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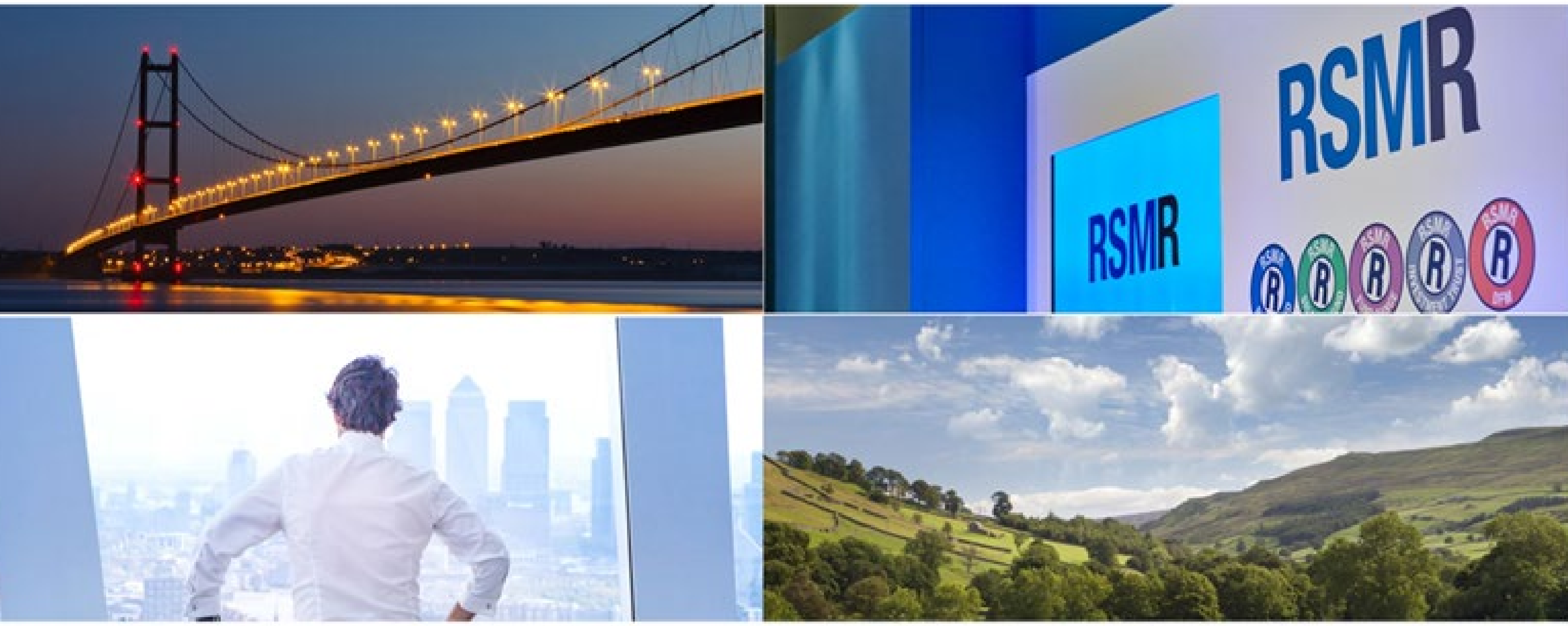

PRIVATE & CONFIDENTIAL

Grayside
Quarterly Portfolio Review
July 2020

Background

The asset allocations and fund selections are reviewed formally on a quarterly basis. This Quarterly Review documents the review that has taken place and any changes resulting from it.

To put this review in context, it should be read in conjunction with our investment bulletin issued earlier in the month.

Quarterly Market Commentary

Following the significant falls in global equity markets during the majority of the first quarter, the rally seen towards the end of March continued into the second quarter, leading to a significant rebound overall, albeit with continued heightened volatility. Central banks and governments globally moved to support economies through unprecedented levels of monetary and fiscal policy intervention, plus social restrictions were gradually relaxed towards the end of the quarter. Investors tried to look through the very short-term economic impact of the ongoing coronavirus crisis towards some form of economic recovery.

Having underperformed by a large margin in Q1, the main UK equity market was again a major underperformer in both sterling and local currency terms. It did produce a double-digit return but remains very negative for the year to date and significantly behind the other major markets, as it is over 1, 3 and 5-year periods. Once again, the US market led the way, rising over 20% in sterling and dollar terms and, in contrast to the UK, is in positive territory for 2020. Europe, Asia and emerging markets performed strongly with returns enhanced in sterling terms due to the relative currency movements. Australia was a strong performer within the Asia Pacific region. Within emerging markets there were no significant differences between the main sub-regions of Latin America, Europe and Asia. Japan produced a double-digit return but, like the UK, this was significantly behind the other major markets, although it had fallen much less in Q1 leading to better year to date performance.

Within equities, growth continued to significantly outperform value, which is relatively unusual during such a strong market rebound. This occurred across all the major regions with the exception of Europe where value marginally outperformed. Quality was another outperforming factor, again continuing the recent trend. Smaller companies outperformed their larger counterparts by large margins across all the major regions with the widest differential seen in Asia.

Fixed income saw a reversal of the previous quarter's relative performance with high yield, emerging market debt and investment grade bonds producing strong returns and significantly outperforming conventional government bonds. UK and global government bonds were positive but there were stronger returns from index/inflation-linked bonds despite the large drop in short-term inflation. Longer-dated UK conventional and index-linked gilts outperformed their shorter-dated counterparts. The performance of currency hedged assets was negatively impacted by the relative movements of sterling.

In other asset classes, UK commercial property returns were again marginally negative, influenced by ongoing difficulties in the retail sector, and also by the broader economic impact of the coronavirus on other sectors, such as leisure and hotels. Globally, property securities performance was very positive, mainly benefiting from the gains in equity markets with Asia and the US the strongest performers. After falling significantly in Q1, the oil price rose over the second quarter as a whole, but this was after further significant falls in the first few weeks of the quarter due to ongoing global demand concerns and lack of reaction to supply from oil producers. The gold price saw another double-digit rise, but it was significantly outperformed by the rise in the silver price.

Comparative Performance - Benchmarks

Each of the portfolios has a composite benchmark for performance comparison purposes whose underlying constituents represent the sector averages for each fund selected within the portfolio (e.g. IA UK Gilt for any UK gilt holdings and IA UK All Companies for any UK equity growth).

Strategic Asset Allocations

We last made some changes to the high-level asset allocations in the April 2019 quarterly review and we are not proposing any changes this quarter.

Below are the strategic asset allocations that became effective from 1st May 2019:

Risk Level	Cautious	Balanced	Progressive	Adventurous	Specialist
Asset Allocation	**%**	**%**	**%**	**%**	**%**
Cash	2.00%	2.00%	2.00%	2.00%	2.00%
UK Equities	7.50%	21.00%	31.50%	36.00%	38.00%
International Equities	7.50%	21.00%	31.50%	42.00%	60.00%
Property	10.00%	10.00%	10.00%	10.00%	0.00%
Fixed Interest	58.00%	36.00%	25.00%	10.00%	0.00%
Absolute Return	15.00%	10.00%	0.00%	0.00%	0.00%
Others	0.00%	0.00%	0.00%	0.00%	0.00%

Growth Portfolios

Portfolio Allocations

The tables below show the model asset allocations of the Growth model portfolios, as at the end of June 2020, and the differences to the strategic asset allocations:

Risk Level	Cautious	Balanced	Progressive	Adventurous	Specialist
Asset Allocation	**%**	**%**	**%**	**%**	**%**
Cash	2.00%	2.00%	2.00%	2.00%	2.00%
UK Equities	7.50%	21.00%	31.50%	36.00%	38.00%
International Equities	7.50%	21.00%	31.50%	42.00%	60.00%
Property	7.00%	7.00%	9.00%	9.00%	0.00%
Fixed Interest	58.00%	34.00%	22.00%	7.00%	0.00%
Absolute Return	15.00%	12.00%	4.00%	4.00%	0.00%
Others	3.00%	3.00%	0.00%	0.00%	0.00%

Differences to SAA

Risk Level	Cautious	Balanced	Progressive	Adventurous	Specialist
Asset Allocation	**%**	**%**	**%**	**%**	**%**
Cash	0.00%	0.00%	0.00%	0.00%	0.00%
UK Equities	0.00%	0.00%	0.00%	0.00%	0.00%
International Equities	0.00%	0.00%	0.00%	0.00%	0.00%
Property	-3.00%	-3.00%	-1.00%	-1.00%	0.00%
Fixed Interest	0.00%	-2.00%	-3.00%	-3.00%	0.00%
Absolute Return	0.00%	2.00%	4.00%	4.00%	0.00%
Others	3.00%	3.00%	0.00%	0.00%	0.00%

Cautious Growth Portfolio

The Cautious Growth Portfolio produced a strong absolute return for its risk profile but underperformed its composite benchmark and its most comparable IA sector average. The portfolio is neutrally positioned except for the underweight to UK commercial property and an overweight to alternatives, which was positive based on relative performance. The latest 1-year portfolio volatility figure has only marginally reduced versus last quarter, but this was also the case for the composite benchmark, and the latest portfolio figure is comfortably below that of the benchmark. The portfolio's average 1-yr volatility since launch has been just below that of the benchmark.

Only having a small exposure to conventional UK gilts and global government bonds was positive for relative performance, but the lack of exposure to UK index-linked gilts was negative. Exposure to risk was positive through the portfolio's emerging market debt, high yield and strategic bond holdings. In terms of relative fund performance, the main negatives were the Vanguard Global Bond Index fund, partly due to the sterling hedged share class, ASI Global Inflation-Linked Bond (although performance versus its own benchmark was better) and M&G Global Macro Bond. The main positives were in the strategic bond funds with the Schroder Strategic Credit fund producing a double-digit return. One anomaly to note is regarding the TwentyFour Monument Bond fund, which sits in the IA Specialist sector, which is a disparate sector containing a wide variety of funds. The TwentyFour fund was just under 13% behind that sector average over the quarter.

The portfolio has 15% in direct equity funds, which helped absolute returns. The core nature of the Ninety One (ex-Investec) UK Alpha fund meant it underperformed the average UK All Companies fund but it did outperform the main UK equity index. Both global equity funds underperformed the Global sector average and the main global equity index, although absolute returns were strong, with the Artemis Global Growth fund underperforming by a reasonable margin. Regional and sector allocation were negative but stock selection, particularly in China, was the main negative factor.

Absolute return/alternatives exposure was mixed in terms of absolute performance. The Invesco Global Targeted Returns fund produced a small negative return and underperformed its sector average by a reasonable margin. The BMO UK Property fund also produced a negative return, as commercial property saw further devaluations, but the proxy holding of VT Gravis UK Infrastructure produced a strong positive return. The fund, however, along with the Architas fund, suffered on a relative basis from being in the IA Specialist sector and the funds underperformed by around 9% and by over 10% respectively.

Changes

We recommend maintaining the overall balance of the portfolio, but we are recommending some further changes to the fixed income portion of the portfolio.

We recommend removing the M&G Global Floating Rate High Yield fund, as the lack of inflation and movements in interest rates will likely make it difficult for this fund to outperform more conventional credit-based strategies. This fund's weighting will be re-allocated the two existing strategic bond holdings (M&G and Schroder) plus the defensive BNY Mellon fund.

Balanced Growth Portfolio

The Balanced Growth Portfolio produced a strong absolute return for its risk profile but underperformed its composite benchmark and its most comparable IA sector average. The portfolio is neutrally positioned to equities but underweight to fixed interest and UK commercial property and overweight to absolute return and alternatives, which was mixed based on relative fund performance. The latest 1-year portfolio volatility figure has only marginally reduced versus last quarter, but this was also the case for the composite benchmark, and the latest portfolio figure is comfortably below that of the benchmark. The portfolio's average 1-yr volatility since launch has been just below that of the benchmark.

Only having a small exposure to conventional UK gilts and global government bonds was positive for relative performance, but the lack of exposure to UK index-linked gilts was negative. Exposure to risk was positive through the portfolio's emerging market debt, corporate bond and strategic bond holdings. In terms of relative fund performance, the main negatives were the Vanguard Global Bond

Index fund, partly due to the sterling hedged share class, ASI Global Inflation-Linked Bond (although performance versus its own benchmark was better), M&G Global Macro Bond and Artemis Strategic Bond.

All four UK equity funds outperformed the main UK equity index but only the UK Buffettology fund outperformed the IA UK All Companies sector average, albeit it did so by a reasonably large margin.

Global equity fund selection was also very mixed, as you would expect from funds with very different investment styles. There was strong outperformance from the growth-orientated Baillie Gifford International fund, but, unusually, there was also outperformance from the value-orientated Ninety One Global Special Situations fund. The other two funds underperformed with the Artemis Global Growth fund underperforming by a reasonable margin. Regional and sector allocation were negative but stock selection, particularly in China, was the main negative factor.

Absolute return/alternatives exposure was mixed in terms of absolute performance. The Invesco Global Targeted Returns fund produced a small negative return and underperformed its sector average by a reasonable margin. The BMO UK Property fund also produced a negative return, as commercial property saw further devaluations, but the proxy holding of VT Gravis UK Infrastructure produced a strong positive return. The fund, however, along with the Architas fund, suffered on a relative basis from being in the IA Specialist sector and the funds underperformed by around 9% and by over 10% respectively.

Changes

We recommend maintaining the overall balance of the portfolio and are not recommending any fund changes this quarter.

Progressive Growth Portfolio

The Progressive Growth Portfolio produced a strong absolute return for its risk profile but underperformed its composite benchmark and its most comparable IA sector average. The portfolio is neutrally positioned to equities but underweight to fixed interest and UK commercial property and overweight to absolute return, which was mixed based on relative performance. The latest 1-year portfolio volatility figure has only marginally reduced versus last quarter, but this was also the case for the composite benchmark, and the latest portfolio figure is in line with that of the benchmark. The portfolio's average 1-yr volatility since launch remains above that of the benchmark.

Having no direct exposure to conventional UK gilts was positive for relative performance but having no UK index-linked gilts was negative. Exposure to risk was positive through the portfolio's emerging market debt, corporate bond and strategic bond holdings. In terms of relative fund performance, the main negative was the Templeton Global Total Return Bond fund, which underperformed its sector average by a reasonably large margin. Currency positioning was the main negative, including a short position in the Australian dollar and positions in Argentina and Brazil.

Five of the six UK equity funds outperformed the main UK equity index with only the very value-orientated Schroder Recovery fund underperforming. Specific mid-cap exposure was positive, but the Merian UK Mid-Cap fund also outperformed its index by a significant margin. The UK Buffettology fund outperformed the IA UK All Companies sector average by a reasonably large margin.

Global equity fund selection was also very mixed, as you would expect from funds with very different investment styles. There was strong outperformance from the growth-orientated Baillie Gifford International fund, but, unusually, there was also outperformance from the value-orientated Ninety One Global Special Situations fund.

Regionally, the Artemis US Select fund underperformed its sector average by a reasonable margin. In Japan, there was contrasting performance from two funds with very different investment styles. The JPM fund outperformed by a significant margin whereas the Man GLG fund underperformed by a significant margin. The former benefited from positive sector allocation but mainly from positive stock selection across a number of sectors whereas the latter continued to suffer from its contrarian, value investment style, but the fund also underperformed its value-based benchmark index.

Within absolute return/alternatives, the BMO UK Property fund produced a negative return, as commercial property saw further devaluations, but the proxy holding of VT Gravis UK Infrastructure produced a strong positive return. The fund, however, suffered on a relative basis from being in the IA Specialist sector with the fund underperforming by around 9%.

Changes

We recommend maintaining the overall balance of the portfolio, but we are recommending a couple of fund changes.

Firstly, we recommend removing the Templeton Global Total Return Bond fund. We have been disappointed with more recent performance and the fund is currently positioned with a reasonable level of emerging markets exposure and continues to have low duration, which is a combination that may struggle in the short-term. The flexible **M&G Global Macro Bond** fund, which is already held in other portfolios, is the suggested replacement.

We also recommend removing the Man GLG Japan Core Alpha fund, which has struggled to outperform its own benchmark index recently, and re-allocating this into the JPM Japan fund. It is more difficult to see the value style outperforming in Japan.

Adventurous Growth

The Adventurous Growth Portfolio produced a strong absolute return but marginally underperformed its composite benchmark, although it outperformed its most comparable IA sector average. The portfolio is neutrally positioned to equities but underweight to fixed interest and UK commercial property and overweight to absolute return, which was mixed based on relative fund performance. The latest 1-year portfolio volatility figure has only marginally reduced versus last quarter, but this was also the case for the composite benchmark. The latest portfolio figure is above that of the benchmark and the portfolio's average 1-yr volatility since launch remains above that of the benchmark, albeit not significantly in either case.

Exposure to risk was positive through the portfolio's two strategic bond holdings. In terms of relative fund performance, this was mixed, as the Artemis fund underperformed and the TwentyFour fund outperformed their sector average by similar margins.

Five of the six UK equity funds outperformed the main UK equity index with only the very value-orientated Schroder Recovery fund underperforming. Specific mid-cap exposure was positive, but the

Merian UK Mid-Cap fund also outperformed its index by a significant margin. The UK Buffettology fund outperformed the IA UK All Companies sector average by a reasonably large margin.

In overseas equities, US equity fund selection was negative, mainly due to the Artemis US Select fund underperforming its sector average by a reasonable margin. Fund selection in Europe was positive due to strong outperformance from BlackRock European Dynamic, benefiting from positive sector positioning (particularly the overweight to Information Technology) and good stock selection. Relative to the sector average, fund selection in Asia was negative, but both funds performed better versus their respective benchmark indices. In Japan, there was contrasting performance from two funds with very different investment styles. The JPM Japan fund outperformed by a significant margin whereas the Man GLG fund underperformed by a significant margin. The former benefited from positive sector allocation but mainly from positive stock selection across a number of sectors whereas the latter continued to suffer from its contrarian, value investment style, but the fund also underperformed its value-based benchmark index. There was contrasting fund performance in emerging markets with the Lazard fund underperforming by a large margin but the JPM Emerging Markets fund outperformed by a reasonable margin. The former suffered from negative stock selection in China, Brazil and South Africa whereas the latter benefited from good stock selection, particularly in the Financials and Communications sector, with three stocks rising over 100% during the quarter.

Within absolute return/alternatives, the Natixis fund regained some its losses from a very difficult first quarter with a double-digit return. The BMO UK Property fund produced a negative return, as commercial property saw further devaluations, but the proxy holding of VT Gravis UK Infrastructure produced a strong positive return. The fund, however, suffered on a relative basis from being in the IA Specialist sector with the fund underperforming by around 9%.

Changes

We recommend maintaining the overall balance of the portfolio, but we are recommending a number of fund changes.

We recommend removing the Man GLG Japan Core Alpha fund, as it is more difficult to see the value style outperforming in Japan and the fund has struggled to outperform its own benchmark index recently. Given the allocation, we recommend adding the **First State Japan Focus** fund at an equal weighting to the existing JPM fund.

We also recommend removing the value-biased Lazard Emerging Markets fund. The fund has performed OK versus the EM value index but, like Japan, it is more difficult to see the value style outperforming. The suggested replacement is **Vanguard Emerging Markets**, which is already held in the Progressive portfolio and provides more core exposure to the region, including some value exposure through some of the underlying managers.

Finally, we will be removing our fund rating from the Natixis H2O MultiReturns fund and our suggested replacement is the **SVS Church House TENAX Absolute Return Strategies** fund that is already held within other portfolios.

Specialist Growth Portfolio

The Specialist Growth Portfolio produced a very strong absolute return and outperformed both its composite benchmark and its most comparable IA sector average. The latest 1-year portfolio volatility figure has only marginally reduced versus last quarter, but this was also the case for the composite benchmark. The latest portfolio figure is above that of the benchmark and the portfolio's average 1-yr volatility since launch remains above that of the benchmark, albeit not significantly in either case.

Four of the five mainstream UK equity funds outperformed the main UK equity index with only the very value-orientated Schroder Recovery fund underperforming. The UK Buffettology fund outperformed the IA UK All Companies sector average by a reasonably large margin. Specific mid-cap exposure was positive, but the Merian UK Mid-Cap fund also outperformed its index by a significant margin. Specific smaller companies exposure would have been more positive but for reasonably large underperformance from the Franklin UK Smaller Companies fund.

In overseas equities, US equity fund selection was negative, mainly due to the Artemis US Select fund underperforming its sector average by a reasonable margin. Fund selection in Europe was positive due to strong outperformance from BlackRock European Dynamic, benefiting from positive sector positioning (particularly the overweight to Information Technology) and good stock selection. Relative to the sector average, fund selection in Asia was mixed. The First State and BlackRock funds underperformed but both funds performed better versus their respective benchmark indices. There was significant outperformance from Baillie Gifford Pacific. In Japan, there was contrasting performance from two funds with very different investment styles. The JPM Japan fund outperformed by a significant margin whereas the Man GLG fund underperformed by a significant margin. The former benefited from positive sector allocation but mainly from positive stock selection across a number of sectors whereas the latter continued to suffer from its contrarian, value investment style, but the fund also underperformed its value-based benchmark index. There was also contrasting fund performance in emerging markets with the Lazard fund underperforming by a large margin but the JPM Emerging Markets fund outperformed by a reasonable margin. The former suffered from negative stock selection in China, Brazil and South Africa whereas the latter benefited from good stock selection, particularly in the Financials and Communications sector, with three stocks rising over 100% during the quarter. Finally, the Allianz All China fund performed very strongly relative to its sector average and its own benchmark with positive stock selection across all the major sectors.

Changes

We recommend maintaining the overall balance of the portfolio, but we are recommending a number of fund changes.

We recommend removing the Man GLG Japan Core Alpha fund, as it is more difficult to see the value style outperforming in Japan and the fund has struggled to outperform its own benchmark index recently. Given the allocation, we recommend adding the **First State Japan Focus** fund at an equal weighting to the existing JPM fund.

We also recommend removing the value-biased Lazard Emerging Markets fund. The fund has performed OK versus the EM value index but, like Japan, it is more difficult to see the value style outperforming. The suggested replacement is **Vanguard Emerging Markets**, which is already held in the Progressive portfolio and provides more core exposure to the region, including some value exposure through some of the underlying managers.

Income Portfolios

Portfolio Allocations

The tables below show the current asset allocations of the Income model portfolios, as at the end of March 2020, and the differences to the strategic asset allocations:

Risk Level	Cautious	Balanced	Progressive
Asset Allocation	**%**	**%**	**%**
Cash	2.00%	2.00%	2.00%
UK Equities	7.50%	21.00%	31.50%
International Equities	7.50%	21.00%	31.50%
Property	10.00%	9.00%	9.00%
Fixed Interest	58.00%	34.00%	21.00%
Absolute Return	4.00%	4.00%	0.00%
Others	11.00%	9.00%	5.00%

Differences to SAA

Risk Level	Cautious	Balanced	Progressive
Asset Allocation	**%**	**%**	**%**
Cash	0.00%	0.00%	0.00%
UK Equities	0.00%	0.00%	0.00%
International Equities	0.00%	0.00%	0.00%
Property	0.00%	-1.00%	-1.00%
Fixed Interest	0.00%	-2.00%	-4.00%
Absolute Return	-11.00%	-6.00%	0.00%
Others	11.00%	9.00%	5.00%

Cautious Income Portfolio

The Cautious Income Portfolio produced a strong absolute return for its risk profile but underperformed its composite benchmark and its most comparable IA sector average. The overweight to alternatives and underweight to absolute return was positive based on relative fund performance. The current historic yield is around 3.55%. The latest 1-year portfolio volatility figure has only marginally reduced versus last quarter, but this was also the case for the composite benchmark, and the latest portfolio figure is comfortably below that of the benchmark. The portfolio's average 1-yr volatility since launch is around the same level as that of the benchmark.

Having no direct exposure to conventional UK gilts and relatively low exposure to global government bonds was positive for relative performance, but the lack of UK index-linked was negative. Exposure to risk was positive through the portfolio's emerging market debt, high yield and strategic bond holdings. In terms of relative fund performance, the main negative was the Templeton Global Bond fund. Currency positioning was the main negative, including a short position in the Australian dollar and positions in Argentina and Brazil. The main positives were in the corporate and strategic bond funds with good outperformance from BlackRock Corporate Bond and TwentyFour Dynamic Bond.

In UK equities, the Threadneedle fund underperformed its sector average but did outperform the main UK equity index. The Fidelity Global Enhanced Income fund also underperformed its sector average with the covered call overlay strategy detracting during strongly rising markets.

Absolute return/alternatives exposure was positive overall in terms of absolute performance. The BMO UK Property fund produced a negative return, as commercial property saw further devaluations, but the proxy holding of VT Gravis UK Infrastructure produced a strong positive return. The fund, however, along with the Architas fund, suffered on a relative basis from being in the IA Specialist sector and the funds underperformed by around 9% and by over 10% respectively. The Ninety One and Church House funds produced strong returns for their risk profile.

Changes

We recommend maintaining the overall balance of the portfolio, but we are recommending some further changes to the fixed income portion of the portfolio.

We recommend removing the M&G Global Floating Rate High Yield fund, as the lack of inflation and movements in interest rates will likely make it difficult for this fund to outperform more conventional credit-based strategies. This fund's weighting will be re-allocated across the existing strategic bond holdings.

We also recommend removing the Templeton Global Bond fund. We have been disappointed with more recent performance and the fund is currently positioned with a reasonable level of emerging markets exposure and continues to have low duration, which is a combination that may struggle in the short-term. The less volatile **LeggMason Brandywine Global Fixed Income** fund, which is already held in the equivalent growth portfolio, is the suggested replacement.

Balanced Income Portfolio

The Balanced Income Portfolio produced a strong absolute return for its risk profile but underperformed its composite benchmark and its most comparable IA sector average. The small underweight to property, underweight to fixed income, overweight to alternatives and underweight to absolute return were positive overall. The current historic yield is just over 3.9%. The latest 1-year portfolio volatility figure has only marginally reduced versus last quarter, but this was also the case for the composite benchmark, and the latest portfolio figure is below that of the benchmark. The portfolio's average 1-yr volatility since launch is slightly above that of the benchmark.

Having no direct exposure to conventional UK gilts and relatively low exposure to global government bonds was positive for relative performance, but the lack of UK index-linked was negative. Exposure to risk was positive through the portfolio's emerging market debt, high yield and strategic bond holdings. In terms of relative fund performance, the main negative was the Templeton Global Total

Return Bond fund. Currency positioning was the main negative, including a short position in the Australian dollar and positions in Argentina and Brazil.

Within UK equities relative fund performance was mixed. All but the Troy Trojan Income fund outperformed the main UK equity index but only the Marlborough fund outperformed versus their sector average. Global equity fund selection was similar, as the Fidelity and Threadneedle funds underperformed but there was strong outperformance from TB Saracen Global Income & Growth, which benefited from its larger weightings to Financials and Industrials and low/zero weighting to the more defensive Utilities, Consumer Staples and Telecoms sectors.

Absolute return/alternatives exposure was positive overall in terms of absolute performance. The BMO UK Property fund produced a negative return, as commercial property saw further devaluations, but the proxy holding of VT Gravis UK Infrastructure produced a strong positive return. The fund, however, along with the Architas fund, suffered on a relative basis from being in the IA Specialist sector and the funds underperformed by around 9% and by over 10% respectively. The Ninety One and Church House funds produced strong returns for their risk profile.

Changes

We recommend maintaining the overall balance of the portfolio, but we are recommending some further changes to the fixed income portion of the portfolio.

We recommend removing the M&G Global Floating Rate High Yield fund, as the lack of inflation and movements in interest rates will likely make it difficult for this fund to outperform more conventional credit-based strategies. This fund's weighting will be re-allocated to a new holding in the **TwentyFour Dynamic Bond** fund, which is already held in the Cautious Income portfolio.

We also recommend removing the Templeton Global Total Return Bond fund. We have been disappointed with more recent performance and the fund is currently positioned with a reasonable level of emerging markets exposure and continues to have low duration, which is a combination that may struggle in the short-term. The less volatile **LeggMason Brandywine Global Fixed Income** fund, which is also being added to the Cautious Income portfolio, is the suggested replacement.

Progressive Income Portfolio

The Progressive Income Portfolio produced a strong absolute return for its risk profile but underperformed its composite benchmark and its most comparable IA sector average. The small underweight to property, underweight to fixed income and overweight to alternatives were positive overall. The current historic yield is just under 4.5%. The latest 1-year portfolio volatility figure has only marginally reduced versus last quarter, but this was also the case for the composite benchmark, and the latest portfolio figure is below that of the benchmark. The portfolio's average 1-yr volatility since launch is almost in line with that of the benchmark.

Having no direct exposure to conventional UK gilts was positive for relative performance, but the lack of UK index-linked was negative. Both of these asset classes are very low yielding at present. Exposure to risk was positive through the portfolio's emerging market debt, high yield and strategic bond holdings. In terms of relative fund performance, the main negative was the Templeton Global Total Return Bond fund. Currency positioning was the main negative, including a short position in the Australian dollar and positions in Argentina and Brazil.

Within UK equities relative fund performance was mixed. Only two of the funds, Troy Trojan Income and Schroder Income Maximiser, underperformed the main UK equity index but only the Marlborough fund outperformed versus their sector average. Global equity fund selection was similar, as the Fidelity, Threadneedle and Vanguard funds underperformed but there was strong outperformance from TB Saracen Global Income & Growth, which benefited from its larger weightings to Financials and Industrials and low/zero weighting to the more defensive Utilities, Consumer Staples and Telecoms sectors.

Absolute return/alternatives exposure was positive overall in terms of absolute performance. The BMO UK Property fund produced a negative return, as commercial property saw further devaluations, but the proxy holding of VT Gravis UK Infrastructure produced a strong positive return. The fund, however, suffered on a relative basis from being in the IA Specialist sector and the fund underperformed by around 9%. The Ninety One fund produced a strong return for its risk profile.

Changes

We recommend maintaining the overall balance of the portfolio, but we are recommending some further changes to the fixed income portion of the portfolio.

We recommend removing the M&G Global Floating Rate High Yield fund, as the lack of inflation and movements in interest rates will likely make it difficult for this fund to outperform more conventional credit-based strategies. This fund's weighting will be re-allocated to a new holding in the **TwentyFour Dynamic Bond** fund, which is already held in the Cautious Income portfolio and is being added to Balanced Income.

We also recommend removing the Templeton Global Total Return Bond fund. We have been disappointed with more recent performance and the fund is currently positioned with a reasonable level of emerging markets exposure and continues to have low duration, which is a combination that may struggle in the short-term. The less volatile **LeggMason Brandywine Global Fixed Income** fund, which is also being added to the Cautious and Balanced Income portfolios, is the suggested replacement.

SRI Portfolios

Strategic Asset Allocations

We last made some changes to the high-level asset allocations in the July 2019 quarterly review and we are not proposing any changes this quarter.

Below are the strategic asset allocations that became effective from 1st August 2019:

Risk Level	SRI Cautious	SRI Balanced	SRI Progressive
Asset Allocation	**%**	**%**	**%**
Platform Charge	2.00%	2.00%	2.00%
UK Equities	9.00%	22.00%	30.50%
International Equities	9.00%	22.00%	28.00%
Specialist Equities	0.00%	0.00%	3.00%
Fixed Interest	72.00%	49.00%	31.50%
Cash	8.00%	5.00%	5.00%

Portfolio Allocations

The tables below show the model asset allocations of the SRI model portfolios, as at the end of June 2020, and the differences to the main strategic asset allocations:

Risk Level	SRI Cautious	SRI Balanced	SRI Progressive
Asset Allocation	**%**	**%**	**%**
Platform Charge	2.00%	2.00%	2.00%
UK Equities	9.00%	22.00%	31.50%
International Equities	11.00%	24.00%	34.00%
Specialist Equities	0.00%	0.00%	0.00%
Fixed Interest	70.00%	47.00%	29.50%
Cash	8.00%	5.00%	3.00%

Differences to SAA

Risk Level	SRI Cautious	SRI Balanced	SRI Progressive
Asset Allocation	**%**	**%**	**%**
Platform Charge	0.00%	0.00%	0.00%
UK Equities	0.00%	0.00%	1.00%
International Equities	2.00%	2.00%	6.00%
Specialist Equities	0.00%	0.00%	-3.00%
Fixed Interest	-2.00%	-2.00%	-2.00%
Cash	0.00%	0.00%	-2.00%

Portfolio Performance and Volatility

All three portfolios produced strong positive returns for their risk profiles, but each underperformed their respective composite benchmarks and most comparative IA sector averages, albeit not by significant margins. The underweight to fixed income and overweight to equities was very positive. The latest 1-year portfolio volatility figures have only marginally reduced versus last quarter, but this was also the case for the composite benchmarks, and the latest Cautious and Balanced portfolio figures are below that of the benchmark whilst the Progressive figure was above benchmark. The portfolios average 1-yr volatility since launch are all below that of their respective benchmarks.

Underlying Fund Performance

Most ethical fixed income funds do not invest in conventional UK gilts or UK index-linked gilts, which was a positive for absolute returns this quarter, as they underperformed credit markets. Fund performance versus the fixed income index in the composite benchmark was negative, as only the Liontrust SF Corporate Bond fund outperformed this index. The main underperformer was the Amity Short Dated Bond fund.

All of the UK equity funds across the portfolios, with the exception of Unicorn UK Ethical Income, outperformed the main UK equity index. The majority also outperformed their respective IA sector averages, the exceptions being Unicorn and the Eden Tree Amity UK fund, albeit by a relatively small margin. The strongest performer was ASI UK Ethical Equity, helped by positive sector allocation, including no exposure to Banks and very little exposure to Oil & Gas stocks plus an overweight to Technology. Stock selection was very positive, particularly in the Consumer Goods, Consumer Services and Financials sectors.

Global equity fund performance was not quite as strong, as only two of the six funds outperformed the global equity index in the composite benchmark whilst another fund performed virtually in line. The main underperformers were the Stewart Investors Worldwide Sustainability fund, reversing the previous quarter’s strong outperformance, and Quilter Ethical Equity, whilst the Pictet Global Environment Opportunities and WHEB Sustainability funds were the strongest performers.

Changes

We are not recommending any changes this quarter, but we are conscious of the heightened volatility given that the portfolios only contain equities and fixed income (mainly corporate bonds).

Summary

The economic and social impact of the coronavirus has been significant with the worst economic data, reflecting activity in the second quarter, yet to come. However, as we have said before, markets are generally forward-looking and most of the negative impact has already been reflected in equity market prices, particularly during the downturn in the first quarter. The rally started towards the end of the first quarter, after the initial flood of coronavirus-related news, had started to slow. The question now is whether markets have been too optimistic.

The reaction of global central banks and governments has been to do whatever is necessary to stabilise the current situation, to support economies as much as they can, support sectors and companies in difficulty and to support consumers/workers in the short-term. This is in addition to what was already a supportive monetary policy environment with low interest rates and contained inflation. Whether these extreme policies can do any more than simply stabilise the current situation still remains to be seen and certain government support will be reduced or removed at some point (e.g. the UK's Job Retention scheme). The future direction of equity markets and other asset classes is very difficult to determine with any accuracy due to the degree of uncertainty. Furthermore, from a UK and European perspective, Brexit, seemingly a forgotten issue, is likely to rear its head again in coming months, as the end of June deadline for an extension has been and gone, which means the UK will leave the EU on the 31st December with or without a deal.

Headline equity market valuations look relatively expensive on measures such as the price/earnings ratio and it is difficult to argue that equities look attractive on an absolute basis due to the significant falls in forecast corporate earnings. On a relative basis, however, equities are still our favoured asset class and one of the few areas where you can expect to generate any form of meaningful return over the medium to long-term. The level of government and central bank support remains significant, providing liquidity that needs to find a home, and with the unattractive rates on cash and fixed income yields at historic lows, the home is likely to be in equity markets. Many companies and sectors continue to be directly impacted by social restrictions – some negatively (travel companies, airlines, hotels, restaurants, service companies) and some positively (online retail, DIY stores, home delivery, gaming, online TV/video). The gradual lifting of restrictions will help, but how entrenched have some of our short-term activities become (e.g. working from home, food delivery, online shopping)?

We have slightly altered some of our regional equity views. We retain a marginal preference for the UK market, as it has significantly lagged other markets for some time now and looks attractive on a relative valuation basis, although we would emphasise the benefits of an active approach. We have reduced our positive view on the US back to neutral, as the market has continued to significantly outperform, it looks more expensive on a relative basis, news on the US elections will become more prevalent and there are increasing outbreaks of the coronavirus in certain US states. We maintain our marginally positive view on Asia and Japan and our negative view on Europe, but we have moved marginally negative on emerging markets, as the economic impact of the coronavirus is likely to be much more significant than in developed markets and the reaction from governments and central banks, so far, has been relatively muted. We continue to believe that a focus on quality, whether that is combined with the 'value' or 'growth' style, will be beneficial.

In fixed interest, global government bond yields have continued to fall and we have reaffirmed our negative medium to longer-term view on the asset class, including UK gilts, although they may continue to provide a relative safe haven in the short term. We have moved very negative on UK index-linked bonds, as they provide no value at current levels and their long duration nature makes them vulnerable to any positive news. We remain slightly negative on global index-linked bonds, high yield and emerging market debt, but have moved more positive on investment grade bonds. Credit spreads had widened significantly in the first quarter and, despite tightening in Q2, we believe they represent good value, helped by the monetary and fiscal policy support.

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