Monthly Commentary

Model Portfolio Service & Volare Multi-Asset Funds, May 2018

MPS and Volare market update and portfolio positioning

April was a very strong month for markets and helped portfolios regain most of the lost ground felt during the first three months of the year. Funds that were most exposed to companies that benefit from a global growth upswing such as value names and cyclical stocks performed the best. For UK investors, the weakness in sterling also benefited performance so the majority of the best performing positions were funds investing in UK equities. The devaluation in sterling was triggered by weaker UK macro economic data including credit data and worsening PMIs. This led investors to expect a delay in interest rate rises by the Bank of England which correspondingly led to a depreciation in the currency. This boosted the FTSE 100 as a result of the benefit to revenues produced abroad, which make up approximately 70% of total revenues of the index.

We remain positive on equities and US macroeconomic data (GDP growth, PMIs, business cycle indicators), along with corporate earnings figures back up this view. Looking specifically at Q1 US earnings season, with 431 out of 500 in the S&P index having reported, sales are up 8.5% and earnings are up 24.2%, and with 2017 being a strong year these figures are particularly impressive. Looking at specific sectors revenues of technology companies are up 15%, consumer services are up 11% and oil & gas companies are up 14%. Our Head of International Equities has stressed that in the US the strong are getting stronger; Amazon has the same level of capex as Exxon (a company that requires billions of dollar investment in oil exploration). Earnings have clearly been boosted by the recent US tax changes but these are a very strong set of results and according to Bloomberg, over 70% of the companies exceeded expectations.

The UK macro data in contrast to the US, has been weaker. Consequently, whilst the Bank of England assesses whether or not this is just the impact of a cold March, they will wait for future meetings to consider an interest rate rise. With the economic situation unclear, the next rate rise moving further out and the UK Cabinet split on Brexit it is becoming harder to justify an outright negative view on gilts, so although we do not hold them directly in the model portfolios and Volare funds we have changed our view on gilts from negative to neutral.

The changes we made to the portfolios last month have had a positive impact already as the UK market has been performing strongly, an area we increased during April. Specific sectors that performed strongly last month were UK value, UK smaller companies, global infrastructure and global cyclicals as a result of the move in currencies and the upswing in sentiment about global growth expectations

MPS Performance and volatility as at 30 April 2018

	Target*			Five year annualised	
	Volatility %	Return % pa	Maximum Loss %	Volatility %	Return %
Defensive	2 to 4.75	3 to 4.5	-5.0	3.86	4.74
Cautious	4 to 7	4.5 to 6	-9.1	4.36	5.61
Balanced	5 to 9	5.2 to 7.5	-13.5	5.71	8.04
Growth	8 to 13	6 to 8	-19.0	6.62	8.98
Adventurous	10 to 16	7 to 10	-25.0	7.19	10.06

***Where targets are given, these are for indication purposes only; the actual figures achieved could be more or less than the ranges given.**

Quarterly figures are net of underlying fund costs but gross of all other charges. Other charges include the LGT Vestra discretionary management fee, the platform custody charge, all adviser charges and where applicable any transaction costs (e.g. ptm / trading charges)

MPS and Volare fund positioning as at 15 May 2018

	Defensive	Cautious	Balanced	Growth	Adventurous	Strategic Income
Fixed Income	**44**	**35**	**19**	**10**	**0**	**45**
Jupiter Strategic Bond	7	8	6			7
M&G Strategic Corporate Bond						6
Threadneedle Credit Opps	8	7				
L&G All Stocks Index Linked Gilt Index	6	4	4	3		
Invesco Perpetual Monthly Income Plus	8	6	6	5		7
AXA US Short Duration High Yield Bond	8	5				7
PIMCO Low Duration Real Return	7	5	3	2		6
BlackRock Fixed Inc Global Opps						6
Invesco Perpetual Corporate Bond						6
UK Equities	**8**	**14**	**22**	**25**	**27**	**17**
Old Mutual UK Smaller Companies			3	5	7	
Marlborough Multi Cap Income						4
Schroder Income Maximiser						4
Threadleneedle UK Equity Income						4
Schroder Income	3	4	7	6	6	
RWC Enhanced Income						5
CF Lindsell Train UK Equity	2	5	6	7	7	
L&G FTSE 100 Index Trust	3	5	6	7	7	
International Equities	**15**	**18**	**40**	**47**	**62**	**23**
Europe	*0*	*0*	*5*	*5*	*9*	*3*
Blackrock European Dynamic			5	5	6	
Blackrock Continental European Income						3
Henderson European Smaller Companies					3	
North America	*4*	*7*	*12*	*16*	*17*	
Vanguard US Equity Index	4	7	6	9	8	
Schroder US Mid Cap			6	7	9	
Asia Pacific	*0*	*3*	*13*	*13*	*19*	*6*
Blackrock Asia Special Situations		3	5	4	4	
Schroder Asian Income Maximiser						6
Baillie Gifford Japanese			3			
Baillie Gifford Japanese Smaller Companies				3	7	
Jupiter India			2	2	3	
Somerset EM Dividend Growth			3	4	5	
Global	*11*	*8*	*10*	*13*	*17*	*14*
Fundsmith	6	5	6	7	7	
River & Mercantile World Recovery Fund				4	5	
Artemis Global Income	5	3	4	2	2	8
Lazard Global Equity Income						6
L&G Technology Index Trust					3	
Alternatives	**26**	**26**	**17**	**16**	**9**	**12**
Absolute Return	*26*	*26*	*17*	*12*	*7*	*9*
Old Mutual Global Equity Absolute Return	8	7	8	5		
BNY Newton Real Return						
Artemis US Absolute Return	7	6				
JP Morgan Global Macro Opportunities	4	6	6	7	7	4
Troy Trojan O	7	7	3			
Invesco Perpetual Global Targeted Income						5
Property/Infrastructure	*0*	*0*	*0*	*4*	*2*	*3*
Lazard Global Listed Infrastructure				4	2	3
Cash	**7**	**7**	**2**	**2**	**2**	**3**
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**

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