Investment Committee Minutes

July 2024

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Asset Management | Rewarding your Values

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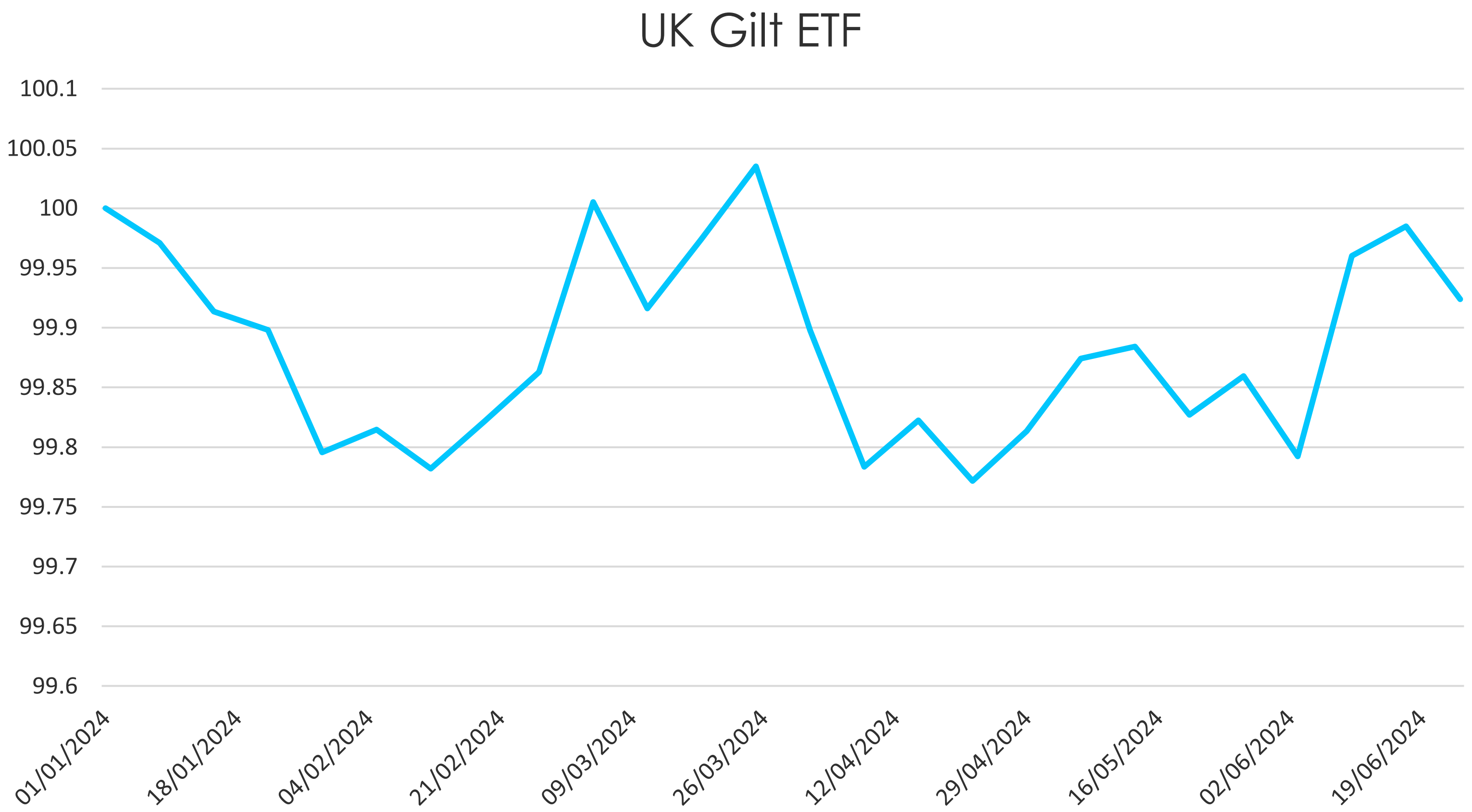
Bonds Review

YTD

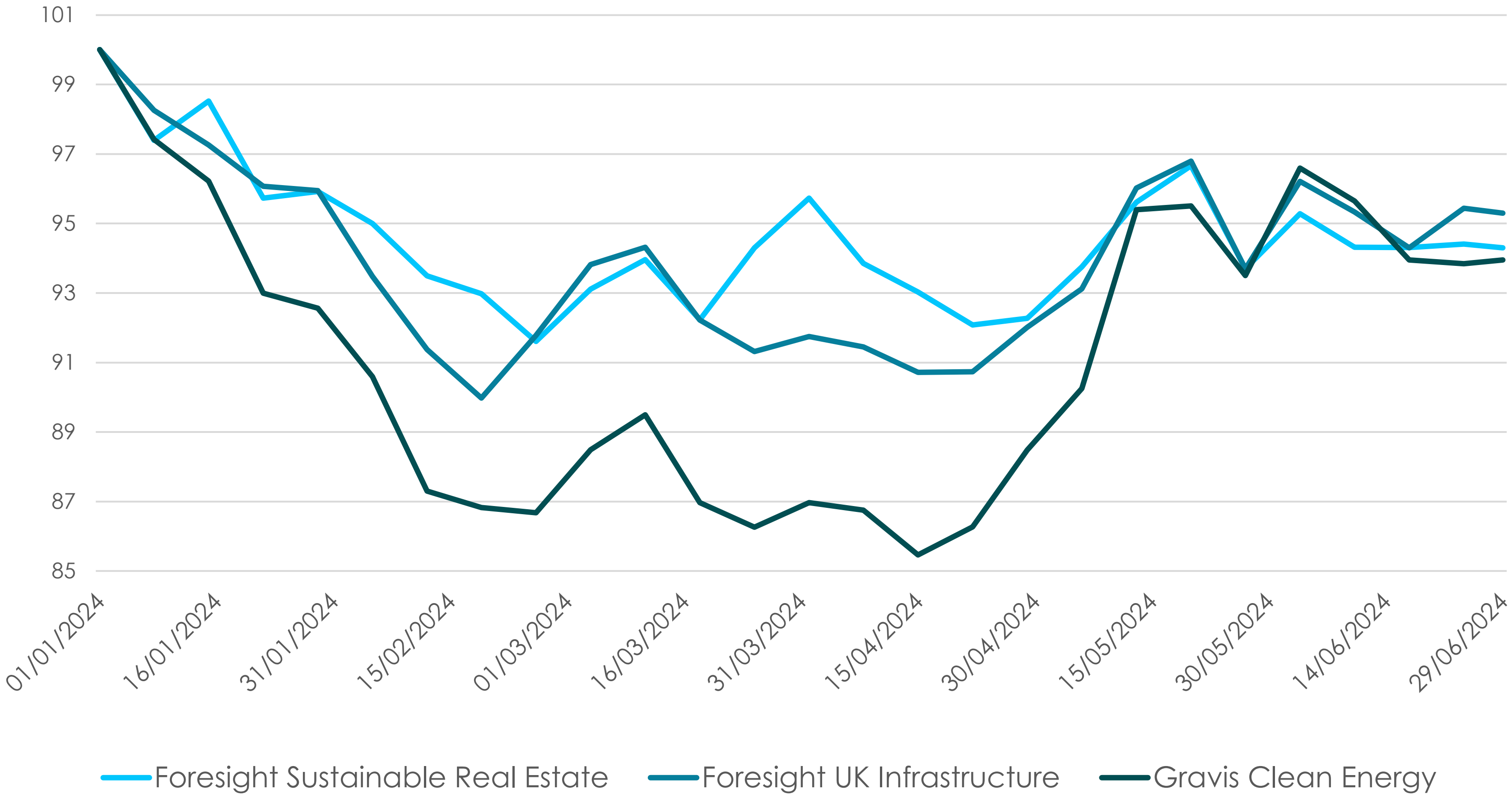


- Interest rate expectations are back in focus with inflation close to target and global growth expectations slowing.
- Concern about the size of government deficits the next major issue for government bonds.
- These factors have changed the shape of the yield curve, with long-term rates now higher than a year ago.
- QT has increased competition for money, expectations are that demand for bonds will become more targeted.
- Continue to favour short-duration and higher credit quality.

Source: FE

UK Infrastructure & Property

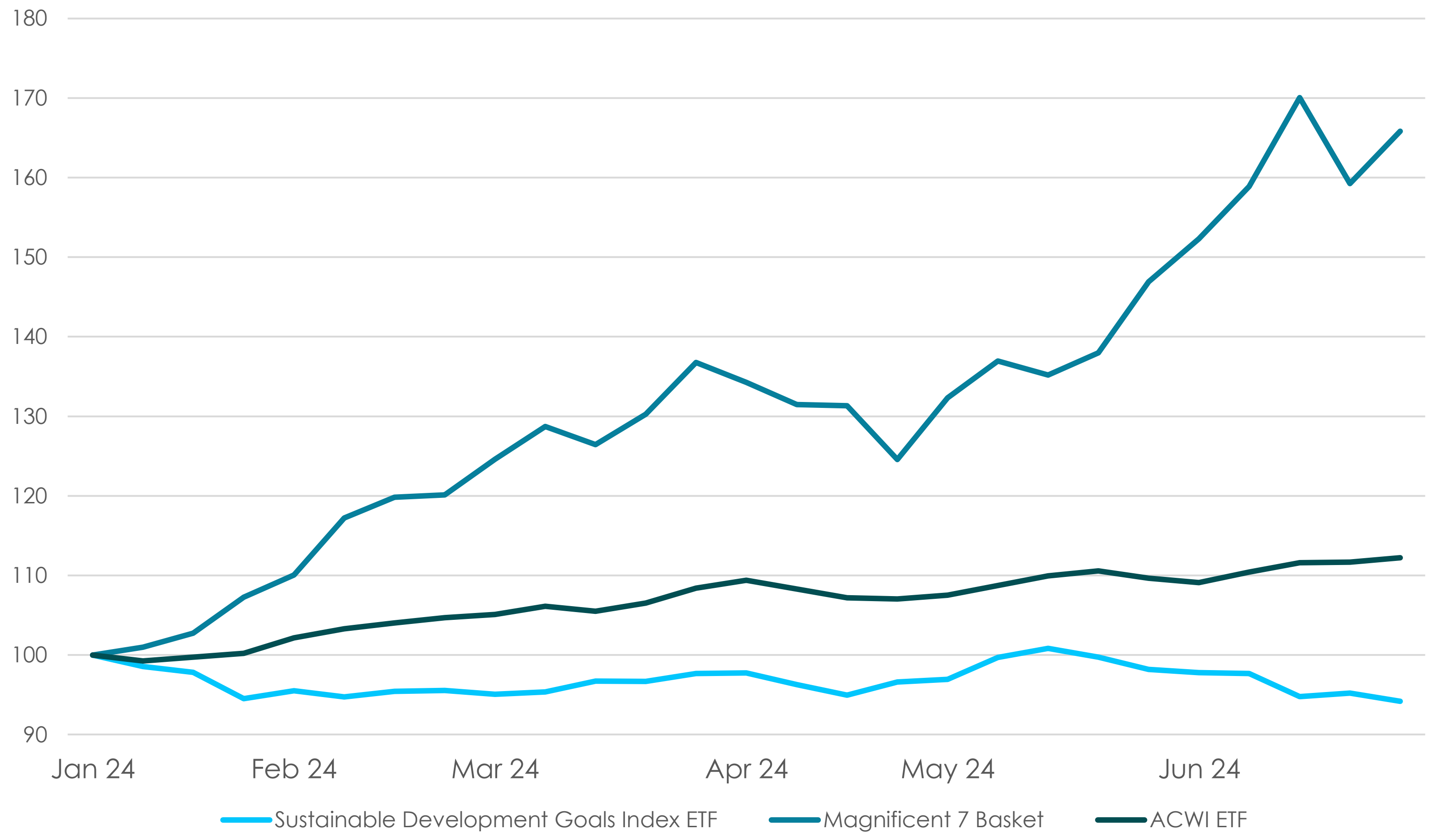
YTD



- Interest rates continue to dominate the outlook, with assets trading at substantial discount to NAVs.
- Q2 saw an improvement in infrastructure performance, but real estate continues to be weak.
- Political stability and lower rates in UK should provide a more favourable backdrop.
- Favour infrastructure over property moving forward - Labour government will have a bigger focus on energy transition.

Source: FE

Equities Review
YTD



- Global market performance has remained driven by M7, although even narrower with just a few stocks making the relative difference (NVidia, Microsoft, Apple in particular).
- Higher for longer stance has seen continued pressure on small-cap and positive focused companies, although this is turning as rate expectations shift.
- UK equities looking attractive with relative political stability, India continues to perform strongly following the election.

Source: FE

Macro Comments

- We are starting to see more obvious signs of a slowing global economy, including in the US which has been the most resilient, whilst inflation continues to trend downward. These trends are expected to continue over the next few months.
- The ECB were the first major central bank to cut interest rates, although this was seen as mildly hawkish given they raised their inflation outlook at the same time. Market pricing in another cut at the September meeting.
- Bank of England have been laying foundations for rate cuts and we expect one soon, either in August or soon after. We don’t expect many rate cuts - could even be one and done as inflation tends to pick-up in autumn and winter for seasonal reasons.
- Market is now pricing in a cut by the Federal Reserve in September, this is likely to be the last opportunity to do so until after the US election, otherwise the move will be seen as political.
- Given the interest-rate sensitivity of our portfolios, as we have written about at length, we expect these moves to be beneficial for portfolios. A good example is following weaker than expected US CPI in July, the large US indices and big tech stocks were negative, whilst the small and mid cap indices were up over 3%. Expect a broadening of the market (something that accelerated from Mid July).
- Continue to favour India in EM, surprise election result was taken well by the market. It continues to be integrated into the global economy and capital markets. China continues to struggle in its recovery, and is subject to geopolitical risk, although we continue to see selective opportunities.

Macro Comments

- Politics has been a driver of markets, with attention being placed on the size of government deficits. This was following wave of populism through Europe as right-wing parties performed well at the European elections, and the surprise election in France who were already under scrutiny from the EU. Policies have had echoes of what happened under the leadership of Liz Truss in the UK.
- Trump trade is in full swing, strong expectation that he will return to the White House. This was amplified after President Biden's dismal debate performance. Curve steepening is playing out and expected to continue as a result of concerns over debt sustainability.
- Trump Presidency will place greater fiscal strain on Europe who will have to increase defence spending at a time when they are increasing spend on the green transition.
- Prospects of a Trump Presidency, alongside European populism, has placed renewed pressure on clean energy sector. Whilst elements of the Inflation Reduction Act may be targeted, we do not believe it to be under significant risk given many of the largest beneficiaries of wind and solar in the US are Republican states and the bill had bi-partisan support. At the same time, increased tariffs on China will benefit domestic US manufacturers which portfolios have a greater exposure to.
- Markets happy with the new Labour government, UK seemingly returning from the cold amidst political stability relative to other parts of the world. Cheap pound, pro-growth treasury and expectations for interest rate cuts makes the backdrop attractive.

Asset Class Comments

Fixed Income

- We have kept overall exposure to fixed income unchanged.
- We have kept duration at the shorter-end given our concerns (circa 4-5 yrs).
- Increased allocation to UK gilts and cash instruments in lower-risk portfolios, given the stability we see here.

Real Estate

- We have been cutting away at Real Estate exposure over the last few rebalances.
- Continues to trade at significant discount to NAV and dictated by interest rate expectations in a similar way to infrastructure. However, in the last quarter continued to be negative whilst infrastructure was positive.
- Fund exposure has limited residential property, which is an area we are more positive to. We have therefore sold out of real estate in favour of UK infrastructure which we expect to benefit from the Labour government.

Asset Class Comments

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Infrastructure

- Over the last quarter performance has picked up and we expect this to continue benefitting from interest rate cuts.
- Policy environment more supportive in the UK and we see particular upside in the larger investment trusts. We have therefore increased exposure slightly, utilising the proceeds from sale of real estate.

Equities

- Overall exposure has remained similar, with some changes in the underlying composition.
- We have chipped away at some of the thematic funds which have performed well since inclusion. At the time, they were added to take advantage of depressed valuations and the move was more tactical. As a result, we have chipped away at some of this exposure which is more volatile and subject to policy risk, in favour of large-cap global equity exposure.
- Given the positivity towards the UK, we have re-introduced a UK growth fund. This is on the smaller end of the market cap scale, complimenting the existing holding in a larger-cap UK income fund.

Rebalance Comments

Bonds Remain cautious towards long-duration due to government deficits. We have increased exposure to UK gilts in lower risk portfolios using passive investments which will assist in lowering cost.	**Property** It was a small part of portfolios given we have reduced over time. We do not expect the same recovery potential as infrastructure, evidenced by continued poor performance last quarter. We have therefore sold out of real estate in favour of infrastructure.
Infrastructure We have slightly increased exposure, using proceeds from real estate. We see policy support in the UK, complimenting decreasing interest rates, which should see momentum from the last quarter continue.	**Equity** We have reduced thematic exposure after a period of strong performance. Increased core global equity exposure, and increased UK growth exposure where we see a more positive outlook.

Portfolio Changes – Defensive

- Fixed Income: Switch of Royal London Short Duration Gilt fund into Amundi UK Government Bond 0-5 ETF and added iShares Core UK Gilt ETF, and increased Royal London S/T FI fund. Removed Lombard Odier Climate Bond and reduced Wellington Global Impact Bond fund. These changes also reduce OCFs.
- Equities: Sold Regnan Water & Waste, Polar Capital Healthcare and RobecoSAM Smart Energy. Added Colombia Threadneedle Sustainable Global Equity Income and Liontrust Sustainable Future UK Growth. Small trim of Janus Henderson UK Responsible Income.
- Infrastructure and Property: Sold Foresight Sustainable Real Estate, small increase of Foresight UK Infrastructure.
- Cash: Unchanged

Portfolio Changes – Cautious

- Fixed Income: Switch of Royal London Short Duration Gilt fund into Amundi UK Government Bond 0-5 ETF. Added Royal London Short-term fixed income, and added iShares Core UK Gilt ETF. Removed Lombard Odier Climate Bond and reduced Wellington Global Impact Bond fund. These changes also reduce OCFs.

- Equities: Trimmed Regnan Water & Waste, Polar Capital Healthcare and RobecoSAM Smart Energy. Added Colombia Threadneedle Sustainable Global Equity Income and Liontrust Sustainable Future UK Growth. Small trim of Janus Henderson UK Responsible Income. Sold WHEB Sustainability on poor performance and high OCF.

- Infrastructure and Property: Sold Foresight Sustainable Real Estate, small increase of Foresight UK Infrastructure and Gravis Clean Energy.

- Cash: Reduced

Portfolio Changes – Balanced

- Fixed Income: Switch of Royal London Short Duration Gilt fund into Amundi UK Government Bond 0-5 ETF. Added Royal London Short-term fixed income and small increase of Rathbone Global Sustainable. Removed Lombard Odier Climate Bond and reduced Wellington Global Impact Bond fund. These changes also reduce OCFs.

- Equities: Trimmed Regnan Water & Waste, Polar Capital Healthcare and RobecoSAM Smart Energy. Added Colombia Threadneedle Sustainable Global Equity Income and Liontrust Sustainable Future UK Growth. Small trim of Premier Miton Optimum Income. Sold WHEB Sustainability on poor performance and high OCF.

- Infrastructure and Property: Sold Foresight Sustainable Real Estate, small increase of Foresight UK Infrastructure and Gravis Clean Energy.

- Cash: Unchanged.

Portfolio Changes – Balanced-Growth

- Fixed Income: Switch of Royal London Short Duration Gilt fund into Amundi UK Government Bond 0-5 ETF. Small increase of Rathbone Global Sustainable and small trim of Wellington Impact Bond. These changes also reduce OCFs.

- Equities: Trimmed Polar Capital Healthcare and RobecoSAM Smart Energy. Added Colombia Threadneedle Sustainable Global Equity Income and Liontrust Sustainable Future UK Growth. Sold WHEB Sustainability on poor performance and high OCF, added to Regnan Global Equity Impact.

- Infrastructure and Property: Sold Foresight Sustainable Real Estate, infrastructure unchanged.

- Cash: Unchanged.

Portfolio Changes – Growth

- Fixed Income: Unchanged
- Equities: Trimmed Polar Capital Healthcare and RobecoSAM Smart Energy. Added Colombia Threadneedle Sustainable Global Equity Income and Liontrust Sustainable Future UK Growth. Sold WHEB Sustainability on poor performance and high OCF, added to Regnan Global Equity Impact.
- Infrastructure and Property: Sold Foresight Sustainable Real Estate, infrastructure unchanged.
- Cash: Unchanged.

Portfolio Changes – Adventurous

- Fixed Income: Unchanged
- Equities: Trimmed Polar Capital Healthcare and RobecoSAM Smart Energy and added Liontrust Sustainable Future UK Growth. Sold WHEB Sustainability on poor performance and high OCF. Increased UBAM Positive Impact Emerging Markets and Aikya Emerging Markets.
- Infrastructure and Property: Sold Foresight Sustainable Real Estate, infrastructure unchanged.
- Cash: Unchanged.

Portfolio Changes – Income

- Fixed Income: Sold Threadneedle Social Bond in favour of Royal London Short-term fixed income for increase in yield.
- Equities: Unchanged
- Infrastructure and Property: Sold Foresight Sustainable Real Estate, added to Foresight UK Infrastructure, Gravis Clean Energy and RM Alternative Income.
- Cash: Unchanged.