ForresterHyde

CHARTERED FINANCIAL PLANNERS

Investment Outlook

Q1 2018

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ForresterHyde
CHARTERED FINANCIAL PLANNERS
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"Look at market fluctuations as your friend rather than your enemy"- Warren Buffet

Key Points - Introduction

- We assess the risk of recession over the next twelve months as low.
- On average, markets recover 100% within 69 days of a correction.
- The quality and quantity of research we do has increased significantly over the past 10 years.

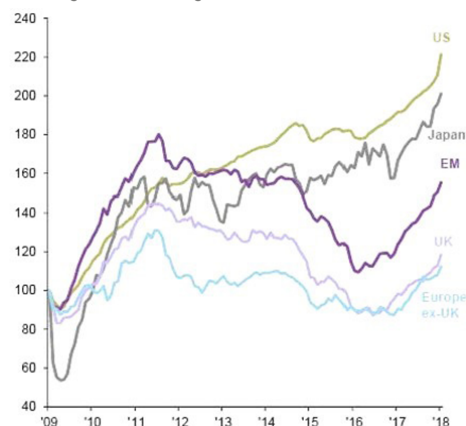
Introduction

In Q4 Outlook 2017 we said there would probably be a correction next year, there has been, but then volatility is part and parcel of the investing journey. We also asked "will markets make a recovery?" Answer - yes, for the following reasons:-

- We assess the risk of recession over the next twelve months as low.
- Trump's tax reforms look like they will be extending the cycle through 2018 and beyond.
- Global inflationary pressures remain subdued at or below 2.5% (OECD).
- The world is enjoying a synchronised economic upturn, driving corporate profits and dividend yields higher, see below:

Global earnings: NTM USD earnings per share estimates, rebased to 100 in Jan 2009

FTSE, IBES, MSCI, Standard & Poor's, Thomson Reuters Datastream, J.P. Morgan Asset Management.



Between 1992 and the end of 2017, the FTSE100 gave a total return of 552%. Missing just the 5 best performing days in the market during this period would have reduced that return to 339%, or missing the 30 best performing days would have seen the return dwindle to just 47%. The old cliché applies, it is time in the market which enables the investor benefit from compounding dividends. In the longer term, this is far more valuable than trying to time the market.

Markets are moving to a new normality, the return from Cash will improve slightly, but every 1% rise in interest rates will lead to an effective 17% fall in the capital value of 20 Year UK Gilts.

We launched our in-house portfolios in April 2008, ahead of the Banking crisis that saw the FTSE100 fall from 5,852.58 on 1 April 2008 to 3,512.09 on 03 March 2009. Historical records show that after a correction it takes only 69 days on average to recover 100% of the loss. It took 611 days from the low recorded on 03 March 2009, with the FTSE100 returning to 5,862.79 on 04 November 2010. We hope the average rate of recovery will apply ahead of our 10 year results in April. Notwithstanding the timing of our launch and this year's correction, we are delighted with the returns achieved for our investors over a roller-coaster period.

In anticipation of our 10th Anniversary, we have reviewed our Investment process and, whilst we are satisfied it is both compliant and robust, there are always opportunities to improve. The quality and quantity of research we do has increased significantly over the past 10 years. We are eye-balling more Fund Managers, monitor

performance daily and, with a small team virtually every day turns into an informal Committee Meeting.

Clearly, everything we do is predicated on correct asset allocation and fund selection. We have completed a bottom up review and are satisfied our asset allocation strategy is robust and fit for purpose. On fund selection, we propose a number of changes. Neil Woodford has disappointed; let down by his holdings in AA, Capita, Astrazeneca, Imperial Brands, Provident Financial, Purple Bricks and Prothena. We have been long term supporters from launch and have had a number of meetings and conference calls with Woodford Investment Management. Do we stay or do we go, a tough call, but we believe the road to redemption will not be short and with a heavy heart are advising investors switch to Henry Dixon at "GLG" and Anthony Cross and Julian Fosh at "Liontrust", see "UK Equity". We remain contrarian to benchmark by retaining exposure to Commodity and return to Property from Q1 2018 again counter to benchmark, see "Property".

Nandini Ramakrishnan, JP Morgan's Global Market Strategist, addressed our latest Investment Committee Meeting in Southend on 23 February 2018. She closed by answering 3 questions:-

1. Can the global economy sustain momentum in 2018?
"Yes, particularly if there is a revival in productivity."

2. Are equity valuations now stretched and is it time to de-risk?
"No - Macro matters more than valuations. The main risk is inflation, de-risking to cash or fixed income does not make much sense."

3. How much should we worry about tighter monetary policy?
"Not too much, normalisation likely to be gradual, but beware duration and liquidity risk."

We now turn to each sector.

Key Points - UK

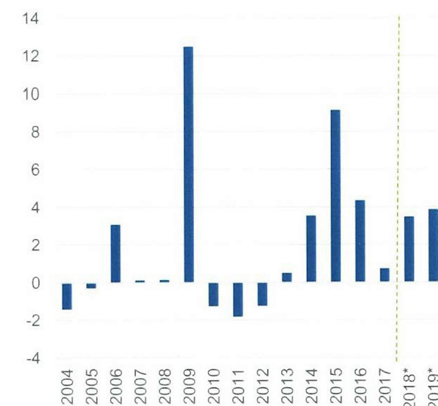
- Britain is running a budget surplus for the first time since 2001.
- 3m jobs, mainly in the private sector, have been created since 2009.

UK Equity

We expect the UK to underperform, though the drag on real incomes should ease, see below.

UK Household Cash Flow (% Change on a Year Earlier)

Franklin Templeton Investments, ONS, Lazarus as at 31/12/2017.



Britain is running a current budget surplus for the first time since 2001. According to the ONS the surplus, which excludes capital spending, was £3.8 bn for 2017.

Tax data suggests that pay rose by 3.1% in the year to September 2017. Consumer Price Inflation has peaked and should decline to below 2.5% towards the end of 2018. It is expected the BofE will begin raising interest rates by 0.25% from May and we anticipate they will continue to raise rates by 0.25% half-yearly towards a target rate of 2% by November 2020. Markets have priced this in. Having downgraded UK growth in 2017, with the OBR also warning the deficit would rise in this financial year, growth in the UK's service industry surged in the last three months with profits rising at the fastest rate since November 2015. Public borrowing was £48.1bn in the financial year to date, the lowest year to date amount since 2007. As a result we expect the OBR will have to reverse their decision, increasing UK growth forecast by 0.3% in each of the next three years. The OBR may have turned negative on productivity at just the wrong time as the latest two quarters of higher productivity growth are the strongest since 2005. Larger than expected January tax receipts should result in Government borrowing around £45bn this fiscal year below the OBR's estimate of £49bn. Sam Hill at RBC Capital Markets says "taking into account maturing debts and changes to the way the Government borrows could reduce total Gilt issuance for 2018-19 to below £100bn for the first time since 2007-08." At 90% of GDP, Public Sector net debt is still extraordinarily high for an extended peace time period. The OBR assumes it will reach 150% of GDP by the early 2050's.

Before looking at fund selection let me run some interesting numbers past you. Unemployment has fallen and is 3m lower than it was in 2009. Virtually all of these jobs have been found in the Private Sector. However, Public Sector jobs have for the first time since 2008 risen, albeit modestly by 19,000 in recent months. The 16-64 employment rate peaked at 75.3% and the question is why is it not possible to get it higher? The balance, 8.9m are economically inactive of which 2.4m are Students, 2.1m are Carers, 2.2m are either temporarily or long-term sick and 1.2m are retired. Of the 8.9m, 2 to 2.5m say at any one time they do not want a job and that's without the over 65's!

So now to fund selection and with a heavy heart we are pulling funds from Neil Woodford's Management. We are also saying goodbye to the JOHCM UK Opportunities Fund after an extended period of underperformance. We are replacing these funds across the relevant portfolios with the MAN GLG UK Income Fund managed by Henry Dixon and his team. The fund launched on 8 March 1999 and has produced an annualised return of 6.10% since the launch. The second fund we are introducing is the Liontrust, managed by Anthony Cross and Julian Fosh. The fund launched on 1 November 2010 and has sustained top quartile ranking pretty much throughout. The Fact Sheets for these funds can be found at http://www.forrester-hyde.co.uk/client-library_KIIDS.php under 'Fund Fact Sheets'.

On a different note, Auto-Pension Enrolment has boosted pension equality, British households have £5.3 tn in Pension wealth, the average pot increased from £96,500 to £111,500 in the last two years. Over the same period property wealth has increased sharply rising by 17% to £4.6 tn. At the same time total debts rose by 7% to £1.23 tn, including £1.1 tn of property debt.

To close UK Equity, both share prices and yields had climbed throughout 2017, the latest correction has presented an investment opportunity. Dividend growth continues to be forecast at 8% for 2018.

We are neutral in line with benchmark.

US Equity

Despite the Fed hiking US interest rates and the passing of tax cuts, the Dollar has fallen in value benefiting US exporters and Companies with international operations. The US is raising tariffs on imported solar panels and residential washing machines and latterly 25% on imported steel, but staying within the WTO for now. The Dollar is still above its long run average and other measures such as Purchasing Power Parity (PPP) or the widely followed Big-Mac Index from the "Economist" suggest it is still not cheap. Further Dollar weakness seems likely and it will be welcomed by markets who will see this as an easing of global liquidity conditions and supportive of risk assets.

US$ in retreat post Trump

Thomson Reuters Datastream, Schroders Economics Group, 31 January 2018.

Real wars will be over trade starting with NAFTA, the agreement between the US, Mexico and Canada. Trump is insisting on more US content in vehicles imported from Mexico and an end to the fiction that parts imported from China count as Mexican made. The real battle, however, will be with China. President Xi Jinping is erecting a protectionist wall around his country. Chinese Tech industry is subsidised, whilst US firms are forced to take on Chinese partners and then turn technology over to them. Intellectual property worth between US$225bn and US$600bn is being pirated every year and tariffs block imports, 25% on US autos entering China compared with 2.5% on Chinas autos entering the US. The latest trick is that Chinese branches of US Companies must use Chinese Government internet networks to communicate with their US Head Offices, saving Xi the trouble of hacking their communications.

The Trump tax cuts have boosted the economy and slashing Corporation Tax will benefit corporate earnings and encourage multinationals reshore Cash they are hoarding outside the US. After years of monetary stimulus normalising interest rates without inducing a crash land was always going to be a challenge. If the tax cuts boost the economy, providing jobs and increasing wages, it should naturally lead to inflation and higher interest rates. If that negatively impacts the US Stock Market by 10% to 20%, does that matter to Trump? – Answer no, the Dow Jones industrial average is up 20% on a year ago.

The US market is certainly in late cycle. Growth remains strong for the moment, inflation is in check. Gaurav Saroliya at Oxford Economics said "the strong upward momentum in global earnings cycle, fuelled by a strong global industrial cycle and improving global liquidity isn't really a backdrop for a large bear market in Equities".

We are aligned to benchmark – positive.

European Equity

Data showed Eurozone GDP expanding 0.6% in Q4 2017, the 19th consecutive quarter of expansion. Within the market the Finance Sector was the strongest outperformer, followed by Industrials, whilst the Utilities Sector lagged. On the macroeconomic front buoyant fundamentals continued to support the expansion. Private Sector business surveys report a healthy rise in activity levels across all sectors. The French economy grew in line with the Eurozone average, 0.6% in Q4 2017, whilst Spain shrugged off the political crisis in Catalonia, with growth of 0.7% in Q4, and was rewarded by a Fitch rating update to A- with a stable outlook.

Unemployment is falling and inflation muted. However, strong domestic demand, manufacturing backlogs and the continued improvement in labour markets will lead to pressure on prices which eventually will feed into inflation – on the road to a gradual normalisation in monetary policy.

Key Points - US

- Trump launches trade war with import tariffs on solar panels, washing machines and steel.
- The US $ has fallen in value post Trump.

Key Points - Europe

- Fitch rerate Spain A-, with a stable outlook.
- German trade surplus biggest in world in 2017, at €287bn.

Clearly Germany continues to be the economic powerhouse in Europe and the following will be of interest – remember "Outlook" is an economic summary and apolitical. Bear that in mind as you read on. Germany is manipulating the value of the Euro via the ECB's negative interest rate policy – 0.43%, effectively devaluing the German Euro by some 20%. Germany's trade surplus is the biggest in the world in absolute terms at €287bn in 2017, in clear breach of Eurozone rules on Macro imbalances, 80%-90% of Germany's current growth is from external demand, and not as the country claims 'internal' demand. Corporate savings have risen by 6.6% as a share of GDP since the late nineties. The German fiscal surplus is 1.2% of GDP – who says so? – Professor Heiner Flassbeck, Germany's former State Secretary of Finance and now at Hamburg University. The Bundesbank, the Finance Ministry and Council of Economic Experts insist huge national savings are necessary. Professor Flassbeck says Germany is doing nothing to moderate its "beggar-thy-neighbour" behaviour or reduce intra-EMU imbalances.

Our Portfolios access Europe via the JPM Europe Dynamic Fund, as well as the Threadneedle Pan European Equity Funds. There is also limited European exposure through other funds to include Fundsmith Equity.

As part of our ongoing review, we have been talking to Mark Nichols at Threadneedle. Mark manages the Pan European Fund and with Dave Dudding co-manages a parallel European Select Fund from the same investment desk. Dave Dudding joined Threadneedle in 1999 and has managed the European Select Fund since 2008, Mark Nichols joined him in July 2016. Essentially this is a 'full fat' fund, focusing on liquid Blue Chip Stocks. The Fund has grown from £900m in 2012 to £3.3bn come January 2018. From 1 March we will switch investment with Threadneedle from the Pan European to the European Select Fund. We will retain the JPM Europe Dynamic Fund.

We are in line with benchmark – positive

Key Points - Japan

- Economy on track in 2018 for a record setting growth streak.

Japanese Equity

"The Japanese economy in 2018 is on track for a record setting growth streak." - Takumori Akyoshi, Chief Economist, Sumitomo Mitsui Asset Management.

Confident! Real growth in Japan's GDP rose at an annualised rate of 2.5%, July – September 2017, the seventh straight quarter of expansion. A poll by the Japan Centre for Economic Research predicted consensus GDP growth of 1.22% year ending 31 March 2018 and forecast CPI at 0.85%. Not earth shattering, but remember Japan GDP in Q4 1997 was ¥536tn and it took two lost decades until Q1 2016, for GDP to grow to ¥550tn. The 58 month period December 2012 to September 2017 ranks as Japan's second longest expansion since the end of World War Two and if Abenomics maintains trajectory which looks likely through December 2018, it will match the post war record growth period of 73 months February 2002 to February 2008. Nominal GDP this year is forecast at ¥564.3tn, on course to hit the Government's target of ¥600tn by 2020.

Fund Managers concur that Japan is finally emerging from a deflationary cycle and this traction will continue through 2018.

We remain positive.

Key Points - EM

- Valuations in Emerging Markets look attractive relative to developed markets.

Emerging Markets

"You can be absolutely sure that nations will revert to their natural tendency of hiding behind their borders, of moving towards protectionism, of listening to vested interests, and they'll forget about transcending these national priorities." - Christine Lagarde IMF 2013

Five years on from her speech, Russia has reverted to an Authoritarian State with token Elections. China amended its constitution scrapping the limit on Presidential terms enabling Xi Jinping remain in Office indefinitely and whilst Trump's term in Office may be curtailed if he is impeached, all three are moving or have moved to Protectionism.

This year there are Elections in Brazil, Columbia, Italy – 4 March, Malaysia, Russia – 18 March and Thailand. Elections unsettle Investors who crave continuity. We have already seen President Zuma unseated in South Africa. All Elections bring uncertainty, with the exception of Russia where the outcome is a foregone conclusion, see below.

Vladimir Putin, net approval %

Levada Center, Schroders Economics Group, 24 January 2018.

Russia - Putin tasked his former Finance Minister, Alexei Kudrin, draw up a Reform Programme, which to date he has ignored – is he waiting to be re-elected before implementing? The surge in the Oil price has supported Russia. Further, the country is moving to be the world's largest exporter of Liquefied Natural Gas, LNG. The $27bn Lyamal Project in the Arctic came on stream this month with potential exports of 16.4m tons of Gas every year. This will be shipped by ice breaking tankers, halving the time needed to ship Gas to China, the primary market.

Yamal LNG is considered a key step in Putin's strategy to grow Russia's influence and global energy markets amid deteriorating relations with the West.

Brazil - The economy is slowly emerging from a severe and prolonged recession. Year on year the economy advanced 1.4%, the fastest growth rate since Q1 2014. On 24 January 2018 the Ibovespa, Brazil's benchmark Stock Index surged to a record after an Appeals Court upheld former President Lula Da Silva's corruption sentence. Brazil is the world's 8th largest economy by GDP and despite enormous mineral wealth has been beset by corruption. CPI inflation remains stubbornly high as does the unemployment rate. Just maybe Brazil is emerging from recession.

India - Narendra Modi took half his top Cabinet to Davos vowing to build a $5tn economy by 2025 overtaking both Germany and Japan. Earlier the IMF said India had the fastest growing economy among major nations and forecast growth of 7.4% this year, rising to 7.8% in 2019. At heart Modi is a nationalist. The rift is between India and China. Over 80% of India's 1.4bn population have joined the National Identification Scheme, Aadhaar, since 2009. Each person has a unique number helping tax collection, but importantly 300m Indians have now opened bank accounts so they can use Aadhaar's payments system. At 37%, India's internet penetration lags China, 53%. Total credit to GDP, however, is below 50% and household debt to GDP at just over 10%, compared to nearly 40% in China.

In line with benchmark we are positive.

Key Points - Asia

- China pledges to save its banks form failure when bubble bursts.
- Xi Jinping cleared to remain in power indefinitely.
- Low levels of debt and excellent demographics fuel domestic markets.

Key Points - Commodities

- Second great wave of US shale growth a wakeup call for oil producers.
- Growth in Chinese demand levelled at 6.9% in 2017.

Asia ex Japan

China

Fang Xinghai, Deputy Chief of the China Securities Regulatory Commission, speaking at Davos said "we have too much debt in our system. If something bad happens, we have learnt from the US financial crisis and we will move swiftly to contain the risk so that panic caused by a small Institution does not spread". This led to the headline "China pledges to save its banks from failure when bubble bursts".

The IMF recently published a survey of Chinese financial systems and the outcome did not support the idea that China is in a credit bubble? The study did, however, caution over the massive and rapid build-up of financial assets relative to the size of the economy. In practice financial assets in China jumped from 270% of GDP in 2010 to 470% in 2016, with those in the shadow banking sector growing especially fast.

A Bloomberg survey of economists' project expansion will slow to 6.5% 2018 from last year 6.90%. Standard Chartered Small and Medium Enterprise Confidence Index rose to 54.5 from 53.8 in January. Sentiment among international financial market experts (whoever they are) improved for a second month. The S&P Global Platts China Steel Settlement Index rebounded to 43.73 from 21.95 in January and an unexpected drop in crude steel production and relatively low inventories could potentially support prices in the short term.

Rest of Asia

Low levels of debt and excellent demographics in the form of a growing population with a young burgeoning middle class bode well for domestic markets. Most of 2017 was dominated by North Korea's sixth nuclear test. M&G's Maityen Vaight is quoted as saying "what makes us optimistic about the outlook for Asian equities are essentially two things. The region looks attractively valued relative to other equities markets, not least when looked at in relation to fundamentals and, corporate profitability has been getting better, driven by an encouraging trend we've seen in corporate behaviour whereby companies are prioritising profits over growth".

The forecast dividend yield from this sector is 2.8% with 2.2 times dividend cover.

We remain neutral.

Commodities

The Opec cartel and Russia alliance's decision to cut production by 1.8m bpd held throughout 2017, but surging output of US Shale saw production soar by 1.3m bpd. Extra US supply threatens to match the entire growth in Crude demand from China, India and the rest of the world in 2018. The US Baker Hughes Rig Count rose to a three year high of 791, with 25 new rigs coming on stream in the first week of February alone. The US aims to be a net energy exporter by 2022. Elsewhere, Venezualan production has collapsed, Israil threaten the Oil Crescent energy facilities and Analysts WoodMac say global oilfields are declining at an annual rate of 5% taking 2m bpd out of production each year. Saudi Arabia has stabilised its Foreign Exchange reserves at $490bn, down from $737bn 2014. The second great wave of US Shale growth has certainly been a wake-up call for this sector.

The boom in Wind Farms across the EU has driven the net growth in power generating capacity as Fossil Fuel Plants shut faster than they are built. Wind power is now Europe's second largest source of electricity behind Gas-Fired Power Plants. In total, onshore and offshore turbines added a record 15.6 gw of new energy capacity last year.

On the metals front, Dr Guy Wolf, Head of Market Analytics at Broker Marex Spectron, said "we are in a long shallow bull market". The market has recovered from the 2014 crisis. Growth in Chinese demand levelled at 6.9% 2017, down from 14.0% at the peak in 2007. Metals ended 2017 with a rally. Aluminium, used in household goods, rose 34% on the London Metals Exchange. Zinc for galvanising steel, climbed 28%, Copper, used in wiring, climbed 31% and Nickel, used in car batteries, rose 23% last year. Last week Copper surged to a four year high of $7,280 a ton after China ordered its top producer to halt output to tackle winter pollution. Glencore predicts that a third of new vehicles – some 37m – will be electric by 2030.

Analysts Macquarie believe prices for Lithium and Cobalt are inflated. Palladium, used in catalytic converters, rose 55% in 2017 ahead of Gold, up 13%.

In 2017 surplus soft commodity yields led to a slump in prices, Coffee down 9%, Cocoa 11% and Sugar falling 23%.

Benchmark – nil, we are positive.

Key Points - Property

- FH Portfolios return to Property this quarter by way of the F&C UK Property Fund.

Property

Morningstar, our benchmark, has zero property exposure. We accept Property is an illiquid instrument. Managers can impose exit charges if they fear an exodus as they did in late June and early July 2016 following Britain's vote to leave the European Union. However, Brexit fears quickly dissipated and there was no run on Property funds, normality was restored. Our exposure previously has been through a Leviathan Fund, the L&G Property Fund with £3.7bn under management. We have been looking to reinvest in this sector since July 2017 and have used our time wisely to research the market in depth.

Why property now

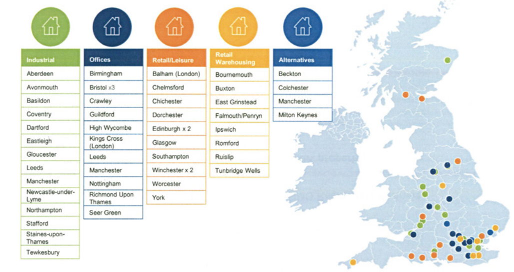
Income Return January 2000 - September 2017

We propose re-entering from March 2018, utilising the F&C UK Property Fund managed by Guy Glover since launch on 28 June 2010. The fund invests directly in UK Commercial Property. There is no institutional or multi-manager investment. The fund is open but does not advertise and debt is zero, all purchases are funded internally. The fund has grown to £450m at 30 November 2017. In 2017 a total of 12 acquisitions were made at a net purchase price of £100m. In 2018 to date, a further 2 properties are in the process of being acquired, with a net purchase price totalling £26m.

BMO Real Estate Partner forecasts are for circa 5% total returns 2018 driven primarily by income. Properties are in the Distribution, Industrial and Warehouse sectors and the fund has no exposure to the underperforming sectors of City and West End Offices or Shopping Centres. For a summary of property type and location, see opposite.

Current properties

BMO Global Asset Management, BMO Real Estate Partners as at 30.09.2017.



Industrial	Offices	Retail/Leisure	Retail Warehousing	Alternatives
Aberdeen	Birmingham	Balham (London)	Bournemouth	Beckton
Avonmouth	Bristol x3	Chelmsford	Buxton	Colchester
Basildon	Crawley	Chichester	East Grinstead	Manchester
Coventry	Guildford	Dorchester	Falmouth/Penryn	Milton Keynes
Dartford	High Wycombe	Edinburgh x 2	Ipswich	
Eastleigh	Kings Cross (London)	Glasgow	Romford	
Gloucester	Leeds	Southampton	Ruislip	
Leeds	Manchester	Winchester x 2	Tunbridge Wells	
Manchester	Nottingham	Worcester		
Newcastle-under-Lyme	Richmond Upon Thames	York		
Northampton	Seer Green			
Stafford				
Staines-upon-Thames				
Tewkesbury				

We are positive, benchmark zero

Key Points - Fixed Interest

- IMF upgrade forecast for global growth to 3.9% 2018.
- At 31 January, yield on US 10 Year Treasury had risen to 2.71%.
- FH Portfolios switch out of Kames High Yield Bond and JPM Global ex UK Bond funds.

Fixed Interest

Government Bonds

A January spike in pay as a series of US States increased their minimum wage, on top of galvanised Bond market unease last week, drove the benchmark ten year US Treasury yield from 2.6% to above 2.8%. This detracted from returns for more interest rate sensitive parts of the Corporate Bond Market. Contributing to the rise in Bond yields was the improving economic backdrop. The IMF upgraded its forecast for Global economic growth to 3.9% for 2018. By 31 January the yield on US ten year Treasury stood at 2.71%, Gilt and German Bund yields were also higher on the month.

The reduction in the Fed's balance sheet is seen as a potential threat to systemic liquidity. Effectively phasing out QE will negatively impact. However, it makes no sense to look at the Fed's balance sheet in isolation of other major Developed Market Central Banks. Instead we should look globally and at the aggregate of foreign exchange reserve levels.

On this basis the $36bn reduction in Fed balance sheet from its 2017 peak to the end of last year is simply dwarfed by the near $1.7tn increase in global liquidity provision delivered via the other DM central banks and FX reserve growth. According to Bloomberg data that amounts to roughly $9bn in added liquidity per trading day over this period.

Global liquidity is growing, not shrinking.

We retain exposure but are negative to benchmark.

Corporate Bonds

According to Barclays, Sterling investment grade issuance in January totalled £5bn. In Europe there was €54.6bn of new supply, compared to £5.2bn and €57.2bn respectively in January 2017. Sterling issuance included £750m raised by the Wellcome Trust through a 100 year Bond paying an annual coupon of 2.517%.

New financial corporate leverage is at its highest level since before 2008 relative to GDP, with data showing US corporate debt among non-financial stands at $8.7tn, or more than 45% of GDP. Ben Edwards, who co-manages BlackRock's Corporate Bond Fund, said "Yes, Companies now have more debt but they are paying less on that debt" Edwards believes US tax reform could also have an impact helping investment grade Bonds, but hitting high yield Companies hard. Mike Corcell, Manager of the RWC US Absolute Alpha Fund, is less alarmed, admitting credit markets would be a concern but only if the US economy was not performing so strongly. Both Edwards and Corcell agree "a very damaging scenario is if rates rise but the economy doesn't go up. Our view is that the economy can withstand the interest rate increase".

We retain exposure to the Fixed Interest sector across a range of funds. We are withdrawing from:-

- Kames High Yield Bond
- JPM Global Ex-UK Bond

We will add:-

- Twenty Four Dynamic Bond Fund

And retain:-

- Threadneedle Sterling Bond
- L&G Global Inflation Linked Bond
- Blackrock Corporate Bond
- Rathbone Strategic Bond
- Newton Global Dynamic Bond

The new fund on the block is managed by Twenty Four Asset Management LLP. The fund may access the whole range of Fixed Income Assets including High Yield Bonds, Investment Grade Bonds, Government Bonds, Asset-Backed Securities and other Bonds such as Emerging Market, Sovereign Bonds. Despite our negative position to benchmark, a significant proportion of our Investors money is held in the Fixed Interest Sector. Diversification is key and funds are invested across six substantive Institutions, with individual funds managed by experienced teams.

We are negative to benchmark.

Key Points - Cash

- FH maintain cash strategy, opting for investment in the Royal London Cash Plus and AXA Sterling Credit Short Duration Bond funds.

Cash

In Q2 2017 Outlook we provided in depth analysis of the Royal London Cash Plus Fund. From Q3 2017 we increased exposure adding the AXA Sterling Credit Short Duration Bond Fund, managed by Nicolas Trindade, who joined AXA in July 2006. The aim of this fund is to generate returns by gaining exposure generally to the Sterling Denominated Investment Grade Bond Market with a bias towards shorter maturities, and is intended to give the investor an above Cash income with low volatility. The fund is able to hold floating rate notes to protect against a rising interest rate environment and also because of the short duration structure, they have around 20% of the portfolio available for reinvestment each year. Returns have been delivered with lower volatility than the Index, reflecting the lack of deep subordinated or hybrid bank debt in the portfolio. Short duration is a significant area of importance to AXA who manage around £18bn in these types of strategies. This fund offers investors a plain vanilla, low risk portfolio with a return profile that should continue to outperform Cash rates, see below:

FE Analytics Performance Graph

As at 1 March 2018

- MSCI World
- AXA SCSD Bond Fund
- FTSE Actuaries Con Gilts
- Royal London Cash Plus

So for the avoidance of doubt, we do not allocate Cash per se, instead we allocate to the two funds in the following proportion, no cash is allocated within our Portfolios to Bank Deposit.

FH Cash Allocation Breakdown Q1 2018 recommendation:

Portfolio	Royal London Cash	AXA SDCB Fund	FH Total	Morningstar Allocation
Conservative	17	6	23	30
Cautious	12	4	16	21
Balanced	11	3	14	15
Assertive	5	0	5	7
Aggressive	0	0	0	4

We remain negative and underweight benchmark.

Key Points - Conclusion

- We continue to favour equities over credit.
- Geopolitical risks aplenty from Korea, Russia and proxy wars in the Middle East.

Conclusion

The four most dangerous words in investing, "this time it's different" – Sir John Templeton.

We believe the current cycle can last longer than many expect. The Fed will move towards monetary normalisation with markets sensitive to major Central Bank action. Investors will be compensated for taking risk in 2018, but rewards will be lower.

Key dates for the next six months:-

Month	Date(s)	Detail
March	08	Key ECB Meeting
	18	Russian Presidential Election
	20-21	Key Fed Meeting
	22	Bank of England MPC Meet
April	26	Key ECB Meeting
	26-27	Key Bank of Japan Meeting
May	10	Bank of England MPC Meet
June	12	Key Fed Meeting
	14	Key ECB Meeting
	14	Football World Cup to July 15
	21	Bank of England MPC Meet
July	01	Mexican Election
	26	Key ECB Meeting
	30-31	Key Bank of Japan Meeting.

We continue to favour equities over credit, given their spreads, low yields and a maturing cycle. We like Financials and Tech. Profitability will power returns in Emerging Markets, Europe and Japan. Plentiful global savings and an appetite for income will drive markets. Low market volatility will persist against a stable economic background. We see few signs of leverage emerging in the financial system with the exception of China. Geopolitical risks aplenty, ranging from North Korea, Russia flexing its expansionist muscle and proxy wars in the Middle East.

The watchword is proceed with caution which we are.

Fund Panel Update

FH Core

Allocation Increased | Allocation Decreased | Fund Added | Fund Removed

Fund Name	Conservative	Cautious	Balanced	Assertive	Aggressive
AXA Sterling Credit Short Duration Bond	-3	-3	-1		
Baillie Gifford Japanese	-1	-2	-1		1
BlackRock Corporate Bond	-2			-3	-3
F&C UK Property	7	6	6	5	3
Fidelity Emerging Markets		-1	-1		
Franklin UK Equity Income		-1		-1	2
Fundsmith Equity			3	3	-2
Invesco Perpetual Global Targeted Returns	-3				
JOHCM UK Opportunities	-4	-9	-9		
JPM Europe Dynamic Ex UK				-1	
JPM Global Ex UK Bond	-3	-3			
Kames High Yield Bond	-3	-3	-3	-3	-3
L&G Global Inflation Linked Bond Index	3	2	1		
LF Woodford Equity Income	-3	-5	-5	-4	
LF Lindsell Train UK Equity		4	1		-2
Liontrust Special Situations	3	4	4	3	
Man GLG UK Income	4	6	7		
Man GLG Undervalued Assets				-1	1
Marlborough Special Situations				2	2
Newton Global Dynamic Bond		-1	-5		
Old Mutual North American Equity				-2	-1
Rathbone Total Return Portfolio		3			
Royal London Cash Plus	3	2	4	1	
Schroder Recovery				-1	
Schroder Small Cap Discovery				-1	1
Schroder US Mid Cap			-2	-1	1
SLI Global Absolute Return Strategies	-3	-3			
Threadneedle European Select	3	6	3	3	3
Threadneedle Pan European Equity Dividend	-3	-6	-3		
Threadneedle Pan European Focus				-3	-3
Threadneedle Sterling Bond			-3		
TwentyFour Dynamic Bond	5	4	4	4	

Liontrust Special Situations - Fund Manager Anthony Cross has been at the helm of the Liontrust Special Situations fund since its launch in 2005. The fund has the flexibility to invest in any stocks within the FTSE All-Share Index regardless of size and sector. This allows them to take advantage of new and emerging opportunities.

Man GLG UK Income - We are familiar and confident with Henry Dixon's strategy, having also managed the Man GLG Undervalued Assets fund which we have held since December 2013. The fund targets a level of income in excess of the FTSE All-Share Index, together with some aim for capital growth.

Twentyfour Dynamic Bond - The fund is co-managed by a team with around 100 years of combined experience. With a low average duration of approximately 2.6 years, we feel the fund should offer some resilience during a rising interest rate environment.

F&C UK Property - The F&C UK Property fund offers a regionally diversified bricks and water based portfolio of property investments. The fund now boasts over 50 properties, which are predominantly situated outside of London.

Fund Panel Update

FH Passive Plus

Fund Name	Cautious	Balanced	Assertive
BlackRock Continental European Equity Tracker D	1		
BlackRock Overseas Corporate Bond Tracker	-4	-4	-4
Fidelity Index Pacific ex Japan		3	4
HSBC Pacific Index		-3	-3
L&G Global Inflation Linked Bond Index	-1	1	
Vanguard UK Investment Grade Bond Index	-3	-2	
F&C UK Property	4	3	3
Kames High Yield Bond	-3	-3	-4
Marlborough Special Situations		1	1
Natixis H2O MultiReturns		-1	
Royal London Cash Plus	4	5	
SLI Global Absolute Return Strategies	-3	-3	
Twentyfour Dynamic Bond	5	3	3

We have conducted a review of our Passive allocations and have made the following like for like switches; HSBC Pacific Index to Fidelity Index Pacific ex Japan. We use a wide range of criteria to assess Passive funds, such as tracking error, performance, FE Passive Crown Rating, fund size and charging. The key benefit of our changes this quarter are reduced charging having reduced OCF from 0.24% to 0.13%.

Performance

Portfolio	3 Month %	12 Month %
Forrester-Hyde Aggressive Model Portfolio	-0.22	11.53
Forrester-Hyde Assertive Model Portfolio	-0.51	8.87
Forrester-Hyde Balanced Model Portfolio	-1.30	5.28
Forrester-Hyde Cautious Model Portfolio	-1.08	3.01
Forrester-Hyde Conservative Model Portfolio	-0.76	2.25

Portfolio	3 Month %	12 Month %
Forrester-Hyde Passive Plus Assertive Model Portfolio	-0.16	9.32
Forrester-Hyde Passive Plus Balanced Model Portfolio	-0.40	6.97
Forrester-Hyde Passive Plus Cautious Model Portfolio	-0.64	5.02

Asset Class	3 Month %	12 Month %
Euro STOXX 50	-1.61	7.35
FTSE 100	-0.17	1.76
FTSE Actuaries UK Conventional Gilts All Stocks	-1.32	-0.82
IBOXX UK Sterling Corporate All Maturities	-1.03	1.64
MSCI Emerging Markets	5.27	16.38
MSCI World	0.53	3.89
S&P 500	0.88	2.64

Notes Page

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