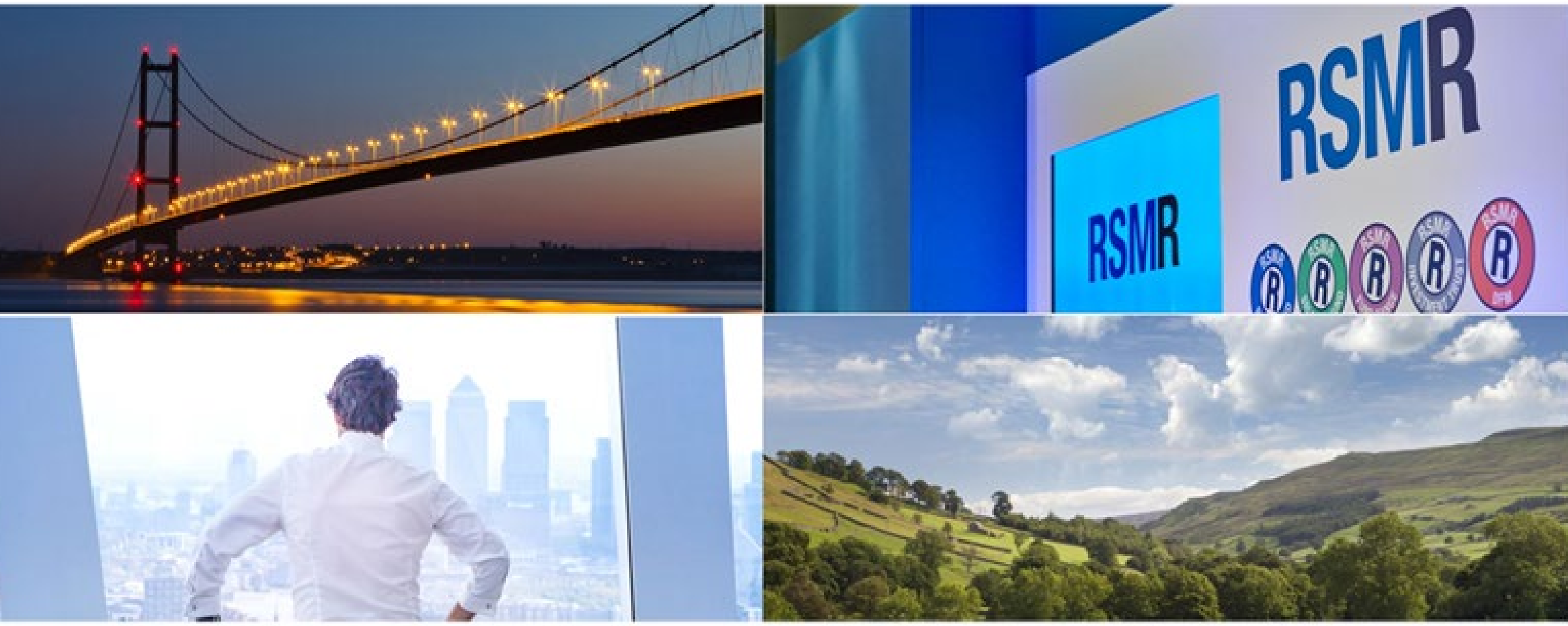

PRIVATE & CONFIDENTIAL

Grayside
Quarterly Portfolio Review
October 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

The third quarter saw a continuation of the rebound in global equity markets seen during the previous quarter, albeit not to the same extent, and the global equity index is now in positive territory for 2020 despite the ongoing economic and social impact of the global pandemic. Central banks and governments globally have continued to support economies with unprecedented levels of monetary and fiscal policy intervention. Investors have tried to look through the very short-term economic impact of the ongoing coronavirus crisis towards some form of economic recovery.

This quarter, and 2020 as a whole, saw a large variation in performance across equity markets and across investment styles. The UK equity market significantly underperformed again this quarter, although relative currency movements meant the level of underperformance was much lower in sterling terms than in local currency terms. The main UK index is over 20% behind the global index during 2020 alone.

The US market was, again, one of the outperformers, and has been a key driver of overall market returns, benefiting from having a relatively high weighting to the technology sector, which has proven very popular with investors. There was strong performance from Asia, led by China, Korea, Taiwan and India, but there was a very negative performance from the ASEAN region. Emerging Asia was the key driver within emerging markets, which also performed strongly as a region, as there were large negative returns from Eastern Europe and Latin America. Relative currency movements led to lower returns for sterling-based investors across all the major regions with Europe the least impacted.

Within equities, growth continued to significantly outperform value. This occurred across all the major regions and was particularly noticeable in the UK, Asia and emerging markets. Quality was another outperforming factor, again continuing the recent trend. Smaller companies outperformed their larger counterparts across all the major regions with the widest differentials seen in the UK and Europe.

Currency movements played a big part in the absolute and relative performance of the fixed income sub-asset classes with sterling-based and sterling-hedged assets providing superior returns. UK conventional gilts produced a negative return but outperformed their unhedged global equivalent. UK index-linked returns were also negative and underperformed their global equivalent. Credit returns were generally more positive with good returns from global high yield, but emerging market debt had a difficult quarter and was the worst performer of the main fixed income asset classes.

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 negative, not benefiting from the gains in equity markets, with Asia and the US the weakest performers in a reversal of the previous quarter. After rallying significantly in Q2, the oil price fell again this quarter, the gold price was relatively flat, but there was a further strong 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 September 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 small negative return and underperformed its composite benchmark and its most comparable IA sector average. The portfolio remains 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 is virtually the same as last quarter, which is the same as for the composite benchmark, but the latest portfolio figure remains 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. The lack of exposure to UK index-linked gilts was also positive. Exposure to risk was mixed, as emerging market debt was negative, but investment grade credit and strategic bond holdings were positive. In terms of relative fund performance, the main negative was the M&G Global Macro Bond fund. All four investment grade/strategic bond funds outperformed with the Rathbone Ethical Bond fund the most notable outperformer. The selection of more defensive/absolute return funds versus government bonds was positive, but, as we have highlighted previously , the TwentyFour Monument Bond fund sits in the IA Specialist sector and performance was behind that sector average over the quarter.

The portfolio has 15% in direct equity funds, which would have been more positive for absolute returns but for having half of the exposure to UK equities. The core nature of the Ninety One (ex-Investec) UK Alpha fund meant it underperformed the average UK All Companies fund but it only marginally underperformed the main UK equity index. Both global equity funds underperformed the Global sector average by reasonable margins with the Artemis Global Growth fund producing a negative return.

Absolute return/alternatives exposure was mixed in terms of absolute performance. The Invesco Global Targeted Returns fund produced a negative return and underperformed its sector average by a reasonable margin. The BMO UK Property fund also produced a very small negative return and the proxy holding of VT Gravis UK Infrastructure fared little better. The fund, along with the Architas fund, suffered on a relative basis from being in the IA Specialist sector.

Changes

We have changed our previously positive view on UK equities back to neutral and, given the current balance of the portfolio, we would recommend reducing UK equity exposure in favour of global equities. At the same time, we recommend replacing the **Artemis Global Growth** fund with the **Stewart Investors Worldwide Sustainability** fund. This is a core, global fund managed within a very experienced team and, as the name suggests, there is a specific focus on sustainability.

We also recommend the removal of the **Invesco Global Targeted Returns** fund, whose performance has been disappointing and has failed to provide the required portfolio diversification. The recommended replacement is **Ninety One Diversified Income**, another defensive multi-asset fund with low volatility.

Balanced Growth Portfolio

The Balanced Growth Portfolio produced a small positive return 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 marginally positive overall. The latest 1-year portfolio volatility figure is virtually the same as last quarter, which is the same as for the composite benchmark, but the latest portfolio figure remains 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. The lack of exposure to UK index-linked gilts was also positive. Exposure to risk was mixed, as emerging market debt was negative, but investment grade credit and strategic bond holdings were positive. In terms of relative fund performance, the main negative was the M&G Global Macro Bond fund. Two of the three investment grade/strategic bond funds outperformed with the Rathbone Ethical Bond fund the most notable outperformer. The selection of the more defensive BNY Mellon defensive/absolute return funds over government bonds was positive.

The portfolio has 42% in direct equity funds, which would have been more positive for absolute returns but for having half of the exposure to UK equities. The core nature of the Ninety One (ex-Investec) UK Alpha fund meant it underperformed the average UK All Companies fund but it only marginally underperformed the main UK equity index. The remaining three funds all outperformed the index with particularly good outperformance from CFP SDL UK Buffettology.

Three of the four global equity funds underperformed the IA Global sector average. The Artemis Global Growth fund produced a negative return and underperformed by a reasonable margin, but a more significant underperformer was Ninety One Global Special Situations. The fund suffered from its distinct value bias, a style that has continued to underperform, plus its large overweight to UK equities. Despite the underperformance, the fund provides diversification of investment styles and some exposure to value in the event of a performance turn around. By contrast, there was reasonably large outperformance from the growth-orientated Baillie Gifford International fund.

Absolute return/alternatives exposure was mixed in terms of absolute performance. The Invesco Global Targeted Returns fund produced a negative return and underperformed its sector average by a reasonable margin. The BMO UK Property fund also produced a very small negative return and the proxy holding of VT Gravis UK Infrastructure fared little better. The fund, along with the Architas fund, suffered on a relative basis from being in the IA Specialist sector.

Changes

We have changed our previously positive view on UK equities back to neutral and, given the current balance of the portfolio, we would recommend reducing UK equity exposure in favour of global equities. At the same time, we recommend replacing the **Artemis Global Growth** fund with the **Stewart Investors Worldwide Sustainability** fund. This is a core, global fund managed within a very experienced team and, as the name suggests, there is a specific focus on sustainability.

We also recommend the removal of the **Invesco Global Targeted Returns** fund, whose performance has been disappointing and has failed to provide the required portfolio diversification. The recommended replacement is **Ninety One Diversified Income**, another defensive multi-asset fund with low volatility.

Progressive Growth Portfolio

The Progressive Growth Portfolio produced a positive return, but very marginally 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 positive overall. The latest 1-year portfolio volatility figure is virtually the same as last quarter, which is the same as for the composite benchmark. The latest portfolio is very marginally below that of the benchmark but 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, as was having no UK index-linked gilts. Exposure to risk was mixed, as emerging market debt was negative, but investment grade credit and strategic bond holdings were positive. In terms of relative fund performance, the main negative was the M&G Global Macro Bond fund. Three of the four investment grade/strategic bond funds outperformed with the Rathbone Ethical Bond and TwentyFour Dynamic Bond funds the most notable outperformers.

The portfolio has 63% in direct equity funds, which would have been more positive for absolute returns but for having half of the exposure to UK equities. Four of the six UK equity funds outperformed the main UK equity index with only the very value-orientated Schroder Recovery fund underperforming by a noticeable margin. Specific mid-cap exposure was positive and the Merian UK Mid-Cap fund also outperformed its index by a significant margin. There was also good outperformance from the CFP SDL UK Buffettology fund.

Two of the three global equity funds underperformed the IA Global sector average with significant underperformance from Ninety One Global Special Situations. The fund suffered from its distinct value bias, a style that has continued to underperform, plus its large overweight to UK equities. Despite the underperformance, the fund provides diversification of investment styles and some exposure to value in the event of a performance turn around. By contrast, there was reasonably large outperformance from the growth-orientated Baillie Gifford International fund. Regionally, the BlackRock Asia fund underperformed its sector average by a reasonable margin. In Japan, there was significant outperformance from JPM Japan fund, continuing its very strong run.

Within absolute return/alternatives the BMO UK Property fund also produced a very small negative return and the proxy holding of VT Gravis UK Infrastructure fared little better. The fund suffered on a relative basis from being in the IA Specialist sector.

Changes

We have changed our previously positive view on UK equities back to neutral and, given the current balance of the portfolio, we would recommend reducing UK equity exposure in favour of global equities. Some of this will be added to global equities, but some will be specifically added to Asian equities, a region where we have become more positive on relative returns.

Within Asia, the departure of Andrew Swan from BlackRock has tempered confidence in the Asia fund, despite the fund maintaining its RSMR-rated status. As there is only one Asian equity holding, we recommend a switch to **First Sentier (ex-First State) Asia Focus**, which is already held in higher risk portfolios.

In fixed income, we would recommend marginally reducing emerging market debt exposure in favour of investment grade bonds.

Adventurous Growth

The Adventurous Growth Portfolio produced a good return and outperformed 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 positive overall. 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 within fixed income was positive through the portfolio's two strategic bond holdings. In terms of relative fund performance, this was positive overall, as the Artemis fund marginally underperformed whilst the TwentyFour fund outperformed by a larger margin.

The portfolio has 78% in direct equity funds, which would have been more positive for absolute returns but for having 36% exposure to UK equities. Five of the six UK equity funds outperformed the main UK equity index with only the very value-orientated Schroder Recovery fund underperforming by a noticeable margin. Specific mid-cap exposure was positive and the Merian UK Mid-Cap fund also outperformed its index by a significant margin. There was also strong outperformance from Miton UK Value Opportunities and good outperformance from the CFP SDL UK Buffettology fund.

In overseas equities, fund selection was positive in the US, Europe, Japan and emerging markets, due to strong outperformance from BlackRock European Dynamic, JPM Japan and JPM Emerging Markets. Relative to the sector average, fund selection in Asia was negative, with larger underperformance from BlackRock Asia.

Within absolute return/alternatives the BMO UK Property fund also produced a very small negative return and the proxy holding of VT Gravis UK Infrastructure fared little better. The fund suffered on a relative basis from being in the IA Specialist sector.

Changes

We have changed our previously positive view on UK equities back to neutral and, given the current balance of the portfolio, we would recommend reducing UK equity exposure in favour of global equities, specifically to Asian equities, a region where we have become more positive on relative returns.

Within Asia, the departure of Andrew Swan from BlackRock has tempered confidence in the Asia fund, despite the fund maintaining its RSMR-rated status. We recommend a switch to **Baillie Gifford Pacific**, which is already held in the Speculative portfolio.

Specialist Growth Portfolio

The Specialist Growth Portfolio produced a good 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.

The portfolio has 98% in direct equity funds, which would have been more positive for absolute returns but for having 38% exposure to UK equities. Only two of the five mainstream UK equity funds outperformed the main UK equity index with the two value-orientated Schroder Recovery and Man GLG Undervalued Asset funds underperforming by reasonably large margins. Specific mid-cap exposure was positive and the Merian UK Mid-Cap fund also outperformed its index by a significant margin. There was also strong outperformance from Miton UK Value Opportunities and good outperformance from the CFP SDL UK Buffettology fund. Specific smaller companies exposure would have been more positive but for reasonably large underperformance from the Franklin UK Smaller Companies fund.

In overseas equities, fund selection was positive in all regions. There was strong outperformance from BlackRock European Dynamic, JPM Japan and JPM Emerging Markets. In addition, there was a double-digit return and significant outperformance from Baillie Gifford Pacific, whilst a specific allocation to China was very positive with the Allianz All China fund also producing a double-digit return.

Changes

We are not recommending any changes this quarter.

We are maintaining the position in BlackRock Asia, as this is held in conjunction with the First Sentier and Baillie Gifford funds that are now held in the lower risk portfolios and we remain comfortable keeping this fund in the portfolio as part of a wider basket of Asian equity exposure.

Income Portfolios

Portfolio Allocations

The tables below show the current asset allocations of the Income model portfolios, as at the end of September 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	5.00%	18.00%	28.00%
International Equities	5.00%	18.00%	28.00%
Property	4.00%	4.00%	4.00%
Fixed Interest	61.00%	38.00%	26.00%
Absolute Return	5.00%	5.00%	0.00%
Others	18.00%	15.00%	12.00%

Differences to SAA

Risk Level	Cautious	Balanced	Progressive
Asset Allocation	**%**	**%**	**%**
Cash	0.00%	0.00%	0.00%
UK Equities	-2.50%	-3.00%	-3.50%
International Equities	-2.50%	-3.00%	-3.50%
Property	-6.00%	-6.00%	-6.00%
Fixed Interest	3.00%	2.00%	1.00%
Absolute Return	-10.00%	-5.00%	0.00%
Others	18.00%	15.00%	12.00%

Cautious Income Portfolio

The Cautious Income Portfolio produced a small positive return but marginally underperformed its composite benchmark and its most comparable IA sector average. The underweight to equities was negative overall, although equity income generally underperformed, particularly in the UK. The current historic yield is just over 3%. The latest 1-year portfolio volatility figure is the same as the 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 very marginally below that of the benchmark.

Having no direct exposure to UK conventional and index-linked gilts and relatively low exposure to global government bonds was positive for relative performance. Exposure to risk was mixed, as emerging market debt was negative, but investment grade credit and strategic bond holdings were positive. In terms of relative fund performance, the main negative was the LeggMason Brandywine Global Fixed Income fund, although the level of underperformance was not significant. Six of the seven investment grade/strategic bond funds outperformed their respective sector averages with good outperformance from Rathbone Ethical Bond and TwentyFour Dynamic Bond.

The portfolio only has 10% in direct equity funds, and this would have been more positive for absolute returns but for having half of the exposure to UK equities. The Threadneedle fund outperformed its sector average and the main UK equity index by reasonable margins. In global equities, however, the Fidelity Global Enhanced Income fund underperformed its sector average by a reasonable margin.

Absolute return and alternatives exposure was positive overall in terms of absolute performance. The BMO UK Property fund produced a very small return, as commercial property saw further devaluations, but the proxy holding of VT Gravis UK Infrastructure fared little better. The fund, however, along with the Architas fund, suffered on a relative basis from being in the IA Specialist sector.

Changes

We have changed our previously positive view on UK equities back to neutral and, given the current balance of the portfolio, we would recommend reducing UK equity exposure in favour of global equities.

In fixed income, we have become less positive on the outlook for global index-linked bonds and combined with the fund's low yield we recommend removing the asset class from the portfolio. We recommend adding the **Royal London Short Duration Credit** fund, which provides a competitive yield within credit but with less interest rate risk. To accommodate this fund at the required weighting the strategic bond fund weightings will be reduced.

Balanced Income Portfolio

The Balanced Income Portfolio produced a small negative return and underperformed its composite benchmark and its most comparable IA sector average. The underweight to equities was negative overall, although equity income generally underperformed, particularly in the UK. The current historic yield is just over 3.3%. 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 UK conventional and index-linked gilts and relatively low exposure to global government bonds was positive for relative performance. Exposure to risk was mixed, as emerging market debt was negative, but investment grade credit and strategic bond holdings were positive. In terms of relative fund performance, the main negative was the LeggMason Brandywine Global Fixed Income fund, although the level of underperformance was not significant. Four of the five investment grade/strategic bond funds outperformed their respective sector averages with good outperformance from Rathbone Ethical Bond and TwentyFour Dynamic Bond.

The portfolio has 36% in direct equity funds, and this would have been more positive for absolute returns but for having half of the exposure to UK equities. Three of the four UK equity funds outperformed their sector average with good outperformance from Marlborough Multi Cap Income and Troy Trojan Income. By contrast there was significant underperformance from JOHCM UK Equity Income with the fund's distinct value bias being a major headwind. In global equities, fund selection was negative overall with underperformance from Fidelity Global Enhanced Income and larger underperformance from the value-orientated Saracen Global Income & Growth fund.

Absolute return and alternatives exposure was positive overall in terms of absolute performance. The BMO UK Property fund produced a very small return, as commercial property saw further devaluations, but the proxy holding of VT Gravis UK Infrastructure fared little better. The fund, however, along with the Architas fund, suffered on a relative basis from being in the IA Specialist sector.

Changes

We have changed our previously positive view on UK equities back to neutral and, given the current balance of the portfolio, we would recommend reducing UK equity exposure in favour of global equities. Due to the increase in the global equity weighting, we recommend adding the **Vanguard Global Equity Income** fund, which is already held in the Progressive Income portfolio.

In fixed income, we have become less positive on the outlook for global index-linked bonds and combined with the fund's low yield we recommend removing the asset class from the portfolio. We recommend adding the **Royal London Short Duration Credit** fund, which provides a competitive yield within credit but with less interest rate risk. To accommodate this fund at the required weighting the investment grade bond fund weightings will be reduced.

Finally, we recommend marginally reducing the emerging market debt exposure in favour of credit, as we have become more positive on credit relative to EM debt.

Progressive Income Portfolio

The Progressive Income Portfolio produced a negative return and underperformed its composite benchmark and its most comparable IA sector average. The underweight to equities was negative overall, although equity income generally underperformed, particularly in the UK. The current historic yield is around 3.9%. The latest 1-year portfolio volatility figure has 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 UK conventional and index-linked gilts and relatively low exposure to global government bonds was positive for relative performance. Exposure to risk was mixed, as emerging market debt was negative, but investment grade credit and strategic bond holdings were positive. In terms of relative fund performance, the main negative was the LeggMason Brandywine Global Fixed Income fund, although the level of underperformance was not significant. Four of the five investment grade/strategic bond funds outperformed their respective sector averages with good outperformance from Rathbone Ethical Bond and TwentyFour Dynamic Bond.

The portfolio has 56% in direct equity funds, and this would have been more positive for absolute returns but for having half of the exposure to UK equities. Three of the five UK equity funds outperformed their sector average with good outperformance from Marlborough Multi Cap Income and Troy Trojan Income. By contrast there was significant underperformance from Schroder Income Maximiser and JOHCM UK Equity Income with the funds' distinct value bias being a major headwind. In global equities, fund selection was negative overall with underperformance from Fidelity Global Enhanced Income and Vanguard Global Equity Income and larger underperformance from the value-orientated Saracen Global Income & Growth fund.

Absolute return and alternatives exposure was positive overall in terms of absolute performance. The BMO UK Property fund produced a very small return, as commercial property saw further devaluations, but the proxy holding of VT Gravis UK Infrastructure fared little better. The fund, however, suffered on a relative basis from being in the IA Specialist sector. The Ninety One fund produced a reasonably good return and outperformed its sector average.

Changes

We have changed our previously positive view on UK equities back to neutral and, given the current balance of the portfolio, we would recommend reducing UK equity exposure in favour of global equities.

We also recommend marginally reducing the emerging market debt exposure in favour of credit, as we have become more positive on credit relative to EM debt.

SRI Portfolios

Strategic Asset Allocations

We last made some changes to the high-level asset allocations in the July 2019 quarterly review. We would like to bring the allocations of the SRI Cautious and SRI Balanced portfolios more into line with the conventional growth portfolios. It is recommended that these two SRI portfolios adopt the same equity weightings as their counterparts. This will be re-allocated into cash, as there is currently less scope within SRI fixed income funds to adopt a lower-risk approach. The SRI Progressive asset allocation has marginally less equities than its counterpart and we recommend maintaining the existing weightings.

The new strategic asset allocations, with effect from 1st November 2020 are:

Risk Level	SRI Cautious	SRI Balanced	SRI Progressive
Asset Allocation	**%**	**%**	**%**
Platform Charge	2.00%	2.00%	2.00%
UK Equities	7.50%	21.00%	30.50%
International Equities	7.50%	21.00%	28.00%
Specialist Equities	0.00%	0.00%	3.00%
Fixed Interest	72.00%	49.00%	31.50%
Cash	11.00%	7.00%	5.00%

Portfolio Allocations

The tables below show the model asset allocations of the SRI model portfolios, as at the end of September 2020, and the differences to the main strategic asset allocations (before the changes within this review):

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	11.00%	22.00%	31.00%
Specialist Equities	0.00%	0.00%	0.00%
Fixed Interest	70.00%	47.00%	29.50%
Cash	8.00%	7.00%	7.00%

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%	0.00%
International Equities	2.00%	0.00%	3.00%
Specialist Equities	0.00%	0.00%	-3.00%
Fixed Interest	-2.00%	-2.00%	-2.00%
Cash	0.00%	2.00%	2.00%

Portfolio Performance and Volatility

All three portfolios produced good returns for their risk profiles and each outperformed their respective composite benchmarks and most comparative IA sector averages. The underweight to fixed income was positive and the overweight to equities in SRI Cautious was positive. The latest 1-year portfolio volatility figures are virtually the same as the last quarter, but this was also the case for the composite benchmarks, and the latest Cautious figure is below that of the benchmark whilst the Balanced and Progressive figures are 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 positive, as only the

Threadneedle Social Bond and Amity Short Dated Bond funds underperformed. The main outperformer was Rathbone Ethical Bond.

All of the UK equity funds across the portfolios outperformed the main UK equity index. All but the ASI UK Ethical Equity fund outperformed their respective IA sector averages. The strongest relative performers were Liontrust SF UK Growth and Unicorn UK Ethical Income.

Global equity fund performance was also strong, as only one of the six funds, Amity International, underperformed the global equity index in the composite benchmark. There were some strong outperformers, including WHEB Sustainability, Jupiter Ecology, Pictet Global Environmental Opportunities and Quilter Ethical Equity.

Changes

In view of the strategic asset allocation changes there will be a number of recommended changes. We recommend adopting a larger position to global equities than UK equities, as per the equivalent non-SRI portfolios.

For SRI Cautious and SRI Balanced, the UK equity fund weightings will be reduced whilst the existing global holdings will remain the same. This will be re-allocated to cash. We also recommend increasing the allocation to short-dated fixed income versus conventional fixed income and have recommend some changes accordingly.

For SRI Progressive, whilst maintaining the same overall equity weighting, the balance between UK and global will also be adjusted and the allocation to short-dated fixed income has also been increased in this portfolio.

Summary

The economic and social impact of the coronavirus has been significant with the worst economic data, reflecting activity in the second quarter, showing the level of economic damage to date. However, markets are generally forward-looking and most of the negative impact had already been reflected in equity market prices, particularly during the downturn in the first quarter, and markets duly rallied in the second quarter. Markets may have been too optimistic, as the number of virus cases is increasing again and lockdown measures have been, or are scheduled to be, re-implemented in several countries.

Global central banks and governments have continued to do whatever is necessary to stabilise the current situation, to support economies as much as they can, supporting sectors and companies in difficulty, and 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 situation remains to be seen and certain government support has started to be reduced and will need to be 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 ongoing uncertainty. Furthermore, from a UK and European perspective, Brexit, seemingly a forgotten issue, is beginning to rear its head again. The UK will leave the EU on the 31st December, we just don't know whether that will be 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). Any lifting of restrictions would have helped, but these have started to be re-implemented and may mean that some of our short-term activities will become even more entrenched (e.g. working from home, food delivery, online shopping).

We have slightly altered some of our regional equity views, moving our view on the UK market back to neutral. It has significantly lagged other markets for some time now and looks attractive on a relative valuation basis, but the imposition of further lockdowns and the lack of market exposure to many of the sectors that will benefit from these social and business restrictions is a negative. There is also the issue of Brexit on the short-term horizon. We would emphasise the benefits of an active approach for any exposure to access the potential higher growth areas of mid-caps and smaller companies. We have increased our view on Asia ex Japan to positive. The region has emerged from the pandemic in relatively good shape, China's economy seems to be recovering quickly and the market looks relatively attractive. 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. We have reaffirmed our negative medium to longer-term view on global bonds but have moved our view on UK gilts down to very negative. Although they may continue to provide a relative safe haven in the short term, there is very little value in the asset class and any rise in inflation expectations would be negative. In addition, there could be a supply increase, causing volatility at the longer-end of the curve. We have also moved slightly more negative on global index-linked bonds, a market that is dominated by US TIPS. They have seen quite a large price rally, meaning there is less value for investors looking forward. We have moved to a slightly more positive position on cash on a relatively short-term view initially. For low risk portfolio exposure, the opportunity cost of holding cash versus fixed income has diminished, as government bond yields have continued to fall. We have also moved slightly more positive on single strategy absolute return funds, although it must be noted that returns are very much subject to the skills of the underlying fund manager(s). They can provide an alternative way to access both equities and fixed income when valuation looks less attractive.

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