>futureMoney

QUARTERLY REPORT

MAY 2021

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.

Economic and Market Commentary

This reporting period has witnessed the eagerly anticipated global vaccine rollout, beginning with the UK leading the way within G7 economies. The early evidence suggests that the vaccine is highly effective in reducing infection rates and severity. Countries with high vaccination rates, such as Israel and the UK, have been able to scale back restrictions without a further wave of infections, whilst economies yet to introduce effective vaccination programmes, such as the EU, have seen further waves of infections and lockdowns.

The vaccine success has boosted equity markets but caused bond markets to move lower due to inflation concerns being triggered by the prospect of a globally synchronised rebound in economic activity, fuelled by the massive stimulus deployed during economic lockdowns.

During the reporting period, the Investment Association (IA) UK All Companies sector returned 11.23%, closely followed by the IA North America and IA Europe (Ex UK) sectors which returned 10.63% and 8.88% respectively. The IA Asia Pacific (Ex Japan) sector returned 2.28% whilst the IA Sterling Corporate Bond and IA Gilts sectors fell by 1.84% and 5.45% respectively (source: FE Analytics).

Reflecting on the year 2020, investors holding the average medium risk portfolio measured by the IA Mixed Investment 40-85% Shares sector, would have seen a return of 5.32%, belying the significant swings during the period. At the worst point, this sector recorded a loss of 19.71% (to 23rd March 2020) before recovering 31.18%. With equity markets having achieved the perfect 'V' shaped recovery, economic growth is also rebounding, with China already ahead of pre-Covid levels of economic output. The UK is predicted to achieve this by the end of 2021 with growth expected to hit 7.25% for the year, the highest level since 1941.

During the early stages of the pandemic, there was a shortage of personal protective equipment and various hoarding strategies were employed by countries to ensure their needs were prioritised before production rose to meet demand. Similarly, base materials for Covid-19 testing also experienced acute supply difficulties before global production rose to meet the high levels of demand. The same pattern is now occurring in relation to vaccines, however the number of vaccines approved for use is growing and production is also increasing, so we expect this shortage will also be temporary.

Economies currently leading global vaccination efforts have been able to remove restrictions sooner and benefit from an earlier economic recovery. As vaccine manufacturing and deployment accelerate, the recovery will broaden. The risk of variants is also believed to be manageable, as vaccine technology has demonstrated that jabs can be refined and modified quickly and effectively as needed.

During the pandemic, global banks and governments have injected huge quantities of cash to protect the economy from collapse. In the UK, this has included cheap loans, paying wages of furloughed workers, grants and extending the purchase of government bonds by the Bank of England. Notably, consumer savings increased during 2020, as many workers maintained their income but were unable to spend as usual due to economic restrictions.

As investors begin to look forward to a post-Covid environment, concerns about inflation are beginning to increase. There are already signs of inflation due to 'base effect': the distortion caused by abnormally low levels of inflation one year ago as the price of goods fell dramatically during the first lockdowns. For example, last year oil prices briefly turned negative on some exchanges as pipeline deliveries overwhelmed demand leading to shortages of storage. Prices have now re-bounded causing inflation measures to jump upwards.

Base effect is a temporary factor, but longer-term signs of inflation are emerging, and a synchronised global recovery could also squeeze supply, pushing prices higher. The risk is further amplified as government bond yields were deliberately reduced through quantitative easing following the 2008/9 credit crisis. As yields are already below expected inflation, and with the prospects of inflation rising, the potential for an upward move in bond yields is growing, with signs this is already occurring. When bond yields move up, the value of bonds goes down leading to capital losses, and the consequential impact on other markets can be even more dramatic.

Taking UK government bonds and inflation in numbers, the current yield on 10-year government bonds is approximately 0.8% whereas the Bank of England target for inflation is 2%. The Bank of England is purchasing around £5bn of bonds per week under the current quantitative easing programme and owns just over 30% of the entire market. Without this support it is unlikely investors would be willing to maintain a yield below inflation given the loss that would occur in real terms and yields would likely drift towards, or above, the inflation target.

In addition to the Bank of England inflation target, the government bond market also provides an estimate of future inflation through the difference between traditional bonds and index-linked bonds, where performance is directly linked to inflation. This so-called breakeven rate is currently around 3% and well ahead of the Bank of England forecast.

This all becomes quite sticky if inflation rises, as the ability of the Bank of England to maintain bond purchases is curtailed, perhaps causing 10-year bond yields to head above 3%. The expected capital loss of a 10-year government bond if the yield rose to 3% is around 17%, which is a significant loss for an asset that is considered low risk, and the effect on other markets could be more significant.

The sensitivity of government bond values to a change in yield is a function of the annual return and the redemption date. The longer the redemption date, the greater the sensitivity, therefore longer dated bonds are much more sensitive than bonds that mature in a year or two. Some equities are also very sensitive to yield changes, particularly growth stocks which require capital investment to execute their business plans and expected profits many years in the future.

As an example, the leading manufacturer of electric cars, Tesla, is reliant of continued capital investment while current profits are very small compared to the share price. Investors are looking a considerable way into the future to justify the current value, so rising borrowing costs and inflation present downside risk to the share price.

The triangular relationship between inflation, yields and growth stocks has caused a recent spike in market volatility. The elements have worked together positively since the 2008/09 credit crisis to create a steady increase in the value of bonds and growth equities, with the US market being the key beneficiary due to the high prevalence of growth/technology companies. Covid-19 added a further leg to this trend due to the upswing in the virtual economy caused by lockdowns and further stimulus. It is now worthwhile considering the effects of these trends beginning to unwind.

The notable area of vulnerability to a change in a long-term trend is index tracking strategies. Those strategies with an allocation to government bonds are particularly vulnerable as government borrowing has increased since the credit crisis and into Covid-19. Governments have been issuing longer and longer dated debt, keen to lock in historically low borrowing costs for as long as possible. This has skewed the market towards more interest rate sensitive holdings and, of course, tracking funds are obliged to follow the market.

If this trend reverses, these funds must continue to hold their positions and track the market, whilst their equity weightings have also become interest rate sensitive due to the dominance of US growth stocks over the past decade. Since yields peaked last year, the popular Vanguard Lifestyle strategies have been underperforming following multi-year outperformance. The question is, will low costs remain attractive if multi-year underperformance now occurs?

This all bodes well for value equity markets which feature fewer growth/technology stocks and more mature businesses; especially the UK. Without Covid-19, the recent reporting period would have recorded a relative drop in UK economic activity as the implications of leaving the EU were initially felt. This has been offset by the success of the UK designed Oxford AstraZeneca vaccine and rollout of the vaccination programme, with the UK expected to move out of Covid-19 restrictions shortly and leap ahead in terms of economic growth. Given the years of uncertainty after the Brexit referendum, many international investors avoided UK assets but, with a potential rotation to value markets and the UK leading the post Covid-19 recovery, there is scope for re-allocation, pushing share values higher.

Although the US/China relationship appears to be souring once again and there has been an escalation of hostilities between Israel and Palestine, the path out of Covid-19, vaccination efforts, inflation, and the effects of yields on growth/technology stocks are expected to dominate market sentiment in the short term. Looking slightly further ahead, the question of increased taxation will arise, and we expect businesses that benefitted during the pandemic to be targeted, as occurred following the 08/09 credit crisis. Many of these companies are also facing the prospect of increased regulation, as governments seek appropriate tools to ensure the virtual economy has appropriate levels of governance, creating a series of potential headwinds for growth stocks.

Outlook

We remain optimistic that Covid-19 risks will diminish throughout 2021 as the vaccine response accelerates and science is able to develop successful responses to variants, if needed.

Stock markets are largely pricing in a 'V' shaped economic recovery and this is supported by the current evidence.

We expect inflation concerns to spike occasionally, causing speculation that central banks may reduce their support of bond markets. This is expected to lead to rocky periods as bond market yields gradually rise.

This outlook will lead to clear winners and losers with some expensive growth stocks potentially vulnerable to higher future borrowing costs, even though they may continue to grow revenues.

Despite the anticipated volatility, quality value assets are preferred to protect against rising inflationary pressures and the prospect of a downward trend in bond markets. Diversification is important to reduce the risk of exposure to equities having high correlations to bonds, as they may be difficult to identify ahead of losses being incurred.

We expect lower average returns from global assets over the next decade with higher levels of volatility.

Asset Class Review

Investment Returns (%)

As of Date: 30/04/2021 Currency: Pound Sterling Source Data: Total Return

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD
Best	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	Asia ex Japan 19.4	UK Small Cap 23.6
	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	North America 16.4	UK Mid Cap 12.2
	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	World ex UK 14.2	North America 10.1
	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	Emerging Markets 11.9	UK Large Cap 9.3
	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	Japan 11.1	World ex UK 8.5
	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	Gilts 8.3	Europe ex UK 7.0
	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	Corporate Bonds 7.9	FM Dynamic Growth 5.2
	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	Europe ex UK 7.8	Asia ex Japan 4.8
	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	High Yield 3.5	FM Real Growth 4.3
	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 Dynamic Growth 2.8	Emerging Markets 4.1
	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	UK Small Cap 2.1	FM Income 3.0
	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	FM Real Value 1.1	FM Real Value 2.3
	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 Real Growth 0.7	High Yield 2.2
	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	Cash 0.2	Property 0.3
	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	FM Income 0.0	Cash 0.0
	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	Property -3.8	Japan -0.8
	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 -8.5	Corporate Bonds -2.5
Worst	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	UK Large Cap -11.5	Gilts -6.7

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.

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

Over the year of 2020 UK equities were the worst performing asset class, with both the severity of the UK's lockdown and the sensitivity of the UK's stock market to a global economic crisis contributing to the losses. However, 2021 so far has seen the reversal of this trend, with UK assets topping the charts for year to date performance. With the rollout of covid vaccinations seen as a way past the pandemic, markets are in a much more buoyant mood, with last year's winners losing their lustre, while the low valuations and high cyclicality of last year's losers is now being well rewarded. This trend has been most pronounced in UK Small Cap and UK Mid Cap stocks. The smaller size of these companies, in general, gives them greater exposure to an improving economic picture and hence increases their attractiveness in the coming environment.

A second beneficial factor for smaller UK companies is the resolution of Brexit in December 2020. While there remains many contentious issues in the implication of trade rules agreed between the UK and the EU, the potential for a complete breakdown in relations, as had been feared at many points since the 2016 referendum, has now been removed. This has therefore also removed a 'Brexit penalty' from UK stocks, as many international investors had steered clear of the UK amid such uncertainty. Greater confidence in the UK has therefore followed, further benefitting UK stocks and especially those which are more attuned to the domestic economy, as many smaller companies are.

At the bottom end of the performance table for year to date are bonds, particularly UK government bonds. These are languishing for the same reasons as equities are rallying. With markets now convinced that economies will recover post-Covid, expectations are building of higher inflation and interest rates, as the huge levels of support pumped into the global economy drive a burgeoning recovery. In such environments the fixed returns on offer by bonds are less attractive and with valuations currently at extremely high levels, there is significant potential for losses to occur in bond markets, despite them often being considered as 'defensive' assets. The losses of the year to date have been reasonably severe, as momentum has quickly turned with optimism around vaccinations. While a recovery for bonds could occur should the economic situation worsen, assuming a continued economic recovery it remains our view that bonds, particularly longer dated ones, could remain vulnerable.

A Year in Review

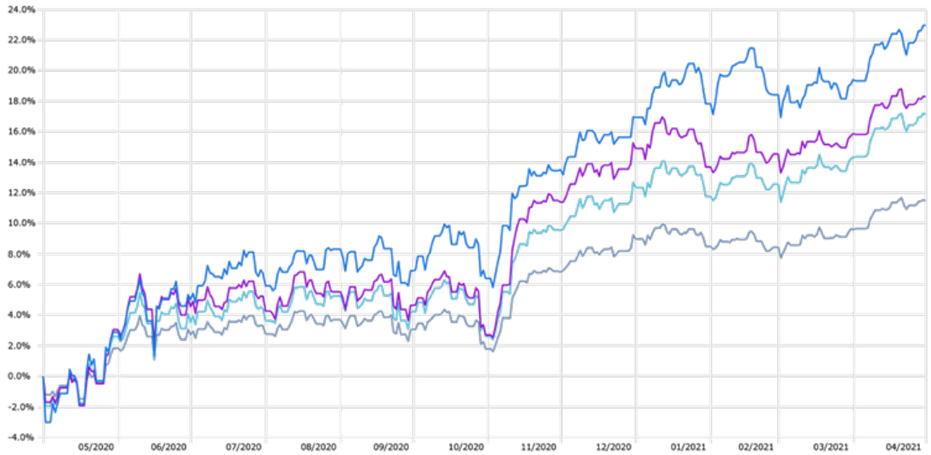
May – July 2020 - Recovery from Covid losses continues on huge levels of stimulus and as lockdowns ease. Momentum lost later in quarter as economic data highlights the extent of lost activity.

August – October 2020 - Recovery loses steam as virus numbers pick-up and lock-down measures increase. Asian markets experience gains as Covid-19 recovery most successful here, while UK and Europe lag.

November 2020 – January 2021 - Markets surge in November on vaccine announcements. Biden's victory in US elections and the reaching of a Brexit trade deal also welcomed by markets.

February – April 2021 – Markets remain positive as vaccination programmes gain traction and allow the easing of lockdowns, but tensions are building over rising inflation expectations.

Investment Growth
Time Period: 01/05/2020 to 30/04/2021 Currency: Pound Sterling Source Date: Total Return



MGTS Future Money Dynamic Growth R Acc 22.97%
MGTS Future Money Income R Acc 18.30%
MGTS Future Money Real Value R Acc 11.47%
MGTS Future Money Real Growth R Acc 17.15%

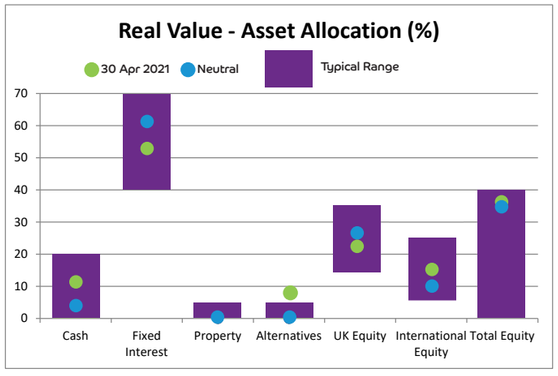
Past performance is no guarantee of future performance. The value of investments can fall as well as rise and investors may not get back their original investment. **Source: Morningstar Direct**

Performance

	Year to Month End	1yr	3yr	5yr	
	01/01/2020 31/04/2021	01/05/2020 31/04/2021	01/05/2018 30/04/2021	01/05/2016 31/04/2021	
MGTS Future Money Income R Acc	2.95	18.30	12.19	29.94	
MGTS Future Money Real Value R Acc	2.29	11.47	9.76	21.98	
MGTS Future Money Real Growth R Acc	4.27	17.15	13.62	32.29	
MGTS Future Money Dynamic Growth R Acc	5.15	22.97	19.13	47.68	
	2020	2019	2018	2017	2016
MGTS Future Money Income R Acc	0.02	14.64	-5.84	7.30	9.21
MGTS Future Money Real Value R Acc	1.10	9.91	-3.87	4.61	7.28
MGTS Future Money Real Growth R Acc	0.66	13.23	-484	6.66	9.61
MGTS Future Money Dynamic Growth R Acc	2.80	17.83	-7.45	10.36	13.88

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.

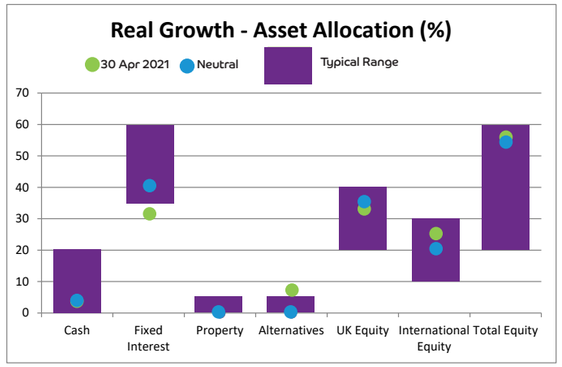
MGTS Future Money Real Value



Amid concerns over the prospects for traditional bond markets in an environment where higher inflation is expected, a new holding was added to Real Value. Artemis Target Return Bond is classified as an 'Alternative' asset, in that invests across asset classes within bond markets and uses derivatives looking to make money regardless of the direction of traditional markets. Despite the freedom in strategy, this fund has tight risk controls and has a fund management team with a strong track record in this area. This investment is expected to deliver low positive returns with low levels of volatility. This purchase was funded with sales from the portfolio's money market and short-dated bond holdings.

Premier Miton US Opportunities has also been added to Real Value, funded through reductions in Fidelity Index US and Fidelity European. The US economy is expected to be relatively strong this year, but with many large US technology companies on extremely high valuations, exposure must be selective. As such, Premier Miton's bias towards smaller companies is favoured. The European reduction was made given a lack of confidence in the region due to a slow vaccination rollout.

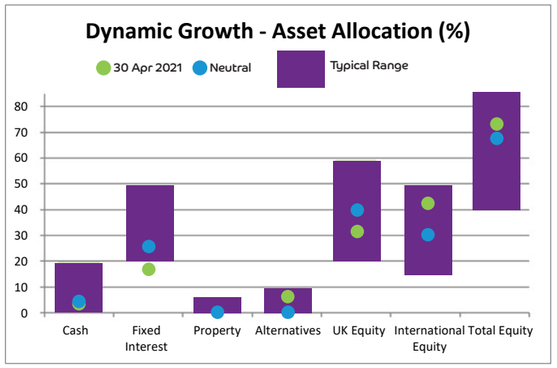
MGTS Future Money Real Growth



Liontrust Special Situations has been sold from Real Growth over the reporting period and replaced with Royal London UK Mid Cap Growth. The Liontrust fund has been a strong holding over a number of years. Its successful performance has attracted many assets, leading to large fund growth. This has led to the emergence of a potential liquidity problem for the fund, which we feel reduces its attractiveness. Consequently the Royal London fund has been purchased to replace it, which operates in a similar space to the Liontrust fund, but whose fund size is much smaller, reducing any liquidity risk.

Artemis Target Return Bond has also been added to Real Growth. This was funded by reductions to the short-dated bond holdings of Real Growth. This switch has been carried out for the same reasons as detailed for Real Value, above.

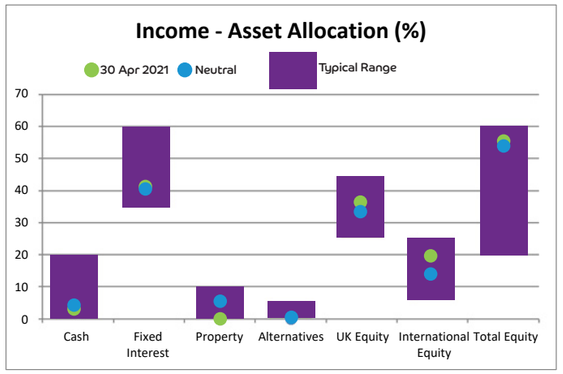
MGTS Future Money Dynamic Growth



Premier Miton US Opportunities and Artemis US Smaller Companies have been added to Dynamic Growth. Vanguard US Equity Index was sold in its entirety and Fidelity European was partially reduced in order fund the purchases. The move towards US smaller company exposure mirrors the action described for Real Value and previously taken in Real Growth in January.

The Royal London fund was chosen for increased exposure given its focus on mid-cap companies. At the time of purchase, a Brexit deal had not yet been secured, but we expected that an accord would be reached. With this we anticipated the outperformance of domestically focused UK stocks, to which the mid-cap sector has more exposure. Our favour for smaller and mid-sized companies now continues, given our expectation of an economic recovery developing over the coming year.

MGTS Future Money Income



The allocation to BlackRock Continental European Income was reduced in early March, with the position in M&G Global Dividend being increased by a corresponding amount. This switch is inline with the move from Europe to the US as described for the other Future Money portfolios, but given the income mandate of this portfolio, the US expsoure is achieved through the dividend focus of the M&G fund, which has greater exposure to lower valued and higher yielding areas of the market, such as oil related companies.

Unlike the other Future Money strategies, Artemis Target Return Bond is not suitable for this portfolio, given the low yield provided.

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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