

ABACUS ACTIVE - DFM PROFILES

QUARTERLY UPDATE (Q1 2022)



Market Commentary

We have seen a volatile start to the year leading to significant falls for most asset classes, and the Abacus Active Models have not been immune to this.

At the time of writing US equities are down -9% year to date (YTD), European ex-UK equities are down -13.5% YTD, Japanese equities are down around -10% YTD, Asia Pacific ex-Japan equities are down over -7% YTD, and UK and Chinese equities are down over -5% YTD. Bond markets are also down YTD, on average by around -5.5%.

So, it has been a difficult start to the year.

The reasons behind these falls are varied. We clearly have a very worrying situation in the Ukraine following the Russian invasion and we have the issue of rising inflation, meaning that interest rates must rise to try to dampen down spending. We have also seen large institutions profit-taking in the first quarter of this year, especially from the technology sector in the US. There has also been a real crackdown in China and the Far East on some of the larger organisations regarding anti-money-laundering and company procedures. If that wasn't enough, we also still have COVID looming over us.

Risks therefore remain and we expect more volatility ahead. Having said all that most equity markets were up in 2021, aside from Emerging Markets which ended the year around -4.5% lower, and we retain a positive outlook for risk assets.

Active Profile Allocations

FUND	3	4	5	6	7	8
Baillie Gifford Emerging Markets Growth	0.00%	0.00%	0.00%	0.00%	5.50%	8.00%
Baillie Gifford American	8.00%	12.50%	15.00%	16.00%	15.00%	16.50%
Invesco UK Smaller Companies Equity (UK)	1.00%	2.00%	2.50%	3.00%	1.50%	4.00%
Baillie Gifford UK Equity Alpha	1.00%	2.00%	2.50%	3.00%	1.50%	4.00%
Niko AM Japan Value	1.00%	3.00%	3.00%	3.00%	2.00%	2.00%
Rathbone Ethical Bond	6.00%	4.00%	3.00%	0.00%	0.00%	0.00%
Allianz Gilt Yield	6.00%	4.50%	4.00%	0.00%	0.00%	0.00%
Legal & General Cash	15.50%	9.50%	7.50%	6.50%	2.00%	0.00%
Legg Mason Brandywine Global Fx Inc	18.00%	15.00%	13.00%	11.00%	9.00%	0.00%
M&G Global Government Bond	7.00%	4.00%	0.00%	0.00%	0.00%	0.00%
ASI Global Inflation-Linked Bond	5.00%	3.00%	3.00%	0.00%	0.00%	0.00%
Vanguard Global Credit Bond	12.00%	8.00%	7.00%	6.00%	5.00%	0.00%
Schroder High Yield Opportunities	2.50%	2.00%	1.50%	1.00%	0.00%	0.00%
M&G Emerging Markets Bond	2.00%	1.50%	1.00%	0.50%	0.00%	0.00%
Artemis Income Fund	2.00%	2.50%	3.50%	4.00%	3.50%	5.00%
UBS US Growth	8.00%	13.00%	15.00%	16.00%	15.50%	16.50%
T Rowe Price Global Focused Growth	1.00%	7.00%	7.00%	16.00%	16.50%	18.00%
Fidelity Emerging Markets	1.00%	1.50%	5.00%	5.00%	15.00%	19.00%
Baillie Gifford European	3.00%	5.00%	6.50%	9.00%	8.00%	7.00%
OCF*	0.49%	0.56%	0.62%	0.66%	0.73%	0.77%

*OCFs as at 28/02/2022



Changes & Rationale

Funds Removed/Allocation Reduced

- **M&G Optimal Income**

We are reducing our UK fixed income exposure. This fund will be removed to bring our UK exposure closer to our long-term strategic outlook.

- **Rathbone Ethical Bond**

This fund has performed very well relative to its peers, and as such, will only be reduced to bring our UK exposure closer to our long-term strategic outlook.

- **Aegon Sterling Corporate Bond**

This fund has been removed to bring our UK exposure closer to our long-term strategic outlook and because it has underperformed the Rathbone Ethical Bond in the metrics we measure.

- **Baillie Gifford Emerging Markets Growth**

We are reducing our emerging market equity exposure across the models to bring it in line with our strategic outlook and we see greater risk within this fund.

- **ASI Japanese Equity**

We have a preferred Japanese focused fund with the Nikko Japan Value fund.

- **Invesco UK Smaller Companies Equity (UK)**

A small reduction in model 6 to achieve our desired regional exposure in line with our strategic outlook.

- **Baillie Gifford UK Equity Alpha**

A small reduction in model 6 to achieve our desired regional exposure in line with our strategic outlook.



Funds Added/Allocation Increased

+ Legg Mason Brandywine Global Fixed Income Fund

The models are underweight global fixed income markets. This fund is the best performing fund within the IA Global Government sector that is on the RSMR list under many of our metrics while taking the lowest volatility.

+ M&G Global Government Bond

The models are underweight global fixed income markets. This fund is the second-best performing fund within the IA Global Government that is on the RSMR list under many of our metrics while taking the second lowest volatility. The Legg Mason Brandywine Global Fixed Income is the best currently available, so this fund tops up models that have maximised their position in that fund.

+ Schroder High Yield Opportunities

The portfolios currently have no exposure to high yield. The only available direct exposure in the IA sectors and RSMR list is to UK high yield markets. This fund scores very highly on our metrics used to measure the performance of these funds.

+ M&G Emerging Markets Bond

The portfolios currently have no exposure to emerging market fixed income. There are two funds available on the RSMR list within emerging markets debt. This fund outperforms the other on many metrics and is also not constrained to just local currency exposures.

+ ASI Global Inflation Linked Bond Fund

The models are underweight global fixed income markets. This fund brings us closer in line to our long-term strategic asset allocation. We currently have a tactical overweight in inflation-linked bonds. This fund performs well on the metrics we look at relative to other funds in its sector.

+ Vanguard Global Credit Bond

The models currently have no exposure to global corporate bonds. This fund is approved on the RSMR list and gives us access to this market. This fund scores very highly on our metrics used to measure the performance of these funds.

+ Nikko Japan Value Fund

The fund has a strong track record relative to its peer group over different timeframes. The head fund manager has been the primary decision maker since the fund was launched in 1996 and has demonstrated a strong skillset in identifying undervalued stocks to generate excess returns. Allocating to the fund gives the models exposure to a cyclical equity market that is relatively undervalued.

+ Artemis Income Fund

The fund focuses on UK companies with strong sustainable free cashflows with a secondary aim of delivering dividend income. The fund has an attractive track record, ranking among the best performing funds in its peer-group over different timeframes. The diversification within the portfolio means it has historically taken on less risk relative to its peers and its benchmark.

+ Fidelity Emerging Markets

We have reduced our overall exposure to emerging market equities. This fund has been slightly increased in models 7 and 8 as it is our preferred fund in the space given its disciplined risk management process.

+ Legal & General Cash

This fund is used as a proxy for Cash.



Performance

Performance over the last 12-months is as follows:

Abacus Active Profile 3 - DFM	-0.26%
Abacus Active Profile 4 - DFM	0.19%
Abacus Active Profile 5 - DFM	1.38%
Abacus Active Profile 6 - DFM	2.17%
Abacus Active Profile 7 - DFM	1.49%
Abacus Active Profile 8 - DFM	0.90%

Source of Data: Titan Asset Management
Data as of 31/12/2021

Case Study / Theme

This quarter, our case study is the Baillie Gifford American Fund

The Baillie Gifford American fund performed poorly in 2021 losing -2.76% and this underperformance has intensified in January 2022 where it was down -30.62%. The fund has a five-year investment horizon, seeking to invest in companies that can benefit from long-term, profound change. This growth investment strategy that prioritises long-term returns lends itself to periods of short-term volatility which understandably can be uncomfortable for investors.

As you can see from the table below, the fund has outperformed its IA sector by more than double over 3, 5 and 10-year timeframes highlighting the value the fund delivers when held over a long timeframe.

FUND	PERFORMANCE				
	JAN 22*	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Baillie Gifford American	-30.62%	-2.76%	173.70%	283.43%	766.64%
IA North America	-8.45%	25.70%	82.30%	98.00%	350.01%
S&P 500	-6.93%	28.71%	100.37%	133.41%	362.57%

Source of Data: Titan Asset Management
*Data Range: 31/12/2021 - 28/01/2022

Through our research we know that previous examples of underlying holdings that have seen large drawdowns (losses) only to become their biggest winners (profits) are Amazon, Moderna, Shopify and Tesla. Baillie Gifford's approach means that they tend to ride out waves of short-term uncertainty in order to benefit from long-term gains.

Baillie Gifford have strong lines of communication into the top of the companies they invest in, and are continually reviewing their positions, meeting with company boards, and updating their hypotheses.

The fund remains on our watchlist.

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