**MARKET BACKDROP**
A review of what's happened in markets recently

**MARKET OUTLOOK**
Looking ahead to the coming months

**SPOTLIGHT ON**
The U.S. presidential election

# The view

Winter 2019

architas

# CONTENTS

# Welcome

to The View – Winter 2019

The Winter edition of The View provides a step-by-step guide to how the political and economic environment has driven financial markets, and what this means for your investments.

While 2019 was encouraging for investors, risks are always around the corner. We believe that this highlights the importance of being 'diversified'. We delve into what this means and how it is linked to reducing the risk of your portfolio.

The race for the US presidency is one of the risks that you are likely to hear about a lot this year. Here we give you a roundup of what to expect in the run-up to the election and how this could affect your investments.

We also cast an eye over the potential for governments to wrestle back control over their economies from central banks this year. This move could spell the end of austerity as governments plan to spend large amounts of money.

**Jaime Arguello**
Chief Investment Officer

# Market BACKDROP

**There was a healthy recovery for riskier assets which bounced back after the sometimes worrying economic backdrop over the summer.**

Investor sentiment was boosted by the breakthrough in US-China trade talks and the British election in December which pointed to a smoother exit from the European Union.

As well as gains for stocks, higher-risk bonds benefited from the 'risk-on' environment as optimism returned to markets.


## ECONOMIC FACTORS

**The global economic outlook was given a lift.**
Investors took comfort from the potential for a trade resolution. The ongoing spats between China and the US and the ongoing Brexit saga took a turn for the better.

**Central bank U-turns boosted risk appetite.**
The changes in policy by major central banks to encourage banks to lend and consumers to spend encouraged markets to rise.


## RISKS

**Geopolitical uncertainties reduced.** This was after several quarters in which the world was gripped by protectionism, which had a heavy cost on trade and the global economy.

**Inflation worries kept central banks in the spotlight.** Major central banks started to concentrate on the potential for low global inflation.

## FINANCIAL MARKETS

**Stock markets were positive across the board.** Healthy returns over the last three months were kick-started by the US's third rate cut in the year. The US was among the strongest performers having been hit hard in the previous quarter's slump.

**Bond markets enjoyed nearly as much of a year-end rally as stocks.** In particular, riskier bonds were boosted in December, with strong performances from corporate bonds and bonds from emerging markets.


## CONCLUSION

Despite some market turbulence during the year, the last three months provided a notable end to 2019 for investors and hope of an imminent trade deal was the key driver. As a result, many equity indices, long-term bonds, oil and gold posted double-digit gains for the year.

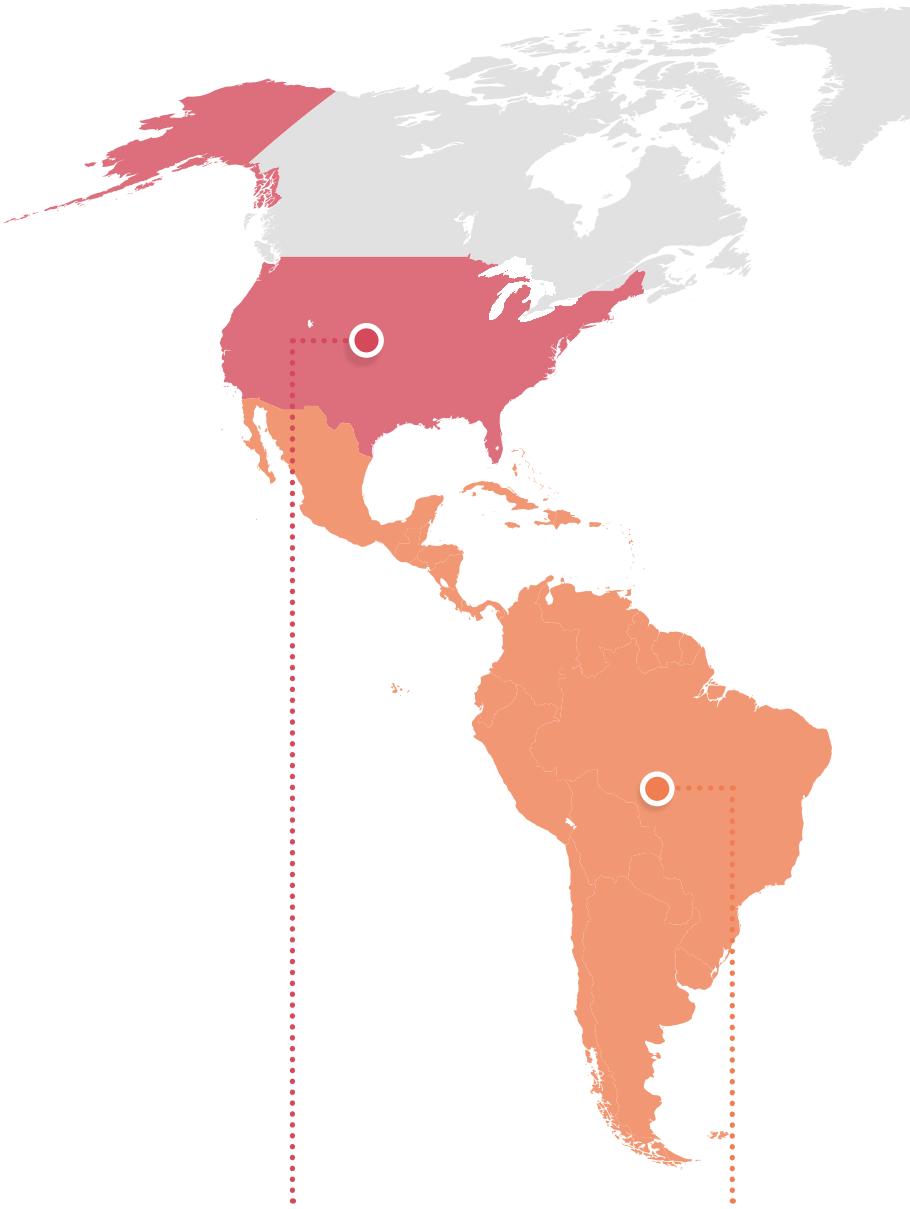
While 2019 was encouraging for investors, risks remain against an often uncertain political backdrop. This year's US election will be one of many risks that we are monitoring. We believe all this reinforces the importance of being diversified across a range of different asset classes.

# Market OUTLOOK

The global economic outlook has been boosted by progress in US-China trade talks and central banks across the world maintaining their supportive stance (through monetary policies).

**This combination may propel a meaningful economic rebound in 2020 defined by robust corporate and consumer spending trends. We also think that governments will increasingly offer fiscal solutions to appease voters and retrieve the 'baton' from central banks.**

Among the global risks are lower than expected growth in the global economy, continued protectionism and possible fluctuations in oil prices in the context of geopolitical instability. Subdued global inflation and the upcoming US presidential election could also be potential stumbling blocks.



## KEY

- Positive
- Negative
- Neutral

## UNITED STATES

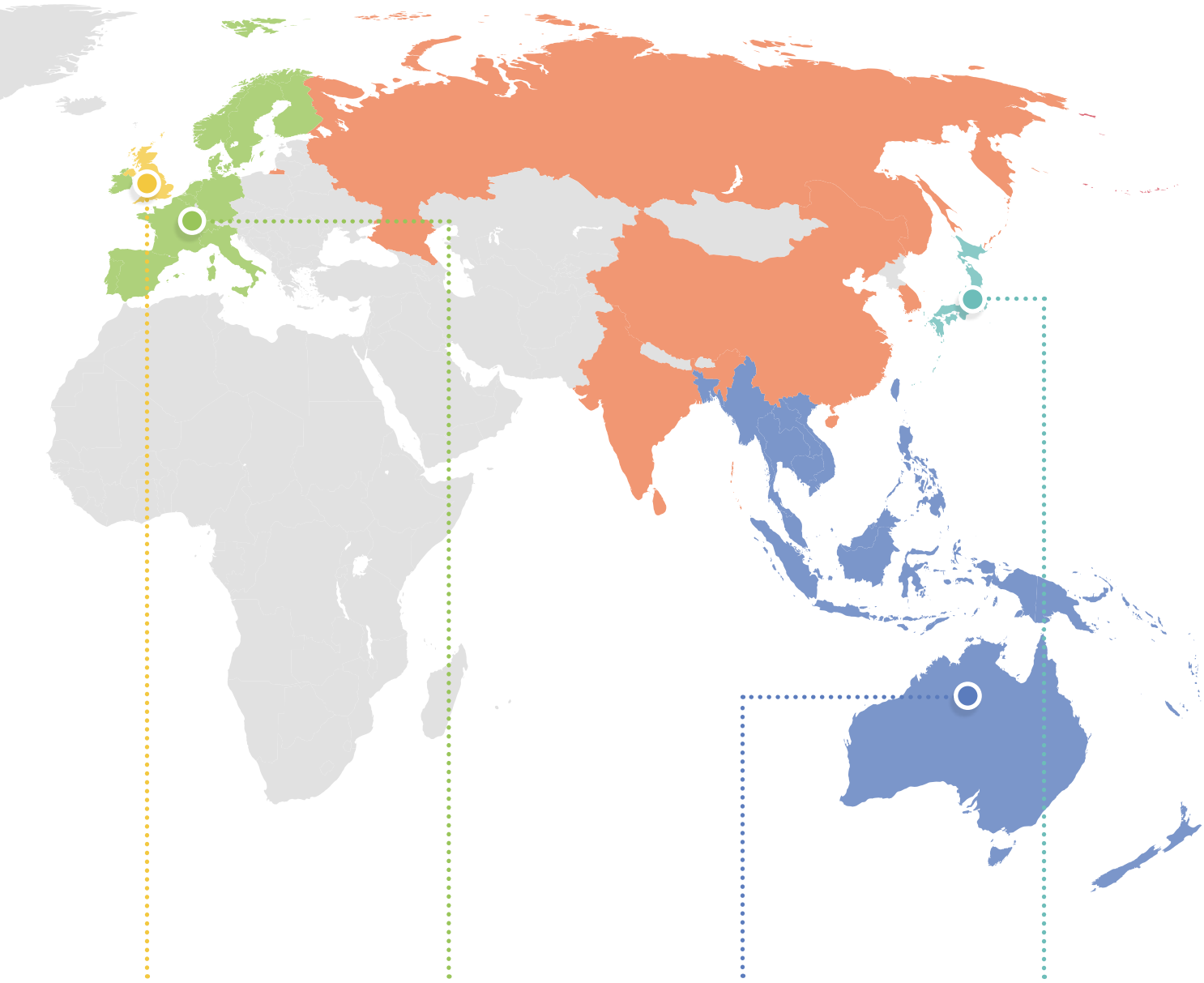
STOCKS ⊖ BONDS ⊖

- US stocks have been on a strong run supported by a brightening economic outlook and optimism regarding company earnings growth. But we believe they look expensive with little election risk priced in.
- We're reasonably positive about US bonds. Due to the cautious optimism on global growth and the low-yield environment we cannot rule out possible bouts of bond market volatility.

## EMERGING MARKETS

STOCKS ⊖ BONDS △

- Having endured a difficult time due to factors such as the US-China trade spat, emerging market stocks are starting to look like good value relative to peers.
- Emerging market fixed income still offers value. And the easing of trade tensions coupled with the US rate cuts should benefit the region.



## UNITED KINGDOM

STOCKS ⊖ BONDS ⊖

- Assuming Brexit happens, it removes a lot of uncertainty in the short term. This is very positive for UK shares that were under-owned by international investors. Even so, the unresolved trade deals with the rest of the world pose risks.
- Lower-risk assets such as government bonds are likely to reduce in popularity over coming months after the Conservative election victory reinstated investors' faith in riskier assets.

## EUROPE

STOCKS ⊖ BONDS ⊖

- In Europe, economic data is fairly promising. The after-effects of the phase one US-China trade agreement and an encouraging pan-European political outlook should boost demand for European stocks.
- Regionally, fixed income assets in Europe look the riskiest. Many have 'negative yields' meaning investors may get back less than they paid for them after the bond's end date.

## ASIA PACIFIC

STOCKS ⊖

- The de-escalation of the trade war and its positive consequences on the real economy will almost certainly be the most important market driver in the early part of 2020.
- There is the risk that Asian currency markets have already priced in the recovery in exports; idiosyncratic factors including the often irrational actions of Trump have a greater risk in this region than elsewhere.

## JAPAN

STOCKS ⊖

- Japanese stocks have room to perform positively as investors seek cheaper regions now that political headwinds of the US/China trade war have eased.
- However, growth in Japan remains challenged with less positive good news on the horizon economically than peers as Japan's third decade of monetary loosening and recent tax rise puts a strain on the economy.

# SPOTLIGHT **ON...**

## The U.S. presidential election

The race for the US presidency is gaining attention across the globe. After all, the President of the United States has the power to influence stock markets, trade and politics on an international scale. Here we give you a roundup of what to expect in the run-up to the election and how this could affect your investments.


## MARCH

Tuesday 3rd

### Super Tuesday

Super Tuesday sees 15 states vote for party presidential nominees on the same day. Because these 15 states encompass a wide range of demographics and political persuasions, Super Tuesday gives the first clue of which candidates are likely to go head to head for the presidency. It's estimated that we could see the US stock market move by up to 1.5% on the day.

## JULY

Monday 13th – Thursday 16th

### Democratic National Convention

The Democratic presidential nominee will be announced at the party's convention in Wisconsin. Attitudes towards tax, regulation, international trade and public spending vary greatly between the candidates – with some seen as more market-friendly than others – so the global stock markets could react when the winner is revealed.

## AUGUST

Monday 24th – Thursday 27th

### Republican National Convention

Donald Trump should be announced as the official Republican presidential nominee at the party convention in North Carolina. This continuity, along with Trump's pro-business policies, is likely to be seen positively by investors. In fact, Trump will likely do everything he can to keep the stock market ticking up before the election – starting with the signing of the US/China trade deal that we saw in January.


# SEPTEMBER – OCTOBER

Thursday 29th September – Thursday 22nd October

### Presidential debates

A trio of televised debates in Indiana, Michigan and Tennessee will give the presidential nominees the chance to go head to head on policies and current issues. Trade relations with the likes of Asia and Europe have been high on the political agenda in recent years, so these could receive some airtime. In previous years we have seen spikes in US stock market volatility around these dates, depending on which candidate appears to win the debates.

# NOVEMBER

Tuesday 3rd

### The big day

On 3 November the American public will take to the booths to decide who will be sworn into the Oval office. It's estimated that the US stock market could move by up to 3% when the dust settles, sending ripples across global markets too. But the direction and magnitude of any movement will depend on who wins and what their policies are like.

A Trump victory is likely to be well-received by the stock markets, as global investors anticipate more of the same after 2019's stellar returns. On the other hand, many expect a Democrat victory to cause a market downturn – although the same was said about Trump in 2016!

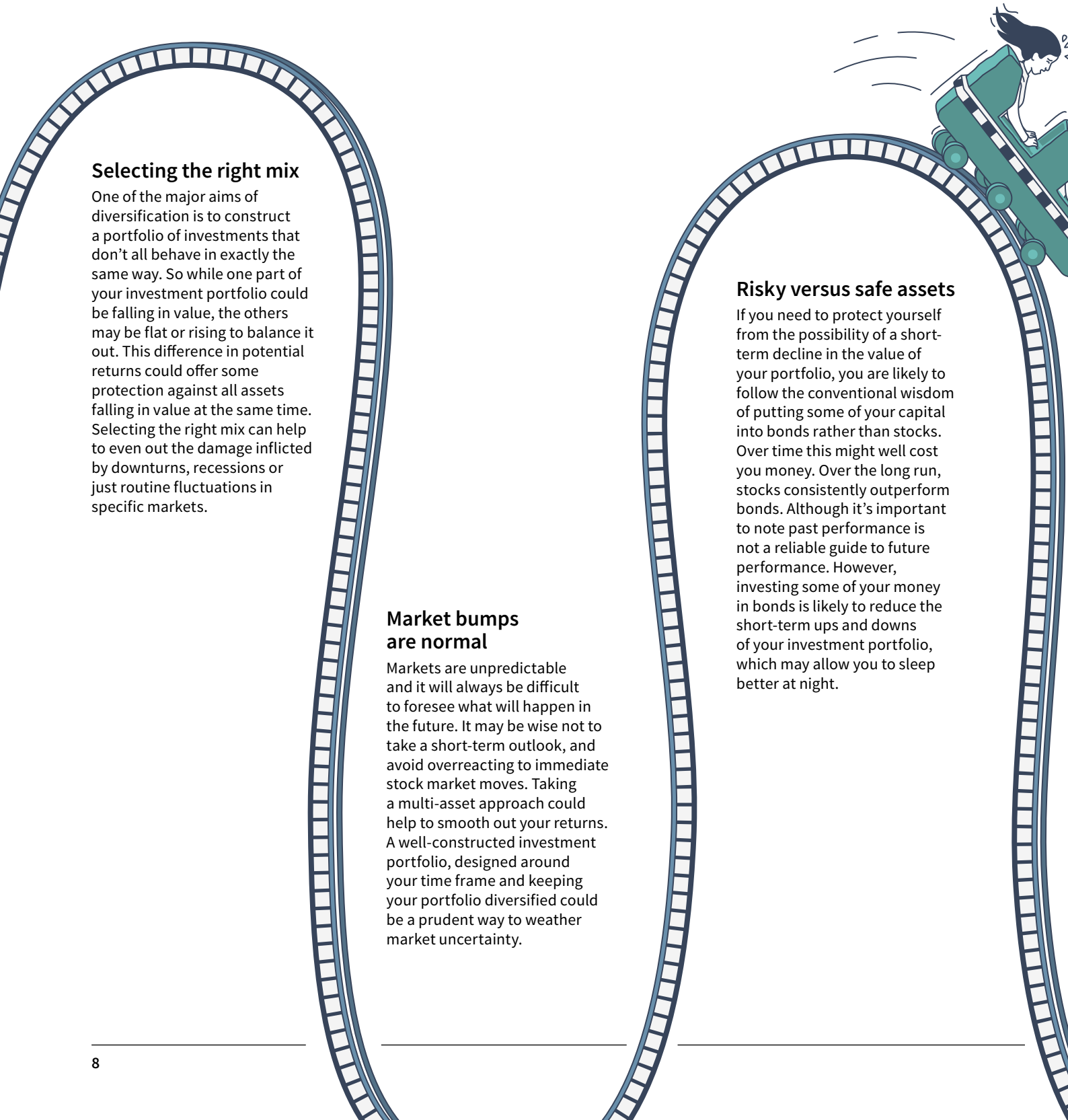
## What does it mean for your investments?

It's difficult to say how the US election might affect the stock markets as we don't yet know which names will be on the ballot sheet. Historically the US stock market has performed well in election years, but this isn't guaranteed in 2020 and there remain unresolved global geopolitical issues. We also expect there to be some volatility along the way, but don't believe that this should be a concern for long-term investors.

At Architas, we design multi-asset funds with the goal of withstanding political uncertainty, without being overly tied to the fortunes of a particular country or type of investment. We do this by spreading our clients' money across a diverse mix of high-quality investments from all over the globe.

# AN INTRODUCTION TO **DIVERSIFICATION**

From year to year, it is difficult to predict which asset classes will be the best performers. Most investment specialists agree about the benefits of spreading your money across different investments. This diversification can reduce volatility, smooth out highs and lows in returns and help avoid unnecessary risk.



## Selecting the right mix

One of the major aims of diversification is to construct a portfolio of investments that don't all behave in exactly the same way. So while one part of your investment portfolio could be falling in value, the others may be flat or rising to balance it out. This difference in potential returns could offer some protection against all assets falling in value at the same time. Selecting the right mix can help to even out the damage inflicted by downturns, recessions or just routine fluctuations in specific markets.

## Market bumps are normal

Markets are unpredictable and it will always be difficult to foresee what will happen in the future. It may be wise not to take a short-term outlook, and avoid overreacting to immediate stock market moves. Taking a multi-asset approach could help to smooth out your returns. A well-constructed investment portfolio, designed around your time frame and keeping your portfolio diversified could be a prudent way to weather market uncertainty.

## Risky versus safe assets

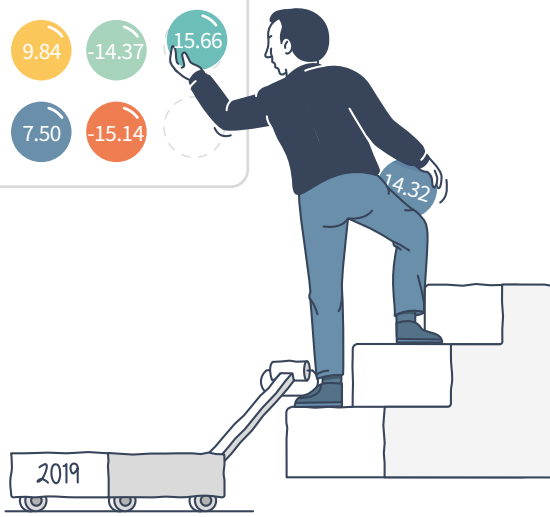
If you need to protect yourself from the possibility of a short-term decline in the value of your portfolio, you are likely to follow the conventional wisdom of putting some of your capital into bonds rather than stocks. Over time this might well cost you money. Over the long run, stocks consistently outperform bonds. Although it's important to note past performance is not a reliable guide to future performance. However, investing some of your money in bonds is likely to reduce the short-term ups and downs of your investment portfolio, which may allow you to sleep better at night.

## The importance of diversification

The chart below shows why it is so important to make sure your investments are diversified. As you can see, over time no single asset class or region is a consistent top performer. Spreading your investments across a range of asset classes and regions could help smooth the impact of ups and downs in the market. One investment may perform badly in any particular year but this negative performance could be offset by the positive performance of another investment.

| SECTORS | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| US high yield bonds | 2.14 | 17.13 | 41.72 | -2.08 | 28.92 |
| UK government bonds | -0.65 | 7.56 | 26.82 | -4.03 | 24.81 |
| US property | -4.47 | 5.44 | 13.08 | -5.46 | 18.17 |
| European shares | -5.44 | -0.56 | 9.84 | -14.37 | 15.66 |
| Asian shares | -9.17 | -1.85 | 7.50 | -15.14 | 14.32 |

Best ↑ ↓ Worst




*Source: Morningstar as at 31.12.2019. Returns as a percentage rebased to US dollars. Past performance is not a guide to future performance.*

## Asset allocation is king

Asset allocation refers to the decision of how much capital to invest and where, such as for example in stocks vs. bonds, in US vs. European stocks, how much to keep in cash and everything in between. Having the right balance – the optimal asset allocation – is what keeps you diversified in the market. Diversifying your investment portfolio across a range of asset classes, geographies and fund managers could help to reduce your overall risk.

# Fiscal stimulus

## WHAT'S THE BIG STORY?

**Interest rates tumbled in the years following the global financial crisis in 2008, as central banks attempted to kick-start economic growth using monetary stimulus. But has that game now played out? In recent months there has been a rising chorus of demands for governments to forget about austerity and take up the baton. This could happen by cutting taxes or spending large sums of money on big infrastructure projects. And that's what is meant by fiscal stimulus. Let's look at some examples.**

1

### United States

When President Trump came to office in 2017 he promised an 'America First' budget. Spending plans included a boost to the US military, as well as the infamous wall along the border with Mexico. Progress has been slow with this particular project and yet US government debt keeps on rising. For 2019 the budget was in deficit to an eyewatering $1trillion.

2

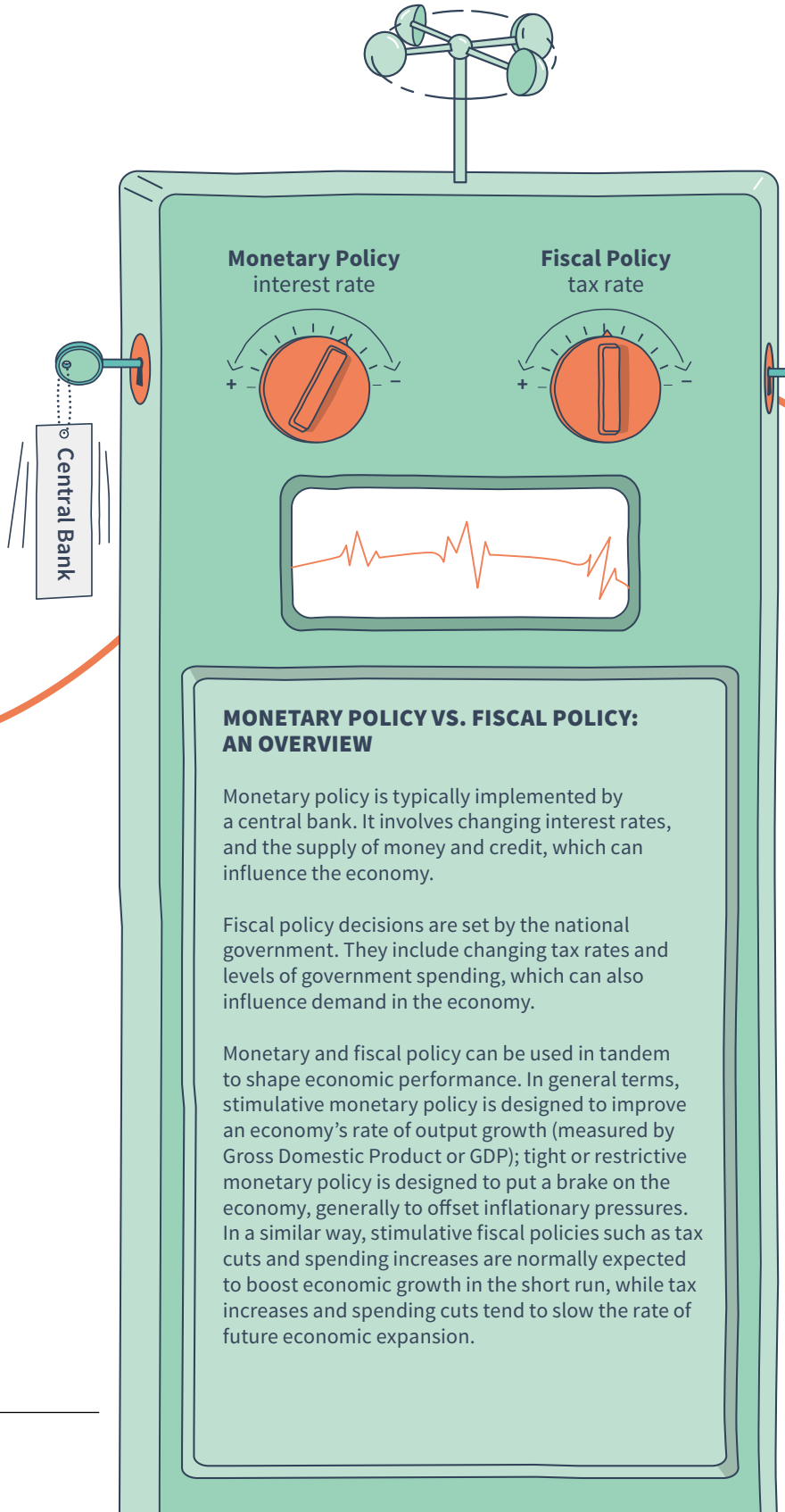
### Germany

Germany, a more naturally prudent economy, has attempted to achieve a 'schwarze Null' or black zero. That means a perfectly balanced budget. In fact, government spending has been so tightly controlled that the country is now running a budget surplus close to 2% of GDP. The influential Green Party is looking to unlock spending via environmental initiatives over the next few years.

3

### Elsewhere

Japan has recently announced a stimulus package of $121bn, aimed at typhoon repairs and investment in infrastructure and new technology. And the UK has been promised a 'Brexit bonus', boosting an economy held back by the uncertainties of leaving the EU. Over the next five years spending of up to £100bn ($130bn), including on roads, rail links and hospitals, is due to be unleashed.




**MONETARY POLICY VS. FISCAL POLICY: AN OVERVIEW**

Monetary policy is typically implemented by a central bank. It involves changing interest rates, and the supply of money and credit, which can influence the economy.

Fiscal policy decisions are set by the national government. They include changing tax rates and levels of government spending, which can also influence demand in the economy.

Monetary and fiscal policy can be used in tandem to shape economic performance. In general terms, stimulative monetary policy is designed to improve an economy's rate of output growth (measured by Gross Domestic Product or GDP); tight or restrictive monetary policy is designed to put a brake on the economy, generally to offset inflationary pressures. In a similar way, stimulative fiscal policies such as tax cuts and spending increases are normally expected to boost economic growth in the short run, while tax increases and spending cuts tend to slow the rate of future economic expansion.

So, governments' views on fiscal stimulus range from reluctance in some quarters to big promises in others. Always remember that the cost ultimately falls to the taxpayer. Or, if funded by government borrowing, to the taxpayers of the future. Nonetheless, global growth and inflation are still sluggish, and the world is waiting to see how this challenge will now be met.

# Facts & Figures

## QUARTERLY DATA

| UK stocks | Emerging market stocks | US stocks | European (but not UK) stocks | Japanese stocks | Asian (but not Japanese) stocks |
|---|---|---|---|---|---|
| ▲ | ▲ | ▲ | ▲ | ▲ | ▼ |
| **4.2%** | **4.1%** | **1.5%** | **0.9%** | **0.3%** | **-1.6%** |
| FTSE All-Share Index | MSCI Emerging Market Index | S&P 500 Composite Index | FTSE All World Developed Europe ex UK Index | TOPIX Index | MSCI Pacific ex. Japan Index |

| UK corporate bonds | Global high yield bonds | European corporate bonds | Emerging market bonds | US corporate bonds | Global government bonds |
|---|---|---|---|---|---|
| ▼ | ▼ | ▼ | ▼ | ▼ | ▼ |
| **-3.1%** | **-3.8%** | **-4.7%** | **-5.0%** | **-5.9%** | **-7.6%** |
| Bloomberg Barclays Sterling Aggregate Bond Index | ICE Bank of America ML Global High Yield Bond Index | Bloomberg Barclays European Corprate Bond Index | JP Morgan Global Emerging Market Bond Index | Bloomberg Barclays US Corportate Bond Index | FTSE G7 Index |

To highlight the unpredictability of markets, the table below details the performance of global equity and fixed income indices over the past five years (in sterling terms).

This table demonstrates how volatile markets can be, and shows the benefits of diversifying your investment, or in other words, not putting all your eggs in one basket.

| Index percentage growth (%) | 1 Jan 2019 to 31 Dec 2019 | 1 Jan 2018 to 31 Dec 2018 | 1 Jan 2017 to 31 Dec 2017 | 1 Jan 2016 to 31 Dec 2016 | 1 Jan 2015 to 31 Dec 2015 |
|---|---|---|---|---|---|
| US stocks | 26.4 | 1.6 | 11.3 | 33.5 | 7.3 |
| European (but not UK) stocks | 20.5 | -9.1 | 17.2 | 19.7 | 6.0 |
| UK stocks | 19.2 | -9.5 | 13.1 | 16.8 | 1.0 |
| Japanese stocks | 11.8 | -10.4 | 13.2 | 20.7 | 15.9 |
| Asian (but not Japanese) stocks | 13.9 | -4.6 | 15.1 | 28.8 | -3.0 |
| Emerging market stocks | 14.3 | -8.9 | 25.8 | 33.1 | -9.7 |
| Global government bonds | 1.8 | 5.8 | -2.9 | 21.4 | 3.3 |
| Global high yield bonds | 9.3 | 2.7 | 0.7 | 36.9 | 1.4 |
| US corporate bonds | 10.1 | 3.6 | -2.8 | 26.6 | 5.1 |
| European corporate bonds | 0.3 | -0.1 | 6.5 | 21.3 | -5.6 |
| Emerging market bonds | 10.0 | 1.3 | -0.1 | 31.4 | 7.1 |
| UK corporate bonds | 7.8 | -0.1 | 2.6 | 10.8 | 0.5 |

*Past performance is not a guide to future performance. Rebased in sterling where appropriate, i.e. all index returns are recalculated based on exchange rates to give returns for a sterling investor. Source: Morningstar Direct, January 2020.*


# Active

## FUND RANGE

**Nathan Sweeney**
Senior Investment Manager

"Markets rallied in the final quarter of the year as some of investors keys concerns where addressed as we moved into yearend, this rounded off one the strongest years for global stock markets since the financial crisis."

In the UK the stock markets rallied after the Conservatives' election victory. Investors were optimistic over the party's business-friendly policies and some much-needed clarity over Brexit. Sterling also rose on the back of the news, dampening returns for global FTSE 100 companies with overseas operations but providing a boost for smaller domestically focused businesses.

Other big news during the period was the agreement of a phase one trade deal between the US and China, which is expected to be signed in January. This was good news for the American stock market and also provided some respite for most European and emerging stock markets, which have been suffering as a result of the continued trade uncertainty.

## FUND THEMES

1

### PORTFOLIO CHANGES

#### BOUGHT

- BlackRock Advantage US Equity Fund
- Liontrust Sustainable Future Corporate Bond Fund
- Robeco Global Credits IBH Fund

#### SOLD

- Kames Property Income Fund
- Amedeo Air Four Plus Ltd

### CUMULATIVE RETURN

| Fund and share class<br>Total returns for the periods shown (%) | 3 MONTHS<br>01 Oct 19<br>to 31 Dec 19 | 1 YEAR<br>01 Jan 19<br>to 31 Dec 19 | 3 YEARS<br>01 Jan 17<br>to 31 Dec 19 | 5 YEARS<br>01 Jan 15<br>to 31 Dec 19 |
|---|---|---|---|---|
| Architas MA Active Reserve A Acc | -0.8 | 5.3 | 6.7 | 18.1 |
| Architas MA Active Moderate Income A Acc | -0.6 | 9.6 | 9.6 | 23.6 |
| Architas MA Active Intermediate Income A Acc | 0.5 | 13.2 | 13.9 | 33.6 |
| Architas MA Active Progressive A Acc | 1.4 | 15.9 | 21.0 | 46.5 |
| Architas MA Active Growth A Acc | 2.2 | 18.7 | 24.5 | 54.3 |
| Architas MA Active Dynamic A Acc | 2.6 | 18.8 | 23.4 | 52.3 |

### DISCRETE YEARLY PERFORMANCE

| Fund and share class<br>Total returns for the periods shown (%) | 01 Jan 19<br>to 31 Dec 19 | 01 Jan 18<br>to 31 Dec 18 | 01 Jan 17<br>to 31 Dec 17 | 01 Jan 16<br>to 31 Dec 16 | 01 Jan 15<br>to 31 Dec 15 |
|---|---|---|---|---|---|
| Architas MA Active Reserve A Acc | 5.3 | -0.6 | 2.0 | 7.3 | 3.2 |
| Architas MA Active Moderate Income A Acc | 9.6 | -3.9 | 4.0 | 11.3 | 1.3 |
| Architas MA Active Intermediate Income A Acc | 13.2 | -4.5 | 5.4 | 14.1 | 2.8 |
| Architas MA Active Progressive A Acc | 15.9 | -5.4 | 10.4 | 16.3 | 4.1 |
| Architas MA Active Growth A Acc | 18.7 | -7.2 | 13.0 | 19.0 | 4.2 |
| Architas MA Active Dynamic A Acc | 18.8 | -9.8 | 15.1 | 20.4 | 2.5 |

2

## ASSET ALLOCATION

**WHAT WORKED?**

- Specialist property
- UK stocks
- US stocks

**WHAT DIDN'T?**

- Global government bonds
- Emerging market equities
- Japanese stocks

3

## FUND SELECTION

**WHAT WORKED?**

- Primary Health Properties plc
- Majedie UK Equity Fund
- Artemis US extended Alpha Fund

**WHAT DIDN'T?**

- Baillie Gifford Japanese Fund
- Stewart Investors Global Emerging Markets Leaders Fund
- iShares Overseas Government Bond Index Fund

*For details on how to assess the performance of this fund please refer to the important information at the end of this document. Past performance is not a guide to future performance. The value of an investment, and any income, can fall as well as rise and is not guaranteed. You could get back less than you invested. Source: Morningstar Direct, January 2020. Performance as at 31 December 2019. Performance figures are shown in sterling unless we say otherwise. We work out return figures using a single pricing basis. The fund performance figures take into account the yearly management charge, but not any other charge such as transaction costs that may be due. Investing using a wrapper (a wrapper is an arrangement that brings together a range of investments under one roof) may also involve charges which will have the effect of reducing the past performance figures shown.*

ARCHITAS
**MULTI-ASSET (MA)**

# Blended

## FUND RANGE

**Sheldon MacDonald**
Deputy Chief Investment Officer

**Mayank Markanday**
Senior Investment Manager

"During the course of Q4 2019, the outlook for risk assets improved. Globally, economic growth indicators halted their decline; the US/China trade negotiations edged towards an interim resolution; central banks continue to provide monetary stimulus; and in the UK, parliament's rejection of a potential No-Deal Brexit eliminated a significant tail risk for markets."

Given this improvement, we have slightly reduced our underweight exposure to equities. However, we retain a certain degree of caution. Last year's share price gains were not matched by increases in company earnings; this means that share prices are now much more expensive compared to expected earnings, which poses a headwind for further gains.

Additionally, events in the Middle East serve once again to highlight the extent of geopolitical risks. To hedge against a global equity downturn we have slightly increased our exposure to bonds. Here again, though, the position is a slightly uneasy one, as bonds too are very expensive. For the moment, a benign inflation outlook is allowing central banks to keep rates low, but this could change if inflation rises.

## FUND THEMES

1

### PORTFOLIO CHANGES

#### BOUGHT

- Vanguard Em erging Markets Stock Index Fund
- Vanguard Pacific Ex-Japan Stock Index Fund

#### SOLD

- Artemis US Extended Alpha Fund
- iShares Emerging Markets Equity Index Fund
- iShares Pacific ex Japan Equity Index Fund

### CUMULATIVE RETURN

| Fund and share class<br>Total returns for the periods shown (%) | 3 MONTHS<br>01 Oct 19<br>to 31 Dec 19 | 1 YEAR<br>01 Jan 19<br>to 31 Dec 19 | 3 YEARS<br>01 Jan 17<br>to 31 Dec 19 | 5 YEARS<br>01 Jan 15<br>to 31 Dec 19 |
|---|---|---|---|---|
| Architas MA Blended Reserve A Acc | -1.7 | 8.6 | 10.2 | 24.4 |
| Architas MA Blended Moderate A Acc | -0.4 | 11.1 | 13.0 | 31.7 |
| Architas MA Blended Intermediate A Acc | 0.5 | 12.8 | 15.8 | 37.5 |
| Architas MA Blended Progressive A Acc | 1.7 | 15.2 | 19.4 | 45.0 |
| Architas MA Blended Growth A Acc | 2.9 | 18.9 | 22.2 | 52.0 |

### DISCRETE YEARLY PERFORMANCE

| Fund and share class<br>Total returns for the periods shown (%) | 01 Jan 19<br>to 31 Dec 19 | 01 Jan 18<br>to 31 Dec 18 | 01 Jan 17<br>to 31 Dec 17 | 01 Jan 16<br>to 31 Dec 16 | 01 Jan 15<br>to 31 Dec 15 |
|---|---|---|---|---|---|
| Architas MA Blended Reserve A Acc | 8.6 | -2.4 | 3.9 | 12.4 | 0.4 |
| Architas MA Blended Moderate A Acc | 11.1 | -3.3 | 5.2 | 15.0 | 1.4 |
| Architas MA Blended Intermediate A Acc | 12.8 | -3.7 | 6.6 | 16.7 | 1.7 |
| Architas MA Blended Progressive A Acc | 15.2 | -4.6 | 8.6 | 18.8 | 2.2 |
| Architas MA Blended Growth A Acc | 18.9 | -6.7 | 10.1 | 21.1 | 2.7 |

2

## ASSET ALLOCATION

**WHAT WORKED?**

- Specialist property
- UK income stocks
- UK stocks

**WHAT DIDN'T?**

- Global government bonds
- UK government bonds
- Global property stocks

3

## FUND SELECTION

**WHAT WORKED?**

- Primary health Properties plc
- JOHCM UK Equity Income Fund
- Majedie UK Equity Fund

**WHAT DIDN'T?**

- iShares Global Government Bond Tracker
- Vanguard U.K. Long Duration Gilt Index Inc
- iShares Global Property Securities Equity Tracker L Acc

*For details on how to assess the performance of this fund please refer to the important information at the end of this document. Past performance is not a guide to future performance. The value of an investment, and any income, can fall as well as rise and is not guaranteed. You could get back less than you invested. Source: Morningstar Direct, January 2020. Performance as at 31 December 2019. Performance figures are shown in sterling unless we say otherwise. We work out return figures using a single pricing basis. The fund performance figures take into account the yearly management charge, but not any other charge such as transaction costs that may be due. Investing using a wrapper (a wrapper is an arrangement that brings together a range of investments under one roof) may also involve charges which will have the effect of reducing the past performance figures shown.*

ARCHITAS
**MULTI-ASSET (MA)**

# Passive

## FUND RANGE

**Sheldon MacDonald**
Deputy Chief Investment Officer

**Alex Burn**
Investment Manager

"The final quarter of 2019 clearly indicated a market seeking equity risk, whilst stocks around the globe rallied, fixed income sold off. For UK based investors however much of these returns disappeared when they were brought back into Sterling given the strong rise in the currency following increasing Brexit clarity and an emphatic with for Boris Johnsons Conservative party."

Aside from the UK there was good news for markets from a lessening of tensions in the trade war with China and US agreeing to sign an initial trade deal. Alongside this, further supportive action from central banks globally supported equity prices. Together, this supported outsized market responses in the US, Asia and Japan, where the instant relief is likely to be felt most quickly.

## FUND THEMES

1

### PORTFOLIO CHANGES

**BOUGHT**
- n/a

**SOLD**
- n/a

## CUMULATIVE RETURN

| Fund and share class<br>Total returns for the periods shown (%) | 3 MONTHS<br>01 Oct 19<br>to 31 Dec 19 | 1 YEAR<br>01 Jan 19<br>to 31 Dec 19 | 3 YEARS<br>01 Jan 17<br>to 31 Dec 19 | 5 YEARS<br>01 Jan 15<br>to 31 Dec 19 |
|---|---|---|---|---|
| Architas MA Passive Reserve A Acc | -1.7 | 10.6 | 14.7 | 34.8 |
| Architas MA Passive Moderate A Acc | -0.5 | 12.1 | 16.6 | 38.9 |
| Architas MA Passive Interm A Acc | 0.5 | 13.8 | 19.2 | 44.5 |
| Architas MA Passive Progressive A Acc | 1.6 | 16.8 | 23.4 | 54.5 |
| Architas MA Passive Growth A Acc | 2.6 | 19.5 | 27.1 | 62.9 |
| Architas MA Passive Dynamic A Acc | 2.9 | 20.0 | 28.1 | 59.9 |

## DISCRETE YEARLY PERFORMANCE

| Fund and share class<br>Total returns for the periods shown (%) | 01 Jan 19<br>to 31 Dec 19 | 01 Jan 18<br>to 31 Dec 18 | 01 Jan 17<br>to 31 Dec 17 | 01 Jan 16<br>to 31 Dec 16 | 01 Jan 15<br>to 31 Dec 15 |
|---|---|---|---|---|---|
| Architas MA Passive Reserve A Acc | 10.6 | -1.3 | 5.0 | 14.9 | 2.3 |
| Architas MA Passive Moderate A Acc | 12.1 | -1.9 | 6.0 | 16.1 | 2.6 |
| Architas MA Passive Intermediate A Acc | 13.8 | -2.6 | 7.5 | 17.9 | 2.8 |
| Architas MA Passive Progressive A Acc | 16.8 | -3.3 | 9.2 | 20.8 | 3.7 |
| Architas MA Passive Growth A Acc | 19.5 | -4.5 | 11.4 | 24.4 | 2.9 |
| Architas MA Passive Dynamic A Acc | 20.0 | -6.5 | 14.2 | 26.5 | -1.3 |

*For details on how to assess the performance of this fund please refer to the important information at the end of this document. Past performance is not a guide to future performance. The value of an investment, and any income, can fall as well as rise and is not guaranteed. You could get back less than you invested. Source: Morningstar Direct, January 2020. Performance as at 31 December 2019. Performance figures are shown in sterling unless we say otherwise. We work out return figures using a single pricing basis. The fund performance figures take into account the yearly management charge, but not any other charge such as transaction costs that may be due. Investing using a wrapper (a wrapper is an arrangement that brings together a range of investments under one roof) may also involve charges which will have the effect of reducing the past performance figures shown.*


# Income generating

## FUND RANGE

**Mayank Markanday**
Senior Investment Manager

**Nathan Sweeney**
Senior Investment Manager

"The fourth quarter saw a return of confidence to markets as fears of slowing economic growth reduced. As a result, global stock markets generally made gains and government bond prices dropped, as investors sought higher risk investments."

This was supported by progress in US-China trade negotiations, rate cuts from the US Federal Reserve and reduced fears of a no-deal Brexit. But China itself seemed to bear the brunt of unresolved trade issues.

The quarter was a reasonably healthy one for investors looking for an income as income-producing assets largely met expectations. In general, the risks facing income investors were in step with equity investors with political uncertainty the main focus.

In the UK the broad rally in stocks aided income-oriented investments. The UK stock market was reasonably healthy for income-seekers because the companies paying dividends are quite global. With stocks continuing to be expensive and the ongoing trend of low income from bonds, infrastructure assets which have revenue streams, often linked to inflation continued to be a good alternative to income stocks and bonds.

## FUND THEMES

1

### PORTFOLIO CHANGES



#### BOUGHT

- Liontrust Sustainable Future Corporate Bond Fund
- BlackRock Advantage US Equity Fund
- BlackRock Global High Yield ESG and Credit Screened Fund
- HICL Infrastructure plc



#### SOLD

- TwentyFour Dynamic Bond Fund
- AXA Global High Income Fund
- AXA IM FIIS EU Short Duration High Yield Fund
- CatCo Reinsurance Opportunities Fund
- Vontobel mtx Sustainable Emerging Markets Leaders Fund
- Kames Property Income Fund

## CUMULATIVE RETURN

| Fund and share class<br>Total returns for the periods shown (%) | 12 MONTH YIELD | 3 MONTHS 01 Oct 19 to 31 Dec 19 | 1 YEAR 01 Jan 19 to 31 Dec 19 | 3 YEARS 01 Jan 17 to 31 Dec 19 | 5 YEARS 01 Jan 15 to 31 Dec 19 |
|---|---|---|---|---|---|
| Architas MA Active Reserve A Inc | 1.76 | -0.8 | 5.5 | 6.7 | 18.1 |
| Architas MA Active Moderate Income A Inc | 1.40 | -0.6 | 9.5 | 9.6 | 23.5 |
| Architas MA Active Intermediate Income A Inc | 1.69 | 0.4 | 13.2 | 13.9 | 33.5 |
| Architas Diversified Global Income A Inc | 4.03 | 2.9 | 11.2 | 12.0 | - |
| Architas MM Monthly High Income A Inc | 3.92 | 1.5 | 8.1 | 10.2 | 22.1 |
| Architas Global Equity Income A Inc | 3.79 | 0.6 | 18.4 | - | - |

## DISCRETE YEARLY PERFORMANCE

| Fund and share class<br>Total returns for the periods shown (%) | 01 Jan 19 to 31 Dec 19 | 01 Jan 18 to 31 Dec 18 | 01 Jan 17 to 31 Dec 17 | 01 Jan 16 to 31 Dec 16 | 01 Jan 15 to 31 Dec 15 |
|---|---|---|---|---|---|
| Architas MA Active Reserve A Inc | 5.5 | -0.7 | 1.9 | 7.4 | 3.1 |
| Architas MA Active Moderate Income A Inc | 9.5 | -3.8 | 4.0 | 11.3 | 1.2 |
| Architas MA Active Intermediate Income A Inc | 13.2 | -4.5 | 5.4 | 14.1 | 2.7 |
| Architas Diversified Global Income A Inc | 11.2 | -6.7 | 7.9 | 8.4 | - |
| Architas MM Monthly High Income A Inc | 8.1 | -4.1 | 6.3 | 9.8 | 0.9 |
| Architas Global Equity Income A Inc | 18.4 | -5.7 | - | - | - |

2

## ASSET ALLOCATION

**WHAT WORKED?**

- Specialist healthcare property
- UK Income stocks
- UK smaller companies stocks

**WHAT DIDN'T?**

- US government bonds
- UK government bonds (gilts)
- Global property stocks

3

## FUND SELECTION

**WHAT WORKED?**

- Primary Health Properties plc
- SPDR® S&P UK Dividend Aristocrats UCITS ETF
- iShares MSCI UK Small Cap UCITS ETF

**WHAT DIDN'T?**

- iShares $ Treasury Bond 20+ year UCITS ETF
- Vanguard UK Long Duration Gilt Index Fund
- Legal & General Global Real Estate Dividend Index Fund

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# Specialist FUND RANGE

**Solomon Nevins**
Senior Investment Manager

**Jen Causton**
Investment Manager

**Mayank Markanday**
Senior Investment Manager

"Equity markets and risk assets in general had a strong fourth quarter to round up a fantastic 2019, the best year for equities in a decade. At the start of 2019, some market strategists had anticipated a recovery from 2018's losses but none forecast the scale of the rally."

The combination of a phase one trade deal between the US and China, and the Conservative party winning a huge majority in the UK general election convinced investors that two potential risk events had been averted, even if the realities of both are still likely to lead to greater frictions on global trade that may weigh on GDP growth.

The bigger theme for the year, which also played a part in the Q4 returns, was investors switching their focus from the current slowdown in the manufacturing sector to the prospect of an improvement driven by the central bank support packages and their promise of doing more if necessary.

## FUND THEMES

1

### PORTFOLIO CHANGES

**BOUGHT**

- HICL Infrastructure plc
- BlackRock Global High Yield ESG and Credit Screened Fund

**SOLD**

- AXA Global High Income Fund

### CUMULATIVE RETURN

| Fund and share class<br>Total returns for the periods shown (%) | 12 MONTH YIELD | 3 MONTHS 01 Oct 19 to 31 Dec 19 | 1 YEAR 01 Jan 19 to 31 Dec 19 | 3 YEARS 01 Jan 17 to 31 Dec 19 | 5 YEARS 01 Jan 15 to 31 Dec 19 |
|---|---|---|---|---|---|
| Architas Diversified Real Assets D Acc | 2.0 | 10.2 | 9.2 | 22.1 | 22.0 |
| Architas MM UK Equity A Acc | 4.4 | 22.3 | 24.2 | 43.1 | 38.3 |
| Architas MM Strategic Bond A Acc | 0.6 | 6.1 | 10.3 | 19.1 | 19.2 |
| Architas MM Diversified Protector 70 R Acc | 1.3 | 12.5 | 13.5 | 22.5 | 23.0 |
| Architas MM Diversified Protector 80 R Acc | 1.1 | 8.6 | 8.8 | 13.6 | 13.1 |
| Architas MM Diversified Protector 85 R Acc | 0.8 | 6.3 | 6.5 | 8.1 | 7.8 |

### DISCRETE YEARLY PERFORMANCE

| Fund and share class<br>Total returns for the periods shown (%) | 01 Jan 19 to 31 Dec 19 | 01 Jan 18 to 31 Dec 18 | 01 Jan 17 to 31 Dec 17 | 01 Jan 16 to 31 Dec 16 | 01 Jan 15 to 31 Dec 15 |
|---|---|---|---|---|---|
| Architas Diversified Real Assets Fund D Acc | 10.2 | -2.9 | 2.1 | 8.3 | 3.3 |
| Architas MM UK Equity Fund A Acc | 22.3 | -9.7 | 12.4 | 8.3 | 6.3 |
| Architas MM Strategic Bond Fund A Acc | 6.1 | -1.9 | 6.0 | 9.6 | -1.5 |
| Architas MM Diversified Protector 70 | 12.5 | -4.4 | 5.6 | 9.4 | -1.4 |
| Architas MM Diversified Protector 80 | 8.6 | -3.6 | 4.0 | 5.8 | -1.2 |
| Architas MM Diversified Protector 85 | 6.3 | -2.6 | 2.9 | 3.6 | -2.0 |

2

## ASSET ALLOCATION

**WHAT WORKED?**

- Specialist healthcare property
- UK smaller companies stocks
- European asset backed securities
- Global infrastructure stocks

**WHAT DIDN'T?**

- US government bonds
- Global property stocks
- Commodities - Gold

3

## FUND SELECTION

**WHAT WORKED?**

- Primary Health Properties plc
- iShares MSCI UK Small Cap UCITS ETF
- TwentyFour Income Trust
- Legg MG RARE Infrastructure Value Fund

**WHAT DIDN'T?**

- Treasury Bond 20+yr UCITS ETF (USD)
- Legal & General Global Real Estate Dividend Index Fund
- iShares Physical Gold ETC

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The value of investments and the income from them can fall as well as rise and is not guaranteed which means you could get back less than you invest. Past performance is not a guide to future performance. Investments in newer markets, smaller companies or single sectors offer the possibility of higher returns but may also involve a higher degree of risk. The value of investments can fall as well as rise purely as a result of changes in the exchange rate.

You can invest in the funds mentioned in this document using a number of financial products. These funds may not be appropriate for investors who plan to withdraw their money within five years.

The MA Active, MA Passive and MA Blended funds do not have a benchmark. Investors can assess the performance of the funds by viewing the performance data of funds in the respective Investment Association (IA) sectors:

- **MA Active Reserve Fund**
  IA 'Volatility Managed' sector
- **MA Active Moderate Income Fund**
  IA 'Mixed Investment - 0-35% Shares' sector
- **MA Active Intermediate Income Fund**
  IA 'Mixed Investment - 20-60% Shares' sector
- **MA Active Progressive Fund**
  IA 'Mixed Investment - 40-85% Shares' sector
- **MA Active Growth Fund**
  IA 'Flexible Investment' sector
- **MA Active Dynamic Fund**
  IA 'Flexible Investment' sector
- **MA Passive and MA Blended Fund Ranges**
  IA 'Volatility Managed' sector

The Diversified Global Income and MM Monthly High Income have a reference benchmark for performance comparison purposes:

- **Diversified Global Income Fund**
  IA's 'Mixed Investment - 20-60% Shares' sector
- **MM Monthly High Income Fund**
  IA's 'Mixed Investment - 0-35% Shares' sector

The **MM UK Equity Fund** has a reference benchmark for performance comparison purposes – the IA's 'UK All Companies' sector.

The **MM Strategic Bond Fund** has a reference benchmark for performance comparison purposes - the IA's 'Sterling Strategic Bond' sector.

The IA is a trade body that represent UK investment managers and they group funds with broadly similar characteristics into sectors. Each 'sector' contains funds with similar characteristics.

- 'Mixed investment' sectors contain funds with a similar level of exposure to shares/equities, indicated by the percentage in the name.
- The 'Volatility Managed' sector contains funds that are managed with the aim of adhering to a set level of volatility (a measure of the size of changes in the value of an investment).
- The 'Flexible Investment' sector. This 'sector' contains funds where the fund manager has significant flexibility regarding which assets to invest in.
- This 'UK All Companies' sector contains funds with similar characteristics; they invest at least 80% of the fund's assets in UK equities / shares.
- The 'Sterling Strategic Bond' sector. This 'sector' contains funds with similar characteristics; they invest at least 80% of the fund's assets in Sterling denominated fixed income securities.

The funds in each sector will not have exactly the same characteristics (such as their objectives, level of risk, types of risk or level of volatility) and are therefore not an exact like-for-like comparison. Investors can find details of each sector's performance at www.trustnet.com by selecting the respective 'sector' from the drop down menu.

The **Diversified Real Assets Fund** does not have a benchmark. Investors can assess the performance of the Fund against the prevailing Bank of England base rate (Base Rate) over the medium to long term (at least 5 years). The Base Rate has been chosen because funds that invest in "alternative" asset classes often use a cash interest rate for performance assessment purposes. Investors should note that it is not an exact like-for-like comparison because the Fund investments

are subject to a level of risk or volatility. Investors can find details of the Bank of England's base rate at https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp.

The **Protector 70**, **Protector 80** and **Protector 85** Funds do not have a benchmark. Investors can assess the performance of the Fund by viewing the current Fund Protection Floor figure to ascertain if the Fund is achieving its objective. The Funds' objectives are to respectively protect 70, 80 and 85% of the highest Share Price achieved by the fund – the relevant 'protected' amount is referred to as 'The Fund Protection Floor'. The current Share Price and Fund Protection Floor figures can be found on our website: https://uk.**architas.com**/retail-clients/funds/prices/ (page 6), or upon request.

The Architas funds featured in this brochure can invest entirely in units of collective investment schemes.

If you need more information on any of our funds, you can ask us for a free copy of the Key Investor Information Document (KIID) and the prospectus.

The KIID is designed to help investors to make an informed decision before investing. You can view or download all our funds' KIIDs from our website at **architas.com**, by following the Key Investor Information documents link from the home page and in the literature library.

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**Call 0800 953 0197**

*Monday to Friday 9.00am–5.30pm; calls may be recorded. Calls are free from landlines and mobiles within the UK.*

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