ForresterHyde
CHARTERED FINANCIAL PLANNERS

Investment Outlook

Spring 2019

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"After all, you only find out who is swimming naked when the tide goes out."- Warren Buffet

Key Points - Introduction

- The Fed pull back on rate rises and quantitative tightening triggered an asset recovery.
- UK posted a record budgetary surplus of £14.9 billion in January.
- Average pay in the UK rose by 3.4% whilst inflation falls to 1.8%.

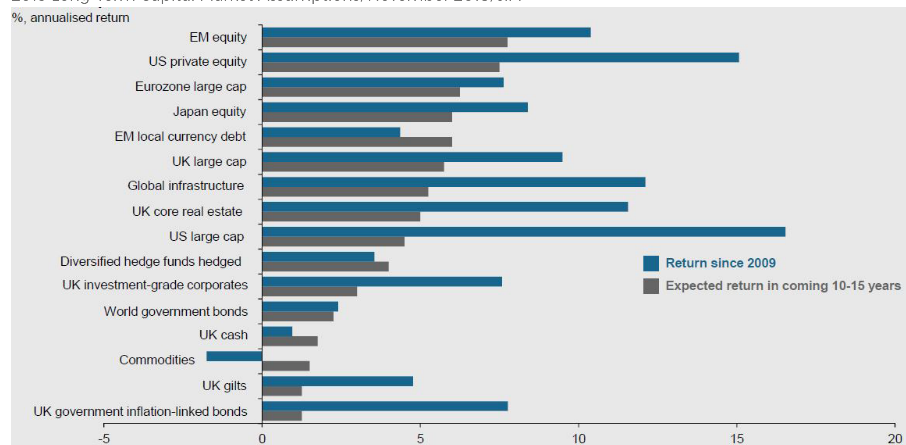
Introduction

In a speech published on 14 February, Gertjan Vlieghe (BofE) said "World economic growth has slowed", arguing this has slowed the pace of monetary tightening. His speech was titled "Fading global tailwinds, intensifying Brexit headwinds". Schroders Economic Group expect global growth will moderate from 3.3% in 2018 to 2.9% in 2019, and to 2.5% in 2020. They expect UK growth to pick up from 1.2% in 2018 to 1.4% come 2019, increasing to 1.5% by 2020. Growth in Emerging Markets is expected to slow to 4.5% in 2019 and 2020.

Global debt is the elephant in the room. Total debt, Government, Corporate and household is estimated at $247 trillion, three times the value of all the goods and services produced by all the World's economies combined. US Companies will have to refinance $4tn of debt in the next five years, whilst Turkey, South Africa, Brazil, Argentina and Mexico will have to refinance an estimated $4tn of debt, mostly Dollar denominated, in 2020. The Federal Reserve's volte-face shelving plans for higher interest rates and quantitative tightening (QT) led to an asset boom in the first two months of 2019, with the MSCI Index of world equities rising 15% and the S&P500 by 18%. With the exception of the US, most markets are trading at or close to long term P/E averages. JP Morgan published its 2019 long-term capital market assumptions in November 2018 before the recent bounce, see below:-

Past and expected returns

2019 Long-Term Capital Market Assumptions, November 2018, J.P.



Key Points - UK

- Confidence in all sectors of the UK economy is waning in the face of Brexit uncertainty.
- FTSE shares are trading at an average P/E ratio of 11.3 times. Dividend ratio cover forecast at 1.8 times for 2019.

On the plus side of the equation, global dividends surged to a new record in 2018 with total dividends rising by 9.3% to £1tn, (Janus Henderson Global Dividend Index). At home a lowly 0.75% Bank Base Rate, 1.7% 10 year gilt yield and a 4%+ dividend yield on the FTSE100 have acted to support UK Equities aided and abetted by a devalued pound. UK employment rose again in December to 32.7m, to include 3.6m non-UK Nationals of which 2.3m are from the EU. The 32.7m represents a rise of 440,000 over 2018 according to the ONS. The demand for staff has led to an increase in wages. Average pay in the three months to December was up 3.4% on the same quarter in 2017, whilst the cost of living has fallen to 1.8%. The strong labour market looks set to continue with 853,000 job vacancies advertised in December, the joint highest number on record. The paradox is that whilst Companies have been investing in staff they have cut back on capital expenditure. The Government posted a record surplus £14.9bn in January providing the Chancellor with scope to stimulate the economy.

And so, inevitably, on to Brexit! Europe's Leaders have stated there can be no renegotiation of the Withdrawal Agreement – the Agreement the UK Parliament overwhelmingly rejected. The EU's Brexit task force made a strategic blunder by weaponising the Irish Border in order to shoehorn Britain into a permanent Customs Union. The UK's Brexit task force made a strategic blunder by agreeing to pay £39bn before the EU would open trade negotiations.

Italy is in recession, Germany and France are both suffering an economic downturn. In the teeth of this latest slowdown the ECB has made matters worse by winding-down quantitative easing (QE). ECB interest rates are 0.4%. The stability pact prohibits fiscal stimulus through debt financing. There is still no lender of last resort for EMU Countries in distress, no fiscal union and no pan EMU deposit scheme. The Eurozone has no policy ammunition if the Brexit gamble backfires.

What we do know is that the British people voted to leave the EU on 29 March, at the moment a transition period is due to run until 31 December 2020 to give Business and Institutions time to adjust. Free movement can continue during this period and the UK can strike trade deals, but these will not be effective until 1 December 2020. The transition period would be scuppered by a no deal exit.

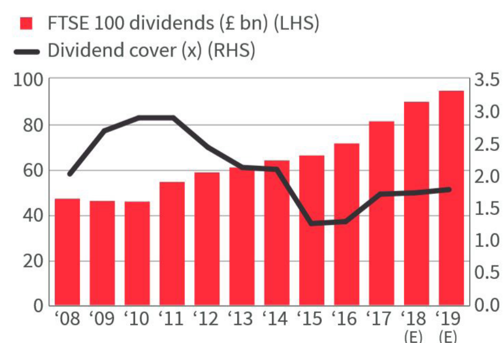
We continually monitor the asset allocation of our portfolios, the underlying fund selection, as well as external forces. Our current strategy will be reviewed as soon as we have clarity on the Brexit outcome. There is a view that a no deal Brexit would lead to the BofE lowering interest rates, of fiscal stimulus by the Treasury and an inflow of overseas capital that would support UK Equities.

UK Equity

It is easy to argue that both Sterling and UK Equities represent a buying opportunity, but the Brexit cloud hovers about us, reaching its nadir on 29 March, or possibly later and maybe after another vote? Meanwhile uncertainty is hurting the economy. UBS believe UK GDP is 2.1% lower than it would have been without the Brexit vote. Confidence in all sectors is waning, the Manufacturing PMI Index fell from 54.2 December to 52.8 January. The Construction PMI Index fell from 52.8 to 50.6 in January and the Services PMI Index fell from 51.2 to 50.1 January 2019. UK consumer confidence remains subdued despite employment and real wage growth. Unemployment stays at 4%, pay growth rose to 3.4% and inflation fell to 1.8% in January 2019. The FTSE forecast dividend cover ratio for 2019 is 1.8 times and the consensus estimates for aggregate FTSE100 profits and dividends continues to rise, see below:

Analysts expect another record dividend pay-out from the FTSE 100 in 2019

Digital Look, company accounts, analysts' consensus forecasts for 2018 and 2019.



FTSE100 shares are trading at an average P/E ratio of 11.3 times comfortably lower than the running average.

We are negative UK on the back of Brexit uncertainty, and a late cycle market. Our Core Portfolios access this sector through a total of seven funds providing diversification:-

- Franklin UK Equity Income
- Lindsell Train UK Equity
- LionTrust Special Situations
- Man GLG Undervalued Assets
- Man GLG Income
- Marlborough Special Situations
- Schroder Recovery

Writing about the likely Brexit outcome is fraught with risk. The referendum outcome was a vote to leave Europe. The Euro Member Countries were never going to allow the UK gain any competitive advantage and have sought to disadvantage our Country throughout negotiation – why wouldn't they. It is hard to see what an extension will achieve when Brussels is adamant there is no renegotiating the Withdrawal Agreement.

A second vote flies in the face of democracy – watch this space, we are closely, and will issue a mid-term Bulletin when the future is clearer. In the meantime, it is business as normal for the rest of the world.

Merger and acquisition activity suggests that Corporations and Trade Buyers think there is value to be had in the current climate. The country's top ten investors to include Vanguard, Invesco, Schroders, Aberdeen Standard and Legal and General have increased their holdings of UK listed shares.

Despite uncertainty Norway's $1tn Sovereign Wealth Fund announced it is planning to increase investment, "In Britain current political discussions do not change our view" said Chief Executive Yngve Slyngstad. European Investors snapped up 553 UK assets last year according to S&P Capital IQ Data. Purchases and inward investment totalled $31.1bn up from $21.2bn the previous year.

China also has confidence in the UK and has increased investment. After the US the UK was the second largest recipient of Chinese FDI in 2018. Chinese train manufacturer CRRC Corp has invested in Dynex, a 63 year old company that manufactures high voltage semi-conductors. CRRC invest over $10m annually in R&D with components used globally in CRRC trains.

We remain negative in the short term.

Key Points - US

- The Fed capitulates on both rate rises and quantitative tightening and is forecast to retain securities valued in excess of $3.5 trillion.
- Republicans and Democrats are gearing up for the next US Presidential Election.

US Equity

The Fed capitulated on both rate rises and QT. It is now expected the Fed will retain securities of $3.5-$3.7tn, much higher than previously forecast. Has the Fed done enough to push back the next recession and, if so, by how far? World finance no longer has to face the slow torture of Fed Bond sales running at $50bn a month this year and into the early 2020's.

The potent mix of tax cuts, economic nationalism and buoyant financial markets have fueled annualised GDP growth of 4%+. The Conference Board Consumer Index reached 133.4, its highest since March 1998, whilst the ISM Purchasing Managers Index jumped to 56.6 in January 2019 from an upwardly revised 54.3 in December. Inflation rate remains benign, dropping from 1.9% in December to 1.6% in January 2019. Unemployment stands at 4%. The latest figures from the US Labour Department shows wage growth, rising from 2.8% in September to 3.1% in October 2018. Growth in household wealth has outstripped wages since 2017, and it is estimated US household net worth has hit $100tn. Corporate earnings are strong across the S&P's 500 members and are expected to grow by 20% in 2019. It is hard to argue that a major correction in US stocks is imminent in the absence of any major reduction in earnings momentum.

History suggests bull markets end when interest rates rise, valuations are stretched and earnings disappoint. On a P/E ratio the US is more expensive than the UK, Europe and Japan, but not unduly expensive relative to its own history at forecast 15.7 times for 2019, against a 10 year average of 14.6 times. This does pre-suppose margins and profits move higher.

On the downside Analysts at Schroders have downgraded their forecast of US GDP growth this year to 2.6% and to 2% in 2020. Moreover, Professor Robert Shiller's Cyclically-Adjusted Price Earnings, CAPE, ratio suggests US stocks have only been more expensive twice in their history, 1929 and 2000. Both episodes ending in a bear market. Further, half of 280 business economists polled recently in the US expect a downturn by the end of 2021, only 11% anticipate the US will avoid recession.

The mid-term Elections are behind us and Trump and the Democrats are gearing up for the campaign ahead of the Presidential Election on 3 November 2020. So far, Trump has stuck to his electoral promises on trade, tax, employment and foreign affairs. He is tackling issues such as North Korea, Chinese intellectual property theft and Iran.

Cormac Weldon, Head of the US team at Artemis Fund Managers, believes this Economic cycle still has years rather than months to run. Our portfolios are exposed to the US across three funds:-

- Schroder US Mid-Cap
- LF Miton US Oportunities
- Merian North American Equity

Merian Global Investors de-merged from Old Mutual, therefore rebranding the North American Fund – see below for discrete period performance over five years:-

Fund	2019 (YTD)	2018	2017	2016	2015
Merian North American Equity R Acc	9.92	-3.92	12.34	36.74	7.60

We have additional US exposure by way of the Polar Capital Global Insurance Fund in the Alternative Sector.

We remain Positive.

Key Points - Europe

- 2019 spells the end of Juncker, Draghi, Tusk and Tajani's reign in Brussels.
- Italy continues to pose a threat to Euro stability.

European Equity

The EU was born out of the 1951 Treaty of Paris which established the Six Nation European Coal and Steel Community (ECSC), with the goal of peace and prosperity. It has moved on since then.

2019 is likely to see wholesale changes within the EU leadership. President Juncker is not seeking a second term, Mario Draghi steps down as President of the ECB, Donald Tusk stands aside as President of the European Council and Antonio Tajani reign as President of the European Parliament ends in the summer. Key elections are also scheduled across Europe this year, see below:-

Date	Country	Type
Feb	Moldova	Parliament
Mar	Estonia	Parliament
Mar	Ukraine	President
Mar	Slovakia	President
Apr	Finland	Parliament
Apr	Armenia	President
May	Ukraine	Parliament
May	Lithuania	President
May	Belgium	Parliament
May	EU	Parliament
Oct	Greece	Parliament
Oct	Portugal	Parliament
Nov	Poland	Parliament
Nov	Romania	President
Dec	Gibraltar	Parliament
Dec	Croatia	President

The ECB has ended its QE Programme having acquired €2.4tn of assets, increasing the ECB's balance sheet to €4.7tn. Unemployment remains stubbornly high at 8.2% across the Eurozone, growth has not excited and is estimated by the IMF at 1.9% 2019.

The EU is expected to make steady if unspectacular economic progress in 2019

International Monetary Fund

Year	Euro area GDP growth (%)
2010	2.0
2011	1.6
2012	-0.9
2013	0.3
2014	1.7
2015	2.4
2016	1.8
2017	2.4
2018 E	2.0
2019 E	1.9

Italy continues to pose a threat to stability, Italian Government debt represents nearly one fifth of Italians Banks Assets and more than 140% of tier 1 capital at leading lenders, Unicredit and Intesa Sanpaolo and more than 200% of Monte Dei Paschi Di Siena's Tier 1 reserves. The spread between Italian and German Government 10 year Bond yields is rising.

Macron's popularity rating has collapsed along with his plans to reform the labour markets following The "Gilets Jaunes" protests. The German economy has slowed almost to the point of recession, with 750,000 jobs dependent on exports to Britain. Germany and the Netherlands are planning fiscal expansion of 0.4% this year. In 2018 Germany ran a surplus on its Budget of 1.6% of GDP compared to an average deficit for G7 Countries of 2.1%. Moreover, Germany's ratio of debt to GDP will probably be less than 60% this year, which is the lowest in the G7 by a considerable margin.

The good news is that eight Eurozone members are now in credit, up from five a year ago – Germany, Luxembourg, the Netherlands, Finland, Ireland, Slovakia, Cyprus and Malta – Greece's deficit is still shrinking. The bad news is that it still looks like money is leaking out of Spain and Italy whose budget deficit is forecast to be 2.4% of GDP in 2019. Germany and a select number of other Creditor Countries continue to bankroll the rest.

Western Europe's 3.4% prospective dividend yield looks good compared to cash yielding zero, German 10 year Bunds 0.56% and Italian 10 year BTP's 3.51%.

To conclude, the National Bank of Belgium publishes the Courbe Synthétique on or about the 21st of each month. It is the collective views of 6,000 Belgian Industrialists and has proved to be an uncannily accurate guide to the Euro Stox 600 Index – The Courbe Synthétique Index rallied in September 2018.

We are neutral in line with benchmark.

Key Points - Japan

- Japanese equities are supported by a weaker yen and solid corporate fundamentals.

Japanese Equity

In line with almost all Institutional investors, we remain positive supported by a weaker Yen, solid corporate fundamentals and cheap valuations, but await a clear catalyst to propel sustained outperformance. Other positives include shareholder friendly corporate behaviour, Central Bank stock buying and political stability. This may come as a surprise as Japan's debt ratio has risen to 240% of GDP. Japan has been able to defy gravity because it is the world's top external creditor, commanding $3tn of net assets.

Access to this market is via the Baillie Gifford Japanese Fund, see below:

Top 10 Holdings	Weighting (%)
SoftBank	6.9
Sumitomo Mitsui Trust	4.6
INPEX	4.2
SBI Holdings	4.1
Kubota	3.2
Rakuten	3.1
Toyota Motor	2.8
Misumi	2.7
FANUC	2.6
Japan Exchange Group	2.4

The fund launched on 8 October 1984, has £2.593bn under management at 31 January 2019 and is managed by Matthew Brett.

We remain positive.

Emerging Markets

Brazil crawled out of a two year recession in 2018. Argentina increased interest rates to 60%, embarked on a fiscal austerity programme and a $57bn IMF bailout. Venezuela descended into chaos, overall Latin America fell out of favour in 2018. The Dollar, Commodity prices and the end game for both the Turkish and Argentine currency crisis and Trump's trade policies will all impact on how Asia's financial markets perform in 2019, even if strong demographics, low Government debt, robust economic growth and improved corporate governance are all positives for the long term.

We retain exposure via Fidelity Emerging Markets Fund but are replacing Schroder Small Cap Recovery with the BlackRock Emerging Markets Fund managed by Gordon Fraser and Andrew Swan. The fund launched on 10 June 2011, is relatively small at £194.5m at 31 October 2018. The fund invests in the shares of Companies listed in the MSCI Emerging Markets Index. The portfolio is designed to be fluid, is overweight China and is looking to Argentina and Mexico to produce positive returns on a bounce from a challenging 2018. Full details can be found on our website.

We remain neutral.

Key Points - EM

- Asia emerges from a two year recession.
- Emerging markets GDP growth forecast at 4.5% for 2019.

Gowth of Hypothetical 10,000 GBP

Blackrock January 2019 Factsheet

Asia ex Japan

China

A year in Chinese politics is a long time. After the autumn 2017 19th Party Congress President Xi Jinping's grip on the Communist Party and power in China looked unassailable. The cracks started to appear early in 2018, with a scandal over sub-standard child vaccinations, a number of high profile project failures, a sliding currency, tumbling Stock Market and with the Shanghai composite index stuck at early 2007 levels and the US imposition of trade tariffs. President Xi merged China National Television with China National Radio and China Radio International to form 'Voice of China'. The country embarked on a fresh campaign against intellectuals, human rights activists and religious minorities as the Government seeks to suppress criticism.

China's GDP topped $13.6tn in 2018, still a long way short of the US. GDP growth is reported at 6.6% and China remains the world's largest trader in goods, achieving a 9.7% increase to $4.5tn in 2018. Trade between China and the US topped $630bn in 2018, an increase of 8.5%. China's trade surplus with the US was $375bn. Most western observers believe China's real rate of growth to be nearer 4%.

Staying with the positives, China reduced 30m tons of steel capacity last year equivalent to the total output of Belgium, France and UK. China was the fastest growing of the top five economies contributing almost 30% of global growth. By the end of 2018 China had invested $28.9bn in Countries along the Belt and Road initiative creating 24,400 jobs locally.

At home more than 700m people have been lifted out of poverty. With a population approaching 1.4bn of which 400m are middle income earners, China is growing opportunities for domestic consumption. China is easing restrictions on Foreign ownership in joint ventures and BT became the first overseas telecoms operator to secure nationwide telecommunications licenses.

Flip the coin and the December PMI survey fell to 49.4, whilst new export orders slid to crisis levels of 46.4 last seen in the depths of the 2015 currency scare. The strain is showing in China's Corporate sector with

Key Points - Asia

- China's GDP topped $13.6 trillion.
- Trade between China and the US rose 8.5%, with China's US trade surplus rising to $375 billion.

Key Points - Alternatives

- Spring 2019 sees our portfolios exit the commodities sector.
- We introduce a non-life insurance fund, operating in the property and casualty business sector.

Key Points - Property

- CVA's, Brexit uncertainty and retail have negatively impacted fund pricing.

defaults tripling in 2018, however, the scale is relatively small at £17bn.

The Chinese economy is reliant on cheap debt and fiscal and monetary stimulus. Retail sales, Industrial production and Fixed Asset investment all slowed in 2018. The Communist Party's popularity rests on prosperity and jobs and whilst President Xi has sought to improve the sustainability of growth we may see the Bank of China embark on a programme of fresh stimulus this year.

China is raising its technology game. This year Huawei plans to invest $15bn in R&D, more than Apple. Overall spending on research by the world's top 1000 Companies increased by 11% in 2018 to $782bn (PWC). Chinese Companies increased their research spending by over 34% - with 800m internet users, few laws on data collection and rules that lock out big Western Companies, domestic players have thrived. The amount of Chinese Venture Capital being poured into start ups has soared from $4.2bn in 2013to $63.1bn in 2017 – in the long term China's growing stature as a Technology Leader will post a commercial challenge to Western Companies that may struggle to compete.

India

900m Indians go to the polls in April and May as a test of Narenda Modi's popularity. Reforms introduced have had a profound impact. In 2016 he withdrew 500 and 1,000 Rupee notes representing 86% of Cash in circulation. The proportion of Indians with a bank account has risen from 35% in 2011, 53% in 2014, to 80% in 2017. However, unemployment remains stubbornly high. India is not an export led economy, it has a current account deficit and is growing mainly by expanding domestic markets. The population has risen to 1.3bn people, of which 50% are under 25. It is a $2tn economy compared to China $13.6tn. Growth is forecast at 7.2% 2019, contributing to a forecast EM growth rate of 4.6% 2019.

We remain neutral.

Alternatives

Last quarter we reduced exposure to Commodities and this quarter we go further withdrawing from this asset class. Exposure has been via the Investec Natural Resources Fund. Like the Curate's egg, when good the returns have been very good, 22.38% 2010, 60.49% 2016, but in between performance has been volatile. We have been contrarian to benchmark, but in the current climate will follow benchmark moving to zero.

Last quarter we introduced the JPM Macro Opportunities Fund managed by James Elliot. This quarter we go further, introducing the Polar Capital Global Insurance Fund. The fund launched on 21 July 2009, is managed by Nick Martin and has £1.183bn under management. It is principally exposed to North American Equities, 82.90%. Performance has been positive in each of the past 5 years, returning 108.66%. Shown below are the top 10 holdings at 31 December 2018.

Top 10 Holdings	Weighting (%)
Arch Capital	8.4
Marsh & McLennan	8.2
Chubb	7.6
Alleghany	5.2
WR Berkley	4.7
Berkshire Hathaway	4.5
Essent Group	4.5
RenaissanceRe Holdings	4.4
Fairfax Financial Holdings	4.1
Progressive Corp	4.1

This fund is focused on non-life Insurers operating in the property and casualty business. Non-life Insurance is often a statutory requirement and unlike life Assurance is not a discretionary purchase and is therefore less sensitive to macro-economic conditions. The fund has significant US Dollar exposure. Introduction of this fund compliments the JPM Macro Opportunities Fund providing wider diversification in the Alternatives Sector.

We are positive to a zero benchmark.

Property

We have taken a contrarian approach to our Benchmark which has no direct property exposure. In September we increased exposure introducing the Threadneedle UK Property Fund as a diversifier to the F&C Property Fund. The retail bloodbath has taken its toll on the retail property sector, 2018 was the year of the CVA (Company Voluntary Arrangement). Coupled with uncertainty over Brexit, a number of Property Funds, including Threadneedle, have repriced to protect Investors against outflows. The F&C Fund has not repriced, is overweight Cash and focused on Industrial and Regional Office assets with no exposure to the potentially underperforming sectors of City and West End offices or shopping centres. The Fund has continued to grow, currently standing at £550m, with the Manager, Guy Glover, looking to the opportunity for distressed purchases, there are no Institutional or Multi-Manager Investors in this fund.

Key Points - Fixed Interest

- Global issuance of corporate bonds doubled to $13 trillion in the last 10 years.
- BBB grade bonds account for 50% of investment grade bond indices.

Key Points - Cash

- Little likelihood of interest rates rising anytime soon.

Our dilemma is that repricing in light of sector uncertainty has negatively impacted performance in our Portfolios when measured against benchmark. We continue to view Property as a long-term alternative to Cash, with Property producing a net yield for Investors significantly above the return from cash on deposit. However, we are minded of the need to add value in comparison to our Benchmark, and whilst uncertainty in the Property sector prevails the Committee elected to dial down Investor exposure. Threadneedle have repriced, all be it temporarily, but to dilute investment in this fund would crystallise a loss for Investors which is unacceptable having only introduced the fund 6 months ago. The decision taken was to take profit diluting exposure to the F&C Fund with the caveat that this fund has delivered the performance we anticipated, is well managed and continues to tick all the boxes.

We remain positive and overweight to a zero benchmark.

Fixed Interest

Global issuance of Corporate Bonds has doubled to $13tn over the last decade. In the case of a downturn highly leveraged Companies would face difficulties in servicing debt. An OELD Report warned that Companies must increasingly compete for capital in a World without Central Bank support, post-QE. The OELD went on to say Bond quality has deteriorated, and covenant protection for Creditors progressively downgraded. EM's must repay or roll over 47% of their liabilities over the next three years, double the percentage in 2008. Average maturities have fallen to 7.6 years from 11.3 years as recently as 2013. Debt securities now make up 57% of all international credit. Tough new Basel rules may have made Banks safer but the risk has migrated to Investment Funds, crowded into illiquid assets and above all into Corporate bonds.

The report triggered a proliferation of Press coverage about the growth of the BBB rated Corporate Bond Market and the prospect of an economic downturn, sparking a wave of downgrades and potential defaults.

Our exposure in this sector is via a total of six funds:

- Blackrock Corporate Bond
- Kames Absolute Return Bond
- L&G Global Inflation Bond
- Rathbone Strategic Bond
- Threadneedle Sterling Bond
- Twenty-four Dynamic Bond

As a matter of good governance our Investment Team have met with 5 Fixed Interest Managers in the run up to Spring Outlook 2019. Notwithstanding the team are returning to conduct an in depth analysis in March, focusing on leverage, duration and rating within the six funds. The perception is that Fixed Interest is a safe haven, but it is not without risk.

Twentyfour provided an in depth analysis of their Dynamic Bond Fund. Duration is reassuringly short at 3.2 years. In summary, he said "BBBs have become a larger proportion of investment grade Corporate Bond indices, up from under 20% in 2003 to over 50% today. BBBs do have inherent risks and some are indeed elevated compared to other assets within Fixed Income but being actively invested in BBBs can enable an Investor capitalise on their virtues while avoiding the small subset of BBBs that become fallen angels as far as possible. The risks are manageable and far outweighed by the Benefits – avoid at own risk'.

We remain negative to benchmark, both Corporate and Government Bonds

Cash

No cash is held on bank deposit, exposure is via the Royal London Cash Plus Fund and the AXA Sterling Credit Short Duration Bond. We provided a detailed analysis in Outlook Q4 2018 and in the current economic climate do not see the BofE raising interest rates.

We remain negative.

Key Points - Conclusion

- MiFID II delivers greater investor transparency on transactional charges.
- Brexit, the elephant or the albatross in the room?

Conclusion

For 20 years Bestinvest has run its annual "Spot the Dog" survey – their infamous report names and shames underperforming funds – the Dogs. We are pleased to report none of the funds in our Portfolios are "Dogs" and a proportion feature in the upper echelon of the "Pedigree class". We are in the eleventh year of managing model portfolios for our Investors and have posted positive returns in nine of those years, the exceptions being 2008-09 and 2015-16. Our performance has been both above the ARC and Benchmark since inception on 1 April 2008.

Brexit aside, another key issue is MIFID II, a European directive designed to increase transparency of the charges an Investor incurs. To date the Fund Manager has disclosed the OCF, Ongoing Charge Figure, but will now be required to disclose transactional costs to the Retail Investor and you will see these costs identified in future correspondence you receive from Institutions. This is not an additional cost, and it is a cost that we the Adviser have been aware of and have included in our decisions when determining asset allocation and fund selection. So for the avoidance of doubt this is not an additional cost merely disclosure of the ongoing transactional costs involved in the sale and purchase of investment.

Whilst political risks abound we believe the global economy is sufficiently robust. Seldom do political risks cause the economic cycle to turn by themselves. We expect the global economy to grow at a slightly slower pace over the next two years. In 2019 we do not see a material risk of further strong rises in core inflation despite lower unemployment rates.

Global Central Banks will stay on their gradual normalisation paths. Periodic bouts of volatility in Equity and Fixed Income markets are likely to persist and whilst we are guarded do not anticipate a global recession in 2019. Returns in global equity markets are likely to be in the range of 3 – 5% for Sterling based Investors, slightly down on expected returns this time last year and significantly lower than the experience of previous decades. High quality Fixed Income Portfolios are expected to produce only nominal positive returns over the next five years.

Inevitably the Brexit outcome weighs heavily on investment sentiment, 29th March looms large but Theresa May, may succeed in kicking the cans down the road until the MEP elections in June. Whatever the outcome the key to investing is diversification, time in the market and prudence in times of uncertainty.

Fund Panel Update

FH Core

Allocation Increased

Allocation Decreased

Fund Added

Fund Removed

Fund Name	Conservative	Cautious	Balanced	Assertive	Aggressive
BlackRock - Corporate Bond D Acc		1	1		
BlackRock - Emerging Markets D Acc				3	5
BMO - UK Property Feeder 2 Acc	-1	-1	-1	-1	-1
Investec - Enhanced Natural Resources I Acc	-2	-2	-2	-2	-2
L&G - Global Inflation Linked Bond Index I Acc	-1	-1	-1		
Polar Capital - Global Insurance I Acc	3	3	3	3	3
Rathbone – Strategic Bond Inst Acc	1				
Schroder Small Cap Discovery Z Acc				-3	-5

Polar Capital Global Insurance - The fund offers long-term capital accumulation through a portfolio of predominantly nonlife property and casualty insurance businesses around the world. The insurance sector is largely made up of life assurers but the focus of this fund is on nonlife insurers operating in the property and casualty businesses. Nonlife insurance is often required by law and tends not to be a discretionary purchase, therefore, this type of insurance is usually less sensitive to macroeconomic conditions and historically has tended to be more resilient in challenging financial markets.

Blackrock Emerging Markets - Blackrock believe that the macro and political backdrop for a country is a significant contributor to and driver of equity returns. The portfolio is designed to be style flexible and move the portfolio across style factors as the market opportunities change. We think that a disciplined approach to macro allocation, combined with in-depth fundamental stock research can deliver alpha to investors.

FH Passive Plus

Allocation Increased

Allocation Decreased

Fund Added

Fund Removed

Fund Name	Cautious	Balanced	Assertive
Fidelity - Index Emerging Markets P Acc	1	1	1
Investec - Enhanced Natural Resources I Acc	-2	-2	-2
iShares 100 UK Equity Index (UK) D Acc	1	1	
L&G - Global Inflation Linked Bond Index I Acc			-3
Natixis - H2O MultiReturns N Gr Acc	1		
Newton - Global Dynamic Bond Institutional W Acc	-5	-3	
Polar Capital - Global Insurance I Acc	3	3	3
Royal London - Cash Plus Y Acc	-1	-2	-1
TwentyFour - Dynamic Bond I Gr Acc	1		
Vanguard - FTSE UK Equity Income Index A	1	2	2

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Performance

Portfolio	3 Month %	12 Month %
Forrester-Hyde Adventurous Model Portfolio	1.57	-2.05
Forrester-Hyde Assertive Model Portfolio	1.46	-1.33
Forrester-Hyde Balanced Model Portfolio	1.03	-0.36
Forrester-Hyde Cautious Model Portfolio	0.81	-0.27
Forrester-Hyde Conservative Model Portfolio	0.71	0.04

Portfolio	3 Month %	12 Month %
Forrester-Hyde Passive Plus Assertive Model Portfolio	1.00	-1.12
Forrester-Hyde Passive Plus Balanced Model Portfolio	0.91	-0.42
Forrester-Hyde Passive Plus Cautious Model Portfolio	0.93	-0.05

Asset Class	3 Month %	12 Month %
Euro STOXX 50	0.96	-4.89
FTSE 100	2.06	1.71
FTSE Actuaries UK Conventional Gilts All Stocks	1.98	3.09
IBOXX UK Sterling Corporate All Maturities	3.37	2.54
MSCI Emerging Markets	5.00	-5.62
MSCI World	1.01	4.45
Nikkei 225	-3.75	-2.81
S&P 500	-0.17	7.39

ForresterHyde

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