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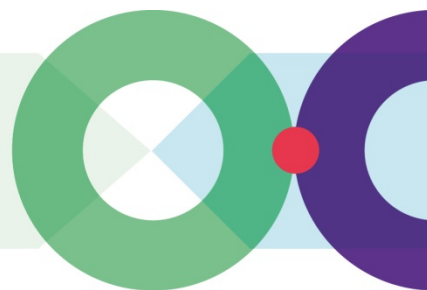
Psigma Investment Management



Psigma Asset Class Outlook

Q1 2019

The Psigma Investment Team meet quarterly to review and update their five years asset class, inflation and interest forecasts. This meeting is the central pillar of the Psigma Investment Process and the report is compiled to help you understand any key decisions we have made or will make in the foreseeable future across our client portfolios.



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Psigma's Key Views On Financial Markets & the Global Economy

- **2018 was a challenging time for all major asset markets**, with volatility significantly higher than the relaxed environment we enjoyed in 2017. Positive returns were almost impossible to come by and we believe that the challenges are here to stay as we head deeper into 2019.
- **Many commentators were surprised** by the change in market behaviour, as it came at a time when the global economy was expanding and corporate profits grew at a healthy pace. However, our view was that **the global outlook had become more uncertain** and when this was combined with high valuations and creeping complacency, it spelt trouble for investors.
- Our early expectations this year are that **we expect a year of around trend growth** from the global economy, but that the chances are that we have seen the best of the growth for this particular economic cycle and that **downside risks certainly exist**. We constantly stress that **we need to keep an "open-mind"** about any economic projections, as there remain a confluence of major factors providing a genuinely uncertain short-term future. However, **we now expect a slowdown in global growth** in 2019 as this economic cycle comes towards an end, before a possible recession in 2020.
- Whilst we are starting to think about an end to this business cycle, loose fiscal policies in the US and continued "pent-up" economic demand could potentially lengthen the cycle further. On the negative side, the positive "credit impulse" from China has slowed **and liquidity in the global economy is tightening**. Any concrete signs of a change in either of those dynamics could be supportive of economic output and market direction.
- The key factors behind the recent market oscillations have been concerns over global trade, rising market interest rates and signs of a return of inflation. Global trade grew impressively in 2017, but with the opening salvo of a mutually-impairing trade war between the US and China having been fired, obstacles to free trade have been raised and this is undoubtedly a key concern we need to monitor as 2019 progresses. **It could well be that a deal emerges between the US and China, but we are sceptical that it will be particularly impressive over the long run.**
- The biggest change over the last 18 months, in our opinion, has been the change in central bank mind-set from "loosening" to "tightening". The US Federal Reserve (Fed) has been raising interest rates and reducing their balance sheet through quantitative tightening, ensuring a tighter liquidity environment for investors. Interestingly investors have now switched their projections for the Fed raising interest rates further to join us in a view that **the Fed will struggle to raise rates this year**. If the Fed were to confirm an end to their tightening bias then markets could well rejoice in the short term.
- Bond yields and borrowing costs were also given added upward pressure last year from the spending intentions of the US government, which has decided to pursue an extremely loose approach to its finances to spur further growth. When combined with the tax cuts afforded to US companies and consumers at the end of 2017, **the cost could well be extremely high to the future generations with question marks hanging over the efficiency of the spending**. It could also lead to a further structural shift lower in the US dollar over the next decade.

Psigma's Key Views On Financial Markets & the Global Economy (Continued)

- Another by-product of the US government's splurge could well be a **further inflationary push**. Certainly, the days of disinflation and deflationary fears appear to be behind us and inflation uncertainty has risen. Notably **nobody is now worried about inflation and this is something that should therefore concern us**. Certainly wage growth seems to have some long overdue upward pressure and this could feed through into inflation rates.
- In the UK, the Monetary Policy Committee (MPC) raised rates in August 2018, although we are not convinced by this decision and recognise that their own forecasting powers are not strong and they are prone to change their minds. **We are sceptical about the merits of the MPC's change in policy towards a moderate tightening bias**, with the UK economy still lingering under a fog of political and economic uncertainty.
- In Europe, there finally seems to be a commitment to bring to an end the insanely loose monetary policy that has been in place for the last few years and notably the European Central Bank stopped further asset purchases at the end of 2018. This is a dynamic that might have **major consequences for investors** and we might start to discover what price certain assets should be without indiscriminate purchases from central banks distorting financial markets.
- Our asset class forecasts are predicting that **future returns from equity and fixed interest markets will be lower than they have been through history**, although after the recent sell-off we now expect **higher returns from developed world equities in the years ahead** than we previously expected. Returns will still likely be lower in the future than they have been in the past, but **we believe that "realism" is appropriate** at a time when asset valuations are not cheap and the economic potential of the developed world, in particular, is lower than it has been for the last 50 years.
- Our portfolios are positioned with a **"neutral with a hint of caution"** stance, with high levels of diversification and a healthy cash buffer. This helped to partially protect against the volatility of all major asset markets last year, particularly in the early and late months of this year. In recent months we have been moderating our risk allocations tactically and have **temporarily had more of a "risk on" approach**, although this is more of a short term call to reflect oversold markets. There had been a shift in the underlying components of our portfolios to **allow us to benefit from the improvement in market sentiment** over the last few weeks. However, we are **continuing to operate with a flexible mind-set** as to our next strategy moves, as we head deeper into this New Year.
- We are ready to **take advantage of selective opportunities** as they present themselves with emerging market assets chief amongst the investments that we are reviewing for possible increases. Other investments that have performed badly could also be ripe for an increase, despite our core view that the **there is a "new regime" for the global economy and financial markets and we need to be more respectful of growing volatility and rising risks**, while remaining alert to any opportunities that come our way. The **key advice we can have for all investors at this time is to be very "open-minded"** about one's ongoing investment strategy.

Key Themes within Our Portfolios

Global Defensive 25% of Portfolio	<p>We have maintained some "reassuringly expensive" defensive equity exposure, through global multinationals with strong brands, more often than not with a tech bias. Also known as our "Nifty Fifty" theme.</p> <p>Fund example: Loomis Sayles Global Growth Equity.</p>
Inflation Insurance 20% of Portfolio	<p>Finding inflation protection is hard, but we favour global and inflation-linked bonds over UK inflation linked bonds.</p> <p>Fund example: Fidelity Global Inflation Linked Bond.</p>
EM Growth 15% of Portfolio	<p>Arguably one of the more exciting themes in our portfolios. We particularly like India, given the positive growth dynamics and favourable political backdrop, as well as more broadly the unloved consumer cyclicals across the region.</p> <p>Fund Example: BlackRock Asian Growth Leaders.</p>
Yield 25% of Portfolio	<p>The "hunt for yield" persists in global markets. We still hold positions in asset backed securities and a specialist high yield fund to supplement our existing income selections.</p> <p>Fund example: Semper US Total Return.</p>
Equity Recovery 15% of Portfolio	<p>Probably our "riskiest" theme, but we favour the value markets like emerging markets, Japan and to a lesser extent Europe, which should be heavily geared to any continuation of the equity market recovery.</p> <p>Fund example: River & Mercantile World Recovery.</p>

Psigma Asset Class Forecasts – Q1 2019

Red illustrates where a forecast/scenario has decreased from last quarter and **Green** illustrates where it has increased. Please refer to the Appendix section of this report for a full description of each of Psigma’s Scenarios.

Scenario	Depression	Mild Recession	Moderate Growth	Strong Recovery	Psigma Five Year Forecast Return	
% Chance	5	30	50	15	Q1 2019	Q4 2018
Cash	0	0	1	2	0.8	0.8
Sovereign Debt	3	2	1	0	1.3	1.6
Investment Grade	4	4	3	2	3.2	3.1
High Yield	0	2	6	7	4.7	4.7
Index Linked	3	3	3	1	2.7	2.7
Developed World Equity	0	1	8	12	6.1	5.5
Emerging Market Equity	0	1	10	14	7.4	7.4
Property	0	3	6	5	4.7	4.7
Resources	0	3	6	10	5.4	4.6
Gold	10	8	4	1	5.1	5.1
Alternatives	2	3	5	6	4.4	4.4

Psigma Inflation and Interest Rate Forecasts

%	2019	2020	2021	2022	2023	Five Year Rolling Average
Five Year Inflation Forecast	2.5	2.0	2.0	2.0	2.0	2.1
Five Year Interest Rate Forecast	1.0	1.5	2.0	2.0	2.0	1.7

Latest Asset Class Preferences (Based on a Psigma Balanced Strategy)

Red illustrates where the asset allocation has decreased from last quarter and **Green** illustrates where it has increased.

Asset Class	Bandwidth %	Neutral Allocation %	Q1 2019 (1 st January) %	Q4 2018 (1 st October) %
Cash	0-10	2.5	3.5	3.75
Sovereign Debt	0-10	5.0	5.0	5.0
Investment Grade	5-15	7.5	15.0	15.0
High Yield	0-10	5.0	10.0	10.0
Index Linked	5-20	10.0	7.5	7.5
Developed World Equity	30-50	42.5	39.75	39.0
Emerging Market Equity	5-10	7.5	5.5	5.5
Property	0-5	2.5	0.0	0.0
Resources	0-5	2.5	1.25	1.25
Gold	0-5	2.5	2.5	2.5
Alternatives	10-15	12.5	10.0	10.5

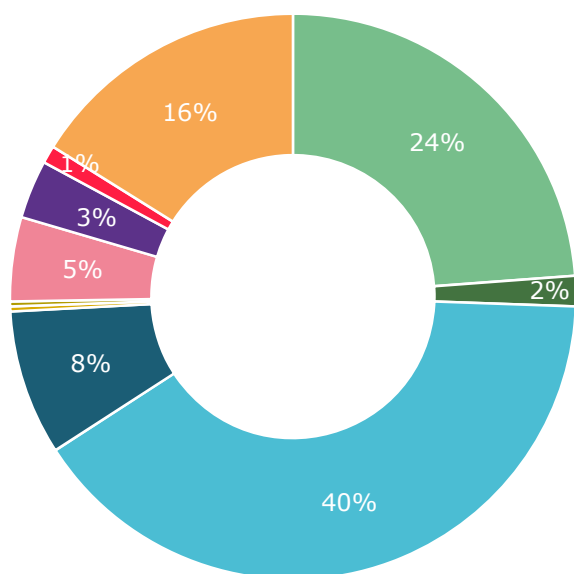
Asset Class Preferences (Based on a Psigma Balanced Strategy)

Asset Class	Short Term View (3 Mths)	Long Term View (1Yr+)	Comments
Cash	Overweight	Underweight	Despite the recent pullback in "risk assets", we have maintained a moderate overweight allocation to cash, given the increased political tensions across the globe and the elevated valuations of many assets. We are using cash allocations for defence and holding back for more attractive opportunities that may present themselves. Volatility has returned in recent months and we remain vigilant of any meaningful shift in sentiment. However, we do envisage that we will be committing further capital in the coming months.
Sovereign Debt	Neutral	Underweight	In the UK, inflation levels have been picking up over the last 18 months, largely due to the impact of weaker sterling following the UK referendum and the subsequent impasse over the terms of any divorce bill. This is increasing pressure on the Bank of England to tighten policy, at the same time that economic data appears to be softening, as the "pinch" from inflation begins to impact consumer spending (c.70% of the economy), arguing for looser monetary policy. This dynamic is causing significant volatility in the bond market, particularly at the short end of the yield curve. At current levels, we still see limited long term value in government bonds, although we remain conscious of the increased economic risks facing the UK.
Investment Grade	Neutral	Neutral	On an absolute and relative basis, corporate bonds now no longer look as appealing as they once did, given the higher yields of government bonds. However, there remain some pockets of opportunity, particularly in the UK, where an attractive "Brexit Premium" has emerged. We have maintained exposure, limiting our investments to boutique managers who remain extremely nimble and focused, which we believe is vital for the months ahead.
High Yield	Neutral	Overweight	As global economic data has started to deteriorate and government bond yields have risen, volatility has returned to the high yield markets as investors have begun reassessing the risks. Despite the heavy sell-off in the asset class in Q4 2018, much of the rise in spread was been driven by government bonds rising, with spreads only returning to around the long-run average. While the asset class no longer looks cheap, we do continue to believe that the asset class is well supported by low but positive growth, low inflation, central bank support (despite US rate hike expectations increasing) and default rates that are expected to remain exceptionally low. Nevertheless, with the yield now of only around 5.5% achievable on a high-quality portfolio of bonds (after hedging costs), we have focussed our allocations on very specific credit opportunities, such as asset backed securities and small cap US high yield bonds, where the risk/return profile is much more favourable.
Index Linked	Neutral	Neutral	We continue to hold our existing positions in index linked bonds. Although inflationary pressures appear to be building, there are a number of remaining disinflationary pulses that are keeping inflation subdued by comparison to history. IL bond prices have reflected this dynamic, exhibiting a significant amount of volatility throughout 2017 and 2018. Where we do have exposure, we have opted to focus on strategies that isolate the "breakeven" or "pure inflation" element of an index-linked bond. Following the weakness in sterling over the last few years, a consequence of Brexit, we have rotated our "unhedged" exposure into "hedged" exposure, preferring to take no further currency risk at this time.

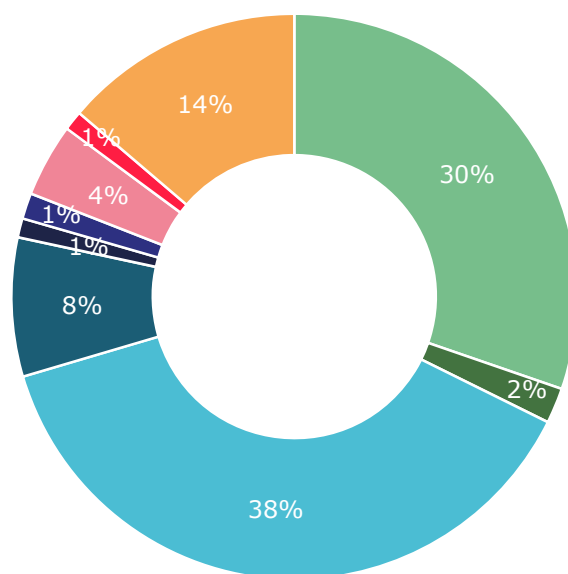
Developed World Equity	Neutral	Neutral	We have a broad split between “quality” and “value” areas of the equity market. “Quality” has performed exceptionally well over the previous few years, with tech in particular continuing to lead the market higher and now looks quite expensive (even after the recent selloff) and remains potentially vulnerable to a continued shift in sentiment. However, we are very conscious of the defensive characteristics of dependable growth companies. On the other hand, value areas of the market have performed poorly over the last few years. The disconnect between “value” and “quality/growth” is now as large as it has been since 1999 and we are attracted by the cheap valuations and further recovery potential. We continue to remain very keen on Japan as a value play and because of specific “corporate change” opportunities.
Emerging Market Equity	Neutral	Overweight	We remain conscious of the potential headwinds for the emerging world caused by increased geopolitical tensions as President Trump follows through on his protectionist policies on trade, and as the US dollar remains strong. However, on balance, we remain positive on the long term growth prospects of EMs and strongly encouraged by the inexpensive valuations, particularly relative to developed peers. Emerging markets have seen huge outflows over the last year, as sentiment has turned sour. We believe we are approaching a point where we should consider adding to our positions. Our preferred markets remain North Asia, where we see exceptional value over the longer term, although we are conscious of the valuation opportunity in more traditional EMs at the current juncture.
Property	Underweight	Underweight	Commercial property looks fair value and our stance remains underweight. Historically, our exposure has been limited to global REITs, which we expected to do well in a low yield environment. Given the inherent linkage to conventional government bonds (“bond proxies”), and after the rise in valuations in March of 2017, we opted to sell our remaining positions, having taken profits several times previously. However, this is an area we are looking very closely at again, as part of our “open minded” approach, particularly given the underlying shift higher in bond yields. We do continue to avoid UK commercial property funds, which remain illiquid and have been plagued with negative pricing swings (mid to bid). The Brexit referendum result in the UK and subsequent impasse on divorce terms has also seen a moderate mark-to-market impact on NAVs. Furthermore, UK property remains incredibly vulnerable to any further deterioration in economic fundamentals.
Resources	Neutral	Neutral	Commodities look fairly attractive as a late cycle investment, benefiting from economic expansion and higher inflation. In recent times, commodities have been buoyed by a synchronised global economic recovery, as well as the prospect of the refocusing stimulatory measures away from monetary easing (QE) to fiscal spending (infrastructure spending). However, over the medium term concerns over developed world policy tightening (end of QE) and any escalation in the slowdown in EMs could continue to provide a headwind for the asset class.
Gold	Neutral	Neutral	We remain relatively positive on gold as a long-term investment. Recent political events herald an uncertain economic future, pointing towards a potentially positive backdrop for the yellow metal. Sentiment appears to have shifted positively in recent months, with gold rallying through a number of key technical levels (to the upside) and once again consolidating gains. We continue to believe that gold acts as both a long term inflation and deflation hedge for portfolios, as well as protection against global politics. Gold equities continue to trade at a very significant discount to gold bullion relative to history and this is where we are currently focussing our allocation.
Alternatives	Neutral	Neutral	We have maintained our focus on managers with a short and diversified bias, given the uncertain backdrop. Our expectation is that volatility is likely to remain high for the foreseeable future. We continue to use our Alternatives weighting to try and add further diversification in an investment environment of high correlations.

Current Regional Equity Allocations (Based on a Psigma Balanced Strategy)

Psigma Balanced Total Regional Exposure



Psigma Composite Total Global Equity Index*



*Our Psigma benchmark is 42.1% DW ex UK, 42.1% UK and 15.8% EM & updated on a quarterly basis.

North America Latin America UK Europe DM Europe EM Africa & Middle East Japan Hedged Japan Unhedged Australasia Asia

Region	Short Term View (3 Mths)	Long Term View (1 Yr +)	Comment
North America	Underweight	Neutral	<p>We remain somewhat cautious on US equities, given their relative outperformance over the past few years. Despite the recent wobble, valuations still look expensive, particularly in certain sectors, both in an absolute sense and relative to other regions. The recent strength of the US dollar is also likely to provide a headwind to corporate profits in the short term, which may offset the immediate benefits of tax reform.</p> <p>Where we have maintained exposure, we continue to favour companies exposed to domestic growth and those benefitting from positive earnings revisions and momentum, such as healthcare and consumer-related stocks. We remain slightly cautious on the FANG stocks, given their run in recent years, high valuations and high retail ownership.</p>
UK	Underweight	Neutral	<p>We remain marginally underweight the UK, given the overhang of the 2016 Brexit vote, as we feel that it will be some time before the full ramifications are known. Having said that, we do now feel that valuations are starting to look attractive, as investors begin pricing in a negative outcome. Sterling weakness in recent years has seen exporters do well, which could continue, although sterling appears to have found a floor and now probably looks about fair value. The UK remains very unpopular and under-owned and we continue to re-evaluate our exposure.</p>
Europe	Neutral	Underweight	<p>We are increasingly cautious on Europe. Fundamentals at both a country and company level remain challenged with recent data shows further signs of deterioration. We also remain concerned about the political contagion effect from "Brexit" and the recent elevated levels of terrorism and political pressure on migration policies, which is likely to indirectly impact trade and tourism across the region. Our exposure remains balanced, operating a barbell approach of cheap "value" and more defensive "quality".</p>

Region	Short Term View (3 Mths)	Long Term View (1 Yr +)	Comment
Japan	Overweight	Overweight	Our exposure is balanced between export companies and domestic cyclicals, which should benefit from the on-going policy actions of Japan's authorities and a return of positive sentiment and synchronised global growth. In 2015 we added a second Japanese fund, focussing on corporate governance, capitalising on the monumental shift in focus in favour of shareholders over corporate management in Japan. Our currency exposure is now balanced, with 50% hedged and 50% unhedged.
Emerging Markets	Neutral	Overweight	<p>Recent concerns have centred on the normalisation of interest rates in the US, the associated strength in the US dollar and growing global trade tensions.</p> <p>We continue to focus specifically on the "higher quality" regions, whilst avoiding those that are perceived to be "lower quality" - those heavily reliant on commodity exports.</p> <p>At the current juncture, we like both emerging market debt and emerging equities. We continue to favour India, where we believe that there is a positive sea change afoot, under the direction of Prime Minister Narendra Modi.</p> <p>Given the rapid deterioration in sentiment to the region in recent months, we continue to re-evaluate our position, with a view to adding to our exposure over the coming months.</p>
Asia	Neutral	Overweight	<p>We are now balanced across the market cap spectrum in Asia but remain heavily exposed to the growing Asian middle-class consumer.</p> <p>At the current time, we still believe that North Asian valuations look more attractive relative to ASEAN peers.</p>

Positive And Negative Contributors from Q4 2018

+	-
<p>Protection: Our positions in hedging instruments and specific alternatives produced welcome positive returns and a buffer in the last months of 2018.</p>	<p>Developed World Equities: It was a truly miserable period for equities with all markets posting majorly negative returns. Our portfolios were very underweight equities.</p>
<p>EM Equities and India Outperform: These unfashionable investments outperformed in Q4 and India made a healthy positive return.</p>	<p>UK Equity Active Funds: Our selected funds had a difficult period in Q4 2018 and both lagged the benchmarks. This was in part down to their positions in UK-focussed companies.</p>
<p>Short Duration Credit Funds: These funds proved very defensive in the late 2018 and our EM short duration fund actually posted a positive return.</p>	<p>Commodities: Our small position in commodities that we bought in Q3 2018 had a tough time and, despite our underweight stance, contributed negatively towards portfolio returns.</p>
<p>Gold Equities: A major recovery in Q4 was long overdue and helped provide a boost to overall returns in the face of a major sell-off in other asset markets. We expect this recovery to continue in 2019.</p>	<p>Value Equities: The divergence between value and growth areas of the equity market widened further. In our view an "inflection point" is likely in the months ahead, given the differential in valuations that now exist.</p>

Appendix - Psigma's Current Four Scenarios

- **Depression**
 - A potential repeat of the 2008/2009 financial crisis or the 1930's Great Depression
 - Flight to safety, investors holding cash, with demand for gold and other traditional safe haven assets such as US Treasuries, Swiss Franc and the US dollar
- **Mild Recession**
 - The global economy does not grow or has negligible economic growth in the next five years
 - Central banks reignite the huge stimulus efforts to avert the full Depression scenario, with investors holding safe haven assets over risky assets
- **Moderate Growth**
 - Continued low growth globally with higher levels of volatility across financial markets and all asset classes. Investors seek yield, through high quality equities and corporate bonds
- **Strong Recovery**
 - Eurozone issues are resolved, Chinese and US growth accelerates, global unemployment falls.
 - Investor confidence returns, with return of risk appetite into cyclical equities, commodities, EM currencies and global financial shares/credits.



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Important information:

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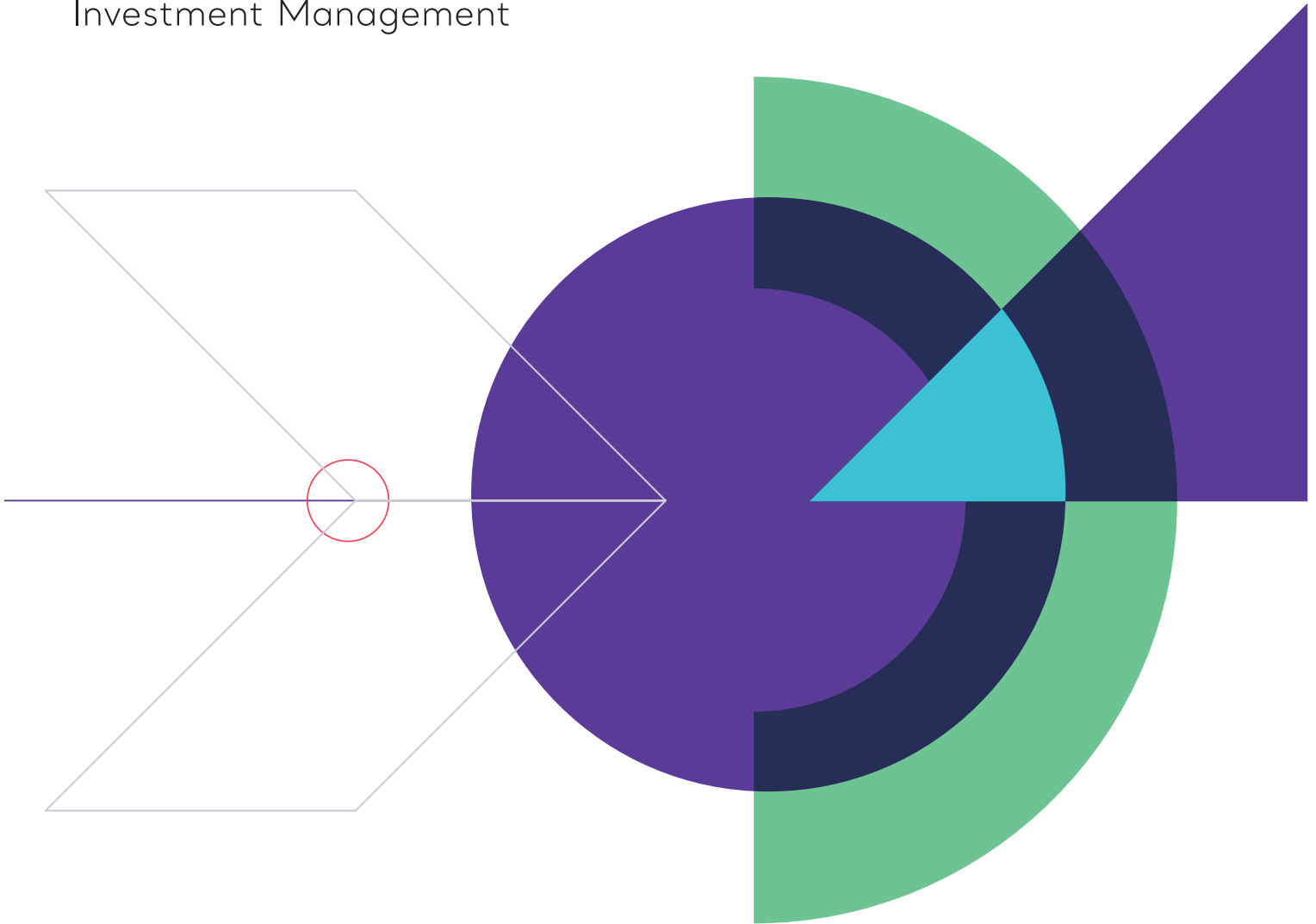
Investment Risks:

- The value of investments and the income from them can fall as well as rise. An investor may not get back the amount of money that he/she invests. Past performance is not a guide to future performance.
- Foreign currency denominated investments are subject to fluctuations in exchange rates that could have a positive or adverse effect on the value of, and income from, the investment.
- Investors should consult their professional advisers on the possible tax and other consequences of their holding any of the investments contained in this publication.

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