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FINURA PORTFOLIO REVIEW Q3 2019

GLOBAL MARKET REVIEW

It was a mixed quarter for shares, with developed markets making small gains while emerging markets fell. The US-China trade dispute rumbled on, as did global growth concerns, but central banks remained supportive.

US equities achieved modest gains. Stocks in the financials, utilities and energy sectors gained most. The healthcare sector was weaker, given its perceived political sensitivity. The Federal Reserve cut rates twice.

Eurozone shares advanced. The European Central Bank announced new measures designed to stimulate the economy, including restarting quantitative easing.

Shares in the UK also rose, although concerns around the global economic outlook weighed heavily on the commodity and financial sectors. Brexituncertainty remained high as Boris Johnson took over as prime minister.

Japanese shares gained with the yen little changed over the period. The Upper House elections in July were won comfortably by Prime Minister Abe's party.

Emerging markets felt the effect of a renewed escalation in the US-China trade dispute and global growth concerns. Those markets most sensitive to US dollar strength came under pressure, notably South Africa but also Indonesia.

Government bond yields declined markedly over the quarter due to heightened risk aversion in August when US-China trade tensions escalated. The US 10-year Treasury yield briefly dipped lower than the two-year yield, a yield curve inversion indicating significant economic pessimism among bond investors.

Source: Schroders. 30 September 2019. Please note any past performance mentioned in this document is not a guide to future performance and may not be repeated.

12 MONTH OUTLOOK

🟢🟢🟢 Maximum Positive
🟡 Neutral
🔴🔴🔴 Maximum Negative

	Category	View	Comments
Main Asset Classes	Equities	🟡	Remain neutral on equities, with monetary policy providing a cushion against a weak economic backdrop and geopolitical uncertainty.
	Government Bonds[1]	🟢	Valuations are becoming increasingly stretched, however strengthening price momentum and weak economic indicators mean we keep bonds as defensive positions in portfolios.
	Commodoties[2]	🟡	Remain neutral overall on commodities, with negative carry[4], weakening price momentum and a deteriorating cyclical backdrop offset by our positive view on gold as a hedge against further accommodative monetary policies and geopolitical risks.
	Credit[3]	🟢	With spreads[5] marginally widening in August, dovish[6] central bank language, and demand likely to remain supportive, we retain our positive view.
Equities	US	🟢	Valuation is moderately expensive but not at an alarming level. Earnings downgrades are showing signs of stabilisation.
	UK	🔴	Uncertainties around policy direction including the risk of 'hard Brexit' continue to pose challenges for UK markets.
	Europe	🔴	Consensus forecasts for 2019 earnings have been deteriorating sharply, led by worsening outlook for margins which have recently turned negative.
	Japan	🟡	Export weakness and a strong yen continue to be a drag for equities.
	Pacific ex-Japan	🟡	Growth momentum in the region continues to be weak with expectations of further accommodative monetary policies baked in. The high dividend nature of the market is a positive, but lacklustre earnings prospects keep us neutral.
	Emerging Markets	🟡	Renewed pressures from trade conflicts raise the risks for those markets with an export focus.

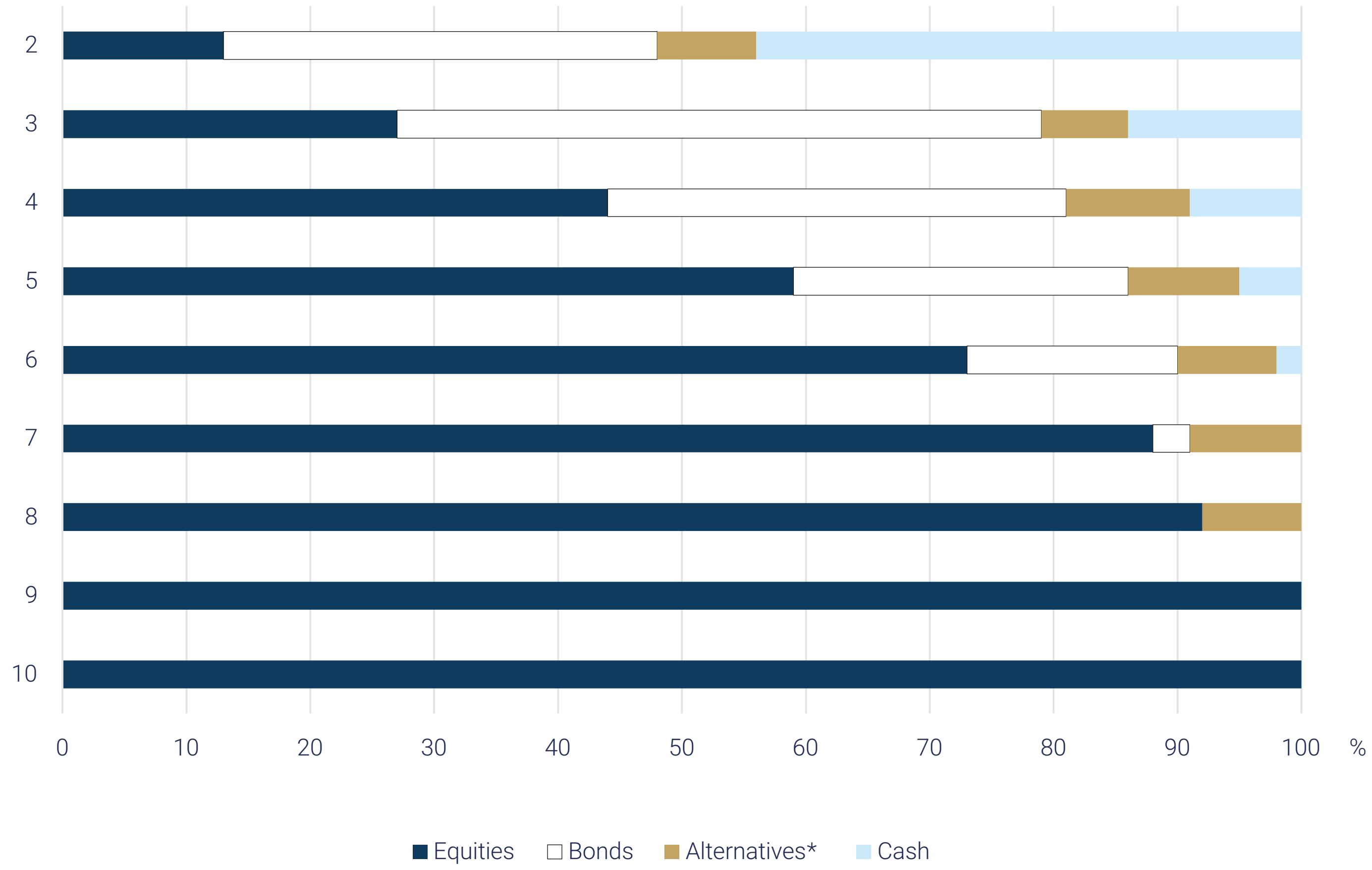
Opinions expressed are not a recommendation to buy and/or sell and do not constitute as investment advice.

Source: Schroders. September 2019. [1]Bonds are a way for governments and companies to raise money from investors. In exchange for an upfront payment from investors, the issuer will make annual interest payments and repay the initial investment amount on a fixed future date. [2]An asset class which encompasses a broad range of physical assets including oil and gas, metals and agricultural produce. [3]A corporate bond, or a bond issued by a company. [4]Carry is an asset's expected total return assuming its price is unchanged. [5]The difference in yield between two different bonds that are the same in all aspects except for the credit rating. [6]When a central bank takes a dovish stance it means it is promoting accommodative monetary policies that usually involve low interest rates.

ASSET ALLOCATION REVIEW

The FW Market Asset Allocation (MAA) range is based on a strategic, long-term assessment of markets and should not change drastically at quarterly reviews.

RISK LEVELS 2-10



As part of your risk profiling, you will agree on a risk level with your financial adviser. A portfolio with the lowest risk level does not mean a risk-free investment.

Source: Fusion. October 2019. *Alternatives include Global High Yield Bonds, Property and Absolute Return funds.

STRATEGIC MODEL PORTFOLIO REVIEW

FW (ACTIVE) PORTFOLIOS

The market calmness at the end of Q3 belies the movements that took place through the quarter overall. There was an increase in volatility which saw equities fluctuate between broadly negative to broadly positive by the end of the period. Key factors included the trade disputes between China and the US and a deteriorating global growth picture which was emphasised more in developed markets than emerging markets. Fixed interest assets generally benefited from central banks' continued move to easing with falling yields delivering strong positive returns.

The FW (Active) Portfolios 2-10 delivered positive returns in the third quarter of 2019, with the main source of growth coming from government bonds. Index linked holdings performed well, based mainly on the longer duration of the funds than any threat to inflation, which has been very subdued in recent months. UK gilt holdings in both Allianz (2-5) and Vanguard (2-6) have also been very strong.

Equity holdings delivered mixed results in Q3. US and Japanese equities achieved strong returns demonstrated through the Artemis US Select (Portfolios 3-9) and JPM Japan (3-10) funds. Negative returns were felt in the European and Asia holdings, where Europe has had a weak quarter economically and Asian value stocks have also underperformed. There was a small recovery in the UK value holdings with both JOHCM UK Dynamic (5-8) and MerianUK Mid Cap (4-9) posting positive returns. The ASI UK Equity Income Unconstrained fund (2, 5-8) struggled during the period due to its UK mid and smaller cap bias.

Within Alternatives, the ThreadneedleUK Property Fund (2-5) was marginally negative but the infrastructure funds (2-8) benefitted from falling rates and suggested fiscal expansion in a number of economies.

In October, the portfolios were rebalanced back in line with their strategic asset allocations across risk levels 2-10. There were no fund changes to the portfolios during Q3.

FW TRACKER PORTFOLIOS

Despite warnings over economic growth, trade wars and political uncertainty, stock markets continued to be robust during Q3 2019. This disguises the volatility we saw particularly in August at the height of trade war tensions. Global growth data has deteriorated and this has provided a negative background for investors throughout 2019, although few fear an outright recession is round the corner at this point. The US continues to be a stable centre of growth but China, which has led the growth picture for over a decade, has seen some further slowing, despite several smaller stimulus packages.

The FW Tracker Portfolios 2-10 delivered positive returns during the third quarter of 2019. The strongest returns came from the fixed interest element of the portfolios, particularly government bonds both traditional and index linked. Longer duration assets have seen strong performance this year and recent interest rate cuts in the US have enhanced returns. Volatility has increased in most asset classes but surprisingly rising more in fixed interest assets as sentiment about global growth and political instability has increased.

Equities have been positive this quarter but only marginally, with areas such as Emerging Markets delivering negative returns. Infrastructure has also been a positive contributor benefitting from the falling yield environment.

The portfolios were rebalanced back in line with their strategic asset allocations across risk levels 2-10 in October. There were no fund changes to the portfolios during Q3.

FW ETHICAL

The FW Ethical Cautious, Balanced and Adventurous portfolios delivered positive returns during the third quarter of 2019 thanks to the continued outperformance of fixed interest assets, particularly government bonds and index linked. The portfolios were also supported by equity investments but these only had a marginally positive effect on overall performance.

Equity investments exhibited volatility during Q3, particularly in August when the trade war rhetoric was at its height. The portfolios benefitted from strong relative performance in the Premier Ethical and BMO Responsible UK Equity Funds. 'Value' biased holdings showed signs of recovery in September, rebalancing some of the 'growth' bias accrued so far this year.

Socially Responsible Investing (SRI) issues continue to gain momentum in the consumer market and firms are ever more conscious of their Environmental, Social and Corporate Governance (ESG) credentials. The portfolios were rebalanced back in line with their strategic asset allocations in October. There were no fund changes during Q3 after several were made earlier in 2019.

FW SCHRODER INCOME

The FW Schroder Income Portfolio aims to deliver a 5% income per year not guaranteed, by investing in a selection of Schroder equity and fixed income funds. The strategy rebalances on a quarterly basis to match the positions within the Schroder Monthly Income Fund[1].

The portfolio delivered a positive return during the quarter but underperformed its sector average[2]. The holding in the Schroder Income MaximiserFund detracted the most from performance during the period. This is due to the contrarian, 'value' approach adopted by the fund, where stocks such as Centrica, Provident Financial and Marks and Spencer fell during the period. As a long-term, contrarian investor, the fund continues to see value in these stocks. Despite the disappointing performance from the fund during the three month period, the Schroder Income MaximiserFund contributed positively towards overall portfolio performance in September and is on track to deliver its 7% p.a. income target by the end of the year. Within fixed income, the bond funds delivered positive returns over the period, with Schroder Sterling Broad Market Bond performing strongest and Schroder Strategic Bond also rising in value.

Source: Fusion. October 2019. [1]Formerly known as the Schroder Mixed Distribution Fund. [2]Investment Association Mixed Investment 20-60% shares average.

TACTICAL PORTFOLIO REVIEW

The FW Tactical range has the flexibility to implement the latest macroeconomic views of the Schroders Multi-Asset team.

PERFORMANCE AND POSITIONING

The financial markets continued to be supported by central banks cutting rates through the third quarter. The Schroder Fusion Portfolios 3-7delivered positive returns in which credit and government debt were the main contributors to performance, while equities also added modest gains.

From a positioning perspective, we shifted the balance of the portfolios to be slightly more defensive, reducing our equity weight over the quarter. Looking at equities first, we closed our low volatility equity position and rotated the proceeds into our broader equity exposure. We also added a Nasdaq equity future which reflects the performance of the top 100 largest non-financial companies traded on the New York Stock Exchange to increase our 'growth'1exposure. In addition, we closed our overweight US equities vs. Japanese equities trade in favour of a more regionally neutral defensive position in the portfolio.

Moving to fixed income, we remain positive on government bonds despite their expensive valuations as concerns over global growth persist. In line with our view of an increased threat of a "No-Deal" Brexit we rotated out of 2-year US Treasuries and increased our allocation to UK gilts of different maturities as this position could benefit from increased political uncertainty. Within credit, we turned positive on the US market while we downgraded our view on Europe as fundamentals continue to weaken. As a result, we took profits on our iShares European Corporate Bond position and added to our iShares US High Yield Fund.

The Schroder Fusion Managed Defensive Fund posted a net return of 1.5% for the quarter as markets saw government bond yields fall, delivering positive returns to the portfolio. Over the quarter, we reduced our allocation to the 'Growth' and 'Inflation' bucket whilst we topped up the 'Slowdown' bucket. The Fund invests based on stages in the cycle: 'Growth', 'Inflation' and 'Slowdown.'* For more information, please speak to your financial adviser. We trimmed all positions across the 'Growth' bucket to 22.1%, reflecting our neutral view on equities, with low interest rates providing a cushion against a soft cyclical backdrop and geopolitical volatility. Moving to the 'Slowdown' bucket, we added new positions through Italian and Spanish government bonds whilst significantly trimming our allocation to German Bunds to 2.9%. This reflects our view that valuations are trading at extreme levels with the European Central Bank (ECB) indicating that they have reached their limits on monetary policy. Within 'Inflation', we trimmed our holdings in both index-linked UK gilts and property. As a result of the shifts between the buckets, our cash position increased from 16.1% in July to 18.3% in September.

Source: Schroders, as at 30 September 2019. *Assets that tend to perform well when the underlying economy is strong, such as equities. Inflation: Assets with returns that tend to reflect changes in the rate of inflation, such as inflation-linked bonds and commodities. Slowdown: Assets that tend to perform well when economic growth is disappointing, such as global sovereign bonds.

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RISK CONSIDERATIONS

- Past performance is not a guide to future performance and may not be repeated
- The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested
- This information is for illustrative purposes only and is not intended as investment advice, nor a solicitation to invest
- You may be exposed to currency risk caused by fluctuations in foreign exchange rates. This can adversely affect the value of your return and the value of your investment
- Unless the performance of an investment meets or exceeds the rate of inflation, the real value of that investment will reduce
- As a result of fees being charged to capital, the distributable income of the fund may be higher but there is the potential that performance or capital value may be eroded
- The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses
- Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty and operational risk
- High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk
- A rise in interest rates generally causes bond prices to fall
- A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless
- In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares
- A derivative may not perform as expected, and may create losses greater than the cost of the derivative

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