



Mixed Investment 20-60% Shares

Quarterly Report to 31 March 2025

Objective

To provide a total return from a combination of income and some capital growth over the medium to long term, sufficient to allow a low level of income to be taken whilst protecting capital against the effects of inflation.

Strategy

The portfolio invests in a diversified range of funds across multiple asset classes, such as equities, fixed interest and direct commercial property. Investing in line with the parameters of the Investment Association Mixed Investment 20%-60% Shares sector, this portfolio will always have at least 20% of its assets invested in equity funds but never more than 60%. The slightly higher equity content should provide for some capital growth even when taking a modest level of income, whilst the balanced nature of the different asset classes should provide a lower level of volatility compared to portfolios with a higher equity content.

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 of 0.65% for the quarter, which was ahead of the IA Mixed Investment 20-60% Shares sector average return of 0.20%. There was a wide array of performance from underlying funds in the portfolio, with the strongest returning 4.16% whilst the weakest returned -3.53%.

There was a mixture in terms of the strongest performing funds held in the portfolio during the period. At the top of the table was the Man Income fund, a fund which invests in UK equities with income generation as a key element of its mandate. UK large cap equities performed well in general. The focus on dividends also add a quality aspect, given the focus on cashflow and balance sheet strength. A further two UK equity income investing funds were in the top four performers during quarter, including Artemis Income and Royal London UK Equity Income. A new addition to the portfolio, PIMCO GIS Income, a strategic bond fund, was also a strong performer, benefitting from its exposure to mortgage backed securities.

Having been the strongest performing fund in the previous quarter, the M&G Global Dividend fund was this time the weakest. 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. Meaningful exposure to US equities was also the predominant reason for weakness in the performance of the CT Global Multi Asset Income fund.

Source: FE Analytics, Bid-Bid, Total Return

Portfolio Activity and Positioning

In order to ensure that the portfolio remained within the required risk tolerance there were a number of changes implemented in the quarter. Removed from the portfolio was the GAM Star Credit Opportunities fund. The performance of this fund has been strong since the Credit Suisse debacle. This has left yields lower than they were from subordinated debt and AT1 bonds. We have also recently seen the re-emergence of extensive risk, whereby one issuer decided not to redeem their bond issues at the first call opportunity. Volatility has also been greater in this fund compared to strategic bond funds.

Exposure to the Schroder Corporate Bond fund was also reduced. Whilst performance relative to peers in the IA Sterling Corporate Bond sector has been strong, the volatility displayed by this fund has been greater than others. Due to the performance achieved some exposure was maintained, reducing the exposure by half.

The released allocation was award to the PIMCO GIS Income fund. The extensive research team at PIMCO means that they are able to cover areas of the fixed income market which others are unable to, such as US Agency Mortgage Backed Securities (MBS), where the fund has recently benefited from a performance perspective. The fund also has a lower ongoing charge figure (OCF) compared to other actively managed fixed income funds, at 0.55%.

Exposure to equities continues to be gained through allocations to UK and global equity funds. Exposure is also gained through the multi-asset funds held. Fixed income exposure is gained through a combination of corporate and strategic bond funds. The latter provide greater flexibility from a duration management perspective and also the sub-asset classes which they are permitted to invest in. This can prove important in periods of uncertainty regarding inflation, economic growth and interest rate outlook. Exposure to alternatives is provided through an allocation to property and long/short equity funds. Multi-asset funds also provide exposure to alternatives, such as infrastructure and renewable energy assets.

Disclaimer

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