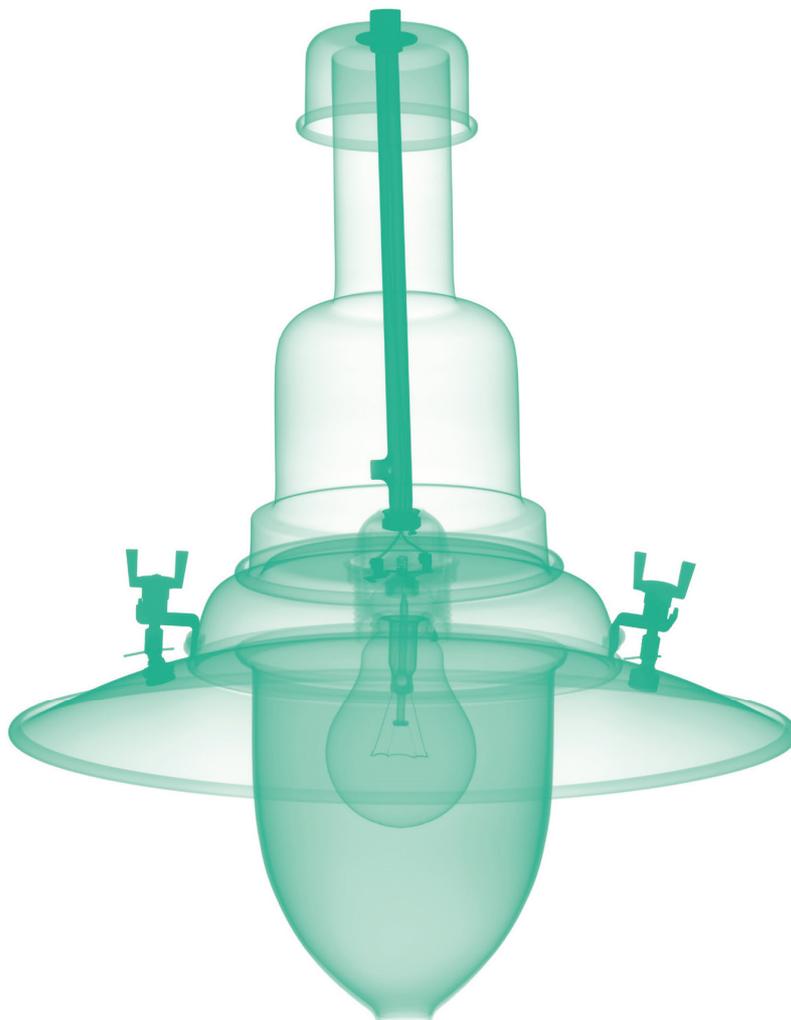




# Investment Report



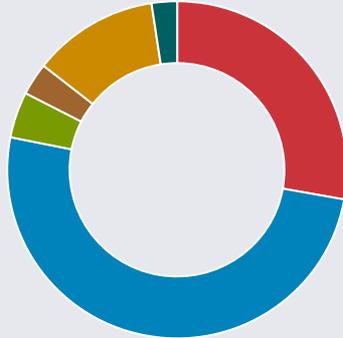
## Cautious Portfolio

Report period 01 October 2018 - 31 December 2018

## Portfolio positioning as at 31 December 2018

### Asset allocation

Equity	27.8%
Bonds	50.3%
Property	4.4%
Commodities	3.1%
Hedge Funds	12.0%
Cash	2.4%



### Tactical deviation

Equity <b>-0.2%</b> Underweight	Bonds <b>-0.7%</b> Underweight	Property <b>-1.3%</b> Underweight
Commodities <b>-0.7%</b> Underweight	Hedge Funds <b>2.5%</b> Overweight	Cash <b>0.4%</b> Overweight

### Equity breakdown

United Kingdom	11.0%
North America	8.6%
Japan	2.4%
Europe Ex-Uk	2.8%
Pacific Ex-Japan	0.1%
Emerging Markets	2.9%

### Bond breakdown

Government - Conventional	18.2%
Government - Index Linked	11.1%
Corporate - Investment Grade	13.2%
Corporate - High Yield	2.8%
Emerging Markets	5.0%
Government (Not base currency)	0.0%

### Currency exposure

£ GBP	80.5%
\$ USD	10.7%
€ EUR	2.8%
¥ JPY	2.4%
\$ AUD	0.1%
RMB/HKD	3.4%
Other	0.0%

### Holding type

Active <b>35.2%</b>	Passive <b>33.1%</b>
Direct <b>29.3%</b>	Cash/Liquidity <b>2.4%</b>

### Liquidity

<1 Wk	87%
2-3 Wk	0%
Mnth	2%
Qrt	4%
>1 Yr	8%

## Clear thinking on positioning

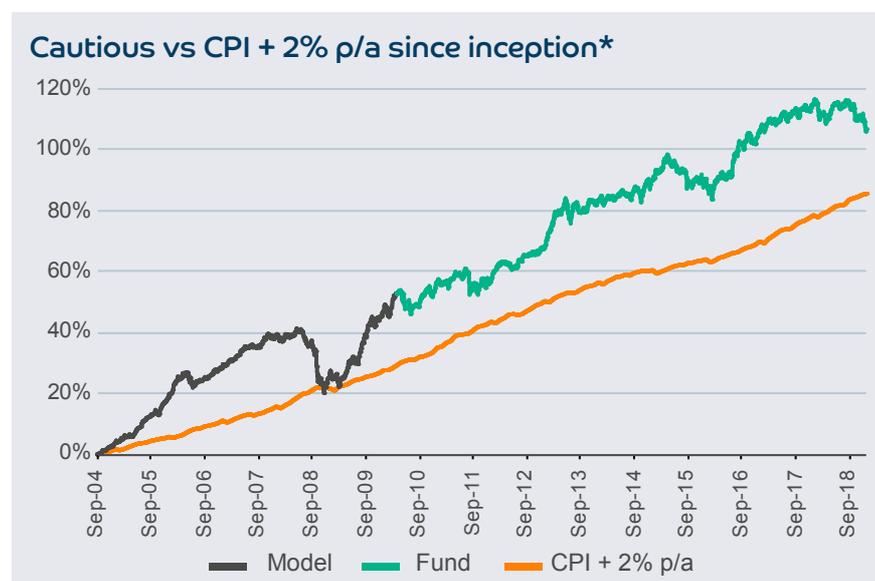
Moving into 2019, valuations, and therefore prospective returns on many of the asset classes we look at, appear more compelling given the falls in 2018. However, many of the issues that markets have had trouble digesting in 2018 remain, and therefore, as we move through the first quarter, we aim to strike an appropriate balance in the portfolio between holdings that generate returns and those that add diversification.

- Equities: underweight UK, based on fundamental concerns around the UK economy; overweight in emerging markets (EM) and Japan, where we see relative value.
- Bonds: remain invested in bonds with less sensitivity to interest rates, but with select exposures to EM sovereign debt and high quality asset-backed securities.
- Alternatives : maintain our underweight to property. We increased both our commodity and hedge fund allocations in 2018 to further diversify the portfolio.

Last updated: 02 January 2019

If you would like to read more please visit our website <http://www.heartwoodgroup.co.uk> where there is a comprehensive Bi-Monthly Strategy Review and other literature.

## Performance to 31 December 2018



## Understanding your returns

The Cautious portfolio fell over 3.5% in Q4 2018 as equity markets suffered heavy losses. There was no single trigger for the market slump, rather, a combination of weaker macroeconomic indicators (particularly in China). All regions fell in Q4 with the US the worst affected, giving up some of its outperformance from earlier in the year. The shambolic state of British politics also hindered UK assets, with small and mid-sized company shares hurt the most. Defensive holdings did provide some protection, with gold rallying strongly and UK gilts adding small positive returns, but overall there was no escape from a torrid quarter for markets.

Performance year to date

- The Cautious portfolio fell by just over 4.0% in 2018.
- The trade war between the US and China, the election of a populist government in Italy and the protracted Brexit negotiations were some of the key drivers behind negative equity markets.
- One bright spot was our position in the US software sector, which managed to gain over 19%.
- UK government bonds added small amounts of positive performance in 2018, but our emerging market bonds were negatively impacted by rising interest rates and increasingly protectionist policy from the US.

Last updated: 02 January 2019

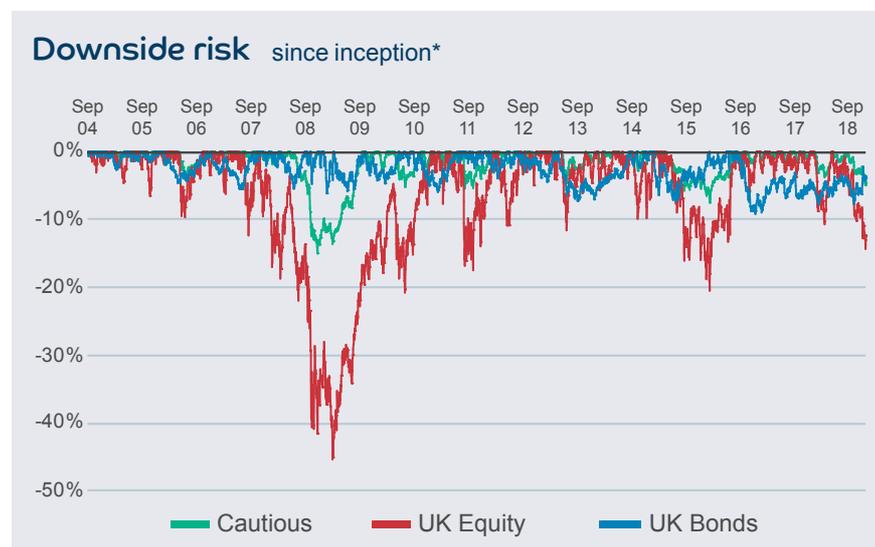
## Portfolio returns to 31 Dec 2018 (%)

	1 Month	3 Month	6 Month	1 Year	3 Years	5 Years	Since Inception*
Cautious	-1.8	-3.6	-3.3	-3.8	8.6	12.7	106.7
CPI + 2% p/a	0.2	0.8	2.1	4.0	13.1	18.6	85.5
UK Equity	-3.6	-9.7	-10.0	-8.8	21.6	19.6	151.2
UK Bonds	2.4	2.1	0.2	0.5	13.3	30.6	114.1

## Discrete annual performance (%)

Report period

	12 Months to					01 Oct 18 - 31 Dec 18
	31 Dec 18	31 Dec 17	31 Dec 16	31 Dec 15	31 Dec 14	
Cautious	-3.8	4.3	8.2	0.2	3.5	-3.6
CPI + 2% p/a	4.0	5.0	3.6	2.2	2.6	0.8
UK Equity	-8.8	11.8	19.2	-2.2	0.5	-9.7
UK Bonds	0.5	1.9	10.6	0.5	14.7	2.1



\*The LF Heartwood Cautious Multi Asset Fund launch date is 31 March 2010. Any data prior to this date is based on the Heartwood Cautious model, net of 0.75% annual management charge. The inception date of the model was 31 August 2004.

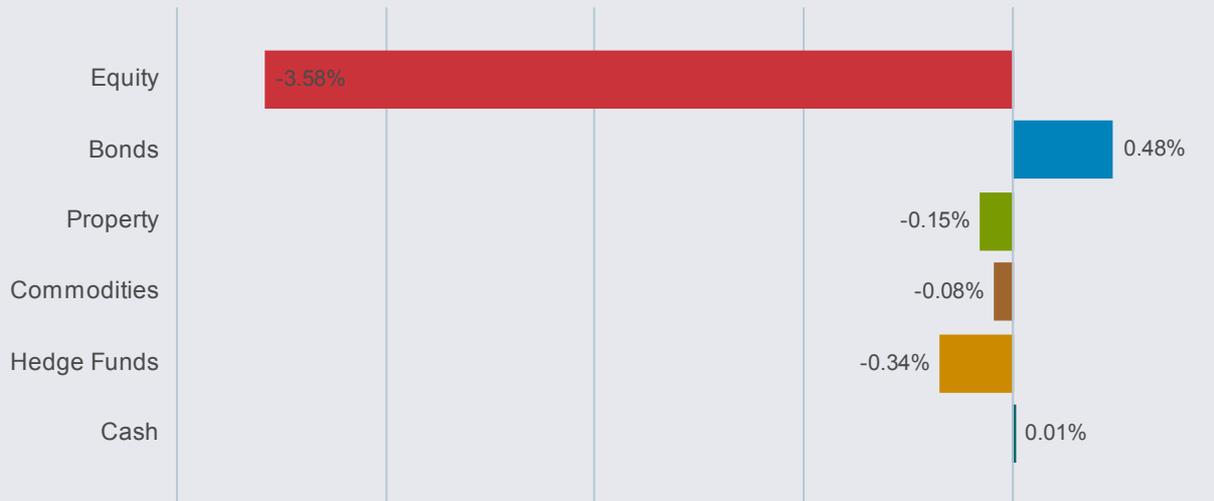
### Past performance is not a reliable indicator of future results.

UK Equity represented by MSCI United Kingdom, UK Bonds represented by BoA Merrill Lynch UK Gilts. Calculation basis: Sterling, total return, net of 0.75% annual management charge.

Source for all charts: Heartwood, Factset

## Contribution to performance

### Contribution to performance by asset class report period 30 September 18 to 31 December 18



#### Top 5 contributors

0.125% Treasury I-L Stock 22/3/2026

Source Physical Gold P-Etc GBP

1.25% UK Treasury Stock 2027

1.5% UK Treasury Stock 22/07/2026

0.5% UK Treasury 22/07/2022

#### Bottom 5 contributors

iShares VII Core S&P 500 UCITS ETF

iShares FTSE 100 UCITS ETF Dist

iShares Edge MSCI World Value Factor ETF UCITS

Vanguard Dublin S&P 500 ETF

J O Hambro UK Equity Income Y Acc

Charts show gross performance as at close of business each day, therefore they do not take into consideration any commissions, fees or other charges within the portfolios. Source: FactSet and Heartwood. Fund performance analysis is calculated by FactSet, based on valuation data from Heartwood's internal accounting system. The information above does not constitute any recommendation to buy, sell or otherwise trade in any of the investments mentioned.

### Risk analysis since inception to 31 December 2018

	Maximum drawdown	Worst month	Annualised volatility	Sharpe ratio	% positive months
Cautious	-15.0%	-5.8%	4.6%	0.72	68.6%
UK Equity	-45.3%	-12.9%	12.8%	0.37	59.3%
UK Bonds	-9.2%	-4.8%	6.2%	0.58	62.2%

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\*The LF Heartwood Cautious Multi Asset Fund launch date is 31 March 2010. Any Heartwood data prior to this date is based on the Heartwood Cautious model, net of 0.75% annual management charge. The inception date of the model was 31 August 2004. Source: FactSet, MorningStar and Heartwood. UK Equity represented by MSCI United Kingdom, UK Bonds represented by BoA Merrill Lynch UK Gilts. Calculation basis: Sterling, total return, net of 0.75% annual management charge.

## Recent portfolio changes

November 2018



### Establishing a small position in Indian Bonds

- We are purchasing an actively managed fund which invests predominantly in Indian government bonds, as well as in some Indian corporate bonds.
- Reasons for investing include a high nominal yield (c.8.0%), high real yield (c.3.5%) that is, after adjusting for inflation, recent currency weakness, capital controls keep foreign exchange volatility low and yield high for those foreign investors able to access the market, democratic system with mature institutions and Central Bank and India has no foreign-denominated debt.

September 2018



### Sold all ETFS Industrial Metals

- We have exited our small position in Industrial Metals across all strategies, which includes the likes of aluminium, copper, nickel and zinc.
- We view this reduction as prudent portfolio management in light of the macro/political risks facing the commodities space.
- Anti-trade rhetoric from Donald Trump and resilience in the broad US Dollar have both played a role, which could continue in the near term.
- A softening of Trumps stance and reversal in the US Dollar, perhaps related to more balanced comments from the US Federal Reserve, may indeed come through but the timing is uncertain.

September 2018



### Increasing our exposure to UK gilts

- The length of time to maturity of our UK government bond positions has become shorter as time has passed. As a result, we are rotating out of our shortest maturity bond (matures 2021) into two longer-dated bonds (maturing in 2024 and 2027).
- This trade will hopefully offer a little bit more yield and a touch more protection in a more risk-averse environment.
- Nevertheless, overall we continue to avoid having too much exposure to UK government bonds, cognisant of their high valuations and the possibility of rising interest rates.

August 2018



### Bought China A-shares (shares of mainland China-based companies)

- After the initial US steel and aluminium tariffs were implemented earlier this year, US-China trade tensions began to heat up.
- In early July, the Chinese stock market entered bear market territory, falling more than 20% from its January peak. Whilst we acknowledge that the market is heavily driven by individual, rather than institutional, investors, we think this price action is simply not justified by the fundamentals, with growth still strong and some signs of fiscal stimulus by the Chinese authorities.

July 2018



### Introduced a small amount of protection to the portfolio

- With most market valuations at expensive levels and the cost of introducing holdings designed to protect the portfolio relatively cheap, we have begun to drip-feed into a hedge fund position. Hedge funds attempt to profit from large downwards moves in markets and increases in market volatility.
- Our initial positions in this so-called 'portfolio insurance' are small, but should protect the portfolio somewhat in the event of a large (20%+) market drop.

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Source: Heartwood. The information above does not constitute any recommendation to buy, sell or otherwise trade in any of the investments mentioned.

## Holdings as at 31 December 2018

Holding type					
Active	Passive	Direct	Cash/Liquidity		
35.2%	33.1%	29.3%	2.4%		
				<b>Weight</b>	
<b>Equity</b>				<b>27.8%</b>	
<b>United Kingdom</b>					
iShares FTSE 100 UCITS ETF Dist				3.9%	
Vanguard Dublin FTSE 100 ETF				2.0%	
J O Hambro UK Equity Income Y Acc				1.9%	
Majedie UK Equity X Acc				1.1%	
Vanguard FTSE 250 UCITS ETF				1.0%	
Aberforth UK Smaller Cos Fund Acc				0.9%	
<b>Global</b>					
iShares Edge MSCI World Value Factor ETF UCITS				2.5%	
<b>North America</b>					
iShares VII Core S&P 500 UCITS ETF				3.2%	
Vanguard Dublin S&P 500 ETF				2.3%	
iShares MSCI USA Small Cap ETF				1.0%	
iShares S&P North America Technology Software Idx				0.6%	
Invesco Nasdaq Biotech UCITS ETF				0.5%	
<b>Japan</b>					
iShares III Core MSCI Japan IMI UCITS ETF				0.9%	
Man GLG Japan Core Alpha Prof Acc				0.5%	
Dsbi Japan Equity Small Cap Absolute Value				0.4%	
<b>Europe Ex-UK</b>					
Blackrock European Dynamic Fund Acc				1.2%	
iShares MSCI Europe Ex UK UCITS ETF				0.9%	
<b>Emerging Markets</b>					
iShares Core MSCI Emerging Mkts IMI UCITS ETF £				1.6%	
Mirae Asset India Sector Leader Eqty R Rdr				0.5%	
db x-Trackers Harvest Csi300 Idx UCITS ETF (Dr)				0.5%	
Hermes Global Emerging Markets Fund				0.4%	
<b>Bonds</b>				<b>50.3%</b>	
<b>Corporate - High Yield</b>					
Sequoia Economic Infrastructure Income Fund Lid				1.1%	
Gcp Infrastructure Investments				1.1%	
Sqn Asset Finance Income Fund C Share				0.6%	
<b>Corporate - Investment Grade</b>					
iShares Markit iBoxx Corp Bond 0-5Yr UCITS				8.0%	
Twentyfour Monument Bond Fund				3.8%	
Aegon European Abs UCITS				1.5%	
<b>Emerging Markets</b>					
Ashmore Sicav Emerging Mkts Short Duration Fund				3.3%	
UBS ETF (Lu) Barclays USD Em Sovereign UCITS ETF				1.2%	
Aberdeen Indian Bond Fund GBP Acc				0.5%	
<b>Government - Conventional</b>					
0.5% UK Treasury 22/07/2022				6.9%	
1.25% UK Treasury Stock 2027				4.2%	
1.5% UK Treasury Stock 22/07/2026				3.9%	
1.75% Treasury Stock 7/9/22				3.2%	
<b>Government - Index Linked</b>					
0.125% Treasury I-L Stock 22/3/2026				6.8%	
0.125% Treasury I-L Stock 22/03/2024				4.3%	
					<b>Weight</b>
<b>Property</b>					<b>4.4%</b>
<b>United Kingdom</b>					
Threadneedle Property Unit Trust B				2.3%	
Standard Life Property Inc Tst Ord				1.3%	
Civitas Social Housing Ord				0.8%	
<b>Commodities</b>					<b>3.1%</b>
<b>Commodity Indices</b>					
UBS ETF CmcI Ex-Agri GBP Hedged				1.0%	
<b>Precious Metals</b>					
Source Physical Gold P-Etc GBP				2.1%	
<b>Hedge Funds</b>					<b>12.0%</b>
<b>Credit</b>					
Rwc Global Convertibles Fund - GBP Hedged Acc				2.9%	
<b>Diversified Fund-Of-Funds</b>					
Heartwood Alternatives Fund A Shares				4.5%	
<b>Equity Long-Short</b>					
F&C Global Equity Market Neutral				0.9%	
Man GLG UK Absolute Value				0.8%	
<b>Global Macro</b>					
Adg Systematic Macro UCITS				1.2%	
GAM Systematic Core Macro				0.7%	
Montlake Tiber Diversified UCITS GBP A Instl				0.5%	
Universa Bspp Fund Series 7 Sep18				0.3%	
Kohinoor Core Fund GBP E				0.2%	
<b>Cash</b>					<b>2.4%</b>
<b>United Kingdom</b>					
GBP				2.4%	
USD				0.0%	
<b>Total</b>					<b>100%</b>

Source: Heartwood. The information above does not constitute any recommendation to buy, sell or otherwise trade in any of the investments mentioned.

## Portfolio details as at 31 December 2018

The LF Heartwood Cautious Multi Asset Fund will aim to deliver a total return (the combination of income and capital growth) of the Consumer Price Index plus 2% per annum net of fees over a rolling five-year period. There is no guarantee that the objective will be met or that a positive return will be delivered over any time period and capital is at risk.

<b>Strategy Manager</b>	Scott Ingham
<b>Fund Size</b>	£976.0m
<b>Legal Structure</b>	Non-UCITS Retail Scheme
<b>Historic Yield</b>	1.19%
<b>Fund Charges (annualised)</b>	Ongoing charges figure: 1.1% (Annual management charge: 0.75%; third party fees and charges: 0.35%)
<b>Fund codes: (SEDOL)</b>	I accumulation*: B4P1209 I income*: B4KBTG9



\*Charges / SEDOL variable by share class

## Glossary of terms

### Annualised volatility

A common statistical measure used to assess the risk levels of different investments. It is an annualised figure measuring the dispersion of monthly returns around the average monthly return of that security. If a portfolio has a high volatility, this suggests a greater variation of returns.

### Annual Management Charge (AMC)

A charge levied yearly for the management of the fund which is accrued on a daily basis within the fund.

### Asset allocation

The asset allocation pie chart shows how the portfolio is currently invested between various asset classes (Equities, Bonds, Private Equity, Hedge Funds, Commodities, Property and Cash) as a percentage. The boxes below illustrate the percentage deviation of our current positioning away from the long term strategic asset allocation.

### Bond breakdown

Portfolios allocation to different bond types, shown as a percentage of the overall bond weighting.

### CPI

CPI is the Consumer Price Index. Our multi asset funds have target performance benchmarks of CPI + X% per annum net of fees over a rolling five year period.

### Downside risk (drawdown)

Drawdown is a measure of the downside risk of a portfolio. It is the percentage drop from any peak in a portfolio value to any bottom. It can be applied directly to the size of the portfolio giving an estimate of how much money you could lose at some intermediate point during the life of the investment strategy. Maximum drawdown is the maximum loss from a peak to a trough of a portfolio.

### Duration

A measure of the sensitivity of a fixed income security, also called a bond, or bond fund to changes in interest rates. The longer a bond or bond funds duration, the more sensitive it is to interest rate movements.

### Equity breakdown

Portfolios allocation to equity by geographic region, shown as a percentage of the overall equity weighting.

### Historic yield

The annual rate of return from distributions on an investment, expressed as a percentage of the money invested.

### Investment Performance

The chart and tables show the performance of the portfolio versus the long term portfolio comparator. The table also shows the performance of the portfolio over discrete time periods.

### Liquidity

Liquidity shows the percentage of holdings that can be bought and sold within the timeframes specified.

### Ongoing charges figure (OCF)

The OCF figure may vary from year to year. The ongoing charges are taken from the income of the fund. They exclude portfolio transaction costs, except in the case of an entry/exit charge paid by the fund when buying or selling units in another collective investment undertaking.

### Sharpe ratio

The Sharpe ratio is a risk-adjusted measure of return that is used to evaluate the performance of a portfolio. The ratio helps to make the performance of one portfolio comparable to that of another by making an adjustment for the level of risk associated with the underlying assets held within the portfolio.

### Volatility

The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

## Important information

**Past performance is not a reliable indicator of future results. The value of any investment and the income from it is not guaranteed and can fall as well as rise, so that you may not realise the amount originally invested. Where an investment is denominated in a currency other than sterling, changes in exchange rates between currencies may cause investment values or income to rise or fall. The portfolios may invest in funds which have limited liquidity, or which individually have a relatively high risk profile and/or be unregulated by the Financial Conduct Authority (FCA).**

The Cautious Portfolio information and data represents the LF Heartwood Cautious Multi Asset Fund I share class, net of 0.75% annual management charge. This material is directed only at persons in the UK and is not an offer or invitation to buy or sell securities. Nothing in it constitutes advice to undertake a transaction, and professional advice should be taken before investing. All performance figures are net of all fees and are as of the publication date of the document. This document is not investment research. Opinions expressed (whether in general or both on the performance of individual securities and in a wider economic context) represent the views of Heartwood Investment Management at the time of publication. They should not be interpreted as investment advice. The data source is FactSet and Heartwood. This document has been issued by Heartwood Investment Management. Heartwood Investment Management is a trading name of Heartwood Wealth Management Ltd, which is authorised and regulated by the FCA in the conduct of investment business, and is a wholly owned subsidiary of Handelsbanken plc. For Heartwood Multi Asset Funds, the authorised corporate director is Link Fund Solutions Limited and the registrar is Link Fund Administrators Ltd, both of which are authorised and regulated by the FCA. The investment manager is Heartwood. Before investing you should read the Key Investor Information Document ("KIID") as it contains important information regarding the fund including charges, specific risk warnings and will form the basis of any investment decision. The Prospectus, Key Investor Information Document, current prices and latest report and accounts are available from Heartwood, or Link Fund Solutions Limited, PO Box 389, Darlington, DL1 9UF or by telephone on 0345 922 0044. The share class of the fund was launched in 31 March 2010 and the model was launched in 31 August 2004, performance figures do not exist before that time.

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