ABACUS PASSIVE - DFM PROFILES
QUARTERLY UPDATE (Q4 2022)

tavistock
ASSET MANAGEMENT

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 equites 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.

Passive Profile Allocations

FUND	3	4	5	6	7	8
ABRDN Global Government Bond	10.00%	10.00%	8.00%	4.50%	2.00%	0.00%
Fidelity Index Pacific	1.00%	2.00%	2.00%	3.50%	3.50%	4.00%
HSBC American Index	4.00%	8.00%	8.50%	11.00%	11.00%	12.00%
iShares Continental Europe Equity	2.50%	5.00%	6.00%	7.00%	8.00%	9.00%
iShares UK Gilt All Stock	8.00%	7.00%	4.50%	2.50%	2.00%	0.00%
iShare 100 UK Equity	3.00%	6.00%	8.00%	9.00%	9.00%	11.00%
iShares Corporate Bond	16.00%	9.00%	9.00%	4.50%	3.00%	0.00%
iShare Emerging Markets Equity	0.00%	0.00%	3.50%	9.00%	9.00%	12.00%
iShares Japan Equity	2.50%	3.00%	4.00%	4.50%	4.50%	5.00%
iShare North America Equity	4.00%	8.00%	8.50%	11.00%	11.00%	12.00%
iShares US Equity	4.00%	8.00%	8.50%	11.00%	11.00%	12.00%
Vanguard FTSE UK All Share	3.00%	6.00%	8.00%	9.00%	9.00%	11.00%
Vanguard Global Bond	15.00%	14.00%	10.50%	6.00%	4.50%	0.00%
Vanguard Emerging Market	0.00%	0.00%	0.00%	0.00%	9.00%	12.00%
Vanguard US Government Bond	12.00%	9.00%	6.00%	2.50%	1.50%	0.00%
Cash	15.00%	5.00%	5.00%	5.00%	2.00%	0.00%

OCF*	0.10%	0.10%	0.09%	0.09%	0.10%	0.10%

*OCFs as at 31/12/2022

Changes & Rationale

Funds Removed/Allocations Reduced

ABRDN Global Government Bond Fund
We reduced our exposure to this fund to make way for the US Government bond position. This is a like-for-like asset allocation change and is simply an adjustment of regional allocation.

HSBC America Index Fund
We slightly reduced this position across the models to align the weights with the other US equity positions. This has resulted in a minor change in asset allocation at a portfolio level but provides better harmonisation.

iShares UK Gilts All Stock Index Fund
We have reduced our exposure to this fund to make way for the US Government bond position. This is a like-for-like asset allocation change and is simply an adjustment of regional allocation.

Funds Added/Allocation Increased

iShares Japan Equity Index Fund
We have slightly increased our exposure to the Japan index fund at the higher end of the risk spectrum. This aligns our passive models with the rest of the Investment Toolkit, as well as bringing progression in allocation within the passive models.

Vanguard US Government Bond Index Fund
We brought this fund in as it is a duration neutral and cost-effective way of increasing our US Government bond exposure. With increased see-through from Morningstar, we can see we were underweight US fixed income, and this trade will resolve this underweight. Some of this has been taken in the lower end of the risk spectrum from the Vanguard Global Bond Fund.

Funds Rebalanced

iShares 100 UK Equity Fund
We have trimmed or added to this position by a magnitude of 1%, depending on the risk level of the model. This was done to better align to our strategic asset allocation.

Other small tweaks have been made to existing holdings to better align the Abacus Passive models with our strategic asset allocation, and to map better to Dynamic Planner's risk ratings.

Performance

Performance over the last 12-months is as follows:

Abacus Passive Profile 3 - DFM	-11.91%
Abacus Passive Profile 4 - DFM	-9.76%
Abacus Passive Profile 5 - DFM	-8.84%
Abacus Passive Profile 6 - DFM	-7.25%
Abacus Passive Profile 7 - DFM	-6.50%
Abacus Passive Profile 8 - DFM	-4.77%

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

Case Study / Theme

This quarter, our focus is on long-term investing.

We are dealing with a lot at the minute: an international war, extreme market volatility, industrial action on a large scale, high inflation, rising interest rates, and a mental health crisis. The current economic outlook is causing even the most experienced investors to re-evaluate things.

Against this backdrop it could be tempting to sell and move to cash. Whilst this may provide some form of short-term comfort, anticipating the market's movements or acting on emotion can compromise a portfolio's long-term return potential.

Timing the stock market is next to impossible. No one knows exactly what the markets will do, but it is important to remember that the best and worst trading days often happen close together.

• History tells us that over the long-term, equity returns are significantly higher than bonds and cash

• Remaining invested means that one can participate in any market recovery, which often follows a market fall

• Equity markets have historically recovered from a downturn to deliver positive returns more than inflation

"Very few of us can predict a decline coming", says Thought Leadership Director at T. Rowe Price, Roger Young. "Similarly, it is impossible to anticipate the timing of the rebounds that follow, even with a good understanding of economic indicators."

In other words, it is impossible to predict what the market will do next and trying to catch a falling knife can be very costly.

As Rudyard Kipling said: "If you can keep your wits about you while all others are losing theirs...the world will be yours..."

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