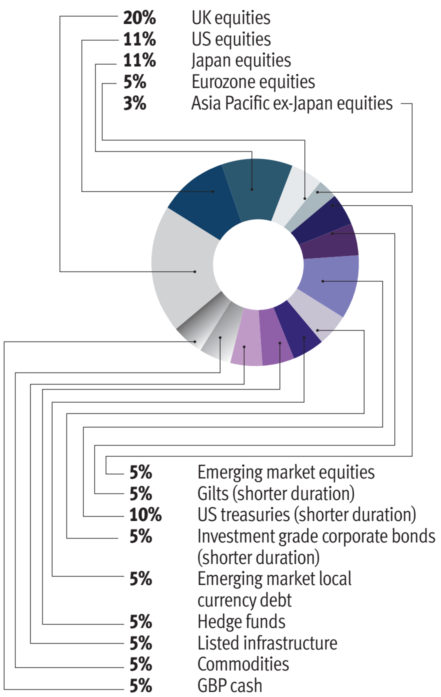
investors CHRONICLE alpha

12 July 2018

Alpha Asset Allocation Review
Central banks forge ahead despite global trade worries

President Trump's policies are starting to affect the global market outlook

Steady growth TAA (July 2018)



Source: Bloomberg, Investors Chronicle

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James Norrington's view:

Politicians aren't always the best at being long term in their outlook. With an eye always on the next election, many leaders would certainly not want to set out on a path that could lead their country into recession. Donald Trump, however, is no ordinary politician. He believes the global system is unfair on America and current levels of trade deficits are eroding American power and boosting its rivals, especially China. His great gamble – that the weight America carries in global trade can be used to forcefully negotiate a better deal – is a huge threat to prosperity in the short term. Mr Trump's apparent willingness to risk American jobs and growth is being tested by allies and foes alike, and it may take some sharp pain in the global economy before somebody blinks. Throw in the fact that central banks are now tightening monetary policy and there is potentially a storm brewing that investors need to weather with sensible asset allocation.

Executive summary

- US economic data is still positive, but the effects of retaliation by Europe and China have yet to be felt. Mr. Trump's ace in the hole, however, could be the eurozone's own existential crisis, which is embodied in the fractious governments of Germany and Italy. With so many fires to put out on its own doorstep, the EU could lose its nerve first.

- We pull back from emerging market and eurozone equities, but stay positive on Japan. In fixed income, US treasuries offer a good value premium over other developed market debt.

- Provided you have sufficient liquidity – a stable source of income plus cash in reserve for emergencies – the best policy is to stay invested if the trade war materialises and things turn ugly.

Donald Trump with Chinese President Xi Jinping: The US president is re-evaluating a world system that is still heavily dependent on the American consumer, but which has seen US advantage in numerous areas – financial, technological and industrial – eroded by China

Normalisation, in the vernacular of post-financial crisis economics, has referred to the gradual departure from ultra-loose monetary policy. There is nothing normal, however, about the backdrop to the current rate-tightening cycle. Unsurprisingly, for a man who was a reality TV star before he became a politician, President Donald Trump is taking centre stage. His belligerent stance with geo-political rivals and allies alike threatens to start a trade war that could derail the stuttering global recovery. Undoubtedly, this adds to the complexity of the task facing central banks – namely weaning asset markets off easy money and increasing interest rates, so banks can return to profitable lending business models without choking off growth.

Mr Trump's job is to act in the best long-term interests of America and its citizens. It is not unreasonable that he should re-evaluate a world system that is still heavily dependent on the American consumer, but which has seen US advantage in numerous areas – financial, technological and industrial – eroded by China. Re-calibration of the global order to redress this balance isn't solely an economic aim and the Trump administration is prepared to take a hit to growth in the short term. This, however, is not good news for investors and makes capital allocation decisions more difficult in the already precarious environment of monetary tightening.

Fundamentally, the crucial inputs to any valuation model are the rate of growth (at the highest level, GDP) and the cost of money (interest rates). GDP will be directly influenced by fall-out from Mr. Trump's efforts to re-assert American primacy and the knock-on to employment and inflation will shape the Federal Reserve's future monetary policy decisions. All asset classes will be affected and the intriguing dynamic between growth and rates has a major bearing on portfolio management.

"The inter-relationship between asset prices will not necessarily follow past patterns"

The inter-relationship between asset prices will not necessarily follow past patterns given the exceptionally low starting point for rates and the reversal/exit from quantitative easing policies. The potential for diplomatic brinkmanship to create a recessionary backdrop is considerable. Coupled with the ongoing political and structural issues in the eurozone, central banks are, in effect, walking a tightrope with an elephant on their shoulders.

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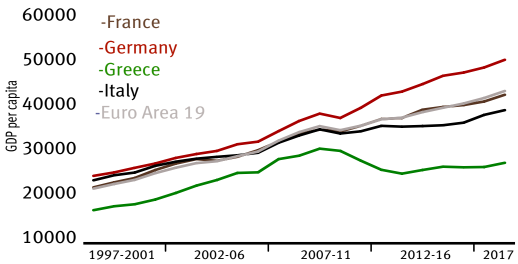
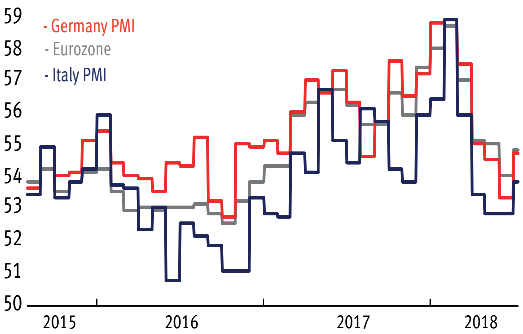
Italy & Greece are Euro's growth laggards



Source: OECD

Eurozone PMI ticked up in June but has weakened overall in 2018



Source: Bloomberg

"President Trump will be relying on the internal problems of EU leaders making them more fearful of a trade war"

Political powder keg ensures threat of turmoil is never far away for eurozone

Donald Maxwell-Scott, technical investment manager at Rowan Dartington, feels the Italian situation is highly combustible and could make the Greek crisis and Brexit pale by comparison as a threat to European Union (EU) stability. He says "the harsh reality for the EU is that since the introduction of the euro, the Italian economy has gone absolutely nowhere".

Since the introduction of the single currency, Italian GDP per capita has lagged. Notably, Germany has been one of the main beneficiaries of the single currency which, indirectly, raises the thorny issue of wealth transfers. The Populist parties, the Five Star Movement and The Northern League – which are now the two largest in Italy – see more spending as the answer to stagnation. Italian debt, however, is already 139 per cent of GDP, so there are serious concerns that the country may have trouble re-paying its debts. If Italy were to get into difficulty, the rest of the eurozone (and that effectively means Germany) would have to bail them out.

Germany, it seems, may end up having to pay somewhere along the line. The European Central Bank (ECB) has done all it can with monetary policy and remains dovish on rates (although it has signalled the beginning of the end for its asset-buying programme); fiscal stimulus may now be needed. The long-term answer is for wealth to be transferred within the eurozone to help boost productivity in countries outside Germany. This suggestion, however, would be impossible for German Chancellor Angela Merkel, with her governing coalition looking perilously fragile.

Mr Maxwell-Scott fears for the stability of the eurozone, if what he describes as its existential crisis isn't dealt with and populist parties take matters into their own hands, and fiscal discipline is jettisoned. He says: "The EU is not known as being receptive to change, and so Italy will increase its spending and debt, therefore increasing the uncertainty that they will be able to pay back their debts."

The precarious political situations in key countries like Italy and Germany – and let's not forget Spain has yet to resolve the Catalan question – comes amid a worrying slowdown of GDP growth in the eurozone.

President Trump will be relying on the problems faced internally by leaders in other democracies, especially EU countries, making them more fearful than America of a trade war. As David Cameron can vouch, the EU values its principles above pragmatism and will not want to be seen giving ground to a US president it abhors. Unlike the vote

"A recessionary trade war only makes the doomsday scenario more likely for Italy and the European project"

for Brexit, however, a crisis made in Italy could prove fatal for the European project. A recessionary trade war only makes the doomsday scenario more likely.

Making concessions to Mr. Trump would be unpopular with Europeans but less so, in the case of German voters, than a policy response to southern Europe's malaise that involved wealth transfers to facilitate a fiscal boost. With Europe unwilling/unable to do what is necessary to fix structural issues that have beset eurozone countries, the US calculation must be that leaders will do what it takes to avoid a recessionary trade war. Hardship and populism go hand in hand, so even an organisation as stubborn as the EU may realise that its very existence could depend on avoiding tipping back into recession.

Viewed in the context of Europe's troubles, the undeniable costs to the US of a trade war with its transatlantic partners look less severe. Mr Trump's brinkmanship is bringing the racier aspects of *The Art of the Deal* to international diplomacy, and is certainly ruffling feathers, but it might just work in bringing allies on board with his plan to make globalism work better for America.

The ultimate target, of course, is China. The US has a $337bn trade deficit with its growing rival and targets a $200bn reduction of this deficit by the end of 2019. This would, however, mean a bilateral deficit of $137bn remaining, so it is wrong to label Mr Trump's policies as a move towards isolationism. As significant as the issues of China reciprocating fair trade practices and allegations that it has manipulated its currency, is forced technology transfer. America's technological leadership is a key strategic advantage that China has chipped away at by making companies share secrets and riding roughshod over intellectual property laws.

The US has, in an opening salvo, enacted 25 per cent tariffs on $34bn-worth of Chinese goods, with the People's Republic responding by targeting 545 US goods of the same aggregate value. There could be more to follow.

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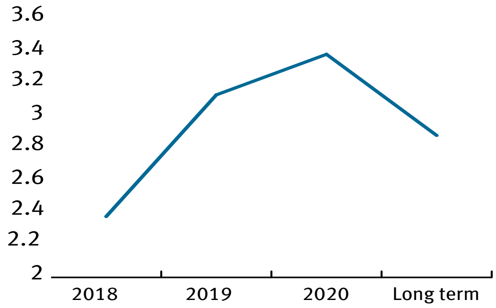
June 2018 Median Fed funds rate projection



Source: US Federal Reserve and Bloomberg

ECB President Mario Draghi is conscious not to shock the markets and is especially concerned not to choke off growth, given the worrying slowdown in eurozone GDP expansion and problems in its southern nations

Central banks aiming for a smoother path to normalisation

The US president's approach to international relations may be akin to Britain's 19th century gunboat diplomacy, but central banks are trying their best to chart a smooth course to rate normalisation. Federal Reserve Chair Jerome Powell is on the path of slow incremental 25 basis point (a basis point, or bp, is a hundredth of 1 per cent) increases to the target Federal Funds Rate. Strong US growth, stemming from the recent dollar decline and excellent jobs figures are facilitating ongoing tightening of the money supply and markets have barely flinched as the Fed has ceased reinvesting its quantitative easing (QE) bond returns – effectively marking a slow exiting of the policy.

While the Fed's short-term rate increases are a boon to savers and keep the economy from over-heating, the now famed dot-plot graph has given certainty to the process, acting as assurance to markets that there will be no shock upsurge in the cost of money.

European Central Bank (ECB) President Mario Draghi is also conscious not to shock the markets, but the ECB is especially concerned not to choke off growth, given the worrying slowdown in eurozone GDP expansion and problems in its southern nations. Draghi announced in his June address that QE would finish at the end of this year, but struck a dovish tone on interest rates, recognising the delicate predicament of countries most at risk of an economic downturn.

Mr Draghi may need to store up some firepower. Italian banks are massively exposed to their own government's debt; if the populists embark on spending that tips the country past the edge of solvency then the banking system could collapse. In this case, the Germans may not be able to avoid getting involved in a bailout – or otherwise allow the currency union to collapse.

Japan has been slowing its asset purchase programme on the quiet for several months now. Back in February, Legal & General Investment Management put out a note highlighting the Bank of Japan(BoJ) had slowed the pace of its asset purchase programme, dropping by 25 per cent from ¥80 to ¥60 trillion annually. Reducing demand for government bonds will force down their price and increase yields, which could have a knock-on effect for the value of the yen; increasing demand for the currency which would hurt exports and the BoJ's attempts to hit its 2 per cent inflation target. At the end of May, Bloomberg reported that the BoJ had taken advantage of a global spike in yields and falling risk appetite to reduce purchases further.

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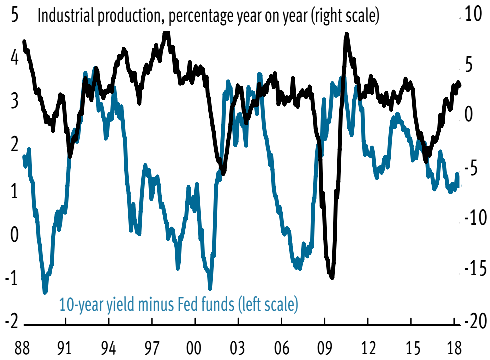
US yield curve and industrial production growth



Source: Federal Reserve

What to watch out for in Q3 2018...

Fixed Income

Chris Dillow has written recently in the Investors Chronicle about the relationship between the yield curve and recessionary expectations. Chris explained the inverse US yield curve (whereby the yield on longer-dated bonds is lower than for short-dated issues) as investors pre-empting a fall in short-term yields in the belief that the economy will slow.

This means that if there is a recession prices of short-dated US treasuries will increase as investors make a flight to quality. If a trade war doesn't materialise and a recession is avoided then the slow raising of interest rates should continue. In the latter scenario, the price of short-dated bonds will fall less than longer-dated bonds (bond prices have an inverse relationship with yields as the price on the secondary market fluctuates to give an effective yield that's commensurate with rates).

Thanks to the US Federal Reserve being the first mover in hiking interest rates, plus the relative strength of the American economy, there exists a wide spread between the yield on American government debt and that of countries with a comparable credit worthiness. Benchmark 10-year US yields are just a shade under 3 per cent which, when contrasted with German Bunds at 0.5 per cent, makes for quite a premium that comes with scarcely any additional risk.

In fact, the strength of the US economy has been cited by members of the American G7 team, such as Larry Kudlow, as they emphasise the weight America can carry in negotiations. The pain America would feel from retaliations to its exports may be less than the hurt others suffer from an escalation from the tit-for-tat tariff measures announced so far.

The US has enormous trade deficits with all its major partners – $337bn with China, $150bn with the EU, $70bn with Japan – the potential for a trade war to cause recession is very real for the US, but it is likely that others would come off worse. This means government tax revenues for these countries will likely take a hit and therefore US treasuries are likely to be an attractive option. Whichever way the trade disputes play out, American debt looks a good bet for portfolio allocation.

Craig Veysey, senior fund manager of the Sanlam Strategic Bond Fund, said "US treasury yields, at close to 3 per cent for a 10-year bond can remain attractive to longer-term global bond investors, while rates and yields remain fairly low on other safe assets". Mr Veysey prefers gilts and European bonds if rates were to rise, citing better supply and demand dynamics and that monetary policy is more likely to remain on hold in these regions. We, however, prefer US treasuries as apparently an easy win.

Equities

It's stating the obvious, but recessions are bad for shares – demand for goods and services falls, so companies' profits take a hit. The big game of poker between President Trump, the European Commission and China is poised to escalate before somebody blinks and, if global GDP grinds into reverse gear, this will hurt businesses. Throw in the credit tightening cycle and there are plenty of powerful factors that could finally bring the great bull market in equities to a shuddering halt.

Valuations have been looking stretched for some time. Being expensive, however, is no signal when stock markets are about to fall over; nor is it necessarily a wise strategy to just pile into the cheapest markets – in a global recession it would be immensely naïve to think companies in regions where multiples are less dear are going to come off more lightly. In the bear market of 2007-09, global stock markets fell, not just the S&P 500 and the FTSE 100.

The distinction we can make is that expensive markets aren't priced for their best forward rate of return, so if we are optimistic about taking risk across the board, better returns will be made investing in cheaper regions or at least giving them a higher weighting than their market capitalisation in a global index. In a risk-off environment, however, are we not just better off reducing exposure to risk?

G7 countries' stock market's Star Capital valuation

Country	CAPE	Trailing PE	Price-to-book	DY (%)
UK	16.6	17.3	1.8	3.8
Italy	17.5	15.1	1.3	3.4
Germany	19.4	14.2	1.7	2.8
France	20.9	17.6	1.8	2.9
Canada	21.9	17.9	1.9	2.8
Japan	27	14.4	1.3	2.1
USA	30.3	21.8	3.3	1.8

Source: Star Capital, Thomson Reuters, MSCI Indices

In our last asset allocation review, we used the cyclically adjusted price/earnings (CAPE) ratio data produced by German Asset Management House, Star Capital, to rate stock markets on value. Viewed alongside data from SG Global Quants, which showed the degree of premium countries' stock markets offered over their domestic government bonds, this information was used to assess not only whether assets were dear, but if they were adequately compensating risk. If the answer wasn't affirmative then it was a signal to be less invested in a market compared with our benchmark weightings.

Some countries have cheap CAPE scores, but we are wary of being over-exposed in what is a nervous time for investors. When one considers that the premium overseas bonds offer over US yields is narrowing, the excess returns for taking risk buying overseas equities is not being adequately compensated.

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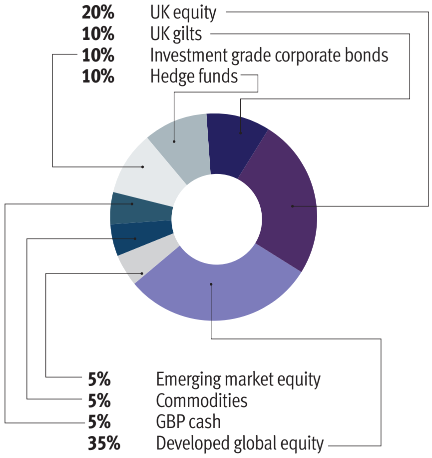
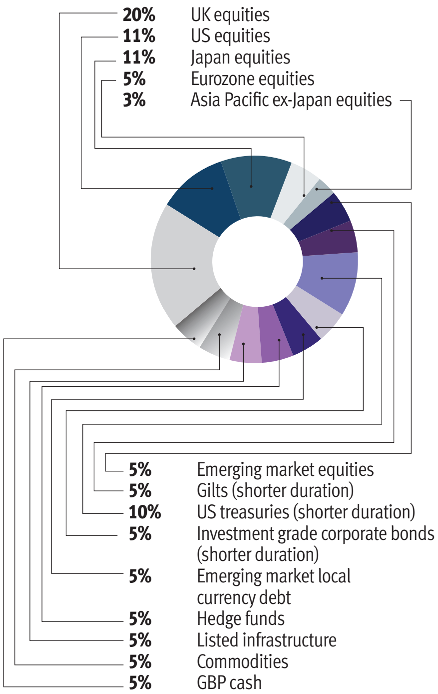
Steady growth SAA (60% to 80% global equity risk)



Source: ARC Research, Investors Chronicle

Steady growth TAA (July 2018)



Source: Bloomberg, Investors Chronicle

Time to buy stocks again and not just markets?

Times of increased economic uncertainty raises realised and implied volatility in stock markets. Heightened volatility of individual share prices and/or a wider variety of betas (the correlation of individual shares' prices with the whole market) is also known as increased dispersion. In major stock markets, low dispersion reduces the opportunities for stockpickers to spy value stocks. If large, quality growth stocks are rising steadily, the benchmark index does well. This makes it less likely that unloved stocks, who's true value has been underappreciated, will outperform.

A market downturn, if it materialises, is not a signal to rotate into value as an investing style. There could be a danger of trying to catch falling knives. What investors should be doing, however, is paying much more attention to fundamentals when drawing up a wishlist of companies they might want to buy on the next dip. As well as keeping an eye on quality companies that could become cheaper, it is worth looking out for stocks that were out of favour in the last economic cycle.

Asset allocation: steady growth (higher risk)

At our last asset allocation review, we deviated from our riskier steady growth portfolio not in terms of asset weights, but by tilting regional exposures in equities and duration risk in bonds. The strategic asset allocation (SAA) benchmark for the portfolio is 60 per cent equities, 20 per cent bonds, 15 per cent alternatives (benchmarked as hedge funds and commodities) and 5 per cent cash.

For our Steady Growth Tactical asset allocation (TAA), our main deviation was to weight global equities investments away from the US and more towards other regions, compared with the market capitalisation weightings in a world index. In our SAA, international developed market equities make up 35 per cent of the portfolio, which would effectively put us about 17 per cent in some of the biggest US stocks. Reducing this weighting was one of the considerations in our TAA and we placed a higher portion of our equity allocation in emerging markets, plus a small stake in Asia Pacific ex-Japan, and split the new overseas devevoped market (DM) position three ways between the US, Japan and the eurozone.

The three DM positions haven't, in aggregate, made a big difference to performance, compared with if we had just been invested in the world index. The call to overweight emerging markets (EM) was, however, a bad one and given the headwinds facing EM equities, we should move to halve this position.

The long-term case for the the Asia-Pacific region remains

"We'd prefer an unhedged Japanese position, so we can take advantage of exchange movements if the pound falls on Brexit uncertainty"

strong. Hopefully, whatever the initial set-backs, the posturing of Mr Trump will lead to progress on trade issues eventually. Meanwhile, our 3 per cent holding is small, so rather than incur costs running in and out of this region, we'll roll with the punches.

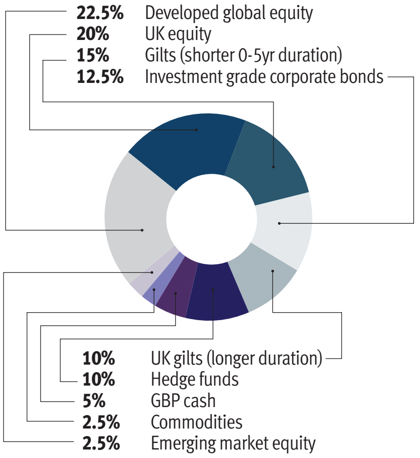
In overseas DM equities, we'll keep our 27 per cent position but shift back towards the US and Japan and away from the eurozone. If there is an escalation in the trade war, we would back the US to suffer less than Europe and Japanese companies still look in good shape. Therefore, we drop eurozone equities to a 5 per cent overall portfolio weighting and increase the US and Japan to 11 per cent each. We'd prefer an unhedged Japanese position, so we can take advantage of exchange movements if the pound falls on Brexit uncertainty and the yen, traditionally a safe-haven currency, rises amid concerns for the global economy.

What to do with that extra 5 per cent from the emerging markets equity investments? We'll make a shift between asset classes and increase investment in bonds. Specifically, we'll increase our position in one- to three-year US treasuries to 10 per cent. We'll keep holdings in short-duration gilts, short-duration investment grade corporate bonds and local currency EM debt at 5 per cent each. The EM debt holding is high risk, but balanced by the short-duration gilt and UST positions. Local currency holdings means renewed dollar strength is not such a concern, as many issuers no longer peg their currencies to the dollar.

The alternative investments in our SAA are split between commodities (5 per cent of the total portfolio) and a benchmark allocation to hedge funds (10 per cent). Commodity prices have recovered from their 2016 lows, but if a trade war causes recession, demand for raw materials could fall. Plus, there is the knock-on effect of Russia and the OPEC's (Organisation of the Petroleum Exporting Countries) joint decision to increase supply, which should put a break on oil prices. There is, however, the possibility that gold prices could rise in a period of greater volatility for other asset classes.

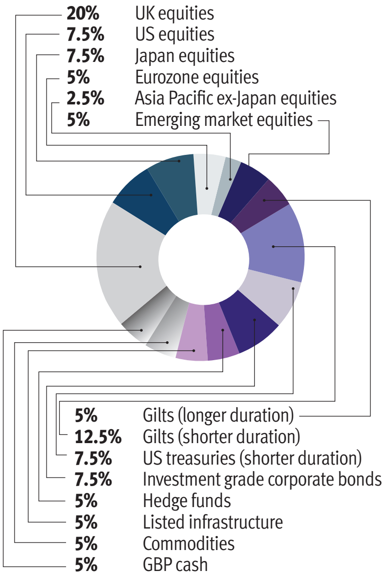
The hedge fund allocation in the SAA is to give benchmark representation to hedge funds and alternative investments in general as an asset class. In practice, this is a slice of portfolio where we wouldn't buy the ETF that tracks the index, but instead look to select combinations of alternative assets. For the TAA, we'll keep half of the hedge fund index, but put 5 per cent of the total portfolio in listed infrastructure. Like some hedge fund investments, this is an equity sub-class, but the companies invested in by global infrastructure funds have solid barriers to entry and stable, reliable cash flows. As an asset

Balanced SAA (40% to 60% global equity risk)



Source: ARC Research

Balanced TAA (July 2018)



Source: Bloomberg, Investors Chronicle

class, infrastructure has been on a lot of investors' radars for some time, especially as they sort bond proxies at a time of low rates. This means valuations of some of the companies invested in are punchy; yet as more governments ditch austerity, they will benefit from infrastructure projects and their defensive characteristics could help steady the portfolio in more volatile times ahead.

Balanced

For our Balanced portfolio TAA, we will keep US and Japanese stocks at the same level that we had them in March, but we'll reduce the eurozone equities to 5 per cent. We'll switch that 2.5 per cent into US treasuries. Again, the hedge fund/alternatives allocation will be split to invest 5 per cent of the portfolio total in listed infrastructure.

In both portfolios, there is a 20 per cent allocation to UK-listed equities. This is benchmarked against the FTSE All-Share index, although with the heavy concentration of the UK market capitalisation, this means we aren't getting much of the size premium for investing in smaller companies. For a passive investor, you're probably better off buying ETFs that track the FTSE 100 and/or, if you want to tilt more towards mid-caps, the FTSE 250. The FTSE 100 makes up a lot of the All-Share anyway and ETFs that track it have ongoing charges of as low as seven basis points.

For active investors, the UK-listed allocation is where there is fun to be had, and Alpha to be gained. We'll keep the All-Share tracker in there to demonstrate decisions at the asset allocation level. In practice, it is more interesting to pick stocks. Having 20 per cent in one equity market is a lot, but many companies are global in nature and we can look for companies with international businesses for the sake of diversification. We have yet to decide which companies to pick, but it will probably be a case of holding half our UK equities (10 per cent of the overall portfolio) in larger stocks and keeping 10 per cent for our favourite small-caps – which means it's over to Simon Thompson hopefully for some double-digit gains!

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Country Star Capital valuation scores (ranked cheapest by CAPE first)

Country	CAPE	Trailing PE	Price-to-book	DY (%)
Russia	6.3	7.3	0.9	5.5
Turkey	9.4	7.9	1.2	4
Czech Rep.	9.8	13.9	1.5	5.5
Poland	11.2	11.6	1.2	2.7
Brazil	12.3	16.9	1.7	3.1
Spain	13.2	16	1.5	3.8
Singapore	13.4	9.7	1.1	3.8
Hungary	13.6	10	1.3	3.1
South Korea	14.6	10.3	1	2
Portugal	15	19.7	1.6	4.2
Israel	15.3	15	1.5	3.3
Malaysia	15.7	18	1.6	3.4
UK	16.6	17.3	1.8	3.8
Norway	16.7	17.4	1.9	3.5
Hong Kong	16.9	14.2	1.6	2.8
Indonesia	17	17.8	2.8	2.6
China	17.5	7.4	0.9	4.3
Italy	17.5	15.1	1.3	3.4
Austria	18.3	15.7	1.3	3
South Africa	18.4	13.5	1.9	4.1
Thailand	18.6	15.3	2.1	3
Phillipines	18.9	18.2	2	1.8
Australia	19	17.5	2.1	4.3
Germany	19.4	14.2	1.7	2.8
France	20.9	17.6	1.8	2.9
Taiwan	21.3	13.9	1.9	4.2
Mexico	21.3	19.4	2.2	2.2
Sweden	21.4	16.6	2	3.7
Canada	21.9	17.9	1.9	2.8
Finland	22.3	22.5	2.3	4
India	22.3	24.9	2.8	1.4
Netherlands	23.9	16	1.9	3.1
Switzerland	24.2	25.7	2.4	3.2
Belgium	25.1	18	1.9	3.7
New Zealand	25.5	22.4	2	3.9
Japan	27	14.4	1.3	2.1
USA	30.3	21.8	3.3	1.8
Denmark	33.9	20.1	3.1	2.4
Ireland	45.1	16.8	1.9	1.4

Source: Star Capital, Thomson Reuters, MSCI Indices as at June 2018

Performance of Balanced asset allocation 09.03.18 to 29.06.2018

Balanced Strategic Asset Allocation

Asset class	Benchmark ETF	Weighting (%)	% TR (9.03.18 to 29.06.2018)
UK equities	SPDR FTSE UK All-Share (FTAL)	20	6.46
Developed World equities	HSBC MSCI World (HMWO)	22.5	3.85
Emerging market equities	iShares Emerging Markets (EMIM)	2.5	-6.84
UK Gilts (Longer duration)	Lyxor FTSE Actuaries Gilts (GILS)	10	2.26
UK Gilts (shorter duration)	Lyxor FTSE Actuaries Gilts 0-5 yrs (GIL5)	15	0.47
Investment grade corporate bonds	iShares Corporate Bonds (SLXX)	12.5	-0.03
Hedge Funds	UBS HFRX Hedge Funds (0Y22)	10	-1.45
Commodities	Invesco Bloomberg Commodity (CMOD)	2.5	-0.2
Cash	3-mth Libor	5	0.19
		Overall total portfolio return	**2.14**

Balanced Tactical Asset Allocation 09.03.18 to 29.06.18

Asset class	Benchmark ETF	Weighting (%)	% TR (9.03.18 to 29.06.2018
UK equity	SPDR FTSE UK All-Share (FTAL)	20	6.46
United States equity	iShares S&P 500	7.5	4.51
Japan equity	Xtrackers Nikkei 225 (XDJP)	7.5	4.48
Eurozone equity	Vanguard FTSE Dev Europe ex-UK (VERX)	7.5	0.19
Asia Pacific (ex-Japan) equity	Vanguard FTSE Asia Pacific ex-Japan (VAPX)	2.5	-0.67
Emerging market equity	iShares Emerging Markets (EMIM)	5	-6.84
UK Gilts (Longer duration)	Lyxor FTSE Actuaries Gilts (GILS)	5	2.26
Gilts (shorter 0-5 year duration)	Lyxor FTSE Actuaries Gilts 0-5 yrs (GIL5)	12.5	0.47
US Treasuries (short duration)	Lyxor iBoxx USD Treasuries 1-3 yrs (U13G)	5	5.48
Investment Grade Corporate Bonds	iShares Corporate Bonds (SLXX)	7.5	-0.03
Hedge Funds	UBS HFRX Hedge Funds (0Y22)	10	-1.45
Commodities	Invesco Bloomberg Commodity (CMOD)	5	-0.2
GBP Cash	3-mth Libor	5	0.19
		Overall total portfolio return	**1.92**

Source: Source: Bloomberg and Investors Chronicle

Performance of Steady Growth asset allocation 09.03.18 to 29.06.2018

Steady Growth Strategic Asset Allocation

Asset class	Benchmark ETF	Weighting (%)	% TR (9.03.18 to 29.06.2018)
UK equity	SPDR FTSE UK All Share (FTAL)	20.0	6.46
Developed global equity	HSBC MSCI World (HMWO)	35.0	3.85
Emerging market equity	iShares Emerging Markets (EMIM)	5.0	-6.84
UK Gilts	Lyxor FTSE Actuaries Gilts (GILS)	10.0	2.26
Investment Grade Corporate Bonds	iShares Corporate Bonds (SLXX)	10.0	-0.03
Hedge Funds	UBS HFRX Hedge Funds (0Y22)	10.0	-1.45
Commodities	Invesco Bloomberg Commodity (CMOD)	5.0	-0.2
GBP Cash	3mth Libor	5.0	0.19
		Overall total portfolio return	**2.38**

Steady Growth Tactical Asset Allocation 09.03.18 to 29.06.18

Asset class	Benchmark ETF	Weighting (%)	% TR (9.03.18 to 29.06.2018)
UK equity	SPDR FTSE UK All Share (FTAL)	20	6.46
United States equity	iShares S&P 500	9	4.51
Japan equity	Xtrackers Nikkei 225 (XDJP)	9	4.48
Eurozone equity	Vanguard FTSE Dev Europe ex-UK (VERX)	9	0.19
Asia Pacific (ex-Japan) equity	Vanguard FTSE Asia Pacific ex-Japan (VAPX)	3	-0.67
Emerging market equity	iShares Emerging Markets (EMIM)	10	-6.84
Gilts (shorter 0-5 year duration)	Lyxor FTSE Actuaries Gilts 0-5 yrs (GIL5)	5	0.47
US Treasuries (short duration)	Lyxor iBoxx USD Treasuries 1-3 yrs (U13G)	5	5.48
IG Corporate bonds (short duration)	iShares Corporate Bond 0-5 yrs (IS15)	5	0.29
Emerging market bonds	SPDR Bloomberg Barclays EM Local (EMDL)	5	-3.94
Hedge Fund	UBS HFRX Hedge Funds (0Y22)	10	-1.45
Commodities	Invesco Bloomberg Commodity (CMOD)	5	-0.2
GBP Cash	3mth Libor	5	0.19
		Overall total portfolio return	**1.38**

Source: Source: Bloomberg and Investors Chronicle

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