



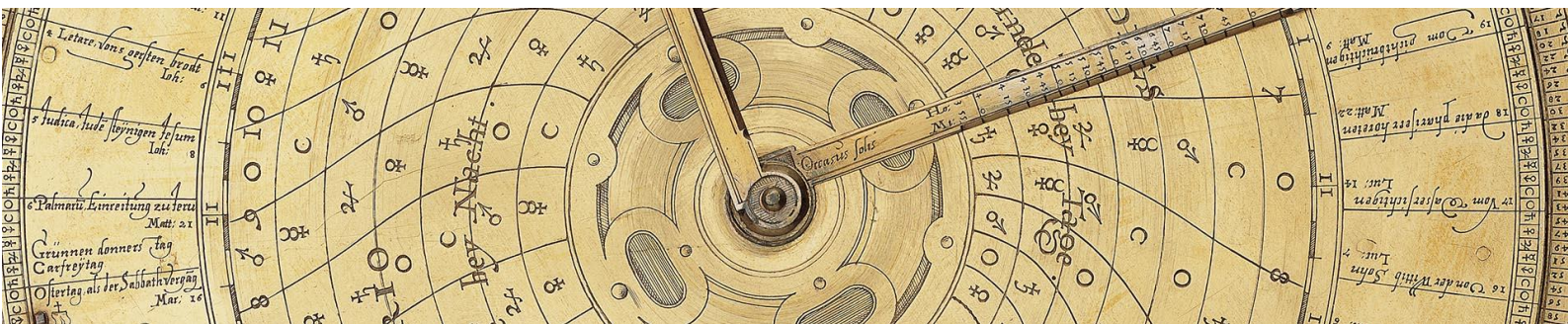
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Bespoke Model Portfolio Service

Quarterly report

January 2020



Q4 2019 market review

Summary

- Supportive Central Banks
- Weaker economic data
- Phase one trade agreement between the US and China

In the last three months of 2019, weak economic data has been offset by lower interest rates from the Federal Reserve, renewed asset purchases from the European Central Bank and the prospect of a 'phase one' US-China trade deal. In the UK, the election result brought some clarity to the outlook for Brexit. As a result, equity markets moved higher with stronger momentum causing many stock indices to close 2019 near to their all-time highs.

Whilst trade and central bank policy has driven global markets, the big news in the UK was the election result, with Boris Johnson securing an 80-seat majority. This victory will allow the Prime Minister to push through his Brexit bill without concerns about defections or the DUP. In addition, Johnson will now occupy a stronger position when entering into trade negotiations than his predecessors, with the numbers in Parliament stacked in his favour. Since the initial Brexit vote, international investors have shunned the UK market, which has since traded cheap relative to other developed markets. However, following the election, there are signs of renewed international interest in the UK market and the discount to other stock markets has narrowed. The pound has been a barometer, measuring swings in sentiment. The currency rallied sharply on the recent election result but has subsequently retreated as Johnson pledged not to extend the transition period beyond 2020. The possibility that a trade deal will not be successfully negotiated in the time available has caused concern for investors.

President Trump's trade policy, and the resulting tariffs, has slowed international activity, particularly constraining the manufacturing sector of the global economy. The Manufacturing Purchasing Managers' Indices in both Germany and the US are below 50, indicating that the sector is contracting. In December, it appeared a 'phase one' trade deal was agreed and an extension of US tariffs on Chinese goods did not materialise. Details have yet to emerge and the extent of this first move and progress on further trade talks will be important. President Trump announced that he will sign the agreement in mid-January so we eagerly await further detail.

The Federal Reserve has been under pressure from Trump to drastically reduce interest rates. Despite lowering interest rates in response to the weaker economic data, it has not acted to nearly the extent the President demanded and is likely to remain cautious. We believe that further rate cuts may depend on economic conditions, rather than political pressure.

Whilst the last quarter has seen a firmer tone for risk assets, many of the uncertainties that have plagued markets may return in the new year. Trade is the key factor for 2020 and this will depend heavily on politicians. Trump's impeachment, and subsequent trial, may prove a distraction but it looks likely that the Senate will divide on party lines and he will see off this challenge. With the US presidential election later this year, a strong economy may benefit his chances of re-election, thus increasing his motivation of coming to an initial agreement with China.

Looking ahead

In the year to come, trade negotiations on both sides of the Atlantic are likely to remain key to the global economic outlook. As developments unfold, this will no doubt add to market volatility, however investors should continue to look through this for longer-term value. With interest rates likely to remain low for a long period of time, equities continue to offer attractive returns relative to bonds.

Performance attribution for the quarter

The last three months ended another eventful year. Weak economic data was offset by lower interest rates from the Federal Reserve, renewed asset purchases from the European Central Bank and the prospect of a 'phase one' US-China trade deal. Investors reacted favourably to these developments with many equity markets across the globe close to, or hitting, all-time highs, while government bond yields remained range-bound.




Positive contributions

	Return	Comment
L&G UK Mid Cap	11.77%	Domestic stocks have outperformed more internationally focused businesses in the UK market, boosting the mid-cap space. The Fund gained over 4% after Johnson secured a significant majority in the House of Commons and investors turned more bullish on the UK economy.
Threadneedle UK Equity Income	6.03%	It is a similar story for Threadneedle Fund, the Fund benefitted from flows back into the asset class as sentiment improved. The value tilt of the portfolio also contributed to performance as investors increased their allocations to these undervalued companies.

Negative contributions

	Return	Comment
Dimensional Inflation Linked	-5.72%	UK Government bonds cancelled out all gains made in Q3 as we saw a reversal of the risk-off trend. As investors became more bullish on the UK economy they sold out of less risky assets in favour of equities, triggering a sell off of UK Gilts. The rally in Sterling following the General Election also caused the Fund to sell off.
Lindsell Train Global Equity	-4.07%	Nick Train's flagship global fund had a difficult quarter, its top 3 holdings; Unilever, Diageo and Heineken all posted negative returns. The Fund remains a top performer over the long term and we remain confident in the quality-growth strategy that has proven its ability to outperform.

Portfolio positioning rationale by asset class

Key
 Increased exposure
 Maintained exposure
 Decreased exposure

Fixed interest

We have reduce the exposure to the Dimensional Inflation Linked Gilts Fund and introduced the Muzinich Global Tactical Credit Fund. This Fund is a defensive and low volatility fund that will act as a good complement to our existing Strategic Bond fund. This move reduces the vulnerability of the portfolio to a rally in Sterling which would casue the Dimensional Fund to pull back.

UK equity

Following the result of the election we decided to further increase our UK equity exposure given its discount to other developed equity markets and the likely return of foreign investors to this previously shunned market. With this in mind, the committee felt it was justified to modestly increase overall UK equity exposure. We have achieved this by using the UK Buffettology Fund which has a very good track record at investing in UK mid cap equities.

Overseas Equity

We completed the rest of the trade into the Fidelity Global Dividend hedged share class. Our previous decision to hedge half of the position has been a positive contribution to performance following the strengthening of Sterling and we felt it was prudent to increase the size of our hedged position with the view that Cable will trade at \$1.30-1.40 over the medium term.

We have included the Vanguard Small Cap Index Tracker to the Balanced, Growth and Adventurous portfolios. This will provide some added small cap exposure to the higher risk portfolios which are currently underweight to the sector. This was funded through a reduction in some of our large cap global funds.

Absolute return

No changes this quarter

Cash

A small amount of cash was deployed in UK equities in the Balanced and Growth models.

In conclusion

- As we ended 2019, the extent of the disruption that the lingering trade uncertainty has caused thus far has become more evident. Any signs of further moves towards a full trade deal will boost markets in 2020, alternatively, a collapse in negotiations could trigger a significant pull back.
- Economic data throughout the year has demonstrated its impact on globalised manufacturing, which, on aggregate, continues to contract. In order to boost confidence, we have seen global central banks ease monetary policy, thereby abating market concerns.

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The market views herein are drawn from the minutes of the LGT Vestra LLP Investment Committee which meets on a monthly basis.