FINURA

FINURA PORTFOLIO REVIEW Q4 2019

GLOBAL MARKET REVIEW

The geopolitical risks that dominated markets for much of 2019 faded in Q4, helping global equity markets to post gains. In fixed income, corporate bonds performed well amid the improved investor sentiment.

US equities made robust gains in Q4 as trade uncertainty faded with the US and China's "phase one" trade deal announcement. The Federal Reserve cut interest rates once in the quarter before indicating that "the current stance of monetary policy is appropriate".

Eurozone shares advanced, supported by signs of better economic data from Germany as well as optimism surrounding the US and China trade deal. Christine Lagarde took over as president of the European Central Bank.

UK shares gained. Domestically focused areas of the market performed well amid reduced near-term political uncertainty, following the landslide general election victory for the Conservative Party.

Japanese shares ended higher and the yen weakened slightly against the US dollar. Economic data continued to show a significant divergence between the strength in service sectors and the weakness in manufacturing.

Emerging market equities posted a strong gain. The easing trade tensions benefitted China, South Korea and Taiwan. A pick-up in crude oil prices was supportive of the Russian and Colombian markets.

Bond markets reflected the better mood as government bond yields rose (i.e. prices fell) and corporate bonds performed well.

Source: Schroders. 7th January 2020 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	🟢	Although valuations are beginning to turn expensive, shares still appear attractive relative to both bonds and cash.
	Government Bonds[1]	🟢	We favour bonds with longer maturities, especially those that are inflation-linked. This is because there is ample liquidity (i.e. readily available funds) globally and yield-hunting investors are likely to keep demand high.
	Commodoties[2]	🟢	Global liquidity conditions remain supportive, but unless there is an increase in demand and a slowdown in supply, prices are likely to remain constrained.
	Credit[3]	🟢	Looking at valuations, the recent rise in prices (fall in yields) puts pressure on our overall positive view. However, because demand for corporate bonds remains strong due to central bank policy, we maintain our positive stance.
Equities	US	🟢	Upgraded this month, as economic activity indicators continue to suggest the economy is stabilising. Plus, the recent signing of the US-China trade deal should support company profits.
	UK	🟡	The recent election result provided some confidence to markets. Nevertheless, little has actually been solved in trade negotiations with the EU.
	Europe	🟢	Economic indicators in Europe continue to show signs of a mild recovery. The US-China trade deal should also support European corporate profits going into 2020.
	Japan	🟢	Despite the recent strong performance which has seen valuations rise, we remain positive on Japanese equities. This is because the country's growth outlook continues to improve and valuations remain attractive relative to history.
	Pacific ex-Japan	🟡	Economic indicators are stabilising for both domestic and export areas, and monetary policy support continues to come through.
	Emerging Markets	🟢	While developed market earnings remain fairly stable, emerging market earnings are seeing signs of improvement. At the same time, valuations continue to look attractive relative to their developed market counterparts.

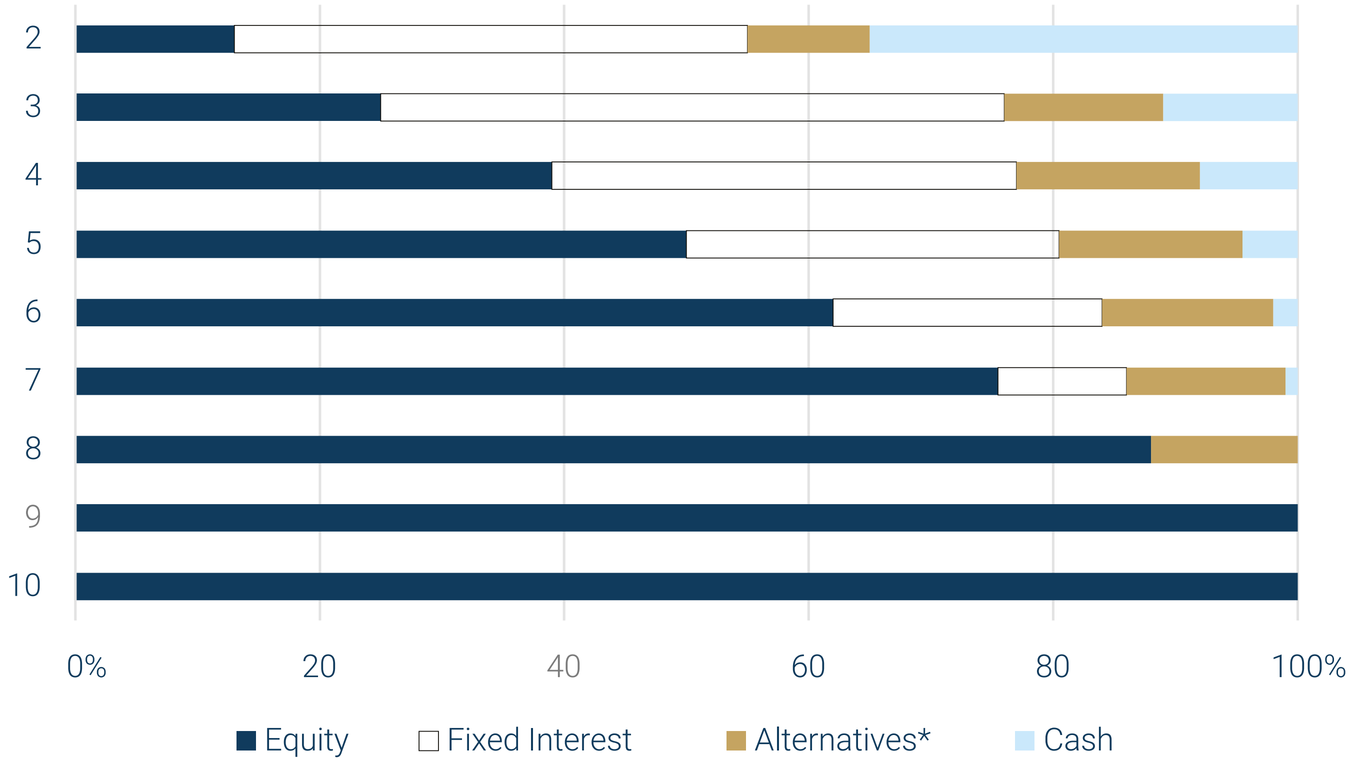
Opinions expressed are not a recommendation to buy and/or sell and do not constitute as investment advice.

Source: Schroders. December 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.

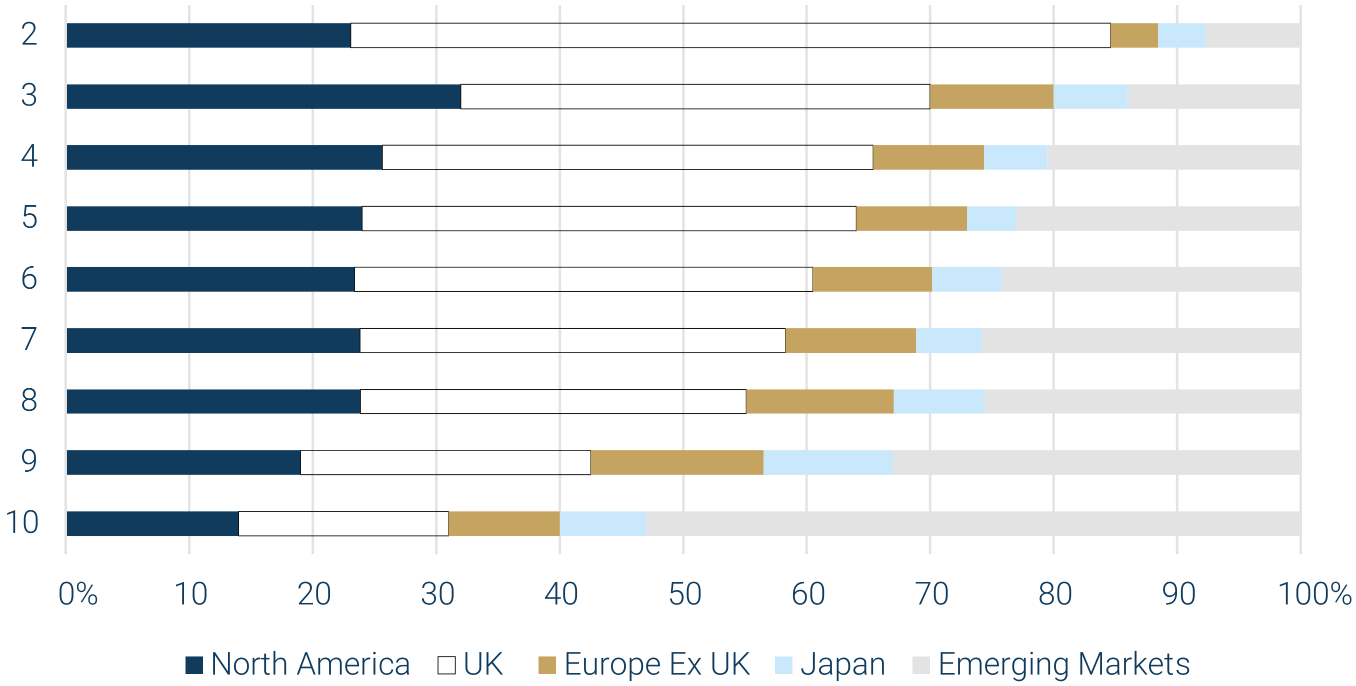
ASSET ALLOCATION REVIEW

The Strategic Asset Allocation (SAA) range is based on a strategic, long-term assessment of markets and is not expected to change significantly at quarterly reviews.

RISK LEVELS 2-10



EQUITY BREAKDOWN FOR EACH RISK LEVEL



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. January 2020. [1]Professional Adviser Global Fund Manager Group of the Year 2019. [2]FW Schroder Income Portfolio has a specific income objective and therefore does not follow the SAA. *Includes Property, Global High Yield Bonds and Absolute Return funds.

STRATEGIC MODEL PORTFOLIO REVIEW

FW (ACTIVE) PORTFOLIOS

FW Active Portfolios 2&3 struggled in the final quarter of 2019 from high allocations to fixed interest assets. UK index-linked gilts and global government bonds produced negative returns and longer-dated assets significantly underperformed shorter-dated assets as bonds yields rose (i.e. prices fell).

FW Active Portfolios 4-10 delivered positive returns. Optimism surrounding the US and China trade deal, alongside expectations the US Federal Reserve would hold interest rates throughout 2020, helped equities register broad gains. European and emerging markets funds offered the best returns, with the UK equity market also enjoying a strong bounce following the outcome of December's general election. In the UK, mid-caps and smaller companies significantly outperformed large companies, helped by the strength of sterling. We also witnessed value outperform growth, in contrast to most other regions.

This quarter, the best absolute return has come from the Franklin UK Smaller Companies fund, finishing a remarkable +15.89% higher. Other noteworthy funds that have performed well relative to their sector include Fidelity Asia +4.89% and Baillie Gifford European +11.92%. The laggard funds were LindsellTrain UK Equity -2.06%, as several stocks had a poor quarter (AG Barr and Pearson) and First State Global Listed Infrastructure -4.14% also struggled, as defensive (bond proxy) stocks endured profit taking.

FW TRACKER PORTFOLIOS

FW Tracker Portfolios 2&3 delivered negative returns in the final quarter of 2019. The weakest returns came from the fixed interest element of the portfolios, particularly government bonds, both traditional and index linked. It is, however, worth noting that up until the fourth quarter it had been an unexpectedly strong year of returns for nearly all areas of the bond market. To illustrate this, the Vanguard UK Government Bond Index was -4.57% in Q4 and, whilst being the weakest component in the portfolio, still stands at +7.47% for the year.

FW Tracker Portfolios 4-10 provided positive returns as their higher allocation to equities outweighed the drag from negative returns in the bond markets. The most consistent returns have come from the UK and emerging market funds, but European and US funds have also added value, although at a lower rate of return. The best performer was the HSBC FTSE 250 Index which returned +11.24% in the quarter. In contrast, the HSBC American Index only delivered +1.6% in Sterling terms as strong currency movements in favour of Sterling dampened returns.

FW ETHICAL PORTFOLIOS

The Ethical Portfolios have continued to outperform this quarter and returns for 2019 are well ahead of their respective benchmarks. In the final quarter, the headwind (as for most mixed asset portfolios) has been the performance of fixed interest assets, which have seen negative returns in both government and investment grade assets. The Rathbone Ethical Bond fund +1.51% has been one of the fixed interest funds that has managed to deliver a positive return thanks to its more flexible mandate.

The regional and global equity funds have been the main source of return, with the Premier Ethical portfolio producing +17.07% in the final quarter, with Liontrust Ethical up just over 12.64%. In other asset classes, UK commercial property returns were marginally negative, influenced by ongoing difficulties in the retail sector. The Threadneedle UK Property fund lost -0.37% over the period.

Socially Responsible Investing (SRI) issues continue to gain momentum in the consumer market and firms are ever more conscious of their Environmental, Social, and Governance (ESG) credentials.

FW SCHRODER INCOME PORTFOLIO

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 FW Schroder Income Portfolio provided a positive return in the final quarter of 2019. The fixed income strategies within the portfolio performed much better than traditional fixed interest funds utilising gilts and investment grade corporate debt. The use of strategic and high yield bonds delivered a better set of returns, using a variety of offsetting strategies, including shorter duration assets and currency hedging which proved beneficial.

Within the equity portion of the portfolio, the holding in the Schroder Income Maximiser Fund was noteworthy for aiding performance during the period, having recovered from a disappointing third quarter in 2019. This was due to the contrarian 'value' approach adopted by the fund and a reasonable outperformance of value over growth in the period.

Source: Fusion. December 2019. [1]Formerly known as the Schroder Mixed Distribution Fund.

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 geopolitical risks that dominated markets for much of 2019 faded in the fourth quarter, helping global equity markets to post gains. In fixed income, corporate bonds performed well amid improved investor sentiment. The Schroder Fusion Portfolios 3-7 delivered largely positive returns in which equity returns were the main contributors to performance. Credit and government debt detracted from performance over the quarter.

Over the quarter, we shifted the balance of the portfolios slightly, increasing our equity weight. Given our view that the risk of a global recession in 2020 has receded somewhat, we moved to overweight equities with an emphasis on Japan and emerging markets. Towards the end of the quarter we balanced out the equity positioning by increasing our US and European exposure, preferring to express our equity overweight on a global basis. Whilst marginally more optimistic on the outlook, we also added Gold to the portfolios in an aim to protect against a possible deterioration in global growth.

In fixed income, we moved to a neutral stance on government bonds. Although a stronger economic recovery in 2020 would justify a more negative view, we continue to see government bonds as a useful hedge against growth disappointment. In the presence of the UK general election and potential future fiscal policy risks, we moved underweight UK government bonds, preferring to take exposure by investing in the US. However, the position was closed towards the end of the quarter when it underperformed. We also downgraded our US government bond view, and reduced our US high yield allocation, predominantly to fund our increased equity position given we see more relative potential upside from investing in equities.

The Schroder Fusion Managed Defensive Fund posted a net return of 0.6% for the quarter as positive Global equity performance offset weakness in credit and government debt. Over the quarter, we increased our allocation to both ‘Growth’ and ‘Slowdown’ assets, whilst reducing our exposure to ‘Inflation’ assets. The Fund invests based on stages in the cycle: ‘Growth’, ‘Inflation’ and ‘Slowdown.’ For more information, please speak to your financial adviser.

We increased our positioning in Growth assets to 28.3%, adding to our equity weight over the quarter, emphasising emerging markets, Japan and Europe. The significant loosening of monetary policy this year has helped underpin market valuations as well as leading to some signs of growth stabilisation. Moving to our Slowdown assets, we further added to positions in Italian and Spanish government bonds, whilst lowering our allocation to both US and German bonds, expecting the potential pickup in global growth to result in higher yields.

Within 'Inflation', we decreased our exposure to UK index-linked gilts and exited our property positioning to help fund our higher equity weighting. We also initiated a new position in gold to protect the portfolio against a potential deterioration in the growth outlook. As a result of the shifts between the assets, our cash position decreased from 15.6% in October to 12.1% in December.

Source: Schroders, as at 31 December 2019.

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

FINURA

Level 2, Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU
T: +44 (0)20 3102 7730 E: enquiries@finurapartners.com W: finurapartners.com