



Cautious Managed

Quarterly Report to 31 March 2025

Objective

To provide capital growth over the medium to long term, mainly through income producing funds, making it suitable for those looking to make regular withdrawals, and with a focus on lower cost investments.

Strategy

The portfolio has been constructed so that asset allocation is in line with the investment restrictions of the IA Mixed Investment 20%-60% Shares sector. The portfolio invests in equity, fixed interest, property and multi-asset funds, with a focus on lower cost options, where appropriate, but not at the expense of flexibility or an increase in internal risk.

Market Commentary

Within UK fixed income markets it was the high yield, non-investment grade bonds which continued to post the strongest gains. Whilst credit spreads, i.e. the additional amount of yield investors demand for holding more risky assets, remain tight relative to history, default levels remain benign. We did see some widening, however, towards the end of the period, as economic concerns arose and as 'liberation day' approached, where we would learn the extent of the tariffs the US were going to impose on goods arriving from other countries.

Meanwhile, a greater level of volatility and lower returns were seen in investment grade and government bond markets. Price movement in these markets is driven to a much greater extent by the perceived and actual direction of inflation, economic growth and therefore interest rates. With inflation continuing to remain 'sticky' in many countries, maintaining a level above central bank targets, interest rates saw little downward movement during the quarter. Yield curves have seen a little steepness return, but are still relatively flat compared to their normal upward sloping shape.



We saw a great deal of divergence across equity market returns during the quarter in local currency terms. Within the UK, concerns regarding economic growth weighed on the performance of those stocks more heavily reliant on the domestic economy. This meant that both mid and small cap indices succumbed to weakness, with both in negative territory. Conversely, large cap stocks continued to power ahead, with the large cap index posting a return in excess of 6%. Large cap stocks typically derive a large proportion of their earnings from overseas. The index was also helped by its sector breakdown which is more defensive than others. A low level of exposure to technology stocks finally proved a benefit rather than a hinderance.

US equities struggled during the quarter. Technology stocks were negative as sentiment towards the sector turned. A weaker outlook for economic growth weighed on the sector, which was compounded by high share valuations. After a strong period following the inauguration of Trump, smaller companies share prices also succumbed to weakness. The weaker outlook, changes in regulation looking like they will take longer to come through, along with the potential inflationary impact of tariffs, all weighed heavily as these stocks gave back all of their previous gains and then some.

The more defensive nature of the European equity markets in terms of sector breakdown, along with lower valuations, meant we saw a positive change in sentiment, leading to outperformance against most other developed markets.

Performance

The portfolio posted a return for the period of 1.35%. This was ahead of the IA Mixed Investment 20-60% Shares sector average return of 0.20%.



Performance Continued

The strongest performing funds in the portfolio during the period were those investing in UK equities. The Vanguard FTSE UK Equity Income fund achieved a return in excess of 5%. This fund invests predominantly in large cap UK stocks, which were strong performers. The focus on income through dividends was also beneficial, providing exposure to companies in more defensive sectors, with strong cashflow generation and balance sheet strength.

The HSBC FTSE All Share Index fund was also a strong performer, again providing exposure to FTSE 100, large cap stocks, given the large weighting which these companies have in the All Share index. Although not as strong as the above, the Vanguard Global Equity Income fund also produced a strong return, thanks to its income mandate and meaningful exposure to UK stocks.

Within the fixed income asset class, in line with our market commentary, it was the Baillie Gifford High Yield Bond fund which was the strongest performing bond fund within the portfolio. The all in yield remained attractive to investors in the light of low credit defaults. Short dated bond funds, such as L&G Short Dated Sterling Corporate Bond Index, were stronger performers than those with long duration positions, given their lower sensitivity to interest rate moves and inflation, which continued to remain above target. Longer duration was also a negative impacting factor for funds such as Vanguard LifeStrategy 40% Equity and property funds.

Source: FE Analytics, Bid-Bid, Total Return

Portfolio Activity and Positioning

There were a number of changes made to the portfolio during the quarter to ensure that it remained within the required risk level. The HSBC FTSE 250 Index fund position was exited. Concerns continued to build throughout the quarter regarding economic growth which typically creates negative sentiment for mid and small cap stocks, given their greater reliance on the domestic economy. The fund had also proven to be volatile. Instead the allocation was awarded to two existing fund holdings, being Vanguard FTSE UK Equity Income and Vanguard Global Equity Income. Both funds invest predominantly in large cap stocks and historically displayed less volatile return profiles.

Within the fixed income allocation we reduced the exposure to L&G Active Sterling Corporate Bond in favour of L&G Short Dated Sterling Corporate Bond Index. Whilst yield curves have steepened a little, the additional yield for taking on the additional duration risk is not compensatory. Longer duration could remain under some pressure while inflation in key developed markets, such as the US and UK, remains elevated. It would be wrong not to hold any duration, however, given the uncertainty regarding economic growth.

In line with the strategy of the portfolio, the majority of the exposure provided is through passive funds. Exposure to equities is provided by UK and global funds. Multi-asset funds, where the underlying investments are passive, also provides exposure to equities, along with fixed income. Within fixed income passive funds provide exposure to government and investment grade corporate bonds. Exposure to high yield is through an actively managed fund, so should we see a pick-up in defaults these can hopefully be avoided, whereas a passive fund would be exposed to them all. We will continue to tilt towards the appropriate funds depending on the credit and duration outlook.

Disclaimer

The portfolio is managed on a discretionary basis therefore the investment manager may make changes to the investments held without notice. Investors are agreeing to the investment model as recommended by an Adviser and may not be investing into the specific assets included in this report.

Past performance is not a guide to future performance. The value of investments and any income from them can fall as well as rise and are not guaranteed, so you may get back less than you invested. If you invest in currencies other than your own, fluctuations in currency value will mean that the value of your investment will move independently of the underlying asset.

Consideration should be given to whether it is felt that the outcome of any risk assessment is accurate and advice should be sought for factors such as investment objectives, the investment term, attitude to risk, capacity for investment loss and the level of inflation.

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