>futureMoney

Quarterly Report

February 2020

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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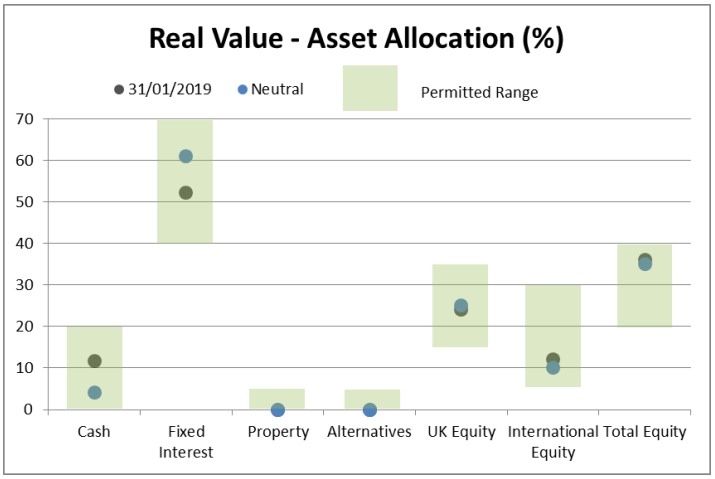
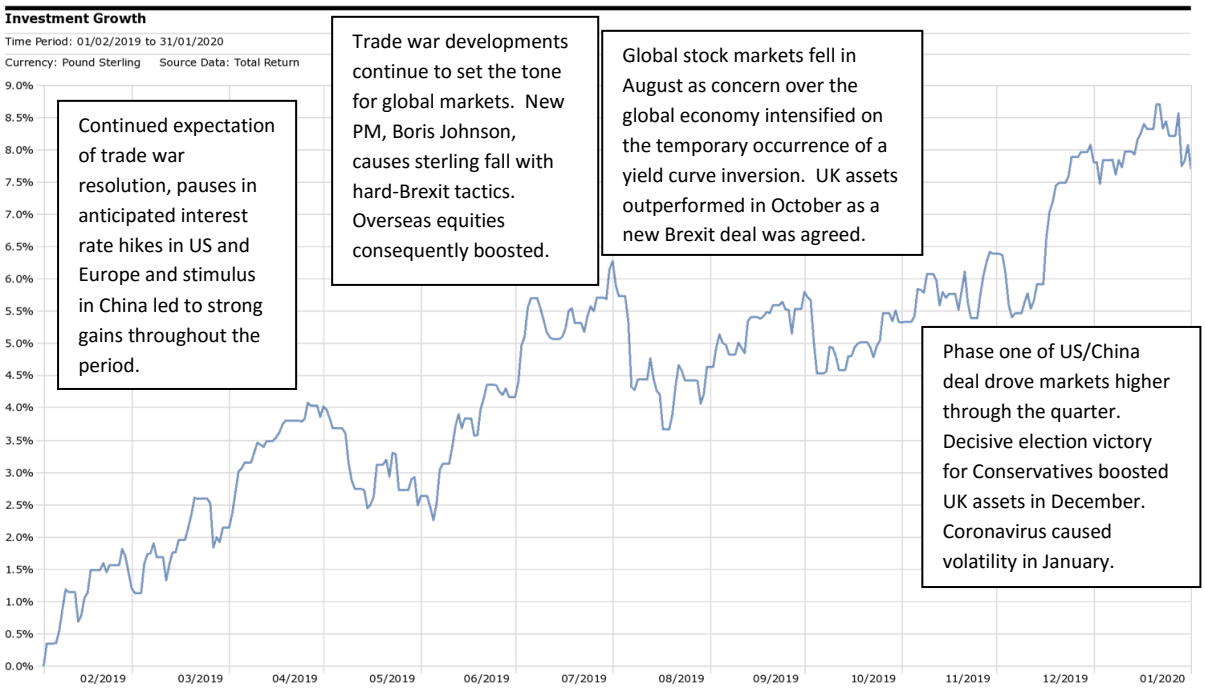
31 October 2019 to 31 January 2020

MGTS Future Money Real Value

While overall the past three months were good for markets and specifically Real Value, with the outbreak of the coronavirus, Asian markets experienced losses. This caused our holding in the region to lose value over the quarter. We are monitoring the impact of this virus closely, but at this time do not believe that any changes to strategy are warranted.



Elsewhere, the decision to add the Fidelity European fund to the portfolio in place of the previously held Schroder European Alpha Income fund is proving successful, with the Fidelity fund outperforming the Schroder fund by over 5% during this reporting period. While only short term so far, the relatively consistent performance of the Fidelity fund has been satisfying, as the expectation of this was a significant factor in the decision to make this investment.



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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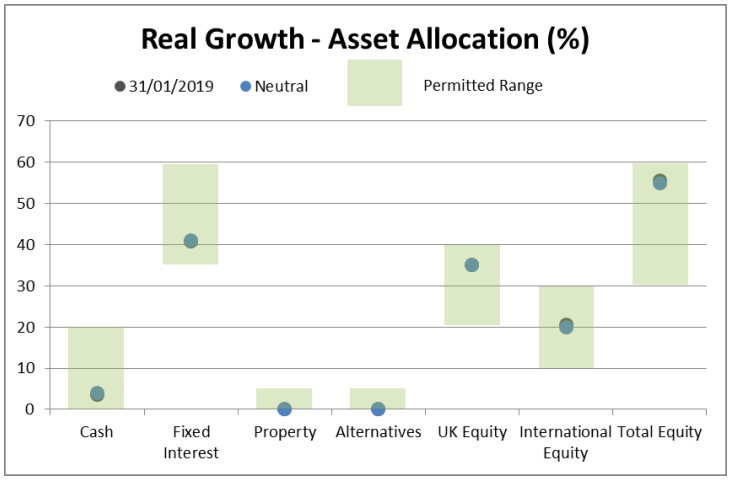
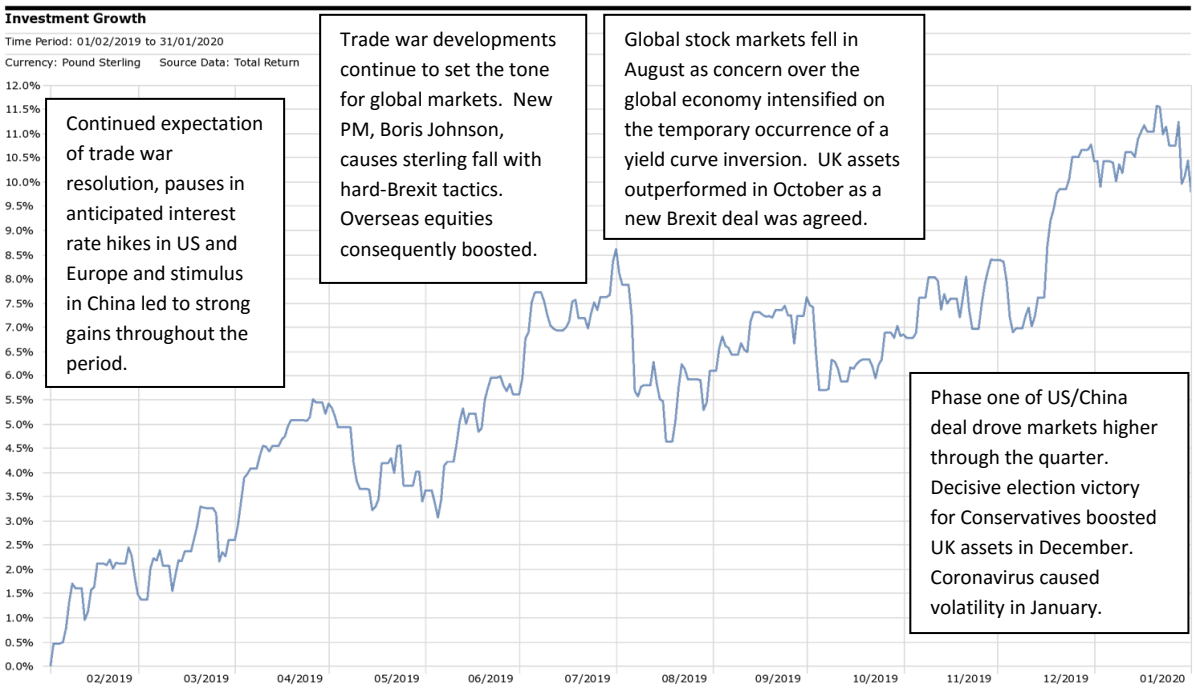
MGTS Future Money Real Growth

The comments made regarding Fidelity European for Real Value are also applicable for Real Growth, where this fund has strongly outperformed the Schroder European Alpha Plus fund it replaced over the reporting period.



Fidelity Index US was amongst the best performing holdings over the past three months. The US has been the most resilient major equity market of 2020 so far, with the 'safe haven' status of the US dollar proving an attractive holding ground as investors, anxious of the impact of the coronavirus, have moved to avoid those areas perceived to be most at risk from economic impact that the virus may have. Future Money Real Growth has a significant allocation in the US, but relative to our benchmark, we are slightly underweight. The US has been the standout performer of recent years and this has led to US equities reaching extremely high valuations, relative to other equity regions, which has a created a value disparity that we believe to be unsustainable and therefore we maintain an underweight allocation here.



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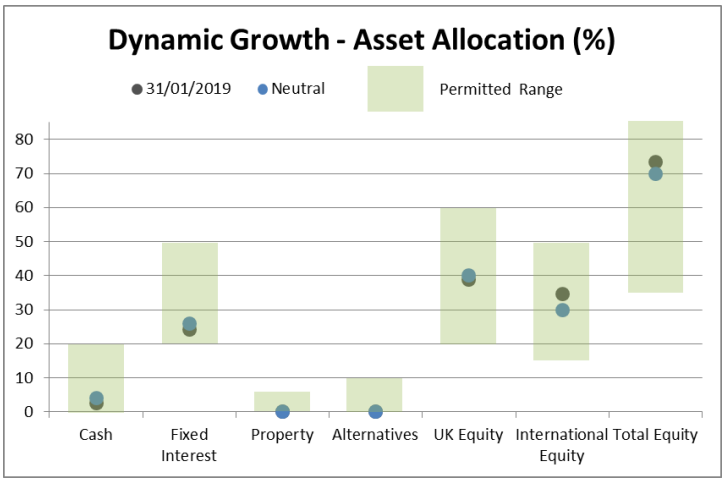
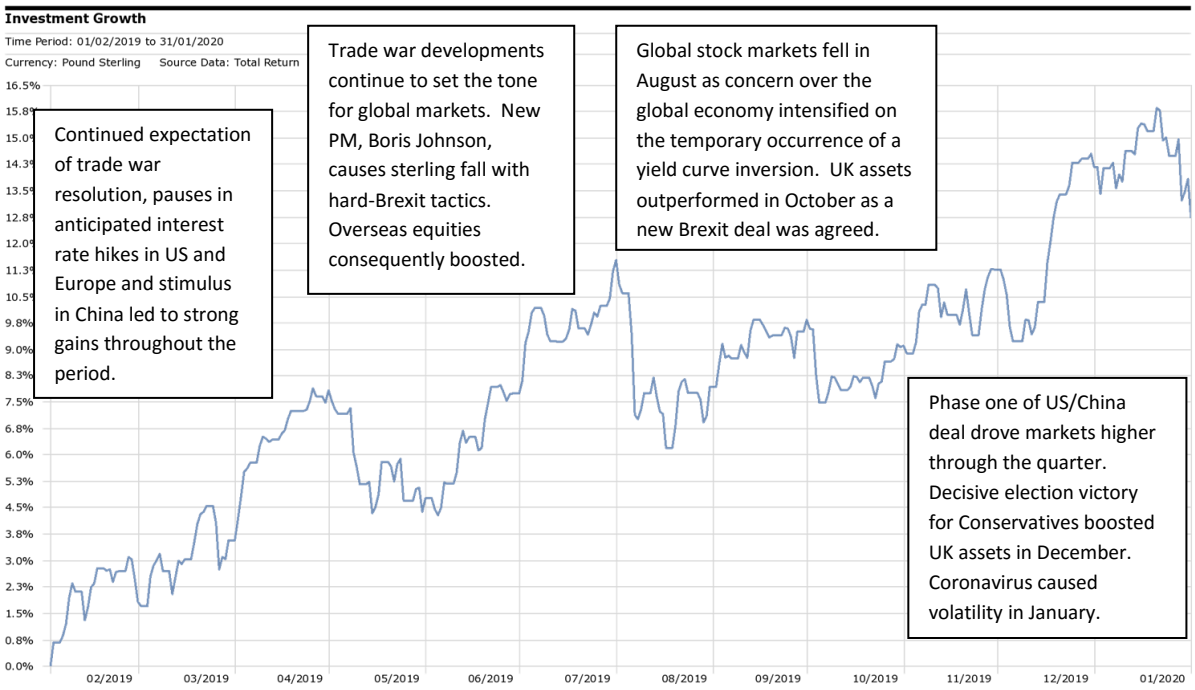
MGTS Future Money Dynamic Growth

Negative performances were experienced by the Asian and Emerging Market holdings over the quarter. However, most other holdings delivered positive returns, with strong stock market growth on the back of the UK election and US/China trade war progress helping equities, while falls in yield levels caused by the coronavirus outbreak led to gains in bonds.



The Standard Life Global Index Linked Bond fund was the best performing bond holding, given its greater sensitivity to yield levels.

On the equity side, the Royal London UK Mid-Cap Growth fund was the top performer. Given this fund's greater exposure to the domestic UK economy it performed particularly well following the surprisingly strong performance by the Conservative party in the UK general election which led to a sharp increase in confidence amongst domestic companies. Confidence increased as the possibility of a Jeremy Corbyn led government, which threatened large increases in public debt and widespread nationalisation plans, disappeared.



MGTS Future Money Dynamic Growth R Acc 12.73%

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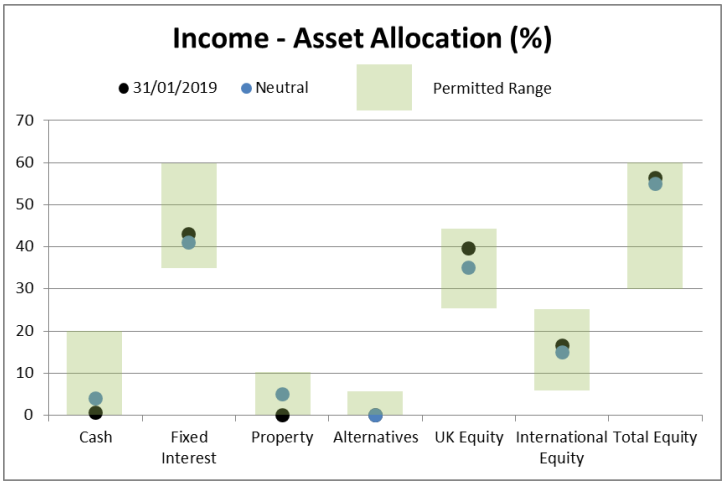
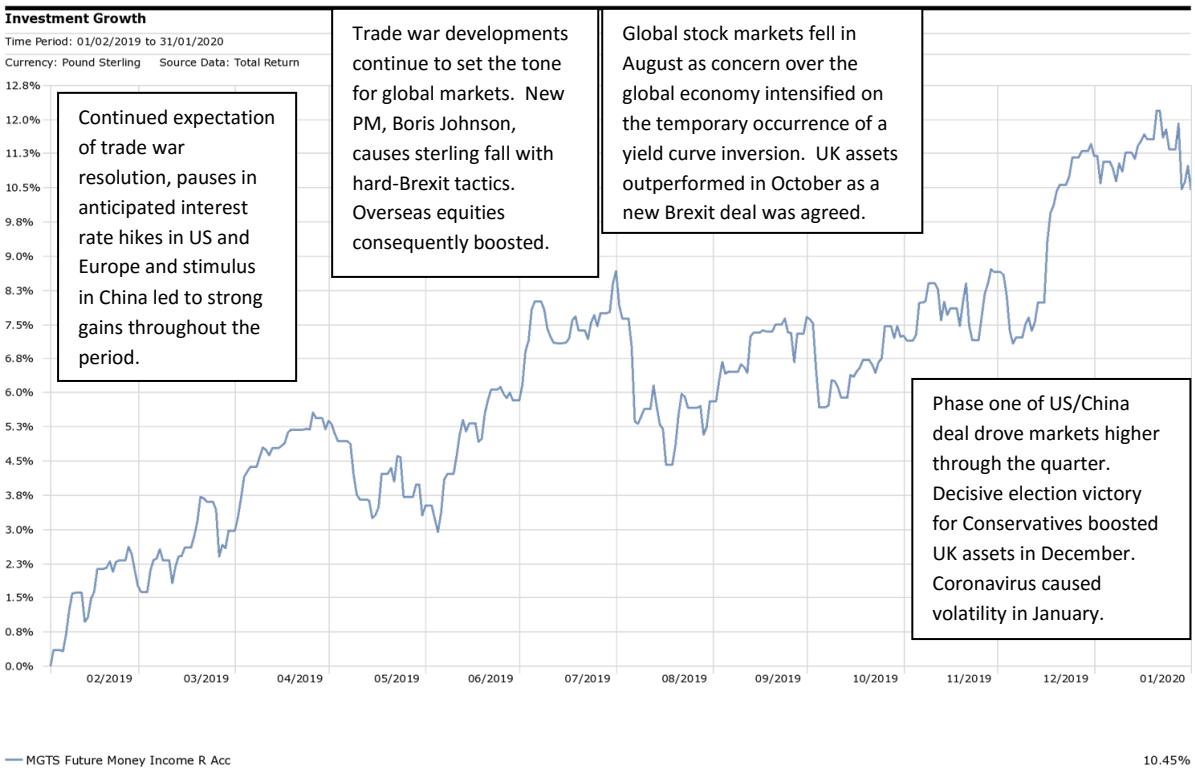
MGTS Future Money Income

As in the other Future Money portfolios the Asian allocation of Future Money Income was the weakest performer over the reporting period. The UK equity allocation was the strongest region, benefitting from the rise in optimism surrounding the UK economy after December's general election.



The fund selection within the UK was mixed over the quarter, however. Man GLG UK Income, Rathbone Income and Aviva UK Listed Equity Income all outperformed over the quarter, while BlackRock UK Income, Royal London UK Equity Income and Threadneedle UK Equity Income all underperformed. While there are significant similarities amongst many of these funds, given a focus on high yielding UK stocks, the processes followed and manager styles do vary, leading to differing performances. This contributes to an attractive level of diversification, which we believe to be a positive characteristic as it helps the portfolio perform well in a range of market conditions. Despite the relative losses over the quarter for three of these holdings, over the medium and long term, we have experienced strong performances out of all of these holdings. Over the past 12 months, five of the six holdings have outperformed their peer group averages.



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Performance

	Year to Month End	1yr	3yr	5yr
	01/01/2019 31/01/2020	01/02/2019 31/01/2020	01/02/2017 31/01/2020	01/02/2015 31/01/2020
MGTS Future Money Income R Acc	-0.67	10.45	14.66	26.07
MGTS Future Money Real Value R Acc	-0.10	7.70	10.46	17.98
MGTS Future Money Real Growth R Acc	-0.58	9.79	14.02	25.06
MGTS Future Money Dynamic Growth R Acc	-1.27	12.73	17.78	33.08

	2019	2018	2017	2016	2015
MGTS Future Money Income R Acc	14.64	-5.84	7.30	9.21	2.60
MGTS Future Money Real Value R Acc	9.91	-3.87	4.61	7.28	1.10
MGTS Future Money Real Growth R Acc	13.23	-4.84	6.66	9.61	1.76
MGTS Future Money Dynamic Growth R Acc	17.83	-7.45	10.36	13.88	1.45

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.

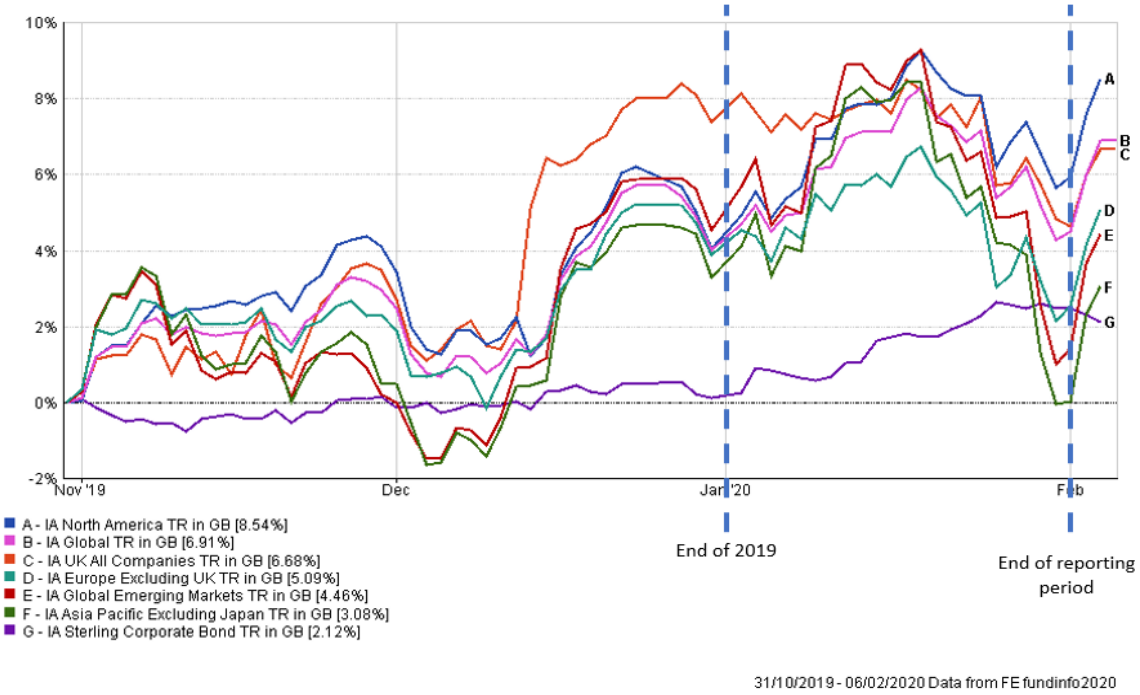
Economic and Market Commentary

All figures sourced from Morningstar Direct unless otherwise stated.

31 October 2019 – 31 January 2020

This reporting period capped 2019 as a positive year for investors demonstrated by the IA (Investment Association) Global sector returning 22.01% during the calendar year. Sadly, the mood turned sour in January as concerns about a possible Iran/US war briefly surfaced before the risk of the coronavirus gripped market sentiment driving equity markets lower, especially in China, where the virus is believed to have originated.

Since the end of the period (up to writing on 6th February 2020) market volatility has continued with a sharp rebound reversing the January losses. We usually provide the performance for the main IA sectors within this report but, on this occasion, a graph seems more appropriate to show both the significant level of volatility and the rebound in the few days since the end of this period.



UK stocks and sterling rose during the latter stages of 2019 as the Brexit stalemate was eventually broken by an election on 12th December 2019. The electorate returned the Conservatives to office with a significant majority providing the Prime Minister, Boris Johnson, with a clear mandate to 'get Brexit done' based on his key campaign pledge.

Since the referendum, we have maintained the view that a compromise deal will be the final Brexit outcome and we remain of this opinion.

The initial tone of the negotiations has been hostile, as expected, and reflects the position before the break-through on the Brexit withdrawal agreement itself, where both sides seemed irreconcilable before a magical moment of agreement. We expect the negotiations to remain fraught and cause bouts of market anxiety. Nevertheless, we believe a deal will ultimately be agreed, but on an initial partial deal and a further extension period to agree other, more complex, areas.

Outside of the UK, the mood was lifted by a truce in the US/China trade wars with a pact signed on 15th January reducing tariffs and China pledging to increase imports from the US. Whilst this deal represents a significant de-escalation of tensions, underlying concerns remain and there is scope for this issue to re-emerge in the future, although this is unlikely to happen before the US election, as Trump is expected to position the pact as a victory for his 'America First' policy.

The UK election saw all parties promise an end to austerity with big spending plans announced by all the major parties. This has followed a decade of austerity since the credit crisis and politicians are acutely aware of the need to win votes if they want to be in government. This is a trend we expect to be repeated in other major economies and the forthcoming US election will test this hypothesis. If

both US parties do try to win votes through spending promises this will create additional, and more direct, fiscal stimulus.

As we moved into 2020, the tone was optimistic with all the bases appearing to be loaded for a year of positive returns. At this point of optimism, investors were suddenly reminded of unidentifiable risks in the form of a new deadly virus, coronavirus, which emerged from China in late December. Memories of SARS and Ebola were evoked as the movement of people was reduced to contain the outbreak. The news initially caused a feeling of panic in markets which was exacerbated by the closure of many Asian markets for the Chinese New Year holidays.

At the time of writing, markets have recovered losses and the initial panic is abating as further details have emerged. The death rate for the virus appears to be around 2%, well below SARS which was 10%, although the coronavirus appears more infectious. The nature of the virus is flu-like and suited to cold, damp conditions, therefore warmer weather is also expected to diminish the infection rate. Based on this information and a co-ordinated global response, we believe the risk to global markets is limited to one or two quarters. Looking at economic output in China during SARS, a sharp quarterly drop was recorded but, as the infection was brought under control, the loss of output recovered in the next two quarters.

Despite concerns of a pandemic, one hot spot has been the performance of Tesla shares. This stock has often been characterised as a 'white elephant' due to repeatedly missing production targets, making losses and huge capital expenditure.

Having traded around the range of $200 to $300 per share for most of the last year, the share price suddenly took off in 2020, reaching a recent peak of $887.06, representing a circa 300% return. The increase followed news of a small but unexpected profit in Q4 2019 and car production exceeding expectations. The current valuation of Tesla now exceeds Ford Motor Co and General Motors combined and is only second to Toyota Motor Corp.

Whether or not Tesla's earnings do increase in the distant future to justify the share price, this level of upward volatility looks unusual and may hint at the type of misallocation of capital that occurred in the 1990s technology bubble.

Strategy

We are looking through the risk from coronavirus which, on balance, we expect to be contained, allowing equity markets to benefit from growing confidence due to Brexit progress, the reduction in US/China trade war tension and the anticipated increase in UK and other government expenditure.

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Asset Class Review

Investment Returns (%)

As of Date: 31/01/2020 Currency: Pound Sterling Source Data: Total Return

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD
Best	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 30.8	Gilts 3.5
	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 26.5	Corporate Bonds 2.4
	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	World ex UK 23.1	North America 0.7
	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	Europe ex UK 21.2	High Yield 0.2
	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	FM Dynamic Growth 17.8	Property 0.2
	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	UK Large Cap 17.3	UK Small Cap 0.1
	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 Small Cap 16.3	Cash 0.1
	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	Emerging Markets 15.9	FM Real Value -0.1
	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	Japan 14.8	World ex UK -0.3
	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 14.6	FM Real Growth -0.6
	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	Asia ex Japan 14.5	FM Income -0.7
	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 Growth 13.2	Japan -1.2
	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 11.4	FM Dynamic Growth -1.3
	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 9.9	Europe ex UK -1.6
	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 9.5	Asia ex Japan -3.2
	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 6.9	UK Large Cap -3.4
	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 0.8	UK Mid Cap -3.5
Worst	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 -0.8	Emerging Markets -4.1

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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.

2019 Review

2019 was a very positive year for most markets across the world. The year started with a strong recovery from the heavy falls of late 2018 and finished with further gains as political risk was seen to recede on the two biggest stories affecting markets over the year, Brexit and the US/China trade war.

With Boris Johnson securing an 80 seat majority in December's general election, he not only removed the possibility of a Jeremy Corbyn led government, but also gained the political power to push through his recently renegotiated Brexit withdrawal agreement from the EU. The first of these factors was well received by markets as the promises of widespread nationalisation and the likely surge in government borrowing was feared by many in the business community. While the second factor, which allowed Brexit to progress, was welcomed as it provided relative clarity following years of uncertainty over which direction Brexit would take. While businesses, on the whole, were mostly anti-Brexit, the progress towards Brexit was cheered by investors, as it had become clear that a reversal of the Article 50 process of leaving the EU would not be possible and therefore the almost purgatory like status of uncertainty regarding our future which we had been experiencing had been destabilising for business. With the clarity on the direction of travel gained, businesses could start to plan for the future. Overall, therefore, a strong Conservative government allowed a dramatic upswing in confidence surrounding the UK's business environment, which, in turn, led many investors to rush into assets linked to the UK economy which helped UK equities overall, but especially medium sized businesses, which tend to be more focused on the domestic economy. This led to UK mid cap stocks experiencing the largest gains of 2019.

North American equities were the next best performer of the year. A series of interest rate cuts from the Federal reserve helped push US stocks higher throughout the year and then as we moved towards year end, talk of a 'phase one' deal between the US and China caused optimisms levels to rise further. This boosted equity markets around the world including in the US and so helped secure strong gains for the year overall.

In a 'risk-on' environment, such as we experienced overall in 2019, most major asset classes 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 was the worst performing asset class of 2019. 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 in 2019 was therefore likely an unwinding of this divergence between published price and achievable value, i.e. prices in property markets stayed relatively static in 2019, while underlying valuations likely 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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