Quarterly Report

February 2019

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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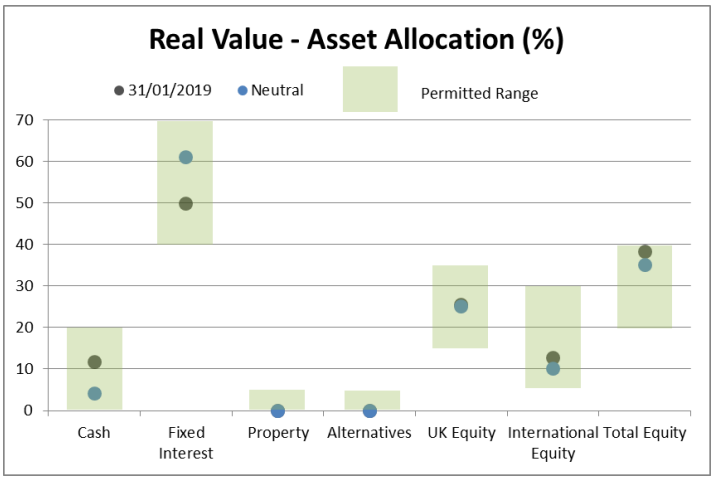
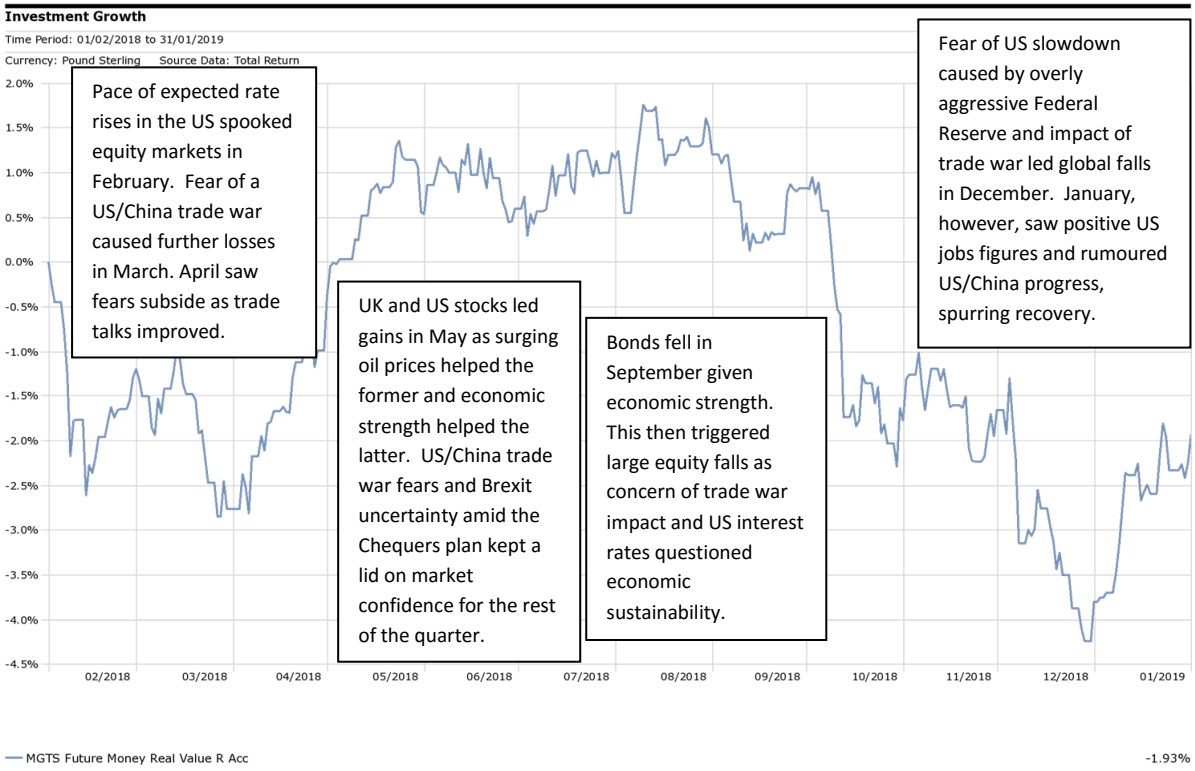
Quarterly Report 31 October 2018 to 31 January 2019

MGTS Future Money Real Value



Schroder European Alpha Income has been a disappointing holding in recent months, but as the portfolio's smallest non-cash investment, its impact on overall performance has been limited. The fund's investment style seeks to invest in companies which are cheap but which often need a certain catalyst for their value to be appreciated by the wider investment community and so investors can experience a relatively stop/start performance. Despite the inconsistency of this style we retain faith in the Schroder manager, but are in close contact to ensure we remain happy with their actions and positioning.

The Royal London Short Duration Credit fund was first purchased in spring 2017 and was chosen due to the skill demonstrated by the manager in selecting off-benchmark, lesser known, bonds. This creates opportunities for diversification away from the relatively similar positioning adopted by many in this sector and has been a very successful holding for the portfolio since purchase.



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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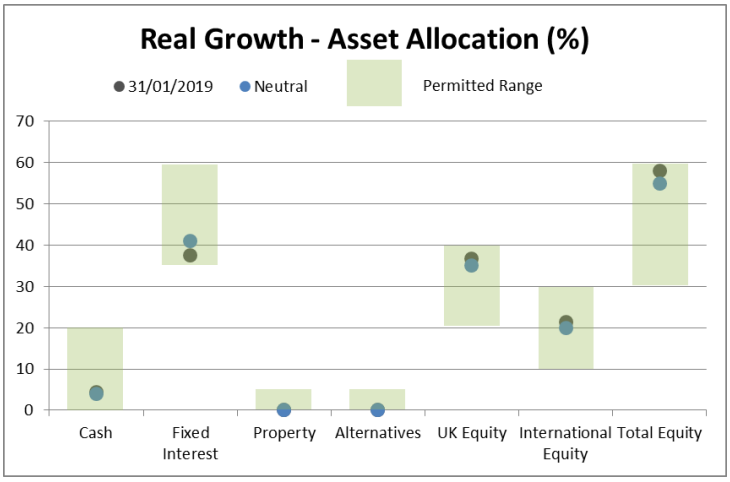
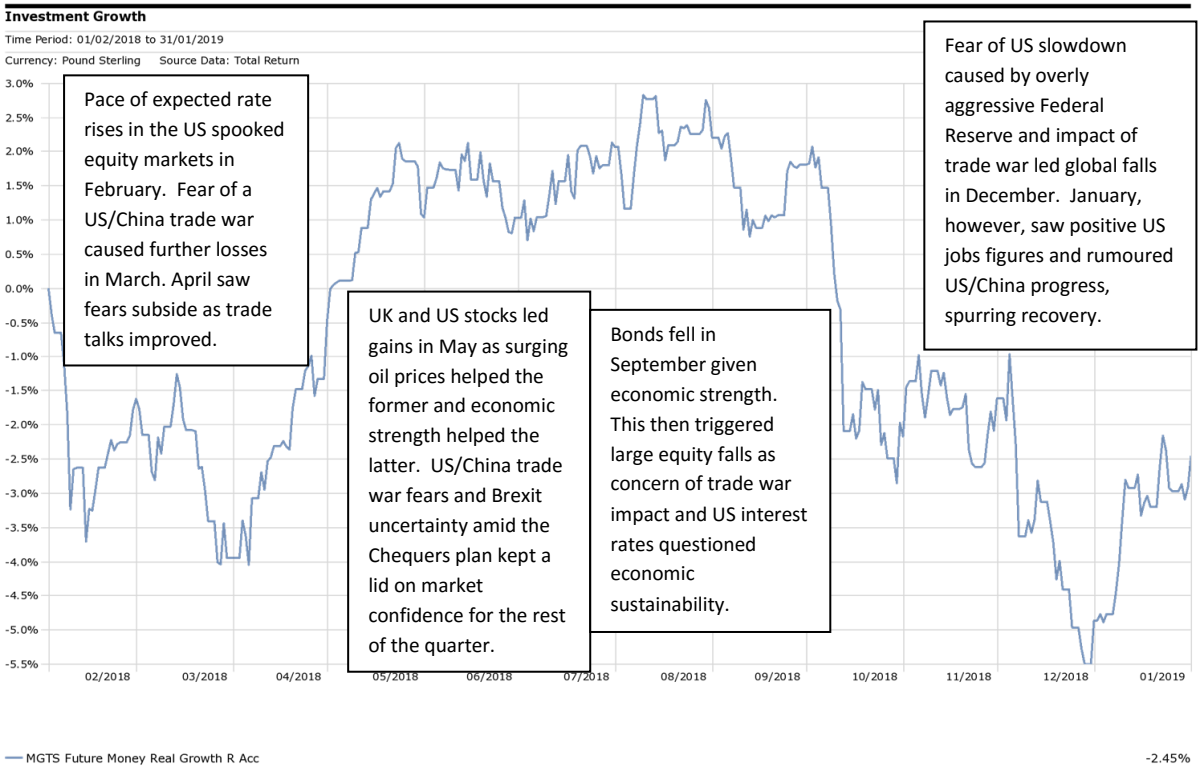
MGTS Future Money Real Growth



The Man GLG UK Income fund has been in the portfolio since early July 2018 and since this time has been a relatively strong holding, outperforming both its peer group average and the fund that it replaced (Majedie UK Income). This fund operates with a higher allocation to smaller companies than many of its peers and also opportunistically makes use of cyclical exposures; the fund has overweights to financials and basic materials yet is underweight to energy stocks. All three sectors typically perform well in buoyant economic conditions, but fear over rising debt levels in energy companies has deterred the manager from the sector.

The portfolio's fixed income allocation provided strong defensive qualities over the quarter, which was characterised by high levels of volatility. Markets are currently transfixed on the political risks of Brexit and trade wars, but economic conditions remain strong.



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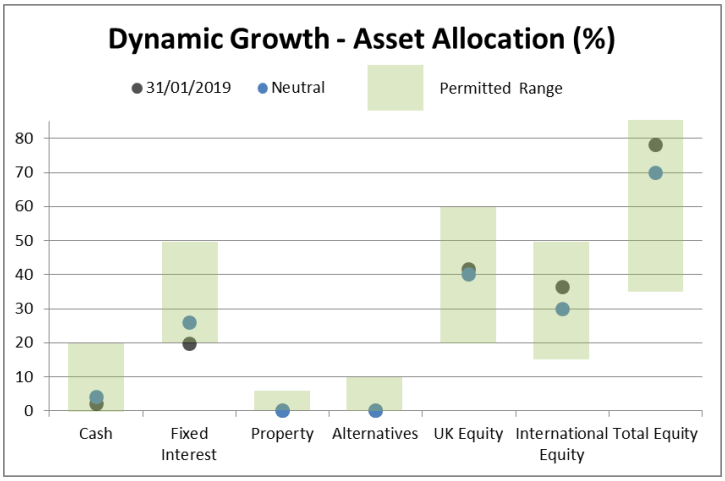
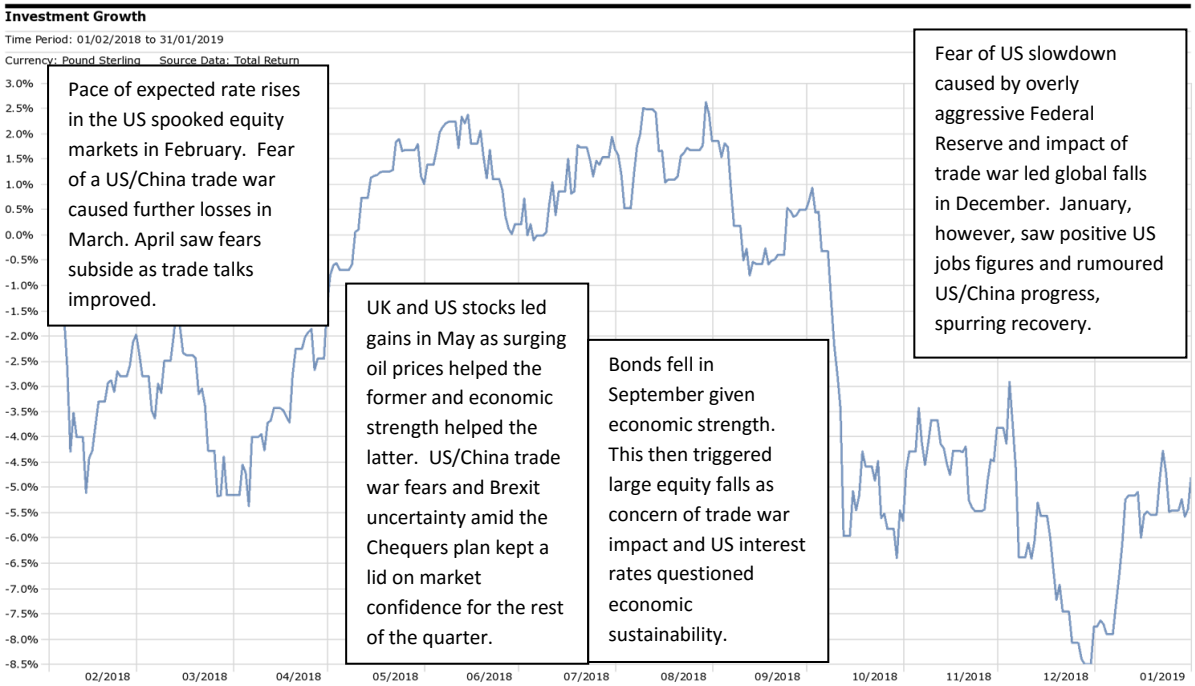
MGTS Future Money Dynamic Growth

As commented in the previous report, we felt that negativity surrounding Asian and Emerging Market equities throughout much of 2018 was unjustified and we were confident that the underperformance would be reversed. This patience has been rewarded in recent months, with the holdings in these regions producing the portfolio's best performances over the reporting period.



Despite Dynamic Growth's holding in the Emerging Markets performing well, a change in investment was required. The Invesco Global Emerging Markets fund's manager retired at the end of 2018, and in replacing him, Invesco restructured both the fund's investment process and its wider team. Given such changes we lacked confidence in the fund's ability to continue in its previous style and therefore the decision was taken sell. UBS Global Emerging Markets was purchased in its place. Managed by a well-established and successful team, we expect this fund to perform well as a core Emerging Market holding.



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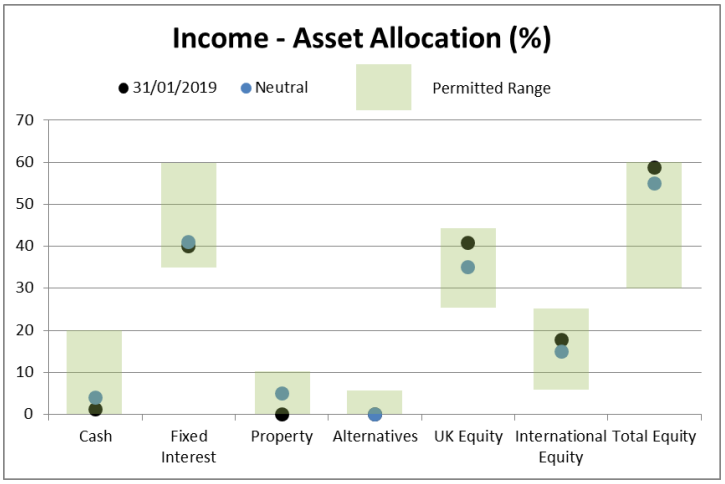
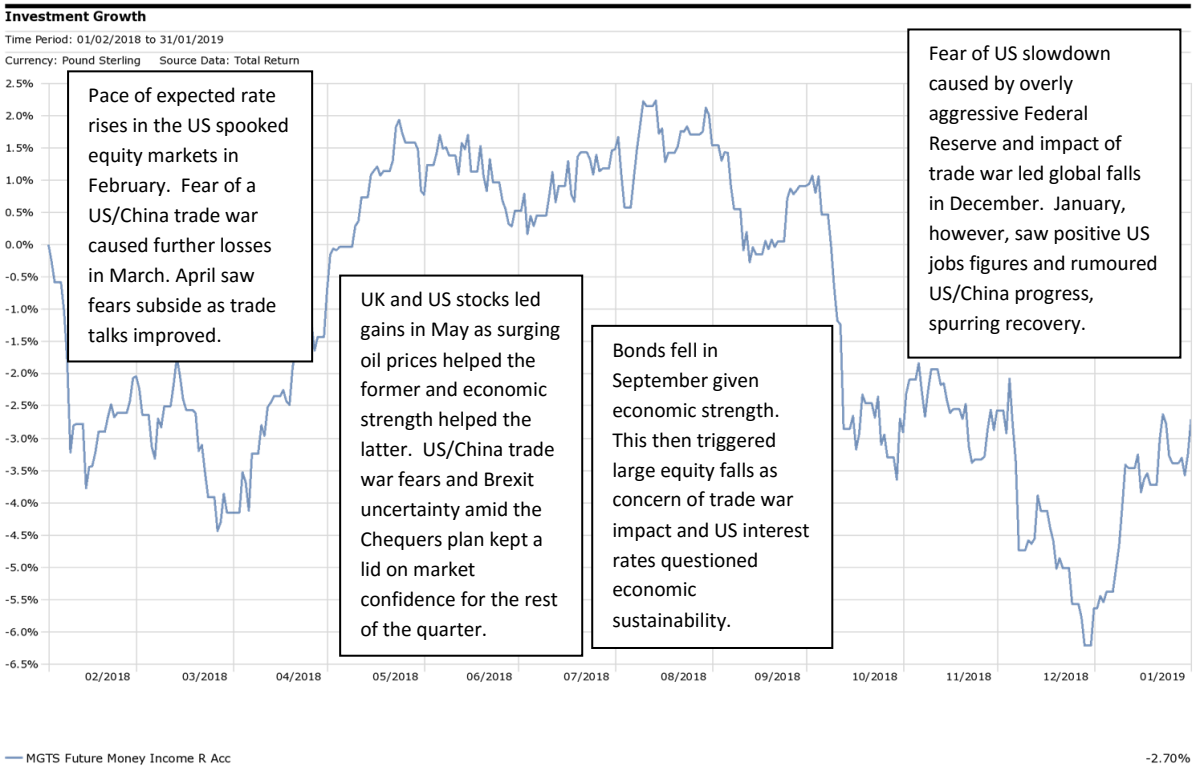
MGTS Future Money Income

The M&G Emerging Markets Bond fund was added to the portfolio at the start of autumn last year and while only short term so far, this has been a successful addition, with the fund being the top performing bond holding over the period. Emerging Market assets had been trading on heavy discounts and while that has now reversed slightly, we believe there is further to go in this trend and therefore remain committed to this holding.



The portfolio has 8% invested in the Schroder Asian Income fund, this has been held for many years and delivers both a high level of yield and an attractive risk adjusted return profile. The fund's focus on robust companies with strong cash flows creates a performance which significantly outperformed its wider Asian peer group in the falling markets of late 2018, but which also delivered sector matching performance in the market recovery of recent weeks.



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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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Performance

	Year to Month End	1yr	3yr	5yr
	01/01/2019	01/02/2018	01/02/2016	01/02/2014
	31/01/2019	31/01/2019	31/01/2019	31/01/2019
MGTS Future Money Income R Acc	3.10	-2.70	18.05	22.68
MGTS Future Money Real Value R Acc	1.95	-1.93	12.39	16.91
MGTS Future Money Real Growth R Acc	2.54	-2.45	18.18	22.23
MGTS Future Money Dynamic Growth R Acc	3.20	-4.80	26.20	27.89

	2018	2017	2016	2015	2014
MGTS Future Money Income R Acc	-5.84	7.30	9.21	2.60	4.59
MGTS Future Money Real Value R Acc	-3.87	4.61	7.28	1.10	4.87
MGTS Future Money Real Growth R Acc	-4.84	6.66	9.61	1.76	4.60
MGTS Future Money Dynamic Growth R Acc	-7.45	10.36	13.88	1.45	3.11

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 October 2018 to 31 January 2019

Looking at the notable IA (Investment Association) sectors over this quarter, Global Emerging Markets and Asia Pacific ex Japan provided the strongest returns bouncing back from a disappointing previous quarter with returns of 6.96% and 6.02% respectively. From a fixed interest perspective UK Gilts rose 2.05% and Sterling Corporate Bonds returned 0.83%. In western equity markets the UK All Companies sector fell 1.13%, Europe (ex UK) fell 2.82%, Japan fell 3.91% whilst North America suffered an unusually poor quarter with a return of -1.84%, breaking the previous trend of outperformance.

This period included the transition to 2019 and it is interesting to reflect on 2018 as a whole. This was a disappointing year for most investors as nearly all major asset classes lost value. The feeling of displeasure amongst investors was heightened in many cases as the year had begun with high expectations and followed several years of successful profits for mainstream markets. This has prompted the question, what happened?

The answer, in part, is that market moves of this type are fairly common. Whilst events can be found to explain the changes in market conditions this can often be a simple process of trying to rationalise normal market volatility. Please forgive a brief, and fairly basic, statistics lesson to explain this point.
One aspect of investment risk is measured through the use of annualised volatility which is calculated by measuring historical performance. The volatility of the FTSE World Index using 20 years of historic data is 14.38% according to FE Analytics and the statistical rule used to illustrate potential returns is called the '68,95,99.7' rule of standard deviation. According to this rule returns will be within the annualised volatility from the long term average return 68% of the time, within twice the volatility 95% of the time and within three times the volatility 99.7% of the time.

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During 2018 the FTSE World index fell 3.10% which is well within the annualised volatility measured from the long-term annualised return of 6.67% and therefore entirely expected from a statistical perspective. The FTSE 100 fell more significantly with a loss of 8.73% but this also remains just within the annualised volatility of 13.49% from the annualised return of 4.39%.

Ordinarily we would expect to find reasons to explain a movement exceeding twice the volatility which is an event that occurs only once, or less, in 20 years. Examples of these events are the 2007/8 credit crisis, 1999/2000 technology crash and the 1997 Asian currency crisis.

Although 2018 contained many negative events, the magnitude of the falls can be argued to be modest on a statistical basis and, in fact, could be argued to provide evidence of the underlying strength within the global economy. These events include Brexit uncertainty, trade wars especially between the US and China which have continued to be problematic, a total of four rate increases by the Federal Reserve in 2018 and various political incidents including poisonings and an alleged state sponsored murder.

Investors who began 2018 with optimism due to their belief that global growth would be positive and company earnings would increase were correct as both of these significant economic events occurred even though investment markets did not respond as expected.

As we begin 2019, we continue to expect further economic growth and company earnings to increase, although the magnitude of the increase is expected to be moderate. On this basis it seems sensible to be more optimistic regarding returns for investors than we were a year ago, particularly as valuations are more attractive and the risks which led to a reduction in sentiment last year appear to be receding. The evidence of 2019, so far, is that most investment markets have begun to recover some of the losses of 2018 and therefore year-to-date returns are generally positive.

Throughout 2018 investment markets became concerned that the extent of US interest rate increases might threaten economic growth, especially as forward-looking indicators, such as survey data (PMIs) and car sales globally, were pointing downwards, adding to market volatility. The Federal Reserve had indicated four rate increases in 2018, but as markets and some economic data weakened, the need for the forth rate increase in December became debatable.

Ahead of the December Federal Reserve meeting Donald Trump criticised the Federal Reserve and tweeted ‘I hope the people over at the Fed will read today’s Wall Street Journal Editorial before they make yet another mistake’. This comment added to previous comments criticising the Federal Reserve, who act independently from any political influence. During their meeting the Federal Reserve made the decision to raise interest rates as planned and this action unnerved markets further, leading to significant volatility during December.

It is not clear if the Federal Reserve made this decision based on their economic analysis or to demonstrate their independence from President Trump and stamp this status on global stock markets. The latter seems more likely given they significantly softened their stance after the January meeting, but there was no noticeable change in economic data in-between meetings. This softening of future interest rate expectations has been a significant factor in the recovery of global markets in 2019 as interest rate fears almost disappeared overnight, which is also a reminder of how quickly political/policy risks can come and go.

The issue of trade wars between the US and China also showed some signs of easing during the quarter as friendly statements were issued by both sides and talks resumed. A period of 90 days has been agreed to delay any further tariffs, originally planned for 1st January 2019, whilst they attempt to reach an agreement.

At the time of writing, there has been little said by either side regarding the success of the talks so far, however the trade wars, to date, have caused damage to both economies, so both sides will be looking for a compromise. President Trump will wish to score a win from a publicity perspective to boost his falling ratings whilst the Chinese will be keen to maintain low tariff trade with their largest trading partner.

President Trump has also been embroiled in a bitter battle with the Democrats to secure funding for his proposed wall with Mexico, to prevent illegal immigration, which led to the longest government shutdown in history as no budget could be agreed by congress.

Public opinion favoured the Democrats' position of blocking the funding, believing the wall to be too expensive and unnecessary. This eventually led to a temporary three week agreement to re-open government services from 25th January but is effectively a climb down by President Trump. He has made clear his intention to continue pushing for the funding required and positive news from elsewhere, such as the China trade war, would provide a much needed boost at this time.

This quarter has also been a busy period for political risk in the UK, with Brexit negotiations reaching a critical stage. The initial withdrawal deal proposed by Mrs May was voted down by a record 230 votes triggering the opposition to table a motion of no confidence. The government won the no confidence vote and Mrs May had also previously won a vote of no confidence tabled by her own party.

One clear effect of the Brexit malaise has been the under allocation to UK equities by international investors. The consequence is that the yield of the FTSE 100 has risen to approximately 5% despite interest rates of only 0.75%. At these levels we believe this offers very attractive value even accounting for the risks around Brexit. In fact, companies in the FTSE 100 blend around 70% of revenues from international sources with 30% from domestic sources providing a hedge against the

final Brexit outcome with both sets of earnings being discounted. Brexit certainty could provide an uplift regardless of the scenario.

This contrasts with US equity markets which are on higher valuations and offer considerable currency risk in the event of a soft Brexit, as sterling is expected to rise on this outcome, which would devalue overseas assets in sterling terms. The yield from US equities is around 2.25% with interest rates at 2.5% so the valuation differential, on this basic measure, is far less attractive.

From a Brexit perspective we continue to expect a middle road soft Brexit to be the final outcome. The negotiation was always expected to be fraught and subject to last minute compromise, and whilst the current position is uncomfortable, it was also anticipated. Should the ground move to either a 'hard exit' or 'remain' position the hard liners on the opposite side of the argument will gather round the compromise deal which, provided agreement on the 'backstop' is possible, appears to be the best compromise for voters and parliament, even if it does not actually please anyone.

In conclusion, 2018 felt worse than it was as investor sentiment deteriorated throughout the year. This has led to a better opportunity for 2019 as equity valuations are lower, economic growth and company earnings did rise and are expected to rise further in 2019. The concern around slowing growth rates is misplaced provided growth remains positive, as we expect, because equity valuations will be well supported. In fact, slowing growth will provide relief against future interest rate rises which drove anxiety in 2018.

Political risk remains present, but appears to be receding. US valuations are higher than other equity markets and the UK market appears particularly attractive at present. Fixed interest markets are likely to offer little return or downside, as interest rate expectations are fairly flat, but risks could come back to these markets towards the end of the year, as near full economic capacity may increase inflationary pressures.

Strategy

We believe that maintaining an overweight equity position through the current market volatility is the most appropriate strategy, as short term uncertainty is too high to time increases or decreases in equity allocations. This point is supported by the evidence of total return funds which have struggled in both rising and falling markets and we have held no exposure in this area.

Markets outside of the US are favoured due to better valuations and the UK appears particularly attractive for the reasons stated above. We continue to hold a neutral weighting to Europe, as despite attractive valuations, long term political risks continue to be a concern.

Fixed interest markets are expected to move sideways as interest rate risk has reduced in the short term. This does not make duration risk more attractive as the yield curve is very flat and interest rate risk may come back later in 2019.

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Asset Class Review

Investment Returns (%)

As of Date: 31/01/2019 Currency: Pound Sterling Source Data: Total Return

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	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	Property 2.9	UK Mid Cap 7.6
	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	North America 0.8	North America 4.9
	Asia ex Japan 55.5	Emerging Markets 23.6	Property 2.9	High Yield 18.9	North America 28.3	World ex UK 12.3	UK Mid Cap 12.0	World ex UK 30.4	UK Mid Cap 18.2	Cash 0.6	Emerging Markets 4.8
	UK Mid Cap 52.8	North America 19.1	North America 1.2	Asia ex Japan 17.5	Japan 24.9	Property 11.8	Property 7.3	Asia ex Japan 28.7	Europe ex UK 16.9	Gilts 0.6	World ex UK 4.4
	High Yield 47.9	Japan 19.0	Cash 0.5	Europe ex UK 17.4	Europe ex UK 24.0	Asia ex Japan 10.0	Europe ex UK 5.5	Japan 22.7	UK Small Cap 16.3	Corporate Bonds -2.2	UK Small Cap 3.8
	UK Large Cap 27.3	UK Small Cap 17.5	FM Real Value -0.5	Corporate Bonds 13.3	World ex UK 22.7	Corporate Bonds 9.8	North America 5.3	Europe ex UK 21.2	Japan 14.4	World ex UK -2.7	Asia ex Japan 3.6
	Europe ex UK 21.8	World ex UK 16.7	FM Income -1.9	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	High Yield -3.6	UK Large Cap 3.6
	World ex UK 18.9	FM Dynamic Growth 15.9	UK Large Cap -2.2	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	FM Real Value -3.9	Europe ex UK 3.4
	FM Dynamic Growth 15.0	UK Large Cap 12.6	High Yield -3.1	FM Income 12.2	FM Income 13.0	FM Real Growth 4.6	FM Real Growth 1.8	UK Small Cap 12.7	North America 11.3	FM Real Growth -4.8	FM Dynamic Growth 3.2
	North America 14.8	High Yield 12.1	FM Real Growth -3.9	World ex UK 11.9	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 -5.8	FM Income 3.1
	Corporate Bonds 14.7	FM Real Growth 11.0	World ex UK -6.1	North America 10.7	FM Real Value 8.6	FM Dynamic Growth 3.1	FM Real Value 1.1	Gilts 10.1	Property 7.6	FM Dynamic Growth -7.4	High Yield 2.9
	FM Real Growth 14.4	FM Income 9.2	FM Dynamic Growth -8.7	FM Real Growth 10.3	Property 7.6	UK Mid Cap 2.8	Gilts 0.6	FM Real Growth 9.6	FM Income 7.3	Japan -7.6	Japan 2.7
	FM Income 13.8	Property 8.4	UK Mid Cap -10.3	UK Large Cap 10.0	High Yield 6.9	Japan 2.7	Cash 0.5	FM Income 9.2	FM Real Growth 6.7	Emerging Markets -7.6	FM Real Growth 2.5
	FM Real Value 9.0	FM Real Value 7.8	Japan -12.9	FM Real Value 8.4	Asia ex Japan 1.3	High Yield 1.0	Corporate Bonds -0.4	Corporate Bonds 9.0	High Yield 6.1	Asia ex Japan -8.5	FM Real Value 1.9
	Property 8.3	Corporate Bonds 7.7	Asia ex Japan -14.8	Japan 3.3	Corporate Bonds 0.6	UK Large Cap 0.7	High Yield -0.9	FM Real Value 7.3	Corporate Bonds 5.1	UK Large Cap -8.7	Corporate Bonds 1.6
Worst	Cash 0.6	Gilts 7.2	Europe ex UK -15.0	Gilts 2.7	Cash 0.5	Cash 0.5	UK Large Cap -1.3	UK Mid Cap 5.1	FM Real Value 4.6	Europe ex UK -9.1	Gilts 1.1
	Gilts -1.2	Europe ex UK 6.6	UK Small Cap -15.3	Property 1.2	Gilts -3.9	Europe ex UK -1.4	Asia ex Japan -3.5	Cash 0.4	Gilts 1.8	UK Small Cap -13.5	Property 0.3
	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	Property -2.0	Cash 0.3	UK Mid Cap -15.2	Cash 0.1

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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.

2018 Review

Property was the best performing asset class of 2018 with a positive return of 3.9%. Low liquidity in property investment means that prices are slow to reflect changing values. As such, as investor sentiment deteriorated in Q4, published property prices did not reflect the drop in confidence felt by more liquid assets. Property can often provide a cushion against moderate levels of volatility given this slower reaction in prices, but it must be remembered that at times of significant shock, such as following the 2008 global financial crisis and the 2016 EU referendum, the lack of liquidity can be problematic. In such scenarios, properties can no longer sell near their published values, causing investors to suffer sudden price drops or be subject to 'gating', where funds are locked up, preventing investor money being withdrawn. Gating is then reversed when liquidity conditions improve, which can be months later.

North American equities were the second best performing asset class of the year. The strong performance of US assets resulted from a combination of relative strength in US stocks and the gains of the US dollar. These trends were most prevalent during the summer yet then reversed somewhat in the latter stages of the year. Both factors were driven by the strength of the US economy, which was seen as the most able to endure the global economic difficulties caused by the trade war. The strength of the US economy also caused the Federal Reserve to continue on its path of raising interest rates, which was a large factor in the strength of the US dollar.

Smaller companies listed on the UK market, as measured by UK Small Cap and UK Mid Cap, were the worst performing assets of the year. 2018 was a year that punished economic sensitivity. The US-China trade war set a global mood of pessimism, while concern for the continued uncertainty surrounding Brexit created a second impact for those stocks most linked to the UK economy, which weakened as businesses delayed investment decisions, uncertain of future EU trading relations. UK Large Caps are slightly shielded from the worst of this uncertainty, as the lack of Brexit progress has created a weak pound, which helps companies with large amounts of exports (which many Large Caps do), yet smaller companies are highly sensitive to the prospects of the domestic economy.

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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