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PORTFOLIOMETRIX

# YOUR 2023 Q4 PORTFOLIO UPDATE

## WELCOME

Welcome to our first quarterly update of 2024, and also our first in partnership with PortfolioMetrix (PMX) with the management of our model investment portfolios now benefiting from the additional layer of experience and expertise they provide as a specialist investment manager with an impressive track record.

Our Investment Committee recently met with PMX to review performance and discuss both recent and forthcoming global macro-economic events, and to review fund selection and asset allocations.

We are pleased to provide you with a very positive update both in terms of your portfolio's performance and the work of PMX as discretionary fund manager, and we will continue to provide you with an update after each of our future quarterly meetings.

## YOUR PORTFOLIO

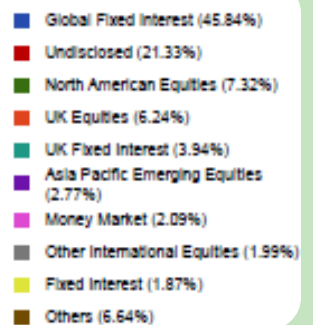
PMX Hoyl Responsible Model 3

## ASSET ALLOCATION \*

As at 31 January 2024

## PORTFOLIO PERFORMANCE

1 Nov 23 to 31 Jan 24 – **+5.85%**



\* Please see last page for a full breakdown of the funds and asset classes.

## PORTFOLIO CHANGES

Your portfolio is constantly monitored by PMX with overview from our Investment Committee. As part of the active management of your portfolio, changes are made to the funds in which it invests whenever we and PMX believe this is in your best interests.

### IN



No changes this quarter

### OUT



No changes this quarter

Portfolios are also continually monitored for 'drift', where particularly strong performance of individual asset types or funds can change the overall risk profile. Currently, both PMX and our Investment Committee remain happy that your portfolio remains closely aligned to its target allocation.

# YOUR 2023 Q4 INVESTMENT UPDATE continued

## SUMMARY

2023 Q4 proved positive for almost all asset classes, particularly smaller companies and stocks whose fortunes tend to follow the business cycle of the economy.

Economic data remained solid, with inflation coming in lower than expected. This led investors to begin pricing-in earlier and greater interest rate cuts in 2024 than previously expected.

Commodities were the worst performing asset class as oil and gas prices fell, while Chinese equities also struggled.

## ASSET CLASSES

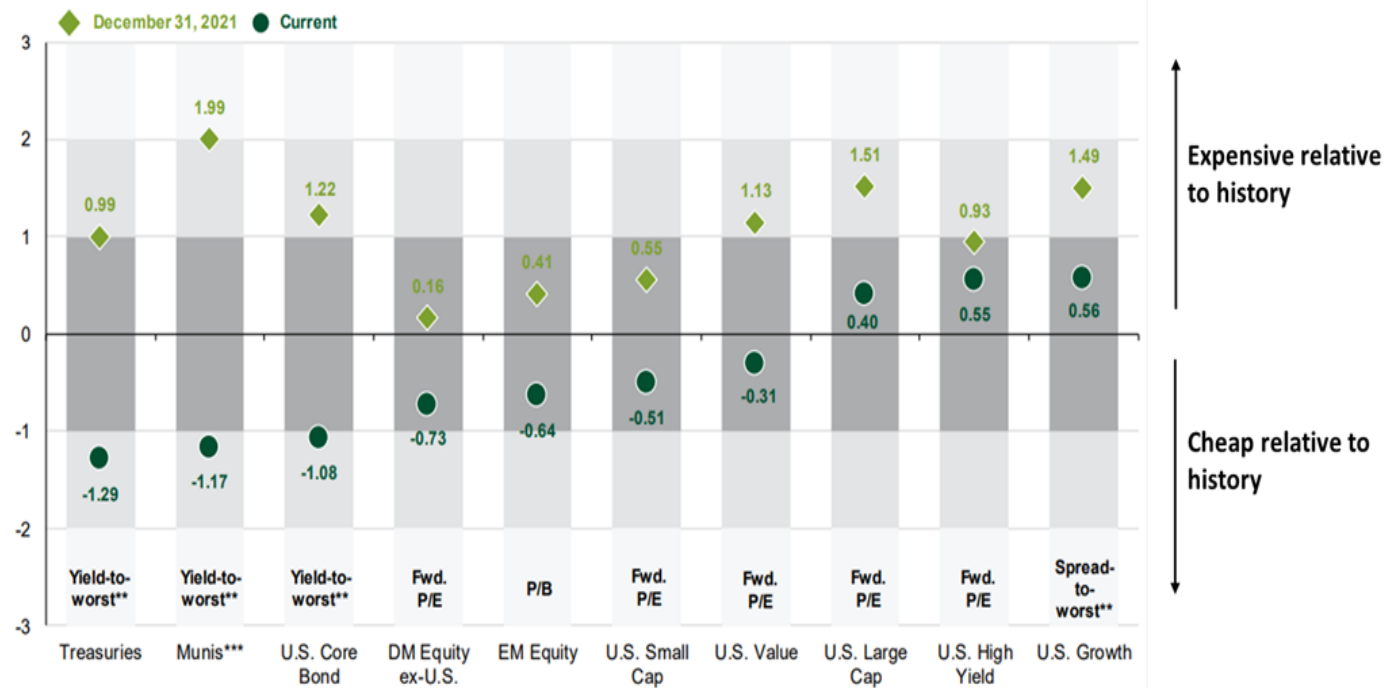
The fourth quarter of the year saw strong performance overall from most asset classes.

Previously weak property stocks rose most, with smaller companies and emerging market debt also rising particularly strongly. Commodities fell, weighed down by oil and gas weakness, as did Chinese equities on the back of continued worries over the Chinese economy. The pound was mixed but rose against the dollar.

A lot of the stylistic returns above can be attributed to the performance of the “Magnificent 7” – the ‘growthy’ mega-cap US tech stocks, which were responsible for a good chunk of global large-cap and growth outperformance over the year.

### Asset class valuations

Z-scores based on 25-year average valuation measures\*



Source: J.P. Morgan Asset Management Guide to the Markets US, 5 Oct; a Z-Score of 0 is average relative to history, roughly 68% of historical observations have Z-Scores between -1 and 1 and roughly 95% of historical observations have Z-Scores between -2 and 2

In terms of currencies the pound rose 4.4% against the US dollar (up 5.4% over the year), was flat against the euro (+2.1% for the year) and fell 1.5% against the yen (but up 13.3% for the year as a whole).

# YOUR 2023 Q4 INVESTMENT UPDATE continued

## FIXED INCOME

2023 saw strong fixed income performance, although most occurred in the final quarter as expectations for future interest rates fell. Higher quality bonds (as measured by the Bloomberg Global Aggregate Index) rose 5.8% over Q4 and were up 6.2% over the full year.

Lower quality 'high yield' bonds, (less sensitive to interest rates but more sensitive to economic conditions), rose even more, up 7.5% over Q4 and up 12.6% for the full year.

Over holding periods of 5+ years, the starting yield of a diversified portfolios of bonds has proven to be an excellent indicator of prospective bond returns, which currently makes bonds an attractive holding within a longer-term investment portfolio.

## FALLING INFLATION

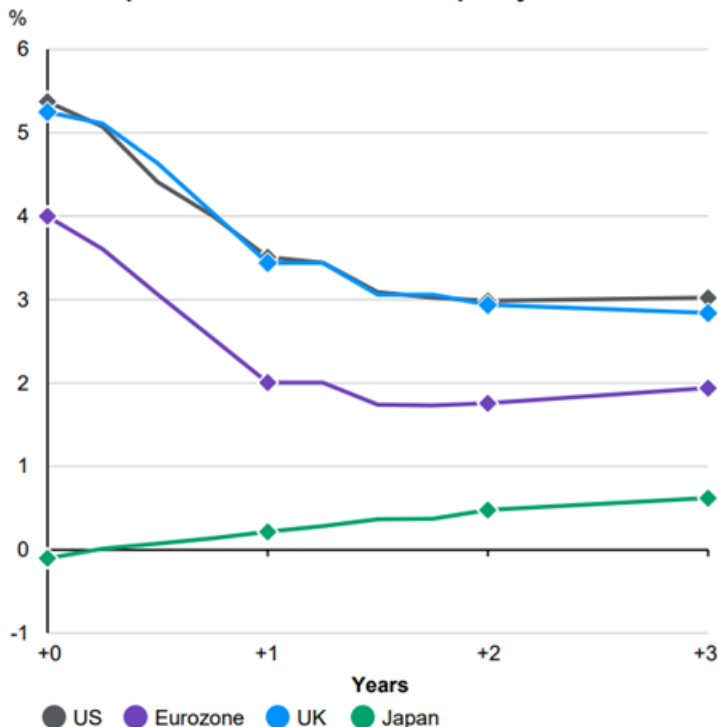
Inflation continued to fall over the last few months, with falling oil and gas prices playing a big part, but core inflation (headline inflation excluding volatile energy and food prices) has also been coming down quickly.

However, this is still above central bank targets of around 2% (headline inflation) in major developed markets, so the key question is how quickly it continues to fall, and if it gets back to target in the near future.

This better news on inflation has seen markets moving from expecting modest further interest rate rises from central banks to pricing in some material cuts for 2024, but if these cuts don't materialise to the degree expected it could cause markets to pull back.

Below we've shown aggregate investor expectations for the path of central bank rates over the next 3 years, with these expectations inferred from bond and derivative prices as at the end of 2023.

**Market expectations for central bank policy rates**



As you can see, markets expect rate cuts in the US starting in March, with total cuts of 1.75% to 2% for the US, UK and Eurozone priced in over 2024.

Lower rates mean lower borrowing costs for businesses and consumers, which should be positive when combined with already solid growth expectations.

It's worth noting markets have moved very quickly recently and investors shouldn't expect to see these levels of returns every month.

The main economic risks to watch for in 2024 are inflation proving more stubborn than expected or growth surprising to the downside.

*Source: J.P.Morgan Asset Management Guide to the Markets UK, Q1 2024 as at 31 Dec. 2023*

Stubborn inflation would reverse some of the optimism around falling rates, which would likely be bad for both bonds and equities, while weaker growth may benefit bonds but be negative for equities.

Neither of these risks is inevitable, and crucially, valuations on the whole remain attractive against history which bodes well for longer-term investors as we begin the new year.

# YOUR 2023 Q4 INVESTMENT UPDATE continued

## LOOKING FORWARD

Moving into 2024, the themes of inflation, interest rates and recession remain the key uncertainties from an economic standpoint.

Political risk will also be a factor, with more than half the world's population heading to the polls.

Russian and North Korea election results are not really in doubt, but others are more open with different potential impacts on markets depending on the result.

The most important of these elections globally is the US election in November, likely (but not yet certain) to be a rerun of 2020's matchup between Joe Biden and Donald Trump.

More locally, a UK election needs to be held before the end of January 2025 and will most probably occur this year too.

While geopolitics is always an arena for the unexpected, we shouldn't ignore deeper macroeconomic trends and questions, with the interplay between inflation, interest rates and economic growth remaining at the fore.

## LIKE TO KNOW MORE?

We hope you have found this first quarterly update interesting, and it's helped give you a broad overview of global investment conditions as seen by both PortfolioMetrix and our Investment Committee.

Please get in touch (with your dedicated Financial Adviser) if you would like to discuss anything covered in this update, have any questions, or would like any further information, either about your portfolio, the investment markets or simply investing in general.

Our next update will be in April, so until then it just remains for us to wish you well in the months ahead.



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The value of investments and the income from them can go down as well as up, and you could get back less than you invest.

Past performance is not a reliable indicator of future performance.

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# PORTFOLION/ETRIX

## HOYI Responsible Model Portfolios

Asset Class	PMX Proposed Funds	3	4	5	6	7	8		
Fixed Income	Active / Passive								
	Cash & Short-Term Bonds	Active	Royal London Short Term Fixed Income Enhanced	9.23%	6.66%	4.08%	0.00%	0.00%	
		Passive	Dimensional Global Sustainability Short Fixed Income	18.16%	13.09%	8.02%	3.70%	1.85%	0.00%
		Active	Royal London Sustainable Short Duration Corp Bond	4.54%	3.27%	2.67%	1.85%	1.85%	0.00%
		Active	EdenTree Responsible and Sustainable Short Dated Bond	4.54%	3.27%	2.67%	1.85%	0.00%	0.00%
		Active	TwentyFour Sustainable Short Term Bond Income	4.54%	3.27%	0.00%	0.00%	0.00%	0.00%
		Active	GS Green Bond Short Duration	4.54%	3.27%	2.67%	0.00%	0.00%	0.00%
	Gov. Bonds	Active	Wellington Global Impact Bond	9.76%	8.90%	8.05%	7.19%	3.60%	0.00%
	Corporate Bonds	Passive	Dimensional Global Sustainability Fixed Income	6.56%	5.68%	4.81%	3.94%	1.97%	0.00%
		Active	PMCO Climate Bond	6.56%	5.68%	4.81%	3.94%	1.97%	0.00%
	High Yield	Active	RebeccaSAM SDG High Yield Bonds	5.98%	5.92%	5.87%	5.82%	2.91%	0.00%
	EM Debt	Active	PMCO GIS Emerging Markets Bond ESG	3.17%	3.02%	2.88%	2.74%	1.37%	0.00%
		Passive	Vanguard ESG Developed Markets All Cap Equity Index	3.80%	6.04%	8.63%	11.22%	13.80%	16.39%
		Passive	Dimensional Global Sustainability Core Equity	2.71%	4.03%	5.75%	7.48%	9.20%	10.93%
	Equities	Global Developed	Active	CT Sustainable Global Equity Income Fund	1.42%	1.21%	1.73%	2.25%	2.77%
		Active	CT Responsible Global Equity	0.00%	1.39%	1.99%	2.59%	3.18%	3.78%
		Active	Janus Henderson Global Sustainable Equity	0.00%	1.75%	2.50%	3.25%	4.00%	4.75%
		Active	Natixis Milrova Global Sustainable Equity	1.91%	1.75%	2.50%	3.25%	4.00%	4.75%
		Active	PP W+ES Sustainability	1.13%	1.03%	1.48%	1.92%	2.36%	2.81%
		Active	JOHCM Regan Global Equity Impact Solutions	0.00%	1.03%	1.48%	1.92%	2.36%	2.81%
		Active	Montano Barter World	0.00%	0.00%	1.35%	1.75%	2.16%	2.56%
		Active	Baillie Gifford Positive Change	0.00%	1.89%	1.35%	1.75%	2.16%	2.56%
		Passive	i&G Future World ESG UK Index	2.84%	4.95%	7.07%	9.19%	11.31%	13.43%
		Active	Royal London Sustainable Leaders Trust	1.47%	1.65%	2.36%	3.06%	3.77%	4.48%
UK	Active	Ninety One UK Sustainable Equity	0.00%	1.65%	2.36%	3.06%	3.77%	4.48%	
	Active	Liontrust Sustainable Future UK Growth	1.47%	1.65%	2.36%	3.06%	3.77%	4.48%	
Emerging Markets	Passive	Vanguard ESG Emerging Markets All Cap Equity Index	1.80%	2.65%	3.79%	4.92%	6.06%	7.19%	
	Active	Candriam Sustainable Equity Emerging Markets	1.80%	2.65%	1.26%	1.64%	2.02%	2.40%	
	Active	CT Responsible Global Emerging Markets Equity	0.00%	0.00%	1.26%	1.64%	2.02%	2.40%	
	Active	Nomura ACI Emerging Markets Sustainable Impact	0.00%	0.00%	1.26%	1.64%	2.02%	2.40%	
	Active	PP Foresight Sustainable Real Estate Securities	0.00%	0.00%	0.00%	1.00%	1.21%	1.61%	
Real Assets Infrastructure	Active	PP Foresight Global Real Infrastructure	2.19%	2.58%	2.96%	2.35%	2.53%	2.51%	

