Quarterly Report

May 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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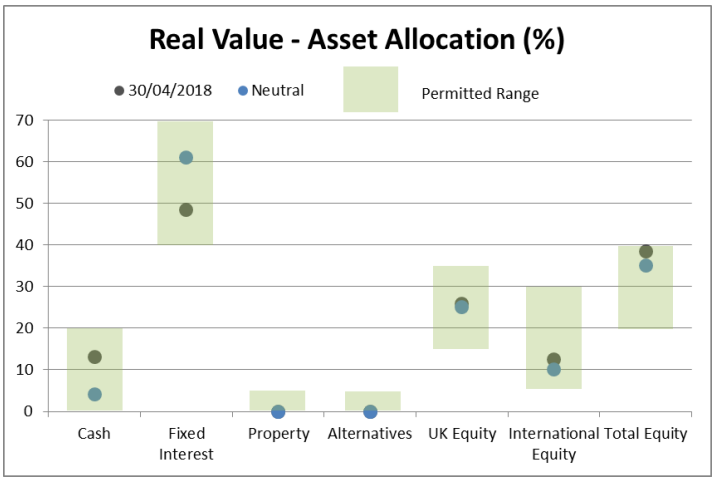
Quarterly Report

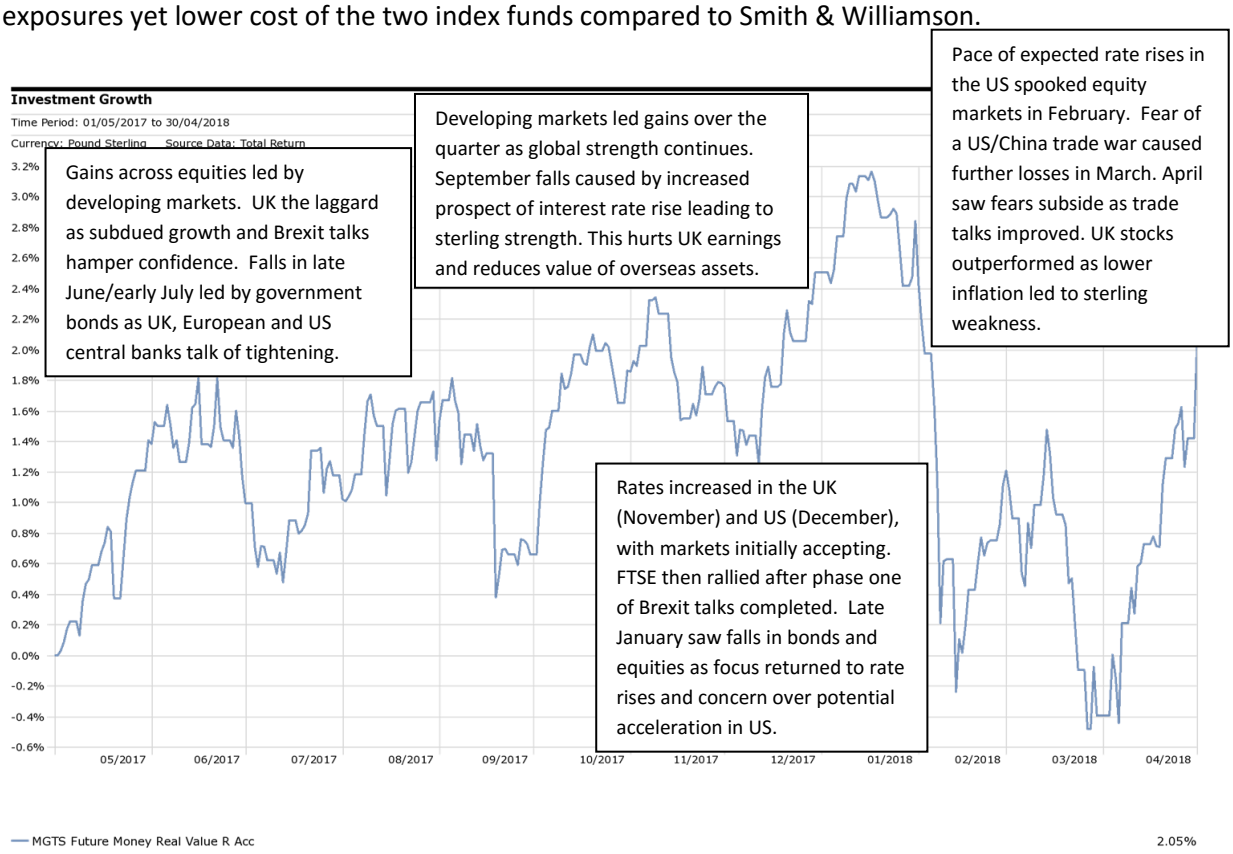
31 January 2018 to 30 April 2018

MGTS Future Money Real Value

Following the market falls of late January and early February the target equity allocation was increased by a small amount. This move was made due to the greater value then present in equities, given our expectation that a market recovery would occur amid the strength of the economic environment.



The fund's European holding was changed early in the quarter. Schroder European Alpha Income was purchased with the expectation that it will perform better than the incumbent holding, Standard Life Investments European Equity income, as QE is eventually withdrawn in Europe. The allocation to Smith & Williamson Short Dated Corporate Bond was reduced during April, with the proceeds invested in L&G Short Dated Sterling Corporate Bond Index and Vanguard U.K. Short-Term Investment Grade Bond Index. This move was made given the similar exposures yet lower cost of the two index funds compared to Smith & Williamson.



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

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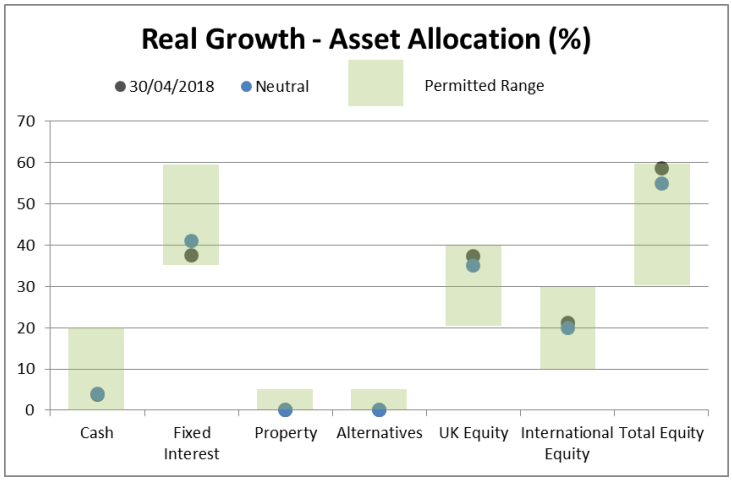
Quarterly Report

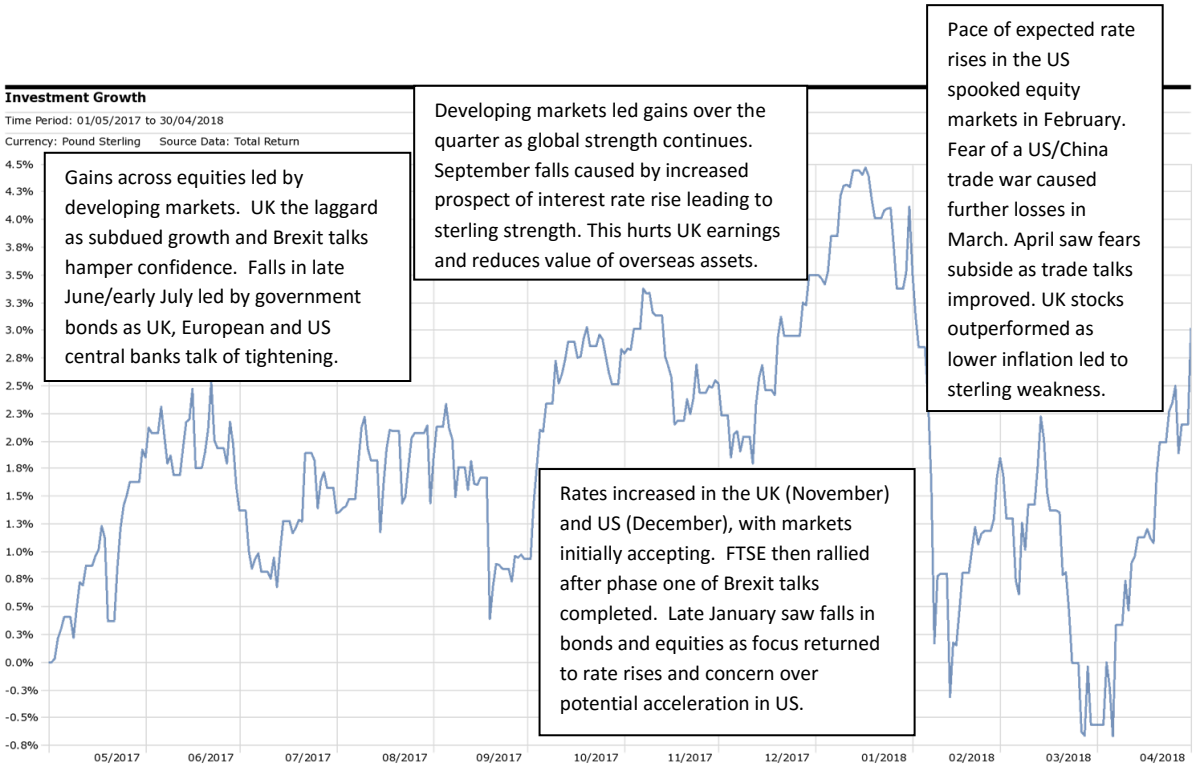
31 January 2018 to 30 April 2018

MGTS Future Money Real Growth

Following the market falls of late January and early February the target equity allocation was increased by a small amount. This move was made due to the greater value then present in equities, given our expectation that a market recovery would occur amid the strength of the economic environment.



The Henderson European Focus fund was removed from the portfolio in February and replaced with the Schroder European Alpha Plus fund. Concerns were held over the Henderson fund's prospects following recent team departures, while the Schroder fund has been carefully monitored as a potential holding for some time and the Future Money team are keen on the Schroder manager's strategy, which is based on business cycle assessment.



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Source: Morningstar Direct

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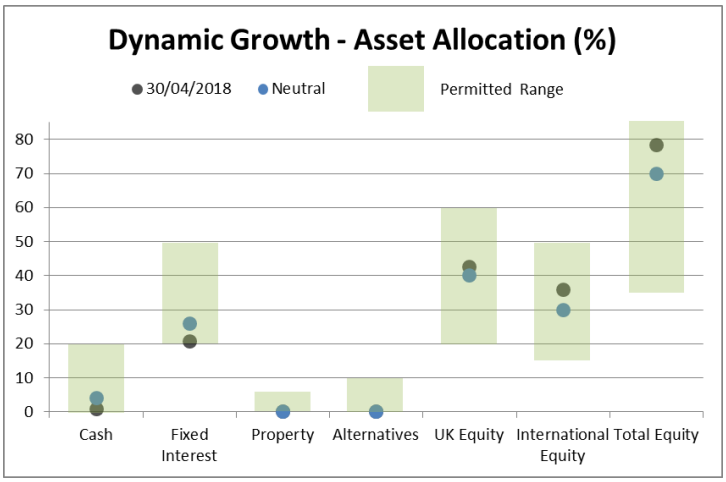
31 January 2018 to 30 April 2018

MGTS Future Money Dynamic Growth

Following the market falls of late January and early February the target equity allocation was increased by a small amount. This move was made due to the greater value then present in equities, given our expectation that a market recovery would occur amid the strength of the economic environment.



Majedie UK Equity was sold from the portfolio and replaced with JPM UK Dynamic in March. The Majedie team has held an increasingly pessimistic outlook, which we believe is unwarranted given the low unemployment numbers, reasonable inflation and relative value of equity markets currently present. As such, the decision was taken to move to the JPM fund, which has a more balanced outlook and which is more pragmatic in its investment movements, in our opinion.

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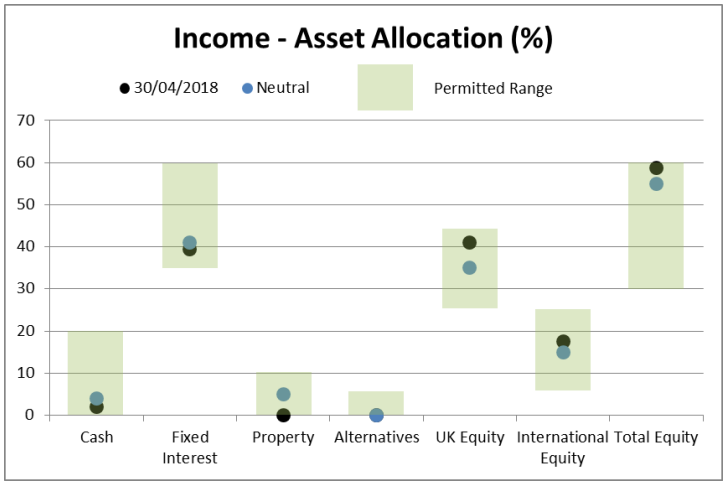
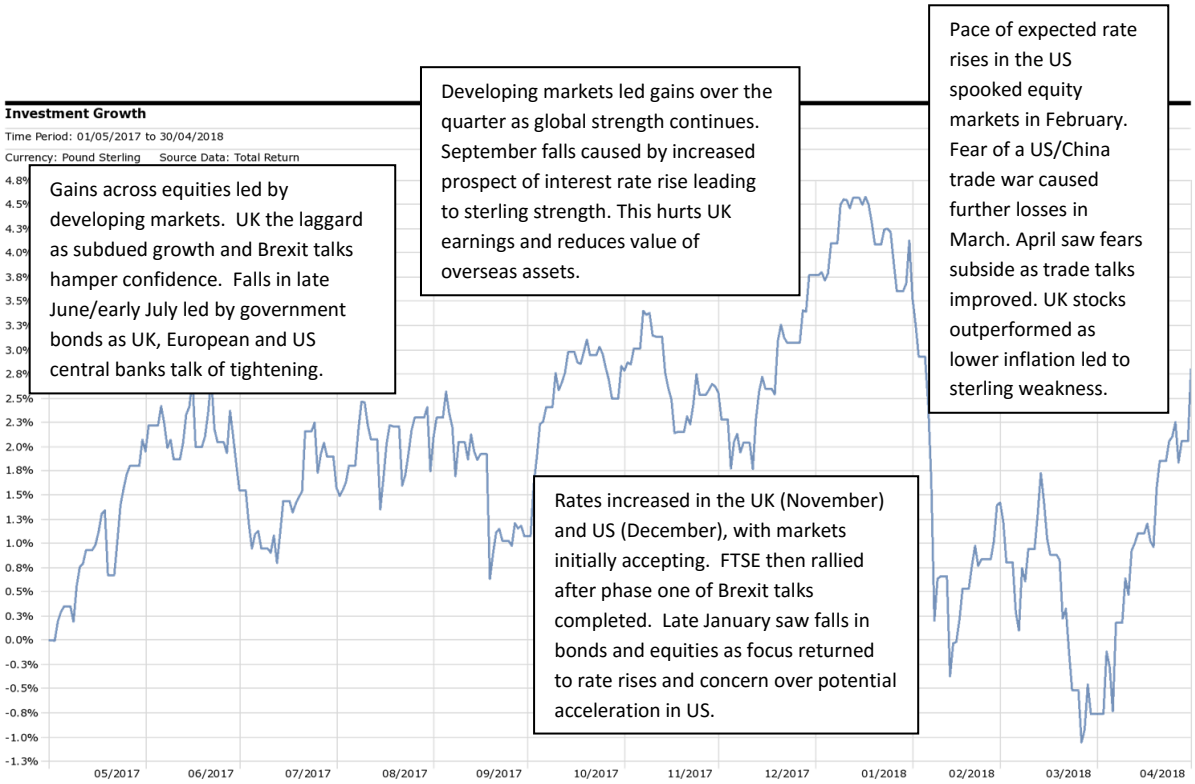
31 January 2018 to 30 April 2018

MGTS Future Money Income

Following the market falls of late January and early February the target equity allocation was increased by a small amount. This move was made due to the greater value then present in equities, given our expectation that a market recovery would occur amid the strength of the economic environment.



M&G UK Inflation Linked Corporate Bond was removed from the portfolio in March and replaced with Fidelity Short Dated Corporate Bond. This switch was made for two reasons. First, UK inflation has likely peaked in the short to medium term given that the post-EU referendum sterling falls have largely moved through the annual price numbers. Second, the yield on the Fidelity fund is significantly higher than the M&G fund, given its focus on conventional bonds, which pay greater income than inflation linked issues.



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31 January 2018 to 30 April 2018

Performance

	Year to Month End	1yr	3yr	5yr
	01/01/2017	01/05/2017	01/05/2015	01/05/2013
	30/04/2018	30/04/2018	30/04/2018	30/04/2018
MGTS Future Money Income R Acc	-0.93	2.81	13.12	31.49
MGTS Future Money Real Value R Acc	-0.44	2.05	8.95	21.18
MGTS Future Money Real Growth R Acc	-0.46	3.02	13.10	29.30
MGTS Future Money Dynamic Growth R Acc	-1.04	4.72	18.10	39.53

	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.

31 January 2018 to 30 April 2018

This quarter has represented an interesting period for global investment markets with oscillations for most asset classes of fairly high magnitude. The FTSE 100, for example, fell only 0.32% over the period but this hides the inter-quarter low point of -8.56% whilst the FTSE World Index fell by 2.65% with an inter-quarter maximum loss of 7.29%.

Taking the returns of the various IA sectors, Global Emerging Markets and Asia Pacific ex-Japan fell 4.20% and 2.83% respectively representing deterioration in the relative performance. North America and Europe did slightly better at -1.67% and -2.15% whilst Japan only fell 0.62%.

Fixed interest markets did not provide the historical 'safe haven' that many investors have come to expect during times of equity market falls. The FTSE Actuaries UK Conventional Gilts All Stock Index rose by 1.27% after falling back from a maximum return of only 2.30% and the IA Sterling Corporate Bond sector fell 0.85% during the period and was never in profit.

This has been a particularly difficult quarter to interpret in terms of short term events but worked well from the perspective of our medium and longer term expectations. The overall result has been that our investment strategy has generally worked well but required a 'steady' aim as it could have been tempting to take risk off the table during the sharp falls without the confidence we derived from our wider understanding.

The falls initially began at the end of the last quarter and were attributed to further improvements in the US labour market which commentators felt could lead the Federal Reserve to tighten interest

rates faster than previously expected. This is effectively the counterintuitive process by which 'good news' appears to be 'bad news'.

It is widely accepted by many, including Future Money that the current era of extremely low interest rates and quantitative easing have resulted in some asset bubbles forming. There is a fear that as interest rates begin to normalise these bubbles might shrink, or worse still implode. As a consequence a return to more normal global growth may also be a trigger to stock market falls as easy money becomes less prevalent.

Shortly after interest rate fears sounded the start of a correction, further worrying news emerged that President Trump was looking to apply tariffs on certain metals and other goods with particular reference to the trade imbalance between China and the US. The deficit is estimated at around $500bn according to the President and the potential for global trade wars damaged sentiment and stock markets dived again.

The second half of the quarter was almost the exact reversal of the above points as economic data began to weaken, pushing back the prospect of higher interest rates. It also appeared that trade tariffs could be avoided through diplomacy as both China and the US showed signs of being willing to find a solution to their trading differences.

Investors may be wondering why the FTSE 100 index fell more than most mainstream markets during the quarter but then recovered to be one of the better performing markets. The answer is due to currency movements which have also been quite volatile over the quarter. Sterling generally strengthened against the dollar for most of the period, reducing the value of overseas earnings and therefore pushing share prices downwards. Towards the end of the quarter the value of sterling diminished considerably as UK economic data weakened, suggesting that interest rates may not go up in May and this then reversed the effect of earlier falls and boosted the performance of FTSE 100.

Although the factors above explain the performance of stock markets during the period, most of these factors are fairly unpredictable short term inputs. Whilst it is important to explain market movements, where possible, this quarter was mostly about political risk which is difficult to manage and predict. Nevertheless there have been a number of less obvious observations which provide useful insights for the future medium and longer term trends.

It is our view that the long term interest rate cycle has changed from downwards to upwards. This is very important as the downward cycle was in place from the 1980s and investors have become familiar with certain asset class characteristics during this long term cycle. Notably, during this period which has outlived many investment professionals' careers, fixed interest assets have usually provided strong profits when equity markets fell due to the expectation of lower future interest rates.

If the long term interest rate cycle has now changed, this may no longer be the case and therefore the usual methods of reducing risk by holding a balanced portfolio of bonds and equities may not work. There was some evidence of this in the recent downturn as the benefit of holding gilts was very limited and corporate bonds actually lost money. In fact, none of the mainstream asset classes, or most of the non-mainstream asset classes provided any safe haven.

It was notable that liquid equity asset classes initially fell further but then recovered more strongly than non-mainstream asset classes. This is more common than some may think as often those incurring losses on specialist assets have to sell down liquid assets to restore their cash positions, especially where they are using leverage. As a consequence, liquid markets fall on the increased selling pressure but, importantly, provide liquidity and are then more likely to recover as the selling pressure abates. In contrast, cryptocurrencies, as an example, suffered losses during this quarter but only staged a fairly muted recovery to date.

A further notable observation within the period is that value orientated strategies have performed in line with growth strategies which has pegged back the recent trend of underperformance. Value investing generally focuses on mature businesses which often have predictable revenues whilst growth strategies focus on companies which are expected to grow revenues rapidly. During this quarter the performance differential between the IA UK All Companies sector, as a proxy for the wider market, and the IA UK Equity Income sector, as a proxy for value strategies, was negligible whilst over 12 months the performance of the UK All Companies sector was considerably ahead of the UK Equity Income sector with a return of 7.53% against 5.31%.

The rise of growth stocks has been fairly spectacular in recent years and we have touched on Tesla as an example in recent market commentaries. As many readers will know, Tesla manufactures electric cars and clearly has a great product; however the financial position of the company is less traditional.

The company has a negative Price/Earnings ratio as it loses money and requires considerable cash injections to continually cover these losses. Investors have been keen to support the massive cash burn to date, however concerns are beginning to emerge that the anticipated pot of gold may not be at the end of the rainbow, as manufacturing delays have reduced earnings below targets and increasing competition from other manufacturers presents further risks. Although some growth stocks, such as Tesla, may deliver to investors, the risks posed are clear.

There are some concerns with regard to the role of index tracking fund strategies in creating these types of situations as companies which are hungry for capital issue more stock which increases their size within the index and leads to further automatic allocation of capital by tracking funds. There could be an issue where moral hazard exists as companies which consume and burn capital are potentially rewarded with even more capital. The potential risk to this situation could be exposed if a company, such as Tesla, failed and led to a dramatic loss for a significant index constituent.

Tesla is reported to be a very actively 'shorted' stock and therefore an interesting battleground between active managers and passive funds. As more of the market becomes passive in nature due to the continued inflows into these funds, the opportunities for active managers should increase as capital is likely to be misallocated if company size is the most significant factor. It may surprise some investors to know that over 12 months to the 30th of April 2018 the IA North American sector outperformed the S&P 500 index, with the former returning 6.83% against 6.39%.

Gathering all of the information from this quarter together, we believe that the political risk around a potential trade war between the US and China should be largely disregarded as whilst it is possible, managing this type of political risk is closer to gambling than a rational investment strategy.

The observation that strong economic data could be bad news to markets is very relevant and we continue to expect the global economy to expand and interest rates to move upwards over the medium and longer term. This is likely to lead to similar bouts of volatility to be repeated in the future however, on each of these falls, quality assets may offer a short term trading opportunity as they will recover if economic growth remains positive. Although higher interest rates will provide some headwind, the actual increases will be small in magnitude and therefore economic growth benefits will outweigh these concerns over time, leading to equity markets remaining in an upward cycle.

There are valuation bubbles within equity markets and these will be easy to identify with hindsight. We have touched on Tesla and this may be an example but there are plenty of potential options including Facebook, Netflix, cryptocurrencies and other assets pushed up by easy money being available since the credit crisis. During the expected future periods of volatility these stocks may fall with the market but not enjoy the same recovery potential.

We continue to echo our comments within previous commentaries with respect to fixed interest markets. Investors could face downside risks from a rising interest rate environment and these assets may not provide the historic correlation benefits which many continue to expect and rely upon.

Strategy

In conclusion, we expect the rate rising cycle will be gentle, but negative for fixed interest investments. Sensitivity is increased due to the current historically low yields / credit spreads and we have already limited our exposure to these areas.

Equities are favoured as continued economic growth will support valuations however there are some valuation bubbles, particularly within the larger indices, and we expect active management may provide an advantage to tracking funds especially which the process is aligned with a traditional value approach.

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Quarterly Report

31 January 2018 to 30 April 2018

Asset Class Review

Investment Returns (%)

As of Date: 30/04/2018 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	Cash 0.2
	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	UK Small Cap 0.1
	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	Japan -0.1
	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	High Yield -0.3
	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	FM Real Value -0.4
	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 -0.5
	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	Property -0.6
	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	Gilts -0.7
	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	Europe ex UK -0.8
	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	UK Large Cap -0.9
	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 Income -0.9
	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	FM Dynamic Growth -1.0
	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	UK Mid Cap -1.2
	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	Emerging Markets -1.2
	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	Corporate Bonds -1.3
	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	Asia ex Japan -1.6
	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	World ex UK -1.7
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	North America -2.3

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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

Movements of the major asset classes can largely be defined by their exposure to the major scares of 2018 to date. Markets started the year strongly, continuing the late 2017 upwards surge which was based on the strength of economic growth and initial signs of inflation (considered healthy up to a point). However, expectations of growth, inflation and therefore interest rate rises accelerated in late January, leading to sharp falls in US treasuries and then in equities, as fears of excessive tightening from the Federal Reserves grew. These concerns abated slightly in February, but then came the news of a growing spat between the US and China over trade levels and intellectual property rights. Tariffs aimed at Chinese exporters were announced by the US and retaliatory efforts from China then occurred causing fear of further escalation and the effects this would have on the global economy. In this environment nearly all major asset classes lost money, as there were seen to be very few winners from an escalating trade war. As such, cash, with a return of 0.2% has been the best asset class of the year to date.

UK Small Caps were the next best asset class, gaining 0.1% over the year to date. While losses were experienced during the market weakness of early February and late March, they were less extreme than many other markets. Then, during the recovery period of April, the sector, along with the broader UK equity market performed very well, as sterling weakness boosted domestic equities. Small companies performed better than their larger UK peers over the period as their greater focus on the UK economy, and lower exposure to international factors, proved to be beneficial as markets were dominated by global concerns.

North America has been the weakest market over the year to date, being at the centre of the year's two biggest stories. Given the strength of the US economy and the expected impact of Donald Trump's fiscal stimulus, it was feared that the Fed would have to raise rates quickly to fend off inflation, but in doing so would risk creating an end to the current period of expansion. Steady economic growth is good, but growth steaming ahead can be seen as unsustainable and prone to a future slowdown. A trade war with China was also seen as bad for the US market. While tariffs could protect the specified sectors, the knock on effects for the rest of the economy would likely be negative, as prices would likely rise, denting demand. The World ex UK sector was the next worst performing asset class. This reflects the negative sentiment across the globe, but the return figure was also dragged down by the high proportion of the index made up of US assets, given the large size of the US stock market relative to the rest of the world.

Asian markets were the next weakest asset class. Shares in the region fell heavily given the fears over a trade war, in part due to the direct effect this would have on the Chinese sectors targeted, but also due to fears for other areas which could be vulnerable to the reversal in globalisation that Donald Trump appears to seek.

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.

Future Money Ltd

Henry Wood House · 2 Riding House Street · London · W1W 7FA

0203 4570 387

www.futuremoney.co.uk