

# ABACUS ACTIVE - DFM PROFILES

## QUARTERLY UPDATE (Q4 2022)



### Market Commentary

December was a disappointing month for global equity markets to end the year, bucking the trend of what had been a positive quarter at the start of the month. UK and Emerging Market equities didn't fare too badly, down around 1% for the month, but US equities were down over 7%.

Fixed Interest securities, otherwise known as bonds, held up quite well and were broadly flat for the month. That meant bond markets finished the fourth quarter in positive territory after a bruising third quarter; you may recall that the 'mini-budget' caused turmoil in financial markets for a few weeks in Q4.

There were some positive returns in commodity-land, with precious metals such as gold and silver up 2% and 6% for the month. This ended a strong year for commodities in general, which was the only asset class to see strong positive returns over the year.

Financial markets continued to come under pressure in Q4 against a backdrop of high inflation, rising interest rates, and the expectation of a global recession. Markets remained volatile.

In short, the second half of the year saw investors selling risk assets looking for safety, as central banks doubled down on their priority to fight inflation no matter what.

It is therefore perhaps an understatement to say that 2022 was a challenging year for investors.

Looking to 2023, it seems likely that investors will face ongoing uncertainty. A resolution to the conflict in Ukraine appears to be remote and geo-political tensions remain significant. Slowing global economic growth may well turn into localized recessions, inflation may well prove stubborn as supply chain disruptions continue and labour shortages remain, and corporate earnings will surely come under severe pressure.

However, uncertainty also creates opportunities for nimble discretionary managers and, with equity valuations becoming more attractive and real bond yields improving, there is hope that 2023 will be a better year for investors.



## Active Profile Allocations

| FUND                                             | 3      | 4      | 5     | 6     | 7     | 8      |
|--------------------------------------------------|--------|--------|-------|-------|-------|--------|
| Fidelity Emerging Markets Fund                   | 0.00%  | 2.00%  | 3.00% | 3.50% | 9.50% | 13.50% |
| Baillie Gifford American Fund                    | 3.50%  | 8.00%  | 8.50% | 9.00% | 9.50% | 10.00% |
| BNY Mellon Emerging Income Fund                  | 0.00%  | 0.00%  | 0.00% | 0.00% | 4.50% | 9.00%  |
| HSBC American Index Fund                         | 4.50%  | 5.00%  | 5.50% | 6.00% | 6.50% | 8.50%  |
| Artemis Income Fund                              | 2.50%  | 5.00%  | 5.50% | 7.50% | 8.00% | 8.00%  |
| Invesco UK Opportunities Fund                    | 2.50%  | 5.00%  | 5.50% | 7.50% | 8.00% | 8.00%  |
| Baillie Gifford Emerging Markets Growth Fund     | 0.00%  | 0.00%  | 0.00% | 0.00% | 5.50% | 8.00%  |
| Fidelity Sustainable Global Equity Income Fund   | 0.00%  | 4.50%  | 6.00% | 9.50% | 7.00% | 5.00%  |
| Liontrust European Dynamic Fund                  | 2.00%  | 2.50%  | 3.50% | 6.50% | 5.00% | 5.00%  |
| Fidelity Asia Pacific Opportunities Fund         | 0.00%  | 2.00%  | 3.00% | 3.50% | 4.00% | 5.00%  |
| HSBC USA Multi-Factor Equity Fund                | 2.00%  | 3.00%  | 3.00% | 3.50% | 3.50% | 5.00%  |
| Fidelity American Special Situations Fund        | 2.00%  | 2.50%  | 3.00% | 3.50% | 3.50% | 5.00%  |
| BlackRock Natural Resources Growth & Income Fund | 2.00%  | 2.50%  | 3.00% | 3.50% | 4.00% | 4.50%  |
| T Rowe Price Global Focused Growth Equity Fund   | 0.00%  | 3.50%  | 4.00% | 6.50% | 4.00% | 3.50%  |
| Nikko AM Japan Value Fund                        | 0.00%  | 3.00%  | 3.00% | 3.00% | 2.00% | 2.00%  |
| M&G Global Government Bond Fund                  | 16.00% | 10.00% | 9.00% | 7.00% | 4.00% | 0.00%  |
| PIMCO GIS Global Bond Fund GBPH                  | 16.00% | 10.00% | 9.00% | 7.00% | 4.00% | 0.00%  |
| Vanguard Global Credit Bond Fund GBPH            | 10.00% | 8.50%  | 6.50% | 4.00% | 4.00% | 0.00%  |
| Ruffer Diversified Return Fund                   | 5.00%  | 5.00%  | 4.00% | 4.00% | 3.50% | 0.00%  |
| Allianz Gilt Yield Fund                          | 7.00%  | 5.00%  | 5.00% | 0.00% | 0.00% | 0.00%  |
| M&G Strategic Corporate Bond Fund                | 7.00%  | 5.00%  | 5.00% | 0.00% | 0.00% | 0.00%  |
| M&G Emerging Markets Bond Fund                   | 3.00%  | 3.00%  | 0.00% | 0.00% | 0.00% | 0.00%  |
| Cash                                             | 15.00% | 5.00%  | 5.00% | 5.00% | 0.00% | 0.00%  |
| OCF*                                             | 0.43%  | 0.57%  | 0.59% | 0.65% | 0.72% | 0.74%  |

\*OCFs as at 31/12/2022



## Changes & Rationale

### Funds Removed/Allocation Reduced

- **ASI Global Inflation-Linked Bond Fund GBPH**  
We removed this fund to better map the models to our tactical asset allocation, where we are underweight this asset class.
- **Franklin Templeton Legg Mason Brandywine Global Fixed Income Fund**  
We removed this fund to better map the models to our strategic asset allocation. The fund is not GBP-hedged and consequently, we have less GBP exposure across Abacus Active in comparison to other bits of the Investment Toolkit. In addition, the fund is by some margin the most expensive pure fixed income fund held across the Toolkit. We decided to replace this fund with the PIMCO GIS Global Bond Fund GBPH, which is both GBP-hedged and cheaper than this fund.
- **Invesco UK Smaller Companies Equity Fund**  
We removed this fund as we believe economic headwinds in the UK will put continued pressure on smaller companies that tend to be domestically focused relative to their large cap peers. Removing the fund should help reduce volatility across our active fund range.
- **Rathbones Ethical Bond Fund**  
We recently removed this fund from the Abacus ESG models to reflect our greater conviction in other funds within this asset class. The same applies here, where we have decided to replace this fund with the M&G Strategic Corporate Bond Fund. The M&G fund has a stronger track record than the Rathbones fund and is also considerably cheaper.
- **Schroders High Yield Opportunities Fund**  
We removed this fund to better map the models to our tactical asset allocation, where we are underweight this asset class.
- **UBS USA Equity Fund**  
We removed this fund in favour of the HSBC American Index Fund, a low-cost index tracker. The value added from the UBS USA Equity Fund relative to its benchmark has been limited. We believe we can gain similar exposure via an index tracker at a much lower cost. This can complement our other US equity funds with larger style biases.



## Funds Added/Allocation Increased

- + **HSBC American Index Fund**  
See: UBS USA Equity Fund
- + **M&G Strategic Corporate Bond Fund**  
See: Rathbones Ethical Bond Fund
- + **PIMCO GIS Global Bond Fund GBPH**  
See: Franklin Templeton Legg Mason Brandywine Global Fixed Income Fund

## Funds Rebalanced

We adjusted exposure to all other allocations to better map to our strategic asset allocation:

Allianz Gilt Yield Fund  
Fidelity American Special Situations Fund  
Fidelity Asia Pacific Opportunities Fund  
Fidelity Emerging Markets Fund  
Fidelity Sustainable Global Equity Income Fund  
HSBC USA Multi-Factor Equity Fund  
M&G Emerging Markets Bond Fund  
M&G Global Government Bond Fund  
Nikko AM Japan Value Fund  
T Rowe Price Global Focused Growth Equity Fund  
Vanguard Global Credit Bond Fund GBPH

## Performance

Performance over the last 12-months is as follows:

|                               |         |
|-------------------------------|---------|
| Abacus Active Profile 3 - DFM | -14.74% |
| Abacus Active Profile 4 - DFM | -18.20% |
| Abacus Active Profile 5 - DFM | -20.52% |
| Abacus Active Profile 6 - DFM | -21.53% |
| Abacus Active Profile 7 - DFM | -22.65% |
| Abacus Active Profile 8 - DFM | -24.95% |

Source of Data: Titan Asset Management  
Data as of 31/12/2022



## Case Study / Theme

This quarter, our case study focusses on the funds that we added to the Active Profiles in late June 2022, as well as an update on Baillie Gifford American.

As mentioned in the Q3 update, we made extensive changes to the Active Profiles towards the end of June 2022. The table below highlights the performance of the new funds added to the Profiles, taken up to the end of 2022.

| Security                             | Absolute Performance<br>22/06/22 – 31/12/22 | Relative Performance*<br>22/06/22 – 31/12/22 |
|--------------------------------------|---------------------------------------------|----------------------------------------------|
| Baillie Gifford American             | 0.99                                        | -4.54                                        |
| Fidelity Global Sustainable Income   | 6.76                                        | 1.36                                         |
| Fidelity American Special Situations | 6.36                                        | 0.92                                         |
| HSBC US Multi-Factor                 | 5.68                                        | 0.24                                         |
| Invesco UK Opportunities             | 6.82                                        | 0.88                                         |
| Liontrust European Growth Fund       | 12.12                                       | 3.16                                         |
| Fidelity Asia Pacific Opportunities  | 0.07                                        | -1.78                                        |
| BNY Mellon Emerging Income           | 3.04                                        | 1.81                                         |
| BlackRock Natural Resources Funds    | 11.88                                       | 17.72                                        |

It is encouraging to see that all the funds added to the Profiles have increased in value since being bought, with the majority delivering positive relative performance when compared with their respective regional benchmarks.

We have decided to retain a position in Baillie Gifford American, despite a difficult year for the fund, but it remains volatile given the nature of companies the fund holds, and the current macroeconomic environment.

Our belief, however, is that the fund is well managed and that the manager's focus on growth orientated companies will pay off, over the longer-term.

It is pleasing to see that the fund is up from its June lows to the 31st of December 2022 and although it fell in Q4, due to its volatile nature, it was up c15% in Q3.

Performance numbers are quoted net of underlying fund fees and gross of any applicable DFM fee or trading fee, all priced in GBP

\* Relative performance is measured against respective regional benchmarks

All data to 31/12/22

Source: Lipper for Investment Management, Bloomberg, Titan Asset Management

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