

ABACUS PASSIVE - 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 Passive 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, 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*	0.12%	0.11%	0.10%	0.09%	0.10%	0.10%

*OCFs as at 31/05/2022



Changes & Rationale

There were no changes made to the Abacus Passive – DFM Profiles this quarter.

The model provides an efficient, lowest cost access to passive funds. All funds have been screened for cost, exposure, performance, and volatility.

Performance

Performance over the last 12-months is as follows:

Abacus Passive Profile 3 - DFM	-3.29%
Abacus Passive Profile 4 - DFM	-0.67%
Abacus Passive Profile 5 - DFM	-0.62%
Abacus Passive Profile 6 - DFM	1.12%
Abacus Passive Profile 7 - DFM	0.46%
Abacus Passive Profile 8 - DFM	1.74%

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

Case Study / Theme

This quarter, our focus is on UK equities.

As mentioned in the Market Commentary, the UK has been the best performing equity region so far this year.

As equities look set to continue 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 coupons generated from bonds. We spoke about this last quarter with our theme for the quarter being dividend investing.

The best place to be is invested in those companies positioned to benefit from rising rates, that have pricing power and can deliver dividends. UK equities tick those boxes.

UK large cap equities offer attractive dividend yields while trading relatively cheaply. These factors combined with their exposure to commodity cycles, along with defensive sectors such as healthcare and consumer staples, leaves them well positioned in this environment.

Allocations to the iShares 100 UK Equity Index and Vanguard FTSE UK All Shares Index, aim to deliver this underlying UK dividend exposure.

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