CHETWOOD

INVESTMENT MANAGEMENT

TAILORED DECUMULATION PORTFOLIOS

QUARTER 2 2024 REPORT

Quarter Insights

- Equity markets were relatively calm although the overall rate of appreciation slowed compared to Q1. Japanese equities fell but other Asian markets, notably China, outperformed.
- The theme of Artificial Intelligence (AI) continues to dominate, with US mega-cap technology stocks again outperforming, led by chipmaker Nvidia.
- There were some positive signs over the quarter that the trend of corporate earnings growth has started to broaden out beyond the large tech stocks.
- The European Central Bank joined Switzerland, Sweden and Canada in cutting their interest rate in 2024, but other major central banks continued to resist cutting, as labour markets remained relatively tight, and the global disinflation trend paused.
- Global growth is picking up in most regions despite monetary policy remaining quite restrictive. The UK exited its technical recession. US growth exceptionalism continued in Q2 but showed some signs of slowing.
- Rishi Sunak called a surprise early July UK election, which resulted in Labour returning to power.

Market Review

We came into the quarter expecting major global central banks to start cutting interest rates. We had only one rate cut from the European Central Bank, Swedish Riksbank and the Bank of Canada. Resilient growth, lower disinflation and a robust labour market, convinced central bankers to progress slowly in cutting rates. This dynamic supported risk assets, as it was interpreted that the reason for not cutting was generally because of good news for corporate earnings but was less kind to government bond markets.

The gains for equity markets during the second quarter were again driven by the technology sector, with the so-called Magnificent 7 technology stocks accounting for almost all of the quarter gains for the US S&P 500 Index. Taiwan's TSMC and ASML of the Netherlands, who are involved in semiconductors and generative AI, also enjoyed strong gains.

> *It is clear that AI continues to be a dominant theme in equity investors' minds, and we expect that to continue.*

There is already a considerable amount of good news baked into the stock prices of the "obvious" beneficiaries like AI GPU chip makers, and we believe there are smarter ways to generate returns from this theme within our clients' portfolios.

Oil prices fell, which helped contain inflationary pressures. Elsewhere, commodity prices were broadly strong. The price of copper is seen as a leading indicator of the global economy's health, so it is a good sign that its price jumped sharply during the quarter. Silver is another metal that is an essential component in many industries, and its price rose even more sharply than copper.

During the quarter, PM Rishi Sunak called a surprise early election, which took place shortly after the quarter end. The result was that the UK public voted to bring the Labour Party back into power for the first time in 14 years. Interestingly, in the lead-up to this outcome, financial markets showed little reaction despite the expectations of a new majority government. Even during the week of the election, UK stocks, gilts and Sterling remained relatively unmoved by events. It seems the response by investors is turning out to be one of hope that Starmer's centre-left platform will draw a line under a tumultuous period in British politics, especially at a time when political volatility is growing in neighbouring France and across the pond in the US.

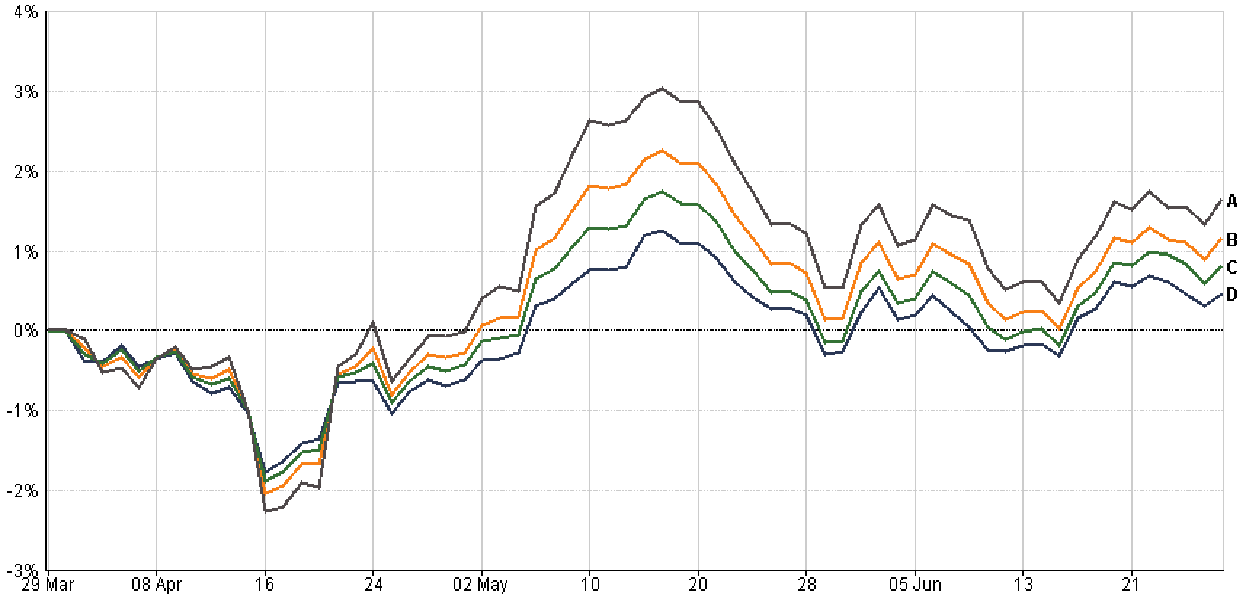
Portfolios performance

Portfolio / Comparator	3 months
CIM Tailored MPS Conservative Decumulation	0.47%
ARC Sterling Cautious PCI	0.79%
CIM Tailored MPS Moderate Decumulation	0.83%
ARC Sterling Balanced Asset PCI	1.29%
CIM Tailored MPS Strategic Decumulation	1.16%
ARC Sterling Steady Growth PCI	1.58%
CIM Tailored MPS Global Decumulation Opportunities	1.65%
ARC Sterling Equity Risk PCI	1.88%

Index Returns[1]	3 months
UK Equities	3.74%
UK Government Bonds (Gilts)	-0.94%
All Country World Equities	2.86%
Pacific Equities (ex Japan)	2.36%
Emerging Market Equities	5.30%
US Equities	4.14%
UK Headline Inflation	1.21%

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

Performance graph



A - CIM Tailored Global Opportunities Decumulation MPS 24/06/2024 TR in GB [1.65%]
B - CIM Tailored Strategic Decumulation MPS 24/06/2024 TR in GB [1.16%]
C - CIM Tailored Moderate Decumulation MPS 24/06/2024 TR in GB [0.83%]
D - CIM Tailored Conservative Decumulation MPS 14/05/2024 TR in GB [0.47%]

29/03/2024 - 28/06/2024 Data from FE fundinfo2024

Key Funds and Trades over the Quarter

Top 3 Model Funds	3 months
Artemis SmartGARP Global Emerging Markets Equity	9.15% ▲
LF Gresham House UK Multi cap Income	6.42% ▲
SPDR MSCI Europe Health Care ETF	6.15% ▲

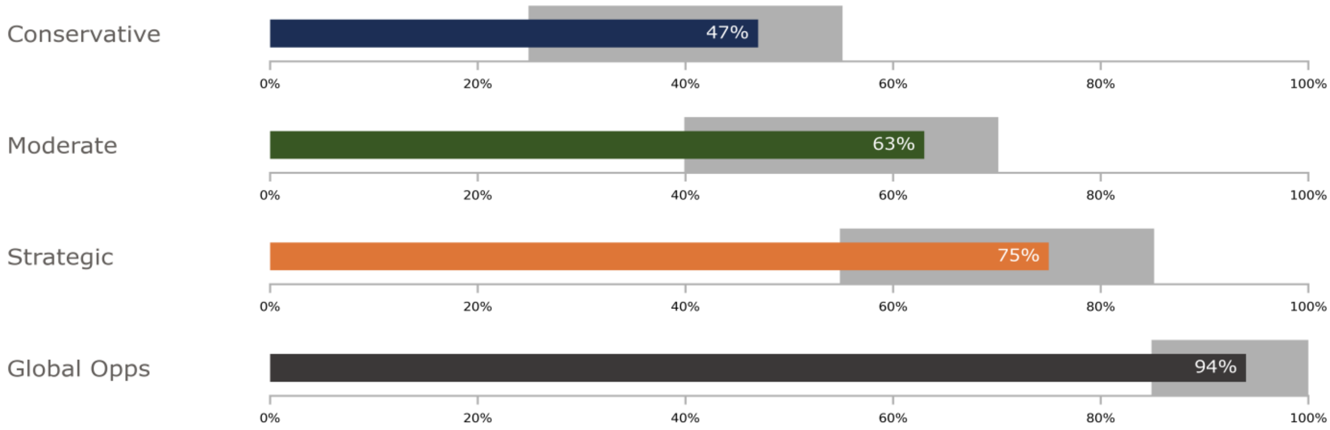
Bottom 3 Model Funds	3 months
Fidelity Asia Pacific Opportunities	-2.04% ▼
Invesco Markets PLC Real Estate S&P US Sector ETF	-2.15% ▼
Amundi IS Prime Japan	-4.20% ▼

Source FE Anaytics to 30th June 2024

Key fund	Commentary
Artemis SmartGARP Global Emerging Markets Equity	This is an actively managed fund investing primarily in shares of companies located in emerging market countries. Stocks from this region have been underperforming for many years but are now attractively valued and earnings growth is picking up. The fund screens for companies growing faster than the market but trading on even lower valuations. This approach produced a very strong performance during the second quarter. We increased allocation as part of an overall increase in equity exposure.
Man Alternative Style Risk Premia	During the first quarter, we increased exposure to this multi-asset strategy, which seeks to allow for performance across varied market conditions while aiming to be uncorrelated to traditional assets. It has been performing very well, so we decided to take some profits and reduce the allocation, to help fund an increase in equity exposure.
JPM Climate Change Solutions ETF	This fund was originally created to invest in companies that are developing the solutions required to address climate change. It also has a high allocation to companies that provide the infrastructure for the wide adoption of power-hungry AI data centres, which is why we currently favour it. We funded this new purchase by exiting a position that is invested in European healthcare stocks, following a strong performance.
LF Gresham House UK Multi Cap	This actively managed fund invests in high-quality UK equities, with a bias towards smaller-sized companies, where they have a good track record of selecting winners. The fund has been performing strongly lately, so we decided to lighten up on exposure to lock in some of these gains. This helped fund an increase in the Liontrust European Dynamic Fund, to take advantage of a dip in Q2, following a long period of outperformance.

Asset class review

Equity Exposure



Conservative

Ten largest fund holdings (%)

Amundi Index Global Agg Hedged ETF	7.9%
Lyxor Core UK Government Bond ETF	7.4%
iShares $ Treasury Bond 3-7yr UCITS ETF	6.4%
Man Alternative Style Risk Premia	6.3%
JPM Glb HY Corp Bond Multi-Factor Hdged	6.3%
Vanguard Global Credit Bond Inst Hedged	6.1%
AQR Style Premia UCITS	5.3%
Pimco GIS Emerging Local Bond	5.2%
JPM Emerging Markets Income	4.7%
Liontrust European Dynamic	4.6%
Assets in top ten holdings	60.2%

Ten largest asset class exposures (%)

Government Bonds	19.2%
North American Equities	14.5%
Other Alternatives	11.6%
Asia Pacific ex Japan Equities	10.0%
Corporate Bonds	8.5%
European Equities	7.4%
UK Equities	7.1%
High Yield Bonds	6.3%
Emerging Market Bonds	5.2%
Japan Equities	4.9%

Cash includes cash held in underlying funds plus GBP held in model.

Moderate

Ten largest fund holdings (%)

JPM Emerging Markets Income	6.2%
Liontrust European Dynamic	6.2%
Vanguard FTSE All World High Div Yield	5.8%
Amundi IS Prime Japan ETF	5.7%
Invesco S&P 500 High Div Low Vol ETF	5.4%
Artemis SmartGARP Global EM	5.2%
Man Alternative Style Risk Premia	5.2%
JPM Climate Change Solutions ETF	5.2%
Schroder UK Equity Income Maximiser	5.1%
iShares S&P 500 Utilities Sector ETF	4.8%
Assets in top ten holdings	54.8%

Ten largest asset class exposures (%)

North American Equities	19.5%
Asia Pacific ex Japan Equities	13.3%
Government Bonds	10.3%
European Equities	9.9%
Other Alternatives	9.6%
UK Equities	9.5%
Japan Equities	6.5%
Corporate Bonds	6.0%
High Yield Bonds	4.8%
Emerging Market Bonds	4.0%

Cash includes cash held in underlying funds plus GBP held in model.

Asset class review

Strategic

Ten largest fund holdings (%)

JPM Emerging Markets Income	7.4%
Liontrust European Dynamic	7.3%
Vanguard FTSE All World High Div Yield	6.8%
Amundi IS Prime Japan ETF	6.7%
Invesco S&P 500 High Div Low Vol ETF	6.4%
Artemis SmartGARP Global EM	6.2%
JPM Climate Change Solutions ETF	6.1%
Schroder UK Equity Income Maximiser	6.1%
iShares S&P 500 Utilities Sector ETF	5.7%
Fidelity Asia Pacific Opportunities	5.6%
Assets in top ten holdings	64.3%

Ten largest asset class exposures (%)

North American Equities	23.0%
Asia Pacific ex Japan Equities	15.8%
European Equities	11.8%
UK Equities	11.2%
Other Alternatives	8.4%
Japan Equities	7.7%
Government Bonds	5.7%
Emerging Market Equities	4.4%
Corporate Bonds	3.6%
High Yield Bonds	3.0%

Cash includes cash held in underlying funds plus GBP held in model.

Global Opps

Ten largest fund holdings (%)

JPM Emerging Markets Income	9.2%
Liontrust European Dynamic	9.2%
Vanguard FTSE All World High Div Yield	8.5%
Amundi IS Prime Japan ETF	8.4%
Invesco S&P 500 High Div Low Vol ETF	8.0%
Artemis SmartGARP Global EM	7.8%
JPM Climate Change Solutions ETF	7.7%
Schroder UK Equity Income Maximiser	7.6%
iShares S&P 500 Utilities Sector ETF	7.2%
Fidelity Asia Pacific Opportunities	7.0%
Assets in top ten holdings	80.6%

Ten largest asset class exposures (%)

North American Equities	28.8%
Asia Pacific ex Japan Equities	19.8%
European Equities	14.7%
UK Equities	14.0%
Japan Equities	9.7%
Emerging Market Equities	5.5%
Other Alternatives	4.4%
Cash	2.0%
Other	1.1%

Cash includes cash held in underlying funds plus GBP held in model.

Asset Class	Portfolio Views
Fixed Interest	We are optimistic about the outlook for government bonds given the higher income yields available and expectation of rate cuts, although we are wary of higher issuance of bonds, particularly from the US Treasury, to fund ever-growing deficits. Tight credit spreads do not make corporate bonds particularly attractive in our view. We favour equities on a risk vs reward perspective.
UK Equities	UK equities performed strongly over the second quarter, helped by a pickup in M&A activity. We favour UK equities due to their modest valuations, high dividend yield, and an end to persistent selling of the asset class from UK pension funds. However, we fear they are a little overbought in the short term and due a correction.
US Equity	US equity indices again performed well, helped by a strong earnings season and a high allocation to the technology sector that is benefitting from the excitement around artificial intelligence. However, gains have been focussed on the mega cap stocks, which are now very overvalued in our opinion. The average US stock actually fell close to 3% and offers better value.
Japan Equity	Japanese equities broadly moved sideways during Q1, but the weakening Yen produced a headwind for foreign investors. Reforms to Japan's system of corporate governance, decent growth and the weakening of deflationary pressures all contribute to our continuing favouring of this asset class.
Asia and Emerging Market Equity	Asian and EM outperformed during Q2, led by China, who were helped by improving consumer sentiment with fiscal stimulus as well as attempts by authorities to address their property crisis. We have moved to an overweight position.
Alternatives	With the correlation between equities and bonds currently at high levels, alternatives have an important role to play within a diversified portfolio. We have reduced our exposure to alternatives within portfolios to fund an increase in equity exposure.

Outlook

The trend of corporate earnings growth has started to broaden out beyond the mega-cap tech stocks and corporate balance sheets remain strong. This provides evidence that companies across sectors are dealing with slower economic growth and are able to increase earnings in this environment.

With policy easing on the horizon in many economies, fiscal policy remaining supportive and consumer spending maintained by an employed and productive labour force, we anticipate global growth to remain relatively resilient in the second half of 2024. The economic slowdown is so far looking like the "soft landing" that investors were hoping for as interest rates peaked at the back end of last year. We believe the chances of a "Liquidity Event" and a sharp move down in markets due to the Fed's over-tightening of monetary policy looks to be greatly reduced, which we view as a clear positive for growth markets like equities going forward.

We retain the view that the strong performance of large technology stocks in recent years, which exceeds the growth of their fundamentals such as earnings, has left them overvalued. We believe that investors need to look beyond recent winners as the changing economic backdrop supports a broadening out beyond the mega-cap tech stocks.

> *The underperformance of global value stocks, including emerging markets, Europe and smaller caps – has produced some potentially compelling opportunities.*

The income yield on bonds is close to the highest levels seen over the past 20 years. With inflation falling and the first major central banks starting to cut rates, there is also the potential for some capital gains for fixed-income investors, providing an overall attractive total return to investors. We also hold the view that falling rates will be supportive of equity valuations. On balance, we believe that many of the lower-risk "bond proxy" equities we hold will produce a higher risk-adjusted return than bonds themselves. We have therefore reduced our exposure to bonds in what we see as a more Risk-On environment.

Thoughts for the quarter ahead...

- The outlook for interest rates will be important for growth assets. As long as disinflation trends reassert, it should give central banks the freedom to cut rates, although we expect rates to remain higher than pre-pandemic levels.

- Equity market gains were again concentrated on the technology sector during Q2. We expect the rally for equities to follow corporate earnings and broaden out in Q3.

- National elections and their impact on industrial policy will continue to play an important role in markets and is something we are watching closely.

- The US consumer has remained strong against the headwind of higher interest rates as their mortgages are fixed at lower rates, but the cost of unsecured lending is starting to bite. This is critical for whether the US can engineer an economic soft landing.

- The current environment of modest growth and inflation continuing to ease, should be a positive backdrop for equity markets, in our view.

Important information

[1] For the comparative index returns, we have used the total return performances of the following ETF's:

Comparative index	ETF Name
UK Equities	ISHARES CORE FTSE 100
US Equities	ISHARES CORE S&P 500
European Equities (ex UK)	ISHARES MSCI EUROPE EX-UK
Emerging Market Equities	ISHARES CORE EM IMI ACC
Japanese Equities	ISHARES CORE MSCI JAPAN
Pacific Equities (ex Japan)	ISHARES CORE MSCI PACIF X-JP
UK Government Bonds (Gilts)	ISHARES CORE UK GILTS
Global Bonds (GBP hedged)	ISHARES CORE GLB AGG GBP-H D
Commodities	ISH DIVERS COMMOD SWAP ETF