

ABACUS PASSIVE - 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 Passive 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.

Passive Profile Allocations

FUND	3	4	5	6	7	8
L&G Cash Trust	5.00%	5.00%	5.00%	5.00%	2.00%	0.00%
iShares 100 UK Equity Index	4.00%	7.00%	7.00%	8.00%	9.00%	12.00%
iShares Continental Europe Index	2.50%	5.00%	6.00%	7.00%	8.00%	9.00%
iShares Japan Equity Index	1.50%	3.00%	4.00%	4.50%	2.50%	2.00%
iShares North America Equity Index	4.00%	8.00%	8.50%	11.00%	11.00%	13.00%
iShares US Equity Index	4.00%	8.00%	8.50%	11.00%	11.00%	12.50%
Vanguard FTSE UK All Shares Index	3.00%	6.00%	7.00%	7.00%	9.00%	11.00%
iShares EM Equity Index	0.00%	1.00%	3.50%	9.00%	9.00%	12.00%
Vanguard EM Stock Index	0.00%	0.00%	0.00%	0.00%	9.00%	12.00%
iShares UK Gilt All Stocks Index	18.50%	13.00%	9.00%	5.00%	2.50%	0.00%
HSBC American Index	4.00%	6.00%	10.50%	14.00%	13.00%	13.00%
Fidelity Pacific-ex-Japan Index	1.00%	2.00%	2.00%	3.50%	3.50%	3.50%
Vanguard Global Bond Index Fund	18.50%	14.00%	10.50%	6.00%	4.50%	0.00%
ASI Global Government Bond Tracker Fund	18.00%	13.00%	9.50%	4.50%	3.00%	0.00%
iShares Corporate Bond Index Fund	16.00%	9.00%	9.00%	4.50%	3.00%	0.00%
OCF*	0.11%	0.10%	0.09%	0.09%	0.10%	0.11%

*OCFs as at 28/02/22



Changes & Rationale

Funds Removed/Allocation Reduced

- **iShares Japan Equity Fund**
We are retaining the fund but reducing exposure to bring in line with our strategic asset allocation.
- **iShares EM Equity Index**
We are slightly reducing our EM exposure across the models in favour of UK exposure.
- **Vanguard EM Stock Index**
We are slightly reducing our EM exposure across the models in favour of UK exposure.
- **iShares Index Linked Gilts**
We are reducing this exposure in favour of our UK Gilts position. This is due to the higher quality exposure at the same cost.
- **iShares Overseas Government bond**
We have sold this position in favour of a hedged Government Bond position. We typically hedge government/investment grade fixed income exposure, and this is the exercise we have undertaken here.
- **Vanguard Short Term Bond Index**
We have sold our position in favour of the iShares Corporate Bond Index Fund and Vanguard Global Bond Index Fund. Net exposures are relatively similar, but we will have slightly more exposure to UK fixed income. In terms of duration, we are slightly increasing this such that in passive models we are more in line with our strategic asset allocation. These are also similar from a cost perspective.
- **Vanguard UK Investment Grade Bond Index**
We have sold our position in favour of the iShares Corporate Bond Index Fund and Vanguard Global Bond Index Fund. Net exposures are relatively similar, but we will have slightly more exposure to UK fixed income. In terms of duration, we are slightly increasing this such that in passive models we are more in line with our strategic asset allocation. These are also similar from a cost perspective.
- **L&G Cash Trust**
We are adjusting cash holdings through the batches of changes, and the second batch here slightly increases cash in the lower end of the proposition and reduces it at the higher end. This keeps us in line with the changes we are making in active land and helps us to tie in with the Dynamic Planner risk rating metrics.



Funds Added/Allocation Increased

+ iShares UK 100/Vanguard FTSE All-Shares

We are retaining both positions from the original models due to strong performance characteristics as well as a low OCF and good AUM. We have slightly tweaked these weights to bring them in line with our strategic asset allocation.

+ iShares US Equity index/HSBC American Index

We are slightly increasing the weights of these positions following the first batch of changes. These are the lowest cost funds in the space with the desired US Equity exposure. For the HSBC America this is just tweaks to 3 and 4 to bring them in line with our strategic asset allocation.

+ iShares UK Gilt All Stock Index

We are increasing this exposure slightly taking from our index linked Gilts position. This is due to the higher quality exposure at the same cost.

+ ASI Global Government Bond

This is a hedged position and has replaced our unhedged Government Bond position. We typically hedge government/investment grade fixed income exposure, and this is the exercise we have undertaken here.

+ iShares Corporate Bond Index Fund

We have introduced this holding to replace the Vanguard Short Term Bond Index and the Vanguard UK Investment Grade Bond Index. Net exposures are relatively similar, but we will have slightly more exposure to UK fixed income. In terms of duration, we are slightly increasing this such that in passive models we are more in line with our strategic asset allocation. These are also similar from a cost perspective.

+ Vanguard Global Bond Index Fund

We have introduced this holding to replace the Vanguard Short Term Bond Index and the Vanguard UK Investment Grade Bond Index. Net exposures are relatively similar, but we will have slightly more exposure to UK fixed income. In terms of duration, we are slightly increasing this such that in passive models we are more in line with our strategic asset allocation. These are also similar from a cost perspective.



Performance

Performance over the last 12-months is as follows:

Abacus Passive Profile 3 - DFM	1.17%
Abacus Passive Profile 4 - DFM	5.66%
Abacus Passive Profile 5 - DFM	6.90%
Abacus Passive Profile 6 - DFM	9.99%
Abacus Passive Profile 7 - DFM	8.81%
Abacus Passive Profile 8 - DFM	10.11%

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

Case Study / Theme

This quarter, our theme is dividend investing.

We see potential for dividend paying equity strategies to outperform in 2022, and for them to catch-up the broader market after having lagged for some time. Dividend strategies have outperformed the broader market so far this year and we see strong upside potential moving forward.

The rationale for this trade is simple. As equities look set to outperform fixed income in an inflationary environment, asset allocators are incentivised to look to dividends and high dividend stocks as a source of income over the lower coupons generated from bonds. Furthermore, from a historical perspective, dividend paying strategies have tended to outperform late cycle and if inflation does persist, then the best place to be is in those companies positioned to benefit from rising rates that have pricing power and can deliver dividends.

This makes equity dividend strategies a key theme for 2022.

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