Managed Portfolio 3 to 6), Legal & General Emerging Market Government Bond Index (Managed Portfolio 3 to 6)

Managed Portfolios 3 & 4 will see their current allocation to TIPS increased, whereas Managed Portfolio 5 & 6 will see the introduction of TIPS through the Legal & General Global Inflation Linked Bond Index. Realised levels of inflation in the developed world today are mostly low or rising, while inflation breakevens in aggregate look a little cheap. Given the historical stickiness of inflation at levels above breakeven inflation rates, inflation linked bonds in select markets look better value today than fixed rate government bonds.

Momentum will be topping up its exposure to emerging market debt in Managed Portfolio 3 to 6. Spreads and yields today on hard currency denominated debt in emerging markets remain attractive when considering duration, reinvestment risks and opportunities in other asset classes. With the real effective level of emerging market currencies remaining near lows, this should provide some support to hard currency spreads and local bonds will benefit from any continued dollar weakness.

Property

Buy - First State Global Infrastructure (Managed Portfolio 3 to 7)

Managed Portfolio 3 to 7 will see an increase to its property allocation via the First State Global Infrastructure fund. The First State Global Infrastructure fund is currently held in portfolios 6, 7 & 8 but has now been introduced in 3, 4 & 5. The fund managers are supported by a team of experienced infrastructure specialists and only invest in the equity of businesses that derive the bulk of their earnings from owning and operating infrastructure assets. Infrastructure assets often hold a guaranteed agreement with the government to provide essential services, which creates an effective monopoly for the provider and results in extremely predictable cash flows. Therefore, these businesses are often less vulnerable to economic cycles and can support high credit ratings and lower borrowing costs, due to their high predictability. Also, government agreements usually include automatic tariff increases which in many cases explicitly consider the rate of inflation. In combination these characteristics mean infrastructure equities are able to deliver more stable, defensive returns with lower correlations to other asset classes, compared to general equities.

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Managed Portfolio New Fund Selection

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momentum

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↑ 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	3.0 ↓	4.5 →	7.5 →	7.5 →	7.0 →	6.0 →	
Evenlode Income B Acc	3.5 →	6.5 →	10.5 →	8.0 →	8.0 →	5.0 →	
Liontrust UK Smaller Companies ACC	-	-	-	-	3.0 ↓	4.0 ↓	
Old Mutual UK Smaller Companies R Acc	-	-	-	-	3.0 →	4.0 →	
Schroder UK Recovery Z	4.0 →	7.0 →	11.5 →	7.0 →	9.0 →	7.0 ↑	
GLOBAL EQUITY							
Veritas Global Focus Fund	2.0 ↓	6.0 ↓	7.0 ↓	7.0 ↓	5.0 ↓	7.0 →	
Trojan Global Equity O Acc	-	6.5 →	9.0	8.0 →	6.0 →	6.0 →	
Fidelity Index World W Acc GBP	-	-	-	6.0 →	6.0 →	-	
FP Crux European Special Situations Fund I Acc GBP	1.5 →	2.5 →	2.0 →	4.0 →	5.5 →	6.0 →	
Fidelity Index Japan W	1.5 →	1.5 →	2.0 →	2.0 →	3.0 →	3.0 →	
EMERGING MARKET EQUITY							
JP Morgan Emerging Market Income Fund	1.5 →	4.0 →	2.0 →	4.0 →	8.0 →	10.5 ↑	
Fidelity Emerging Markets Index Acc	-	-	-	-	-	9.0 →	
First State Asia Pacific Leaders B Fund Acc	-	-	5.0 →	7.5 →	11.0 →	13.0 →	
Somerset Emerging Dividend Growth Fund Acc	-	-	-	5.0 →	5.0 →	7.5 →	
FIXED INCOME							
INFLATION LINKED GILTS							
L&G Gbl Infln Lkd Bd Index I Acc	8.0 ↑	5.0 ↓	3.0 ↑	2.0 ↑	-	-	
GOVERNMENT BONDS							
Vanguard US Government Bond Index	3.0 →	3.0 →	-	-	-	-	
INVESTMENT GRADE							
Vanguard UK Investment Grade Bond	4.0 ↓	0.0 ↓	0.0 ↓	0.0 ↓	-	-	
Vanguard UK STInvGrdBd Idx A£	8.0 →	4.0 →	-	-	-	-	
CORPORATE BONDS							
Fidelity Strategic Bond Fund	8.0 →	4.5 →	3.5 →	-	-	-	
Jupiter Strategic Bond Fund	4.0 ↓	0.0 ↓	0.0 ↓	0.0 ↓	-	-	
MI TwentyFour Dynamic Bond Fund I Acc	7.0 →	5.0 →	4.0	4.0	3.5	-	
CONVERTIBLES							
RWC Global Convertibles B GBP Hedged	5.0 ↓	8.0 →	8.0 →	6.0 →	3.0 ↓	-	
EMERGING MARKET DEBT							
L&G Em Gov Bd (USGBX) Index I Acc	7.0 ↑	7.0 ↑	7.0 ↑	4.0 ↑	-	-	
LIQUID ALTERNATIVES							
F&C Global Equity Market Neutral Fund Share Class 3 Acc	3.5 →	3.0 →	4.0 →	2.0 →	3.0 ↑	2.0 →	
Kames UK Equity Absolute Return B Fund Acc	6.5 →	6.0 →	4.0 →	2.0 →	-	-	
PROPERTY							
First State Global Listed Infrastructure GBP B Acc	3.0 ↑	3.0 ↑	3.0 ↑	4.0 ↑	5.0 ↑	4.0 →	
L&G Global Real Estate Dividend Index Fund	5.0 →	5.0 →	5.0 →	5.0 →	4.0 →	4.0 →	
CASH							
	11.0	8.0	2.0	2.0	2.0	2.0	