



# Defensive Growth

Quarterly Report to 31 March 2025

## Objective

To protect capital values against the effects of inflation over the medium to long term, whilst minimising the effects of market downturns.

## Strategy

The portfolio is constructed so that at least sixty percent will be allocated to Targeted Absolute Return funds which seek to generate positive returns in all market conditions with significantly less volatility than equities. This means that these strategies can include a greater use of derivative based strategies by the underlying fund managers. The remainder of the portfolio will include an allocation to funds from other Investment Association (IA) sectors where it is believed that they contribute to the overall portfolio objective.

## 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 0.18%, behind the IA Targeted Absolute Return sector average return of 1.24%.



## Performance Continued

The portfolio had performed in line with the sector average to the beginning of March, before enduring a period of weakness. Those funds with a focus on credit and alternative assets performed ahead of the sector average. Multi asset and long/short equity funds, meanwhile, were weaker performers during this period.

Funds which were particularly weak performers during the period were CT Dynamic Real Return and BlackRock UK Absolute Alpha. The former held a meaningful exposure to US equities, which succumbed to weakness during the period, particularly in March. The BlackRock fund, meanwhile, is a long/short equity fund and therefore weaker performance was attributable to stock selection. The fund also held a short index position during the period via a futures contract, in order to reduce the net exposure to equities. This would have had a negative impact on performance as the FTSE 100 performed positively during the quarter. Both of these funds each have a 10% allocation in the portfolio.

Stronger performers during the quarter were those funds focussed on producing an absolute return whilst investing in the fixed income market, including funds such as Artemis Short Duration Strategic Bond and Ninety One Diversified Income. The Janus Henderson Absolute Return fund, despite being a long/short equity fund, performed strongly, thanks to positive stock selection and a net neutral index position, rather than being short like the BlackRock fund.

*Source: FE Analytics, Bid-Bid, Total Return*

## Portfolio Activity and Positioning

The portfolio was rebalanced during the quarter to return the allocation to the underlying funds back to their original levels.

The portfolio remains well diversified across 11 funds and different strategies in order to fulfill its objective and strategy. We continue to believe that long/short equity funds could benefit from this environment and therefore maintain a high weighting of 30% of the portfolio across 3 funds. The dispersion of returns of underlying companies should hopefully make for positive stock selection opportunities, both in the long book where the performance benefits from share prices rising and the short book, where the fund benefits from share prices falling.

The portfolio maintains exposure to 2 fixed income funds, accounting for 15% of the portfolio. These funds are defensively managed however, particularly with regard to duration, and therefore show less volatility than more conventional fixed income funds. Their flexibility, in particular that afforded to the Artemis Short Duration Strategic Bond fund, means that they tend to outperform other fixed income funds in periods of market stress. The all in yield available from bonds at the moment means that they remain attractive over the medium to longer term, although volatility may be seen as the market grapples with interest rate expectations. We also recognise that credit spreads currently remain tight relative to history.

The balance of the portfolio is invested across 6 multi asset funds which account for 55% of the portfolio. These funds invest across several different asset classes in order to try and achieve their objective, with each having their own strategy.

### 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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