



Mixed Investment 40-85% Shares

Quarterly Report to 31 March 2025

Objective

To provide a combination of both income and capital growth over the medium to long term.

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 40-85% Shares sector, this portfolio will always have at least 40% of its assets invested in equity funds but never more than 85%. Usually having the majority of its assets invested in equities, this portfolio should provide capital growth as well as allowing a certain level of income to be taken. Whilst exhibiting more volatility than the portfolios with a lower equity exposure, this portfolio would still hopefully provide some protection compared to a pure equity portfolio in a falling market.

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 -0.63%. This was ahead of the IA Mixed Investment 40-85% Shares sector average return of -1.22%.



Performance continued

The strongest performing fund within the portfolio during the period was the Guinness European Equity Income fund, 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.

UK equity income funds were also strong performers during the period, with a strong performance from large cap equities in particular. The focus on dividends adds a quality aspect, given the focus on cashflow and balance sheet strength. The strongest performing of those was Man Income, benefiting from positive stock selection and its value style bias. Also performing strongly was Artemis Income.

Weaker performing funds during the period were those with a strong growth bias and large exposure to US equity markets. At the bottom of the list was the BlackRock Global Equity Unconstrained fund. Exposure to some of the more tech heavy names, such as ASML, Microsoft and Meta, weighed on performance. Weakness within US equities and Magnificent 7 stocks was a detractor to the Vanguard US Equity Index holding, although Dodge & Cos US Stock held up better due to its valuation driven approach which has meant a very low exposure to AI and technology associated companies. Growth concerns meant that small cap stocks struggled, in particular the Vanguard Global Small Cap Index fund.

Source: FE Analytics, Bid-Bid, Total Return

Portfolio Activity and Positioning

Whilst the portfolio maintains a bias towards equities, with exposure around the 70% level, it remains diversified across equity, fixed income and alternative asset funds. Within equities, there remains diversification across geographies. Although the US equates to a large part of the MSCI World index, an underweight position relative to this was maintained on valuation grounds. This proved beneficial given the performance of this market during the period. Valuations look more favourable in other regions, such as the UK, both on an absolute basis and also relative to their own history.

Within the fixed income asset class the portfolio also remains diversified. The holding in the Nomura Global Dynamic Bond remains in place. This is a strategic bond fund, its mandate therefore allowing it a great deal of flexibility to invest across the many sub-asset classes. The fund manager takes a top-down, macroeconomic viewpoint when investing. An investment grade corporate bond fund is also allocated to. This fund has stricter guidelines in terms of allocation across the sub-asset classes. However, the fund manager and the team have a very proactive process which is focussed around credit selection, where they are happy to harvest gains should they arrive quickly.

Within the alternatives allocation the portfolio maintains exposure to funds following different investment mandates. Exposure to infrastructure is achieved through the Gravis UK Infrastructure Income fund. This fund provides a diverse income stream, some of which is contractually government backed and inflation linked. Some of the underlying investments also trade at a discount to their net asset value and are therefore potentially a source of capital growth also. A market neutral, long/short equity fund is also allocated to. This fund relies purely on the stock picking skills of the managers, looking to benefit when stocks both rise and fall, at the individual name level.

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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