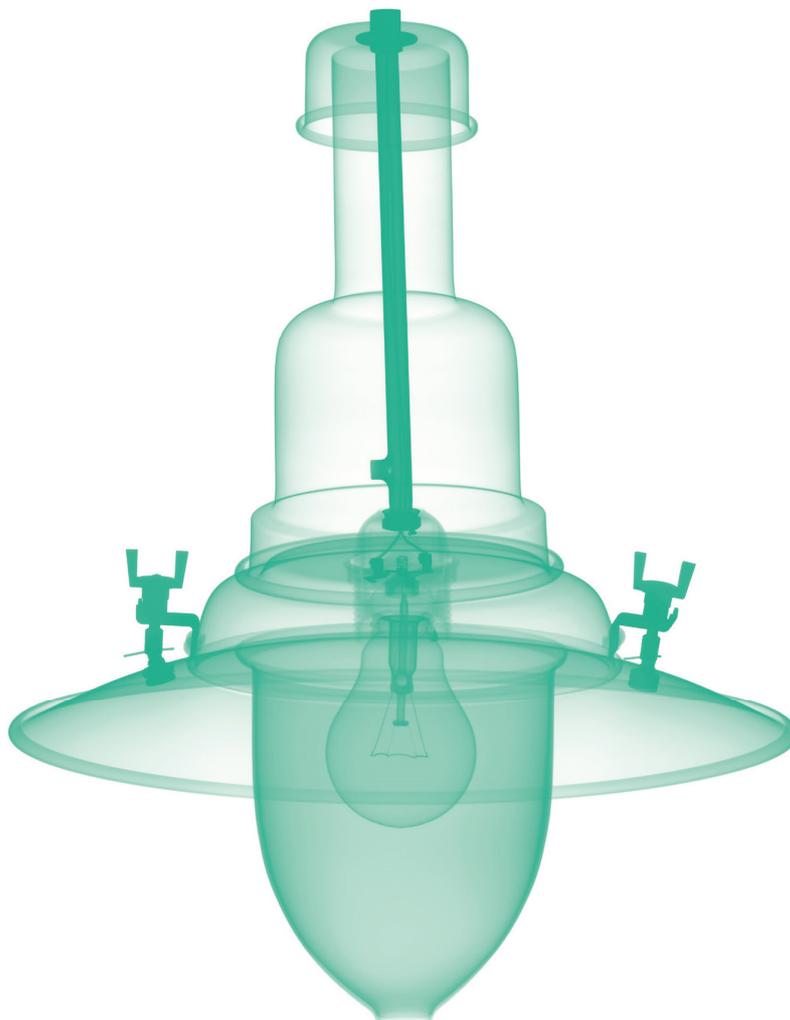




Investment Report



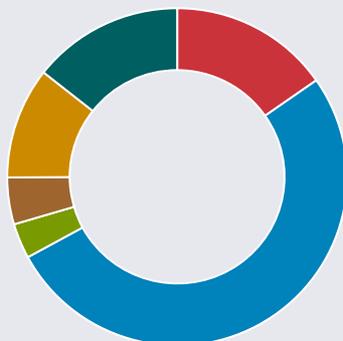
Defensive Portfolio

Report period 01 October 2018 - 31 December 2018

Portfolio positioning as at 31 December 2018

Asset allocation

Equity	15.3%
Bonds	51.8%
Property	3.4%
Commodities	4.5%
Hedge Funds	10.7%
Cash	14.4%



Tactical deviation

Equity 0.3% Overweight	Bonds 1.8% Overweight	Property -0.2% Underweight
Commodities 2.1% Overweight	Hedge Funds 4.7% Overweight	Cash -8.6% Underweight

Equity breakdown

United Kingdom	5.2%
North America	4.8%
Japan	2.2%
Europe Ex-Uk	1.5%
Pacific Ex-Japan	0.1%
Emerging Markets	1.5%

Bond breakdown

Government - Conventional	22.9%
Government - Index Linked	11.4%
Corporate - Investment Grade	13.1%
Corporate - High Yield	0.7%
Emerging Markets	3.7%
Government (Not base currency)	0.0%

Currency exposure

£ GBP	86.2%
\$ USD	8.0%
€ EUR	1.5%
¥ JPY	2.2%
\$ AUD	0.1%
RMB/HKD	2.0%
Other	0.0%

Holding type

Active 30.5%	Passive 20.8%
Direct 34.3%	Cash/Liquidity 14.4%

Liquidity

<1 Wk	90%
2-3 Wk	0%
Mnth	0%
Qrt	3%
>1 Yr	7%

Clear thinking on positioning

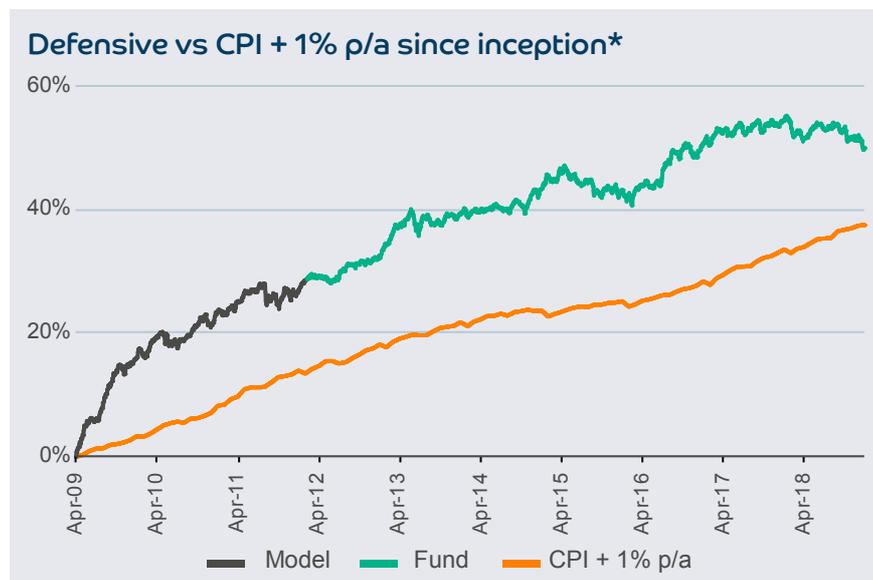
Moving into 2019 valuations, and therefore prospective returns on many of the asset classes we look at, appear more compelling given the falls in 2018. However, many of the issues that markets have had trouble digesting in 2018 remain, and therefore, as we move through the first quarter, we aim to strike 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 Defensive portfolio fell by around 2% 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 Defensive portfolio fell by close to 3.5% 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.

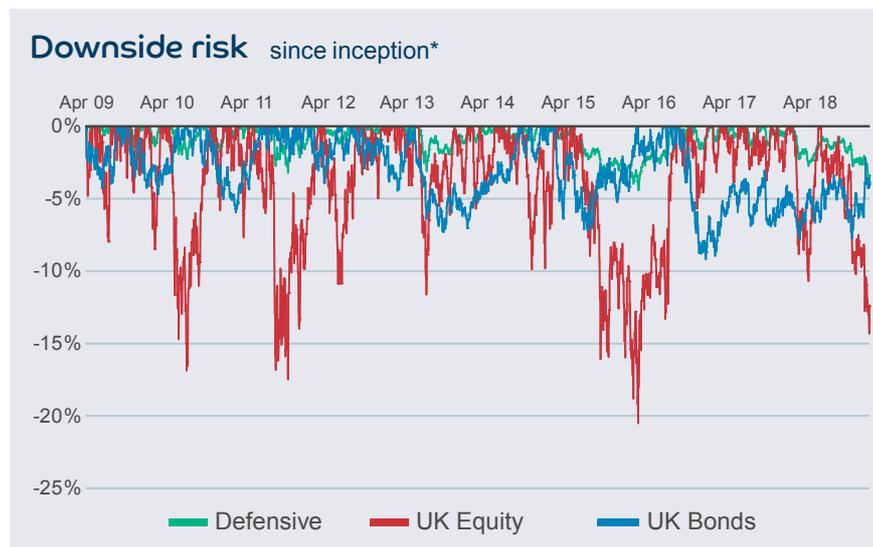
Last updated: 02 January 2019

Portfolio returns to 31 Dec 2018 (%)

	1 Month	3 Month	6 Month	1 Year	3 Years	5 Years	Since Inception*
Defensive	-1.1	-2.0	-2.0	-2.9	4.8	7.7	49.9
CPI + 1% p/a	0.1	0.6	1.6	3.0	9.8	12.9	37.4
UK Equity	-3.6	-9.7	-10.0	-8.8	21.6	19.6	145.3
UK Bonds	2.4	2.1	0.2	0.5	13.3	30.6	60.9

Discrete annual performance (%)

	12 Months to					Report period
	31 Dec 18	31 Dec 17	31 Dec 16	31 Dec 15	31 Dec 14	
Defensive	-2.9	2.5	5.3	-0.2	2.9	01 Oct 18 - 31 Dec 18
CPI + 1% p/a	3.0	4.0	2.6	1.2	1.6	0.6
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 Defensive Multi Asset Fund launch date is 08 February 2012. Any data prior to this date is based on the Heartwood Defensive model, net of 0.75% annual management charge. The inception date of the model was 31 March 2009.

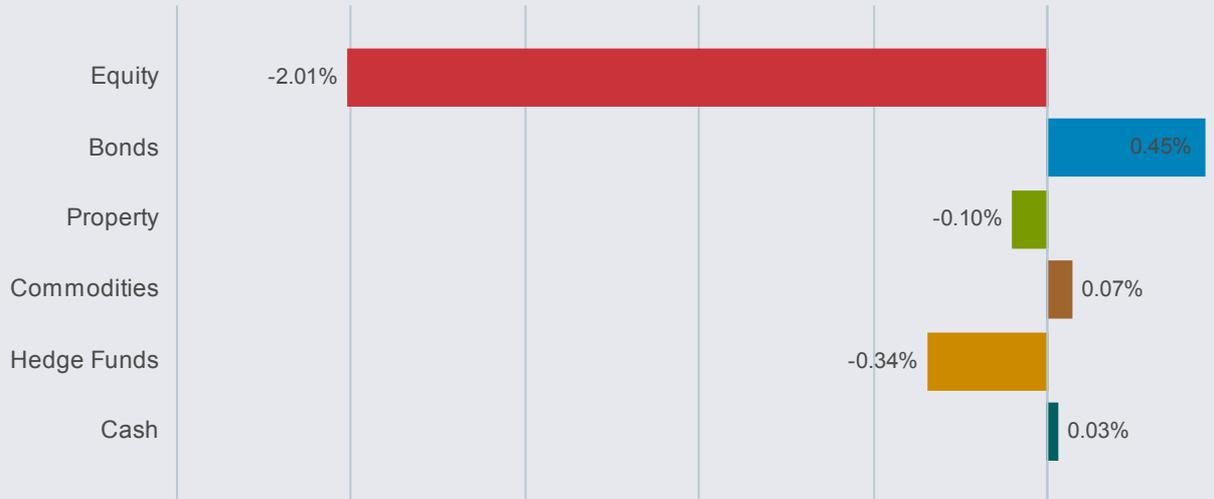
Past performance is not a reliable indicator of future results.

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

- ETFS Physical Gold GBP
- 0.125% Treasury I-L Stock 22/3/2026
- 0.5% UK Treasury 22/07/2022
- 1.25% UK Treasury Stock 2027
- 1.5% UK Treasury Stock 22/07/2026

Bottom 5 contributors

- J O Hambro UK Equity Income Y Dis
- Majedie UK Equity X Acc
- Vanguard Dublin S&P 500 ETF
- Blackrock European Dynamic Fund Acc
- iShares VII Core S&P 500 UCITS ETF

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
Defensive	-4.4%	-1.7%	3.2%	1.18	65.8%
UK Equity	-20.5%	-6.6%	12.2%	0.75	58.1%
UK Bonds	-9.2%	-4.5%	6.4%	0.70	59.8%

Past performance is not a reliable indicator of future results.

*The LF Heartwood Defensive Multi Asset Fund launch date is 08 February 2012. Any Heartwood data prior to this date is based on the Heartwood Defensive model, net of 0.75% annual management charge. The inception date of the model was 31 March 2009. 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%), 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.

July 2018



New position in Chinese onshore equities

- We have invested in a new holding in the domestic Chinese share market. The market, also known as the A share market, has suffered heavy falls since January owing to concerns around the pace of economic activity coupled with US-China trade tensions. Year-to-date-this is one of the worst performing equity markets globally.
- Over the last week, however, there have been a number of policy announcements - fiscal, monetary and regulatory from the Chinese authorities. These measures are expected to offset the fallouts from prior efforts to rein in excessive growth in certain parts of the economy and also from trade tensions.
- We believe that the authorities are now minded to aid growth: this should be supportive for investors and in turn be a positive for Chinese assets.

July 2018



Increasing our position in US shares

- We believe that the macroeconomic fundamentals of the US economy continue to improve and have therefore decided to increase our allocation to US shares.
- Given the robustness of the domestic economy, part of that increase is through an investment in smaller company shares.
- We have funded this increase by reducing our overweight position to emerging market shares.
- While we continue to believe in the long-term virtues of the emerging markets, pressures from a stronger US dollar are likely to persist, at least in the near term.

June 2018



Emerging Market Debt reducing rate sensitivity

- Sold long duration emerging market bonds (those with a greater sensitivity to interest rates) and purchased short duration emerging market bonds (those with less sensitivity). We are using the same active manager but reducing our sensitivity to the possibility of interest rate hikes and increasing our exposure to emerging market corporates.
- Our continued belief is that inflation will move higher globally and that emerging markets will continue to perform due to strong fundamentals, relative valuations and increasing investor attention. Emerging market bond benchmarks tend to be quite narrow and exclusive, providing opportunities for the active manager we are using to make significant investments in bonds that are not included in the benchmark. We believe this will deliver a premium over the medium-to-long term.

Past performance is not a reliable indicator of future results.

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
30.5%	20.8%
Direct	Cash/Liquidity
34.3%	14.4%

	Weight
Equity	15.3%
United Kingdom	
Majedie UK Equity X Acc	2.3%
J O Hambro UK Equity Income Y Dis	2.1%
iShares FTSE 100 UCITS ETF Dist	0.7%
Vanguard FTSE 250 UCITS ETF	0.4%
Global	
iShares Edge MSCI World Value Factor ETF UCITS	0.6%
North America	
Vanguard Dublin S&P 500 ETF	2.0%
iShares VII Core S&P 500 UCITS ETF	1.7%
iShares MSCI USA Small Cap ETF	0.7%
Japan	
iShares III Core MSCI Japan IMI UCITS ETF	1.4%
Man GLG Japan Core Alpha Prof Acc	0.7%
Europe Ex-UK	
Blackrock European Dynamic Fund Acc	1.2%
Emerging Markets	
Hermes Global Emerging Markets Fund	0.7%
Mirae Asset India Sector Leader Eqty R Rdr	0.4%
db x-Trackers Harvest Csi300 Idx UCITS ETF (Dr)	0.3%
Magna Mena Fund GBP Acc	0.2%
Bonds	51.8%
Corporate - High Yield	
Sequoia Economic Infrastructure Income Fund Lid	0.5%
Sqn Asset Finance Income Fund C Share	0.2%
Corporate - Investment Grade	
iShares Markit iBoxx Corp Bond 0-5Yr UCITS	7.4%
Twentyfour Monument Bond Fund	2.7%
Aegon European Abs UCITS	1.8%
Pimco Global Capital Securities Fund Inc	1.3%
Emerging Markets	
Ashmore Sicav Emerging Mkts Short Duration Fund	1.9%
UBS ETF (Lu) Barclays USD Em Sovereign UCITS ETF	1.2%
Aberdeen Indian Bond Fund GBP Acc	0.5%
Government - Conventional	
0.5% UK Treasury 22/07/2022	9.6%
1.25% UK Treasury Stock 2027	3.8%
1.5% UK Treasury Stock 22/07/2026	3.8%
1.75% Treasury 22/07/2019	3.0%
0.75% UK Treasury 2023	2.7%
Government - Index Linked	
0.125% Treasury I-L Stock 22/3/2026	5.9%
0.125% Treasury I-L Stock 22/03/2024	5.5%
Property	3.4%
United Kingdom	
Threadneedle Property Unit Trust B	1.7%
Civitas Social Housing Ord	0.7%
Custodian Reit Plc	0.4%

	Weight
Property	3.4%
United Kingdom	
Aew UK Long Lease Reit Plc	0.4%
Standard Life Property Inc Tst Ord	0.2%
Commodities	4.5%
Commodity Indices	
UBS ETF Cmci Ex-Agri GBP Hedged	1.3%
Precious Metals	
ETFS Physical Gold GBP	3.2%
Hedge Funds	10.7%
Credit	
Rwc Global Convertibles Fund - GBP Hedged Acc	2.2%
Diversified Fund-Of-Funds	
Heartwood Alternatives Fund A Shares	5.1%
Equity Long-Short	
Man GLG UK Absolute Value	0.4%
F&C Global Equity Market Neutral	0.4%
Global Macro	
Adg Systematic Macro UCITS	0.9%
GAM Systematic Core Macro	0.5%
Montlake Tiber Diversified UCITS GBP A Instl	0.4%
Rv Capital Asia Opportunity UCITS Fund GBP	0.3%
Universa Bspp Fund Series 10 Sep18	0.2%
Kohinoor Core Fund GBP E	0.1%
Liquidity Funds	12.5%
Liquidity Funds - GBP	
GS Sterling Liq Reserves Fund Acc	4.3%
Fidelity Instl Liquidity Fund GBP A Acc	4.2%
JP Morgan Sterling Liq Fund C Acc	4.0%
Cash	1.9%
United Kingdom	
GBP	1.9%
Total	100%

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 Defensive Multi Asset Fund will aim to deliver a total return (the combination of income and capital growth) of the Consumer Price Index plus 1% 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.

Strategy Manager	David Absolon
Fund Size	£109.8m
Legal Structure	Non-UCITS Retail Scheme
Historic Yield	0.63%
Fund Charges (annualised)	Ongoing charges figure: 1.15% (Annual management charge: 0.75%; third party fees and charges: 0.4%)
Fund codes: (SEDOL)	I accumulation*: B7660X3 I income*: B5MHNZ9



*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 Defensive Portfolio information and data represents the LF Heartwood Defensive 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 08 February 2012 and the model was launched in 31 March 2009, performance figures do not exist before that time.

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