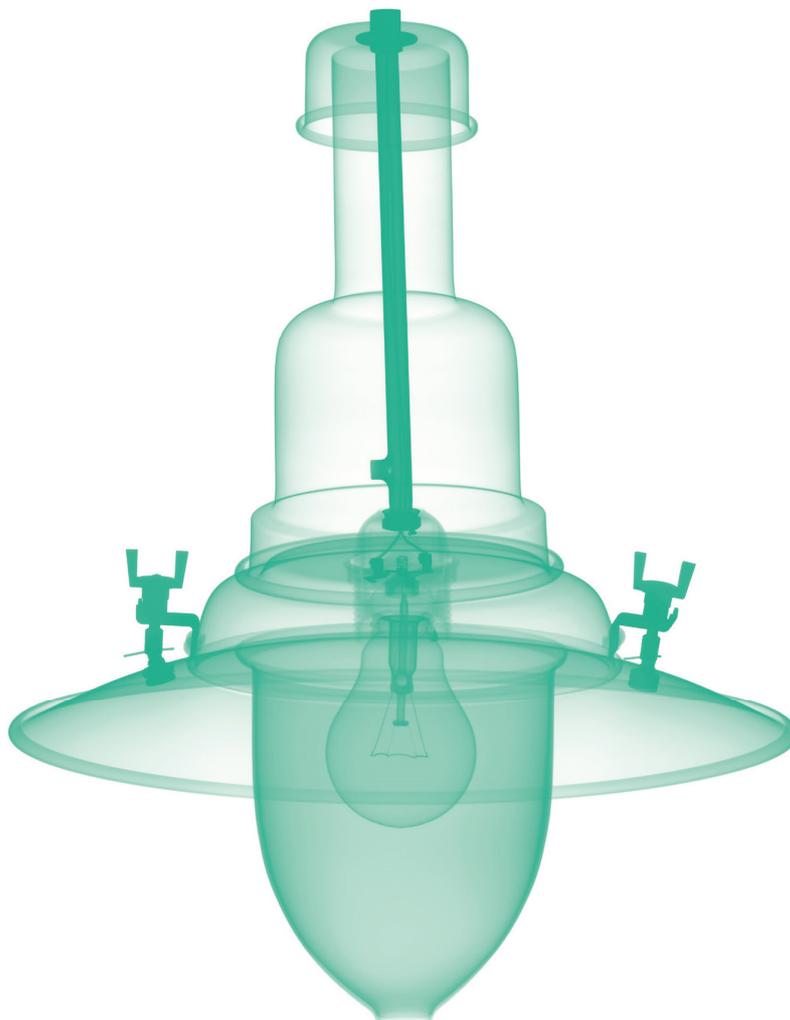




# Investment Report



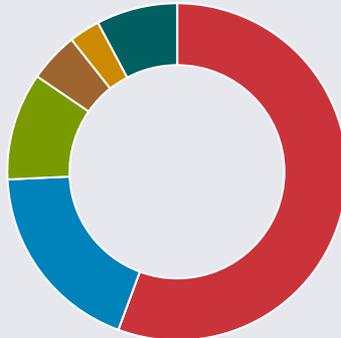
## Income Plus Portfolio

Report period 01 October 2018 - 31 December 2018

Portfolio positioning as at 31 December 2018

Asset allocation

Equity	55.6%
Bonds	18.7%
Property	10.3%
Commodities	4.7%
Hedge Funds	3.0%
Cash	7.7%



Tactical deviation

Equity <b>0.6%</b> Overweight	Bonds <b>-9.3%</b> Underweight	Property <b>-4.7%</b> Underweight
Commodities <b>4.7%</b> Overweight	Hedge Funds <b>3.0%</b> Overweight	Cash <b>5.7%</b> Overweight

Equity breakdown

United Kingdom	22.3%
North America	14.5%
Japan	3.1%
Europe Ex-Uk	8.8%
Pacific Ex-Japan	0.8%
Emerging Markets	6.2%

Bond breakdown

Government - Conventional	1.4%
Government - Index Linked	0.0%
Corporate - Investment Grade	2.4%
Corporate - High Yield	9.7%
Emerging Markets	5.1%
Government (Not base currency)	0.0%

Currency exposure

£ GBP	65.8%
\$ USD	14.9%
€ EUR	9.2%
¥ JPY	3.1%
\$ AUD	0.8%
RMB/HKD	6.2%
Other	0.0%

Holding type

Active <b>65.0%</b>	Passive <b>25.9%</b>
Direct <b>1.4%</b>	Cash/Liquidity <b>7.7%</b>

Liquidity

<1 Wk	79%
2-3 Wk	0%
Mnth	2%
Qrt	16%
>1 Yr	4%

Clear thinking on positioning

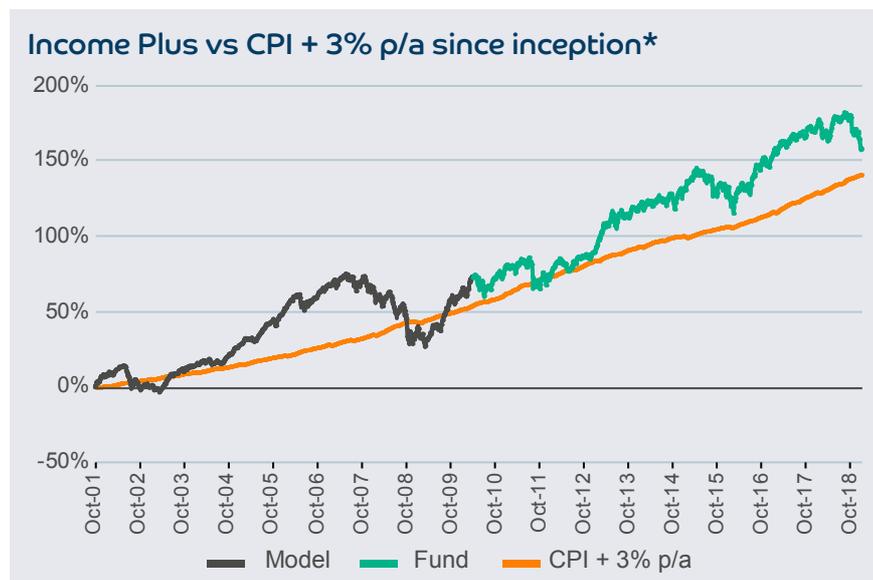
Global financial markets, broadly speaking seem to be pricing in an economic downturn which we presently think is unlikely to materialise. As such, we retain a small overweight to equities when comparing our tactical asset allocation to our strategic asset allocation. We are hopeful that a more pragmatic stance from the US Federal Reserve and constructive talks between the US and China will both emerge this year. That said, a change for the worse in either of these would likely hamper global growth, hence our optimism remains constrained.

- Equities: underweight UK equities but overweight mid and small sized companies to capture higher dividend growth and emerging signs of relative value. We retain our overweight positions in the 'unloved' regions of Europe and emerging markets.
- Bonds: remain invested in bonds with less sensitivity to interest rates, and select exposures to emerging market sovereign debt and high quality asset backed securities.
- Alternatives: underweight UK commercial property, but one to keep watching as Brexit-related uncertainties may present opportunities at cheaper levels. Maintain positions in gold and tail risk protection strategies which could help to offset any sharp deterioration in market sentiment.

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



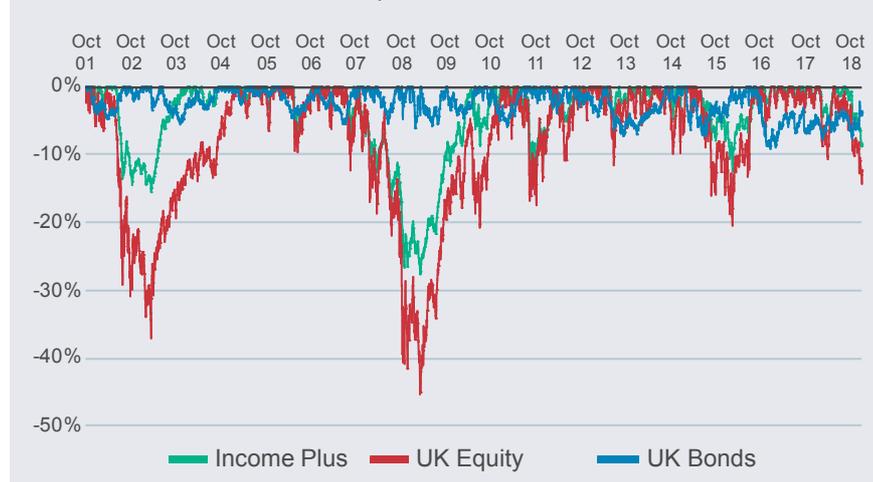
## Portfolio returns to 31 Dec 2018 (%)

	1 Month	3 Month	6 Month	1 Year	3 Years	5 Years	Since Inception*
Income Plus	-3.5	-7.6	-6.6	-5.5	11.1	17.1	158.5
CPI + 3% p/a	0.3	1.1	2.6	5.0	16.5	24.5	140.5
UK Equity	-3.6	-9.7	-10.0	-8.8	21.6	19.6	152.0
UK Bonds	2.4	2.1	0.2	0.5	13.3	30.6	146.8

## Discrete annual performance (%)

	12 Months to					Report period 01 Oct 18 - 31 Dec 18
	31 Dec 18	31 Dec 17	31 Dec 16	31 Dec 15	31 Dec 14	
Income Plus	-5.5	7.7	9.1	0.6	4.7	-7.6
CPI + 3% p/a	5.0	6.1	4.6	3.2	3.6	1.1
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

## Downside risk since inception\*



## Understanding your returns

The fourth quarter of 2018 was challenging: the MSCI UK index fell 9.7% and the S&P 500 index (in sterling terms) fell 12.0% - their worst quarterly performances since 2011. Over Q4 the Income Plus portfolio fell around 7.5%. The portfolio's exposure to UK medium and smaller sized companies was especially costly owing to a combination of moderating global growth momentum, together with Brexit-related uncertainties. In the same vein, the portfolio's exposure to UK commercial property also fell, reversing previous gains. Elsewhere, concerns about the US interest rate cycle weighed on investment grade and high yield credit.

## Performance year to date

- In 2018, UK and US equities posted their worst annual performance since 2008, down 8.8% and 6.3% in local currencies respectively. Indeed 2018 was a highly unusual year with a record share of asset classes posting negative annual total returns.
- Against this backdrop the Income Plus portfolio fell by almost 6%.

Last updated: 02 January 2019

\*The LF Heartwood Income Plus Multi Asset Fund launch date is 01 April 2010. Any data prior to this date is based on the Heartwood Income Plus model, net of 0.75% annual management charge. The inception date of the model was 30 September 2001.

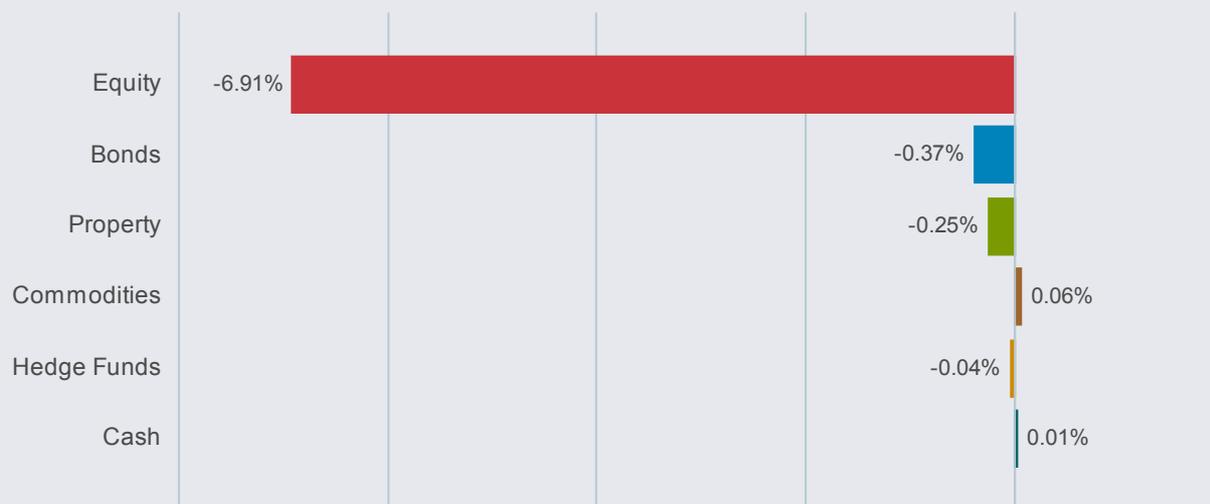
## Past performance is not a reliable indicator of future results.

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

Xtrackers Physical Gold GBP Hedged Etc

Lxi Reit

Sequoia Economic Infrastructure Income Fund Lid

Liontrust European Income I GBP Acc

Biopharma Credit Plc

#### Bottom 5 contributors

iShares Oil & Gas Exploration & Prod UCITS ETF

J O Hambro UK Equity Income Y Dis

Vanguard Dublin S&P 500 ETF

Morant Wright Nippon Yield B

Liontrust European Income I GBP Dis

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

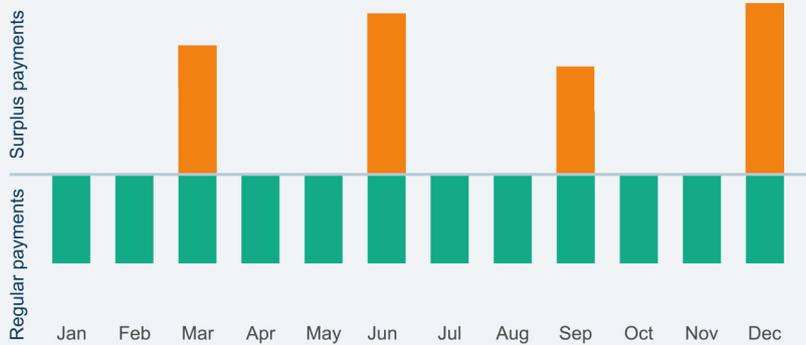
	Maximum drawdown	Worst month	Annualised volatility	Sharpe ratio	% positive months
Income Plus	-27.6%	-8.4%	7.9%	0.43	63.3%
UK Equity	-45.3%	-12.9%	13.3%	0.24	58.5%
UK Bonds	-9.2%	-4.8%	6.0%	0.52	61.4%

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

\*The LF Heartwood Income Plus Multi Asset Fund launch date is 01 April 2010. Any Heartwood data prior to this date is based on the Heartwood Income Plus model, net of 0.75% annual management charge. The inception date of the model was 30 September 2001. 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.

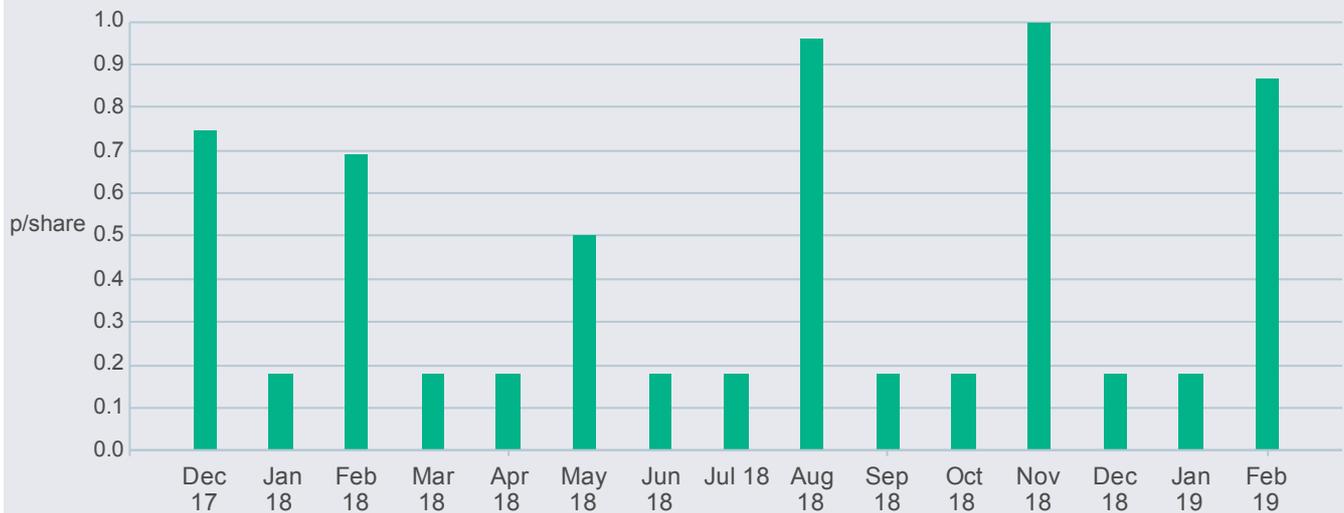
## Income payments

### Indicative distribution payments



- Income distributed as dividend
- The portfolios target paying a stable monthly income
- Any surplus income achieved is distributed quarterly
- The expected yields are achieved from the combination of regular and surplus payments

### Historic distribution payments pence per share



**Past performance is not a reliable indicator of future results. Income distributed may fall as well as rise.** Payments based on official Link Group payment dates. Regular payments are not guaranteed and may differ according to the underlying investments in the portfolio each month. Source: Heartwood, Factset

### Understanding payments

Our Income and Income Plus multi asset funds follow the same cycle for distributing income payments to investors. Both funds are structured to pay a stable amount each month and both pay out a top-up amount each quarter. Top-ups are paid in March, June, September and December each year.

### Ex-dividend date

Those invested on or before the ex-dividend date - in any month - are legally entitled to the dividend income payment for that month. At Heartwood, the ex-dividend date is the last working day of each calendar month for both funds.

### Payment date

Payments are made by Heartwood on (or around) the 24th calendar working day of the third month following the ex-dividend date.

## Recent portfolio changes

November 2018



### Bought emerging market debt with less sensitivity to interest rates

- We have been impressed by the resilient performance of emerging market bonds with a lower sensitivity to rising interest rates during what has been a volatile year for many emerging market assets.

November 2018



### Increasing our gold exposure

- We have added 1% to our gold position in line with our tactical teams recommendation.
- The recent deterioration in global economic data warrants a slight addition to the existing gold position, as gold offers the potential for returns when other assets, such as equities and bonds, are under pressure.

November 2018



### Increased our exposure to the biotech theme

- We have increased exposure to the biotech theme by investing in a vehicle that provides debt capital to the life sciences industry.
- The vehicle has a diversified portfolio of loans to life sciences companies, backed by royalties and/or other cash flows derived from the sales of approved life science products.
- We believe the position will generate an attractive income stream, backed by stable cash flows. Given the defensive nature of the underlying cash flows and collateral quality, we believe the position offers attractive returns with some downside protection.

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



### Initiated a position in Chinese onshore equities

- We have introduced a position in the Chinese mainland equity market. The market, also known as the A share market, has suffered heavy falls since January owing to concerns around the pace 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, a number of policy announcements have been reported out of China on the fiscal, monetary and regulatory front. 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 sentiment, and in turn be a positive for Chinese assets.

#### 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			Weight
Active	Passive	Direct	Cash/Liquidity
65.0%	25.9%	1.4%	7.7%
<b>Equity</b>			<b>55.6%</b>
<b>United Kingdom</b>			
J O Hambro UK Equity Income Y Dis			5.5%
Majedie UK Income X Inc			3.4%
Schroder Income Maximiser Z Inc			3.2%
Rwc Enhanced Income Fund B Inc			3.0%
Mi Chelverton UK Equity Inc			2.1%
iShares UK Dividend UCITS ETF			1.9%
iShares FTSE 100 UCITS ETF Dist			1.6%
iShares Core FTSE 100 UCITS ETF Acc			1.6%
Montanaro UK Income			1.1%
<b>Global</b>			
Rwc Global Enhanced Dividend Fund B GBP Dist			1.9%
Societe Generale Income Builder Note			1.7%
Bb Healthcare Trust Plc			1.4%
<b>North America</b>			
Vanguard Dublin S&P 500 ETF			4.3%
iShares Oil & Gas Exploration & Prod UCITS ETF			1.9%
Xtrackers S&P 500 UCITS ETF GBP Hedged			1.8%
iShares Micro Cap ETF			1.3%
Invesco Nasdaq Biotech UCITS ETF			1.2%
<b>Japan</b>			
Morant Wright Nippon Yield B			2.8%
<b>Europe Ex-UK</b>			
Liontrust European Income I GBP Dis			4.3%
iShares Euro Dividend UCITS ETF EUR (Dist)			1.5%
Montanaro European Income Fund GBP			1.4%
<b>Emerging Markets</b>			
Magna Emerging Markets Div B Inc			4.1%
Guinness Asian Equity Income Z Inc/X Inc			1.9%
db x-Trackers Harvest Csi300 Idx UCITS ETF (Dr)			1.0%
<b>Bonds</b>			<b>18.7%</b>
<b>Corporate - High Yield</b>			
Cvc Credit Partners Euro Opportunities GBP			1.9%
M&G Gbl Floating Rate High Yield Bd Fund GBP Inc			1.8%
Sequoia Economic Infrastructure Income Fund Lid			1.7%
UK Mortgages Limited			1.3%
Nb Global Senior Floating Rate Inc I Mthly Dis			1.3%
Starwood European Real Estate Finance			1.2%
Gcp Infrastructure Investments			0.6%
<b>Corporate - Investment Grade</b>			
Pimco Global Capital Securities Fund Inc			1.5%
Twenty Four Income Fund			0.9%
<b>Emerging Markets</b>			
Ashmore Sicav Emerging Mkts Short Duration Fund			3.7%
UBS ETF (Lu) Barclays USD Em Sovereign UCITS ETF			1.4%
<b>Government - Conventional</b>			
1.5% UK Treasury 2047			1.4%
<b>Property</b>			<b>10.3%</b>
<b>United Kingdom</b>			
Custodian Reit Plc			2.3%
Standard Life Property Inc Tst Ord			2.0%
Lxi Reit			1.8%
Threadneedle Property Unit Trust B			1.6%
Aew UK Reit			1.5%
Aew UK Long Lease Reit Plc			1.1%
<b>Commodities</b>			<b>4.7%</b>
<b>Commodity Indices</b>			
UBS ETF Cmci Ex-Agri GBP Hedged			0.9%
<b>Precious Metals</b>			
Xtrackers Physical Gold GBP Hedged Etc			3.8%
<b>Hedge Funds</b>			<b>3.0%</b>
<b>Credit</b>			
Biopharma Credit Plc			1.3%
<b>Global Macro</b>			
Montlake Tiber Diversified UCITS GBP A Instl			1.0%
Universa Bspp Fund Series 8 Sep18			0.5%
Kohinoor Core Fund GBP E			0.2%
<b>Cash</b>			<b>7.7%</b>
<b>United Kingdom</b>			
GBP			7.7%
EUR			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 Income Plus Multi Asset Fund will aim to deliver a total return (the combination of income and capital growth) of the Consumer Price Index plus 3% per annum net of fees over a rolling five-year period, with emphasis on generating income. 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>	Jaisal Pastakia
<b>Fund Size</b>	£89.4m
<b>Legal Structure</b>	Non-UCITS Retail Scheme
<b>Historic Yield</b>	4.28%
<b>Fund Charges (annualised)</b>	Ongoing charges figure: 1.44% (Annual management charge: 0.75%; third party fees and charges: 0.69%)
<b>Fund codes: (SEDOL)</b>	I income*: B4PPL93 I accumulation*: BF943D1



\*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 Income Plus Portfolio information and data represents the LF Heartwood Income Plus 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 01 April 2010 and the model was launched in 30 September 2001, performance figures do not exist before that time.

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