ABACUS ACTIVE - DFM PROFILES
QUARTERLY UPDATE (Q4 2023)

tavistock
ASSET MANAGEMENT

Market Commentary

2023 was challenging for investors. Rising geopolitical concerns (Russia-Ukraine and Israel-Hamas wars), high inflation, burdensome interest rates, and worries over the sustainability of the US government's finances, were factors that weighed heavily on market sentiment.

That said, the US Central Bank (the Federal Reserve) seems to have managed to successfully bring inflation down and investors are now expecting a cut in interest rates in 2024. Cooling inflation in the fourth quarter, and the hope of lower interest rates to come, led to a sharp equity market rally into year end. The S&P 500 equity market in the US, for example, finished up 4.5% for the month of December and over 24% higher for the year.

Of course, all markets are different. For example, the 24% return we saw from the US market in 2023 was fuelled by the 7 big tech stocks (Apple, Microsoft, Google parent Alphabet, Amazon, Nvidia, Meta, and Tesla), which were responsible for 95% of the returns.

In contrast, the FTSE 100 equity market in the UK was up just over 3.5% in 2023, whilst Chinese equities fell -4% over the year.

Whilst the US economy is holding up well, growth in the UK and Europe is muted. Inflation in these two regions is also declining but it remains higher in the UK than other developed countries. The Bank of England has a battle to reach its inflation target, and ideally it would like to see wages come down before it considers cutting interest rates.

It is a delicate balancing act for central banks, and we remain concerned about the lagged impact of prior tightening. Specifically, the pace and scale of prior rate hikes and the shift from quantitative easing to quantitative tightening, pose real risks to the economy.

However, as we said last quarter, it takes a long time for the narrative described above to play out and we cannot rule out further market gains.

Inflation data has declined at a faster pace than the global economy has weakened, providing a tailwind for risk assets. If inflation continues to fall faster than the economy contracts, equities could continue to move higher.

With that in mind, we remain pragmatic and continue to question our assumptions and market outlook. Should the economic environment change, we will adapt as required.

Active Profile Allocations

FUND	3	4	5	6	7	8
Fidelity Emerging Markets Fund	0.00%	2.00%	3.00%	3.50%	9.50%	13.50%
Vanguard Global Emerging Markets Fund	0.00%	0.00%	0.00%	0.00%	6.50%	9.00%
HSBC American Index Fund	4.00%	5.00%	5.50%	6.00%	6.50%	8.50%
Artemis Income Fund	2.50%	5.00%	5.50%	7.50%	8.00%	8.00%
Invesco UK Opportunities Fund	2.50%	5.00%	5.50%	7.50%	8.00%	8.00%
BNY Mellon Emerging Income Fund	0.00%	0.00%	0.00%	0.00%	3.50%	8.00%
Baillie Gifford American Fund	2.00%	5.00%	5.50%	6.00%	6.50%	7.00%
Fidelity American Special Situations Fund	2.00%	2.50%	3.00%	3.50%	3.50%	5.00%
HSBC USA Multi-Factor Equity Fund	2.00%	3.00%	3.00%	3.50%	3.50%	5.00%
Liontrust European Dynamic Fund	2.00%	3.00%	3.50%	6.50%	5.00%	5.00%
Fidelity Asia Pacific Opportunities Fund	0.00%	2.00%	3.50%	3.50%	4.00%	5.00%
Fidelity Sustainable Global Equity Income Fund	0.00%	4.50%	6.00%	9.50%	7.00%	5.00%
BlackRock Natural Resources Growth & Income Fund	2.00%	2.50%	3.00%	3.50%	4.00%	4.50%
T Rowe Price Global Focused Growth Equity Fund	0.00%	3.50%	4.00%	6.50%	4.00%	3.50%
iShares 100 UK Equity Index Fund	2.00%	2.50%	2.50%	3.00%	3.00%	3.00%
Nikko AM Japan Value Fund	0.00%	3.00%	3.00%	3.00%	2.00%	2.00%
Royal London Short Term Money Market Fund	13.00%	3.00%	3.00%	3.00%	0.00%	0.00%
PIMCO GIS Global Bond Fund GBPH	10.00%	6.50%	5.50%	4.50%	3.50%	0.00%
Vanguard Global Bond Index Fund GBPH	10.00%	6.50%	5.50%	4.50%	3.50%	0.00%
Muzinich Global Short Duration Investment Grade Fund GBPH	10.00%	6.50%	5.50%	4.00%	3.00%	0.00%
Royal London Short Duration Gilt Fund	6.00%	5.00%	5.00%	0.00%	0.00%	0.00%
IFSL Signia Sovereign Fund GBPH	6.00%	5.00%	5.00%	0.00%	0.00%	0.00%
Ruffer Diversified Return Fund	5.00%	5.00%	4.00%	4.00%	3.50%	0.00%
Vanguard Global Credit Bond Fund GBPH	4.00%	3.00%	3.00%	2.50%	2.00%	0.00%
Ninety One Diversified Income Fund	4.00%	3.00%	3.00%	2.50%	0.00%	0.00%
Aegon High Yield Bond Fund GBPH	3.00%	2.00%	2.00%	0.00%	0.00%	0.00%
M&G Emerging Markets Bond Fund	3.00%	2.00%	0.00%	0.00%	0.00%	0.00%
BlueBay Emerging Markets Unconstrained Bond Fund S Acc	3.00%	2.00%	0.00%	0.00%	0.00%	0.00%
Cash	2.00%	2.00%	2.00%	2.00%	0.00%	0.00%

OCF*	0.42%	0.55%	0.56%	0.63%	0.68%	0.72%

*OCFs as at 31/12/2023

Changes & Rationale

Funds Removed/Allocation Reduced

None

Funds Added/Allocation Increased

Aegon High Yield Bond Fund GBPH

This is an asset class driven by income, not price, and now the income opportunity is historically attractive. With yields where they are, the asset class looks good from a total return perspective. Although spreads are a little tight, this is in part a reflection of the shift upwards in quality in recent years and this shift upwards in quality suggests that defaults, though rising, won't increase too much from here. The asset class tends to shine in a rising rate / flat interest rate environment, which roughly speaking is where we are now. Variable lags from restrictive monetary policy over the past few years will surely bite at some point but for now, High Yield corporates remain in good shape. Consequently, we have decided to add exposure to this asset class via the Aegon High Yield Bond Fund.

BlueBay Emerging Markets Unconstrained Bond Fund

For assets classes like Emerging Market Debt (EMD) that are smaller pieces of the asset allocation pie, there is a good argument to outsource both sub-asset class allocation and security selection. For EMD, this might include decisions about whether to bias towards hard or local currency, rates, or credit etc. The benefit of outsourcing sub-asset class allocation is that turnover is minimised, which is important in the Model Portfolio Solution (MPS) wrapper. The BlueBay fund has a good track record across a range of macroeconomic environments and will nicely compliment the other half of the EMD basket, the M&G Emerging Markets Bond Fund.

IFSL Signia Sovereign Fund GBPH

This fund, run by Arbion, is a high-quality global rates fund with a bias towards the front end of the yield curve and so represents a reasonably defensive allocation of capital, especially in the current macroeconomic environment. Although the fund does not have an explicit benchmark, the stated investment objective is to beat the Secure Overnight Financing Rate (SOFR) by 1% every year (after fees) within an annualised volatility range of 2-4%. The fund has a good track record and there have been no material departures to the investment team over the past 5 years.

Muzinich Global Short Duration Investment Grade Fund GBPH

Muzinich is a well-regarded fixed income boutique with more than 30 years of investment experience. The fund has a strong track record and with an OCF of 30bps is well-deserving of a place in the core of the fixed income basket.

Funds Rebalanced

We adjusted exposure to the following funds to accommodate the above additions and to better map to our tactical asset allocation.

M&G Emerging Markets Bond Fund
Ninety One Diversified Income Fund
PIMCO GIS Global Bond Fund GBPH
Vanguard Global Bond Index Fund GBPH
Vanguard Global Credit Bond Fund GBPH

Performance

Performance over the last 12-months is as follows:

Abacus Active Profile 3 - DFM	4.62%
Abacus Active Profile 4 - DFM	7.73%
Abacus Active Profile 5 - DFM	8.11%
Abacus Active Profile 6 - DFM	9.74%
Abacus Active Profile 7 - DFM	9.70%
Abacus Active Profile 8 - DFM	10.74%

Source of Data: Titan Asset Management / Titan Investment Solutions
Data as of 31/12/2023

Case Study / Theme

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

As mentioned in previous updates, we made extensive changes to the Active Profiles on the 22nd of June 2022. The table below highlights the performance of the new funds added to the Profiles, taken up to the 16th of January 2024.

Security	Absolute Performance 22/06/22 – 16/01/24	Relative Performance* 22/06/22 – 16/10/24
Baillie Gifford American	38.05%	12.31%
Fidelity Global Sustainable Income	18.81%	-2.93%
Fidelity American Special Situations	12.63%	3.63%
HSBC US Multi-Factor	25.02%	-1.52%
Invesco UK Opportunities	13.79%	2.06%
Liontrust European Dynamic	27.73%	6.04%
Fidelity Asia Pacific Opportunities	-1.47%	-0.60%
BNY Mellon Emerging Income	9.29%	5.65%
BlackRock Natural Resources Fund	0.90%	19.27%

It is encouraging to see that all bar one of the funds added to the Profiles have increased in value since being bought. It is also pleasing that the majority have delivered strong relative performance, when compared with their respective regional benchmarks.

There has been a large outperformance from the BlackRock Natural Resources fund (19.27% relative outperformance) and the Baillie Gifford American Fund (12.31% relative outperformance), in particular.

As previously mentioned in past commentary, we decided to retain a position in the Baillie Gifford American fund, despite a difficult 2022. Our belief is that the fund is well managed and that the manager's focus on growth orientated companies will pay off, over the longer-term.

That said its performance remains volatile given the nature of companies the fund holds, especially in the current macroeconomic environment, so we remain watchful.

Performance numbers are quoted net of underlying fund fees and gross of any applicable DFM fee or trading fee, all priced in GBP
* Relative performance is measured against respective regional benchmarks

All data to 16/01/24
Source: Lipper for Investment Management, Bloomberg, Titan Asset Management Ltd

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