Quarterly Report

August 2018

The Future Money strategies are run with the aim of providing investors with carefully risk managed investment solutions.

This report is designed to provide an insight into how the four strategies have been managed, along with the thought processes behind the investment decisions made by the fund managers.

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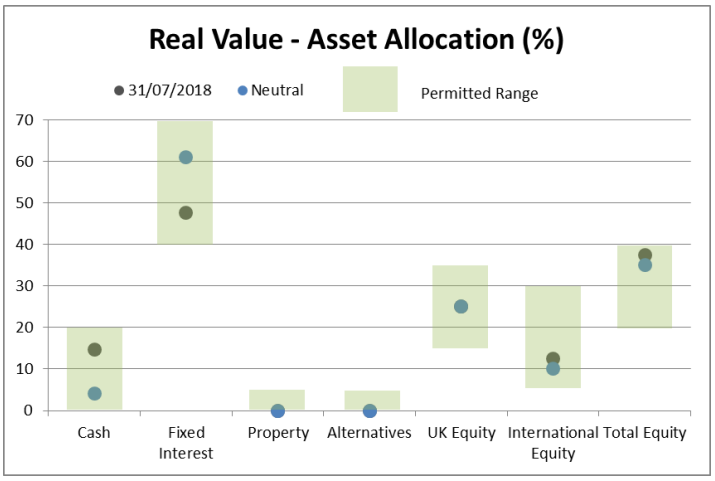
Quarterly Report

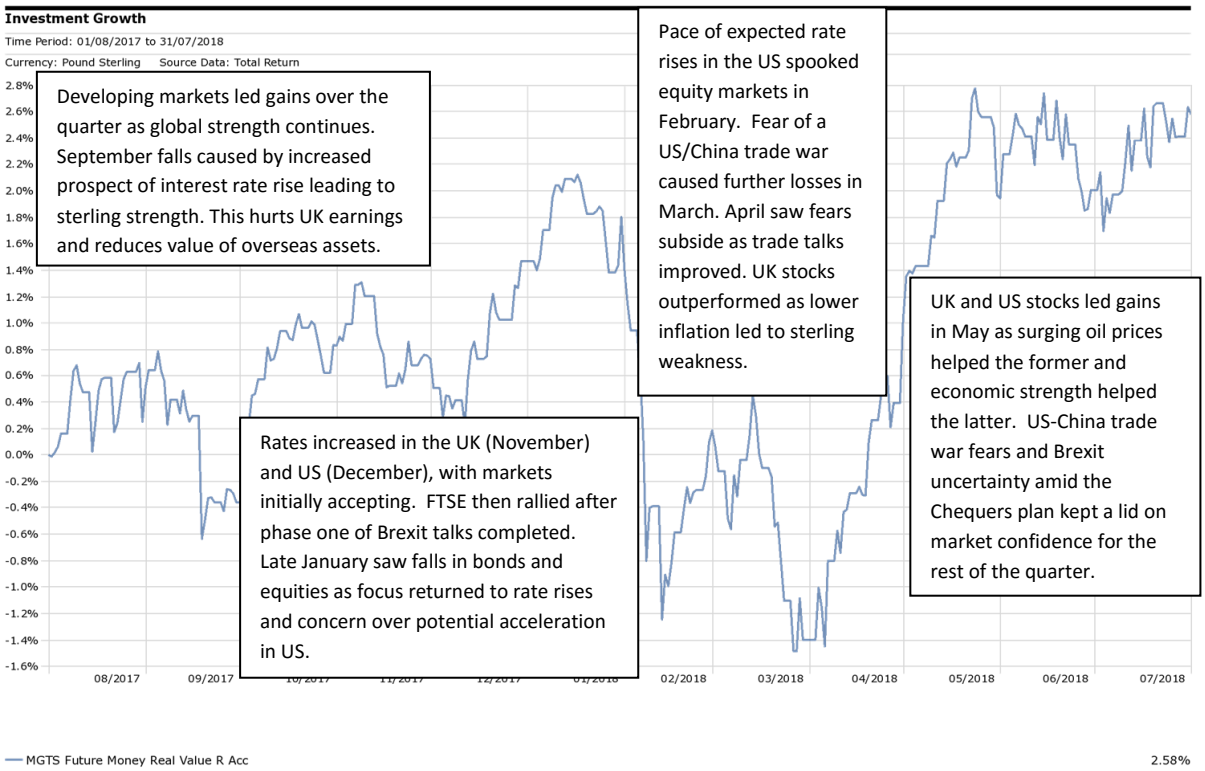
30 April 2018 to 31 July 2018

MGTS Future Money Real Value

The equity increase of February was reversed in May following a strong market recovery. The Future Money team remain confident in the prospect for equities looking forward, but given the significant gains achieved, a slight reduction in exposure was made in order to maintain the risk level in the portfolio.



The last holdings of Smith & Williamson Short Dated Corporate Bond were sold from Real Value in May with the proceeds invested in the cheaper, but similarly exposed Vanguard and L&G short dated bond funds. A gradual transfer out of Majedie UK Income and into Man GLG UK Income started in July. The Majedie fund's manager has left the firm and while an interim manager is currently in place, from November a new manager with a different investment style will take over. The Man GLG fund has been chosen as a close match for the historic style of the Majedie fund.



Past performance is no guarantee of future performance. The value of investments can fall as well as rise and investors may not get back their original investment.

Source: Morningstar Direct

The enclosed are comments and opinion only of the Future Money Fund Management Team intended for use by professional Financial Advisers. They do not constitute advice or verified factual information.

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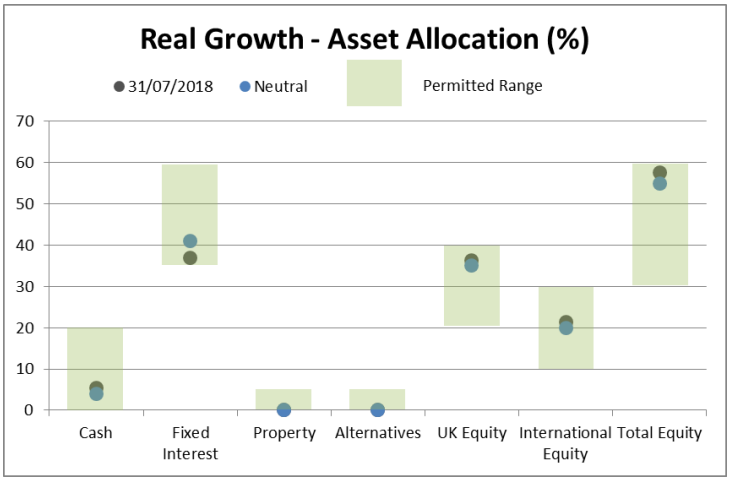
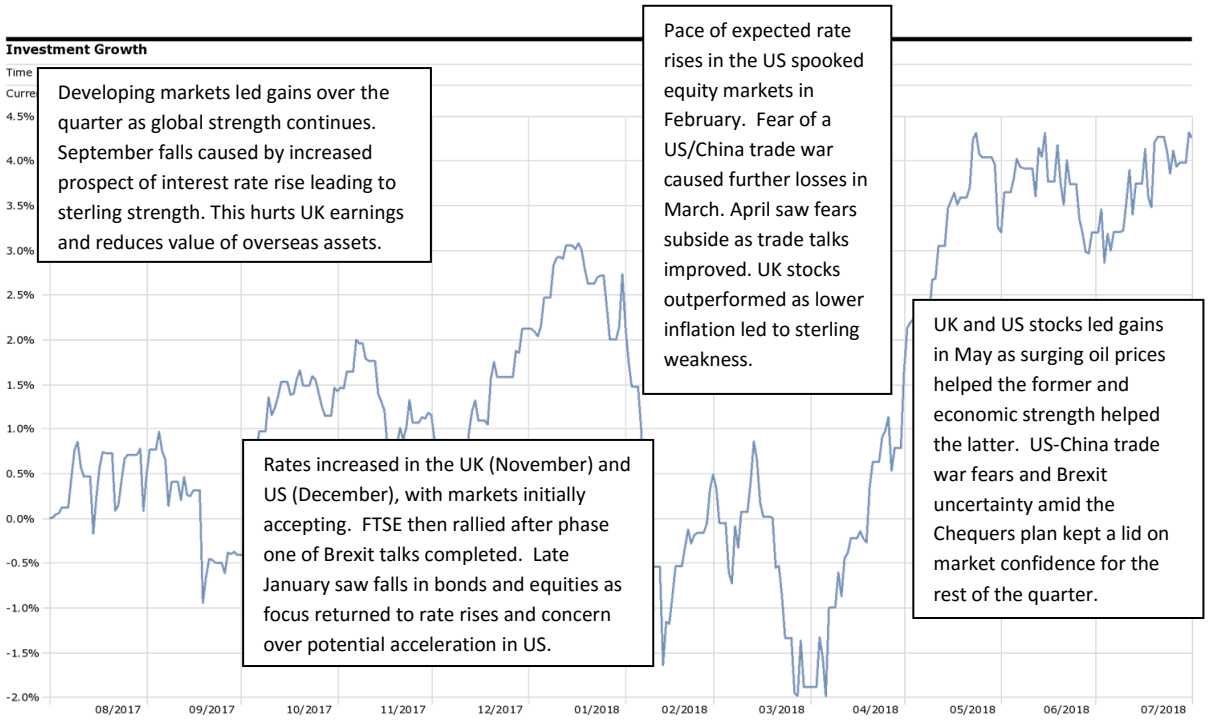
MGTS Future Money Real Growth

The equity increase of February was reversed in May following a strong market recovery. The Future Money team remain confident in the prospect for equities looking forward, but given the significant gains achieved, a slight reduction in exposure was made in order to maintain the risk level in the portfolio.



A gradual transfer out of Majedie UK Income and into Man GLG UK Income started in July. The Majedie fund's manager has left the firm and while an interim manager is currently in place, from November a new manager with a different investment style will take over. The Man GLG fund has been chosen as a close match for the historic style of the Majedie fund.



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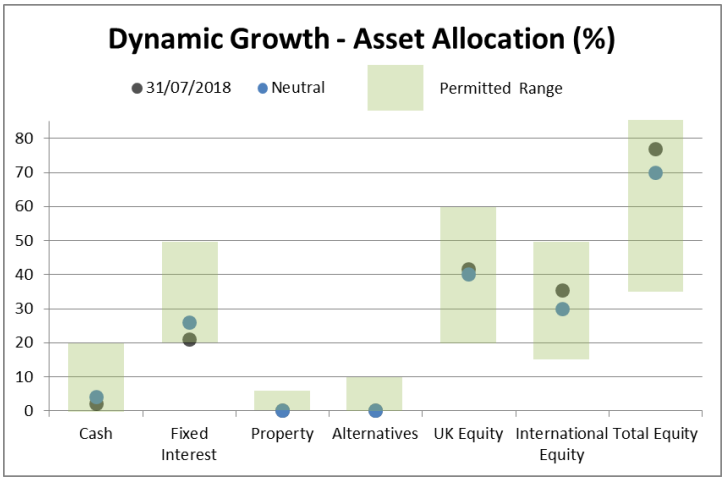
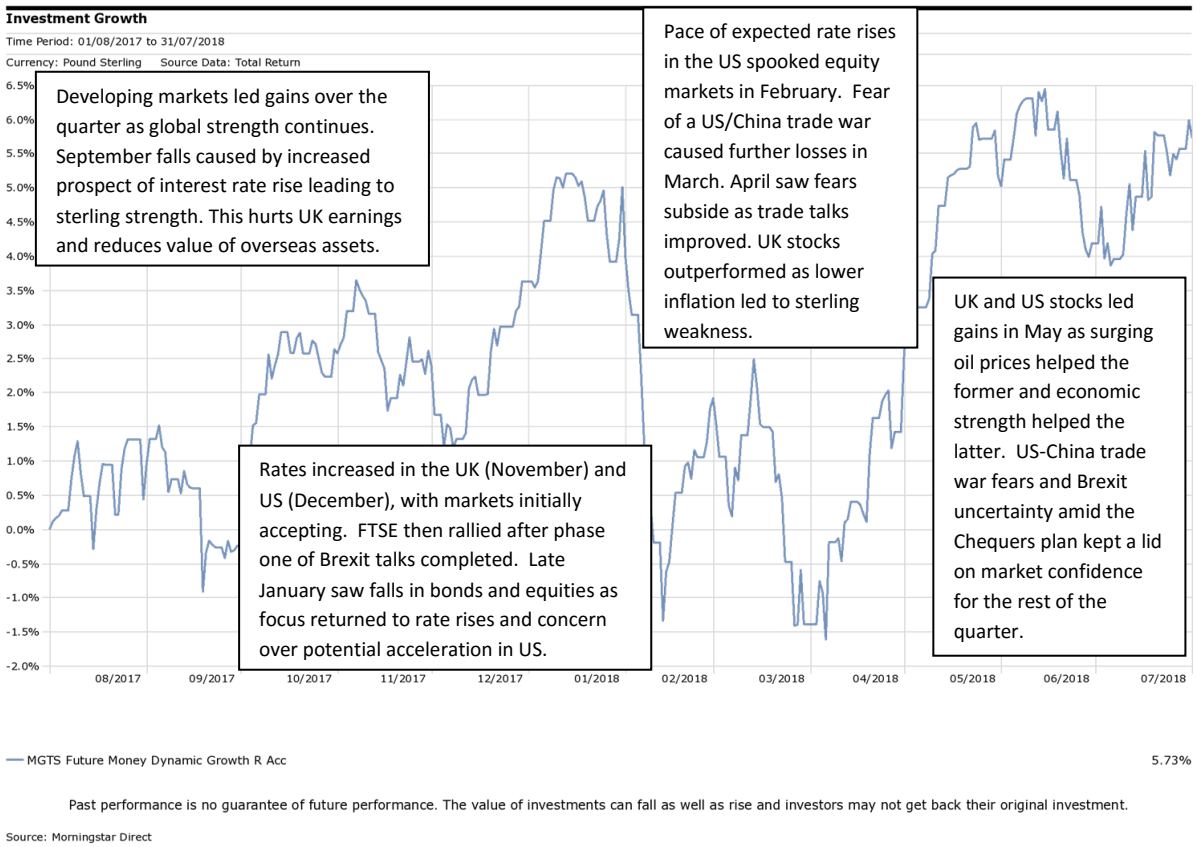
MGTS Future Money Dynamic Growth

As discussed in the previous report, equity allocations were increased in February, this move was reversed in May, locking in profits from the market gains experienced over the quarter.

No further changes were made to the portfolio's positioning over the reporting period, with the exception of rebalancing trades which were used to ensure allocations remain on target.





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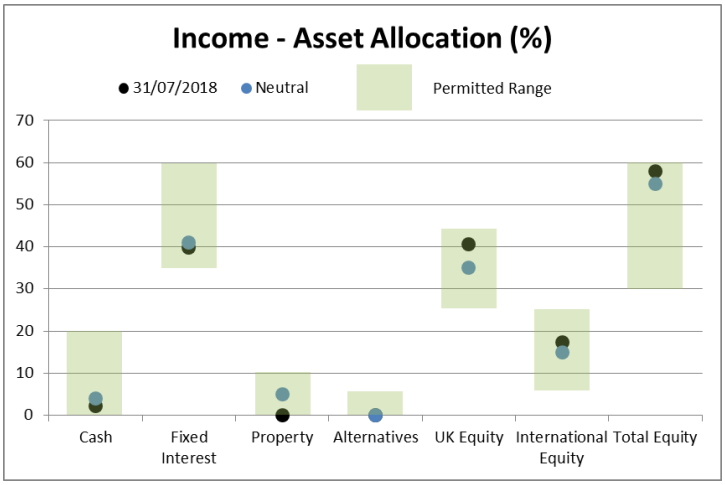
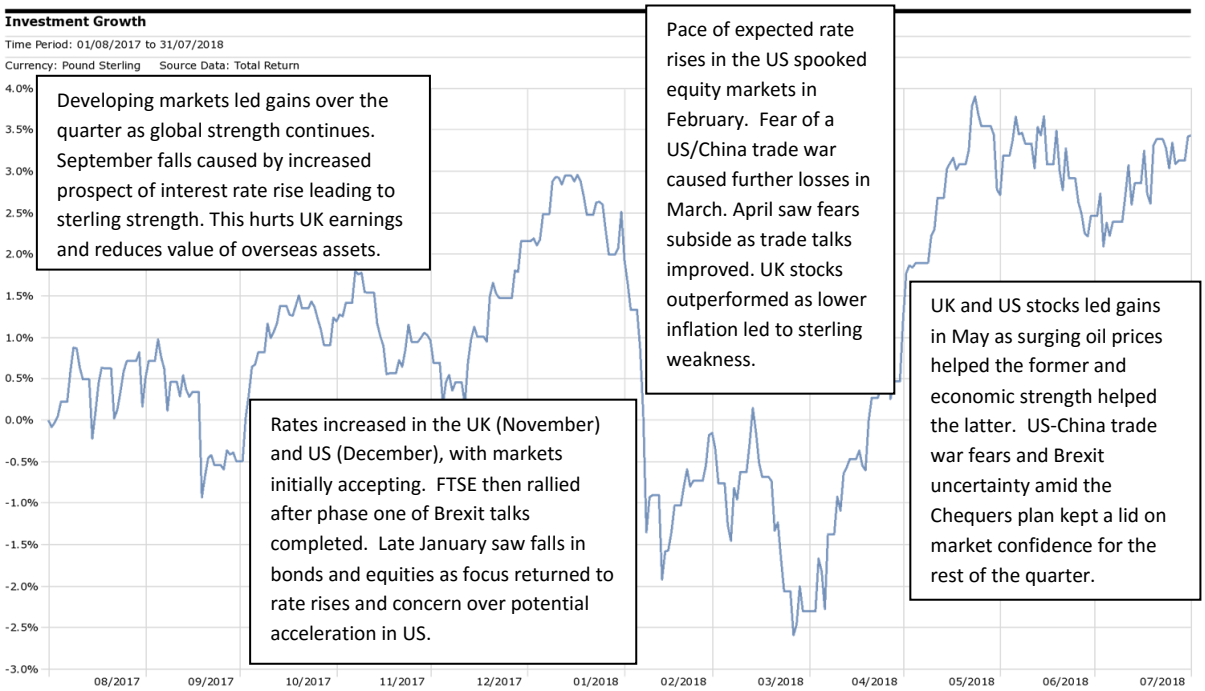
MGTS Future Money Income

The equity increase of February was reversed in May following a strong market recovery.



Exposure to Smith & Williamson Short Dated Corporate Bond was reduced from 7.5% to 5% with an equivalent increase being made in Fidelity Short Dated Corporate Bond. Both funds offer a significant yield, but the lower cost of Fidelity makes it a more attractive option as a larger position.

A gradual transfer out of Majedie UK Income and into Man GLG UK Income started in July. The Majedie fund's manager has left the firm and while an interim manager is currently in place, from November a new manager with a different investment style will take over. The Man GLG fund has been chosen as a close match for the historic style of the Majedie fund.



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Performance

	Year to Month End	1yr	3yr	5yr
	01/01/2017	01/08/2017	01/08/2015	01/08/2013
	31/07/2018	31/07/2018	31/07/2018	31/07/2018
MGTS Future Money Income R Acc	1.25	3.43	18.18	32.16
MGTS Future Money Real Value R Acc	1.09	2.58	12.50	22.68
MGTS Future Money Real Growth R Acc	2.09	4.25	18.41	30.78
MGTS Future Money Dynamic Growth R Acc	2.02	5.73	25.86	39.51

	2017	2016	2015	2014	2013
MGTS Future Money Income R Acc	7.30	9.21	2.60	4.59	13.03
MGTS Future Money Real Value R Acc	4.61	6.99	1.10	4.87	8.57
MGTS Future Money Real Growth R Acc	6.66	9.61	1.76	4.60	11.40
MGTS Future Money Dynamic Growth R Acc	10.36	13.88	1.45	3.11	16.86

Source: Morningstar Direct. Currency: Pound Sterling. Total return. Past performance is no guarantee of future performance. The value of investments can fall as well as rise and investors may not get back their original investment.

Economic and Market Commentary

All figures sourced from Morningstar Direct unless otherwise stated.

30 April 2018 to 31 July 2018

This quarter has seen a general increase in most major markets with the US being the standout performer, demonstrated by the S&P 500 returning 12.22% in sterling terms, although roughly half of this came from dollar appreciation. The FTSE 100 returned 4.12% and the FTSE Actuaries UK Conventional Gilt All Stocks Index retuned 0.82%.

Looking at the notable IA (Investment Association) sectors, Global Emerging Markets and Asia Pacific (Ex Japan) lagged the major equity markets significantly returning -1.39% and 0.59% respectively, whilst Sterling Corporate Bonds underperformed gilts and fell by a hardly noticeable 0.04%. The IA Japan sector returned 1.15% and Europe (Ex UK) retuned 3.61%.

Investment managers, like many other professions, have a number of stock phrases which are widely understood and frequently used by many market participants. In this quarterly review we are looking at some of these phrases, and their relevance to current events and future expectations.

The first is 'markets climb walls of worry' which refers to the periodic tendency of stock markets to continue to rise despite a host of negative factors. During this quarter the perceived uncertainty around Brexit has increased dramatically, the potential for trade wars has intensified, the Fed has increased interest rates for the sixth time to 2%, the US yield curve has flattened suggesting a possible future recession and signs of economic growth slowing have been seen in the UK, Europe and China. Yet, against this backdrop stock markets have made positive returns, so why are markets seemingly impervious to negative developments?

The answer, we believe, lies in the relatively stable global economic growth being achieved of around 3%, and the gradual increase in prosperity and confidence this has fuelled on a longer term basis. Trade wars do not necessarily pose a significant direct market risk at present, whilst they are seen as a potentially short term political situation. There is potential for a more serious knock on effect to confidence that could threaten global growth but this is a low probability for the time being.

The speed at which the mood can change was highlighted by the meeting held between President Trump and Jean-Claude Junker (The European Commission president) in July, after which tensions around US/EU trade eased considerably with both sides talking about reducing tariffs to historically low levels. If a compromise was agreed with China the risk to investors would be upside (missing profits) rather than downside (making losses).

The main area of disagreement with China is the requirement for companies operating in China to effectively share, or give away, their trade secrets with Chinese companies. This transfer of technology has, according to Donald Trump, provided the Chinese with an unfair trading advantage as their development costs have been materially reduced through the process. The American stance on this issue has fairly broad international support, so pressure for the Chinese to compromise is growing.

The second phrase is 'the diving goalkeeper (against a penalty)' and refers to situations where action is taken in order to demonstrate commitment when doing nothing would be just as effective. Goalkeepers are believed to favour heroic dives when facing a penalty rather than standing still even though the likelihood of saving the penalty remains the same. Diving shows team players and fans their dedication to the team.

The decision of Mark Carney (the Governor of the Bank of England, BoE) and the Monetary Policy Committee to raise interest rates in August (just outside the reporting period) is an example of this process. Mark Carney made a speech on 8th February stating that it would be necessary to raise interest rates somewhat sooner than expected. Speculation quickly grew that a rate rise was imminent, however economic growth and inflation softened from that moment onwards and more recently the Brexit outlook blackened resulting in no rate increase materialising.

Faced with growing criticism that the BoE had been poor with regard to communicating future interest rate expectations, the BoE felt the need to make the equivalent of the goalkeeper's heroic dive in August, even though the economic data was weaker than in Q1 when rates were left on hold. The lack of real commitment to this rate increase was demonstrated by the accompanying guidance that the market should expect further rate rises of 0.25% per annum going forward.

Although not a market phrase, there is an exam tips booklet which quotes the following advice 'If you do not know the answer to a question, imagine what you would think if you did know the

answer and write that'. Although this advice seems fairly impractical for an exam, it does seem to be adopted by most politicians when thinking about Brexit. Whilst the Brexit outcome is unknown, many politicians are confidently stating how it will transpire although there are many significant differences in expectations.

Following the fall-out of the now infamous Chequers meeting, the risk of a hard Brexit appears to be growing but that is not necessarily the case. As with all serious negotiations, nothing is agreed until everything is agreed and both sides will hold out for the best possible deal. Therefore, the current stand-off was inevitable, yet both sides will have compromises they will be prepared to offer. Only in the final stages will these be revealed and at this point the deal will either come together or be broken apart. For now, the soft Brexit remains the most likely outcome but it is also clear that the Brexit will be 'soft' or 'hard' as the middle road has all but disappeared with political polarisation growing.

The final phrase we are exploring in this commentary is 'elephants cannot run for very long'. This refers to the perceived inability of big companies to grow quickly for a long period of time, whereas a smaller company can grow significantly faster and for longer. This phrase underpins the widely held belief, generally supported by historical data, that smaller companies generally outperform larger companies over the longer term.

This belief, if correct, essentially explains why traditional index tracker funds will ultimately underperform active funds, the investment strategy matches the index construction which places the highest weighting on the biggest company. For example, the top five stocks in the S&P 500 (Apple, Microsoft, Amazon, Facebook and JP Morgan) represent nearly 15% of the entire index containing 505 companies. If these 'elephants' cannot run as long or fast as their 'gazelle' counterparts then index trackers should suffer relative to actively managed funds. Nevertheless, the rise of index tracker has continued unabated and the 'elephants' have kept running until now.

Facebook fell by approximately 20% on the 26th July, as one 'elephant' appeared to run out of momentum. The fall represented the biggest single loss of capital ever to occur and followed an update showing user and revenue growth were well behind expectations and likely to remain so. Historically, large companies usually go through a maturing cycle with earnings growth expectations reducing through the process, resulting in the largest companies also being generally the lowest risk. In the modern age, this maturity process has accelerated and the potential for rapid downside has been demonstrated as expectations can change very quickly.

In 2008, the failure of Northern Rock was largely ignored by the wider market even though this event, with hindsight, provided a clear alert for the wider banking problems which were to come in 2009. The experience of Facebook could be providing a similar insight into the future problems which may affect index based investment strategies.

The popularity of trackers is often stated as the lower cost nature of these funds, however experience suggests there is a more powerful driver at work. Investors are generally attracted by short term performance rather than costs and tracker funds have performed well in recent years with the lower costs also an attractive feature. However, in the wake of the credit crisis, flows grew rapidly into hedge funds which avoided the sharp falls, with investors willing to pay 2% annual management fees and a further performance fee, often around 20%. The high price was seen as value for money given the expected performance.

If more 'elephants' run out of momentum the balance may swing back to active funds and investors will be willing to pay the additional costs if the performance is stronger. The active management community has reduced costs significantly in recent years and refined active management techniques. The long running battle between active and passive strategies could be about to enter a new phase.

The difficulties being experienced by GAM highlight the potential liquidity risks within bond markets. GAM are Swiss based bond specialists who have suspended the manager of their flagship fund due to various, seemingly minor, irregularities. The effect has been to cause a number of investors to redeem their holdings, which in total exceeded 10% of the fund value.

Surprisingly, GAM has suspended redemptions as the underlying assets could not provide the liquidity to meet these redemptions. Given the perceived low risk nature of the bond market, the considerable on-going quantitative easing providing liquidly and the mainstream nature of the fund this is a little surprising. If there was a widespread reallocation away from bonds this hints at the potential for market liquidity problems and may also explain the underperformance recently of corporate bonds versus gilts as the interest rate raising cycle has started.

Strategy

In conclusion, we acknowledge that the balance of risk has altered but we continue to believe the upside risk is higher than the downside risk and therefore a 'risk on' approach is justified. Within this strategy a focus on 'value' rather than 'growth' styles reduces some of the obvious valuation risks.

There is scope for the balance of risks to change quickly and dramatically so careful on-going consideration is necessary. The key risks previously identified within fixed interest markets remain a concern and underweight positions favouring lower duration holdings remains in place. The additional concern raised regarding liquidity in these markets also re-enforces this view.

The current political risk with regards to trade wars could dissipate quickly and this would trigger a recovery in Asia and Emerging Markets which remain attractive on a long term basis in any event.

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30 April 2018 to 31 July 2018

Asset Class Review

Investment Returns (%)

As of Date: 31/07/2018 Currency: Pound Sterling Source Data: Total Return

	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD
Best	UK Small Cap 63.4	UK Mid Cap 28.4	Gilts 15.6	UK Small Cap 35.0	UK Small Cap 44.2	North America 19.6	Japan 17.6	Emerging Markets 35.4	Asia ex Japan 23.4	North America 9.5
	Emerging Markets 62.5	Asia ex Japan 23.9	Corporate Bonds 4.3	UK Mid Cap 28.7	UK Mid Cap 34.9	Gilts 13.9	UK Small Cap 13.6	North America 34.1	Emerging Markets 21.1	World ex UK 6.6
	Asia ex Japan 55.5	Emerging Markets 23.6	North America 1.2	High Yield 18.9	North America 28.3	Property 12.8	UK Mid Cap 12.0	World ex UK 30.4	UK Mid Cap 18.2	Europe ex UK 3.7
	UK Mid Cap 52.8	North America 19.1	Cash 0.5	Asia ex Japan 17.5	Japan 24.9	World ex UK 12.3	Europe ex UK 5.5	Asia ex Japan 28.7	Europe ex UK 16.9	UK Large Cap 3.2
	High Yield 47.9	Japan 19.0	FM Real Value -0.5	Europe ex UK 17.4	Europe ex UK 24.0	Asia ex Japan 10.0	North America 5.3	Japan 22.7	UK Small Cap 16.3	Property 2.6
	UK Large Cap 27.3	UK Small Cap 17.5	FM Income -1.9	Corporate Bonds 13.3	World ex UK 22.7	Corporate Bonds 9.8	Property 5.3	Europe ex UK 21.2	Japan 14.4	FM Real Growth 2.1
	Europe ex UK 21.8	World ex UK 16.7	UK Large Cap -2.2	Emerging Markets 12.8	UK Large Cap 18.7	Emerging Markets 7.9	World ex UK 4.8	UK Large Cap 19.1	World ex UK 13.5	FM Dynamic Growth 2.0
	World ex UK 18.9	FM Dynamic Growth 15.9	High Yield -3.1	FM Dynamic Growth 12.8	FM Dynamic Growth 16.9	FM Real Value 4.9	FM Income 2.6	FM Dynamic Growth 13.9	UK Large Cap 11.9	UK Mid Cap 1.9
	FM Dynamic Growth 15.0	Property 12.6	FM Real Growth -3.9	Property 12.5	FM Income 13.0	FM Real Growth 4.6	FM Real Growth 1.8	UK Small Cap 12.7	North America 11.3	Japan 1.6
	North America 14.8	UK Large Cap 12.6	Property -5.6	FM Income 12.2	FM Real Growth 11.4	FM Income 4.6	FM Dynamic Growth 1.5	High Yield 10.1	FM Dynamic Growth 10.4	FM Income 1.2
	Corporate Bonds 14.7	High Yield 12.1	World ex UK -6.1	World ex UK 11.9	FM Real Value 8.6	FM Dynamic Growth 3.1	FM Real Value 1.1	Gilts 10.1	FM Income 7.3	FM Real Value 1.1
	Property 14.4	FM Real Growth 11.0	FM Dynamic Growth -8.7	North America 10.7	High Yield 6.9	UK Mid Cap 2.8	Gilts 0.6	FM Real Growth 9.6	Property 7.1	Cash 0.3
	FM Real Growth 14.4	FM Income 9.2	UK Mid Cap -10.3	FM Real Growth 10.3	Property 5.4	Japan 2.7	Cash 0.5	FM Income 9.2	FM Real Growth 6.7	Gilts 0.1
	FM Income 13.8	FM Real Value 7.8	Japan -12.9	UK Large Cap 10.0	Asia ex Japan 1.3	High Yield 1.0	Corporate Bonds -0.4	Corporate Bonds 9.0	High Yield 6.1	High Yield -0.1
	FM Real Value 9.0	Corporate Bonds 7.7	Asia ex Japan -14.8	FM Real Value 8.4	Corporate Bonds 0.6	UK Large Cap 0.7	High Yield -0.9	Property 8.5	Corporate Bonds 5.1	Asia ex Japan -0.2
	Cash 0.6	Gilts 7.2	Europe ex UK -15.0	Japan 3.3	Cash 0.5	Cash 0.5	UK Large Cap -1.3	FM Real Value 7.0	FM Real Value 4.6	Emerging Markets -0.6
	Gilts -1.2	Europe ex UK 6.6	UK Small Cap -15.3	Gilts 2.7	Gilts -3.9	Europe ex UK -1.4	Asia ex Japan -3.5	UK Mid Cap 5.1	Gilts 1.8	UK Small Cap -0.6
Worst	Japan -5.8	Cash 0.5	Emerging Markets -18.4	Cash 0.5	Emerging Markets -5.3	UK Small Cap -1.7	Emerging Markets -10.3	Cash 0.4	Cash 0.3	Corporate Bonds -1.3

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Source: Morningstar Direct

The table overleaf shows the performance of the major asset classes. This highlights the range of returns delivered over time and shows the risks in trying to predict individual winners.

Diversified portfolios, such as the four Future Money funds, can deliver attractive investment returns whilst reducing the effects of large swings in performance. Via such a structure, investors can own a professionally managed portfolio with exposure actively positioned across asset classes.

Year to Date

Early 2018 saw markets dictated by policy responses to economic developments, with elation and then fear that the strong US growth would lead to consistent tightening monetary policy from the Federal Reserve. As the year has moved on, however, it has been political rather than economic developments that have had most sway on market movements.

The odd-couple coalition government of Five Star Movement and the League in Italy and the ousting of Spanish Prime Minister, Mariano Rajoy, showed that despite the feel good factor of Emmanuel Macron's victory in France last year, European politics is still fragile with markets highly nervous over potential implications.

Yet, more troubling for global markets has been the political row between the US and its trading partners, and most notably, China. This has led to fears of an escalating trade war, which is unlikely to deliver any winners, with both the US and China set to suffer from higher prices and lower trade. Having said that, one winner from the dispute so far has been the US dollar. The dollar has been a favoured asset in this time of uncertainty and consequently has helped US stocks be the best investment of the year to date, in sterling terms.

The World ex UK index, with its high allocation to US investments has seen the next best performance of the year to date.

Despite starting the year relatively well, the UK small cap index has been the second worst performer of 2018 so far. Amid continued Brexit uncertainty, the UK economy has been sluggish relative to its developed market peers. While larger UK companies have typically fared well in this environment, benefitting from the fall in sterling related to this malaise, which in fact helps the value of their significant overseas earnings, companies at the smaller end of the scale typically have lower foreign exposure and so have not had this currency cushion and are therefore punished for their exposure to the domestic economy.

Corporate bonds have been the worst asset class of the year so far. Given the concern over global growth created by Trump's trade war there has been an element of 'safe haven' investing, this has manifested itself in dollar buying, as discussed above, but also slightly in the buying of government bonds ahead of corporate bonds. This has led to the spread of corporate bond yields over government bond yields to rise and so has seen the underperformance of the corporate sector.

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Important Information

Please note that the contents are based on the author's opinion and are not intended as investment advice. This information is aimed at professional advisers and should not be relied upon by any other persons.

Any research is for information only, does not constitute financial advice or necessarily reflect the views of the author and is subject to change.

It remains the responsibility of the financial adviser to verify the accuracy of the information and assess whether the fund is suitable and appropriate for their customer.

Past performance is not a reliable indicator of future performance. The value of investments and the income derived from them can fall as well as rise and investors may get back less than they invested.

Important information about the funds can be found in the Supplementary Information Document and NURS-KII Document which are available on our website or on request.

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