

ABACUS ACTIVE - DFM PROFILES

QUARTERLY UPDATE (Q2 2022)



Market Commentary

Financial markets have continued to come under pressure in the second quarter of the year and have remained volatile. This has led to further 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 -18% year to date (YTD), Emerging Market equities are down around -14.5%, European ex-UK equities are down -13.5% YTD, Asia Pacific ex-Japan equities are down nearly -13%, and Chinese equities are down nearly -10% YTD. The UK is the best performing equity region but even that is down -1% so far this year. Bond markets are also down YTD, on average by around -15%.

2022 continues to be a challenging year for investors.

The reasons behind these falls remain varied. We clearly still have a very worrying situation in the Ukraine following the Russian invasion, and our hearts go out to all affected. Added to this, inflation, and rising recession fears ahead of aggressive central bank tightening, have investors on the run, looking for safety. In short, investors are selling risk assets as central banks double down on their priority to fight inflation no matter what.

Risks of further market falls therefore remain and we expect more volatility ahead. That said, challenging times and volatility present opportunities for nimble asset-allocators, and we retain a positive outlook for risk assets.



Active Profile Allocations

FUND	3	4	5	6	7	8
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%
Legg Mason Brandywine Global Fixed	15.00%	11.00%	10.00%	6.50%	6.50%	0.00%
M&G Global Government Bond GBP	7.00%	4.00%	0.00%	0.00%	0.00%	0.00%
ASI Global Inflation-Linked Bond Fund	5.00%	3.00%	3.00%	0.00%	0.00%	0.00%
Vanguard Global Credit Bond GBP Hedged	9.50%	7.00%	6.50%	4.00%	4.00%	0.00%
Schroder High Yield Opportunities GBP	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%
LF Ruffer Diversified Return	5.50%	5.00%	4.50%	4.00%	3.50%	0.00%
BlackRock Natural Resources Fund	2.00%	2.50%	3.00%	3.50%	4.00%	4.50%
T. Rowe Price Global Focused Growth Equity	1.00%	3.00%	4.00%	6.50%	4.00%	3.50%
Fidelity Global Sustainable Income	1.00%	4.50%	6.00%	9.50%	7.00%	5.00%
Baillie Gifford American	3.50%	8.00%	8.50%	9.00%	9.50%	10.00%
UBS US Equity Fund	3.50%	5.00%	5.50%	6.00%	6.50%	6.50%
Fidelity American Special Situations	2.00%	2.50%	3.00%	3.50%	3.50%	4.00%
HSBC US Multi-Factor	2.00%	2.50%	3.00%	3.50%	3.50%	4.00%
Invesco UK Opportunities	2.50%	5.00%	5.50%	7.50%	8.00%	8.00%
Artemis Income	2.50%	5.00%	5.50%	7.50%	8.00%	8.00%
Invesco UK Smaller Companies Equity	1.00%	2.00%	2.50%	3.00%	1.50%	4.00%
Liontrust European Growth Fund	2.00%	2.50%	3.50%	6.50%	5.00%	5.00%
Niko AM Japan Value	1.00%	3.00%	3.00%	3.00%	2.00%	2.00%
Baillie Gifford Emerging Markets Growth	0.00%	0.00%	0.00%	0.00%	5.50%	8.00%
Fidelity Emerging Markets	1.00%	1.50%	3.00%	5.00%	9.50%	13.50%
BNY Mellon Emerging Income	0.00%	0.00%	0.00%	0.00%	4.50%	9.00%
Fidelity Asia Pacific Opportunities	1.00%	1.50%	3.00%	3.50%	4.00%	5.00%
Cash	15.50%	9.50%	7.50%	6.50%	0.00%	0.00%
OCF*	0.50%	0.59%	0.63%	0.67%	0.73%	0.78%

*OCFs as at 31/05/2022



Changes & Rationale

Funds Removed/Allocation Reduced

— **Reduce: Baillie Gifford American**

The fund will be reduced in size to lower the overall exposure to growth strategies in the models as well as concentration risk.

— **Sell: Baillie Gifford European**

We are selling this position as we believe the more dynamic, less growth focussed, Liontrust European Growth fund (soon to be renamed Dynamic Fund to better reflect its style/philosophy) is better positioned to deal with heightened equity market volatility.

— **Sell: Baillie Gifford UK Equity Alpha**

This growth orientated fund will be removed from the models in favour of other UK equity strategies.

— **Reduce: Fidelity Emerging Markets**

The fund has been reduced in size to reduce concentration risk and enter new strategies.

— **Reduce: Legg Mason Brandywine Global Fixed Income Fund**

The fixed income exposure will be slightly reduced to bring in the Ruffer Diversified Return fund which is a multi-asset fund which typically has similar volatility to fixed income markets.

— **Reduce: T. Rowe Price Global Focused Growth Equity**

The fund will be reduced in size to lower the overall exposure to growth strategies in the models as well as concentration risk.

— **Reduce: UBS US Equity Fund**

The fund will be reduced in size to gain exposure to other strategies we see as more attractive.

— **Reduce: Vanguard Global Credit Bond GBP Hedged**

The fixed income exposure will be slightly reduced to bring in the Ruffer Diversified Return fund which is a multi-asset fund which typically has similar volatility to fixed income markets.



Funds Added/Allocation Increased

+ Increase: Artemis Income

We are increasing this position as its focus on strong sustainable cashflows with an additional aim of delivering dividend income should mean it's well positioned in an inflationary environment.

+ Buy: BlackRock Natural Resources Fund

The fund should enhance portfolio diversification as well as benefiting from structural tailwinds in place for natural resource companies.

+ Buy: BNY Mellon Emerging Income

The fund focuses on balance sheet strength, strong cash flow generation, dividend yield and business model sustainability throughout economic cycles. The fund has a defensive tilt with lower historic volatility relative to its peers which will complement our current EM exposure.

+ Buy: Fidelity American Special Situations

This is a core value fund that will diversify the models' US equity exposure.

+ Buy: Fidelity Asia Pacific Opportunities

A concentrated style-agnostic portfolio with a strong track record in terms of performance and volatility.

+ Buy: Fidelity Global Sustainable Income

The strategy focuses on quality companies that pay dividends which typically face lower drawdowns relative to the broader equity market. It has a strong track record in terms of risk and return.

+ Buy: HSBC US Multi-Factor

The fund has diversified exposure across value, quality, size, low risk and momentum factors. It maps closely to the S&P 500 benchmark while delivering superior risk-adjusted returns over the long run.

+ Buy: Invesco UK Opportunities

The fund follows a valuation driven investment approach and has a strong track record over the long run.

+ Buy: LF Ruffer Diversified Return

This is a multi-asset fund that focuses on protecting investments against losses over any 12-month period while participating in rising markets. The fund should help dampen overall volatility in the models which we see as prudent in the current macroeconomic environment.

+ Buy: Liontrust European Growth Fund

This is a dynamic fund that tilts between value and growth stocks depending on the macroeconomic environment with a strong track record since inception. This fund is soon to be renamed the Liontrust Dynamic European Fund to better reflect its style/philosophy.



Performance

Performance over the last 12-months is as follows:

Abacus Active Profile 3 - DFM	-10.56%
Abacus Active Profile 4 - DFM	-14.30%
Abacus Active Profile 5 - DFM	-16.31%
Abacus Active Profile 6 - DFM	-18.25%
Abacus Active Profile 7 - DFM	-20.07%
Abacus Active Profile 8 - DFM	-21.76%

Source of Data: Titan Asset Management
Data as of 31/05/2022

Case Study / Theme

This quarter, our case study is the Liontrust European Growth Fund ... with an update on Baillie Gifford America

The Liontrust European Growth fund (soon to be renamed the Liontrust Dynamic European Fund) has been on our radar for some time now.

The Titan Investment Team have met with the team on a few occasions this year to understand their investment process, and those meetings confirmed that the fund is more suitable for the models in the current macroeconomic environment, rather than the Baillie Gifford European fund which has been sold.

The Liontrust fund combines a robust bottom-up process with top-down macroeconomic regime indicators to shift the portfolio between different factor exposures. For example, the portfolio has been increasing its exposure to defensive value stocks recently.

Given our European equity exposure is a lot smaller than other regions based on our strategic asset allocation, choosing one fund that is dynamic in nature is preferred as opposed to a purely growth focussed fund, such as the Baillie Gifford European fund.

In other regions such as the US where we have a much larger exposure than Europe, we have scope to own multiple funds. We have therefore added non-growth strategies to compliment the Baillie Gifford America fund, cutting that allocation slightly. As we wrote last quarter, we still think Baillie Gifford America has the potential to deliver positive returns over the longer term.

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