TRUE

INSIGHT

True Potential Portfolios | Issue 6

Making Cents out of Currency Trading.

With the pound at a 25-year low, an in-depth look at currency hedging and what it means for your investments.

true potential investments

CONTENTS

With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest.

A WORD FROM OUR CHIEF INVESTMENT OFFICER

Welcome to the latest edition of True Insight, which contains two special features. The first is by Daniel Harrison, senior partner at True Potential. Daniel gives us his unique perspective on technology in an article entitled, A True Tech Revolution. The second is an interview with Simon Dick, who was the first adviser to join True Potential Wealth Management. Simon responds to a series of questions by Jodie McGrath-Hayes, investment analyst at True Potential Investments. Both features provide interesting and illuminating insight and are well worth reading.

Since the last edition of True Insight, we have launched our 27th fund, True Potential Investments Income Builder 1. We are delighted that Goldman Sachs Asset Management agreed to act as our investment manager partner. Our fund retains a strong focus on income sustainability using Goldman's global reach to seek attractive sources of income. Inside we provide more details about two new and attractive features of this fund - full currency hedging and a reduction in price. Elsewhere in True Insight there is another article looking at how currencies are managed, a useful adjunct to understanding more about our new fund.

A lot has happened in the months since our last edition so we look back at a number of the key events in markets. This helps keep us focused on the direction of travel and hopefully it keeps you informed about the factors influencing investor thinking. Markets, however, are forward leaning not backward looking so we share our forward thinking derived from the market intelligence we garner from our eight world-class fund manager partners. They provide us with a valued and varied source of opinions and views in turn helping us to formulate opinions and to take the best decisions we can on your behalf.

Last time we published a world map depicting key events around the world. This proved very popular with readers so we have featured it again. This time we take a closer look at trends in economic growth and inflation around the world. The link between economic growth and the direction of stock markets is a tenuous one but taking readings of economic performance provides context for what is happening across the business world. When the media is awash with Brexit and Trump it is also useful to stop and examine the bigger picture across the globe.

On our world map we show recent gross domestic product (GDP) growth rates across the developed and developing world. We also show current consumer price inflation rates (CPI). Growth and inflation today, compared to their pre-crisis levels (average of 2005-2006), are very different. There are some key standouts; a] real (stripping out inflation) global GDP at around 2%, is much lower than the 3.5% global growth rate 9-10 years ago; b] the US economic growth rate today is 1.9%. This is under powered relative to what Trump believes is possible (his desire is 3.5% to 4%); and c] the main emerging economies, also known as the BRICs (Brazil, Russia, India and China), have not properly regained their growth momentum, operating at a third of pre-crisis levels.

Today global inflation rates average around 1.0% compared to 2.7% pre-crisis. Our managers have differing opinions on the outlook for inflation. They coalesce around the idea that inflation, albeit temporarily, may prove easier to generate than real growth. After all, generating inflation is what central banks have been aiming at since the credit crisis.

If growth improves and inflation picks-up cash savers may continue to suffer a disadvantage relative to investors taking some risk. No one wants to put off growth, least of all central authorities who acknowledge that stimulating growth boosts wealth. This makes us all a little happier. Yes, we may see interest rates tick up but applying a hard monetary brake by jacking up interest rates aggressively seems unlikely for a while yet.

Colin Beveridge, Chief Investment Officer.

PERFORMANCE UPDATE

The True Potential Portfolios are a suite of fully-diversified, discretionary-managed investment solutions. With wide exposure to world-class investment managers, as well as diversifying investment by asset class and geographic region, our clients benefit from having more potential to grow their money and manage volatility, all in one Portfolio.

And, as we're committed to helping our clients reach their financial goals, we continually monitor our Portfolios to make sure they perform as expected and remain within the chosen risk profile. We also rebalance for the future, rather than the past, taking an active approach to allocating your money where we see the greatest potential for growth.

We call this approach 'Advanced Diversification'. The results shown on the right show the performance of each portfolio since we launched them in October 2015.

Portfolios	Since launch*	12 Month Performance**
DEFENSIVE	10.99%	7.67%
CAUTIOUS	15.98%	11.67%
CAUTIOUS +	15.43%	11.72%
CAUTIOUS INCOME	17.27%	13.49%
BALANCED	21.24%	16.49%
BALANCED +	22.90%	16.55%
BALANCED INCOME	20.06%	15.07%
GROWTH	27.15%	19.74%
GROWTH +	25.22%	18.62%
AGGRESSIVE	30.36%	21.79%

* 1st October 2015 to 31st March 2017
** 1st April 2016 to 31st March 2017

With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance.

REVIEW OF THE MARKETS: Q1 2017

The contrast between the first quarter of this year and the first quarter of 2016 could not be starker. We begin 2017 with investors being rewarded for taking risk whereas a year ago investors were fearful of risk. Equity markets were heavily selling-off with heightened speculation that China was on a path to lower economic growth. This now seems a distant memory. Events subsequently have been dominated by the UK referendum vote to leave the EU and the election of Donald Trump. Political events have captured virtually all of the headlines and have, to some degree, over amplified scenarios concocted in a portentous manner.

Looking back to early 2016, investors were presented with an opportunity to buy equity markets and to do so on cheaper valuations. This was particularly evident in areas selling off most aggressively. These same areas continue to do well driven by raised expectations around future growth and inflation. Asia-Pacific and Emerging Market (EM) equities have delivered impressive returns in the first quarter of 2017, producing 10.6% and 9.4% respectively in sterling terms. Asian equities have been spurred on by the reflation rally in the US, and ongoing restrictions placed on the Chinese property market limiting capital outflows and diverting liquidity to equities.

UK equities, despite lagging other equity markets in the quarter, have continued their upward trend growing 2.5% in the first three months of 2017.

Investor clarity regarding the UK improved after Theresa May outlined her plans for Brexit negotiations and the Supreme Court ruling on the activation of Article 50 triggered by the Prime Minister on the 28th of March. Additional detail on the UK's future relationship with Europe was accompanied by encouraging economic data. The recent weak currency base has also prompted overseas companies to take a more active interest in UK listed companies as potential takeover opportunities, underpinning higher equity prices.

In the US, equities started the year on the front foot. The US earnings season got underway in January with strong profit numbers coming from the energy and financial sectors. While Trump was establishing his voice as President, economists became more upbeat about future economic growth in the US, driven in large part by the loosening of fiscal policy in the coming years. This optimism has been reflected through continued strong performance by US equities, delivering 3.9% (in sterling terms) this quarter.

However, as the quarter started to wind down rhetoric during the Trump presidential campaign started to shift direction. The tone in relation to the timing and delivery of key economic reforms was lowered after being defeated on the repeal of Obamacare. Doubts have grown about Trump's ability to deliver his tax and spend agenda in the time-scales envisaged. As a result expectations are now being pushed back as far as 2018. This may prove to be a good thing but when expectations are quashed it inevitably causes some weakness. This is being felt most acutely by investors with strong animal spirits hoping for quick gains.

In bond markets, there continues to be a divergence of opinion around inflation expectations. This has not stopped high yield corporate bonds extending their strong 2016 returns into this year, returning 3.0% in local currency and 1.4% in sterling. Investors have been drawn to those securities which pay higher levels of income. Emerging market bonds also delivered healthy returns with local currency (3.5%), outperforming sterling denominated debt (1.9%). UK Gilts advanced (1.2%) with yields being pushed lower whenever Brexit concerns rise. Worries about rising inflation expectations, particularly in the US have subsided, along with push back on Trump's desire to elevate his own political agenda. Having stalled, it does not mean that the opportunity further down the line has disappeared completely.

"UK equities have continued their upward trend, growing 2.5% in the first three months of 2017."

REVIEW OF THE MARKETS

Five Year Market Performance.

Markets (In GBP)	Mar 12 Mar 13	Mar 13 Mar 14	Mar 14 Mar 15	Mar 15 Mar 16	Mar 16 Mar 17
Equities					
UK Equities (FTSE 100)	15.5%	6.6%	6.3%	-5.3%	23.4%
US Equities (S&P 500)	20.0%	10.9%	26.7%	4.9%	34.5%
Asia Pacific ex Japan Equities	16.9%	-6.6%	19.8%	-8.6%	35.9%
Emerging Market Equities	7.6%	-10.0%	13.1%	-9.0%	34.9%
Fixed Income					
UK Gilts	5.0%	-2.6%	13.4%	3.2%	6.3%
Global High Yield	17.4%	-0.5%	9.4%	1.9%	30.3%
Emerging Market Bonds	15.4%	-8.5%	17.7%	5.8%	25.2%

Source: Bloomberg, Data as at 31/03/2017.

Five Year Market Performance.

Markets (In Local Currency)	Mar 12 Mar 13	Mar 13 Mar 14	Mar 14 Mar 15	Mar 15 Mar 16	Mar 16 Mar 17
Equities					
UK Equities (FTSE 100)	15.5%	6.6%	6.3%	-5.3%	23.4%
US Equities (S&P 500)	14.0%	21.8%	12.7%	1.8%	17.2%
Asia Pacific ex Japan Equities	11.1%	2.6%	6.6%	-11.4%	18.4%
Emerging Market Equities	2.2%	-1.2%	0.7%	-11.8%	17.5%
Fixed Income					
UK Gilts	5.0%	-2.6%	13.4%	3.2%	6.3%
Global High Yield	11.6%	9.2%	-2.7%	-1.2%	13.6%
Emerging Market Bonds	9.7%	0.5%	4.7%	2.6%	9.0%

Source: Bloomberg, Data as at 31/03/2017.

INVESTMENT OUTLOOK

US President Donald Trump continues to dominate news bulletins and financial headlines. For some his forthright, 'America First', protectionist approach threatens the delicate balance of global trade. For others, particularly the financial markets, his promise to reduce taxes, impose border tariffs, repatriate offshore manufacturing and invest in infrastructure projects represents a clear commitment to revitalising the US economy.

The consensus view among our manager partners is that these measures will put upward pressure on inflation, leading the dollar to strengthen and nominal economic growth to improve. However, there seems to be more conviction amongst them that nominal growth will go up only because inflation is going up and they are less convinced that real GDP growth, adjusted for inflation, will improve meaningfully.

Interest rates at current levels look increasingly inappropriate for such expansionary policies and the US Federal Reserve has hinted at a further tightening of monetary policy with two or three further hikes in interest rates forecast during the year.

> "For the moment at least, markets appear happy to back Trump."

Whether the President's initiatives will serve to extend the current economic cycle remains a moot point among our managers. However, for the moment at least, markets appear happy to back Trump.

Inflation

The whole inflation issue is delicately poised at the moment. In the topsy turvy world of Quantitative Easing (QE) and unconventional monetary policy the UK government has been actively trying to generate inflation since the financial crisis. To little effect. Now, just as the UK economy appears to have reached 'escape velocity', recovering to pre-crisis levels, inflation not only seems achievable but increasingly probable. The drop in Sterling has pushed up raw material prices and while, so far, much of this increase has been absorbed by producers and retailers, it may only be a matter of time before more of the impact is passed on to the end consumer. For policy makers here in the UK and also in the US this presents a conundrum. Do they begin raising interest rates to more 'normal' levels and risk derailing the recovery? Or do they leave policy unchanged and risk having to take more dramatic action later should inflation begin to get out of hand?

Fixed Income

This dilemma is felt particularly keenly by those of our managers with fixed income portfolios who continue to be wary of long dated maturities in sovereign issues, preferring Global High Yield and Emerging Market bonds to deliver a higher income.

They believe these areas actually compensate investors for taking higher credit risk whereas higher quality sovereign bonds with longer durations and lower yields are more sensitive to any upward move in interest rates.

Alternative Strategies

Increasingly our managers are looking towards alternative investments which is a generic term used to describe various strategies that lie outside the traditional bond/equity/cash models and include property, commodities, currencies, infrastructure investing and absolute return strategies. There are concerns that equities and bonds may become more correlated and that investors will lose some of the diversification benefits that have been so pronounced since 2009 when QE was first deployed by central banks. Interestingly, some of our managers are also introducing alternatives into their higher risk funds to counter elevated valuations in the equity markets, as well as to find additional sources of sustainable income away from the bond markets.

Looking ahead there are many conflicting signals. However, our objective when building portfolios is to listen carefully to what our manager partners are telling us and to balance the potential risks with the need to seek rewards. Doing this with a long term perspective actually helps screen out the siren voices, heard mostly through the media, that prompt investors to keep sitting on cash doing nothing.

The last nine years of exasperatingly low interest rates have not yet provided a salutary lesson for investors who worry short term but have savings needs that stretch out over the long term.

A TRUE TECH REVOLUTION

By Daniel Harrison, Senior Partner at True Potential

As Britain goes headfirst into a new, more globally-focused future we should ask ourselves where our strengths really lie. What is it that we do better than anyone else? It doesn't take too much navel-gazing to see that financial services is a national asset. The UK is the world leader and largest exporter of financial services and the sector generates over £63bn in taxes, 11% of the UK's total.

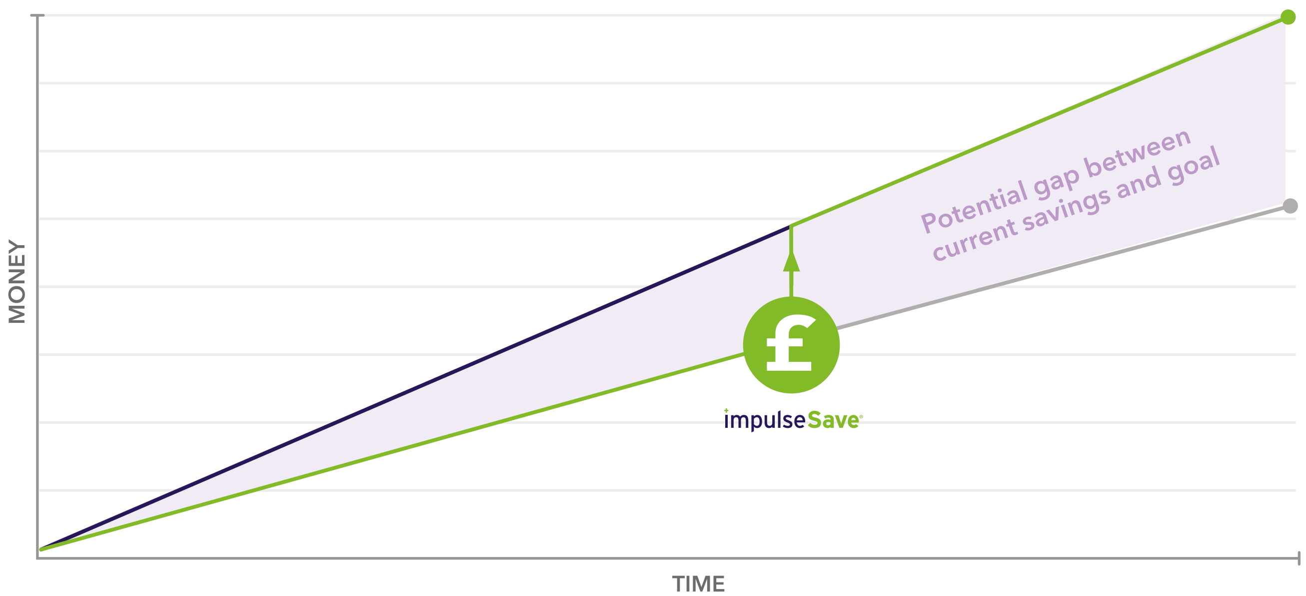
Meanwhile we're quickly acquiring a reputation for tech innovation. London is the financial technology, or 'fintech', capital of the world, employing 44,000 people, 1,000 more than New York. Regional tech clusters are flourishing in places like Newcastle, Edinburgh, Birmingham, Manchester and Cambridge. UK digital tech industries are growing 32% faster than the rest of the UK economy, with total investment reaching £3.6bn in 2015. (Source: TechCityUK)

Online retailing and the digital economy have changed the face of many a high street over the last decade. But although we have moved on from the days of 'The man from the Pru', financial services are yet to reach the same tech tipping point. That's not because clients are any less capable of buying an ISA online than a pair of shoes, but because parts of the industry hold on to out-dated practices that cannot, or will not, cope with data moving quickly backwards and forwards.

What makes True Potential different is that we were created 10 years ago in 2007 with a vision to put technology at the heart of everything we do. We have not needed to adapt to the future because it was already hard-wired into our thinking.

The best example of this is impulseSave, which revolutionised saving and investing. Before impulseSave, there was no easy way to add a few pounds to your pension or ISA quickly. So we invented one and it has been a game changer. Last year over £50m was impulse saved by thousands of clients and mostly in micro amounts of £50 and under. Previously, that money would likely have been spent or put into cash savings accounts where it would lose value against inflation. But now it is keeping clients on track to hit their goal or helping to get them there faster.

The map to good financial planning



All our clients have their own website - a portal that gives them a complete overview of their investments, the ability to impulseSave and contact their adviser whenever they want to. A True Potential client can log in via their computer or open the app on their phone and see instantly what their investments are worth, if they are on track or need to make adjustments. Far too many pension providers still rely on the paper-based annual statement to keep their clients informed, meaning people must wait months to find out what their pension is worth today.

We continue to believe that technology empowers clients and deepens relationships with advisers. With a burgeoning advice gap caused by an ever-growing need for financial advice but fewer advisers in the market, technology represents a social good by taking the strain and enabling advisers to see more people.

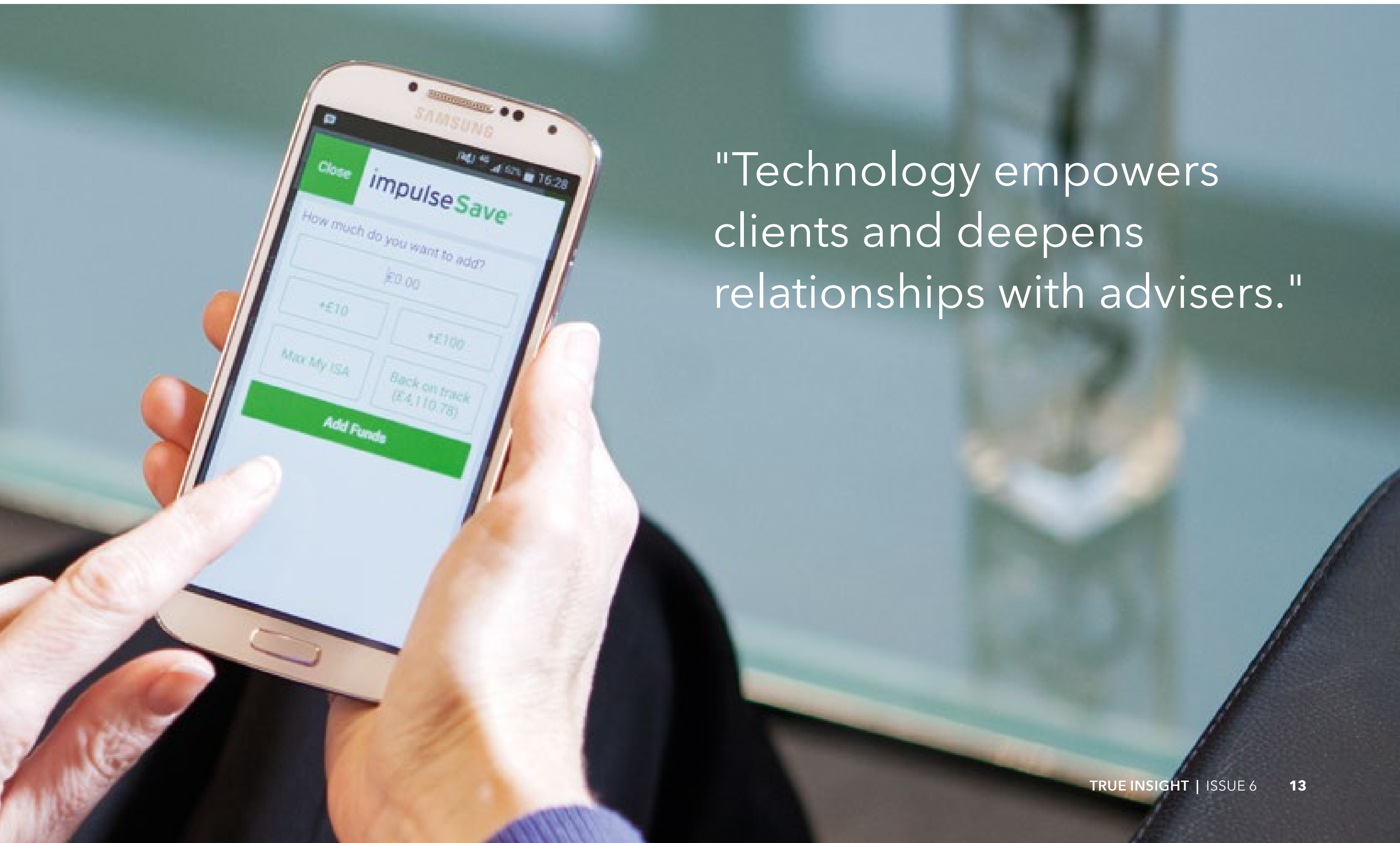
Our commitment to technology is deep-rooted. Instead of paying companies based thousands of miles away to develop our technology, we built an Innovation Hub. An entire floor at our head office is packed full of developers, producing and testing new ideas, often in the same day.

Our technology is always built from the ground up and we are users of our own products. That means we start with clients in mind because we know what works. Technology doesn't diminish the importance of today's financial adviser, it enhances it. True Potential's research with over 24,000 people shows 65% of clients are comfortable investing up to £1,000 by themselves with technology. Beyond that, they prefer to speak to an adviser.

This hybrid model that we first advocated 10 years ago is widely recognised now as the future of financial advice.

In that regard, the days of 'The man from the Pru' have evolved, not vanished. No longer do financial advisers knock on your door, they are in your pocket, with you at all times to show how your investments are doing and only a message away when you need some help.

That is the future of financial services and it's already here.



"Technology empowers clients and deepens relationships with advisers."

MAKING CENTS OUT OF CURRENCY TRADING

One of the most immediate and notable effects of the EU referendum vote is the effect it has had on Sterling. On the 24th June last year, markets woke up to the news that the UK would be leaving the European Union. Sterling fell by 11% against the US dollar very quickly and by year end, sterling was 17% weaker.

For UK investors holding US equities or bonds the boost from currency weakness was gratefully received. But it works both ways. Investments in overseas assets are exposed to currency movements that will either work in their favour or against them. A simple yet realistic example of this is selling a holiday home.

Imagine you wish to sell your Italian holiday home in six months, valued today at 300,000 euros. For ease of calculation let's assume the exchange rate today is GBP £1 = Euro €1. If you sold it today and converted the proceeds you would receive £300,000. However, you cannot sell for six months and are concerned that sterling may appreciate by 20% before you can sell.

If this were to happen the proceeds would turn into £250,000 even though your holiday home sold for the same price.

To be certain that you'll get at least £300,000 in six months' time you enter into an agreement with a counterparty willing to buy the equivalent of 300,000 euros from you for £300,000 in six months, locking in the exchange rate today of GBP £1 = Euro €1.

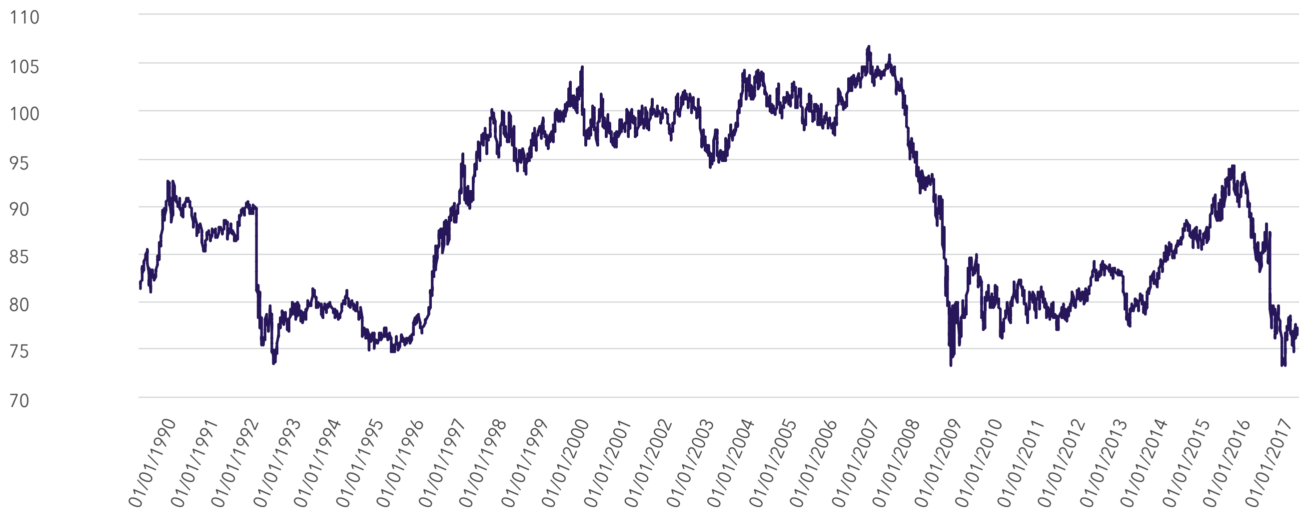
Using currency forward contracts, investors are able to lock in an exchange rate today, for delivery in the future. That is because the counterparty is willing to take the risk that the exchange rate may go against them in return for the opportunity it gives them to make a gain.

Currency markets are the world's most liquid markets, with some £1.7trn traded daily. Transaction costs are minimal and returns have a low correlation with other asset classes. When events shift in favour of or against a country, its currency can be impacted, as we saw with Sterling post-Brexit.

"Currency markets are the world's most liquid markets, with some £1.7trn traded daily."

The chart below shows that Sterling is now at levels last seen when the UK left the European Exchange Rate Mechanism in 1992. Throughout this period the currency has had periods of marked appreciation, hurtful to UK investors looking to buy overseas assets and doing so un-hedged.

Sterling - Trade Weight Basis

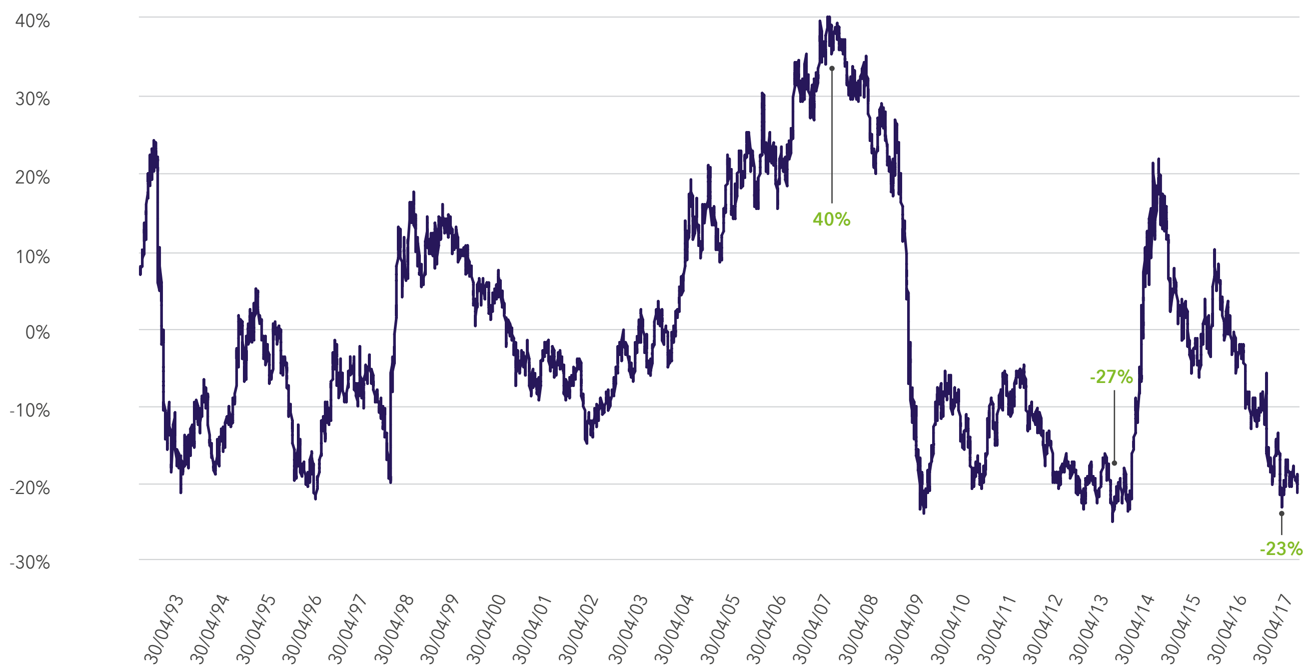


Many market practitioners strongly believe that if asset prices experience a long upward rally or a sharp downward correction they may subsequently revert to the average; so-called 'mean-reversion'.

In the chart below the pound/US dollar relationship at its extreme points has deviated from its mean i.e. long run average rate, by -27% at its lowest point to +40% at its highest point. If sterling mean-reverts, the current gap of -23% (to the average rate) would close hurting UK investors holding US denominated assets unhedged. This is one way of demonstrating the importance of currency hedging.

In reality, we do not know if sterling will strengthen against the US dollar to this extent but at the very least we have to consider the possibility that mean-reversion may occur.

GBP/USD - Five year rolling returns to 30th of April 2017



The impact from currency will depend upon the asset you hold. An un-hedged, sterling based UK investor, holding overseas assets will receive a windfall from the pound depreciating and a loss from sterling strengthening.

On the other hand, full-hedging a portfolio helps smooth the effects of currency movements. The broad mix of strategies within the True Potential Portfolios provide a measure of protection against mean-reversion.

There is an argument that currency movements tend to smooth out over the long run.

However, the long run may well be too long-term for many investors. If sterling abruptly and unexpectedly appreciated, as it has done in times gone by, investors would rightly wonder and ask, 'why was hedging not considered as a strategy to help preserve my wealth'?

Our sub- managers use currency hedging to different extents; some fully hedging, others hedging 50%, whereas some hedge only specific assets and one of our managers provides us with a fund that directly trades currencies. The approaches used by each of our sub-manager partners are summarised below.

Fund Managers	Description
UBS	Utilises currency derivatives in a fund structure called CARS (Currency Active Risk Strategy) They use this fund within our fund to generate returns that have a low correlation compared with traditional assets (i.e. equities, bonds, property, etc).
SEI New ways. New answers®	Uses currency hedging only within specific Fixed Income assets. SEI use bond managers that use active currency management to generate an excess return.
Close Brothers Asset Management	Applies a 50% currency hedge to all overseas assets in order to reduce currency risk and volatility.
SEVEN Investment Management	Takes an active role in hedging currency at a portfolio level to achieve the best risk and return outcome. Tactically tilts in the short-term away from their strategic currency positioning.
Goldman Sachs Asset Management	Hedges out all currency risk to help lower volatility for investors seeking recurring income.
Allianz Global Investors	Currency hedging is used when the amount of non-sterling assets held is tilted away from the strategic asset allocation.
Schroders	Has the capacity to hedge, however, it does not form an everyday part of their process. Where possible they will look to use currency share classes, instead of hedging.
Columbia Threadneedle Investments	Predominately UK based fund with very small exposure to global bonds which fully hedge out all currency risk.

NEW WORLD

Global economic growth and inflation.

The world has changed a lot over the last 10 years. What can the past tell us about the future? Our illustration shows the most recent annual economic growth figures and compares them to pre- financial crisis (2005-2006) levels. Real Gross Domestic Product (GDP) growth remains lower now than it was before the crisis. Inflation is, in most cases, considerably lower than it was 9-10 years ago, Japan being the one exception. In nominal terms World economies have the potential to accelerate their rates of growth if inflation is correctly targeted. The bigger challenge for economies is realising a faster growth rate in GDP at constant prices (in real terms).

CANADA

Real GDP		CPI	
Pre-Crisis	2016	Pre-Crisis	2016
2.3%	2.0%	2.1%	1.5%

Real Economic Growth has almost caught up to pre-crisis levels, but inflation still lags, allowing Canada room to grow in nominal terms.

UK

Real GDP		CPI	
Pre-Crisis	2016	Pre-Crisis	2016
2.5%	2.0%	2.3%	1.6%

The decision to leave the European Union makes forecasting growth challenging. The growth rate today is below pre-crisis levels and the forecasts are for the rate of expansion to slow. However, given the relatively subdued levels of inflation we may continue to see a steady increase in real GDP.

UNITED STATES

Real GDP		CPI	
Pre-Crisis	2016	Pre-Crisis	2016
2.2%	1.9%	3.0%	2.1%

GDP has almost matched its 2005-2006 levels but the US growth rate is way short of President Donald Trump's 3.5%-4% target. Reaching the desired level will be difficult and it carries the risk of pushing up inflation.

BRIC

Real GDP		CPI	
Pre-Crisis	2016	Pre-Crisis	2016
10.3%	3.8%	4.8%	3.6%

Developing countries have been the fastest growing nations before and after the crisis. Brazil and Russia are now suffering from high levels of inflation (6.3% & 5.4% respectively) sending real GDP figures into negative territory.

Inflation is being tackled which provides scope to break free of the recessionary cycle. India and China are very strong performers with plenty of room to grow when compared to their pre-crisis GDP growth and inflation levels.

GLOBALLY

Real GDP		CPI	
Pre-Crisis	2016	Pre-Crisis	2016
3.53%	2.02%	2.70%	1.74%

The picture globally is one of moderate to slightly rising inflation and improving growth across all regions. As growth synchronises it tends to gain impetus. This can also push up inflation competing against other structural forces weighing down on prices i.e. demographics of ageing, significant levels of debt, technology producing productivity gains and globalisation. A synchronised global economic cycle can be a powerful force and one to challenge policy makers keen to maintain the current low interest rate/low bond yield environment.

EUROZONE

Real GDP		CPI	
Pre-Crisis	2016	Pre-Crisis	2016
3.1%	1.7%	2.6%	1.1%

The composite of 19 countries of the Eurozone still has a lot of room to grow. The current 1.7% rate of real GDP growth is well below its pre-crisis level of 3.1%. What is more, inflation at 1.1% is much lower than the 2.6% pre-crisis level, indicating that the region may continue to grow, a view supported by our sub-advisers.

JAPAN

Real GDP		CPI	
Pre-Crisis	2016	Pre-Crisis	2016
1.5%	1.0%	0.1%	0.3%

The country suffered from low real GDP growth even before the financial crisis. However, it would appear that growth in Japan is starting to pick up and our sub-advisers are seeing more and more opportunities in this region.

SINGAPORE

Real GDP		CPI	
Pre-Crisis	2016	Pre-Crisis	2016
9.0%	2.9%	1.6%	0.2%

Solid economic growth before the crisis of 9.0% with inflation of 1.6% is in stark contrast to today's GDP growth of 2.9% and inflation of 0.2%, indicating that Singapore has the potential to grow much further.

AUSTRALIA

Real GDP		CPI	
Pre-Crisis	2016	Pre-Crisis	2016
3.4%	2.4%	2.9%	1.5%

It seems that post-crisis Australia is recovering. However, economic growth for 2016 is 1% lower than pre-crisis levels even with inflation being roughly 50% lower.

ON THE MONEY

"A very intelligent doctor told me he was going to buy a new kettle. He asked me whether he should pay cash or put it on finance."

Simon Dick
Financial Adviser

April 6th marked the beginning of a new tax year and a good time for a financial spring clean. But where is the best place to start and what are the mistakes to avoid?

Simon Dick was the first adviser to join True Potential Wealth Management in 2010 and over a 26-year career in financial advice, he's seen it all. True Potential Investment Analyst Jodie McGrath-Hayes sat down with Simon to talk about investing, quick wins and fast cars.

1

JMH: We're just into the new tax year. Is this a particularly busy time of year for you?

SD: It is, but I'm busy throughout the year. I've been around for a long time so people come looking for me, in a good way!

In general, the new pension freedoms have caused clients to pick up the phone. Increasing choice is very welcome and will make things simpler, although there is more work for me upfront with a wide range of options to put before people. I'm always active and I have a low boredom threshold so that means I'm always looking for work.

2

JMH: Have you advised on many Lamborghini sales since pension freedoms were introduced?

SD: I remember all those warnings but that hasn't happened. People who have been prudent enough to put money away, know about money and aren't going to blow it all like that.

People are effectively making their own annuity rate and I haven't seen anyone go crazy. In most cases, clients use the money for house deposits for their children.

I always say if you don't need the tax free cash, don't take it all out. Take it out in bits.

3

JMH: Is the new tax year actually the best time for clients to do some financial planning?

SD: People tend not to think about their finances at the start of the new tax year, compared to in January for example. So you have to give them a bit of a nudge and it is a good prompt to check that everything is in order.

The rules tend to change at this time of year as we have just seen with the ISA allowance that's gone up to £20,000.

4

JMH: How can clients give their finances a quick spring clean?

SD: People often say they can't afford to save or invest so the best place to start is by looking at the month's variable costs and see where their money is going.

So start by identifying where you can reduce spending. Then save or invest that money so it doesn't feel like a punishment. Always decide on a goal so you have got something to aim at.

True Potential's impulseSave technology enables people to save a few pounds into investments here and there. That's really important because little and often removes the pain. Plus, no one would come and see me to help them invest £30. So I get them started then they can use technology to help themselves

I always say people need three pots. One for now, another for the next 5-10 years and finally one pot for retirement. Work out in today's money what you need to live on then see someone like me who will set you on the right track.

5

JMH: What jobs have you been doing for clients this week?

SD: Everyday is different and that's one of the things I love about this job. I've had clients ask for advice on their pensions and tax planning.

I've got two new client meetings in London next week so I've been preparing for them. And also writing a report for a client on inheritance tax.

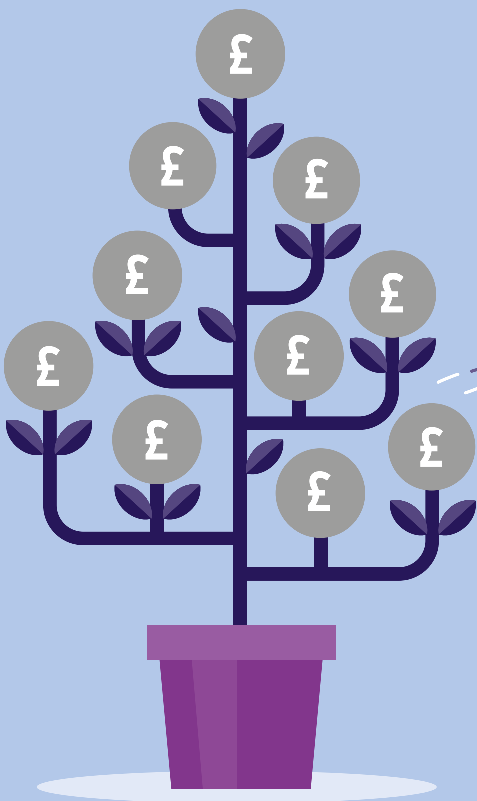
6

JMH: What are the most common investment mistakes people make?

SD: Buying at the top of the market and selling at the bottom. A lot of people make mistakes because they don't have a goal or because they don't know what their attitude to risk really is.

Also inertia leads people to make mistakes - either not investing or not switching funds or providers when they should have done.

Jodie McGrath-Hayes
Investment Analyst



7

JMH: What guidance might you give to someone in their 20s, in their first job with a steady income?

SD: Just save as much as you can. The amount does depend on the individual and their fixed costs but everyone needs a goal. Automatic enrolment is a great thing and is making sure millions of people have a pension. But don't be complacent. The employee contribution rate is currently just 1% and even though it'll go up, it's not enough.

Personally, when I was younger I tried to save at least 10% of my income, then you go into those three pots: money for now, money for the next 10 years and money for retirement.

8

JMH: And how about for someone who is recently retired or is approaching retirement?

SD: The hard yards have been done, so the key is not to lose what's been built up. That means risk profiling is a big part. Income preservation and estate distribution are typical topics of discussion and so is Will writing. I meet many people in their 50s who don't have a Will and some that do but don't have it up to date with dependents included.

9

JMH: What do your clients most like about TP?

SD: The client websites are easy to use and very informative. My clients love them because they can log in and see their affairs in one place and engage with me and True Potential easily if they have questions. My clients are also very happy with the performance of the True Potential Portfolios. They're reassured by the team of experts here managing their money and looking after it.

10

JMH: What's been your best investment?

SD: That's easy. The True Potential Portfolios. Apart from that, the house I bought near Durham Cathedral has turned out to be a good investment.

People would have a much better view of financial investments if they stuck with investing and gave it time. The trick is not to panic or get over excited.

11

JMH: And your worst?

SD: I bought a Jaguar in 2007. It wasn't cheap and I sold it for £12,000 two years later. It was a fast car but definitely my worst investment. To be fair, I didn't buy it as an investment. I just didn't expect it to go down in value quicker than it moved.

7

JMH: What's the strangest piece of advice you've ever been asked for?

SD: A very intelligent doctor rang me up once and told me he was going to buy a new kettle. He asked me whether he should pay cash or put it on finance.

We talked about depreciation and all sorts. I should have advised him never to call me again!

What is your favourite restaurant?
Zen. A Thai restaurant in Durham.

What's your tipple?
Bitburger lager. If unavailable, anything at any price!

What football team do you support?
Hartlepool United. Why didn't I support Chelsea?!

What are you reading?
Nothing right now – I have no time.

What was your first car?
Vauxhall Cavalier LX. It was stolen four times.

What's your favourite destination?
Zermatt - Switzerland

If you won £1,000, what would you do with it?
Not tell my wife. She wouldn't tell me!

What's your motto?
Stick at it!

Who would you most like to have dinner with, past or present?

My father. He was a fascinating man who died last September.

Disclaimer: The contents of this article is should not be interpreted as personalised financial advice.

BUILDING INCOME

Introducing the True Potential Income Builder Fund

Since the last edition, we have launched a new True Potential Investments Income Builder fund, with Goldman Sachs Asset Management (GSAM) as our investment partner. The new fund is based on the same attractive features as Goldman's popular Income Builder Fund, plus some additional benefits as enhancements to the original proposition.

The fund offers a regular monthly income and by keeping charges low clients keep more of the benefits from the underlying income generation. As a result, the fund is particularly attractive for clients looking for a competitive price.

The focus on managing capital volatility whilst using hedging to reduce currency risk means the fund has an overall risk level that makes it suited to a balanced client profile.

The new fund is incorporated into the income models available to clients through the True Potential Portfolios. There are two income portfolios, one suited to clients whose attitude to risk is cautious and one suited to clients with a balanced profile. These two different levels are made possible by blending all of the income funds, including income builder, in different proportions. The process of blending funds is part of the service offering provided by True Potential at no additional charge.

GSAM joins True Potential's stable of income managers, including Close Brothers, Schroders and Columbia Threadneedle. They each have different approaches to seeking good sources of income generation globally, and this underpins the strength of the overall proposition.

Key Features

The fund boasts a variety of features, which will appeal to an array of investors. The first is Goldman Sachs' global focus and expertise. Goldman Sachs is one of the most prestigious and well established investment banks in the world and its wealth management arm only offers its services to clients with a minimum of $10m to invest.

As part of the wider group GSAM have access to a huge breadth of expertise to draw upon, putting together an investment process that has a strong emphasis on rigorous, fundamental analysis.

The fund benefits from being able to look outside the more traditional asset classes having the ability to target non-traditional areas such as Emerging Market equities, convertibles, energy infrastructure, and high yield bond structures. This approach utilises direct investments fundamentally assessed to generate growth in income. The outcome is a truly diversified multi-asset fund.

Next, the fund targets a lower volatility compared to world equities. GSAM seeks out the risk levels represented by each underlying individual investment. By focusing on the sources of risk they can control volatility more successfully than an approach based purely on historic price movements.

The fund is managed within one single team, unified across equities and fixed income.

The fund has a 12 month running yield of 4.06% as at end of March 2017 (source: Bloomberg) and pays monthly, making it an easy way to access income.

The fund is competitively priced with an ongoing charges figure (OCF) of 0.89%, and a reduction on the original GSAM fund.

"By focusing on the sources of risk they can control volatility more successfully than an approach based purely on historic price volatility".

Additional Benefits

Sterling has been hugely in focus over the last year after significantly devaluing against all major currencies. In this edition of True Insight, we explain how forex affects investment returns and how hedging can reduce risk associated with exchange rate volatility.

The True Potential Income Builder Fund is fully hedged back into Sterling to reduce currency risk. This means that, should the pound start to appreciate, the fund would not be directly impacted straight away and this should smooth out negative currency movements, a clear bonus to any risk focussed investor.

Furthermore, the fund enjoys the benefit of oversight from our leading True Potential Investment Committee, ensuring that it is always managed in line with its stated investment objective and risk profile.

Sustainability

All of these benefits allow the fund to offer an income stream that emphasises sustainability over excessively high yields that are not sustainable. The likely positive side effect of this strategy is improved total return over the long term. GSAM can use their expertise and reach to seek out opportunities where other managers might struggle. They have the ability to look outside traditional, low risk investments such as cash deposits and government bonds, towards areas that can potentially offer better income streams in what remains a low interest rate environment.

We are very pleased to add Goldman Sachs Asset Management to our True Potential Investments Fund stable. Goldman's is one of the most well-known and reputable investment banks in the world and we are proud to expand on our relationship with them.

"We are delighted to be expanding our relationship with True Potential. We have worked closely with the team for a number of years and look forward to continuing to provide dedicated investment solutions to True Potential and their clients."

Adam Peters
Executive Director, Goldman Sachs Asset Management

With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest.

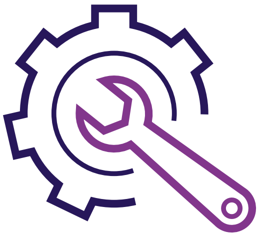
THE SCIENCE BEHIND OUR PORTFOLIOS

The construction of our Portfolios begins with a set of equally weighted models which correspond to the five Morningstar risk categories: Defensive, Cautious, Balanced, Growth and Aggressive.

For example, we offer eight funds within the Balanced category, therefore if no preference was given to one fund over another, an equally-weighted allocation to each fund would be 12.5%.

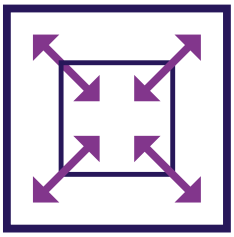
When we build our True Potential Portfolios, we tactically allocate away from the equally- weighted portfolios aiming for lower volatility, lower cost, higher expected returns and a better risk-adjusted return than could be expected from choosing an equal allocation.

	Defensive	Cautious	Balanced	Growth	Aggressive	Cautious +	Balanced +	Growth +	Cautious Income	Balanced Income
Risk (Volatility)	✓	✓	✓	✓	✓	✓		✓	✓	✓
Risk (Mapped)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Cost	✓	✓	✓	✓	✓		✓		✓	✓
Long-Term Expected Return	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Risk-Adjusted Return	✓	✓	✓	✓	✓	✓	✓		✓	✓
Income									✓	✓



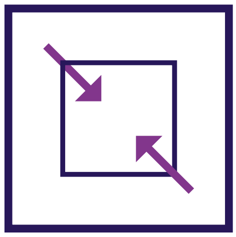
Risk (Portfolios)

Risk is estimated using the asset composition of each Portfolio. We use 'standard deviation', a measure to show how volatile the portfolios are. Where the measure of standard deviation is higher, the more volatile we judge the portfolio to be. We construct separate portfolios for each of the five risk categories containing all of the funds mapped to that risk category. When we optimise these Portfolios, we try to ensure they are lower risk than an equally-weighted Portfolio containing the same funds.



Risk (+ Portfolios)

Our three + Portfolios use funds outside the Portfolio's own risk category. For example, the + Balanced Portfolio does not include any Balanced funds. When we optimise for the + Portfolios, we are aiming for an improvement in the long term performance, accepting that volatility at times may be at the higher end of the risk bands applicable to each risk category.



Risk (Income Portfolios)

Our two Income Portfolios use all available income funds from the Cautious, Balanced and Growth risk categories. We then allocate accordingly to create one Portfolio mapped to the Cautious risk category and one mapped to the Balanced risk category.

Cost

This is an important factor as costs reduce future returns. This is why we build our Portfolios with the objective of being lower cost than an equally-weighted Portfolio. However, it should be noted that at times the choice may lie between lower cost and higher risk. Statistically/historically the impact from risk is disproportionate to the impact from cost. We are also proud to say that our funds are already amongst the lowest cost in the market.

Expected Return

When our Fund Managers change the underlying assets in our funds, the Portfolio compositions change. We analyse the expected returns for each of our funds and may rebalance the portfolios in order to help generate the best returns.

Risk-Adjusted Return

Risk-adjusted return is based on future expected returns for each Portfolio, minus the risk-free rate of return, divided by the level of expected volatility calculated for each portfolio. Our objective over time is to manage the portfolios to achieve the best risk-reward trade off.

TRUE POTENTIAL PORTFOLIOS

Each True Potential Portfolio contains all of the funds available within its risk category. The True Potential Portfolios have an enormous degree of diversification, meaning they are less prone to highs and lows relative to our + portfolios. We optimise the portfolios with the objective of being lower risk than an equally-weighted portfolio. In addition, the True Potential Portfolios do not have an income focus, which makes them very different to our Income Portfolios.

However, when investing in a True Potential Portfolio, some clients are happy to take an income by selling units. We always aim to optimise across all factors where possible. However, sometimes we may place more emphasis on one factor over another.

Strategy Allocation

Defensive

Manager of Managers - True Potential SEI Defensive	**40.0%**
Active Management with Passive Implementation - True Potential 7IM Defensive	**26.0%**
Agile, Low-Cost Value Investing - True Potential UBS Defensive	**34.0%**

Cautious

Direct Equity & Bond Investing - True Potential Close Cautious	**12.5%**
Manager of Managers - True Potential SEI Cautious	**20.5%**
Active Management with Passive Implementation - True Potential 7IM Cautious	**18.0%**
Momentum with Volatility Control - True Potential Allianz Cautious	**13.5%**
Fund of Funds - True Potential Schroders Cautious	**17.0%**
Agile, Low-Cost Value Investing - True Potential UBS Cautious	**18.5%**

Balanced

Momentum with Volatility Control - True Potential Allianz Balanced	16.0%
Direct Equity & Bond Investing - True Potential Close Balanced	13.0%
Alternative Dynamic - Goldman Sachs Dynamic	2.0%
Income Funds - Goldman Sachs Global Income Builder	3.5%
Fund of Funds - True Potential Schroders Balanced	13.0%
Manager of Managers - True Potential SEI Balanced	22.0%
Active Management with Passive Implementation - True Potential 7IM Balanced	12.0%
Agile, Low-Cost Value Investing - True Potential UBS Balanced	18.5%

Growth

Momentum with Volatility Control - True Potential Allianz Growth	22.0%
Direct Equity & Bond Investing - True Potential Close Growth	14.5%
Manager of Managers - True Potential SEI Growth	22.0%
Active Management with Passive Implementation - True Potential 7IM Growth	20.0%
Agile, Low-Cost Value Investing - True Potential UBS Growth	21.5%

Aggressive

Manager of Managers - True Potential SEI Aggressive	32.5%
Active Management with Passive Implementation - True Potential 7IM Aggressive	31.0%
Agile, Low-Cost Value Investing - True Potential UBS Aggressive	36.5%

TRUE POTENTIAL PORTFOLIOS

Asset Allocation

Asset Class	Defensive	Cautious	Balanced	Growth	Aggressive
UK Equities	5.4%	13.1%	17.2%	20.2%	19.8%
North American Equities	17.9%	17.7%	21.8%	30.9%	41.1%
European Equities	5.8%	8.2%	10.6%	10.9%	13.0%
Japanese Equities	2.8%	4.0%	6.3%	4.9%	6.3%
Asia Pacific Equities	0.8%	1.0%	1.9%	1.9%	1.7%
Emerging Market Equities	2.4%	3.2%	5.5%	9.4%	9.5%
Global Bonds	11.4%	7.7%	4.3%	1.8%	0.6%
Global Inflation Linked Bonds	0.8%	0.9%	0.8%	0.7%	0.0%
Emerging Market Bonds	1.7%	2.4%	2.8%	3.3%	1.8%
Global High Yield Bonds	6.6%	5.1%	5.8%	4.3%	1.2%
UK Gilts	7.9%	7.8%	4.5%	2.9%	0.9%
UK Credit	8.1%	10.8%	8.5%	3.1%	1.9%
Property	0.0%	0.4%	0.4%	0.3%	0.0%
Commodities	0.7	1.6%	1.3%	0.8%	0.5%
Cash	27.7%	16.1%	8.3%	4.6%	1.7%

Source: Smith & Williamson, 31 March 2017

+ PORTFOLIOS

The + group of portfolios are more concentrated in their fund selection, containing larger fund positions than their risk category equivalents in the True Potential Portfolios.

The + portfolios do not include funds from the same risk category to which the portfolio is mapped. In other words, the Balanced+ Portfolio does not select funds mapped to the Balanced risk category. To optimise the portfolios in the + category, we select from all of the funds outside of the portfolios' respective risk category. This approach enables us to optimise across all factors although sometimes we may place more emphasis on one factor over another.

Strategy Allocation

Cautious +

Direct Equity & Bond Investing - True Potential Close Balanced	12.5%
Fund of Funds - True Potential Schroders Balanced	16.0%
Manager of Managers - True Potential SEI Defensive	40.0%
Momentum with Volatility Control - True Potential Allianz Balanced	10.5%
Active Management with Passive Implementation - True Potential 7IM Growth	8.0%
Agile, Low-Cost Value Investing - True Potential UBS Growth	13.0%

Balanced +

Direct Equity & Bond Investing - True Potential Close Growth	19.0%
Manager of Managers - True Potential SEI Cautious	37.0%
Momentum with Volatility Control - True Potential Allianz Growth	13.0%
Active Management with Passive Implementation - True Potential 7IM Aggressive	11.0%
Agile, Low-Cost Value Investing - True Potential UBS Aggressive	13.0%
Fund of Funds - True Potential Schroders Cautious	7.0%

Growth +

Direct Equity & Bond Investing - True Potential Close Balanced	20.0%
Manager of Managers - True Potential SEI Aggressive	32.0%
Active Management with Passive Implementation - True Potential 7IM Aggressive	20.0%
Agile, Low-Cost Value Investing - True Potential UBS Aggressive	24.0%
Momentum with Volatility Control - True Potential Allianz Balanced	4.0%

Asset Allocation

Asset Class	Cautious +	Balanced +	Growth +
UK Equities	12.8%	18.1%	23.1%
North American Equities	18.2%	26.6%	35.5%
European Equities	10.5%	10.5%	12.2%
Japanese Equities	5.9%	4.7%	5.6%
Asia Pacific Equities	1.4%	1.9%	2.1%
Emerging Market Equities	3.6%	5.8%	8.5%
Global Bonds	7.9%	5.7%	0.6%
Global Inflation Linked Bonds	0.8%	1.7%	0.0%
Emerging Market Bonds	0.9%	2.0%	1.3%
Global High Yield Bonds	5.0%	5.2%	1.0%
UK Gilts	5.2%	4.4%	1.7%
UK Credit	6.3%	2.8%	5.1%
Property	0.3%	0.4%	0.5%
Commodities	1.2%	1.2%	0.9%
Cash	20.0%	9.0%	1.9%

Source: Smith & Williamson, 31 March 2017

INCOME PORTFOLIOS

Each Income Portfolio in the True Potential Portfolios range is focused on yield and income sustainability so we have income as an additional optimisation factor. Given that investors in these portfolios are seeking income above capital growth, the income optimisation factor is our primary consideration.

We have optimised on all factors for both portfolios; income, risk, cost, long-term expected return and risk-adjusted return. During the quarter, we made no alterations to the fund allocations within either Income Portfolio.

The Cautious Income Portfolio is currently yielding 4.05% and the Balanced Income Portfolio 3.92% with the equally-weighted Portfolio yielding 3.88%.

Source: Goldman Sachs, Close Brothers, Threadneedle and Schroders, 31 March 2017.

Strategy Allocation

Cautious Income

Direct Equity & Bond Investing - True Potential Close Cautious Income	32.5%
Income Focused - True Potential Threadneedle Monthly Income	17.5%
Income Funds - True Potential Goldman Sachs Income Builder	40.0%
Fund of Funds - True Potential Schroders Cautious Income	10.0%

Balanced Income

Direct Equity & Bond Investing - True Potential Close Cautious Income	5.0%
Income Focused - True Potential Threadneedle Monthly Income	35.0%
Income Funds - True Potential Goldman Sachs Income Builder	50.0%
Fund of Funds - True Potential Schroders Cautious Income	10.0%

Asset Allocation

Asset Class	Cautious Income	Balanced Income
UK Equities	25.1%	32.0%
North American Equities	10.4%	11.7%
European Equities	5.5%	5.4%
Japanese Equities	1.6%	1.4%
Asia Pacific Equities	1.2%	1.2%
Emerging Market Equities	0.1%	0.1%
Global Bonds	12.9%	17.3%
Global Inflation Linked Bonds	0.7%	0.1%
Emerging Market Bonds	1.3%	1.6%
Global High Yield Bonds	15.3%	19.1%
UK Gilts	1.7%	0.6%
UK Credit	12.4%	2.2%
Property	4.7%	1.6%
Commodities	2.6%	0.8%
Cash	4.5%	4.9%

Source: Smith & Williamson, 31 March 2017

Past performance is not a guide to future performance.

true potential investments

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Issue 6