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Quarterly Investment Review

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Grayside

Quarterly Portfolio Review

April 2021

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 first quarter of 2021 saw further strong returns from global equity markets, extending the rebound seen during the second half of 2020, despite the challenging economic and social backdrop of the 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 economic impact of the ongoing coronavirus crisis towards some form of economic recovery, particularly with the generally successful roll-out of vaccines and the gradual opening up of some major economies.

There were reasonable variations in performance across equity markets but there were more noticeable differences in the performance of different investment styles. There was a further rebound in value stocks and sectors, which particularly benefited the performance of the UK market. The outperformance of value versus growth was most pronounced in the US and Japan this quarter with a double-digit performance differential at index level. Smaller companies again outperformed globally, most notably in Asia and emerging markets. Relative currency movements led to lower returns for sterling-based investors across all the major overseas equity regions with the impact most pronounced within European and Japanese equities and least pronounced within US equities.

The UK equity market continued its strong rebound and comfortably outperformed globally, although relative currency movements meant the UK underperformed in local currency terms. Value comfortably outperformed growth, and mid-caps and smaller companies outperformed large caps. The most noticeable factor this quarter was the large outperformance from high dividend yield stocks versus low dividend yield stocks, sometimes seen as barometers for value and growth, and this was particularly beneficial to income strategies.

In a reversal of the last quarter, the US market produced a strong return and outperformed globally despite the rotation towards value. Value sectors and stocks significantly outperformed producing double-digit returns. There were positive returns but underperformance from the Asia Pacific and emerging markets regions, hindered by the negative return from the Chinese market and larger negative returns from Latin America. The main Japanese market underperformed by a reasonable margin, impacted by the large underperformance of quality and growth relative to value.

Currency movements also played a part in the absolute and relative performance of the fixed income sub-asset classes with sterling-based and sterling-hedged assets generally outperforming their unhedged counterparts. The main UK conventional gilt index produced a very large negative return and underperformed on a global basis, particularly versus hedged global bonds. The long-dated end of the market produced the worst returns, falling by double-digits. The main UK index-linked bond index also produced a large negative return, albeit outperforming conventional gilts.

Credit returns were negative but generally better than government bonds with the sterling market again outperforming. There was further outperformance from global high yield, but emerging market debt had a difficult quarter.

In other asset classes, UK commercial property returns were marginally positive, influenced by ongoing difficulties in the retail sector, and by the broader economic impact of the coronavirus on other sectors, such as leisure and hotels, albeit with more optimism in certain areas due the gradual re-opening of commercial facilities. Globally, property securities performance was strong, benefiting from the gains in equity markets, with the US and Japan producing the strongest returns. The oil price continued its strong rise following a good finish to 2020 whilst, by contrast, the gold price continued to fall with a double-digit negative return this quarter.

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 proposing a couple of changes in this review.

We recommend reducing the overall equity allocation within the Balanced and Progressive portfolios. The longer-term volatility of the Progressive portfolio is becoming a little too close to that of the Adventurous portfolio, but we would also like to maintain a sensible gap between the Balanced and Progressive portfolios. As such, we are recommending reducing the equity exposure by 5% in Progressive and by 2% in Balanced. For both risk levels we recommend allocating this to absolute return, which will be a new allocation for Progressive.

Below are the strategic asset allocations that will become effective from 27th May 2021:

Risk Level	Cautious	Balanced	Progressive	Adventurous	Specialist
Asset Allocation	**%**	**%**	**%**	**%**	**%**
Cash	2.00%	2.00%	2.00%	2.00%	2.00%
UK Equities	7.50%	20.00%	29.00%	36.00%	38.00%
International Equities	7.50%	20.00%	29.00%	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%	12.00%	5.00%	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 March 2021, and the differences to the strategic asset allocations (not including the proposed changes):

Risk Level	Cautious	Balanced	Progressive	Adventurous	Specialist
Asset Allocation	**%**	**%**	**%**	**%**	**%**
Cash	2.00%	2.00%	2.00%	2.00%	2.00%
UK Equities	7.00%	20.00%	30.00%	37.00%	38.00%
International Equities	9.00%	24.00%	35.00%	44.00%	60.00%
Property	2.00%	2.00%	2.00%	2.00%	0.00%
Fixed Interest	58.00%	34.00%	22.00%	7.00%	0.00%
Absolute Return	16.00%	12.00%	6.00%	5.00%	0.00%
Others	6.00%	6.00%	3.00%	3.00%	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	-0.50%	-1.00%	-1.50%	1.00%	0.00%
International Equities	1.50%	3.00%	3.50%	2.00%	0.00%
Property	-8.00%	-8.00%	-8.00%	-8.00%	0.00%
Fixed Interest	0.00%	-2.00%	-3.00%	-3.00%	0.00%
Absolute Return	1.00%	2.00%	6.00%	5.00%	0.00%
Others	6.00%	6.00%	3.00%	3.00%	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, albeit not significantly. The portfolio is marginally overweight equities, which was positive, but has a small underweight to the UK, which was negative on a relative basis. The lack of exposure to UK direct commercial property and preference for property alternatives was another positive.

The latest 1-year portfolio volatility figure has decreased significantly versus the last quarter, which is the same for the composite benchmark, and the latest portfolio figure remains comfortably below that of the benchmark. The portfolio's average 1-yr volatility since launch remains just below that of the benchmark.

Only having a small exposure to conventional UK gilts and global government bonds and the lack of exposure to UK index-linked gilts were all very positive for relative performance. Exposure to more flexible and absolute return-type funds was a further positive with the M&G Optimal Income, Schroder Strategic Credit and TwentyFour Monument Bond funds all producing positive returns. Relative fund performance was also good on the whole with good outperformance from our credit fund holdings, both within investment grade and strategic bonds. The main negatives were underperformance from M&G Global Macro Bond and LeggMason Brandywine Global Fixed Income within global bonds. The BNY Mellon Global Dynamic Bond also underperformed its IA sector by a reasonable margin, but this is not a particularly appropriate comparator. The largest negative return was from Pictet Emerging Local Currency Debt but the fund actually outperformed its peer group average.

The portfolio has 16% in direct equity funds with a slight bias towards international equities. The core nature of the two UK fund selections fund meant they underperformed the average UK All Companies fund by a reasonably large margin and also underperformed the main UK equity index with the CFP SDL UK Buffettology fund producing a small negative return. The fund's sector exposure, which is a function of the investment process, has been positioned away from the areas that drove markets over the quarter, namely cyclical/recovery stocks. The core/more defensive nature of both global equity funds meant they underperformed the Global sector average.

Absolute return/alternatives exposure was mixed in terms of absolute performance with only the Ninety One Diversified Income fund producing a positive return, although the other two funds were only marginally negative. The Schroder Global Cities Real Estate fund produced a good return and outperformed its sector average. The proxy property holding of VT Gravis UK Infrastructure was negative, as rising real yields were detrimental to the asset class.

Changes

The portfolio is currently underweight to direct UK equities and we would like to move to a small overweight position based on our current asset allocation views. At the same time, we do not want to take on too much equity risk at this risk level, so we also recommend marginally reducing the international equities exposure to partially compensate. Due to the increase and the improving economic backdrop, we recommend adding the **Franklin UK Managers Focus** fund, which is already held in higher risk portfolios. This will provide style diversification through a quality, value-biased approach.

We would like to adopt a similar approach within global equities, adding style diversification through a small holding to the **Ninety One Global Special Situations** fund, which is already held in higher risk portfolios.

Within fixed income, we would like to change our emerging market bond exposure from local currency to a blended approach through a switch from the Pictet Emerging Local Currency Debt fund to the **M&G Emerging Markets Bond** fund. This change would mean three M&G fixed income funds in the portfolio and we would prefer more manager diversification.

As a result, the M&G Global Macro Bond fund will be replaced with the **Nomura Global Dynamic Bond** fund, which has been recently RSMR rated and also has a very flexible approach. This will be a slightly lower weighting to account for the 1% increase in equities.

Finally, to further diversify the absolute return holdings, we recommend adding the **TM Fulcrum Diversified Core Absolute Return** fund, which has been recently RSMR rated.

Balanced Growth Portfolio

The Balanced Growth Portfolio produced a small positive return but underperformed its composite benchmark and its most comparable IA sector average, albeit not significantly. The portfolio is overweight equities, which was positive, but has a small underweight to the UK, which was negative on a relative basis. The underweight to fixed income was also positive and the lack of exposure to UK direct commercial property and preference for property alternatives was another positive. The latest 1-year portfolio volatility figure has decreased significantly versus the last quarter, which is the same for the composite benchmark. The latest portfolio figure remains below that of the benchmark and the portfolio's average 1-yr volatility since launch remains just below that of the benchmark.

Only having a small exposure to conventional UK gilts and global government bonds and the lack of exposure to UK index-linked gilts were all very positive for relative performance. Relative fund performance was good on the whole with good outperformance from our credit fund holdings, both within investment grade and strategic bonds. The main negative was underperformance from M&G Global Macro Bond within global bonds. The BNY Mellon Global Dynamic Bond also underperformed its IA sector by a reasonable margin, but this is not a particularly appropriate comparator. The largest negative return was from Pictet Emerging Local Currency Debt but the fund actually outperformed its peer group average.

The portfolio has 44% in direct equity funds with a slight bias towards international equities. The core nature of the Ninety One and Buffettology funds meant they underperformed the average UK All Companies fund by reasonably large margin and also underperformed the main UK equity index with the latter producing a small negative return. The fund's sector exposure, which is a function of the investment process, has been positioned away from the areas that drove markets over the quarter, namely cyclical/recovery stocks. There was also reasonable underperformance of the sector average and its own benchmark index from Jupiter (ex-Merian) UK Mid Cap. The strong outperformance of value helped the Schroder Recovery fund produce a double-digit return and significant outperformance.

The core/more defensive nature of the Stewart Investors and Troy funds meant they underperformed the Global sector average and the large underperformance of growth, following a strong 2020, led to reasonable underperformance from the Baillie Gifford International fund. By complete contrast, the strong outperformance of value helped the Ninety One Global Special Situations fund produce a double-digit return and significant outperformance.

Absolute return/alternatives exposure was mixed in terms of absolute performance with only the Ninety One Diversified Income fund producing a positive return, although the other two funds were only marginally negative. The Schroder Global Cities Real Estate fund produced a good return and outperformed its sector average. The proxy property holding of VT Gravis UK Infrastructure was negative, as rising real yields were detrimental to the asset class.

Changes

The portfolio is currently underweight to direct UK equities and we would like to move to a small overweight position versus the new strategic asset allocations based on our current asset allocation views. At the same time, we do not want to take on too much equity risk at this risk level, so we also recommend reducing the international equities exposure to partially compensate.

Within global equities we would like to increase the style diversification by increasing the **Ninety One Global Special Situations** fund weighting and reducing the other holdings.

Within fixed income, we would like to change our emerging market bond exposure from local currency to a blended approach through a switch from the Pictet Emerging Local Currency Debt fund to the **M&G Emerging Markets Bond** fund.

Due to the equity allocation changes there is 2% to re-allocate and this will be added to absolute return to create an overweight position. To further diversify the absolute return holdings, we recommend adding the **TM Fulcrum Diversified Core Absolute Return** fund, which has been recently RSMR rated.

Progressive Growth Portfolio

The Progressive Growth Portfolio produced a positive return but underperformed its composite benchmark, although it marginally outperformed its most comparable IA sector average. The portfolio is overweight equities, which was positive, but has an underweight to the UK, which was negative on a relative basis. The underweight to fixed income was also positive and the lack of exposure to UK direct commercial property and preference for property alternatives was another positive. The latest 1-year portfolio volatility figure has decreased significantly versus the last quarter, which is the same for the composite benchmark. The latest portfolio figure is equal to that of the benchmark and the portfolio's average 1-yr volatility since launch remains just above that of the benchmark.

Having no direct exposure to conventional UK gilts and UK index-linked gilts was very positive for relative performance. Relative fund performance was good on the whole with good outperformance from our credit fund holdings, both within investment grade and strategic bonds. The main negative was underperformance from M&G Global Macro Bond within global bonds. The largest negative return was from Pictet Emerging Local Currency Debt but the fund actually outperformed its peer group average.

The portfolio has 65% in direct equity funds with a bias towards international equities. The core nature of the Ninety One and Buffettology funds meant they underperformed the average UK All Companies fund by reasonably large margin and also underperformed the main UK equity index with the latter producing a small negative return. The fund's sector exposure, which is a function of the investment process, has been positioned away from the areas that drove markets over the quarter, namely cyclical/recovery stocks. There was also reasonable underperformance of the sector average and its own benchmark index from Jupiter (ex-Merian) UK Mid Cap. There were double-digit returns and significant outperformance from Premier Miton UK Value Opportunities and Schroder Recovery.

The core/more defensive nature of the Troy fund meant it underperformed the Global sector average and the large underperformance of growth, following a strong 2020, led to reasonable underperformance from the Baillie Gifford International fund.

By complete contrast, the strong outperformance of value helped the Ninety One Global Special Situations fund produce a double-digit return and significant outperformance.

Absolute return exposure was negative in terms of absolute performance with the SVS Church House fund producing a small negative return and underperforming its sector average. The Schroder Global Cities Real Estate fund produced a good return and outperformed its sector average. The proxy property holding of VT Gravis UK Infrastructure was negative, as rising real yields were detrimental to the asset class.

Changes

Relative to the new strategic asset allocation, the portfolio is overweight to direct UK equities and we would like to maintain this position. However, on the same basis, the portfolio is also very overweight to international equities and we would like to reduce this to a smaller overweight position through changes to global and regional funds. This will be re-allocated to a combination of absolute return and alternatives.

We would like to add some more value/less growth orientated funds into some of the regional equity exposure to provide more style diversification during an improving economic backdrop. This includes adding the **Dodge & Cox US Stock**, **Baillie Gifford Japanese Income Growth** and **Invesco Asian** funds.

Within fixed income, we would like to change our emerging market bond exposure from local currency to a blended approach through a switch from the Pictet Emerging Local Currency Debt fund to the **M&G Emerging Markets Bond** fund.

Due to an increase to absolute return, we would like to further diversify the holdings and we recommend adding the **TM Fulcrum Diversified Core Absolute Return** fund, which has been recently RSMR rated.

The re-allocation to alternatives will be made through the addition of the **Liontrust MA Diversified Real Assets** fund, which is already held in lower risk portfolios.

Adventurous Growth

The Adventurous Growth Portfolio produced a positive return but underperformed its composite benchmark, although it outperformed its most comparable IA sector average. The portfolio is overweight equities, which was positive, with the overweight to UK a particular positive. The underweight to fixed income was also positive and the lack of exposure to UK direct commercial property and preference for property alternatives was another positive. The latest 1-year portfolio volatility figure has decreased significantly versus the last quarter, which is the same for the composite benchmark. The latest portfolio figure is slightly below that of the benchmark but the portfolio’s average 1-yr volatility since launch remains above that of the benchmark, albeit not significantly.

Having no direct exposure to government bonds was very positive for relative performance. Relative fund performance was good on the whole with both funds outperforming their sector average.

The portfolio has 81% in direct equity funds with a bias towards international equities. The core nature of the Ninety One and Buffettology funds meant they underperformed the average UK All Companies fund by reasonably large margin and also underperformed the main UK equity index with the latter producing a small negative return. The fund's sector exposure, which is a function of the investment process, has been positioned away from the areas that drove markets over the quarter, namely cyclical/recovery stocks. There was also reasonable underperformance of the sector average and its own benchmark index from Jupiter (ex-Merian) UK Mid Cap. There were double-digit returns and significant outperformance from Premier Miton UK Value Opportunities and Schroder Recovery plus good outperformance from Man GLG Undervalued Assets.

In overseas equities, fund selection was negative overall. The BlackRock European Dynamic fund produced a negative return and underperformed the peer group average by a reasonable margin. There was a negative return and large underperformance from JPM Emerging Markets with the sector weighting and stock selection in the consumer cyclicals impacting relative performance. This was partially offset by good outperformance from Vanguard Global Emerging Markets. There was also a large negative return and significant underperformance from JPM Japan through negative stock selection, as many of the fund's strong performers from 2020 suffered from profit taking.

Absolute return exposure was negative in terms of absolute performance with the SVS Church House fund producing a small negative return and underperforming its sector average. The Schroder Global Cities Real Estate fund produced a good return and outperformed its sector average. The proxy property holding of VT Gravis UK Infrastructure was negative, as rising real yields were detrimental to the asset class.

Changes

We would like to add some more value/less growth orientated funds into some of the regional equity exposure to provide more style diversification during an improving economic backdrop. This includes adding the **Dodge & Cox US Stock**, **Baillie Gifford Japanese Income Growth** and **Invesco Asian** funds.

The only other change to the portfolio this quarter is to diversify the absolute return holdings through the addition of the **TM Fulcrum Diversified Core Absolute Return** fund, which has been recently RSMR rated.

Specialist Growth Portfolio

The Specialist Growth Portfolio produced a positive return but underperformed its composite benchmark, although it outperformed its most comparable IA sector average. The portfolio is fully invested in equities and is neutrally positioned in the UK and overseas versus the strategic asset allocation. The latest 1-year portfolio volatility figure has decreased significantly versus the last quarter, which is the same 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.

The core nature of the Ninety One and Buffettology funds meant they underperformed the average UK All Companies fund by reasonably large margin and also underperformed the main UK equity index with the latter producing a small negative return.

The fund's sector exposure, which is a function of the investment process, has been positioned away from the areas that drove markets over the quarter, namely cyclical/recovery stocks. There was also reasonable underperformance of the sector average and its own benchmark index from Jupiter (ex-Merian) UK Mid Cap. There were double-digit returns and significant outperformance from Premier Miton UK Value Opportunities and Schroder Recovery plus good outperformance from Man GLG Undervalued Assets.

In overseas equities, fund selection was negative overall. The BlackRock European Dynamic fund produced a negative return and underperformed the peer group average by a reasonable margin. There was a negative return and large underperformance from JPM Emerging Markets with the sector weighting and stock selection in the consumer cyclicals impacting relative performance. This was partially offset by good outperformance from Vanguard Global Emerging Markets. There was also a large negative return and significant underperformance from JPM Japan through negative stock selection, as many of the fund's strong performers from 2020 suffered from profit taking. Specific exposure to China was detrimental this quarter, as the market produced a negative return.

Changes

We would like to add some more value/less growth orientated funds into some of the regional equity exposure to provide more style diversification during an improving economic backdrop. This includes adding the **Dodge & Cox US Stock**, **Baillie Gifford Japanese Income Growth** and **Invesco Asian** funds.

Income Portfolios

Portfolio Allocations

The tables below show the current asset allocations of the Income model portfolios, as at the end of March 2021, and the differences to the strategic asset allocations:

Risk Level	Cautious	Balanced	Progressive
Asset Allocation	**%**	**%**	**%**
Cash	2.00%	2.00%	2.00%
UK Equities	6.00%	20.00%	29.50%
International Equities	6.00%	20.00%	30.50%
Property	2.00%	2.00%	2.00%
Fixed Interest	61.00%	38.00%	26.00%
Absolute Return	15.00%	10.00%	7.00%
Others	8.00%	8.00%	3.00%

Differences to SAA

Risk Level	Cautious	Balanced	Progressive
Asset Allocation	**%**	**%**	**%**
Cash	0.00%	0.00%	0.00%
UK Equities	-1.50%	-1.00%	-2.00%
International Equities	-1.50%	-1.00%	-1.00%
Property	-8.00%	-8.00%	-8.00%
Fixed Interest	3.00%	2.00%	1.00%
Absolute Return	0.00%	0.00%	7.00%
Others	8.00%	8.00%	3.00%

Cautious Income Portfolio

The Cautious Income Portfolio produced a small negative but marginally outperformed its composite benchmark and its most comparable IA sector average. The underweight to equities was negative overall, although equity income outperformed in the UK and globally. The current historic yield is around 2.8%. The latest 1-year portfolio volatility figure has reduced significantly versus the previous quarter, but this was also the case for the composite benchmark. The latest portfolio figure remains comfortably below that of the benchmark and the portfolio's average 1-yr volatility since launch remains 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 very positive for relative performance. Exposure to more flexible funds was a further positive, as was specific short-dated exposure, with the M&G Optimal Income, Royal London Short Duration Credit and TwentyFour Dynamic Bond funds all producing positive returns. Relative fund performance was also good on the whole with good outperformance from our credit fund holdings, both within investment grade and strategic bonds. The main negatives were underperformance from Janus Henderson Strategic Bond and LeggMason Brandywine Global Fixed Income. The largest negative return was from Pictet Emerging Local Currency Debt but the fund actually outperformed its peer group average.

The portfolio has 12% in direct equity funds with an equal weighting between UK and international equities. The Threadneedle UK Equity Income fund produced a strong absolute return but underperformed its sector average. In global equities, the defensive nature of the Fidelity Global Enhanced Income fund led to underperformance of its sector average by a reasonable margin.

Absolute return/alternatives exposure was mixed in terms of absolute performance with only the Ninety One Diversified Income fund producing a positive return, although the other two funds were only marginally negative. The Schroder Global Cities Real Estate fund produced a good return and outperformed its sector average. The proxy property holding of VT Gravis UK Infrastructure was negative, as rising real yields were detrimental to the asset class.

Changes

We remain relatively positive on equities and we have become more positive on the outlook for dividend income over the medium-term. With this in mind, we recommend increasing equity exposure through both UK equities and international equities and taking a small overweight equity position overall. This will be taken from fixed income through a reduction mainly to investment grade credit but also to government bonds.

Due to the UK and international equities increase, we recommend adding one value-biased fund to both parts of the portfolio, **JOHCM UK Equity Income** and **Schroder Global Equity Income**, both of which are already held in higher risk portfolios. These will be at slightly lower levels to the existing funds due to their higher volatility profile.

Within fixed income, we would like to change our emerging market bond exposure from local currency to a blended approach through a switch from the Pictet Emerging Local Currency Debt fund to the **M&G Emerging Markets Bond** fund.

Balanced Income Portfolio

The Balanced Income Portfolio produced a positive return and outperformed its composite benchmark and its most comparable IA sector average. The underweight to equities was negative overall, although equity income outperformed in the UK and globally. The current historic yield is around 2.9%. The latest 1-year portfolio volatility figure has reduced significantly versus the previous quarter, but this was also the case for the composite benchmark. The latest portfolio figure remains below that of the benchmark whilst the portfolio’s average 1-yr volatility since launch remains very marginally 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 very positive for relative performance. Exposure to more flexible funds was a further positive, as was specific short-dated exposure, with the Royal London Short Duration Credit and TwentyFour Dynamic Bond funds all producing positive returns. Relative fund performance was also good on the whole with good outperformance from our credit fund holdings, both within investment grade and strategic bonds. The main negatives were underperformance from Janus Henderson Strategic Bond and LeggMason Brandywine Global Fixed Income. The largest negative return was from Pictet Emerging Local Currency Debt but the fund actually outperformed its peer group average.

The portfolio has 40% in direct equity funds with an equal weighting between UK and international equities. There was particularly contrasting performance from two of the UK holdings with significant outperformance from JOHCM Equity Income and significant underperformance from Troy Trojan Income highlighting their very different investment approaches.

In global equities, the defensive nature of the Fidelity Global Enhanced Income fund led to underperformance of its sector average by a reasonable margin, but the remaining three funds all outperformed their sector average with particularly strong performance from the value-biased Schroder Global Equity Income fund.

Absolute return/alternatives exposure was mixed in terms of absolute performance with only the Ninety One Diversified Income fund producing a positive return, although the other two funds were only marginally negative. The Schroder Global Cities Real Estate fund produced a good return and outperformed its sector average. The proxy property holding of VT Gravis UK Infrastructure was negative, as rising real yields were detrimental to the asset class.

Changes

We remain relatively positive on equities and we have become more positive on the outlook for dividend income over the medium-term. With this in mind, we recommend increasing equity exposure through both UK equities and international equities and taking a small overweight equity position overall relative to the new strategic asset allocation. We also recommend moving to an underweight position in fixed income through a reduction to investment grade and global bonds and increasing the alternatives exposure to neutral.

Within fixed income, we would like to change our emerging market bond exposure from local currency to a blended approach through a switch from the Pictet Emerging Local Currency Debt fund to the **M&G Emerging Markets Bond** fund.

Progressive Income Portfolio

The Progressive Income Portfolio produced a good return and outperformed its composite benchmark and its most comparable IA sector average. The underweight to equities was negative overall, although equity income outperformed in the UK and globally. The current historic yield is just over 3.2%. The latest 1-year portfolio volatility figure has reduced significantly versus the previous quarter, but this was also the case for the composite benchmark. The latest portfolio figure is marginally above that of the benchmark whilst the portfolio’s average 1-yr volatility since launch is now equal to that of the benchmark.

Having no direct exposure to UK conventional and index-linked gilts and relatively low exposure to global government bonds was very positive for relative performance. Exposure to more flexible funds was a further positive with the TwentyFour Dynamic Bond fund producing a positive return. Relative fund performance was also good on the whole with good outperformance from our credit fund holdings, both within investment grade and strategic bonds. The main negatives were underperformance from Janus Henderson Strategic Bond and LeggMason Brandywine Global Fixed Income. The largest negative return was from Pictet Emerging Local Currency Debt but the fund actually outperformed its peer group average.

The portfolio has 60% in direct equity funds with a slight bias towards international equities. There was particularly contrasting performance from some of the UK holdings with significant outperformance from JOHCM Equity Income and Schroder Income Maximiser and significant underperformance from Troy Trojan Income highlighting their very different investment approaches.

In global equities, the defensive nature of the Fidelity Global Enhanced Income fund led to underperformance of its sector average by a reasonable margin, but the remaining three funds all outperformed their sector average with particularly strong performance from the value-biased Schroder Global Equity Income fund.

Within absolute return/alternatives the Ninety One Diversified Income fund produced a positive return. The Schroder Global Cities Real Estate fund produced a good return and outperformed its sector average. The proxy property holding of VT Gravis UK Infrastructure was negative, as rising real yields were detrimental to the asset class.

Changes

We remain relatively positive on equities and we have become more positive on the outlook for dividend income over the medium-term. With this in mind, we recommend taking a small overweight equity position overall relative to the new strategic asset allocation, which actually means a minor alteration to the existing allocations. We also recommend moving to an underweight position in fixed income through a reduction to investment grade and global bonds. There is a new strategic allocation to absolute return but the portfolio already has exposure and we recommend maintaining the existing holding and weighting.

We also recommend increasing the exposure to alternatives through the addition of the Liontrust MA Diversified Real Assets fund, which is already held in the lower risk income portfolios.

Within fixed income, we would like to change our emerging market bond exposure from local currency to a blended approach through a switch from the Pictet Emerging Local Currency Debt fund to the **M&G Emerging Markets Bond** fund.

SRI Portfolios

Strategic Asset Allocations

We made some changes to the high-level asset allocations in the October 2020 quarterly review. The current strategic asset allocations 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%
Others	0.00%	0.00%	0.00%
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 March 2021, 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	7.00%	20.00%	28.50%
International Equities	8.00%	22.00%	30.00%
Specialist Equities	0.00%	0.00%	3.00%
Fixed Interest	64.00%	43.00%	26.50%
Others	6.00%	4.00%	3.00%
Cash	13.00%	9.00%	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	-0.50%	-1.00%	-2.00%
International Equities	0.50%	1.00%	2.00%
Specialist Equities	0.00%	0.00%	0.00%
Fixed Interest	-8.00%	-6.00%	-5.00%
Cash	6.00%	4.00%	3.00%
Cash	2.00%	2.00%	2.00%

Portfolio Performance and Volatility

All three portfolios underperformed their respective composite benchmarks this quarter with SRI Cautious Growth producing a small negative return, although it was the only portfolio to outperform its most comparative IA sector average. The underweight to fixed income and overweight to cash was very positive. The latest 1-year portfolio volatility figures have reduced significantly versus the previous quarter, but this was also the case for the composite benchmarks. The latest portfolio figures are all below those of the benchmarks and the portfolios' average 1-yr volatility since launch figures are also below those of the benchmarks.

Underlying Fund Performance

Most ethical fixed income funds do not invest in conventional UK gilts or UK index-linked gilts, which was very positive for absolute returns this quarter, as they underperformed credit markets. Fund performance versus the fixed income index in the composite benchmark was very positive with all funds outperforming. Only the Royal London Ethical Bond fund underperformed its sector average. The best performer was the EdenTree Responsible and Sustainable Short Dated Bond fund.

Only one of the six UK equity funds across the portfolios outperformed the main UK equity index and none outperformed their respective IA sector averages. The general underperformance of quality and defensive growth stocks was a headwind to the majority of UK responsible/ethical funds.

Global equity fund performance was marginally better with two of the six funds outperforming the global equity index in the composite benchmark with particularly strong performance from EdenTree Responsible and Sustainable Global Equity. The returns from WHEB Sustainability and Stewart Investors Worldwide Sustainability were only marginally positive and the Pictet Global Environmental Opportunities fund produced a small negative return.

The defensive, quality focus of the Troy Trojan Ethical fund led to underperformance this quarter and a small negative return.

Changes

We would like to introduce the recently RSMR-rated VT Gravis Clean Energy Income fund into all the portfolios, as this will provide further diversification of approaches and styles within the global equity allocation.

Summary

The economic and social impact of coronavirus was clearly significant in 2020 with global growth halting in the second quarter of the year. Despite the subsequent recovery, this will create longer-term damage and has accelerated structural changes that had either already started or were expected to take effect. Equity markets are generally forward-looking and performance has been strong since Q2 last year, but there are questions as to whether markets have been too optimistic. Globally, the number and acceleration/deceleration of virus cases is extremely variable and lockdown measures are very different. Much of this has been dependent on the success of a country's vaccine roll-out with the UK proving to be particularly successful in this regard leading to a proposed roadmap out of lockdown and a high degree of public optimism.

Central banks and governments continue to do whatever is necessary to support economies as much as they can, by helping sectors and companies in difficulty, as well as 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 the government support will need to be removed at some point (e.g. the UK's Job Retention scheme has been extended to the end of September). The future direction of equity markets and other asset classes is very difficult to determine with any accuracy due to the ongoing uncertainty.

Equity market valuations look relatively expensive on measures such as the price/earnings ratio. The positive argument for equities is that there could be a significant uplift in corporate earnings, particularly in those stocks and sectors that have suffered the most from the impact of the pandemic. The short-term outperformance of value reflects this. Looking from a medium-term perspective, we are reasonably positive on the outlook for equities, as the roll-out of the various vaccines worldwide, even if at a slower pace than initially anticipated, should mean economies can start to recover some of the lost ground and businesses and people can start planning for the future with a higher degree of certainty. We believe equities are one of the few areas with any potential for meaningful returns over the medium to long-term. The level of government and central bank support provides 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 continue being 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). It will be interesting to see how many of our shorter-term adjustments become more entrenched (e.g. working from home, food delivery, online shopping, etc.).

The only change to our previous regional equity views is in emerging markets where we expect any US dollar strength to have a negative impact. 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, we have reaffirmed our negative medium to longer-term view on global bonds and our very negative view on UK gilts despite the recent rise in yields. Although they may continue to provide a relative safe haven in the short term, there is very little value in the asset class. In addition, there could be a supply increase, causing volatility at the longer-end of the curve. We remain neutral on corporate bonds, although they are one of our favoured fixed income asset classes.

We are marginally positive on cash on a relatively short-term view. For low-risk portfolio exposure, the opportunity cost of holding cash versus fixed income has diminished. We remain 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 valuations look less attractive.

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