AJBell Investcentre

MANAGED PORTFOLIO SERVICE

Multi-asset investing made easy

QUARTERLY REPORTS 2018/2019

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AJBell

Active Managed Portfolio Service – Q3 2018 report

Introduction

We are delighted to bring you the latest quarterly report from AJ Bell Investments.

This report is designed to keep you up-to-date on what is happening with your AJ Bell managed investments. It covers the major macro-economic events of the past three months, looks at how these have impacted the portfolios, and highlights any changes made in the period.

Summary

Over the course of the third quarter, many of the economic tensions that were highlighted in the last quarterly report continued to dominate the markets, with a clear disconnect between the US economy and much of the rest of the world. With the strong US dollar hampering Asia and the emerging markets, equity market returns differed significantly as the focus on fast-growing technology companies drove share prices higher in the US.

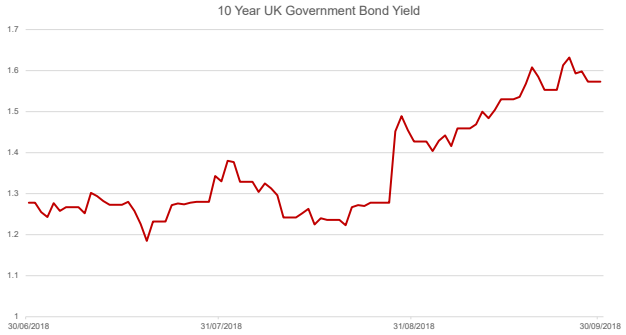
Away from the US, challenges around Brexit and European politics continued to be a factor that investors couldn't ignore and this created some instability in markets, while interest rate rises in both the US and the UK created a more difficult environment for fixed interest investments.

With the trade war escalating between the US and China, the risk of tensions spilling over into a more serious headwind for global growth remain and so investors have clearly been more circumspect in where they have been allocating to over the quarter. There seems little sign of this going away, particularly in the short term, and therefore our expectations are that volatility will increase back towards more normal levels in the coming months.

Economic and market review

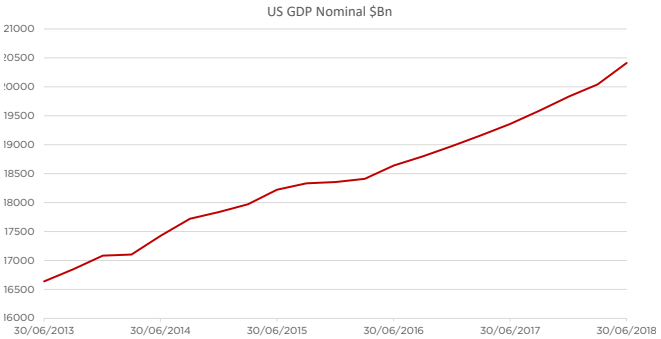
The third quarter of 2018 saw positive performance from equities at an overall level; however, this headline figure masked major regional differences as the fortunes of different economies dictated equity returns. Away from equities, fixed interest markets had a challenging quarter as tighter monetary policy, or at least the threat of it, saw yields in fixed interest rise and capital values fall back.

In the UK, unsurprisingly, the markets have been dictated by the direction of trade talks with the EU. While Theresa May hoped her Chequers plan would help steer the UK to a deal with the EU, it became clear as the quarter progressed that this was highly unlikely, with the EU publically denouncing the proposal at a summit in Salzburg. However, EU officials did make some hints that a deal could be done and this led to sterling regaining some ground against the US dollar, ending the quarter down 1%. With so much revenue in the UK stock market derived from overseas, this currency move held back the market and it ultimately ended the quarter in negative territory. The Bank of England delivered a well flagged interest rate rise in August as economic growth was in line with expectations at 1.5%, helped by consumer spending as England exceeded expectations in the World Cup, while unemployment continued to fall, hitting its lowest level since 1975. These economic conditions saw the 10-year government bond yield move from 1.33% up to 1.60% over the quarter and consequently, the FTSE Actuaries UK Conventional Gilts All Stocks Index fell back 1.7%. Corporate bonds offered a little more protection from these rising rates but the iBoxx UK Sterling All Maturities Index still fell back slightly over the quarter, however high yield bonds were stronger performers, with the Bloomberg Barclays Global High Yield Bond Index growing by 1.9% over the period.



Source: Bloomberg LLP, AJ Bell Investments: October 2018

As has been the case so often, the US market was the strongest-performing region, as economic growth continued to power ahead with the S&P 500 Index growing by 7.6% over the quarter. The latest GDP data showed a 4.2% expansion in the economy while unemployment remained close to an 18-year low as business and consumer confidence, helped by higher earnings, continued to show the economy was in rude health. With this strong economic position, it was no surprise that the Federal Reserve saw fit to increase interest rates as the quarter came to an end and told the market it expected another rise before the year was out. The challenge for Chairman Jerome Powell will now be to control the rate of growth and inflation without the economy getting too hot and interest rates needing to be raised faster than the market expects. In the US government bond market, the yield on the 10-year Treasury climbed back above the 3% level to hit its highest point since mid 2011.



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With Donald Trump sticking resolutely to his 'America first' policy, trade tensions between the US and China escalated sharply over the quarter. With the previously announced trade tariffs coming into force during August, Trump went even further and threatened to apply additional tariffs on a further $200bn of Chinese goods, while also berating the Chinese economic model at a meeting of the United Nations. Initial data out of China showed that the tariffs were already having an effect, with exports to the US falling 2.5% in July.

The trade policy did not only have an impact on China as the strong US dollar weighed heavily on Asia and the emerging markets during the quarter. With a large number of countries having issued government bonds in US dollars, the sharp move in the exchange rate has hit a number of economies hard, including Turkey, India, South Africa and Argentina. Turkey has been hit particularly hard as the US punished the nation for imprisoning a US citizen through punitive tariffs on Turkish steel and aluminium and this has seen the Turkish lira lose over 40% against the US dollar this year. These challenges were reflected in the performance of emerging market debt, with the J.P. Morgan GBI Emerging Market Global Composite Bond Index falling back 1.4% over the period.

Source: Bloomberg LLP, AJ Bell Investments: October 2018

The strong US dollar theme was a continuation of that seen in previous quarters and this made it difficult for Asian and emerging markets to perform. With the Indian rupee losing 5.6% against the dollar and the Chinese renminbi down 3.6% against the dollar, it is clear that some fragility exists in these economies. This has translated itself into equity performance with China and Hong Kong hitting bear market levels with sharp pull backs this year. As a result, the MSCI Emerging Market Index was flat over the quarter while the MSCI AC Asia ex Japan Index was down 1% over the quarter.

Remaining in Asia, Japan had a remarkably strong quarter, powering the Nikkei 225 Index close to levels last seen 27 years ago. This was helped by Prime Minister Abe surviving a no confidence vote and a leadership challenge during the quarter with his opponents looking to capitalise on a number of scandals that have recently dogged his administration. Economic data was improved over the quarter with GDP growth coming in the strongest since early 2017 and noticeably ahead of expectations, helped by strong private demand. A tight labour market saw wage growth hit its highest level for over 20 years and the Bank of Japan will now be hopeful that this translates into higher inflation. With a massive Quantitative Easing programme and zero interest rates, the Bank of Japan changed tack on its policy, with a view to having more flexibility on its yield curve management. This led to a steepening of the yield curve as investors begin to seek greater yield for longer-dated maturities and this shift also saw the government bond yield of other major economies move higher.

Source: Bloomberg LLP, AJ Bell Investments: October 2018

Past performance is not a guide to future performance and some investments need to be held for the long term.

In Europe, economic data improved from a challenging time during the last quarter when data pointed to a slowing economy. Thankfully, GDP growth was revised upwards to 2.2% while inflation also hit the 2% mark as a number of economic indicators, particularly in Germany, showed that confidence was once again picking up. The European Central Bank made no changes to policy over the quarter but did confirm to the market its intention to withdraw Quantitative Easing at the end of the year. The terrible bridge collapse in Genoa in August focused attention on Italy as the government there continues to challenge the EU on its budget plans. This issue is likely to come to a head in early October which will likely make for some volatility in Italian equity and debt markets in the short term.

Market outlook and our positioning

The third quarter was one of significant growth in equity markets when taken on an aggregate level. However, beneath the surface, this headline growth masks a significant divergence in performance that has been led by the US on the back of President Trump's economic stimulus but has simultaneously hit other regions that have suffered due to the strong US dollar. The key question is how long can this continue for and what is already priced in? While the insular nature of the US economy means that it is possible for it to continue to grow while the rests of the world slows, there will come a time when a tipping point is reached.

As ever, it seems fixed interest markets are a little ahead of equity markets and are foreseeing a more challenging outlook but while earnings growth continues in the US and the world's largest economy keeps expanding, it seems possible that equity markets may move higher still. Ultimately, the question may be at what cost to the rest of the world? Emerging markets and Asian economies have certainly been hit hard over the summer and the significant valuation gap that already existed between the US and these markets has only got wider.

In fixed interest markets, we continue with our UK gilts exposure being held entirely in short duration bonds i.e. gilts that mature in less than five years. This position is designed to cushion the blow from rising interest rates and this played out over the third quarter with our short duration gilts outperforming standard gilts as interest rate expectations increased.

Overall, we continue to see opportunities in equity markets but as we highlighted in our last report, we expect to see some increased volatility. This played out in emerging markets and Asia during the summer and could well continue as we enter the latter stages of 2018. As a result, we remain diversified and ready to act should we feel that economic conditions are such that action is required to protect the portfolios further.

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Active Managed Portfolio review – Q3 2018

Active MPS Growth

Amid a much more challenging environment, it is pleasing to report that all of the portfolios managed to deliver a positive return, albeit much more modest than the previous quarter. From their launch in February, all six portfolios have also delivered positive performance.

At a headline level, the allocation to equities was a positive contributor over the period, while fixed interest exposure held back absolute returns. Global equities were up in aggregate terms as economic growth continued to expand, although this was heavily skewed towards the US which motored ahead, fuelled by President Trump's tax cuts and buoyant business and consumer confidence. In the US it was a strongly focused growth market with technology stocks doing particularly well again. With a large proportion of the US exposure coming from a holding in the passively managed Fidelity US Index, the portfolios managed to capture a significant element of this growth. Alongside this passive holding, there is dedicated technology exposure from the Polar Cap Global Technology fund (Portfolio 3-6) and this was particularly beneficial given the market's focus on technology stocks, delivering over 9% during the quarter.

Away from the US, exposure to Japanese equities was helpful in absolute terms. Man GLG Japan Core Alpha performed strongly, growing by over 6% as its value bias was rewarded and this resulted in outperformance of the Topix Index. In Asia, our core exposure to the Invesco Asian fund (Portfolio 2-6) was marginally ahead of its broad-based Asian benchmark. During the period, it was announced that Stuart Parks, who was the previous manager and was acting as an adviser to the fund, was retiring, however, this news hasn't changed our view of the holding given manager Will Lam's long association with the fund. In emerging markets, it was a very challenging environment and our core exposure to the Fidelity Emerging Markets fund (Portfolio 2-6) underperformed sharply as did our more aggressive holding in Jupiter Global Emerging Markets (Portfolio 5-6). Both of these managers were hit by company exposure in Turkey while Chinese equities also performed poorly. While this performance is disappointing, we retain our conviction in these holdings for the long term.

Closer to home, European equities performed well in sterling terms, helped by a weaker currency. Our exposure through the Crux European Special Situations fund (Portfolio 2-6) marginally underperformed as manager Richard Pease focuses away from the mega cap stocks that performed well over this period. In the UK, equities were negative over the quarter but two of our managers performed well, delivering a positive return. Both the Troy Trojan Income fund (Portfolio 1-6) and the Merian UK Smaller Companies fund (formerly called Old Mutual) (Portfolio 6) performed well, albeit utilising very different approaches. Core holding, the Investec UK Alpha fund (Portfolio 3-6) was flat to the index while the Man GLG Undervalued Assets fund (Portfolio 2-6) was a little behind the index.

Within fixed interest, markets were much more challenged as interest rates increased in the US and the UK while expectations of future rises also increased. Both the Fidelity MoneyBuilder Income fund (Portfolio 1-3) and the TwentyFour Corporate Bond fund (Portfolio 1-4) outperformed their passive equivalents. Away from UK bonds, the M&G Global Macro Bond fund outperformed the passive equivalent while the M&G Emerging Markets Bond fund delivered a positive return and outperformed its peer group.

Looking at the tactical asset allocation positions, the lower-risk portfolios remain tilted towards shorter duration gilts on expectations of rising interest rates over time and this has been referenced earlier. The second position is to keep away from physical commercial property owing to challenges that may occur as the economy slows and as uncertainty escalates around Brexit. Late in the quarter, we saw signs that commercial property may be moderating and therefore we retain conviction in the M&G Absolute Return Bond fund and the Janus Henderson UK Absolute Return fund that are held in replacement of property exposure.

Overall, the portfolios have behaved within our expectations from a risk/reward perspective during the recent quarter.

Portfolio changes

We did not make any changes to the portfolios over the quarter. We do however remain focused on ensuring that each of these portfolios is exposed to the most appropriate investments and therefore, should the need arise to undertake changes to the underlying holdings, we will not hesitate to alter the current portfolios' positioning.

During the period, we did make one share class switch where we managed to move to a cheaper share class for the Troy Trojan Income fund, helping to keep the portfolio costs as low as possible.

Active MPS Income

After a very strong second quarter in absolute terms, both Income portfolios had a more muted quarter, but both still managed to deliver a positive return.

At a headline level, equities performed well over the period which was positive for overall portfolio returns, however, the income style of investing lagged the broader market which was much more focused on growth companies. Strongest performance in the portfolio came from the Artemis Global Income fund which performed well in absolute terms and was broadly in line with its peer group. While emerging markets broadly had a difficult quarter as the strength of the US Dollar weighed on many economies, it was pleasing to see that the JPMorgan Emerging Markets Income fund had a good quarter, significantly outperforming the MSCI Emerging Markets Index. It was a similar story with our Asian equity exposure where the defensive nature of the Jupiter Asian Income fund came to the fore, outperforming the MSCI AC Asia ex Japan benchmark and delivering a positive return while broader markets were negative.

Closer to home, those same defensive characteristics were actually a negative in Europe where equities performed well on the back of improving economic prospects. The BlackRock Continental European Income fund performed well in absolute terms but marginally underperformed the MSCI Europe ex UK Index.

In the UK, equities had a more challenging summer and as a result, the FTSE All Share finished the quarter in negative territory. Against this backdrop, the Troy Trojan Income fund, which focuses on higher quality companies that have positive cash flow, performed well, managing to deliver a positive return and significantly outperforming the peer group. Alongside Troy, the Man GLG UK Income fund and the Montanaro UK Income fund both managed to outperform the peer group as their exposure to smaller companies was beneficial to performance.

Looking at the alternative exposure, the allocation to infrastructure equities was negative as the Premier Global Infrastructure holdings had a tough summer. This was due to their exposure to emerging markets infrastructure companies, particularly in China that were sold off along with the rest of emerging market equities. The allocation to property equities was also a detractor over the quarter with the iShares Property ETF falling sharply over the quarter after a strong period of performance. Late in the quarter, this holding was replaced with the iShares MSCI UK Target Real Estate ETF which offers lower-risk exposure to the asset class via holding index-linked gilts alongside property equities. A more detailed note on this change can be found on our website.

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In the fixed interest holdings (Income 1 only), the highlight was the exposure to the Baillie Gifford High Yield Bond fund and M&G Emerging Markets Bond fund which both managed to deliver positive returns over the quarter. The core UK corporate bond exposure via the TwentyFour Corporate Bond fund and the Royal London Corporate Bond fund was slightly negative as the market sold off, while the exposure to UK gilts was mildly negative in absolute terms, however, the focus on short duration gilts was hugely beneficial in protecting capital from the fall in the broader gilt market over the quarter.

While the overall absolute level of performance of the portfolios over the quarter has been frustrating given how strong some equity markets have been, it has been pleasing to see that where markets have sold off, the income characteristics of the investments have proved to be defensive.

Portfolio changes

Late in the quarter, two changes were made to the portfolios. Firstly, as previously mentioned, the iShares Property ETF was replaced with the iShares MSCI UK Target Real Estate ETF to effectively lower the exposure to geared property equities. This change had no effect on the overall cost of the portfolio.

The second change occurred in the Income 2 portfolio, where an investment in the Newton Global Income fund was made. This fund has been introduced to the portfolio with a weight of 8% which has been funded from the Artemis Global Income fund and as a result, the weight here has fallen from 18% to 10%. The change improves the overall blend of the portfolio, as the two funds are very complementary. More detailed information on this change is available on our website.

Additionally, during the quarter, we were able to switch share classes on both the Troy Trojan Income fund and the Premier Global Infrastructure fund to help lower the overall costs on the portfolio.

Fund	3 months	6 months	1 year	Inception*
Active MPS 1	0.73%	2.59%		2.00%
Active MPS 2	1.07%	3.67%		2.31%
Active MPS 3	1.39%	5.28%		3.48%
Active MPS 4	1.45%	6.22%		4.03%
Active MPS 5	1.19%	6.53%		3.86%
Active MPS 6	0.67%	6.03%		3.15%
Active MPS Income 1	0.02%	2.86%		1.97%
Active MPS Income 2	0.27%	5.98%		4.52%

*Active MPS launched on 19 February 2018.
Source: Bloomberg LLP

This report provides general information about the AJ Bell Managed Portfolio Service. It should not be read or construed as investment advice. It is your responsibility to assess your client's circumstances and make a personal recommendation that is suitable for their needs.

The value of investments can go down as well as up and your client may not get back their original investment.

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Passive Managed Portfolio Service – Q3 2018 report

Introduction

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Away from the US, challenges around Brexit and European politics continued to be a factor that investors couldn't ignore and this created some instability in markets, while interest rate rises in both the US and the UK created a more difficult environment for fixed interest investments.

With the trade war escalating between the US and China, the risk of tensions spilling over into a more serious headwind for global growth remain. As a result, investors have clearly been more circumspect in where they have been allocating to over the quarter. There seems little sign of this going away, particularly in the short term and, therefore, our expectations are that volatility will increase back towards more normal levels, in the coming months.

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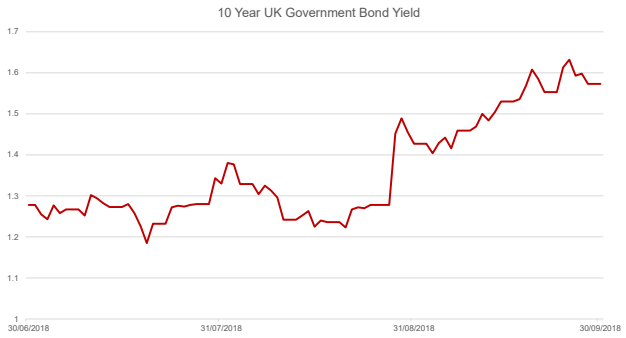

Source: Bloomberg LLP, AJ Bell Investments: October 2018

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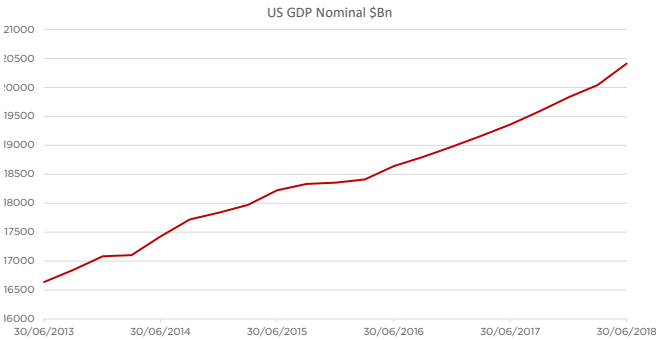

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In fixed interest markets, we continue with our UK gilts exposure being held entirely in short duration bonds i.e. gilts that mature in less than five years. This position is designed to cushion the blow from rising interest rates and this played out over the third quarter with our short duration gilts outperforming standard gilts as interest rate expectations increased.

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Passive Managed Portfolio review – Q3 2018

Introduction

On 19 February 2018, further options were added to the AJ Bell Managed Portfolio Service to sit alongside the existing passively managed portfolios. This now brings the service up to 16 portfolios (eight active and eight passive) offering advisers a strong breadth of choice, with six growth portfolios and two income portfolios for both active and passive investors. The comments below relate to the model performance of the passive portfolio range.

The five original passive portfolios passed through their second anniversary during the quarter. We produced an article (you can find it here) summarising how the portfolios have performed over the last two years. For those of you who don't have time to read the article; we have stolen the motto of a well-known fence care brand – they are doing exactly what it says on the tin!

AJ Bell Investments produces an article every month which aims to be thought-provoking and to provide an insight as to what is going on under the bonnet. In August it was passive's turn, and we took the opportunity to explain how index providers are driving the industry. It perhaps helps to show that picking passive funds within our MPS is not just picking the products with the cheapest cost. If you have any questions on either piece, or are interested to hear in more detail about some of the work the passive team undertakes, please do not hesitate to get in touch with your AJ Bell contact.

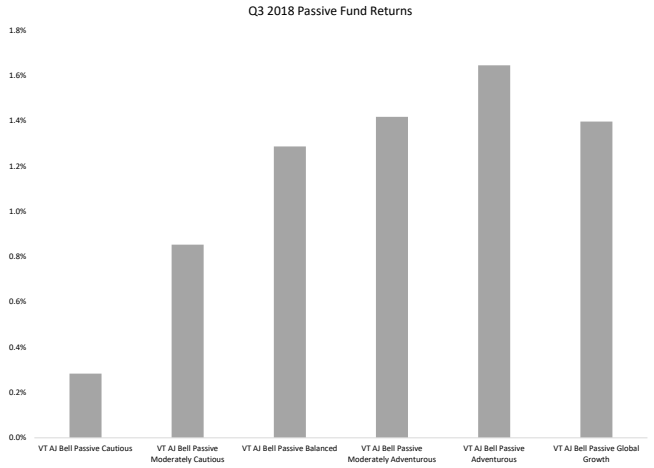
Passive MPS Growth

The quarter was punctuated by a few performance outliers, with everything else tightly bunched and therefore the performance of the portfolios hinged on our weightings in a few key asset classes.

The US was top of the equity market leader board, up 9% over the quarter. This was hotly followed by Japan, up over 7% in sterling terms. The remaining equity regions across the globe were closely grouped, ranging from -1% to +1%. A similar pattern emerged in the fixed income markets; high yield and emerging market debt (hard currency) performed well, both up 3% in sterling terms over the quarter. However, all other major fixed income asset classes delivered negative returns over the last three months.

The strategic asset allocation is designed in such a way as to maximise return for the level of risk taken. To achieve this the allocation has to be suitably diversified and as such has a bias to be underweight the US (which makes up over half of global equity markets) and overweight the UK, as this reduces the currency risk in the portfolio, helping to lower volatility. These biases therefore detracted over the quarter when compared to the 'market portfolio', i.e. a portfolio invested in regions based on their relative sizes. However, these detractors were offset by our use of other asset classes. Our riskiest portfolios have a significant exposure to the technology sector, up 9% over the quarter. With the exception of MPS 6 all the portfolios are overweight Japan, again versus the 'market portfolio'. For fixed income we have diversified away from the traditional asset classes held by UK- based multi asset funds (gilts and corporate bonds), with holdings in emerging market debt, global high yield bonds and global investment grade bonds. This has helped performance, in particular for our lower-risk portfolios, where weightings to defensive asset classes are higher.

All our growth portfolios delivered a positive return over the quarter, a pleasing outcome given the negative performance of many fixed income markets. In addition, the return of the portfolios improved as the amount of risk taken increased – in line with how the portfolios are designed.



Passive MPS Growth Portfolios Q3 2018 return.
Source: Bloomberg, AJ Bell

Portfolio changes

As telegraphed in our Q2 review, a number of changes were made to our growth portfolios at the 18 July 2018 rebalance. An explanation of all the changes, including those made to the income portfolios, can be found here.

The rationales for the changes fitted into one of three categories:

- Cost reduction
- A better reflection of the asset class we are tracking
- Additional diversification benefits

We introduced a cheaper hedged S&P 500 ETF into our MPS 5 portfolio. The old and new holdings were both managed by iShares (BlackRock), as such it was simply a case of implementing a newer (cheaper) product into this portfolio.

We switched our property holdings in all our portfolios, switching from the iShares UK Property ETF to the iShares MSCI Target Real Estate ETF. The MSCI product combines REIT investments with short-dated inflation-linked gilts, producing a return profile more akin to physical property investments.

Finally, we introduced a new holding in our MPS 6 portfolio. We diversified our holding in technology, introducing a 3% weight to iShares Automation & Robotics ETF.

Passive MPS Income

The objective of the Income 1 portfolio is capital preservation over a longer time horizon, and a competitive yield (currently we see this as somewhere close to 4% based on yields for different parts of the market and central bank interest rate policy across the globe). The objective for Income 2 is the same yield target, however it aims to grow capital at least in line with CPI inflation over the longer term.

This equates to around a 4% per annum total return target for Income 1, and around 6% for Income 2.

Over the quarter Income 1 delivered a total return of 0.74% and Income 2 delivered 1.98%, this is pleasing to see as it backs up a very strong Q2 return to bring the return since we launched the portfolios on 19 February this year to 5.89% and 7.29% respectively. Our exposures to global equities and bonds were the main contributors to performance in Income 1, with UK equities, bonds and property proving to be detractors. Our Income 2 portfolio has no exposure to bonds, as such it outperformed Income 1. In a similar pattern, international investments drove returns over the quarter.

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Portfolio changes

As telegraphed in our Q2 review a number of changes were made to our income portfolios at the 18 July 2018 rebalance. An explanation of all the changes, including those made to the growth portfolios, can be found here.

Mirroring the rationale for the growth changes, new positions were implemented to either reduce the underlying OCF or improve benchmark tracking. In some cases the changes achieved both objectives.

We also switched our property holdings in the income portfolios, switching from the iShares UK Property ETF to the iShares MSCI Target Real Estate ETF. The MSCI product combines REIT investments with short-dated, inflation-linked gilts, producing a return profile more akin to physical property investments.

In addition we made a further change in our Income 1 portfolio, switching our high yield ETF from iShares to BMO. This allowed us to move into a hedged share class, move to an ETF that tracks global high yield more closely, and as a bonus has an OCF of 0.35%, 5bps less than the iShares ETF. This had the effect of cutting the overall synthetic OCF of Income 1 from 0.34% to 0.33%.

Performance summary

MPS	3 months	6 months	1 year	Inception*
Passive MPS 1	0.44%	3.10%	3.25%	4.50%
Passive MPS 2	0.98%	4.49%	4.36%	8.37%
Passive MPS 3	1.44%	6.36%	5.94%	12.36%
Passive MPS 4	1.66%	7.50%	7.06%	15.63%
Passive MPS 5	1.90%	8.20%	7.51%	17.48%
Passive MPS 6	1.82%	7.39%		5.05%
Passive MPS Income 1	0.74%	6.33%		5.89%
Passive MPS Income 2	1.98%	8.75%		7.29%

*MPS 1 – 5 launched on 18 August 2016, MPS 6 & Income portfolios launched on 19 February 2018.

Source: Bloomberg LLP

This report provides general information about the AJ Bell Managed Portfolio Service. It should not be read or construed as investment advice. It is your responsibility to assess your client's circumstances and make a personal recommendation that is suitable for their needs.

The value of investments can go down as well as up and your client may not get back their original investment.

Past performance is not a guide to future performance and some investments need to be held for the long term.

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AJBell

Active Managed Portfolio Service – Q4 2018 report

Introduction

We are delighted to bring you the latest quarterly report from AJ Bell Investments.

This report is designed to keep you up-to-date on what is happening with your AJ Bell managed investments. It covers the major macro-economic events of the past three months, looks at how these have impacted the portfolios, and highlights any changes made in the period.

Summary

Over the course of the fourth quarter, market volatility picked up markedly as investors accepted that global growth was likely to slow into 2019, resulting in significant falls in equity markets. This slowing had become evident in economies around the world with the exception of the US but with the Federal Reserve indicating it expected growth to slow, it finally dawned on US investors that they were not immune to a slowing global economy.

Closer to home, once again it was Brexit that dominated the headlines, with huge turmoil affecting the UK government on its proposed withdrawal agreement. With UK politicians unhappy with the deal and the EU saying there was no hope of renegotiation, uncertainty picked up as to what the likely outcome of Brexit would be. It wasn't just the UK that suffered though with Germany, Italy and France all suffering from political challenges that impacted upon markets.

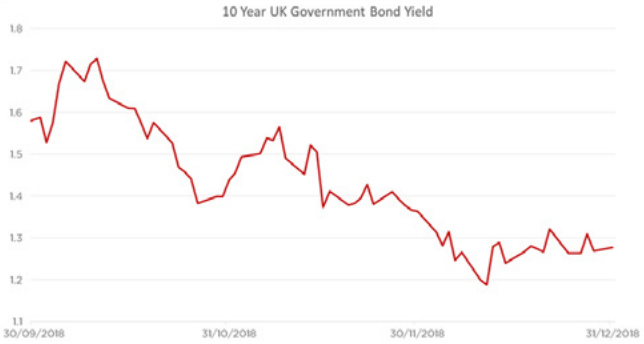
In Asia, slowing growth in China and Japan hit returns while Brazil benefited from pro-business reforms introduced by its new President. However, this was of minor consolation to global investors who suffered significant losses on equity investments, while fixed interest markets offered some protection from the worst of the volatility.

The sharp falls seen over the quarter meant that major equity markets saw their first annual falls since 2011 and brought their worst year since the financial crisis in 2008.

Economic and market review

The fourth quarter of 2018 represented a major shift in performance from that seen earlier in the year with significant falls across equity markets. While earlier in the year it was emerging markets and Asia that suffered, in the final quarter it was the turn of the developed markets with the UK, the US, Europe and Japan all registering double digit falls in their equity markets. Away from equities, fixed interest markets on the whole benefitted from this 'risk off' approach, performing better than for much of the year.

In the UK, it was impossible to escape the looming spectre of Brexit, with Theresa May's government struggling to maintain any coherence once the details of the withdrawal agreement with the EU were announced. With a number of resignations from the cabinet, a confidence vote from her own party and a clear rejection of her deal from MPs, Theresa May clung to her premiership by her fingernails. At this time, it is still unclear if and how the UK will leave the EU on 29 March 2019, with all possible outcomes still an option. Unsurprisingly, this level of uncertainty has not played out well with investors looking at the UK, and this was reflected by a weakening of sterling over the period as well as the FTSE All Share Index which fell by 10.3%. Economically, the UK appeared to be progressing reasonably well early in the quarter, with wage growth reaching its highest level since before the financial crisis, and third-quarter GDP coming in ahead of expectations helped by England's surprising progress in the World Cup! However, as the quarter progressed, momentum slowed, particularly for retail sales as the high street struggled in the run-up to Christmas and traditional Boxing Day sales events were brought forward significantly to before Christmas. The increased concerns over Brexit and economic challenges saw the 10-year government bond yield move from 1.60% down to 1.27% over the quarter, reversing the previous quarter's move, with the FTSE Actuaries UK Conventional Gilts All Stocks Index increasing by 1.9%. Corporate bonds were hit more by the uncertainty, with the iBoxx UK Sterling All Maturities Index falling back slightly over the quarter, while high yield bonds (that are more closely correlated with equities) were hit hard. The Bloomberg Barclays Global High Yield Bond Index fell by 4.2% over the period.



Source: Bloomberg LLP, AJ Bell Investments; January 2019

The US has been the standout performer over 2018 but in the fourth quarter this came to a juddering halt, with the S&P 500 Index falling by over 11%. For much of the quarter economic data from the US was strong, with third-quarter GDP growth coming in ahead of expectations at 3.5%, while unemployment fell back to close to a 50-year low. At the same time consumer confidence and spending were also robust, so it would be easy to ask why there were big falls in equity values. The main drivers for this are two fold; firstly, the concerns over global trade wars remained at the forefront of investors' minds over the quarter. While various comments from President Trump and President Xi of China at the G20 summit appeared to have de-escalated matters, investors remained unconvinced and took fright at how this trade war may disrupt global GDP growth in 2019. The second factor was comments from the Federal Reserve which indicated that it may have started to recognise a slower pace of US growth. While the Fed saw fit to increase the US interest rate in December, the fourth hike this year, it was the comments that accompanied the announcement that caused the concerns, with indications that the economy would need fewer rate rises next year than previously expected. The changing expectations of interest rates saw major volatility in the US 10-year Treasury yield. which climbed to above 3.2% early in the quarter but fell back sharply to 2.7% at the end of the period.

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European economies showed signs of weakness over the period, with even the powerhouse that is Germany struggling. It saw its third-quarter GDP contract for the first time since early 2015, with impacts from new emissions standards for its car industry hitting output. In addition, Chancellor Angela Merkel suffered a significant weakening of her authority in regional elections and announced she would not seek re-election in 2021. Having been in power since 2005, this represents significant uncertainty in the next couple of years for Germany at a crucial time for the EU. Away from Germany, Italy also struggled with slow growth and a political stand-off between the government and the EU, which rejected its initial budget. This impasse created significant volatility in Italian bond and equity markets, particularly for financial companies. In France, President Macron faced huge social unrest as protests - initially at rising fuel prices, but latterly at his overall economic policy - turned into numerous riots in Paris. The 'yellow vests' fought repeated battles with the police and demanded an end to tax cuts for the rich, along with a host of other reforms. Macron caved in on a number of areas but unrest has continued and economic output and confidence in France has taken a major shift downwards. Over the periods, the MSCI Europe ex UK Index fell back 11%.

The emerging markets have seen significant volatility over the course of the year and this continued during the fourth quarter. For much of the year, emerging markets were hurt by a strengthening US dollar and the potential consequences of a trade war between the US and China and this continued to play a major role as the end of the year approached. However, during December, with the US Federal Reserve softening its stance on interest rate rises and the 10-year US Treasury yield falling, emerging markets actually had some respite. While in absolute terms, emerging markets still fell back sharply with the MSCI Emerging Markets Index dropping by 5.3%, they significantly outperformed other global markets. Some of this improved performance came from Brazil where new President Bolsonaro has helped improve both consumer and business confidence with his reform policies. In China, third-quarter GDP came in at 6.5% year-on-year, slightly below expectations but clearly still very strong. The People's Bank of China has recognised the risks from the trade war and implemented some monetary stimulus along with a cut in the reserve requirement for banks in an attempt to boost lending. In India, political risk increased in December when the head of the central bank unexpectedly quit following rumours of interference from central government. Looking at fixed interest in the region, the JPMorgan GBI Emerging Market Global Composite Bond Index increased by 4.9% over the period.

Source: Bloomberg LLP, AJ Bell Investments; January 2019

A series of natural disasters over the summer caused the economy in Japan to decline over the third quarter by 0.3%, although with the government spending significant sums on rebuilding, this was expected to rebound in the fourth quarter. Economic data over the period was mixed, as while manufacturing output continued to grow and new orders also increased, business confidence fell for the seventh month in a row as businesses looked ahead to next year's planned increase in consumption tax and what this will do to an already fragile economy. Over the quarter, the Nikkei 225 Index fell over 12.9%, the first time in eight years that the index has been negative.

Source: Bloomberg LLP, AJ Bell Investments; January 2019

All market performance figures are in GBP.

Market outlook & our positioning

In the last quarterly review, we highlighted that some major risks existed below the surface in the global economy that were perhaps being ignored by equity investors. Over the fourth quarter it would certainly appear that some of these risks have risen rapidly to the surface.

Economic data has changed significantly over the past three months, with investors now accepting that it is highly likely that global economic growth will slow during 2019. This has been recognised by the Federal Reserve in the US which has now indicated a more gradual increase to interest rates is expected next year. Investors have realised, with hindsight, that equity markets had got ahead of themselves over the summer and that a more realistic view should be taken, particularly as this global cycle is already longer than most investors have seen before.

Many of the risks that existed in the summer have not gone away, particularly the trade war that continues to be a headwind to global growth, especially when President Trump gets anywhere near his Twitter app! In addition, risks have escalated in Europe, with political issues spreading to Germany and France while the great unknown in 2019 remains Brexit.

With equity markets having fallen back sharply and valuations now on more realistic levels, it is entirely possible that, should the trade wars dampen down and a path to a soft Brexit be found, equities could well be primed to rally sharply, but of course both of those issues represent a rather large 'if'! However, UK equities are certainly unloved and out of favour given the uncertainties that exist, and as a result, dividend yields have increased significantly. For some, this will make equities an attractive proposition and may well provide a useful cushion against further volatility into 2019.

In fixed interest markets, we continue with our UK gilts exposure being held entirely in short duration bonds, i.e. gilts that mature in less than five years. While this position is designed to cushion the blow from rising interest rates, it also helps protect from significant volatility in the bond market. As a result, we remain very comfortable with this position given the risks that we believe will persist into 2019.

Active Managed Portfolio review – Q4 2018

Active MPS Growth

The fourth quarter was a very challenging one for investors and there was no hiding place, with all portfolios unfortunately registering a negative return over the period.

At an overall level, the allocation to equities was a negative contributor over the period, while some elements of the fixed interest market were positive contributors. With the exception of Asia and the emerging markets, major global equity markets fell by double digit levels as fears over slowing global growth caused investors to sell down equities after a very strong first three quarters of the year. The US, which had been leading the rally this year, fell back sharply over the period and with a large element of the US exposure coming from the Fidelity US Index fund, the portfolios were not immune to these falls. The Dodge & Cox US Stock fund (Portfolio 3-6) was marginally behind the index over the period while the US-focused Polar Cap Global Technology fund (Portfolio 3-6) was hit hard as technology stocks fell sharply after a very strong run of performance.

In the UK, attention was focused on the Brexit negotiations which caused significant volatility in the FTSE All Share Index. The Troy Trojan Income fund (Portfolio 1-6) is typically more defensive than the other UK equity funds and this proved to be the case again during the fourth quarter, as it fell significantly less than peers and the index but unfortunately still fell nonetheless. Both the Investec UK Alpha fund (Portfolio 3-6) and the Man GLG Undervalued Assets fund (Portfolio 2-6) were behind the index while the Merian UK Smaller Companies fund (Portfolio 6) fell sharply as smaller companies were hit hard due to their greater exposure to the UK consumer compared to the more internationally diversified larger companies. In Europe politics was, as ever, a major contributor to negative performance and the Crux European Special Situations fund (Portfolio 2-6) underperformed as growth companies were sold down over the period.

In Asia, our core exposure to the Invesco Asian fund (Portfolio 2-6) was marginally behind its broad-based Asian benchmark after outperforming in the third quarter, while the Schroder Asian Alpha Plus fund (Portfolio 6) was marginally ahead of the index. In emerging markets, the Fidelity Emerging Markets fund (Portfolio 2-6) was a little behind the index over the period while the Jupiter Global Emerging Markets fund (Portfolio 5-6) outperformed after a very tough third quarter.

In Japan, the market was the worst-performing of the major global indices. The Man GLG Japan Undervalued Assets fund focuses on larger companies that are significantly out of favour and this approach managed to marginally outperform the index over the period.

With fixed interest, after a very tough third quarter, performance was positive in some areas as investors looked for an element of safety given the volatility seen in equity markets. The strongest performance came from the M&G Global Macro Bond fund (Portfolio 1-4) which benefited from an allocation to the US dollar which strengthened against sterling over the period, delivering a solid positive return over the period. Also performing well was the M&G Emerging Markets Bond fund (Portfolio 1-5) as investors saw that the yields it offered had once again become attractive.

Closer to home, UK corporate bonds were not as resilient as their overseas counterparts as Brexit uncertainties hit all asset classes. Both the Fidelity MoneyBuilder Income fund (Portfolio 1-3) and the TwentyFour Corporate Bond fund (Portfolio 1-4) fell back a little over the period. In high yield bonds, the market was weak as their correlation with equity markets is higher than other parts of the fixed interest market. The Baillie Gifford High Yield Bond fund (Portfolio 1-5) performed well relative to peers but unfortunately still fell back overall.

Looking at the tactical asset allocation positions, the portfolios remain underweight duration on a long- term basis. This was not as helpful during the quarter as in previous quarters but the Lyxor FTSE UK Gilt 0-5yr ETF (Portfolio 1-4) still delivered a positive return over the period. The second position is to keep away from physical commercial property, owing to challenges that may occur as the economy slows and as uncertainty escalates around Brexit. Over the quarter, the weakness in the UK economy was evidenced in UK commercial property prices with slightly negative performance. Unfortunately, the alternative positions in the M&G Absolute Return Bond fund (Portfolio 1-5) and the Janus Henderson UK Absolute Return fund (Portfolio 1-6) that are held in replacement of property exposure were also negative over the period.

Overall, while the portfolios have behaved within our expectations from a risk/reward perspective during the recent quarter, it is always disappointing to deliver negative performance. The environment was clearly very challenging, however, we retain conviction in the underlying managers and continue to take a long-term view in our approach.

Portfolio changes

We did not make any changes to the portfolios over the quarter. We do however remain focused on ensuring that each of these portfolios is exposed to the most appropriate investments and therefore, should the need arise to undertake changes to the underlying holdings, we will not hesitate to alter the current portfolios' positioning.

The long-term strategic asset allocation is reviewed on an annual basis with implementation made in February. This process is currently close to completion and we will communicate any changes to the overall asset allocation once the changes have been made.

Active MPS Income

Amid a very challenging and volatile environment, both Income portfolios unfortunately fell back sharply as there was little place to hide during the quarter.

At a headline level, equities performed very poorly over the period which was negative for overall portfolio returns, and while the income style of investing outperformed the broader market it was not enough to offset the scale of negative performance from the broader equity market.

In the UK, equities were very challenged as the focus on Brexit negotiations, which seemed to be stalling, caused investors to look away from UK companies. As a result, the FTSE All Share Index performed poorly, creating a difficult environment for investors, however, the defensively positioned Troy Trojan

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Income fund did manage to outperform as its focus on cash generative companies provided some respite from the negativity surrounding UK companies. In addition, the Man GLG UK Income fund also managed to outperform the market, helped by some good stock picking from manager Henry Dixon. The Montanaro UK Income fund had a more difficult period as its focus on small and medium sized companies that are often more exposed to the UK economy struggled as investors preferred larger companies.

Having been the strongest performer in the third quarter, the Artemis Global Income fund had a poor fourth quarter as its focus on value companies was very much out of favour. The Newton Global Income fund (Portfolio 2) fared much better, significantly outperforming the index as its exposure to high quality, cash generative companies was rewarded. However, despite this strong relative performance, the fund still fell in absolute terms.

Looking at regional equity exposure, the BlackRock Continental European Income fund performed well against the index as its approach helped protect against the worst of the falls in European markets. It was a similar picture in both Asia and the emerging markets where the Jupiter Asian Income fund and the JPMorgan Emerging Markets Income fund both outperformed the indices but still fell back in absolute terms.

Away from the equity exposure, the allocation to infrastructure equities was positive as the asset class significantly outperformed global equities, reversing the position seen in the previous quarter. The Premier Global Infrastructure fund performed well and ultimately ended the period fractionally in positive territory as the defensive nature of infrastructure investments came through. The allocation to property equities was also a detractor over the quarter, with the iShares MSCI UK Target Real Estate ETF falling back as investors perceived increased risk from Brexit could hurt the UK economy. International property equities fared a little better but the L&G Global Real Estate Dividend Index still ended the quarter in negative territory.

In the fixed interest holdings (Income 1 only), the highlight was the exposure M&G Emerging Markets Bond fund which performed well as investors saw attraction in the high yields on offer in emerging markets.

Closer to home, UK corporate bonds were not as resilient as their overseas counterparts as Brexit uncertainties hit all asset classes. Both the Royal London Corporate Bond fund and the TwentyFour Corporate Bond fund fell back a little over the period. In high yield bonds, the market was weak as their correlation with equity markets is higher than other parts of the fixed interest market. The Baillie Gifford High Yield Bond fund performed well relative to peers but unfortunately still fell back overall.

Once again, while the overall absolute level of performance of the portfolios over the quarter has been frustrating, it has been pleasing to see that given the equity market sell off, the income characteristics of the investments have proved to be defensive.

Portfolio changes

Having made changes to the portfolios in the previous quarter, there were no additional changes made during the final quarter of the year.

The long-term strategic asset allocation is reviewed on an annual basis, with implementation made in February. This process is currently close to completion and we will communicate any changes to the overall asset allocation once the changes have been made.

Fund	3 months	6 months	1 year	Inception*
Active MPS 1	-2.30%	-1.59%		-0.35%
Active MPS 2	-4.28%	-3.27%		-2.03%
Active MPS 3	-6.38%	-5.08%		-3.08%
Active MPS 4	-7.69%	-6.34%		-3.91%
Active MPS 5	-9.13%	-8.04%		-5.55%
Active MPS 6	-9.85%	-9.24%		-6.91%
Active MPS Income 1	-4.37%	-4.29%		-2.48%
Active MPS Income 2	-7.50%	-7.25%		-3.32%

*Active MPS launched on 19 February 2018.
Source: Bloomberg, AJ Bell Investments; January 2019.

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AJBell

Passive Managed Portfolio Service – Q4 2018 report

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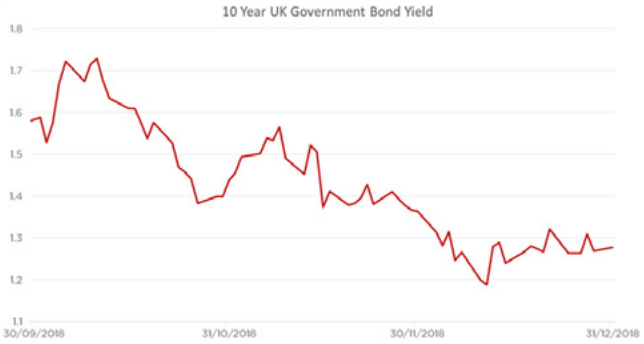
In Asia, slowing growth in China and Japan hit returns while Brazil benefited from pro-business reforms introduced by its new President. However, this was of minor consolation to global investors who suffered significant losses on equity investments, while fixed interest markets offered some protection from the worst of the volatility.

The sharp falls seen over the quarter meant that major equity markets saw their first annual falls since 2011 and brought their worst year since the financial crisis in 2008.

Economic and market review

The fourth quarter of 2018 represented a major shift in performance from that seen earlier in the year with significant falls across equity markets. While earlier in the year it was emerging markets and Asia that suffered, in the final quarter it was the turn of the developed markets with the UK, the US, Europe and Japan all registering double digit falls in their equity markets. Away from equities, fixed interest markets on the whole benefitted from this 'risk off' approach, performing better than for much of the year.

In the UK, it was impossible to escape the looming spectre of Brexit, with Theresa May's government struggling to maintain any coherence once the details of the withdrawal agreement with the EU were announced. With a number of resignations from the cabinet, a confidence vote from her own party and a clear rejection of her deal from MPs, Theresa May clung to her premiership by her fingernails. At this time, it is still unclear if and how the UK will leave the EU on 29 March 2019, with all possible outcomes still an option. Unsurprisingly, this level of uncertainty has not played out well with investors looking at the UK, and this was reflected by a weakening of sterling over the period as well as the FTSE All Share Index which fell by 10.3%. Economically, the UK appeared to be progressing reasonably well early in the quarter, with wage growth reaching its highest level since before the financial crisis, and third-quarter GDP coming in ahead of expectations helped by England's surprising progress in the World Cup! However, as the quarter progressed, momentum slowed, particularly for retail sales as the high street struggled in the run-up to Christmas and traditional Boxing Day sales events were brought forward significantly to before Christmas. The increased concerns over Brexit and economic challenges saw the 10-year government bond yield move from 1.60% down to 1.27% over the quarter, reversing the previous quarter's move, with the FTSE Actuaries UK Conventional Gilts All Stocks Index increasing by 1.9%. Corporate bonds were hit more by the uncertainty, with the iBoxx UK Sterling All Maturities Index falling back slightly over the quarter, while high yield bonds (that are more closely correlated with equities) were hit hard. The Bloomberg Barclays Global High Yield Bond Index fell by 4.2% over the period.



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Many of the risks that existed in the summer have not gone away, particularly the trade war that continues to be a headwind to global growth, especially when President Trump gets anywhere near his Twitter app! In addition, risks have escalated in Europe, with political issues spreading to Germany and France while the great unknown in 2019 remains Brexit.

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With equity markets having fallen back sharply and valuations now on more realistic levels, it is entirely possible that, should the trade wars dampen down and a path to a soft Brexit be found, equities could well be primed to rally sharply, but of course both of those issues represent a rather large 'if'! However, UK equities are certainly unloved and out of favour given the uncertainties that exist, and as a result, dividend yields have increased significantly. For some, this will make equities an attractive proposition and may well provide a useful cushion against further volatility into 2019.

In fixed interest markets, we continue with our UK gilts exposure being held entirely in short duration bonds, i.e. gilts that mature in less than five years. While this position is designed to cushion the blow from rising interest rates, it also helps protect from significant volatility in the bond market. As a result, we remain very comfortable with this position given the risks that we believe will persist into 2019.

Passive Managed Portfolio Review – Q4 2018

The team are committed to working to improve the cost efficiency of the MPS service and this quarter was no exception. This process can involve improvements to the delivery/execution of the service, switches to the holdings within the portfolio (where more competitive options exist in the market) or, explicit reductions in the costs of the service for investors. Whilst Q4 never saw any specific changes we can report, we take the opportunity to reiterate that AJ Bell Investcentre have committed to the removal of the Platform Dealing charges, for the users of the MPS portfolios, effective 1st January 2019. This will help the range be even more cost efficient for advisers and their clients and the work is ongoing and continuous, in order to improve the outcome for AJ Bell MPS users.

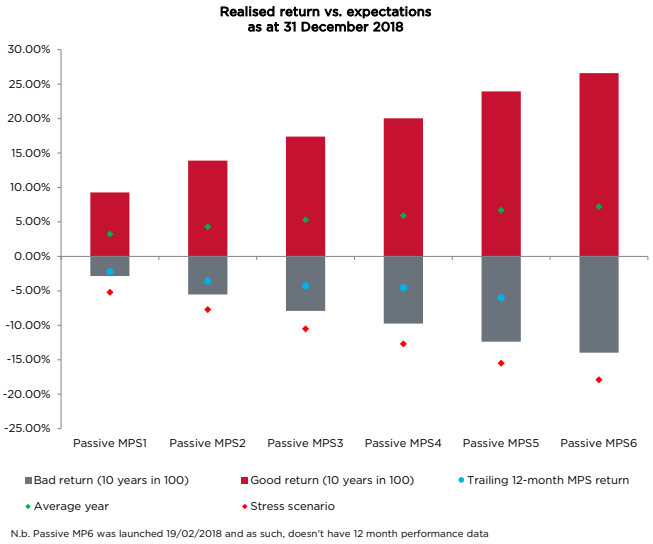
Passive MPS Growth Models

With the performance of the portfolios being a function of the assets held within them, a tough period for financial markets across the board in Q4, meant performance for the passive range was held back. With market participants forced to digest various unsettling situations in the quarter; US/China trade wars, Brexit uncertainty, French fuel protests and EU/Italy budget standoffs, relatively few asset classes escaped unscathed and this was reflected in the performance of the portfolios.

Equities in particular were punished over the period, with all of the major stock markets in the red for the quarter, although, in our portfolios, the worst of the falls were offset by a weaker sterling which cushioned the blow for UK based investors. UK mid-caps were the worst performer, as investors deserted the UK while Brexit uncertainty persisted, with the domestic focused FTSE 250 Index down over 13% on the quarter. Our portfolios are structured with a bias to the UK, versus a market portfolio based on the respective size of global markets and, as such, a poor period for the UK detracted from returns. However, within this UK overweight, the portfolios are tilted to the large cap, internationally focused FTSE 100 Index, which performed better than the FTSE 250 Index, helping to mitigate some of the fall. Hot on the heels of the FTSE 250 Index was Japan (down over 12%) and Europe (down over 10%) as optimism around global growth waned and the concerns of a trade war between the world's largest economies, the US and China escalated. All of the models, with the exception of MPS6 are overweight Japan, so from helping performance last quarter, this positioning weighed on performance in Q4. The trade war rhetoric, allied to a rate hiking cycle in the US, saw the S&P500 Index shift from being the last bastion of positive stock market returns amongst major developed indices prior to December, to posting the worst December in its history (starting 1957), falling over 9% in the month (and over 11% in the quarter), despite a rip-roaring Boxing Day rally, which saw it up over 5% in one day! With all of our models underweight the US, again versus the market portfolio, the portfolios avoided the worst of the falls in US stock markets and the ensuing volatility. Lastly, one of the year's best performing sectors, Technology, saw a reversal of fortunes, falling over 15% in Q4, to leave it clinging onto a positive return for the year. Our risker models have notable weightings toward this sector and, as such, sell offs here hindered the portfolios.

In fixed income markets, things were slightly brighter with UK short dated gilts showing positive returns around 1% in the quarter, while global government and investment grade corporate bonds were up over 3.5%. With our models deliberately more exposed to global fixed income, as opposed to the usual UK gilts and UK corporate bonds seen in most UK based multi-asset models, it was pleasing to see good performance here, which subsequently translated into the portfolios. In particular, this helped our lower risk mandates, where weightings to defensive asset classes are higher. Hard currency emerging market debt i.e. debt denominated in US dollars, while falling in local terms, also showed positive performance, when translated back to sterling, showing gains of almost 2% for UK based investors, again helping the portfolios. Despite gains in fixed income in the main, one area that didn't participate was global high yield, which fell over 4% in local terms and 2% in GBP terms, as the same concerns that hit stock markets, also fed into the riskier fixed income assets.

While the portfolios have suffered in the face of challenging markets this quarter, it should be noted that the returns for the year are in line with the range of expectations that were generated from back-testing of the Strategic Asset Allocation (see graphic below). While these expectations are based on statistical analysis and are not guaranteed, it is further worth noting that performance has remained in the range of "normal" expected outcomes and are not close to the stressed scenarios that we also test for, which should put some context to the moves we've seen recently. Although the market moves have been uncomfortable this quarter, especially given the relatively calm markets we've experienced and became accustomed to over the last few years, we are nowhere near the sort of stress we've seen in the past, 2008 for example and, that being the case, keeping some perspective that these are normal market moves is advised.



**Passive MPS - Trailing 12 month return as at 31/12/2018. The 'Average Year' and range of expected returns are forward-looking and based on a five year time horizon. Source: Bloomberg, AJ Bell*

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Portfolio Changes

With no changes to report for the growth models in Q4, this quarter has been one of taking stock as well as monitoring and researching potential updates for 2019. With all of the major passive providers looking to cut costs to gain market share and notable new entrants into the space in 2018 (L&G's ETF offering, for instance) the team are in the midst of a full market review to ensure that the holdings within the models are best of breed, while the models themselves are as cost and operationally efficient as possible, in order to always offer value for money to investors. To this end, the already advised removal of the AJ Bell platform dealing charge, as of 1st January 2019, will make the model's even more cost efficient, for advisers and their clients.

Passive MPS Income Models

The objective of the Income 1 portfolio is capital preservation over a longer time horizon and a competitive yield. Currently we see this as somewhere close to 4% based on yields for different parts of the market and central bank interest rate policy across the globe. The objective for Income 2 is the same yield target; however, it also aims to grow capital at least in line with CPI inflation over the longer term.

This equates to around a 4% per annum total return target for Income 1 portfolio and around 6% total return target for the Income 2 portfolio.

Income MPS1 delivered a total return of -4.74% for the quarter, while Passive Income MPS2 delivered a return of -6.02%, negating most of the gains seen since the models were launched on 19th February 2018. While it is pleasing that the portfolios still show positive total returns since launch, 0.87% and 0.83% for Passive Income 1 and 2 respectively, it is disappointing to see the final quarter of the year reverse the fortunes of the portfolios, after very attractive returns in Q2 and Q3. With equities in particular struggling in Q4, our significant exposure to UK dividend paying stocks and global stocks in general, hurt the portfolios, with Income 2 hit particularly hard, due to not having any offsetting fixed income allocation, unlike Income 1.

Portfolio Changes

With no changes to report for the income models in Q4, this quarter has been one of taking stock as well as monitoring and researching potential updates for 2019. The passive income space is developing rapidly, with all providers expanding their ranges and offering more choices and ways to generate income for use in passive portfolios and, as such, the team are in the midst of a full market review to ensure that the holdings within the models are best of breed, while the models themselves are as cost and operationally efficient as possible, in order to always offer value for money to investors. To this end, the already advised removal of the AJ Bell platform dealing charge, as of 1st January 2019, will make the model's even more cost efficient, for advisers and their clients.

Performance Summary (All Models)

Portfolio	3 months	6 months	1 year	Inception*
Passive MPS 1	-2.77%	-2.34%	-2.21%	1.61%
Passive MPS 2	-4.61%	-3.68%	-3.58%	3.38%
Passive MPS 3	-6.56%	-5.21%	-4.26%	4.99%
Passive MPS 4	-7.74%	-6.21%	-4.54%	6.68%
Passive MPS 5	-9.11%	-7.38%	-6.02%	6.77%
Passive MPS 6	-9.35%	-7.70%		-4.77%
Passive MPS Income 1	-4.74%	-4.04%		0.87%
Passive MPS Income 2	-6.02%	-4.16%		0.83%

*Passive MPS 1 – 5 launched on 18th August 2016, Passive MPS 6 & Passive Income portfolios launched on 19th February 2018.

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AJ Bell Active MPS – Q1 2019 report

Introduction

We are delighted to bring you the latest quarterly report from AJ Bell Investments which has seen our Active portfolios move through their one-year anniversary.

This report is designed to keep you up-to-date on what is happening with your AJ Bell managed investments. It covers the major macro-economic events of the past three months, looks at how these have impacted the portfolios, and highlights any changes made in the period.

Summary

The start of 2019 has been a complete reversal of the end of 2018, with strong performance from both equities and bonds, and confidence returning after the volatility of last year. Perhaps somewhat strangely, this is amid a backdrop of slowing global growth and signs from central banks around the world that the economic environment is getting more challenging.

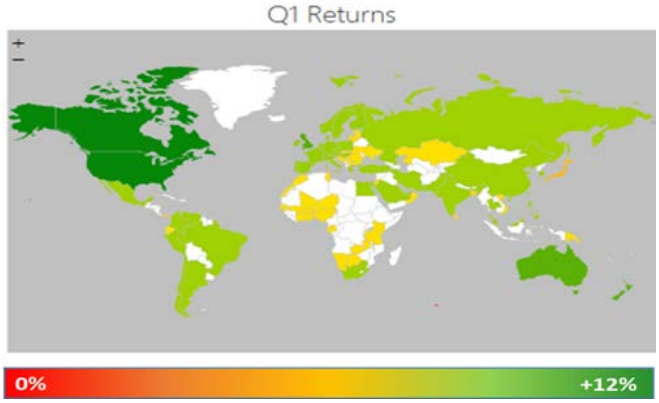
However, equity investors have taken this to mean that central banks will stop tightening monetary policy and become more accommodative, thus helping propel equities higher and indeed bonds too as the prospect of rapidly rising interest rates receded.

In the UK, Brexit seems no closer to being delivered, while Germany has struggled to grow and France continues to battle its own citizens amid discontent over President Macron's reforms. The positive story seems to be around the trade war between the US and China that has showed signs of being amicably resolved and this has certainly boosted investor confidence through the first quarter of the year.

Economic and market review

The first quarter of 2019 saw a complete rebound from the turmoil, volatility and sharp falls in markets that were seen as 2018 came to an end, with all major equity markets rallying strongly as confidence returned to investors. This time it was the US that led the way as fears over the potential for the Federal Reserve to raise interest rates too far subsided. However, UK equities lagged most major markets as uncertainties surrounding Brexit worried investors. Away from equities, fixed interest markets also had a strong quarter, particularly high-risk assets which benefited from improved investor confidence.

Across the regions, the US, Europe and Asia saw double digit returns in local currency terms, with the FTSE All-Share total return just below 10%. In what was a volatile quarter for sterling, it ended the quarter up against major currencies, which lowered international equity returns when converted back to sterling.



Source: Bloomberg LP, AJ Bell Investments, April 2019

In the UK, it was Brexit that unsurprisingly dominated the headlines for the entire quarter as the 29 March leaving date moved ever closer. With Theresa May failing to get her deal approved by Parliament, then losing control of the order papers and then saying she would resign if her deal was passed, it was a tumultuous three months for the Prime Minister as she had little choice but to extend the date that Britain would leave the EU. By the time you are reading this, frankly anything could have happened so apologies if this narrative appears out of date! Unsurprisingly, this uncertainty started to show in the economic data during the period with GDP falling back to an annualised rate of 1.3% while business confidence also fell back. One bright spot was that unemployment fell to its lowest level since 1975. As the end of the quarter arrived, the potential for a delay in the UK's departure from the EU saw larger UK companies surge in value, with the FTSE All Share Index returning 9.4% over the quarter.

The bond market reacted to the heightened risk with yields tightening sharply, resulting in the 10-year gilt yield falling back below 1% for the first time since mid-2017 – which helped the FTSE Actuaries UK Conventional Gilts All Stocks Index rally by 3.4%. With the risk-on environment, credit risk was rewarded, helping corporate bonds to perform well, with the iBoxx UK Sterling All Maturities Index increasing by 4.8% over the quarter, while high-yield bonds (that are more closely correlated with equities) performed even more strongly as the Bloomberg Barclays Global High Yield Bond Index increased by 6.3% over the period. Moves in sterling were significant over the quarter, with a strengthening against most major currencies during the period. This meant that returns from other markets were lower than they were in local currency terms.

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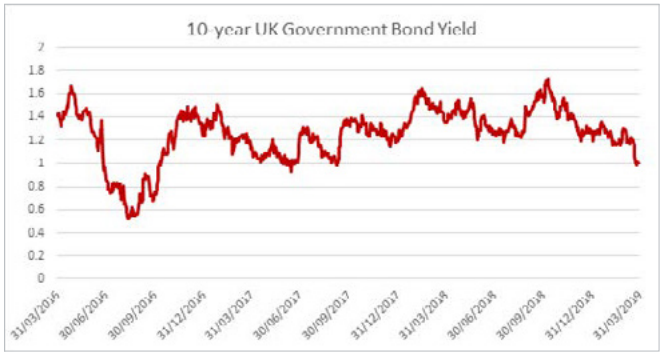
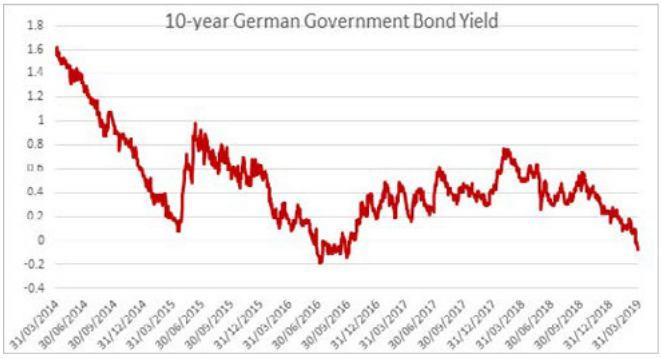


Source: Bloomberg LP, AJ Bell Investments, April 2019



Source: Bloomberg LP, AJ Bell Investments, April 2019

Having been very weak in Q4 2018, the US bounced back strongly in Q1 following a truce in the trade war with China and a clear signal from the Federal Reserve that interest rates were highly unlikely to rise this year. With economic data being delayed at the start of the year due to the government shutdown over the lack of budget approval, it took until the end of March before the final GDP data was known. This came in below expectations and was sharply lower than earlier in the year, and this would have been at the forefront of Jerome Powell's mind at the Federal Reserve when the announcement came that rates were unlikely to increase again this year. Tucked away in the statement was also the news that US growth was expected to be 1% less than previously expected at 2.1% for 2019, giving a clear indication that global growth is slowing down – something that has been mentioned in these quarterly updates previously. However, business confidence remained reasonably strong while consumer confidence got better throughout the quarter. At the same time, the labour market remained tight, with low unemployment and strong wage growth. This backdrop saw equities perform strongly, with the S&P 500 Index increasing by 10.9% over the period. The changing narrative from the Federal Reserve saw interest rate expectations change markedly and as a result the US 10-year Treasury yield fell from 2.7% at the start of the year to 2.4% at the end of the quarter.

Source: Bloomberg LP, AJ Bell Investments, April 2019

The weakness seen in Europe in the latter stages of 2018 continued into 2019 as a slowing China impacted upon the major export economies of the region. This was especially evident in Germany, which recorded no growth at all in the final quarter, while PMI data showed that manufacturing was contracting in the first months of the year. The slowdown was sufficient to see the Chief Economist of the European Central Bank say that it had been broader and more persistent and indicated that further support from the ECB may be required. Late in March, German manufacturing data collapsed, causing much alarm for European investors. The result was that the yield on the German 10-year Bund turned negative once again for the first time since the summer of 2016, showing just how worried investors are that a European slowdown may well be very difficult to exit. Over the period, the MSCI Europe ex UK Index grew by 8.0%.

Focus in emerging markets was very much on China, particularly given the ongoing trade discussions with the US. Signs that the talks were progressing well helped investor sentiment and there was hope as the quarter ended that a positive resolution would be found. At the same time, the Chinese government continued to provide stimulus to help manage the slowing economy, with a cut to the reserve ratio requirement for Chinese banks. In Brazil, volatility picked up sharply towards the end of the quarter as controversial pension reform struggled to pass in parliament, with the failure causing the equity market and currency to fall sharply. In Turkey, attention again turned to the fragility of the currency, as it did last summer, with the Turkish Lira falling sharply against major currencies as confidence drained away from President Erdogan and the recession began to take hold. Over the course of the quarter, the MSCI Emerging Markets Index rallied 7.4%. Looking at fixed interest in the region, the JPMorgan GBI Emerging Market Global Composite Bond Index increased by 0.70% over the period.

The Japanese economy bounced back in the fourth quarter of 2018 to register solid GDP growth after the sharp slowdown earlier in the year. However, it wasn't all good news, as manufacturing data weakened over the quarter while consumer confidence steadily declined as the close trade links to a slowing China hampered progress. Over the quarter, the Topix Index increased by 4.6% as broader global investor confidence pulled equities higher.

Summary of contributors and detractors by asset class:

Asset Asset Allocation Contributors and Dectractors

	Risk Profile					
Top Contributors*	**1**	**2**	**3**	**4**	**5**	**6**
1	UK Corporate Bonds	North American Equities	UK Large Cap Equities	UK Large Cap Equities	UK Large Cap Equities	UK Large Cap Equities
2	North American Equities	UK Corporate Bonds	North American Equities	North American Equities	North American Equities	Emerging Market Equities
3	UK Large Cap Equities	UK Large Cap Equities	Technology Equities	Technology Equities	Technology Equities	North American Equities

	Risk Profile					
Top Detractors*	**1**	**2**	**3**	**4**	**5**	**6**
1	International Bonds	International Bonds	International Bonds	International Bonds	Health Care Equities	Health Care Equities
2	Health Care Equities	Health Care Equities	Health Care Equities	Health Care Equities		
3						

*excludes alternative investments, due to different implementation routes across portfolio

Source: Bloomberg LP, AJ Bell Investments, April 2019

All market performance figures are in GBP

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Active Managed Portfolio review – Q1 2019

Active MPS performance

2019 has started very much on the front foot, with positive returns being seen across the portfolio both from equities and from fixed interest. With equities performing strongly, it was no surprise to see big contributions coming from this exposure across the portfolios, while risk was also rewarded in fixed interest with strong performance across the fixed interest spectrum.

With strong absolute returns almost across the board, it was a good quarter for the portfolios, particularly in the higher-risk end of the spectrum where equity exposure is high.

In the UK, core equity exposure performed strongly with the Troy Trojan Income and the Man GLG Undervalued Assets funds (Portfolios 1-6) both outperforming the FTSE All Share Index, while the Investec UK Alpha fund (Portfolios 3-6) also outperformed. During the quarter, the Merian UK Smaller Companies fund (Portfolio 6) was replaced with the Tellworth UK Smaller Companies fund which was also added to Portfolio 5.

In the US, the Dodge & Cox US Stock fund (Portfolios 3-6) was behind the index over the period as its value style underperformed, while the US-focused Polar Cap Global Technology fund (Portfolios 3-6) bounced back strongly, delivering the best performance of any holding. During the period, the JP Morgan US Equity Income fund was added to Portfolios 1-2.

In Europe, exposure was reduced as part of the annual asset allocation update. Over the quarter, the Crux European Special Situations fund finished marginally behind the index as large cap equities outperformed the mid cap area.

In Asia, our core exposure to the Invesco Asian fund (Portfolios 2-6) was marginally behind its broad- based Asian benchmark, while the Schroder Asian Alpha Plus fund (added to Portfolios 4-6) was marginally ahead of the index. During the period, the Stewart Asia Pacific Leaders fund was added to Portfolios 5-6, while the Fidelity Asian Values IT was also added to Portfolio 6.

In emerging markets, the Fidelity Emerging Markets fund was significantly ahead of the benchmark. During the quarter this fund was removed from Portfolios 2-3, replaced by the JP Morgan Emerging Markets Income fund, but was retained in Portfolios 4-6. Also during the quarter, the Lazard Emerging Markets fund was added to Portfolio 6 to further diversify the portfolio, while the Jupiter Global Emerging Markets fund was sold from Portfolios 5-6.

In Japan, the Man GLG Japan Alpha fund finished the quarter behind the Topix Index having outperformed it for a large part of the period as investors' focus shifted to the growth style during March.

Fixed interest markets were in a bullish mood as the threat of rising interest rates receded. This meant that the Lyxor UK Gilt 0-5yr ETF marginally increased but significantly lagged the broad-based gilt benchmark. Within UK corporate bonds, it was a similar story as the Fidelity Moneybuilder Income (Portfolios 1-3) and TwentyFour Corporate Bond (Portfolios 1-4) funds were slightly shorter duration than the benchmark. The result was solid positive returns but marginally behind the benchmark.

Within the high yield market, performance was strong given their higher correlation to equity markets. The Baillie Gifford High Yield Bond fund (Portfolios 1-5) was marginally behind the benchmark while during the quarter, the Royal London Short Duration Global High Yield Bond fund was added to Portfolios 1-4 as allocation increased to high yield bonds as part of the asset allocation update.

Outside of UK fixed interest, the M&G Emerging Markets Bond fund (Portfolios 1-5) delivered strong absolute returns as sentiment in emerging markets improved. As part of the asset allocation update, exposure to global bonds was reduced, resulting in the M&G Global Macro Bond fund being removed from Portfolio 1-4.

The final area of the portfolio is the commercial property allocation, which continues to be zero weighted due to the Brexit and liquidity risk. In its place the Janus Henderson UK Absolute Return fund (Portfolio 1-6) performed well in absolute terms with similar low volatility characteristics. The allocation to this area was reduced as part of the review process and as a result, the M&G Absolute Return Bond fund was removed from the portfolios.

During the annual strategic asset allocation review, some new areas were introduced into the portfolios. This included US short dated Treasuries, US corporate bonds, consumer staples equities and healthcare equities. All of these positions were added to improve the overall mix of risk and return.

Portfolio changes

AJ Bell performed its annual strategic asset allocation review during the quarter, updating its long-term strategic positioning to reflect market moves over the preceding year and an evolving investment universe, making it possible to invest in different asset classes to further increase the diversification within portfolios. We provided information on these changes in our February update.

The main changes made over the quarter are summarised below. A more detailed document explaining the reasons behind the changes is available on our website.

Main asset allocation changes:

- Cash was reduced in the lower-risk portfolios where it is held.
- Fixed interest exposure was increased in the lower-risk portfolios and reduced higher up the risk spectrum.
- Equity exposure was increased across all portfolios.
- Alternatives exposure was reduced across all portfolios.

Main manager additions and removals:

Additions	Removals
Invesco US Treasury Bond 1-3 Year ETF	M&G Global Macro Bond
iShares USD Corporates Bond GBP Hgd ETF	Merian UK Smaller Companies
Royal London Short Duration Global High Yield	Jupiter Global Emerging Markets
Tellworth UK Smaller Companies	M&G Absolute Return Bond
JP Morgan US Equity Income	
Stewart Asia Pacific Leaders	
Fidelity Asian Values IT	
JPM Emerging Markets Income	
Lazard Emerging Markets	
Evenlode Global Income	
Xtrackers MSCI USA Healthcare ETF	

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While not all of these managers are used in every portfolio, broadly the changes made over the quarter have increased the diversification in the portfolios, particularly across fixed interest and Asian and emerging market equities.

Performance summary (all models)

Fund	3 months	6 months	1 year	Inception*
Active MPS 1	3.21%	0.83%	3.44%	2.85%
Active MPS 2	4.65%	0.17%	3.85%	2.48%
Active MPS 3	6.22%	-0.54%	4.71%	2.91%
Active MPS 4	7.11%	-1.12%	5.03%	2.87%
Active MPS 5	8.21%	-1.66%	4.75%	2.13%
Active MPS 6	8.80%	-1.90%	4.00%	1.18%

Active MPS launched on 19 February 2018.

Source: Bloomberg LP, AJ Bell Investments, April 2019

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AJBell

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During the quarter, our annual review of our long-term return expectations was completed and a number of changes were implemented into the Growth portfolios which are covered later in this report. The Income portfolios will be updated in mid-April.

Economic and market review

The first quarter of 2019 saw a complete rebound from the turmoil, volatility and sharp falls in markets that were seen as 2018 came to an end, with all major equity markets rallying strongly as confidence returned to investors. This time it was the US that led the way as fears over the potential for the Federal Reserve to raise interest rates too far subsided. However, UK equities lagged most major markets as uncertainties surrounding Brexit worried investors. Away from equities, fixed interest markets also had a strong quarter, particularly high-risk assets which benefited from improved investor confidence.

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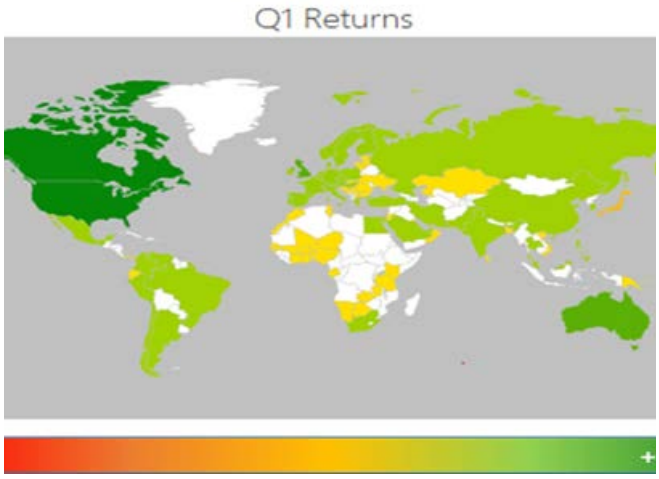

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The bond market reacted to the heightened risk with yields tightening sharply, resulting in the 10-year gilt yield falling back below 1% for the first time since mid-2017 – which helped the FTSE Actuaries UK Conventional Gilts All Stocks Index rally by 3.4%. With the risk-on environment, credit risk was rewarded, helping corporate bonds to perform well, with the iBoxx UK Sterling All Maturities Index increasing by 4.8% over the quarter, while high-yield bonds (that are more closely correlated with equities) performed even more strongly, as the Bloomberg Barclays Global High Yield Bond Index increased by 6.3% over the period. Moves in sterling were significant over the quarter, with a strengthening against most major currencies during the period. This meant that returns from other markets were lower than they were in local currency terms.

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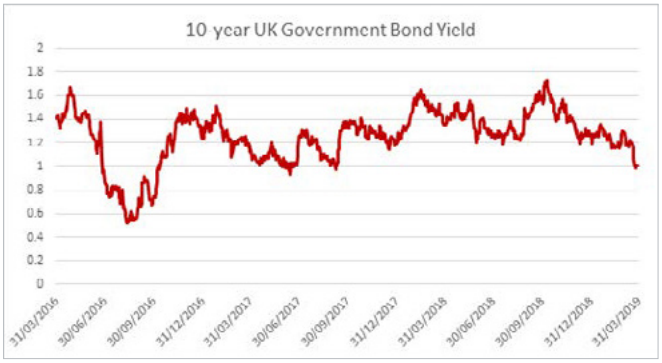

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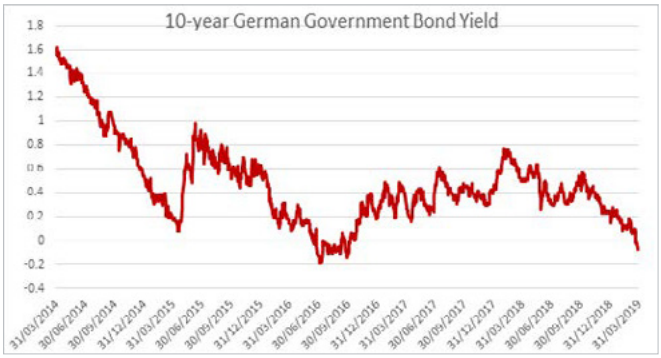
The weakness seen in Europe in the latter stages of 2018 continued into 2019 as a slowing China impacted upon the major export economies of the region. This was especially evident in Germany, which recorded no growth at all in the final quarter, while PMI data showed that manufacturing was contracting in the first months of the year. The slowdown was sufficient to see the Chief Economist of the European Central Bank say that it had been broader and more persistent and indicated that further support from the ECB may be required. Late in March, German manufacturing data collapsed, causing much alarm for European investors. The result was that the yield on the German 10-year Bund turned negative once again for the first time since the summer of 2016, showing just how worried investors are that a European slowdown may well be very difficult to exit. Over the period, the MSCI Europe ex UK Index grew by 8.0%.



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The Japanese economy bounced back in the fourth quarter of 2018 to register solid GDP growth after the sharp slowdown earlier in the year. However, it wasn't all good news, as manufacturing data weakened over the quarter while consumer confidence steadily declined as the close trade links to a slowing China hampered progress. Over the quarter, the Topix Index increased by 4.6% as broader global investor confidence pulled equities higher.

All market performance figures are in GBP

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Active Managed Portfolio review – Q1 2019

Active Income MPS performance

2019 has started very much on the front foot, with positive returns being seen across the portfolio both from equities and from fixed interest. With equities performing strongly, it was no surprise to see big contributions coming from this exposure across the portfolios, while risk was also rewarded in fixed interest with strong performance across the fixed interest spectrum.

In the UK equities performed well despite uncertainty surrounding Brexit, with all three UK equity funds outperforming the FTSE All Share Index. The Montanaro UK Income fund, which focuses on smaller companies, was the standout performer while the Man GLG UK Income fund and the Troy Trojan Income fund also performed well.

Within global equities, the Artemis Global Income fund did well in absolute terms but lagged the benchmark as its value style continued to be out of favour. The Newton Global Income fund (Portfolio 2) fared a little better, but again lagged the broad market as investors resumed their love affair with high growth stocks.

It was a similar story when looking at the regional allocations as the income focus of the strategies lagged the broader market. This meant that the BlackRock Continental European Income fund, Jupiter Asian Income fund and JP Morgan Emerging Markets Income fund all lagged the broader market. This is as expected when the market favours high growth stocks but importantly, the income strategies still managed to deliver good absolute returns.

Looking at the specialist equity exposure, the Premier Global Infrastructure fund performed well in absolute terms, delivering nearly 10% in the quarter. Global property was the stand out performer however, with the L&G Global Real Estate Dividend Index fund growing by over 13% during the quarter. In the UK, property wasn't quite so strong but the iShares MSCI UK Target Real Estate ETF still delivered more than 8% over the quarter.

Fixed interest markets were in a bullish mood as the threat of rising interest rates receded. This meant that the Lyxor UK Gilt 0-5yr ETF marginally increased but significantly lagged the broad-based gilt benchmark. Within UK corporate bonds, the Royal London Corporate Bond fund (Portfolio 1) and TwentyFour Corporate Bond (Portfolio 1) funds were slightly shorter duration than the benchmark. The result was solid positive returns but marginally behind the benchmark. Within the high yield market, performance was strong given their higher correlation to equity markets and the Baillie Gifford High Yield Bond fund (Portfolio 1). Outside of UK fixed interest, the M&G Emerging Markets Bond fund (Portfolio 1) delivered strong absolute returns as sentiment in emerging markets improved.

Portfolio changes

No changes were made to the portfolios over the quarter, however, the annual update to the strategic asset allocation will be shortly implemented. We will report on the specific changes when this is completed, and summarise them in the next quarterly report.

Performance summary (all models)

Fund	3 months	6 months	1 year	Inception*
Active MPS Income 1	6.56%	1.89%	4.88%	3.98%
Active MPS Income 2	8.67%	0.52%	6.53%	5.06%

Active MPS launched on 19 February 2018.

Source: Bloomberg LP, AJ Bell Investments, April 2019

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AJ Bell Passive MPS – Q1 2019 report

Introduction

We are delighted to bring you the first quarterly report from AJ Bell Investments covering the Growth MPS.

This report is designed to keep you up-to-date on what is happening with your AJ Bell managed investments. It covers the major macro-economic events of the past three months, looks at how these have impacted the portfolios, and highlights any changes made in the period.

Summary

The start of 2019 has been a complete reversal of the end of 2018, with strong performance from both equities and bonds, and confidence returning after the volatility of last year. Perhaps somewhat strangely, this is amid a backdrop of slowing global growth and signs from central banks around the world that the economic environment is getting more challenging.

However, equity investors have taken this to mean that central banks will stop tightening monetary policy and become more accommodative, thus helping propel equities higher and indeed bonds too as the prospect of rapidly rising interest rates receded.

In the UK, Brexit seems no closer to being delivered, while Germany has struggled to grow and France continues to battle its own citizens amid discontent over President Macron's reforms. The positive story seems to be around the trade war between the US and China that has showed signs of being amicably resolved and this has certainly boosted investor confidence through the first quarter of the year.

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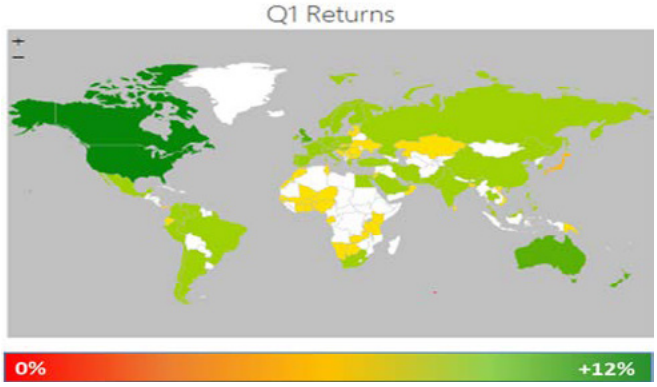

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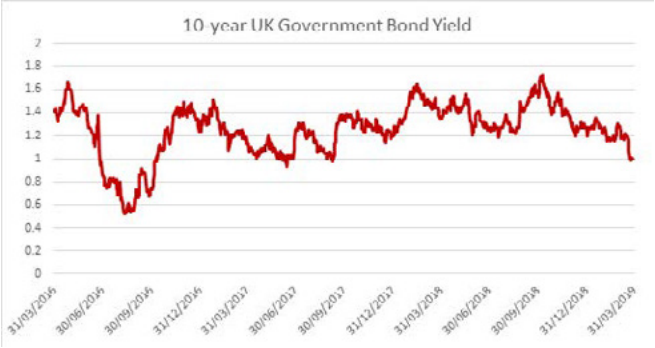

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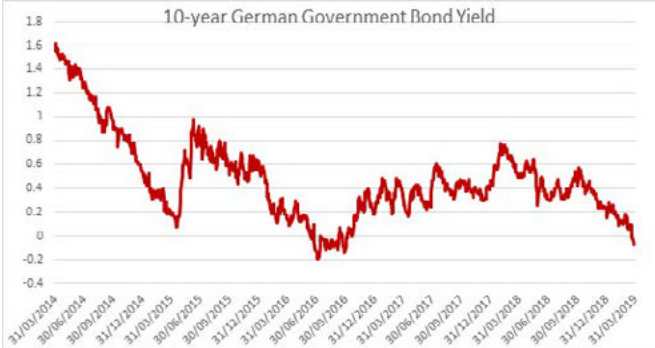

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Summary of contributors and detractors by asset class:

Asset Asset Allocation Contributors and Dectractors

	Risk Profile					
Top Contributors*	**1**	**2**	**3**	**4**	**5**	**6**
1	UK Corporate Bonds	North American Equities	UK Large Cap Equities	UK Large Cap Equities	UK Large Cap Equities	UK Large Cap Equities
2	North American Equities	UK Corporate Bonds	North American Equities	North American Equities	North American Equities	Emerging Market Equities
3	UK Large Cap Equities	UK Large Cap Equities	Technology Equities	Technology Equities	Technology Equities	North American Equities

	Risk Profile					
Top Detractors*	**1**	**2**	**3**	**4**	**5**	**6**
1	International Bonds	International Bonds	International Bonds	International Bonds	Health Care Equities	Health Care Equities
2	Health Care Equities	Health Care Equities	Health Care Equities	Health Care Equities		
3						

*excludes alternative investments, due to different implementation routes across portfolios

All market performance figures are in GBP

Passive Managed Portfolio review – Q1 2019

Passive MPS performance

All portfolios delivered positive returns over the quarter, helped by strong returns from both equities and bonds. As expected in a risk-on market, the higher-risk portfolios were up the strongest, with net total returns ranging from 4.0% to 8.7%.

The Passive MPS uses predominantly tracker products to implement the asset allocation, and therefore the lion's share of performance is explained by our asset allocation positioning. However, in certain regions and sectors, the benchmarks tracked can have large performance differences. For example, the FTSE benchmark series classifies South Korea as a developed country, whereas MSCI still classifies it as an emerging nation. This means the inclusion of South Korea in developed Asia and emerging market products varies depending on the passive product used, and its selected index. Other vagaries like this exist, especially within the fixed income space, where index inclusion rules consider issues such as liquidity, minimum size and the definition of government and non-government debt, which then can lead to fundamental performance differences. For example, when considering Emerging Market Debt indices, FTSE has a different definition of government debt compared to Barclays. As a result, the FTSE index has 3% exposure to China, whereas the Barclays index has a much larger weighting at 17%. When selecting ETFs we try and choose benchmarks that we feel best represent the asset classes, which means deciding if we think emerging market debt is best represented by FTSE or Barclays.

An ETF can trade at a small premium or discount to the underlying NAV of the fund, due to investor demand, and the underlying cost of creating or redeeming units in the fund. This can also lead to short-term differences between the ETF performance and the index performance, however over the longer term (one year or more) this becomes less relevant.

Another point to consider as a passive investor when looking at performance over short periods is the differing valuation points of ETFs and indices. For example, a London-traded ETF stops pricing when the stock exchange closes at 4.35pm, however the underlying index may continue to price if, for example, it is tracking US equities. This again can lead to performance differences between different passive products, especially when markets and currencies are swinging around due to issues such as Brexit.

In the UK we split our exposure into large-cap stocks, by tracking the FTSE 100, with a smaller exposure to mid-cap stocks (tracking the FTSE 250). Over the quarter both products delivered similar returns, delivering a blended total return similar to the FTSE all-share index.

When adjusting for differing index points and premiums and discounts, our international equity ETFs all performed in line with their designated benchmark. In the Asian ex-Japan region we track a developed market index rather than one that includes both developed and emerging economies. We use the Vanguard FTSE Asia Pacific Ex-Japan ETF which, as discussed, classifies South Korea as a developed nation. The Vanguard product underperformed other Asian ETFs over the quarter as South Korea struggled versus other emerging market nations, such as China, which rallied significantly over the quarter.

For our sector-based equity investments, we use US indices as proxies for global exposure. This is because US-tracking products are widely available, represent better value in terms of OCF and trading costs, and represent highly correlated performance with the global indices over the longer term. For consumer staples and technology the US ETFs delivered similar performance to the global benchmarks over the quarter, whereas the healthcare product lagged slightly, as Amazon announced plans to form a healthcare division, providing a threat to incumbents. In our highest-risk portfolio we hold a thematic automation and robotics product within our technology allocation. This slightly outperformed the global technology benchmark, up 17.2%.

Within our gilt positions, we have made the tactical decision to go short duration. Over the quarter gilt yields fell, leading to underperformance versus an all maturity index. We are comfortable with this position, given the near historic lows of gilt yields, and therefore the asymmetry of expected future returns. Our other fixed income ETFs performed in line with expectations.

The portfolios have an exposure to property. In general, investment in physical property is in the realms of active investors. However, we are able to achieve physical-property-like exposure by investing in an ETF blending together short-dated index-linked bonds and listed REITs. The use of index-linked bonds helps dampen the volatility, although in the short term the ETF does exhibit higher performance variation. Over the quarter the ETF was up 6.2%, compared to 2.5% for a physical property fund, such as L&G. This is perhaps the one area of the portfolio where selection has led to a significant performance uplift.

Portfolio changes

AJ Bell performed its annual asset allocation review during the quarter, updating its long-term strategic positioning to reflect market moves over the preceding year, and an evolving investment universe, making it possible to invest in different asset classes to further increase the diversification within portfolios. We provided an update of these changes in our February update.

The main changes made over the quarter are summarised below, and a more detailed document detailing the reasons behind the changes is available on our website.

Main asset allocation changes:

- Cash was reduced in the lower-risk portfolios where it is held.
- Fixed interest exposure was increased in the lower-risk portfolios and reduced higher up the risk spectrum.
- Equity exposure was increased across all portfolios.
- Property exposure was reduced across all portfolios.

Further changes were made due to new products coming to the market, allowing AJ Bell to either implement the portfolio at a cheaper total cost to the investor, or to track a benchmark more aligned with our asset allocation decision.

As a 'passive' investor, it is often thought that the best thing to do is nothing, pick some low-cost index tracker funds, and look again at retirement. Long-term low-cost investment is central to the AJ Bell Passive MPS philosophy, however it is important to note that the investment universe is constantly evolving, and therefore to ensure the investments remain best in breed, it is important to continually review the route to implementation in the portfolios. That being the case, alongside being active on our asset allocation in the Passive MPS, we are also 'active' in our selection of trackers and ETFs, to take advantage of changes such as price cuts.

A number of investment managers have recently entered the ETF market, which has led to significant pressure on the OCF of ETFs. Unlike an open-ended fund, where the investment manager can remain competitive through multiple share classes and rebates, the single share class structure of an ETF means an ETF manager has to lower the OCF for all investors to remain competitive against new entrants.

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It is, however, important to remember that headline OCF is not the only factor to consider when choosing which ETF to invest in. Other considerations should include dealing costs, tax implications, ETF size, replication style, index tracked and ETF manager infrastructure amongst other factors.

AJ Bell does not necessarily switch immediately into cheaper products, however once appropriate due diligence has been undertaken to assess the other important factors, a product switch is implemented, which will normally be timed to dovetail with the rebalance process.

AJ Bell is engaged in dialogue with all the major ETF providers to understand their future plans, and this ensures we are not constantly switching between products. However, the emerging ETF entrants disrupting on cost have led to price cuts from the large incumbents. The following table shows the OCF of UK Equity ETFs from various providers at the end of 2013 and the end of Q1 2019.

	iShares	Vanguard	SPDR	Xtrackers	HSBC	Lyxor	L&G	Average
End of 2013	0.15%	0.10%	0.30%	0.09%	0.35%			0.20%
End of Q1 2019	0.07%	0.09%	0.20%	0.09%	0.07%	0.04%	0.05%	0.09%
Price Cut	-53%	-10%	-33%	0%	-80%			-56%

Source: AJ Bell Investments, April 2019

On average, the OCF of existing products has fallen by 35%. If new entrants are included, the average cost of investing passively in UK equities has fallen, on average, by 56%.

We took the opportunity over the quarter to switch into different products, leading to an OCF saving:

Vanguard FTSE Europe Ex-UK ETF (OCF 0.12%) into Xtrackers S&P Europe ex-UK ETF (OCF 0.09%)

Vanguard FTSE 100 ETF (OCF 0.09%) into Lyxor Morningstar UK ETF (OCF 0.04%)

Xtrackers NIKKEI 225 ETF (OCF 0.09%) into Lyxor MSCI Japan ETF (OCF 0.12%)

Lower OCF products exist in other asset classes, including UK equities, however we currently still believe the higher-priced products are the most appropriate when taking into consideration index tracked, liquidity and dealing costs, alongside other factors.

Performance summary (all models)

Portfolio	3 months	6 months	1 year	Inception*
Passive MPS 1	3.97%	1.09%	4.22%	5.64%
Passive MPS 2	5.48%	0.62%	5.14%	9.05%
Passive MPS 3	6.96%	-0.05%	6.30%	12.30%
Passive MPS 4	7.58%	-0.75%	6.70%	14.76%
Passive MPS 5	8.45%	-1.44%	6.65%	15.79%
Passive MPS 6	8.67	-1.49%	5.79%	3.48%

All the funds launched on 18 August 2016, with the exception of MPS 6, which has a launch date of 19 February 2018. All performance is net of fees.

Source: Bloomberg LP, AJ Bell Investments, April 2019.

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AJ Bell Passive Income MPS – Q1 2019 report

Introduction

We are delighted to bring you the latest quarterly report from AJ Bell Investments which has seen our Income portfolios move through their one-year anniversary.

This report is designed to keep you up-to-date on what is happening with your AJ Bell managed investments. It covers the major macro-economic events of the past three months, looks at how these have impacted the portfolios, and highlights any changes made in the period.

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During the quarter, our annual review of our long-term return expectations was completed and a number of changes were implemented into the Growth portfolios which are covered later in this report. The Income portfolios will be updated in mid-April.

Economic and market review

The first quarter of 2019 saw a complete rebound from the turmoil, volatility and sharp falls in markets that were seen as 2018 came to an end, with all major equity markets rallying strongly as confidence returned to investors. This time it was the US that led the way as fears over the potential for the Federal Reserve to raise interest rates too far subsided. However, UK equities lagged most major markets as uncertainties surrounding Brexit worried investors. Away from equities, fixed interest markets also had a strong quarter, particularly high-risk assets which benefited from improved investor confidence.

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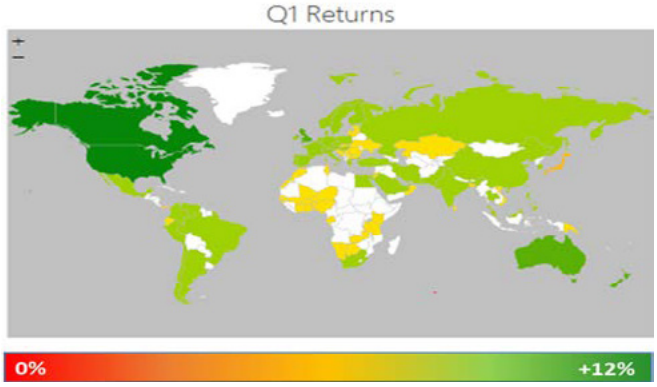

Source: Bloomberg LP, AJ Bell Investments April 2019

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The bond market reacted to the heightened risk with yields tightening sharply, resulting in the 10-year gilt yield falling back below 1% for the first time since mid-2017 – which helped the FTSE Actuaries UK Conventional Gilts All Stocks Index rally by 3.4%. With the risk-on environment, credit risk was rewarded, helping corporate bonds to perform well, with the iBoxx UK Sterling All Maturities Index increasing by 4.8% over the quarter, while high-yield bonds (that are more closely correlated with equities) performed even more strongly, as the Bloomberg Barclays Global High Yield Bond Index increased by 6.3% over the period. Moves in sterling were significant over the quarter, with a strengthening against most major currencies during the period. This meant that returns from other markets were lower than they were in local currency terms.

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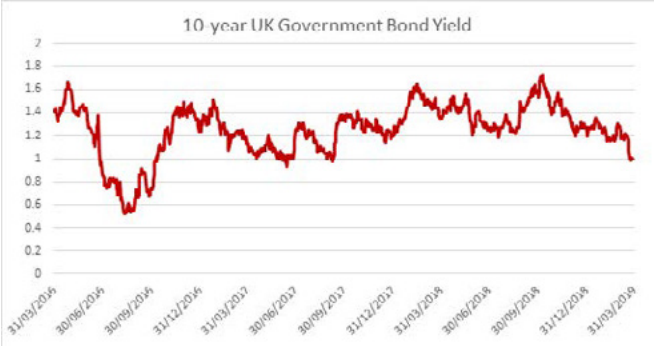
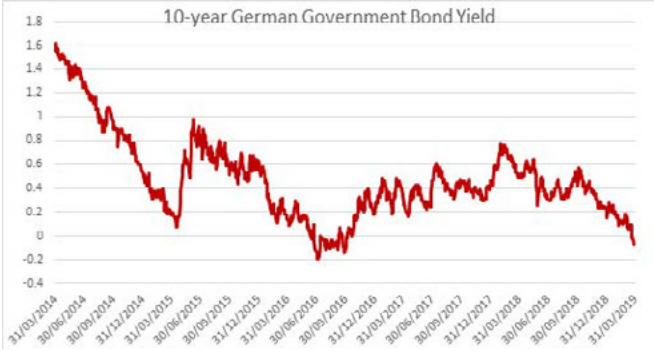


Source: Bloomberg LP, AJ Bell Investments April 2019

Having been very weak in Q4 2018, the US bounced back strongly in Q1 following a truce in the trade war with China and a clear signal from the Federal Reserve that interest rates were highly unlikely to rise this year. With economic data being delayed at the start of the year due to the government shutdown over the lack of budget approval, it took until the end of March before the final GDP data was known. This came in below expectations and was sharply lower than earlier in the year, and this would have been at the forefront of Jerome Powell's mind at the Federal Reserve when the announcement came that rates were unlikely to increase again this year. Tucked away in the statement was also the news that US growth was expected to be 1% less than previously expected at 2.1% for 2019, giving a clear indication that global growth is slowing down – something that has been mentioned in these quarterly updates previously. However, business confidence remained reasonably strong while consumer confidence got better throughout the quarter. At the same time, the labour market remained tight, with low unemployment and strong wage growth. This backdrop saw equities perform strongly, with the S&P 500 Index increasing by 10.9% over the period. The changing narrative from the Federal Reserve saw interest rate expectations change markedly and as a result the US 10-year Treasury yield fell from 2.7% at the start of the year to 2.4% at the end of the quarter.

Source: Bloomberg LP, AJ Bell Investments April 2019

The weakness seen in Europe in the latter stages of 2018 continued into 2019 as a slowing China impacted upon the major export economies of the region. This was especially evident in Germany, which recorded no growth at all in the final quarter, while PMI data showed that manufacturing was contracting in the first months of the year. The slowdown was sufficient to see the Chief Economist of the European Central Bank say that it had been broader and more persistent and indicated that further support from the ECB may be required. Late in March, German manufacturing data collapsed, causing much alarm for European investors. The result was that the yield on the German 10-year Bund turned negative once again for the first time since the summer of 2016, showing just how worried investors are that a European slowdown may well be very difficult to exit. Over the period, the MSCI Europe ex UK Index grew by 8.0%.



Source: Bloomberg LP, AJ Bell Investments April 2019

Focus in emerging markets was very much on China, particularly given the ongoing trade discussions with the US. Signs that the talks were progressing well helped investor sentiment and there was hope as the quarter ended that a positive resolution would be found. At the same time, the Chinese government continued to provide stimulus to help manage the slowing economy, with a cut to the reserve ratio requirement for Chinese banks. In Brazil, volatility picked up sharply towards the end of the quarter as controversial pension reform struggled to pass in parliament, with the failure causing the equity market and currency to fall sharply. In Turkey, attention again turned to the fragility of the currency, as it did last summer, with the Turkish Lira falling sharply against major currencies as confidence drained away from President Erdogan and the recession began to take hold. Over the course of the quarter, the MSCI Emerging Markets Index rallied 7.4%. Looking at fixed interest in the region, the JPMorgan GBI Emerging Market Global Composite Bond Index increased by 0.70% over the period.

The Japanese economy bounced back in the fourth quarter of 2018 to register solid GDP growth after the sharp slowdown earlier in the year. However, it wasn't all good news, as manufacturing data weakened over the quarter while consumer confidence steadily declined as the close trade links to a slowing China hampered progress. Over the quarter, the Topix Index increased by 4.6% as broader global investor confidence pulled equities higher.

All market performance figures are in GBP

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Passive Managed Portfolio review – Q1 2019

Passive Income MPS performance

AJ Bell offers four income MPS portfolios; two implemented through ETFs and tracker funds (passive), and two implemented through active funds where appropriate, alongside trackers in some asset classes (active). These are split into two risk categories. Income MPS 1 looks to deliver a sustainable yield of around 4%, whilst protecting capital over a five-year time horizon by using a mix of equities, bonds and alternatives, whereas Income 2 also looks to generate a 4% yield, alongside a modest capital growth objective, aiming to keep the value of the overall portfolio in line with inflation on a five-year horizon, using predominantly equity investments alongside some alternatives.

To ensure the yield objective is achieved in the Passive Income MPS, it is insufficient to pick purely 'passive' ETFs, such as a FTSE 100 tracker. Instead, the portfolios also use factor-based ETFs, which aim to generate higher yields, in a sustainable way.

Over Q1 the passive Income portfolios delivered strong positive returns in absolute terms, Income 1 up 6.9% and Income 2 up 7.9%, bringing the one year total net returns to 8.2% and 10.3% respectively, ahead of the return objectives and with a yield just below 4%.

Unlike the passive growth portfolios, where performance is delivered predominantly from asset allocation, in the passive income portfolios, performance is driven by a combination of asset allocation and selection, given the factor-based approach to implementation.

The equity market rally in Q1 was led by growth stocks, and so called bond proxies, as demonstrated by the strong performance of the technology and real estate sectors. In addition, an oil price rally led to strong performance in the energy and industrial sectors. This means an ETF tracking high dividend stocks (which tends to have a slight value tilt), slightly underperformed a broad market index. However, as this dividend tilt is undertaken in a controlled way, the four equity ETFs used in the two portfolios delivered a total return of between 6.9% and 7.9%.

Whereas Income 2 does not contain bonds, the Income 1 portfolio has an exposure. The bond allocation in Income 1 is focused towards non-government bonds. The high-yield bond performed broadly in line with the equity ETFs, up 6.7%, with good performance from UK corporate bonds, up 5.1%. The portfolio has a small allocation to gilts (5% target weighting), which is our short duration positioning, and we saw a modest total return of 0.5% in this asset class.

Within alternatives, the portfolios invest across three areas: infrastructure, global property and UK property. As the portfolios are implemented using listed securities, each asset class is implemented using ETFs containing either equities or bonds, with the aim of providing a risk/return profile in line with the desired asset class. For infrastructure, an ETF tracking equities is used, where the equities generate a high proportion of revenues from infrastructure projects. This leads to investments in companies concentrated in the utilities, industrials, energy and real estate sectors. As previously outlined, the strong rally in the oil price led to good performance in energy and industrial stocks, whilst the fall in yields led to strong performance in bond proxies such as utilities and real estate. As such, the infrastructure ETF delivered a total return of 11.5% over the quarter. Similarly, global REITs were up 11.9% and UK real estate (a blend of UK REITs and short-dated index linked bonds) was up 7.6%.

Given the strong return of all major asset classes within the portfolios, it is no surprise to see strong overall returns for both portfolios. It is, however, pertinent to highlight that some of the returns have been delivered from narrow factors, such as the oil price or a fall in bond yields. We are still comfortable with the long-term positioning of the portfolios, however, we will be performing our annual asset allocation review in Q2. Our asset allocation process uses market-based returns to determine efficient allocation of capital, as such the strong return due to these factors will be taken into account.

Portfolio changes

No changes were made to the portfolios over the quarter, however, the annual update to the long-term strategic asset allocation will shortly be implemented. We will report on the specific changes when this is completed, and summarise them in the next quarterly report.

Performance summary (all models)

Portfolio	3 months	6 months	1 year	Inception*
Passive Income MPS 1	6.86%	1.79%	8.23%	7.78%
Passive Income MPS 2	7.93%	1.43%	10.30%	8.83%

Both portfolios launched on 19 February 2018. All performance is net of fees.

Source: Bloomberg LP, AJ Bell Investments, April 2019.

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AJBell

AJ Bell Pactive MPS – Q1 2019 report

Introduction

We are delighted to bring you the first quarterly report from AJ Bell Investments covering the new Pactive MPS which launched on 19th February 2019. This is a range of portfolios blending the AJ Bell Passive funds with the Active MPS to create low cost portfolios that still retain an element of actively managed investment solutions.

This report is designed to keep you up-to-date on what is happening with your AJ Bell managed investments. It covers the major macro-economic events of the past three months, looks at how these have impacted the portfolios, and highlights any changes made in the period.

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Summary

The start of 2019 has been a complete reversal of the end of 2018 with strong performance from both equities and bonds and confidence returning after the volatility of last year. Perhaps somewhat strangely, this is amid a backdrop of slowing global growth and signs from central banks around the world that the economic environment is getting more challenging.

However, equity investors have taken this to mean that central banks will stop tightening monetary policy and become more accommodative, thus helping propel equities higher and indeed bonds too as the prospect of rapidly rising interest rates receded.

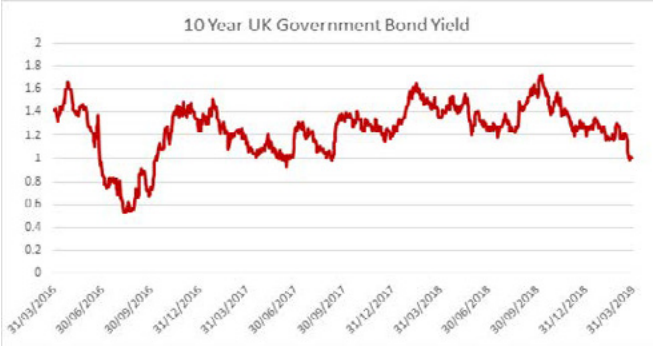
In the UK, Brexit seems no closer to being delivered, while Germany has struggled to grow and France continues to battle its own citizens amid discontent over President Macron's reforms. The positive story seems to be around the trade war between the US and China that has showed signs of being amicably resolved and this has certainly boosted investor confidence through the first quarter of the year.

Economic and market review

The first quarter of 2019 saw a complete rebound from the turmoil, volatility and sharp falls in markets that were seen as 2018 came to an end, with all major equity markets rallying strongly as confidence returned to investors. This time it was the US that led the way as fears over the potential for the Federal Reserve to raise interest rates too far subsided, however, UK equities lagged most major markets as uncertainties surrounding Brexit worried investors. Away from equities, fixed interest markets also had a strong quarter, particularly high risk assets which benefited from improved investor confidence.

In the UK, it was Brexit that unsurprisingly dominated the headlines for the entire quarter as the 29th March leaving date moved ever closer. With Theresa May failing to get her deal approved by Parliament, then losing control of the order papers and then saying she would resign if her deal was passed, it was a tumultuous 3 months for the Prime Minister as she had little choice but to extend the date that Britain would leave the EU. By the time you are reading this, frankly anything could have happened so apologies if this narrative appears out of date! Unsurprisingly, this uncertainty started to show in the economic data during the period with GDP falling back to an annualised rate of 1.3% while business confidence also fell back. One bright spot was that unemployment fell to its lowest level since 1975. As the end of the quarter arrived, the potential for a delay in the UKs departure from the EU saw larger UK companies surge in value, with the FTSE All Share Index returning 9.4% over the quarter.

The bond market reacted to the heightened risk with yields tightening sharply resulting in the 10yr gilt yield falling back below 1% for the first time since mid-2017 which helped the FTSE Actuaries UK Conventional Gilts All Stocks Index rally by 3.4%. With the risk on environment, credit risk was rewarded helping corporate bonds to perform well, with the iBoxx UK Sterling All Maturities Index increasing by 4.8% over the quarter, while high yield bonds (that are more closely correlated with equities) performed even stronger as the Bloomberg Barclays Global High Yield Bond Index increased by 6.3% over the period. Moves in sterling were significant over the quarter with a strengthening against most major currencies during the period. This meant that returns from other markets were lower than they were in local currency terms.



Source: Bloomberg LP, AJ Bell Investments, April 2019

Having been very weak in Q4 2018, the US bounced back strongly in Q1 as a truce in the trade war with China and a clear signal from the Federal Reserve that interest rates were highly unlikely to rise this year. With economic data being delayed at the start of the year due to the government shutdown over the lack of budget approval, it took until the end of March before the final GDP data was known. This came in below expectations and was sharply lower than earlier in the year and this would have been at the forefront of Jerome Powell's mind at the Federal Reserve when the announcement came that rates were unlikely to increase again this year. Tucked away in the statement was also the news that US growth was expected to be 1% less than previously expected at 2.1% for 2019 giving a clear indication that global growth is slowing down, something that has been mentioned in these quarterly updates previously. However, business confidence remained reasonably strong while consumer confidence got better throughout the quarter. At the same time, the labour market remained tight with low unemployment and strong wage growth. This backdrop saw equities perform strongly with the S&P 500 Index increasing by 10.9% over the period. The changing narrative from the Federal Reserve saw of interest rate expectations change markedly and as a result the US 10-year Treasury yield fell from 2.7% at the start of the year to 2.4% at the end of the quarter.

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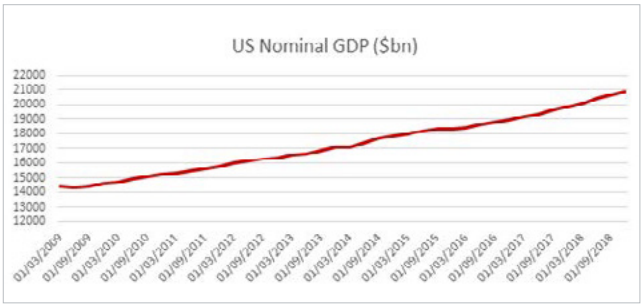
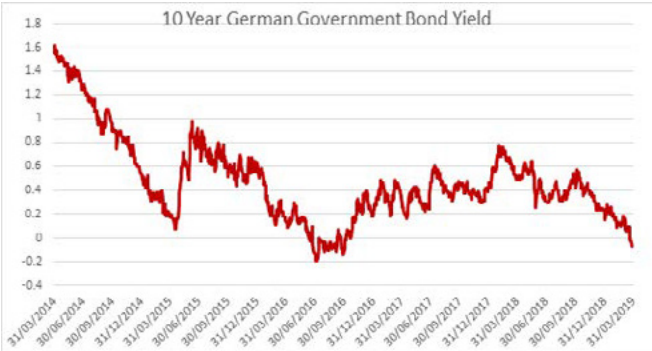


Source: Bloomberg LP, AJ Bell Investments, April 2019

The weakness seen in Europe in the latter stages of 2018 continued into 2019 as a slowing China impacted upon the major export economies of the region. This was especially evident in Germany, recording no growth at all in the final quarter while PMI data showed that manufacturing was contracting in the first months of the year. The slowdown was sufficient to see the Chief Economist of the European Central Bank say that it had been broader and more persistent and indicated that further support from the ECB may be required. Late in March, German manufacturing data collapsed causing much alarm for European investors. The result was that the yield on the German 10 year Bund turned negative once again for the first time since the summer of 2016 showing just how worried investors are that a European slowdown may well be very difficult to exit. Over the periods, the MSCI Europe ex UK Index grew by 8.0%.



Source: Bloomberg LP, AJ Bell Investments, April 2019

Focus in emerging markets was very much on China, particularly given the ongoing trade discussions with the US. Signs that the talks were progressing well helped investor sentiment and there was hope as the quarter ended that a positive resolution would be found. At the same time, the Chinese government continued to provide stimulus to help manage the slowing economy with a cut to the reserve ratio requirement for Chinese banks. In Brazil, volatility picked up sharply towards the end of the quarter as controversial pension reform struggled to pass in parliament with the failure causing the equity market and currency to fall sharply. In Turkey, attention again turned to the fragility of the currency as it did last summer with the Turkish Lira falling sharply against major currencies as confidence drained away from President Erdogan as the recession began to take hold. Over the course of the quarter, the MSCI Emerging Markets Index rallied 7.4% while looking at fixed interest in the region, the JPMorgan GBI Emerging Market Global Composite Bond Index increased by 0.70% over the period.

The Japanese economy bounced back in the 4th quarter of 2018 to register solid GDP growth after the sharp slowdown earlier in the year. However, it wasn't all good news, as manufacturing data weakened over the quarter while consumer confidence steadily declined as the close trade links to a slowing China hampered progress. Over the quarter, the Topix Index increased by 4.6% as broader global investor confidence pulled equities higher.

All market performance figures are in GBP

Pactive Managed Portfolio review – Q1 2019

Pactive MPS performance

The performance comments below refer to the first quarter of 2019 in its entirety even though the product launched mid-quarter.

2019 has started very much on the front foot, with positive returns being seen across the portfolio both from equities and from fixed interest. With equities performing strongly, it was no surprise to see big contributions coming from this exposure across the portfolios, while risk was also rewarded in fixed interest with strong performance across the fixed interest spectrum.

With strong absolute returns almost across the board, it was a strong quarter for the portfolios, particularly in the higher-risk end of the spectrum where equity exposure is high.

In the UK, core equity exposure performed strongly, with the Troy Trojan Income and the Man GLG Undervalued Assets funds both outperforming the FTSE All Share Index, while the Investec UK Alpha fund (Portfolios 3-6) also outperformed. In Europe, exposure was reduced as part of the annual asset allocation update. Over the quarter, the Crux European Special Situations fund finished marginally behind the index as large cap equities outperformed the mid cap area.

In the US, the Dodge & Cox US Stock fund (Portfolios 3-6) was behind the index over the period as its value style underperformed, while the JP Morgan US Equity Income fund was also marginally behind. The US-focused Polar Cap Global Technology fund (Portfolios 3-6) bounced back strongly, delivering the best performance of any holding.

In Asia, our core exposure to the Invesco Asian fund (Portfolios 2-6) was marginally behind its broad- based Asian benchmark, while the Schroder Asian Alpha Plus fund was marginally ahead of the index. The Stewart Asia Pacific Leaders fund (Portfolios 5-6) was a strong performer, particularly in March. In emerging markets, the Fidelity Emerging Markets fund was significantly ahead of the benchmark, while the JP Morgan Emerging Markets Income fund and the Lazard Emerging Markets fund were a little behind the index.

In Japan, the Man GLG Japan Alpha fund finished the quarter behind the Topix Index having outperformed it for a large part of the period, as investors' focus shifted to the growth style during March.

Fixed interest markets were in bullish mood as the threat of rising interest rates receded. This meant that the Lyxor UK Gilt 0-5yr ETF (Portfolios 1-2) marginally increased but significantly lagged the broad-based gilt benchmark. Within UK corporate bonds it was a similar story as the Fidelity Moneybuilder Income (Portfolios 1-3) and TwentyFour Corporate Bond (Portfolios 1-4) funds were slightly shorter duration than the benchmark. The result was solid positive returns but marginally behind the benchmark.

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Within the high-yield market, performance was strong given their higher correlation to equity markets. The more cautious Baillie Gifford High Yield Bond fund (Portfolios 1-5) was marginally behind the benchmark, while the Royal London Short Duration Global High Yield Bond fund was also behind as its shorter duration held back returns. Outside of UK fixed interest, the M&G Emerging Markets Bond fund (Portfolios 1-4) delivered strong absolute returns as sentiment in emerging markets improved.

The final area of the portfolio is the commercial property allocation, which continues to be zero weighted due to the Brexit and liquidity risk. In its place the Janus Henderson UK Absolute Return fund (Portfolios 1-6) performed well in absolute terms, with similar low volatility characteristics.

Portfolio changes

Given the very recent launch of the Pactive portfolios, no changes have been made at this stage.

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AJBell

AJ Bell Active MPS – Q2 2019 review

Introduction

We are delighted to bring you the latest quarterly report from AJ Bell Investments. This report is designed to keep you up-to-date on what is happening with your AJ Bell managed investments. It covers the major macro-economic events of the past three months, looks at how these have impacted the portfolios, and highlights any changes made in the period.

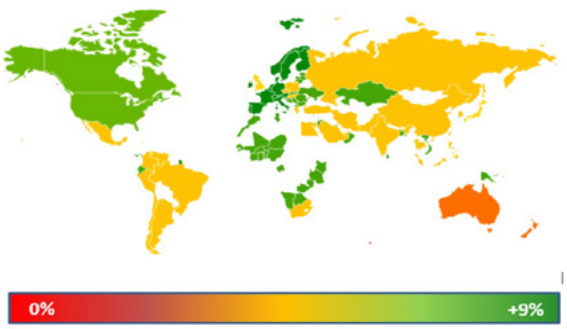
Summary

After a strong start to the year in Q1, Q2 broadly continued the theme, particularly for sterling investors who were helped by a strong tailwind from the weakening currency. Investors across the world were of the view that 'bad news was good news' as the chances of interest-rate cuts or further monetary stimulus seemed to increase as the quarter progressed.

In the UK, Brexit was once again in the spotlight with the date for leaving the EU pushed back again, this time until the end of October. However, this resulted in Theresa May resigning as Prime Minister, finally admitting defeat in getting her deal approved by parliament. Trade wars and tariffs were a feature of the quarter as the US/Chinese spat continued, while bond yields fell sharply as the bond market perceived increasing risk to the global economy.

Economic and market review

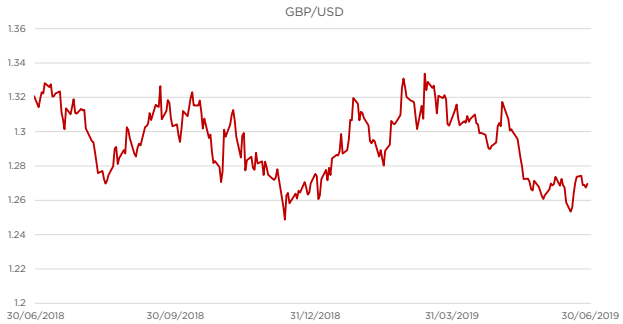
The second quarter of 2019 saw a continuation of the first with broadly positive performance from both equities and bonds, although Asian and emerging markets equities struggled to progress. The positive performance was based upon indications from central banks in the major economies that they were ready to provide further support and stimulus to economies should they judge that the world was at risk of an economic slowdown. The positive feeling behind this seemed to outweigh increasing tensions towards the US/Chinese trade war and increased tensions in the Middle East that pushed both the oil and gold prices higher.



Source: AJ Bell Investments, Bloomberg LP, July 2019

In a serious case of déjà vu, Brexit dominated the UK agenda over the past quarter as the original date for leaving the EU was extended, perhaps aptly, to 31 October, or Halloween! However, following disastrous European election results for the Conservative Party and a failure for parliament to pass the Withdrawal Agreement, Theresa May took the decision to resign, triggering a leadership contest and a market expectation that the risk of a no-deal Brexit had increased. With Boris Johnson the hot favourite, all eyes will be on the run up to the October deadline. During the period, UK economic performance was solid with continued low unemployment and GDP growth in line with expectations. The Brexit uncertainty saw sterling fall in value vs the US dollar, which helped the performance of larger stocks given their focus on overseas earnings while overall the FTSE All-Share Index was up 3.3%. With the weakening of sterling, overseas exposure in both equities and bonds was boosted in GBP terms.

The bond market predictably reacted to the increased risk of a no-deal Brexit with the yield on the 10-year gilt falling sharply, ending the period at just 0.82%. This helped the FTSE Actuaries UK Conventional Gilts All Stocks Index increase by 1.3% over the quarter. With the risk on environment, credit risk was rewarded, helping corporate bonds to perform well, with the iBoxx UK Sterling All Maturities Index increasing by 2.3% over the quarter, while high-yield bonds also performed well with the Bloomberg Barclays Global High Yield Bond Index increasing by 2.1% over the period.



Source: Bloomberg LP, AJ Bell Investments, July 2019

In the US, two major issues dominated the quarter: firstly, the ongoing trade war with China; and secondly, the shift in narrative from the Federal Reserve surrounding interest rates. The trade war escalated during the quarter as negotiations broke down and in May, the US increased the tariffs on $200bn of Chinese goods from 10% to 25% and threatened to extend this to another $300bn of goods. Naturally, the Chinese didn't take this lying down and responded by increasing the tariff on $60bn of US goods. This tit-for-tat battle has yet to truly be seen in economic data, but the risk is that a pick-up in inflation and a slowdown in growth could be seen in the second half of 2019. Turning to the Federal Reserve, during the quarter it became apparent that investors sense that the Fed may have to cut interest rates at some point this year. While initially the Fed appeared adamant that it was comfortable with the economic position, as the quarter progressed the narrative shifted with an indication that rate cuts could come if data deteriorated. With inflation remaining low and the boost from the Trump tax cuts about to leave the economy, there is a sense that a slowdown is occurring that will force the Fed's hand. As a result, market behaviour has become somewhat strange, with equities and bonds rallying on weaker data in the expectation that the Fed will be more

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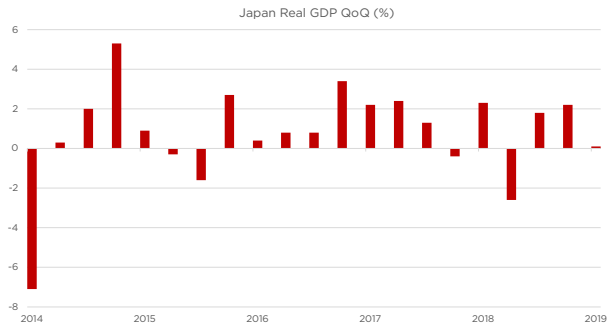
likely to act sooner rather than later. This backdrop saw equities perform strongly with the S&P 500 Index increasing by 6.6% over the period. The more accommodative language from the Federal Reserve saw interest rate expectations change markedly, and as a result the US 10-year Treasury yield fell from 2.4% at the start of the year to 2.0% at the end of the quarter, resulting in a strong rally for US bonds.

Source: Bloomberg LP, AJ Bell Investments, July 2019

With a myriad of economic and social problems in Europe, investors have been nervous of the region for some time. However, after solid performance from the equity market during the quarter, European equities have actually had their best first half of a year for 21 years, providing a healthy reminder that investing in companies is not always representative of the underlying economies. At an economic level, data has been mixed with a very poor performance of the manufacturing side of the economy as the global economy – notably China – slows down, but a stronger performance from the services element of the economy, which is less relaint on overseas consumption. The ECB has been alive to the risks and Mario Draghi has talked of the possiblity of restarting quantitative easing in some form should the economy need it. These comments saw bond yields fall sharply, with the 10-year German Bond turning negative again and actually reaching a lower level than it saw even in the eye of the Euro crisis storm back in 2014. In Italy, the government remained at loggerheads with the EU, with talk of the potential introduction of a parallel 'currency' called mini-BOTs to stimulate their economy. Over the period, the MSCI Europe ex UK Index increased by 8.3%.

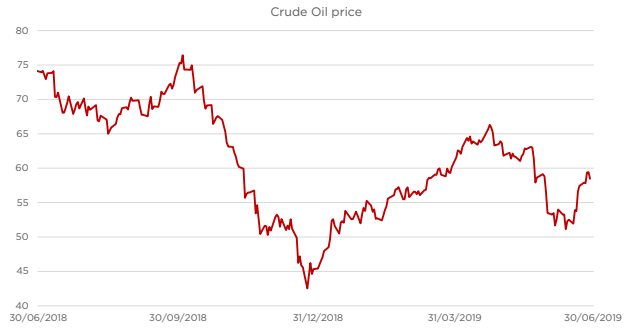
In Asia, China was the dominant factor as the previously mentioned trade war was prevalent. As Trump's trade tariffs kicked in, investors began to digest how much this could impact on Chinese growth and the Chinese central bank acted quickly, providing a cut to the amount capital banks have to hold in a hope of stimulating lending. They also cut both personal and corporate tax rates in a sign that they were prepared to act decisively. Away from China, India had a general election in what is said to be the largest democratic election in the world, with nearly 1 billion voters. Prime Minister Modi was re-elected with a majority, which should enable him to continue his reform agenda. Over the period, the MSCI AC Asia ex Japan Index fell in local currency terms, but increased by 1.7% in sterling.

In Japan, economic data showed strong growth in the first quarter, catching experts, who had expected the economy to contract, off guard. However, as ever, the devil is in the detail and analysis of the data showed that the GDP was pulled up by a sharp fall in imports rather than any strong underlying demand. In fact, a fall in exports and private demand pointed to a continued challenging outlook, particularly given the slowdown in neighbouring China. Over the quarter, the Topix Index was the worst performing major market, but for UK investors, the weakness in sterling actually meant that the Topix Index increased by 2.7% over the period.



Source: Bloomberg LP, AJ Bell Investments, July 2019

In the emerging markets, Russia was a very strong performer, as the country benefited from the rise in the oil price this year. With Gazprom and Lukoil making up a third of the Russian index, the rally in the price of 'black gold' this year has seen their share prices rally sharply, with Gazprom announcing a significant increase in its dividend. In Brazil, the stock market hit an all-time high despite the economy showing a contraction as confidence in President Bolsonaro fell and the growth rate for 2019 was slashed. During the period, MSCI announced changes to its emerging markers index which will see Saudi Arabia and Argentina added to the index while the weight of domestic Chinese equities continues to be increased. Over the period, this index was up by 3.0% while emerging markets fixed interest was the best performing asset class, with the JPMorgan GBI Emerging Market Global Composite Bond Index increasing by 8.3% over the period.



Source: Bloomberg LP, AJ Bell Investments, July 2019

Asset Allocation Contributors

Portfolio						
Top contributors*	MPS 1	MPS 2	MPS 3	MPS 4	MPS 5	MPS 6
1	Emerging Market Bonds	UK Corporate Bonds	UK Large Cap Equities	UK Large Cap Equities	North American Equities	North American Equities
2	North American Corporate Bonds	Health Care Equities	North American Equities	North American Equities	UK Large Cap Equities	Emerging Market Equities
3	UK Corporate Bonds	North American Equities	Technology Equities	Technology Equities	Technology Equities	Technology Equities

Source: AJ Bell Investments, Bloomberg LP, July 2019

All market performance figures are in GBP

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Active Managed Portfolio review – Q2 2019

Active MPS performance

With a positive performance across equities and bonds, portfolios have delivered solid performance during the second quarter. Overseas equity exposure was particularly beneficial – helped by the tailwind of weakening sterling – while fixed interest was also positive as yields tightened on the expectation of lower interest rates.

With strong absolute returns almost across the board, it was a strong quarter for the portfolios, particularly in the higher risk end of the spectrum where equity exposure is high.

In the UK, the core exposure from the Investec UK Alpha fund (Portfolio 3-6) outperformed the FTSE All-Share Index, while the more defensively positioned Troy Trojan Income fund (Portfolio 1-6) marginally lagged behind a rising market. The Man GLG Undervalued Assets fund (Portfolio 1-6) was also behind, as its tilt towards valued stocks was out of favour over the quarter after a strong start to the year. The Tellworth UK Smaller Companies fund (Portfolio 5-6) was very strong, with good outperformance of the broader market.

In the US, the JP Morgan US Equity Income fund (Portfolio 1-2) was a very good performer, as its focus on quality companies that generate cash was positive. The Dodge & Cox US Stock fund (Portfolio 3-6) was behind the index over the period, as its value style underperformed, while the US-focused Polar Cap Global Technology fund (Portfolio 3-6) also lagged behind the broader market as technology stocks struggled during June. The Xtrackers MSCI USA Healthcare ETF was positive, but behind the broad market, as the sector was hit by fears that the US government would change its approach to healthcare in April. These fears were unfounded and the sector recovered well.

In Europe, exposure comes from the Crux European Special Situations fund (Portfolio 2-6) and it performed well as equities had a strong quarter. With a focus on medium and smaller companies, this was a reversal of the first quarter when this approach lagged behind the market.

In Asia, our core exposure to the Invesco Asian fund (Portfolio 2-6) was ahead of its broad-based Asian benchmark, while the Schroder Asian Alpha Plus fund (Portfolio 4-6) was also marginally ahead of the index. The Stewart Asia Pacific Leaders fund (Portfolio 5-6) was a very strong relative performer as its focus on high quality companies was rewarded. The Fidelity Asian Values IT (Portfolio 6) was also a solid performer over the quarter.

In emerging markets, the Fidelity Emerging Markets fund (Portfolio 4-6) was significantly ahead of the benchmark for the second quarter in a row, as exposure to Russian oil stocks was helpful, while the JP Morgan Emerging Markets Income fund (Portfolio 2-6) was also a strong performer, as its focus on quality, cash-generative companies was rewarded. The recently-added Lazard Emerging Markets fund (Portfolio 6) was a positive as its deep value approach outperformed the index.

In Japan, the Man GLG Japan CoreAlpha fund finished the quarter behind the Topix Index, as the market focused on growth and quality companies rather than the value approach taken by this fund. In the last quarter, the Evenlode Global Income fund was added (Portfolio 1-5) and was the best performer across all holdings in absolute terms, as its clear focus on high-quality companies was rewarded.

Fixed-interest markets performed strongly as central banks hinted at potential interest-rate cuts. The Lyxor UK Gilt 0-5yr ETF marginally increased but significantly lagged behind the broad-based gilt benchmark. Within UK corporate bonds, both the Fidelity MoneyBuilder Income fund (Portfolio 1-3) and TwentyFour Corporate Bond fund (Portfolio 1-4) funds delivered solid absolute returns. The big winner over the quarter was the iShares USD Corporate Bond ETF, as this part of the market rallied strongly.

Within the high-yield market, performance of the Baillie Gifford High Yield Bond fund (Portfolio 1-5) was good, comfortably outperforming the index, while the Royal London Short Duration Global High Yield Bond fund (Portfolio 1-4) delivered positive returns over the quarter. Outside of UK fixed interest, the M&G Emerging Markets Bond fund (Portfolio 1-5) was very strong in absolute terms.

The final area of the portfolio is the commercial property allocation, which continues to be zero-weighted due to expectations of weak performance and liquidity risks that have picked up over the period. In its place, the Janus Henderson UK Absolute Return fund (Portfolio 1-5) was slightly in negative territory over the quarter.

Portfolio changes

With the annual long-term asset allocation changes being made in the previous quarter, no additional changes were made during the second quarter. However, the share class for the Lazard Emerging Markets fund was switched to a cheaper share class during the quarter.

Performance summary (all models)

Fund	3 months	6 months	1 year	Inception*
Active MPS 1	2.93%	6.25%	4.59%	5.93%
Active MPS 2	3.55%	8.37%	4.83%	6.12%
Active MPS 3	3.82%	10.28%	4.68%	6.84%
Active MPS 4	3.94%	11.33%	4.26%	6.92%
Active MPS 5	4.31%	12.86%	3.78%	6.52%
Active MPS 6	4.45%	13.64%	3.14%	5.68%

**Active MPS launched on 19 February 2018.*
Source: Bloomberg LP, AJ Bell Investments, July 2019

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This report provides general information about the AJ Bell Managed Portfolio Service. It should not be read or construed as investment advice. It is your responsibility to assess your client's circumstances and make a personal recommendation that is suitable for their needs.

The value of investments can go down as well as up and your client may not get back their original investment.

Past performance is not a guide to future performance and some investments need to be held for the long term.

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AJBell

AJ Bell Active Income MPS – Q2 2019 review

Introduction

We are delighted to bring you the latest quarterly report from AJ Bell Investments. This report is designed to keep you up-to-date on what is happening with your AJ Bell managed investments. It covers the major macro-economic events of the past three months, looks at how these have impacted the portfolios, and highlights any changes made in the period.

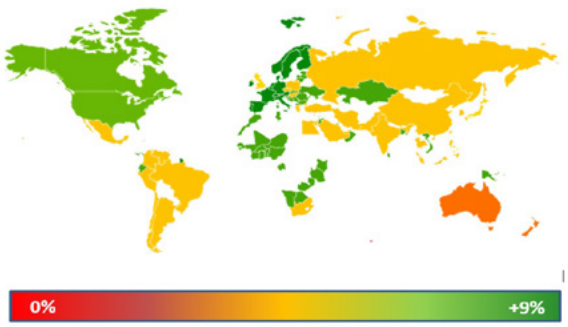
Summary

After a strong start to the year in Q1, Q2 broadly continued the theme, particularly for sterling investors who were helped by a strong tailwind from the weakening currency. Investors across the world were of the view that 'bad news was good news' as the chances of interest-rate cuts or further monetary stimulus seemed to increase as the quarter progressed.

In the UK, Brexit was once again in the spotlight with the date for leaving the EU pushed back again, this time until the end of October. However, this resulted in Theresa May resigning as Prime Minister, finally admitting defeat in getting her deal approved by parliament. Trade wars and tariffs were a feature of the quarter as the US/Chinese spat continued, while bond yields fell sharply as the bond market perceived increasing risk to the global economy.

Economic and market review

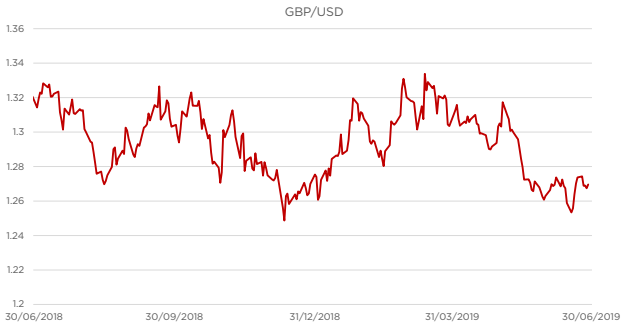
The second quarter of 2019 saw a continuation of the first with broadly positive performance from both equities and bonds, although Asian and emerging markets equities struggled to progress. The positive performance was based upon indications from central banks in the major economies that they were ready to provide further support and stimulus to economies should they judge that the world was at risk of an economic slowdown. The positive feeling behind this seemed to outweigh increasing tensions towards the US/Chinese trade war and increased tensions in the Middle East that pushed both the oil and gold prices higher.



Source: AJ Bell Investments, Bloomberg LP, July 2019

In a serious case of déjà vu, Brexit dominated the UK agenda over the past quarter as the original date for leaving the EU was extended, perhaps aptly, to 31 October, or Halloween! However, following disastrous European election results for the Conservative Party and a failure for parliament to pass the Withdrawal Agreement, Theresa May took the decision to resign, triggering a leadership contest and a market expectation that the risk of a no-deal Brexit had increased. With Boris Johnson the hot favourite, all eyes will be on the run up to the October deadline. During the period, UK economic performance was solid with continued low unemployment and GDP growth in line with expectations. The Brexit uncertainty saw sterling fall in value vs the US dollar, which helped the performance of larger stocks given their focus on overseas earnings while overall the FTSE All-Share Index was up 3.3%. With the weakening of sterling, overseas exposure in both equities and bonds was boosted in GBP terms.

The bond market predictably reacted to the increased risk of a no-deal Brexit with the yield on the 10-year gilt falling sharply, ending the period at just 0.82%. This helped the FTSE Actuaries UK Conventional Gilts All Stocks Index increase by 1.3% over the quarter. With the risk on environment, credit risk was rewarded, helping corporate bonds to perform well, with the iBoxx UK Sterling All Maturities Index increasing by 2.3% over the quarter, while high-yield bonds also performed well with the Bloomberg Barclays Global High Yield Bond Index increasing by 2.1% over the period.



Source: Bloomberg LP, AJ Bell Investments, July 2019

In the US, two major issues dominated the quarter: firstly, the ongoing trade war with China; and secondly, the shift in narrative from the Federal Reserve surrounding interest rates. The trade war escalated during the quarter as negotiations broke down and in May, the US increased the tariffs on $200bn of Chinese goods from 10% to 25% and threatened to extend this to another $300bn of goods. Naturally, the Chinese didn't take this lying down and responded by increasing the tariff on $60bn of US goods. This tit-for-tat battle has yet to truly be seen in economic data, but the risk is that a pick-up in inflation and a slowdown in growth could be seen in the second half of 2019. Turning to the Federal Reserve, during the quarter it became apparent that investors sense that the Fed may have to cut interest rates at some point this year. While initially the Fed appeared adamant that it was comfortable with the economic position, as the quarter progressed the narrative shifted with an indication that rate cuts could come if data deteriorated. With inflation remaining low and the boost from the Trump tax cuts about to leave the economy, there is a sense that a slowdown is occurring that will force the Fed's hand. As a result, market behaviour has become somewhat strange, with equities and bonds

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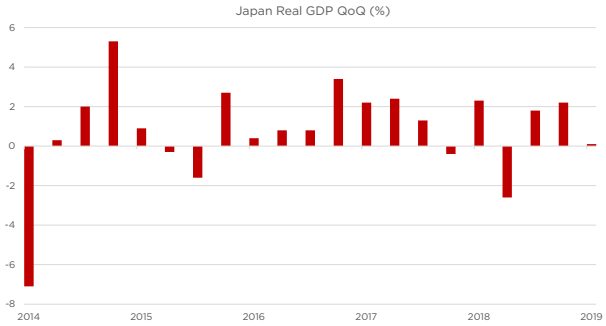
rallying on weaker data in the expectation that the Fed will be more likely to act sooner rather than later. This backdrop saw equities perform strongly with the S&P 500 Index increasing by 6.6% over the period. The more accommodative language from the Federal Reserve saw interest rate expectations change markedly, and as a result the US 10-year Treasury yield fell from 2.4% at the start of the year to 2.0% at the end of the quarter, resulting in a strong rally for US bonds.

Source: Bloomberg LP, AJ Bell Investments, July 2019

With a myriad of economic and social problems in Europe, investors have been nervous of the region for some time. However, after solid performance from the equity market during the quarter, European equities have actually had their best first half of a year for 21 years, providing a healthy reminder that investing in companies is not always representative of the underlying economies. At an economic level, data has been mixed with a very poor performance of the manufacturing side of the economy as the global economy – notably China – slows down, but a stronger performance from the services element of the economy, which is less relaint on overseas consumption. The ECB has been alive to the risks and Mario Draghi has talked of the possiblity of restarting quantitative easing in some form should the economy need it. These comments saw bond yields fall sharply, with the 10-year German Bond turning negative again and actually reaching a lower level than it saw even in the eye of the Euro crisis storm back in 2014. In Italy, the government remained at loggerheads with the EU, with talk of the potential introduction of a parallel 'currency' called mini-BOTs to stimulate their economy. Over the period, the MSCI Europe ex UK Index increased by 8.3%.

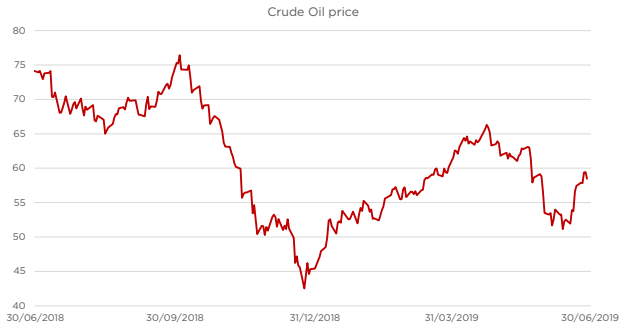
In Asia, China was the dominant factor as the previously mentioned trade war was prevalent. As Trump's trade tariffs kicked in, investors began to digest how much this could impact on Chinese growth and the Chinese central bank acted quickly, providing a cut to the amount capital banks have to hold in a hope of stimulating lending. They also cut both personal and corporate tax rates in a sign that they were prepared to act decisively. Away from China, India had a general election in what is said to be the largest democratic election in the world, with nearly 1 billion voters. Prime Minister Modi was re-elected with a majority, which should enable him to continue his reform agenda. Over the period, the MSCI AC Asia ex Japan Index fell in local currency terms, but increased by 1.7% in sterling.

In Japan, economic data showed strong growth in the first quarter, catching experts, who had expected the economy to contract, off guard. However, as ever, the devil is in the detail and analysis of the data showed that the GDP was pulled up by a sharp fall in imports rather than any strong underlying demand. In fact, a fall in exports and private demand pointed to a continued challenging outlook, particularly given the slowdown in neighbouring China. Over the quarter, the Topix Index was the worst performing major market, but for UK investors, the weakness in sterling actually meant that the Topix Index increased by 2.7% over the period.



Source: Bloomberg LP, AJ Bell Investments, July 2019

In the emerging markets, Russia was a very strong performer, as the country benefited from the rise in the oil price this year. With Gazprom and Lukoil making up a third of the Russian index, the rally in the price of 'black gold' this year has seen their share prices rally sharply, with Gazprom announcing a significant increase in its dividend. In Brazil, the stock market hit an all-time high despite the economy showing a contraction as confidence in President Bolsonaro fell and the growth rate for 2019 was slashed. During the period, MSCI announced changes to its emerging markers index which will see Saudi Arabia and Argentina added to the index while the weight of domestic Chinese equities continues to be increased. Over the period, this index was up by 3.0% while emerging markets fixed interest was the best performing asset class, with the JPMorgan GBI Emerging Market Global Composite Bond Index increasing by 8.3% over the period.



Source: Bloomberg LP, AJ Bell Investments, July 2019

All market performance figures are in GBP

Active Managed Portfolio review – Q2 2019

Active Income MPS performance

With positive performance across equities and bonds, portfolios have delivered positive performance during the second quarter. Overseas equity exposure was particularly beneficial – helped by the tailwind of weakening sterling – while fixed interest was also positive as yields tightened on the expectation of lower interest rates.

With strong absolute returns almost across the board, it was a strong quarter for the portfolios, particularly in the higher risk end of the spectrum where equity exposure is high.

In the UK, equities performed well despite uncertainty surrounding Brexit. The Montanaro UK Income fund, which focuses on smaller companies, was removed from Income 1, but retained in Income 2 during the annual asset allocation review, and overall performed strongly during the quarter. The more defensively-positioned Troy Trojan Income fund marginally lagged behind a rising market, while the Man GLG UK Income fund was also behind, as its tilt towards valued stocks was out of favour over the quarter after a strong start to the year.

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Within global equities, the Artemis Global Income fund was removed from Income 1 as part of the annual asset review and its weight reduced in Income 2 and performed well in absolute terms over the quarter. The BNY Global Income fund – previously known as the Newton Global Income fund – (Income 2) had an excellent quarter, as its focus on high-quality companies was well rewarded. Its weight was also reduced as part of the annual review.

Looking at the regional allocations, it was a reversal of the previous quarter as high-quality income companies were very much in favour. As a result, the BlackRock Continental European Income fund, Jupiter Asian Income fund and JP Morgan Emerging Markets Income fund all performed very strongly. During the quarter, the Schroder Oriental Income IT was added to Income 2 as the weight to Asia was increased and got off to a solid start.

In the alternatives exposure, the allocation to both UK and global property was removed from Income 1, while UK property was reduced in Income 2 as part of the annual update. After a strong first quarter, global property via the L&G Global Real Estate Dividend Index fund was weak in the second quarter, while UK property was weaker still as the iShares MSCI UK Target Real Estate ETF was marginally negative. In infrastructure, the Premier Global Infrastructure fund was replaced with the Legg Mason RARE Global Infrastructure Income fund, albeit the exposure was reduced from the Income 1 portfolio.

Fixed-interest markets performed strongly as central banks hinted at potential interest rate cuts. There were significant additions to the fixed-interest element of the portfolio in Income 1 to diversify the holdings. This included adding US corporate bonds, US short-duration high-yield bonds, US Treasuries and some emerging market debt (changes listed below). All exposures were gained via passive holdings in line with the policy of using passives where there was no clear case for using active managers, and all performed well after their introduction, helped by weaker sterling. The stand out performer was the L&G Emerging Markets Government Bond Local Currency Index fund.

Within the existing holdings, the Lyxor UK Gilt 0-5yr ETF marginally increased but significantly lagged behind the broad-based gilt benchmark. Within UK corporate bonds, both the Fidelity MoneyBuilder Income fund and Royal London Corporate Bond fund delivered solid absolute returns. Within the high yield market, performance of the Baillie Gifford High Yield Bond fund was good while the M&G Emerging Markets Bond fund was very strong in absolute terms.

Portfolio changes

AJ Bell performed its annual asset allocation review during the quarter, updating its long-term strategic positioning to reflect market moves over the preceding year, and an evolving investment universe, making it possible to invest in different asset classes to further increase the diversification within portfolios. We provided an update of these changes in our April update.

The main changes made over the quarter are summarised below and a more detailed document detailing the reasons behind the changes is available on our website.

Main asset allocation changes:

- Fixed-interest exposure was increased in the Income 1 portfolio
- Equity exposure was decreased in Income 1 but increased in Income 2
- Alternatives exposure was reduced across both Income 1 and 2

Main manager additions and removals:

Additions	Removals
Vanguard USD Corporate Bond ETF	Premier Global Infrastructure
Invesco US Treasury Bond 3-7 years ETF	
SPDR Bloomberg Barclays 0-5 years US High Yield Bond ETF	
L&G Emerging Markets Government Bond Local Currency Index	
JP Morgan US Equity Income	
Schroder Oriental Income IT	
Legg Mason RARE Infrastructure Income	

Portfolio summary (all models)

Fund	3 months	6 months	1 year	Inception*
Active MPS Income 1	4.53%	11.43%	6.65%	8.74%
Active MPS Income 2	4.19%	13.17%	4.97%	9.41%

**Active MPS launched on 19 February 2018.*
Source: Bloomberg LP, AJ Bell Investments, July 2019

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AJBell

AJ Bell Passive MPS – Q2 2019 review

Introduction

We are delighted to bring you the quarterly report from AJ Bell Investments covering the Growth MPS over Q2.

This report is designed to keep you up-to-date on what is happening with your AJ Bell managed investments. It covers the major macro-economic events of the past three months, looks at how these have impacted the portfolios, and highlights any changes made in the period.

Summary

After a strong start to the year in Q1, Q2 broadly continued the theme, particularly for sterling investors who were helped by a strong tailwind from the weakening currency. Investors across the world were of the view that 'bad news was good news' as the chances of interest-rate cuts or further monetary stimulus seemed to increase as the quarter progressed.

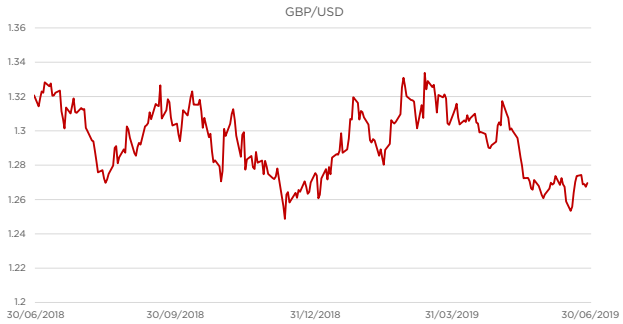
In the UK, Brexit was once again in the spotlight with the date for leaving the EU pushed back again, this time until the end of October. However, this resulted in Theresa May resigning as Prime Minister, finally admitting defeat in getting her deal approved by parliament. Trade wars and tariffs were a feature of the quarter as the US/Chinese spat continued, while bond yields fell sharply as the bond market perceived increasing risk to the global economy.

Economic and market review

The second quarter of 2019 saw a continuation of the first with broadly positive performance from both equities and bonds, although Asian and emerging markets equities struggled to progress. The positive performance was based upon indications from central banks in the major economies that they were ready to provide further support and stimulus to economies should they judge that the world was at risk of an economic slowdown. The positive feeling behind this seemed to outweigh increasing tensions towards the US/Chinese trade war and increased tensions in the Middle East that pushed both the oil and gold prices higher.

In a serious case of déjà vu, Brexit dominated the UK agenda over the past quarter as the original date for leaving the EU was extended, perhaps aptly, to 31 October, or Halloween! However, following disastrous European election results for the Conservative Party and a failure for parliament to pass the Withdrawal Agreement, Theresa May took the decision to resign, triggering a leadership contest and a market expectation that the risk of a no-deal Brexit had increased. With Boris Johnson the hot favourite, all eyes will be on the run up to the October deadline. During the period, UK economic performance was solid with continued low unemployment and GDP growth in line with expectations. The Brexit uncertainty saw sterling fall in value vs the US dollar, which helped the performance of larger stocks given their focus on overseas earnings while overall the FTSE All-Share Index was up 3.3%. With the weakening of sterling, overseas exposure in both equities and bonds was boosted in GBP terms.

The bond market predictably reacted to the increased risk of a no-deal Brexit with the yield on the 10-year gilt falling sharply, ending the period at just 0.82%. This helped the FTSE Actuaries UK Conventional Gilts All Stocks Index increase by 1.3% over the quarter. With the risk on environment, credit risk was rewarded, helping corporate bonds to perform well, with the iBoxx UK Sterling All Maturities Index increasing by 2.3% over the quarter, while high-yield bonds also performed well with the Bloomberg Barclays Global High Yield Bond Index increasing by 2.1% over the period.



Source: Bloomberg LP, AJ Bell Investments, July 2019

In the US, two major issues dominated the quarter: firstly, the ongoing trade war with China; and secondly, the shift in narrative from the Federal Reserve surrounding interest rates. The trade war escalated during the quarter as negotiations broke down and in May, the US increased the tariffs on $200bn of Chinese goods from 10% to 25% and threatened to extend this to another $300bn of goods. Naturally, the Chinese didn't take this lying down and responded by increasing the tariff on $60bn of US goods. This tit-for-tat battle has yet to truly be seen in economic data, but the risk is that a pick-up in inflation and a slowdown in growth could be seen in the second half of 2019. Turning to the Federal Reserve, during the quarter it became apparent that investors sense that the Fed may have to cut interest rates at some point this year. While initially the Fed appeared adamant that it was comfortable with the economic position, as the quarter progressed the narrative shifted with an indication that rate cuts could come if data deteriorated. With inflation remaining low and the boost from the Trump tax cuts about to leave the economy, there is a sense that a slowdown is occurring that will force the Fed's hand. As a result, market behaviour has become somewhat strange, with equities and bonds rallying on weaker data in the expectation that the Fed will be more likely to act sooner rather than later. This backdrop saw equities perform strongly with the S&P 500 Index increasing by 6.6% over the period. The more accommodative language from the Federal Reserve saw interest rate expectations change markedly, and as a result the US 10-year Treasury yield fell from 2.4% at the start of the year to 2.0% at the end of the quarter, resulting in a strong rally for US bonds.

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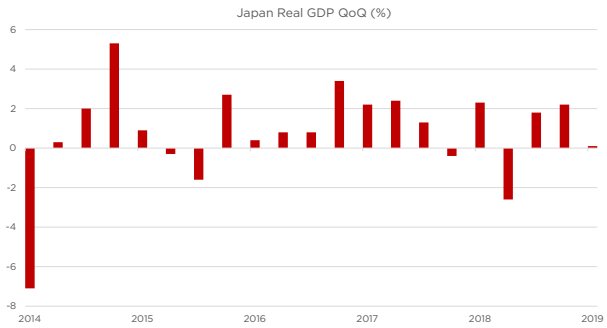
Source: Bloomberg LP, AJ Bell Investments, July 2019

With a myriad of economic and social problems in Europe, investors have been nervous of the region for some time. However, after solid performance from the equity market during the quarter, European equities have actually had their best first half of a year for 21 years, providing a healthy reminder that investing in companies is not always representative of the underlying economies. At an economic level, data has been mixed with a very poor performance of the manufacturing side of the economy as the global economy – notably China – slows down, but a stronger performance from the services element of the economy, which is less relaint on overseas consumption. The ECB has been alive to the risks and Mario Draghi has talked of the possiblity of restarting quantitative easing in some form should the economy need it. These comments saw bond yields fall sharply, with the 10-year German Bond turning negative again and actually reaching a lower level than it saw even in the eye of the Euro crisis storm back in 2014. In Italy, the government remained at loggerheads with the EU, with talk of the potential introduction of a parallel 'currency' called mini-BOTs to stimulate their economy. Over the period, the MSCI Europe ex UK Index increased by 8.3%.

In Asia, China was the dominant factor as the previously mentioned trade war was prevalent. As Trump's trade tariffs kicked in, investors began to digest how much this could impact on Chinese growth and the Chinese central bank acted quickly, providing a cut to the amount capital banks have to hold in a hope of stimulating lending. They also cut both personal and corporate tax rates in a sign that they were prepared to act decisively. Away from China, India had a general election in what is said to be the largest democratic election in the world, with nearly 1 billion voters. Prime Minister Modi was re-elected with a majority, which should enable him to continue his reform agenda. Over the period, the MSCI AC Asia ex Japan Index fell in local currency terms, but increased by 1.7% in sterling.

In Japan, economic data showed strong growth in the first quarter, catching experts, who had expected the economy to contract, off guard. However, as ever, the devil is in the detail and analysis of the data showed that the GDP was pulled up by a sharp fall in imports rather than any strong underlying demand. In fact, a fall in exports and private demand pointed to a continued challenging outlook, particularly given the slowdown in neighbouring China. Over the quarter, the Topix Index was the worst performing major market, but for UK investors, the weakness in sterling actually meant that the Topix Index increased by 2.7% over the period.



Source: Bloomberg LP, AJ Bell Investments, July 2019

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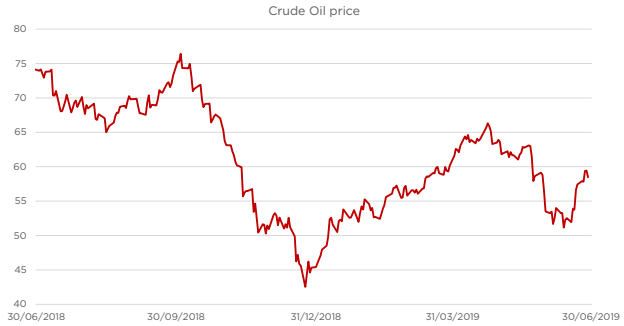

Source: Bloomberg LP, AJ Bell Investments, July 2019

Asset allocation positioning

As already highlighted, sterling fell against all major currencies over the last quarter. As sterling falls, the value of international assets increases when converted back into sterling, providing a boost to UK-based investors. Currency fluctuations provide extra volatility to the return of a portfolio, therefore our lower risk portfolios tend to be more focused towards sterling-based assets (or those hedged back to sterling), whereas our higher risk portfolios tend to have predominantly international holdings, allowing investments into higher risk equity markets such as Asia and Latin America. Therefore sterling falling up to 5% against major currencies provided a boost to returns, especially in the three highest risk portfolios, which hold a majority of non-sterling assets.

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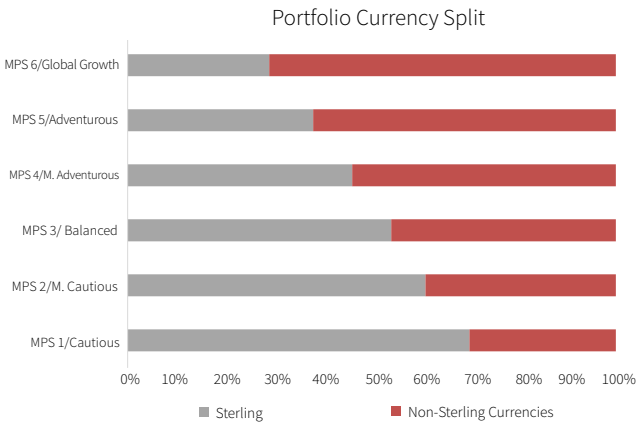
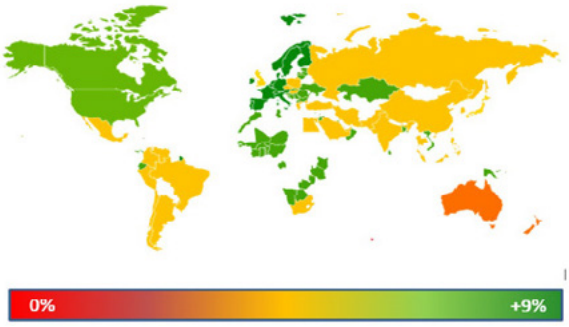


Source: AJ Bell Investments, July 2019

Although returns in UK stocks in general were muted, UK Large Cap equities tend to be international in nature: it is estimated that over 70% of profits from FTSE 100 companies are generated overseas and, therefore, these also benefit from a falling pound. This means that UK large cap equities actually outperformed some international regions in the quarter. A combination of these currency moves and equity market moves meant all equity regions delivered positive returns to portfolios in Q2.

Q2 equity market returns



Source: AJ Bell Investments, Bloomberg LP, July 2019

Alongside equity regions, we also split our equity allocations across sectors, with each portfolio having allocations to at least two sectors from technology, health care and consumer staples. Health care and consumer staples delivered performance broadly in line with global markets, whereas technology performed particularly well, given the risk on environment. It was one of the top contributors in the portfolios in which it is held, with global technology stocks up nearly 9% for the quarter.

As both equity markets rallied and government bond yields fell globally, the sweet spot for bonds over the quarter was in corporate and emerging market bonds, benefitting from falling treasury yields and tightening credit spreads.

All bond classes also delivered positive performances over the quarter and, as such, there were no detrators to portfolios in absolute terms.

Asset Allocation Contributors

	Portfolio					
Top contributors*	MPS 1	MPS 2	MPS 3	MPS 4	MPS 5	MPS 6
1	Emerging Market Bonds	UK Corporate Bonds	UK Large Cap Equities	UK Large Cap Equities	North American Equities	North American Equities
2	North American Corporate Bonds	Health Care Equities	North American Equities	North American Equities	UK Large Cap Equities	Emerging Market Equities
3	UK Corporate Bonds	North American Equities	Technology Equities	Technology Equities	Technology Equities	Technology Equities

Source: AJ Bell Investments, Bloomberg LP, July 2019

Passive Managed Portfolio review – Q2 2019

Passive MPS performance

Within the passive portfolios, the majority of performance is driven by asset allocation. However, the benchmark the team has chosen to track can lead to performance differentials, especially in bigger regions, such as emerging markets and Asia. The country–by-country classification – being either a frontier, emerging or developed nation – is still at the discretion of the index provider and, as such, the performance of indices in these regions can diverge when certain countries perform particularly well (or badly).

When selecting an ETF to use in the portfolios, we consider both the benchmark tracked and the cost to implement the strategy. Within Asia, due to the high investment costs associated with investing in products that cover both developed and emerging countries in the region, we have taken the decision to use the Vanguard FTSE Asia Pacific Ex-Japan ETF. This tracks the developed Asian Pacific nations. Unlike MSCI, FTSE classify South Korea as a developed nation, as such, and so the index is concentrated towards Australia and South Korea. Following the rise in commodity prices, the Australian stock market has performed well; as such, this product has outperformed the all-country Asia Pacific index by around 3%. This has helped performance, especially in the higher risk portfolios, where the allocation to Asia is higher.

In the MPS 6 portfolio we hold an Automation and Robotics ETF as part of our technology allocation. Although this position delivered a return of over 5% in Q2, it lagged behind technology in general. This is due to its tilt towards Asia and away from the US – US markets significantly outperformed Asia in Q2.

The final area to highlight over the quarter is the performance of our UK property holdings. We produced an article in May explaining how we implement property passively in the portfolios. This involves a combination of REITs and short-dated index-linked bonds, through an iShares ETF. The idea is that the blend provides performance much closer to physical property, by dampening the volatility caused by the inherent leverage in REITs and also avoiding the liquidity concerns surrounding active property funds. Over the quarter, an ETF tracking just UK REITS was down 2.2%. On the other hand, the ETF we use was up 0.8%, outperforming by 3%, protecting on the downside.

All other areas of the portfolios performed in line with expectations, with returns ranging from 3% for the lowest risk portfolio, to over 4.5% for the two highest risk portfolios (5 & 6).

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Portfolio changes

After making significant changes to the portfolio in the first three months of the year, the second quarter was a period of calm, with no changes implemented. We continue to monitor the market place to ensure our implementation represents the most cost-effective route, whilst remaining cognisant of any costs incurred if we did switch positions. With the emergence of new ETF providers – such as L&G, Amundi and Lyxor – providing fierce price competition, we would expect OCFs to continue to fall.

Performance summary (all models)

Fund	3 months	6 months	1 year	Inception*
Passive MPS 1	2.84%	6.92%	4.41%	8.50%
Passive MPS 2	3.51%	9.18%	5.17%	12.92%
Passive MPS 3	4.04%	11.28%	5.48%	17.43%
Passive MPS 4	4.27%	12.17%	5.21%	20.75%
Passive MPS 5	4.51%	13.34%	4.97%	21.91%
Passive MPS 6	4.51%	13.57%	4.82%	8.15%

**All the portfolios launched on 18 August 2016, with the exception of MPS 6, which has a launch date of 19 February 2018. All performance is net of fees.*
Source: Bloomberg LP, AJ Bell Investments, July 2019

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The value of investments can go down as well as up and your client may not get back their original investment.

Past performance is not a guide to future performance and some investments need to be held for the long term.

AJB/QR/P-MPS/20190715

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AJBell

AJ Bell Passive Income MPS – Q2 2019 review

Introduction

We are delighted to bring you the quarterly report from AJ Bell Investments covering the Passive Income MPS over Q2.

This report is designed to keep you up-to-date on what is happening with your AJ Bell managed investments. It covers the major macro-economic events of the past three months, looks at how these have impacted the portfolios, and highlights any changes made in the period.

Summary

After a strong start to the year in Q1, Q2 broadly continued the theme, particularly for sterling investors who were helped by a strong tailwind from the weakening currency. Investors across the world were of the view that 'bad news was good news' as the chances of interest-rate cuts or further monetary stimulus seemed to increase as the quarter progressed.

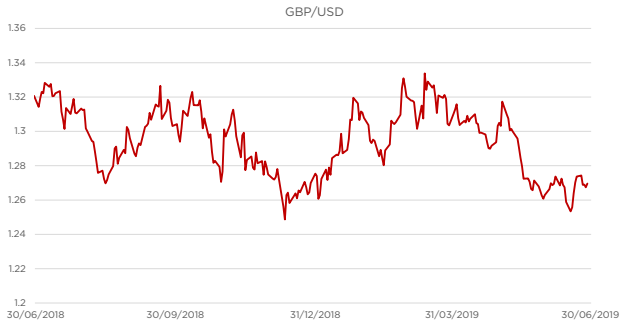
In the UK, Brexit was once again in the spotlight with the date for leaving the EU pushed back again, this time until the end of October. However, this resulted in Theresa May resigning as Prime Minister, finally admitting defeat in getting her deal approved by parliament. Trade wars and tariffs were a feature of the quarter as the US/Chinese spat continued, while bond yields fell sharply as the bond market perceived increasing risk to the global economy.

Economic and market review

The second quarter of 2019 saw a continuation of the first with broadly positive performance from both equities and bonds, although Asian and emerging markets equities struggled to progress. The positive performance was based upon indications from central banks in the major economies that they were ready to provide further support and stimulus to economies should they judge that the world was at risk of an economic slowdown. The positive feeling behind this seemed to outweigh increasing tensions towards the US/Chinese trade war and increased tensions in the Middle East that pushed both the oil and gold prices higher.

In a serious case of déjà vu, Brexit dominated the UK agenda over the past quarter as the original date for leaving the EU was extended, perhaps aptly, to 31 October, or Halloween! However, following disastrous European election results for the Conservative Party and a failure for parliament to pass the Withdrawal Agreement, Theresa May took the decision to resign, triggering a leadership contest and a market expectation that the risk of a no-deal Brexit had increased. With Boris Johnson the hot favourite, all eyes will be on the run up to the October deadline. During the period, UK economic performance was solid with continued low unemployment and GDP growth in line with expectations. The Brexit uncertainty saw sterling fall in value vs the US dollar, which helped the performance of larger stocks given their focus on overseas earnings while overall the FTSE All-Share Index was up 3.3%. With the weakening of sterling, overseas exposure in both equities and bonds was boosted in GBP terms.

The bond market predictably reacted to the increased risk of a no-deal Brexit with the yield on the 10-year gilt falling sharply, ending the period at just 0.82%. This helped the FTSE Actuaries UK Conventional Gilts All Stocks Index increase by 1.3% over the quarter. With the risk on environment, credit risk was rewarded, helping corporate bonds to perform well, with the iBoxx UK Sterling All Maturities Index increasing by 2.3% over the quarter, while high-yield bonds also performed well with the Bloomberg Barclays Global High Yield Bond Index increasing by 2.1% over the period.



Source: Bloomberg LP, AJ Bell Investments, July 2019

In the US, two major issues dominated the quarter: firstly, the ongoing trade war with China; and secondly, the shift in narrative from the Federal Reserve surrounding interest rates. The trade war escalated during the quarter as negotiations broke down and in May, the US increased the tariffs on $200bn of Chinese goods from 10% to 25% and threatened to extend this to another $300bn of goods. Naturally, the Chinese didn't take this lying down and responded by increasing the tariff on $60bn of US goods. This tit-for-tat battle has yet to truly be seen in economic data, but the risk is that a pick-up in inflation and a slowdown in growth could be seen in the second half of 2019. Turning to the Federal Reserve, during the quarter it became apparent that investors sense that the Fed may have to cut interest rates at some point this year. While initially the Fed appeared adamant that it was comfortable with the economic position, as the quarter progressed the narrative shifted with an indication that rate cuts could come if data deteriorated. With inflation remaining low and the boost from the Trump tax cuts about to leave the economy, there is a sense that a slowdown is occurring that will force the Fed's hand. As a result, market behaviour has become somewhat strange, with equities and bonds rallying on weaker data in the expectation that the Fed will be more likely to act sooner rather than later. This backdrop saw equities perform strongly with the S&P 500 Index increasing by 6.6% over the period. The more accommodative language from the Federal Reserve saw interest rate expectations change markedly, and as a result the US 10-year Treasury yield fell from 2.4% at the start of the year to 2.0% at the end of the quarter, resulting in a strong rally for US bonds.

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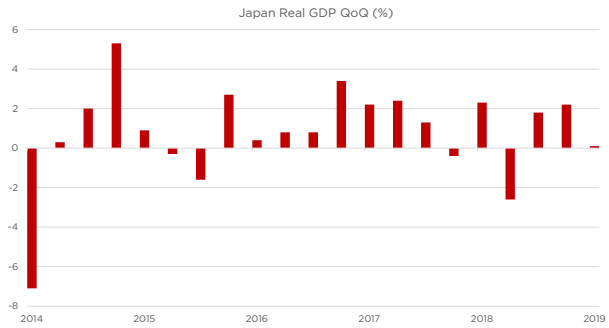
Source: Bloomberg LP, AJ Bell Investments, July 2019

With a myriad of economic and social problems in Europe, investors have been nervous of the region for some time. However, after solid performance from the equity market during the quarter, European equities have actually had their best first half of a year for 21 years, providing a healthy reminder that investing in companies is not always representative of the underlying economies. At an economic level, data has been mixed with a very poor performance of the manufacturing side of the economy as the global economy – notably China – slows down, but a stronger performance from the services element of the economy, which is less relaint on overseas consumption. The ECB has been alive to the risks and Mario Draghi has talked of the possiblity of restarting quantitative easing in some form should the economy need it. These comments saw bond yields fall sharply, with the 10-year German Bond turning negative again and actually reaching a lower level than it saw even in the eye of the Euro crisis storm back in 2014. In Italy, the government remained at loggerheads with the EU, with talk of the potential introduction of a parallel 'currency' called mini-BOTs to stimulate their economy. Over the period, the MSCI Europe ex UK Index increased by 8.3%.

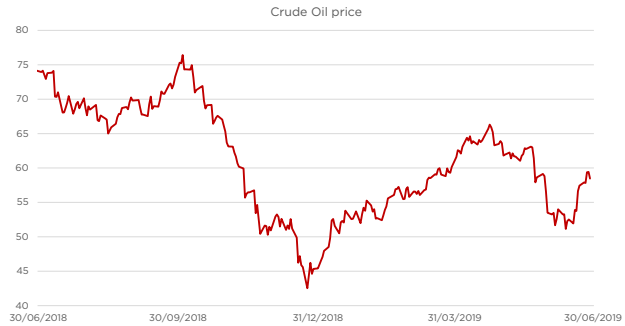
In Asia, China was the dominant factor as the previously mentioned trade war was prevalent. As Trump's trade tariffs kicked in, investors began to digest how much this could impact on Chinese growth and the Chinese central bank acted quickly, providing a cut to the amount capital banks have to hold in a hope of stimulating lending. They also cut both personal and corporate tax rates in a sign that they were prepared to act decisively. Away from China, India had a general election in what is said to be the largest democratic election in the world, with nearly 1 billion voters. Prime Minister Modi was re-elected with a majority, which should enable him to continue his reform agenda. Over the period, the MSCI AC Asia ex Japan Index fell in local currency terms, but increased by 1.7% in sterling.

In Japan, economic data showed strong growth in the first quarter, catching experts, who had expected the economy to contract, off guard. However, as ever, the devil is in the detail and analysis of the data showed that the GDP was pulled up by a sharp fall in imports rather than any strong underlying demand. In fact, a fall in exports and private demand pointed to a continued challenging outlook, particularly given the slowdown in neighbouring China. Over the quarter, the Topix Index was the worst performing major market, but for UK investors, the weakness in sterling actually meant that the Topix Index increased by 2.7% over the period.



Source: Bloomberg LP, AJ Bell Investments, July 2019

In the emerging markets, Russia was a very strong performer, as the country benefited from the rise in the oil price this year. With Gazprom and Lukoil making up a third of the Russian index, the rally in the price of 'black gold' this year has seen their share prices rally sharply, with Gazprom announcing a significant increase in its dividend. In Brazil, the stock market hit an all-time high despite the economy showing a contraction as confidence in President Bolsonaro fell and the growth rate for 2019 was slashed. During the period, MSCI announced changes to its emerging markers index which will see Saudi Arabia and Argentina added to the index while the weight of domestic Chinese equities continues to be increased. Over the period, this index was up by 3.0% while emerging markets fixed interest was the best performing asset class, with the JPMorgan GBI Emerging Market Global Composite Bond Index increasing by 8.3% over the period.



Source: Bloomberg LP, AJ Bell Investments, July 2019

Asset allocation positioning

As highlighted in the previous section, sterling fell against all major currencies. As sterling falls, the value of international assets increases when converted back into sterling, providing a boost to UK-based investors. Currency fluctuations provide extra volatility to the returns of a portfolio, therefore our lower risk income portfolio has a balance between sterling and international assets, whereas our higher risk income portfolio has a slightly greater focus on international holdings. Sterling falling up to 5% against major currencies provided a boost to returns to the income portfolios

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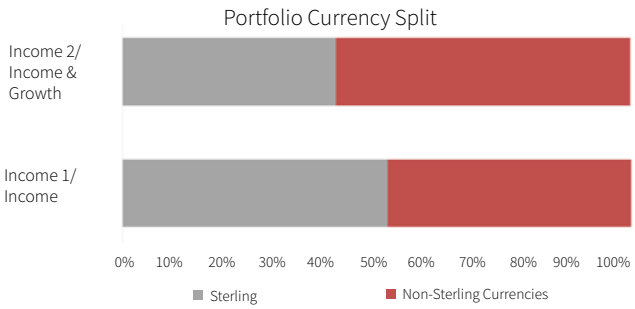


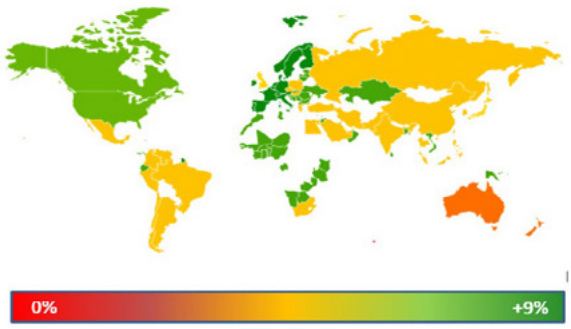
Source: AJ Bell Investments, July 2019

Although the income portfolio's equity holdings are allocated by region, income focused equities tend to be slightly tilted towards certain sectors. Mature industries tend to pay out a greater proportion of profits as dividends, and this leads to a bias towards financials, industrials and materials stocks. Given the risk-on environment, financials were the best performing sector over the quarter. Materials and industrials also outperformed the markets in general, helped by the bounce in commodities such as oil and iron ore.

Financials, materials and industrials are large sectors within the European equity markets, as such it was this region that performed the best over the quarter.

The one sector we specifically allocate to is infrastructure. This performed well (up 8%) as it tends to be focused toward utilities and industrials, with the former performing well when bond yields fall.

Q2 equity market returns



Source: AJ Bell Investments, Bloomberg LP, July 2019

The lower risk income portfolio aims to generate a proportion of its income target through an allocation to fixed income. Given the low level of yields in the UK, a significant part of the fixed income portion of the portfolio is in international bonds, and given the desire to maximise yield, only global high yield bonds are sterling hedged, as the hedging cost negates the yield advantage in lower risk overseas bonds. Therefore our holdings in US treasuries, US investment-grade and US high-yield bonds (all unhedged) benefitted from three factors: falling treasury yields, tightening spreads and the fall in sterling. Alongside the strong performance of emerging market bonds, fixed income was a major driver of Q2 returns in the lower risk portfolio.

The higher risk income portfolio, on the other hand, eshews fixed income, achieving diversification through listed UK and global property holdings. UK property returns crept into positive territory over the period, with returns held back by Brexit uncertainty and its effects on UK property prices. International property, however, performed well on weakening sterling and falling bond yields.

Given strong markets over the quarter, all elements of the portfolios helped deliver positive returns.

Passive Managed Portfolio review – Q2 2019

Passive Income MPS performance

The portfolios aim to generate an income yield of around 4%. To do this, the equity investments are tilted towards higher yielding equities. This means the performance of the ETFs we use may deviate away from broad equity indices, such as the FTSE 100 in the UK or the S&P 500 in the US.

For the S&P 500, the top five performing sectors for the second quarter have an estimated dividend yield of 1.6%, on the other hand the bottom five sectors have a yield of 2.7%. This has meant income focused ETFs have underperformed broader market indices over the last three months. The exception to the rule is in Asia, where income-producing equities outperformed.

In the Income 1 portfolio, the fixed income ETFs performed in line with our preferred benchmarks.

The final area to highlight over the quarter is the performance of our UK property holdings in the Income 2 portfolio. We produced an article in May explaining how we implement property passively in the portfolio. This involves a combination of REITs and short-dated index-linked bonds through an ETF. The idea is that the blend provides performance much closer to physical property, by dampening the volatility caused by the inherent leverage in REITs and also avoiding the liquidity concerns surrounding active property funds. Over the quarter, an ETF tracking just UK REITS was down 2.2%. On the other hand, the blend was up 0.8%, protecting on the downside.

Portfolio changes

We performed our annual asset allocation rebalance on 18 April. Full details of the changes and the rationale can be found here. In summary, we took the opportunity to add new asset classes into the portfolios to improve the risk/return characteristics of the portfolio, allowing us to meet the return objectives with a slightly lower level of overall risk. The overall expected yield sits just below 4%, driven by strong capital returns of the financial markets squeezing yields lower. We avoid the temptation to chase yield by moving significantly up the risk spectrum. Since launch in February 2018, the total return for Income 1 has been 11%, and 12% for Income 2. This is ahead of the total return objectives (4% and 6% annualised respectively) for the portfolios, and as such we are comfortable with the yield sitting slightly below the 4% target.

Performance summary (all models)

Fund	3 months	6 months	1 year	Inception*
Passive MPS Income 1	3.37%	10.47%	6.01%	11.42%
Passive MPS Income 2	3.06%	11.24%	6.61%	12.16%

**Both portfolios launched on 19 February 2018. All performance is net of fees.*
Source: Bloomberg LP, AJ Bell Investments, July 2019

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AJBell

AJ Bell Pactive MPS – Q2 2019 review

Introduction

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Summary

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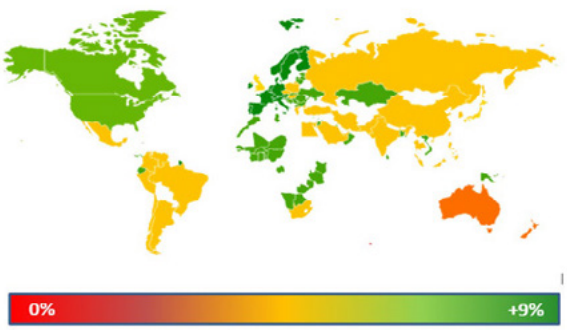
In the UK, Brexit was once again in the spotlight with the date for leaving the EU pushed back again, this time until the end of October. However, this resulted in Theresa May resigning as Prime Minister, finally admitting defeat in getting her deal approved by parliament. Trade wars and tariffs were a feature of the quarter as the US/Chinese spat continued, while bond yields fell sharply as the bond market perceived increasing risk to the global economy.

Economic and market review

The second quarter of 2019 saw a continuation of the first with broadly positive performance from both equities and bonds, although Asian and emerging markets equities struggled to progress. The positive performance was based upon indications from central banks in the major economies that they were ready to provide further support and stimulus to economies should they judge that the world was at risk of an economic slowdown. The positive feeling behind this seemed to outweigh increasing tensions towards the US/Chinese trade war and increased tensions in the Middle East that pushed both the oil and gold prices higher.



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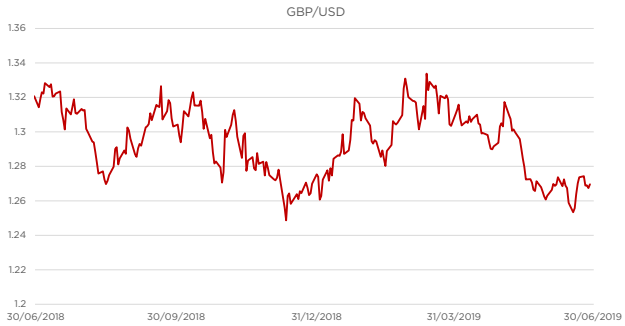

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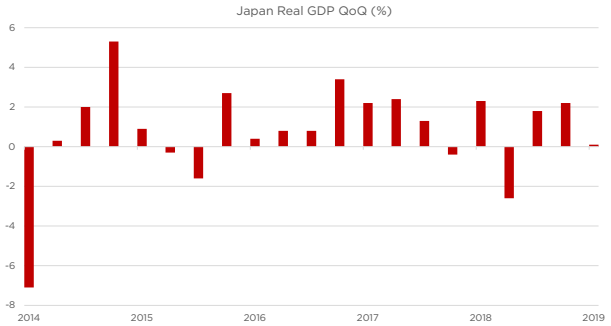

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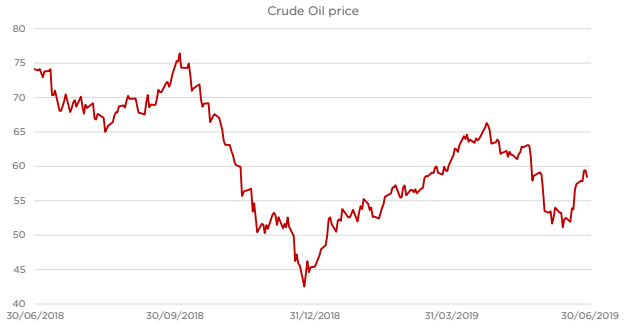

Source: AJ Bell Investments, July 2019

Asset Allocation Contributors

Portfolio						
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Source: AJ Bell Investments, Bloomberg LP, July 2019

All market performance figures are in GBP

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Pactive Managed Portfolio review – Q2 2019

Pactive MPS performance

With a positive performance across equities and bonds, portfolios have delivered a positive performance during the second quarter. Overseas equity exposure was particularly beneficial – helped by the tailwind of weakening sterling – while fixed interest was also positive as yields tightened on the expectation of lower interest rates.

With strong absolute returns almost across the board, it was a strong quarter for the portfolios, particularly in the higher risk end of the spectrum where equity exposure is high.

In the UK, the core exposure from the Investec UK Alpha fund (Portfolio 3-6) outperformed the FTSE All Share Index, while the more defensively positioned Troy Trojan Income fund (Portfolio 1-6) marginally lagged behind a rising market. The Man GLG Undervalued Assets fund (Portfolio 1-6) was also behind as its tilt towards valued stocks was out of favour over the quarter after a strong start to the year. The Tellworth UK Smaller Companies fund (Portfolio 5-6) was very strong, with good outperformance of the broader market.

In the US, the JP Morgan US Equity Income fund (Portfolio 1-2) was a very good performer, as its focus on quality companies that generate cash was positive. The Dodge & Cox US Stock fund (Portfolio 3-6) was behind the index over the period, as its value style underperformed, while the US-focused Polar Cap Global Technology fund (Portfolio 3-6) also lagged behind the broader market as technology stocks struggled during June. The Xtrackers MSCI USA Healthcare ETF was positive, but behind the broad market, as the sector was hit by fears that the US government would change its approach to healthcare in April. These fears were unfounded and the sector recovered well.

In Europe, exposure comes from the Crux European Special Situations fund (Portfolio 2-6) and it performed well as equities had a strong quarter. With a focus on medium and smaller companies, this was a reversal of the first quarter when this approach lagged behind the market.

In Asia, our core exposure to the Invesco Asian fund (Portfolio 2-6) was ahead of its broad-based Asian benchmark, while the Schroder Asian Alpha Plus fund (Portfolio 4-6) was also marginally ahead of the index. The Stewart Asia Pacific Leaders fund (Portfolio 5-6) was a very strong relative performer as its focus on high quality companies was rewarded.

In emerging markets, the Fidelity Emerging Markets fund (Portfolio 4-6) was significantly ahead of the benchmark for the second quarter in a row, as exposure to Russian oil stocks was helpful, while the JP Morgan Emerging Markets Income fund (Portfolio 2-6) was also a strong performer, as its focus on quality, cash-generative companies was rewarded. The recently-added Lazard Emerging Markets fund (Portfolio 6) was a positive as its deep value approach outperformed the index.

In Japan, the Man GLG Japan CoreAlpha fund finished the quarter behind the Topix Index, as the market focused on growth and quality companies rather than the value approach taken by this fund. In the last quarter, the Evenlode Global Income fund was added (Portfolio 1-5) and was the best performer across all holdings in absolute terms, as its clear focus on high-quality companies was rewarded.

Fixed-interest markets performed strongly as central banks hinted at potential interest-rate cuts. The Lyxor UK Gilt 0-5yr ETF marginally increased but significantly lagged behind the broad-based gilt benchmark. Within UK corporate bonds, both the Fidelity MoneyBuilder Income (Portfolio 1-3) and TwentyFour Corporate Bond (Portfolio 1-4) funds delivered solid absolute returns. The big winner over the quarter was the iShares USD Corporate Bond ETF, as this part of the market rallied strongly.

Within the high-yield market, performance of the Baillie Gifford High Yield Bond fund (Portfolio 1-5) was good, comfortably outperforming the index, while the Royal London Short Duration Global High Yield Bond fund (Portfolio 1-4) delivered positive returns over the quarter. Outside of UK fixed interest, the M&G Emerging Markets Bond fund (Portfolio 1-5) was very strong in absolute terms.

The final area of the portfolio is the commercial property allocation, which continues to be zero-weighted due to expectations of weak performance and liquidity risks that have picked up over the period. In its place, the Janus Henderson UK Absolute Return fund (Portfolio 1-5) was slightly in negative territory over the quarter.

Portfolio changes

Given the very recent launch of the Pactive portfolios, no changes have been made at this stage. However, the share class for the Lazard Emerging Market fund was switched to a cheaper share class during the quarter.

Performance summary (all models)

Fund	3 months	6 months	1 year	Inception*
Pactive MPS 1	2.88%	-	-	-
Pactive MPS 2	3.62%	-	-	-
Pactive MPS 3	4.19%	-	-	-
Pactive MPS 4	4.34%	-	-	-
Pactive MPS 5	4.70%	-	-	-
Pactive MPS 6	4.89%	-	-	-

Source: Bloomberg LP, AJ Bell Investments, July 2019

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The value of investments can go down as well as up and your client may not get back their original investment.

Past performance is not a guide to future performance and some investments need to be held for the long term.

AJB/QR/B/20190715