Quarterly Report

August 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.

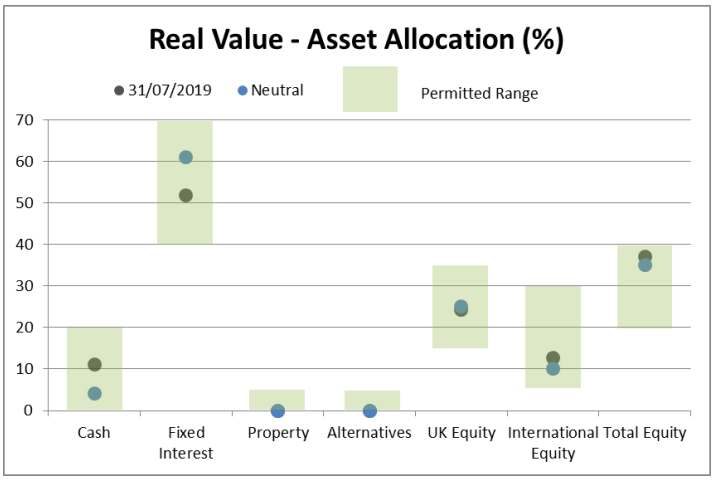
Quarterly Report

30 April 2019 to 31 July 2019

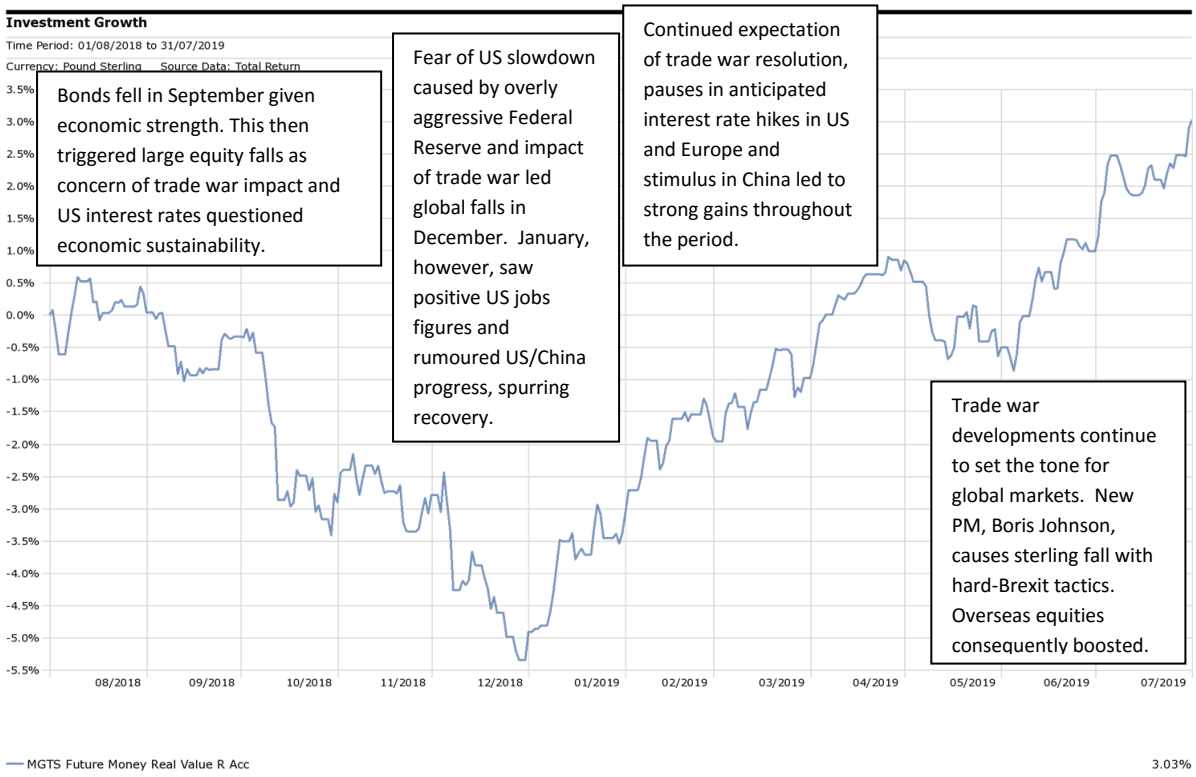
MGTS Future Money Real Value

Replacements which are more suited to a slowing economy are being considered in place of Schroder European Alpha Income.

Invesco Tactical Bond was sold during the quarter with the assets split across the remaining bond selection. With the inability to generate significant gains in this low return environment we no longer felt the relatively higher cost was justified.



The equity allocation was further reduced this quarter with the target being brought down from 37.5% to 36.25%. The opportunity to reduce risk exposure was taken following further stock market gains despite the potential for further difficulties from the US/China trade war. While reduced, a slight overweight to equities remains. Despite the political risk currently present we believe that equities still offer good value relative to fixed income markets, although accept that volatility levels are likely to remain high.



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

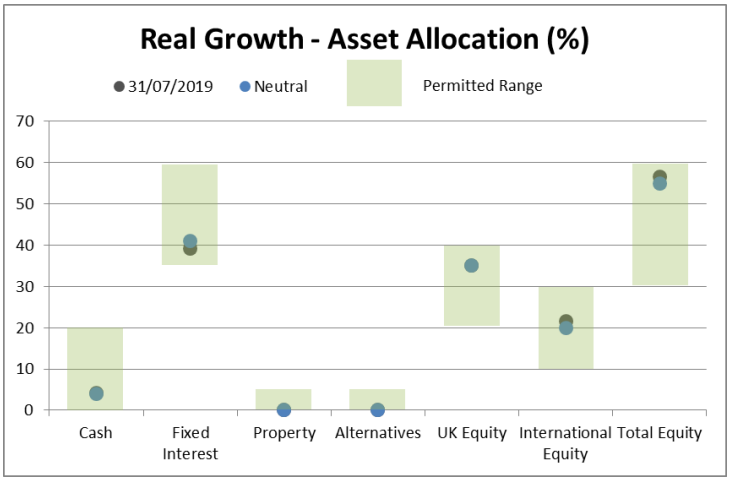
Quarterly Report

30 April 2019 to 31 July 2019

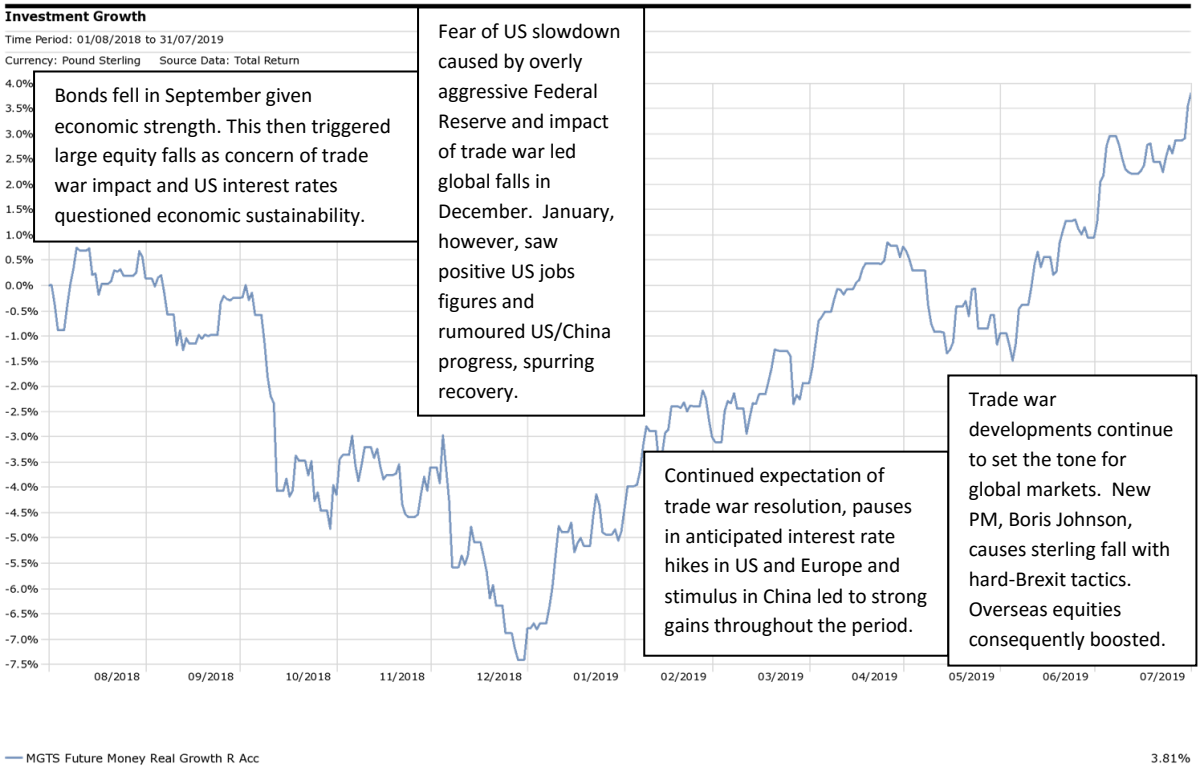
MGTS Future Money Real Growth

Replacements which are more suited to a slowing economy are being considered in place of Schroder European Alpha Plus.

Invesco Tactical Bond was sold during the quarter with the assets split across the remaining bond selection. With the inability to generate significant gains in this low return environment we no longer felt the relatively higher cost was justified.



The equity allocation was further reduced this quarter with the target being brought down from 57.5% to 56.25%. The opportunity to reduce risk exposure was taken following further stock market gains despite the potential for further difficulties from the US/China trade war. While reduced, a slight overweight to equities remains. Despite the political risk currently present we believe that equities still offer good value relative to fixed income markets, although accept that volatility levels are likely to remain high.



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Source: Morningstar Direct

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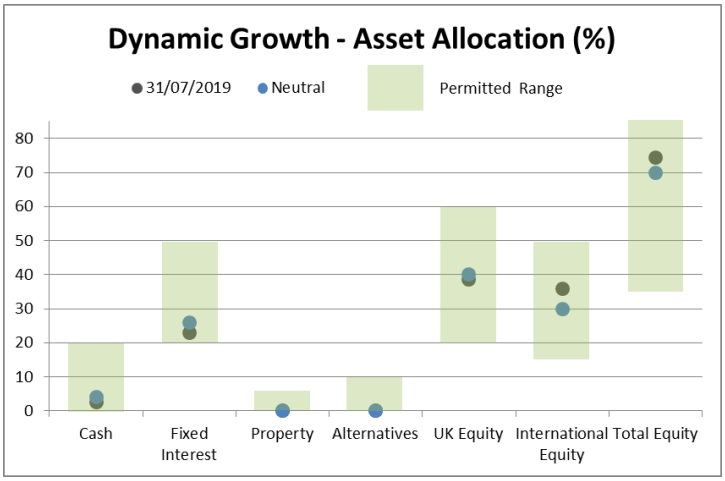
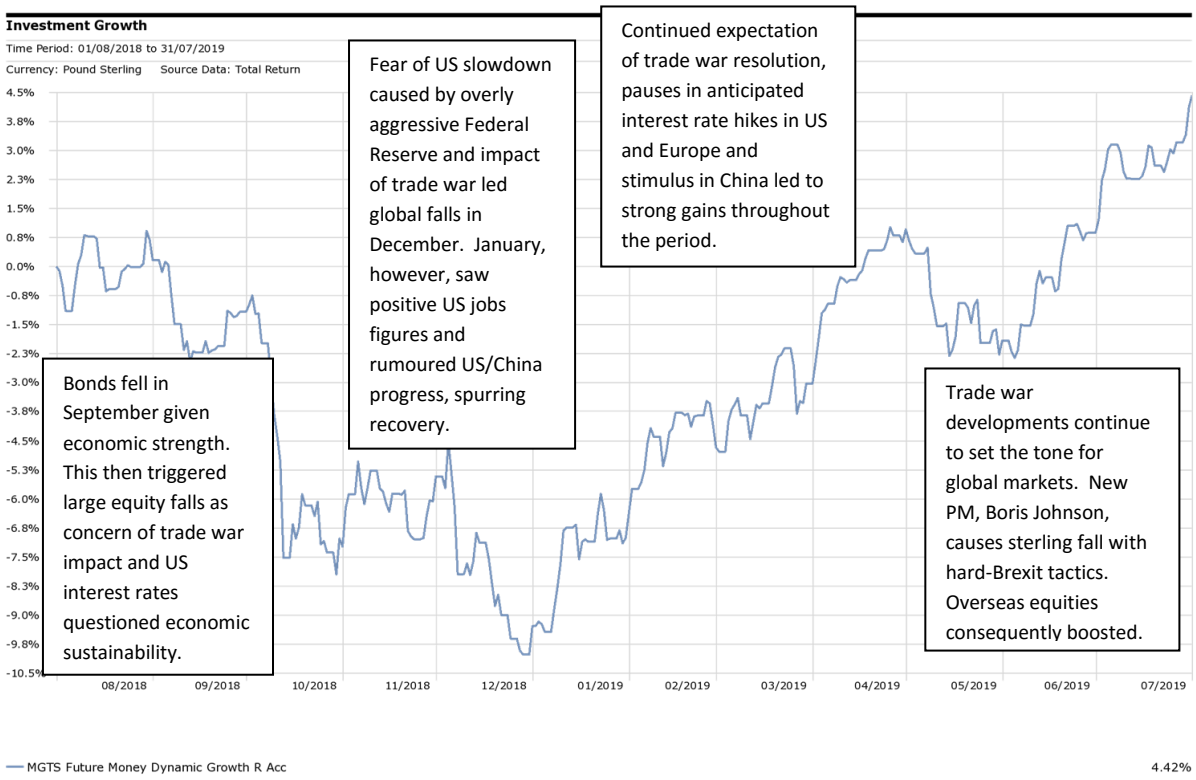
MGTS Future Money Dynamic Growth

Further to comments made in the previous report, we have decided to maintain the position in the JPM UK Dynamic fund, however this remains under close review.

Fund selection within the equity allocation has been strong over the quarter, yet the bond holdings have trailed their peers slightly given our preference for short duration, which has lagged as yields have fallen.



The equity allocation was further reduced this quarter with the target being brought down from 76.75% to 73.5%. The opportunity to reduce risk exposure was taken following further stock market gains despite the potential for further difficulties from the US/China trade war. While reduced, a slight overweight to equities remains. Despite the political risk currently present we believe that equities still offer good value relative to fixed income markets, although accept that volatility levels are likely to remain high.



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Source: Morningstar Direct

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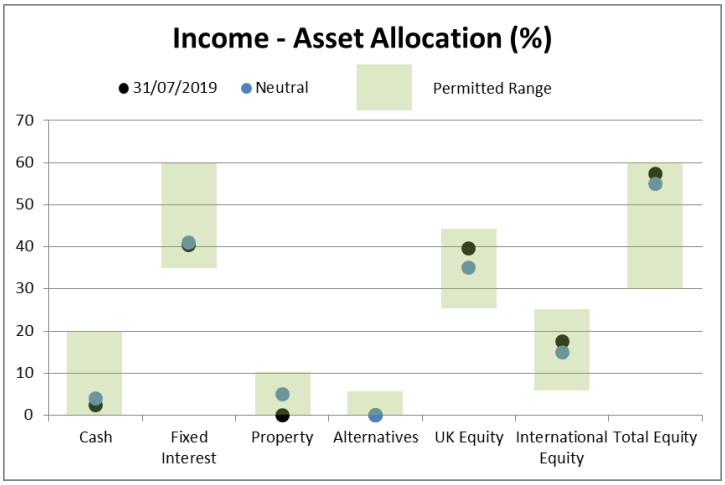
MGTS Future Money Income

The M&G Emerging Markets Bond fund continues to deliver strong returns in absolute terms, yet it has lagged its peer group average. This is due to the currency hedge we hold on this fund, which has limited returns as the pound has fallen. We hold this hedge as we believe sterling is undervalued on a long term basis, but also as a way to remove currency risk and therefore reduce volatility in what is already a higher risk asset.



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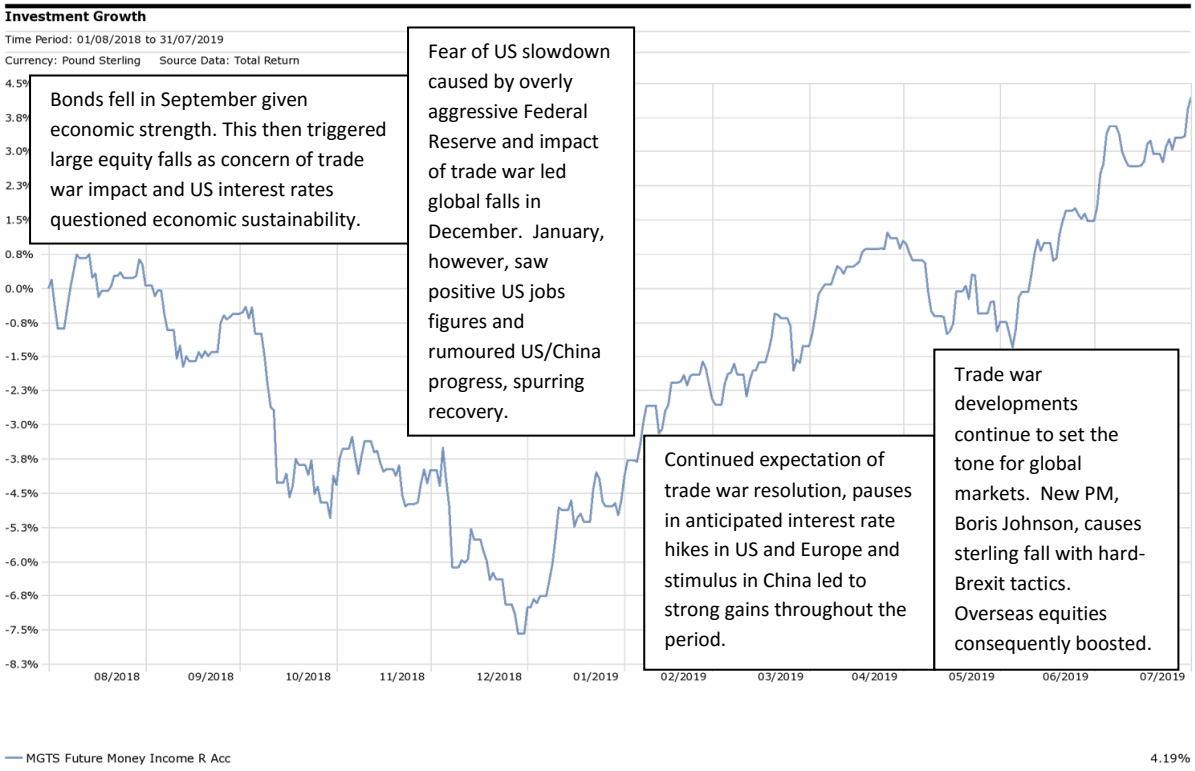

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Source: Morningstar Direct

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30 April 2019 to 31 July 2019

Performance

	Year to Month End	1yr	3yr	5yr
	01/01/2019	01/08/2018	01/08/2016	01/08/2014
	31/07/2019	31/07/2019	31/07/2019	31/07/2019
MGTS Future Money Income R Acc	12.03	4.19	16.52	28.85
MGTS Future Money Real Value R Acc	8.35	3.03	11.32	20.80
MGTS Future Money Real Growth R Acc	11.37	3.81	17.05	28.66
MGTS Future Money Dynamic Growth R Acc	15.11	4.42	24.08	38.21

	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.

30 April 2019 – 31 July 2019

This reporting period provided further upward returns from all major equity and bond markets, building on the strong performance of the previous quarter, with most asset classes reaching new highs.

In the days following the end of the period, political risk increased suddenly as President Trump tweeted that he would impose 10% tariffs on an additional $300 billion of Chinese imports from 1st September 2019. This is an almost identical repeat of the previous quarter, which saw a similar increase in political risk shortly after the end of the reporting period. This was not expected by market participants as the mood of the US/Chinese trade deal negotiations had been improving and this now suggests a serious setback. Equity markets fell sharply on this development whilst safe haven assets, such as Government Bonds, Gold and the Japanese Yen rose in value. Despite this event falling outside of the current reporting period, we will include it within this commentary.

Looking at the notable IA (Investment Association) sectors over this quarter, North America provided the highest return of 8.82%, Europe (ex UK) returned 5.74%, Global Emerging Markets returned 5.05% and Asia Pacific (ex Japan) returned 4.83%. The returns from overseas assets were boosted by a fall in the value of sterling which depreciated by around 6% against the Dollar and the Euro. UK All Companies lagged the other markets by some margin, retuning only 0.98%.

Brexit has, once again, dominated domestic politics as Theresa May announced on 24th May that she would resign as the leader of the Conservative party on 7th June. Having tried and failed three times to get a parliamentary majority for a deal negotiated with the remaining 27 members of the

European Union, it was clear she had lost the confidence of her party. Boris Johnson was the clear favourite to succeed her and won the party ballot convincingly against Jeremy Hunt, entering No. 10 as Prime Minster on 25th July.

The change of Prime Minister has heralded a new, aggressive and uncompromising 'do or die' Brexit strategy with the new PM promising to get the UK out of the European Union with or without a deal by the current deadline of 31st October. Red lines have been drawn on both sides, with the EU27 refusing to re-open the existing withdrawal agreement, whilst the PM has stated that the agreement must be reopened and the Northern Irish backstop scrapped.

Could this be a paradoxical example of the unstoppable force meeting the immovable object? Looking at previous examples of European political red lines such as Germany's opposition to quantitative easing, bailing out Greek debt or approving Italy's budget deficit, there is plenty of evidence that the immovable object does indeed move. Similarly, Boris Johnson's unstoppable force looks severely compromised by his parliamentary majority of one and by the potentially rebellious 'remainers' within his own party.

For those looking for certainty, it does now appear that Brexit has entered the 'end game' phase. However, the stakes are high with a no deal Brexit, a confidence vote and/or a general election appearing likely. Currency markets certainly believe that Boris Johnson can push through a 'no deal' Brexit and this has led to the dramatic fall in sterling.

We continue to expect that a compromise deal will be agreed, although this is by no means certain at this stage. British politics is becoming increasingly polarised by Brexit views with the Brexit party winning the most seats at the European elections. The Liberal Democrats have equally been boosted by their 'remain' position and a new popular leader. This was demonstrated by their victory at the Brecon and Radnorshire by-election.

If the Brexit outcome is binary, either remain or no-deal, political polarisation will continue to escalate, with the losing side refusing to accept defeat and expressing frustration through the electoral process. Only a compromise outcome will provide a route for both sides to move forward, and whilst Theresa May failed to get a deal through parliament, the final arithmetic was very close. Meanwhile, the previous rise of the popularity of the Labour party has stalled, as their stance on Brexit has been unclear and the party has become dogged by accusations of anti-Semitism.

Turning to global developments, the continued rise in global equity and bond markets has been triggered by central banks turning increasingly dovish and reducing forward interest rate guidance. On 31st July the Federal Reserve cut interest rates by 0.25%, the first rate cut for more than a decade, and has suggested additional future cuts. Central banks are responding to economic data indicating a slowdown in the global economy, which has begun within the manufacturing sector and may spread into consumption and employment.

There is something very worrying about both the level of interest rates and the flatness of the rate curve. The latter may need to be renamed the interest rate everglades, after one of the flattest places on earth which also hides some nasty surprises, rather than continue to be called a 'curve'.

As an example, the UK gilt market is now pricing 50-year gilts with a yield of 1.2%, and the instantaneous spot curve, which uses gilt prices to calculate expected interest rates, suggests that interest rates are not expected to be above 1.5% at any time in the next 60 years. This is quite a vote of confidence in the ability of the Bank of England to maintain the value of a fiat currency (paper – not asset backed) despite their own target to maintain inflation at 2%.

In Germany, the position is even more surprising with 10-year government debt reaching a new peak value with a corresponding yield of minus 0.5%. Many savers have encountered difficulties recovering monies lent to family and friends, but it is quite sobering to see that Governments are now able to legitimately repay less than they borrow.

At one time, it was inconceivable that yields could be negative, as investors could simply hold cash under the proverbial mattress with zero yield in preference. Now this idea has been proven false, the key question is: how low can yields actually go?

In the aftermath of periods where investment markets have miss-valued assets, such as the technology stock boom in the late 1990s or the mortgage debt surge in the noughties, markets were said to be operating on a 'greater fool' basis. This means that although investors may be foolish to buy assets at the current price, provided there is an even bigger fool to buy them later, it does not matter as returns will be achieved. It feels as though bond markets are now in this phase, but there appear to be plenty of 'fools' in these markets for the time being.

The slowdown in the global economy, which has triggered central banks to move back to a stimulatory footing, has been caused by ongoing trade tensions and other political risks. The primary trade dispute is between the US and China and we have commented on this in previous updates. This dispute has ebbed and flowed on many occasions and the recent set-back is a continuation of this trend. We expect a deal to eventually emerge, especially as the strength of the US economy will be pivotal to President Trump's re-election prospects in 2020.

Although the US – China position is the key area of pressure, markets may be beginning to lose confidence in the integrity of the US administration, as President Trump has erratically threatened to disrupt trade arrangements through the application of tariffs using his executive powers. The EU and Mexico, amongst others, have been targeted despite longstanding trade agreements being in place. Even if a deal is reached with China, it seems likely that President Trump will pursue other trade disputes, with EU car exports already signalled as a target. In our view, this growing unease has been the underlying driver of rises in safe haven asset prices.

The US has also destabilised Middle Eastern politics by withdrawing from the Iran nuclear treaty and imposing sanctions despite no evidence that Iran has violated the agreement. The two sides came very close to engaging militarily after Iran shot down a US drone amid rising tensions, and Iran also commandeered an oil tanker piloted under a British flag.

The hair trigger of President Trump's twitter account is clearly wearing the nerves of investors and business leaders who prefer predictable, trustworthy policies in order to plan and invest effectively. As UK investors, the double effect of erratic global and domestic politics is causing additional anxiety, and this explains why the UK stock market has underperformed recently and since the Brexit referendum on 23rd June 2016.

Whilst bond markets are well into historically high valuations, all major equity markets are below their long-term averages on the basis of price to earnings measures, except for the US which is slightly above. Also, very flat yield curves make long-term borrowing for capital spending very attractive for companies and governments alike. Given it is possible to fix borrowing costs around the level of expected inflation for decades, turning a profit on long term capital projects is easier than it has ever been.

This provides a potential route out of the current imbalance in global markets. The next phase of stimulus, given that interest rates are already very low, is governments increasing spending through cheap borrowing to fund infrastructure projects. Many developed economies, such as the US and UK, require considerable infrastructure upgrades and very low, long-term borrowing costs provide an ideal environment. In the UK and US, this presents an opportunity to push further high-speed rail and broadband infrastructure upgrades, whilst the US also needs dam rebuilds and new roads, for example. Boris Johnson has already made announcements in this direction, which could be popular with voters and helpful for the Conservative Party given the increasing likelihood of a general election.

If governments begin to increase spending, this will provide a fiscal stimulus and encourage the same behaviour in the private sector. This could push economic growth higher, increase inflation, normalise the yield curve and eventually lead to an increase in long-term interest rates. Equity investors would benefit whist bond investors would miss out on growth, but recover their nominal investment in due course.

We are currently witnessing a period of global economics which is unprecedented and the nervousness being exhibited by global markets is understandable. We continue to believe that a diversified portfolio of high-quality assets is the most appropriate strategy to navigate current uncertainties.

Strategy

We have maintained our strategy having concluded it is preferable to accept the volatility and eventual returns from equities, rather than the low (or negative) returns offered by traditional low risk assets.

We are continuing to hold an overweight position in equities on the basis that political risk could diminish quickly, leading to an upside in valuations. Whilst political risk has returned in the form of the US/China trade dispute, the concerns with respect to interest rate increases have receded and are not expected to re-ignite in the near future.

Within equity markets, we continue to hold a lower allocation than our peer group to North American equities with increased weightings in the UK, Asia and Emerging Markets (where appropriate to the level of risk) on the basis of more attractive valuations.

The flat shape of the yield curve currently presents the same opportunity at the short end as the long end and therefore we continue to believe that duration risk is unattractive, preferring weightings in shorter maturity assets.

Quarterly Report

30 April 2019 to 31 July 2019

Asset Class Review

Investment Returns (%)

As of Date: 31/07/2019 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	North America 25.3
	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	World ex UK 22.2
	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	Europe ex UK 20.3
	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	Emerging Markets 15.9
	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 Large Cap 15.7
	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	FM Dynamic Growth 15.1
	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	Asia ex Japan 15.0
	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	UK Mid Cap 14.1
	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 Income 12.0
	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	Japan 11.8
	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	FM Real Growth 11.4
	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	FM Real Value 8.3
	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	High Yield 8.3
	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	Corporate Bonds 7.9
	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	Gilts 6.9
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	UK Small Cap 3.2
	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	Cash 0.4
	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	Property 0.4

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Source: Morningstar Direct

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30 April 2019 to 31 July 2019

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

North American equities have been the top performing asset class of the year so far. Having been amongst the biggest losers of the market falls of late 2018 they bounced back strongly on the jump in sentiment of 2019 to date. With strong jobs creation numbers and a more accommodative stance on interest rates from the Federal Reserve, the economic picture has looked significantly brighter than late last year and therefore a strong relief rally has been experienced.

The index of world stocks excluding those listed in the UK has been the second best performer of the year to date. This is boosted by the strong US performance, with American companies accounting for nearly 60% of the index, but is also a broader reflection on the success of equities from across different regions.

In a 'risk-on' environment, such as we have experienced in the first seven months of the year, all major asset classes have made money, leaving cash and property as the least productive. Cash returns may be low, but it is important to note that any positive return is a major asset at times of stress and therefore this defensive characteristic can be very useful as a portfolio diversifier. Investors holding cash during 2018 for instance would have been very pleased with their non-negative returns.

Property has been the worst performing asset class of 2019 so far. While the property market will have benefitted from the general mood of increased confidence across markets, the illiquidity in the sector means that prices are very slow to react changes in market dynamic. As such, during the market falls of 2018, property looked like a very strong asset class in relative terms, yet had investors attempted to withdraw large amounts from the property sector at this time, then it is likely that difficulties may have been achieved in securing expected prices. The underperformance of property this year is therefore likely an unwinding of this divergence between published price and achievable value, i.e. prices in property markets have stayed relatively static this year, while underlying valuations have caught up.

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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