



International Equity Income

Quarterly Report to 31 March 2025

Objective

To provide a rising level of income coupled with capital growth through investment into a geographically diverse blend of equity income funds.

Strategy

It will invest in equity income funds which are investing in overseas markets and companies. These are funds which look to invest in companies that have a history of paying regular dividends to shareholders and may invest on a global basis or may be region specific, such as Europe or Asia Pacific ex Japan.

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

During the quarter the portfolio posted a return of -0.27%, which was marginally behind the IA Global Equity Income sector average return of 0.29%. The portfolio performed in line with the sector average for most of the period, only succumbing to underperformance towards the end of the quarter as markets fell.





Performance continued

The strongest performing fund in the portfolio during the period was Guinness European Equity Income, a fund which was added just last quarter. European equities saw something of a resurgence, with lower valuations being a catalyst. Signs that the economic area also appeared to be coming together in terms of generating economic growth through a collegiate fiscal response also spurred investors back into this market.

Schroder Global Equity Income was also a strong performer during quarter, helped by its material underweight to US stocks, countered by an overweight allocation to European and UK stocks, driven by their value investment style and discipline. Exposure to financial and healthcare stocks was a driver of the performance of the BNY Mellon Global Income fund, also a strong performer.

Weaker performers during the period, meanwhile, were M&G Global Dividend and Lazard Global Equity Income. Whilst the exposure is significantly lower than that seen in the MSCI World index, a material exposure to US stocks was detrimental to fund performance during the period, with this market seeing a sell off as a whole. Weakness in the US dollar versus sterling was also a headwind due to the negative currency translation impact. After a strong 2024, the Lazard fund was the weakest performer in the first 3 months of 2025. The fund has a large exposure to the US, including a large allocation to technology stocks, such as Apple, Nvidia, Microsoft, Alphabet and Meta, which endured a difficult period.

Source: FE Analytics, Bid-Bid, Total Return

Portfolio Activity and Positioning

With changes having been implemented during the fourth quarter and the portfolio rebalanced, there were no changes made during this quarter.

The portfolio remains diversified across a number of global equity income funds, five in total. The purpose of allocating to this number of funds is to provide diversification across investment philosophies and investment styles. Whilst all funds believe that income, or dividends, are a key part of long term return from equities, some of the funds place a greater focus on the yield being achieved. Others, meanwhile, are more total return focussed. This is evidenced by the range of historic yields offered by these funds, ranging from a low of 2.11% to a high of 4.33%. One common factor amongst them is that they are consistently looking to grow the distribution they provide.

The portfolio also holds an allocation to Asian and European equity income funds. Whilst the former region is typically associated with growth, it also produces strong dividend paying companies. This is reflected in the historic yield being offered by the two funds allocated to, with one yielding in excess of 3.5% and the other in excess of 4%.

The Lazard Global Equity Income fund is currently under review following a fall in assets under management. CT Global Equity Income, meanwhile, remains on watch following the departure of one of the fund managers.

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.

This illustrative document is intended for investors where advice has been given by Advisers. Models are prepared in accordance with the stated objective and not client circumstances. Information from given sources is taken to be reliable and accurate, which Lowes Investment Management Ltd cannot warrant for accuracy or completeness.

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