

Managed Portfolios 3-7 have now been rebalanced, with changes to the equity, fixed income and cash segments of the strategies. The portfolios have seen a 2.5% to 3.5% reduction to equities depending on their risk profile. The decrease at asset class level within the equity segment has been taken from the portfolios' existing UK, global and emerging market managers. These sales have been used to fund purchases in inflation linked bonds, short duration high yield, emerging market bonds and global convertibles – details below.

There were no changes to Managed Portfolio 8. Nevertheless, we have taken this opportunity to rebalance the strategy back to its target weights.

### Equity

The Momentum Adviser Solutions range has seen a decrease to overall equity exposure. This reduction in equity allocation has been taken equally across UK and global equities. There has been a decrease to allocations of between 0.50% and 1.5% from Lindsell Train, Evenlode Income, Schroder UK Recovery, Evenlode Global Income, Troy Global Equity and Fidelity Global Index, which give an overall equity reduction of 2.5% to 3.5% depending on the strategy's risk profile. There has also been a small reduction of 50bps from emerging market equities in the lower risk portfolios.

As we approach the end of August global risk has continued to increase and with UK and global equities up strongly year to date in sterling terms, MSCI UK +9.02% and MSCI World +17.35% (16/08/2019), we have decided to take some profits. These uncertainties include:

- The global manufacturing economy is on the verge of, if not already in some countries, recession and signs of slower growth in services raise fears of a more widespread downturn.
- The escalation of the US-China trade war and the unpredictability of Trump leaves investors worried about further erosion of confidence and the risk that Europe becomes more embroiled.
- The heightened risk of a no-deal Brexit casts a cloud over Europe and particularly the UK
- The democracy protests in Hong Kong have become increasingly serious and sinister, threatening the territory's stability and its position as the financial gateway to China and as the third-largest financial centre in the world
- The deep uncertainty of the longer-term implications and unintended consequences of ultra-loose monetary policy which is set to loosen further in the coming months

All the above point to more a more challenging investment landscape and heightened volatility in the short term. Having said that, the extent of the global slowdown needs to be kept in perspective; trade and manufacturing are contracting but the service sector continues to grow, employment remains strong and the consumer is generally in good shape. There are no signs of systemic financial problems and an ensuing liquidity crunch nor of capacity shortages, inflation and a sudden tightening of policy. With inflation subdued, central banks have considerable flexibility in keeping policy ultra-loose for much longer, thereby extending this extraordinary cycle.

### Fixed Income

The Advisor Solutions range has seen an increase to inflation linked bonds, global convertibles and emerging market debt. The increase in allocation to these asset classes has been implemented via the L&G Global Inflation Linked Bond Index, RWC Global Convertibles strategy and the L&G US Dollar Emerging Market Government Debt tracker.

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Inflation has been remarkably constrained, with core inflation indices in the US, Europe and Japan stuck firmly below central bank target rates. It is the combination of slowing growth and falling and/or very subdued inflation which has been instrumental in pushing bond yields down substantially in the past nine months and forced central banks to loosen policy. We have therefore increased our index linked bond allocation as they are one of the few ways to meaningfully protect against inflation risk.

Emerging market bonds remain attractive, with spreads slightly elevated relative to history despite lower yields after recent rate moves. The healthy running yield means the asset class remains a preferred credit allocation for us and we continue to prefer hard currency to local exposure. We believe emerging market bonds continue to offer some of the best longer-term real return opportunities in bond markets today and although the recent dollar strength has weighed on emerging market assets any devaluation in the Dollar would help increase these expected returns.

The convertibles allocation was also increased because the natural convexity provided by convertibles gives the strategies protection against any renewed equity weakness. As mentioned in the equity segment above we believe that there will be short term volatility in markets. Convertibles offer protection on the downside, participation on the upside and should also gain with higher expected volatility.

## **Outlook**

A degree of caution is warranted today. Equity and bond markets have risen sharply this year, driven by the prospect of easier financial conditions, and valuations have become stretched in some areas, notably in fixed income. Yet the economic backdrop has deteriorated, corporate earnings are under pressure especially in sectors most exposed to manufacturing, and markets are largely discounting sizeable policy easing by central banks in coming months. The falls in interest rates this year, both at the short end and throughout the yield curve, across all government bond markets, provide a strong underpinning to equities and other risk assets, offsetting the more challenging conditions faced by the corporate sector after last year's benign backdrop. Against a backdrop of heightened uncertainty some consolidation is overdue, but we believe that the cycle has further to run. Any falls in markets will give rise to opportunities to add to risk assets, while at all times we will maintain careful diversification in portfolios to protect inevitable shorter-term setbacks.

# Managed Portfolio

## New Fund Selection - v35

momentum

August 2019

↑ 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>						
LF Lindsell Train UK Equity Fund	1.0→	5.0→	8.0↓	7.5→	5.0→	5.0→
Evenlode Income B Acc	3.5→	7.5→	10.5→	7.5↓	7.5↓	6.0→
Liontrust UK Smaller Companies ACC	1.0→	1.0→	1.0→	1.0→	2.5↓	4.0→
Old Mutual UK Smaller Companies R Acc	-	-	2.0→	2.5↓	3.0→	4.0→
Schroder UK Recovery Z	6.0↓	10.0↓	13.5↓	10.5↓	10.5↓	10.0→
<b>GLOBAL EQUITY</b>						
Evenlode Global Income Fund	2.0↓	6.5↓	6.5↓	8.0→	6.0→	6.0→
Trojan Global Equity O Acc	1.0→	6.5↓	6.5↓	7.5↓	6.0↓	4.0→
Fidelity Global Index	-	-	-	5.0↓	6.0↓	-
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→
<b>EMERGING MARKET EQUITY</b>						
JPM Emerging Markets Dividend	3.0↓	1.5↓	3.0↓	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→	7.0↓	11.0→	13.0→
Somerset Emerging Dividend Growth Fund Acc	-	-	-	3.0→	3.0→	4.5→
<b>FIXED INCOME</b>						
<b>INFLATION LINKED GILTS</b>						
L&G Gbl Infln Lkd Bd Index I Acc	8.0↑	5.0↑	4.0↑	2.0●	2.0●	-
<b>GOVERNMENT BONDS</b>						
Vanguard US Government Bond Index	4.0→	3.0→	1.5↑	-	-	-
iShares UK Gilts All Stock	7.0→	8.0→	5.0→	-	-	-
<b>INVESTMENT GRADE</b>						
Vanguard UK STInvGrdBd Idx A£	8.0→	-	-	4.0●	-	-
<b>CORPORATE BONDS</b>						
Fidelity Strategic Bond Fund	10.0→	6.0→	2.0→	2.0→	-	-
MI TwentyFour Dynamic Bond Fund I Acc	10.0→	8.0→	4.0→	2.0↓	2.5→	-
<b>HIGH YIELD</b>						
AXA US Short Duration High Yield Fund ZI Gross Acc	9.0↑	4.0→	2.0→	-	0.5●	-
<b>CONVERTIBLES</b>						
RWC Global Convertibles B GBP Hedged	3.0↑	2.5↑	2.5↑	1.0↓	1.0→	-
<b>EMERGING MARKET DEBT</b>						
L&G Em Gov Bd (USGBX) Index I Acc	8.0↑	5.0↑	5.0↑	3.0↑	1.0●	-
<b>LIQUID ALTERNATIVES</b>						
Old Mutual Global Absolute Return	5.0→	5.0→	5.0→	5.0→	5.0→	4.0→
<b>PROPERTY</b>						
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→
<b>CASH</b>						
Cash	3.5↓	6.5↑	4.5↓	2.5↑	2.0→	2.0→

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