Bespoke Model Portfolio
Service Quarterly Report
July 2023

define
WEALTH

THE DEFINE WEALTH MODEL PORTFOLIO SERVICE (MPS)
WORKING IN PARTNERSHIP WITH LGT WEALTH MANAGEMENT

QUARTERLY REPORT ON YOUR INVESTMENTS MANAGED UNDER THE DEFINE WEALTH PROPOSITION AND HELD UNDER THE CUSTODY OF THE
AVIVA, FUNDSNETWORK, OR M&G WEALTH WRAP PLATFORMS

July 2023

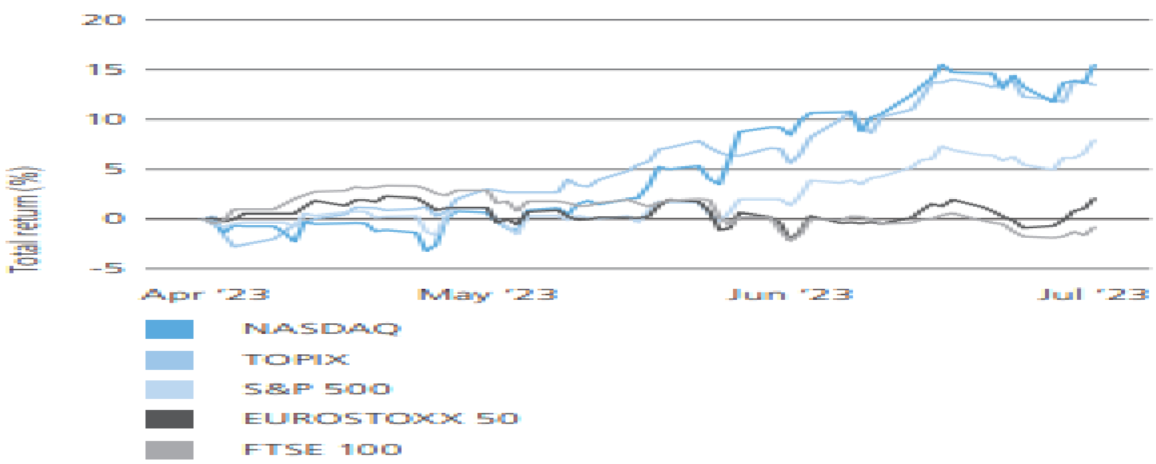
Overview

- Portfolio positioning becomes more important than ever
- Is the era of US dominance over?
- Unstoppable trends
- Putting cash to work in anticipation of a changing macroeconomic environment

Portfolio positioning becomes more important than ever

The first six months of 2023 were more positive for markets and for economies than most expected. We saw a strong rally for global markets in the second quarter as illustrated in the graph to the right, and whilst for investors this welcome rebound helped make up lost ground from a punishing 2022, it could also demonstrate that markets are far too willing to look past risks that still exist. The existence of these risks leads us now, more than ever, to focus on asset allocation as a key lever in mitigating portfolio risk management during times of investor stress. From an asset allocation perspective, the extraordinary shift in interest rates over the past 12 – 18 months has provided us with investors' only free lunch, diversification. Now we can use fixed income assets to provide the diversification benefits we haven't enjoyed for many years meaning now more than ever, that asset allocation plays a crucial role in generating strong and stable returns. We have been actively managing our bond holdings in portfolios to take advantage of this 'better than expected' environment and positioning portfolios for the scenarios we believe investors could be facing over the next six months and beyond. We also reduced equity exposure with the belief that elevated valuations, driven in most parts of the world by multiple expansion, are not appropriately pricing in the potential risks at play.

Total return of major indices over Q2 (local currency terms)



Source: Bloomberg, LGT Wealth Management

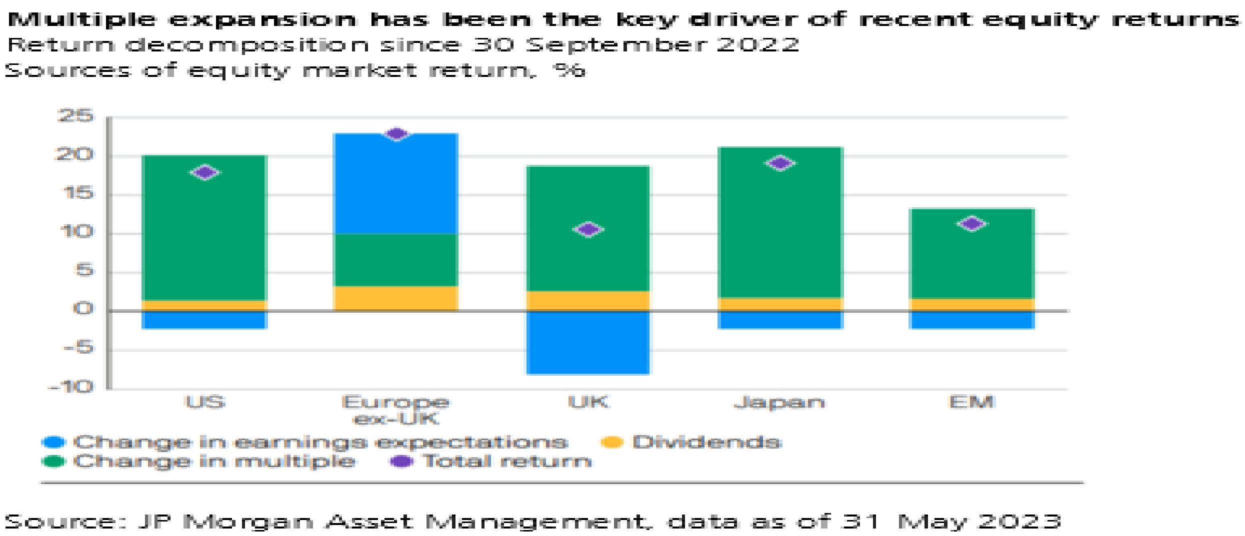
2023 has so far provided a more sanguine macroeconomic environment than many were predicting. However, stubbornly high inflation, due to factors such as a tight labour market, deglobalisation and the move to a greener and cleaner economy, may well remain higher than central banks would ideally like. For investors, in this environment it is very important to know what you own. To invest in quality and strong dividend paying companies in sectors such as healthcare, and maintaining a well-diversified regional allocation, investors can weather turbulent times more effectively.

Whilst the investing and macroeconomic landscape has so far been kinder than anticipated, it is important to take stock and consider the economic environments we may well find ourselves in over the next months and quarters, all pivoting on inflation and the corresponding response from central banks in the movement of interest rates. We consider three scenarios, firstly our base scenario, a soft landing in which inflation falls, growth remains subdued, but recession avoided. We also consider a tail risk inflationary scenario where inflation remains high, and more interest rate rises are required. And finally, a second tail risk recessionary scenario, in which central banks are forced to cut interest rates in reaction to a slowing economy. We don't have certainty over which scenario will occur, although we place the highest probability on our base scenario. It is, therefore, important than the portfolios we manage for clients are positioned primarily for our base case scenario to occur, however, we have holdings in portfolios that will protect the portfolios if one of the tail risk scenarios plays out.

In reality, a combination of these scenarios could be the most likely to come to pass. For example, whilst a soft landing could be the outcome for global growth prospects, central banks may be forced to keep policy tighter for longer than investors are anticipating due to supply constraints including a tight labour market in the US and more resilience shown by consumers and businesses than the bond market is currently expecting. Whilst inflation is falling in some parts of the world, the goal of core inflation of 2% still seems a lofty ambition for this year.

Is the era of US dominance over?

While the US remains home to some of the highest quality companies, investment opportunities outside of the US appear attractive. We question whether the investment cycle will differ for non-US stocks this time and lead to the potential for shorter-term gains in non-US markets. This year, the ten stocks driving the S&P 500's return have accounted for 82% of that return. 10 stocks typically account for 32% of the S&P's return[1]. Whilst these are diversified, cash generative and in many ways defensive businesses, the narrow nature of the rally gives a misleading picture of the broader health of the US market. Focusing on the fundamentals and balance of risks, we have reduced US equity exposure during the first half of 2023. Outside of the US market, European and Japanese equities have performed well, as depicted in the graph below. The portfolios, through the global fund holdings, are well exposed to these regions and are well positioned to benefit from future returns from these areas.



We increased the exposure to Asia and wider emerging market economies in portfolios last year due to the fact many emerging economies are helped by supportive monetary policy and long-term trends. The trends indicate superior growth potential such as a youthful demographic and a growing middle class. Whilst we were perhaps a little early on this positioning, taking stock at this half year point, the investment thesis remains intact, and if anything, at a 30% valuation discount versus

[1] Factset, Goldman Sachs Global Investment Research

developed markets, investing in emerging market economies now makes for an even more compelling case than six months ago. Developed markets are still battling significant supply constraints driven by labour shortage, geopolitical fragmentation, and an ageing population that is having a real-time impact on the US economy.

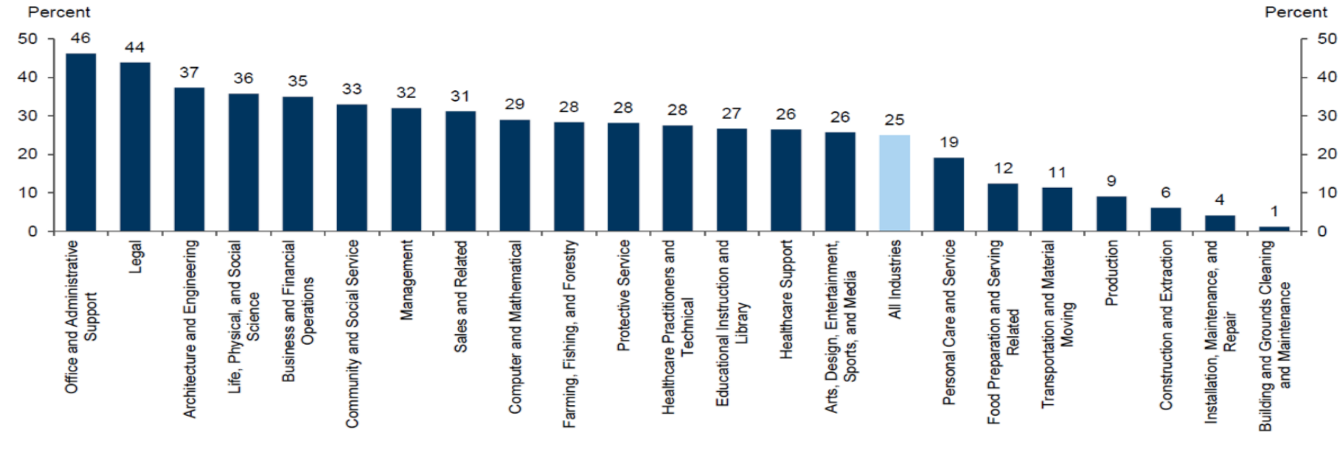
The consensus that 2023 would bring China's post-COVID recovery (and with it, boost the fortunes of the wider emerging market region) fell a bit flat as economic data underwhelmed during the second quarter. However, there is a real potential for improvement in broad market sentiment, particularly in China if we see a large stimulus package from the government. Unlike other countries, Chinese inflation currently remains muted, and in general monetary policies across emerging markets remain supportive. Countries like Vietnam, Malaysia, Thailand, Mexico, Argentina and India all have access to cheap energy, an abundant labour force and free trade with large parts of the global economy. Whereas, the negative impacts of deglobalisation on developed countries are already playing out in trade, inflation and scarcity of labour. So whilst there are near term challenges, many emerging markets have robust long-term growth prospects, making them an attractive investment option.

Unstoppable trends

Returns in the S&P 500 this year have so far largely been driven by the large technology businesses Apple, Alphabet, Microsoft, Amazon, Meta, Tesla and Nvidia. One thing all these companies have in common, as well as being cash generative and diversified businesses, is significant exposure to Artificial Intelligence and more specifically, generative AI. AI should be viewed as much more than one of the many hype-investment themes we saw proliferate in 2021. Without question, AI has the potential to revolutionise productivity across industries. Following AI adoption, workers employed in occupations that are partially exposed to AI automation could have the ability to redirect newly created capacity toward other productive activities.

We believe the emergence of AI represents a new structural megatrend. Like all megatrends, its impact on the global economy will be significant and will become increasingly evident over a long-time horizon, largely unaffected by cyclical forces. Identifying investment opportunities associated with these megatrends can be a fruitful strategy, however, it is important to be selective, particularly in the more formative stages as investor exuberance can trump investment fundamentals and it is not always clear where market leadership will emerge.

Share of industry employed exposed to automation by AI for the US

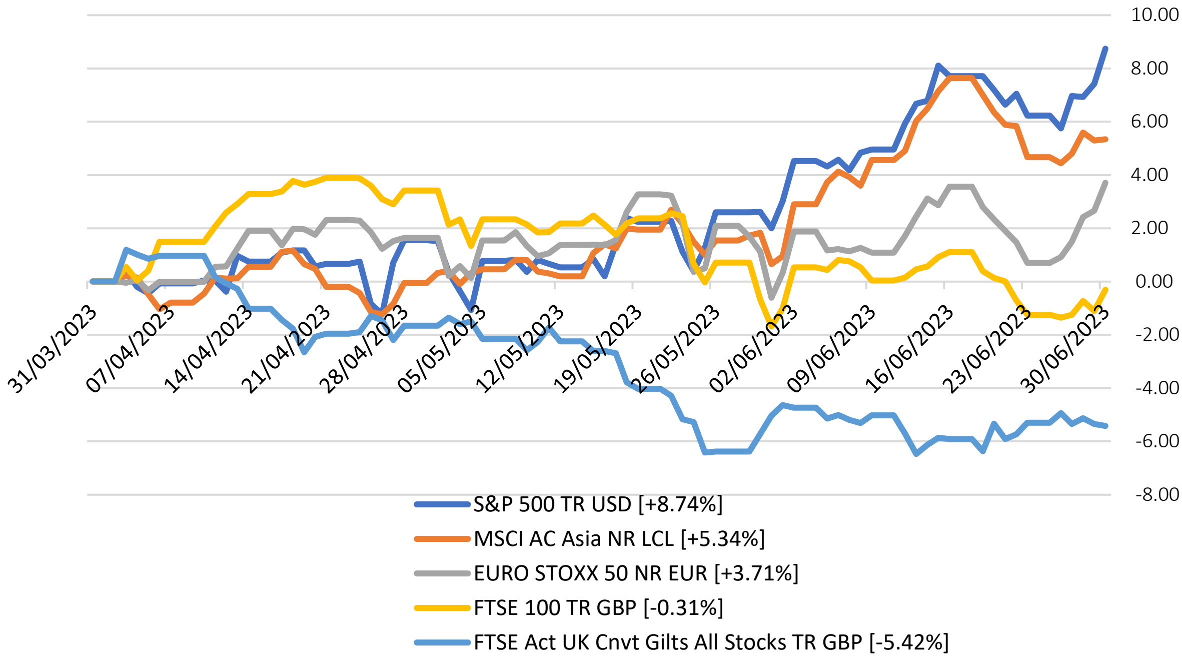


Source: Goldman Sachs

Putting cash to work

Along with drawdowns experienced across the market, 2022 also massively improved prospects for holders of cash. In the current environment, it is very tempting for investors to choose to hold bank deposits, offering in the region of 4.5% return, however, this strategy could be too short sighted. The return on cash will fall as we reach the peak of the rate cycle and the market focus moves to potential cuts. An alternative strategy that will enable investors to lock in yield would be to buy a short-dated bond that is paying out the same yield as cash, or slightly higher, but without the reinvestment risk (until the bond matures). For this reason, we have been bringing the cash position in portfolios down and investing in the bond market to take advantage of yields. Whilst we are currently holding a neutral equity position, reflecting the balance of risks we see on the macroeconomic landscape over the medium term, equities are the asset that enable significant capital appreciation. We believe that being selective and holding quality companies that have the ability to weather a turbulent macroeconomic environment, higher inflation or higher interest rates for longer, is a prudent way to be holding equity investments at this time.

Q2 2023 index performance (%)



Source: Morningstar

A summary of markets over Q2 2023

Headlines in June centred around decisions made by central banks as they grappled with the puzzling macroeconomic backdrop. Despite their efforts, inflation remains elevated which has left markets questioning when central banks may pause or pivot. Despite sustained concerns around inflation and interest rates, markets were much more resilient in Q2 2023, with some posting impressive gains.

Inflation in the US
Having referenced inflation remaining elevated, we are beginning to see some positive data emerging in relation to US inflation levels. The Federal Reserve (Fed) have been raising rates since 2021 and we are starting to see the impact of these hikes bear fruit as headline CPI (Consumer Price Index) numbers have eased to 3%-4% range, with some expecting they'll be as low as 2% by the end of the year. However, the risk of overtightening remains and we are being mindful of this within portfolios.

The UK faces an uphill battle
Within the UK, inflation is proving much stickier. It is fair to say that the Bank of England (BoE) is in a bit of a bind and we face an uphill battle in taming prices. There are many factors contributing to elevated inflation, a tight labour market, Brexit, supply chain issues, to name a few, and these headwinds certainly suggest that interest rate rises may continue. Some economists are predicting hikes to 6%, possibly peaking at 6.75%.

Touching on China
China has struggled on emergence from lockdown and their reopening has fallen below expectations. This hurt Chinese stocks, specifically those aligned with the Chinese consumer who disappointed on reopening in terms of travel and spending. Despite this, there are reasons to be optimistic on the region; there's an upcoming government meeting this month where more positive policy stimulus could be expected, the government have been introducing policy to increase domestic demand to drive growth and expand consumption. The Chinese consumer is undergoing an innovation and is entering a new phase of development.

Emerging Markets
Stripping China out, emerging markets, particularly the likes of Vietnam and India, have seen good market growth across the quarter. Emerging markets, both the equity and debt of these regions, continue to be areas we view as powerful tailwinds for growth over the medium to long-term for more growth centric investors.

Fund performance in portfolios

Top performing funds

Fidelity Index US
+9.07%

ES Alliance Bernstein
Sustainavle US Equity
+5.43%

	Performance	Comment
Fidelity Index US	Return +9.07% Benchmark* +5.69% *Relative +3.39%*	The S&P 500 rose by 5.8% through the second quarter, driven almost entirely by three sectors. The Information Technology sector is up 37% in the year to date, largely driven by the performance of Adobe, Microsoft and Nvidia. The next best performing sectors, Communication Services (+35% YTD) and Consumer Discretionary (+27% YTD) primarily owe their rally to companies such as Alphabet, Meta, Amazon and Tesla. These sectors have been sent higher by the artificial intelligence boom and the expectations of future productivity gains given the mass adoption of the technology. The Fidelity Index's subsequent overweight to such names has therefore boosted its performance over the period.
ES Alliance Bernstein	Return +5.43% Benchmark* +5.76%	For the same reasons as noted above, the fund's bias to US large cap stocks boosted its performance over the quarter. US equity markets also surged in June, rallying ahead of the US Federal Reserve's announcement that it would hold rates steady,

Sustainable US Equity	*Relative -0.32%*	and as optimism around disinflation traction and a generally resilient US economy renewed hopes for a soft landing. The fund's outperformance has also been driven by the strong stock selection in the portfolio - stock selection was additive in Healthcare, Technology and Industrials.

* S&P 500 GBP
**MSCI ACWI USD

Bottom performing fund

Vanguard UK Long Duration Gilt
-8.34%

	Performance	Comment
Vanguard UK Long Duration Gilt	Return -8.34% Benchmark* -8.33% *Relative -0.01%*	Markets ended the quarter with greater optimism about growth prospects, particularly in the US and Europe. Furthermore, growing belief that key central banks were at the end of their interest rate hiking cycle also caused longer duration bonds to become less attractive to investors. The US Federal Reserve for example did not increase its base rate in June for the first time since March 2022 as headline inflation continued to fall. This, therefore, decreased the prospect of a hard landing - that high interest rates would induce a recession.

* Bloomberg UK Government 15+ Year GBP

Source: Morningstar as at 30 June 2023

Portfolio positioning rationale by asset class

Key
▲ Increased exposure
◀▶ Maintained exposure
▼ Decreased exposure

◀▶ Fixed Interest

After several additions to the fixed income proposition over the last few quarters, there have been no changes to the overall allocation this quarter. Previous fund additions have all sought to tweak the defensiveness, duration and inflation protection of the fixed income sleeve, whilst capitalising on yield opportunities in the space.

▼ Equity

This quarter we have trimmed our overweight US equity holdings which have performed very well year-to-date, but largely driven by a small number of large cap stocks such as Apple, Nvidia and Microsoft. We have cautiously taken profits where these holdings have been beneficial and moved to relatively cheaper markets.

◀▶ Absolute Return / Alternatives

There have been no further changes to our views on alternative investments and our conviction in our active alternative managers remains high. The various strategies employed across the funds continue to be strongly uncorrelated to the movements of equity markets, providing notable diversification benefits to the models.

Cash

Cash levels have been maintained this quarter. As we did in 2022, we value holding a small cash buffer in the portfolios to add further protection in periods of volatility and enable us to act quickly should opportunities arise.

Model portfolio performance as at 30 June 2023

Portfolio	1 month	3 months	6 months	1 year	Since inception
Define 3	-0.06	-0.80	0.70	1.01	2.33
Define 4	0.16	-0.92	0.91	1.96	5.58
Define 5	0.76	-0.39	1.73	3.89	10.29
Define 6	1.04	-0.29	1.86	4.97	13.16
Define 7	1.79	0.44	3.07	6.87	11.01
Define 8	1.99	0.29	3.19	6.55	13.98
Define 4 Income	0.15	-0.83	1.56	1.97	4.72
Define 6 Income	0.50	0.05	2.56	4.64	12.50
FTSE All Share	0.99	-0.46	2.61	7.89	14.43
BlackRock Cash	0.34	1.01	1.89	2.91	3.32
FTSE Act Conventional Gilts Over 15 Yrs	1.63	-8.32	-5.77	-24.88	-44.30

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

THE DEFINE WEALTH MODEL PORTFOLIO SERVICE JOINT INVESTMENT COMMITTEE (IC)

The joint Investment Committee (IC) is comprised of LGT Wealth Management's investment managers and asset class specialists along with key staff from Define Wealth. Define Wealth's role is to set and monitor the overall investment strategy. As a matter of course, the IC meets quarterly to discuss the market outlook but can, and does, meet at other times in response to events that occur between meetings.

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Head of Intermediary
LGT WEALTH MANAGEMENT - PARTNER

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Senior Portfolio Manager, Bespoke MPS
LGT WEALTH MANAGEMENT

SIMON WOOD-WOOLLEY
DipPFS BA (hons)
MANAGING DIRECTOR
DEFINE WEALTH

TIM JOHNSON FCCA APFS
Chartered Financial Planner
SENIOR ADVISER
DEFINE WEALTH

HOW WE WORK FOR YOU

Our commitment to you is to review and monitor your investment portfolio on a regular and ongoing basis to ensure diversity, to reduce investment risks and to seek to improve returns over the longer term. The aim is to add real value to your investment experience backed by 'real time' monitoring of your investments. To achieve this, we work in partnership with our preferred investment partner, LGT Wealth Management, an award-winning Discretionary Fund Manager (DFM), to run a collection of model portfolios.

The risk rated model portfolios are unique to Define Wealth and reflect our combined views on economic and investment markets. The portfolios have been created to power our Wealth Management investment proposition, with the portfolios monitored and managed by a joint Investment Committee (IC) composed of LGT Wealth Management's Investment Managers and Define Wealth. The Investment Committee meets every quarter to analyse the portfolios' asset allocation strategy and recommended fund choices.

Your portfolio benefits from the most current investment thinking and the best ideas through dynamic portfolio construction, combining Define Wealth's expertise and in-depth knowledge of your personal financial requirements and LGT Wealth Management's investment process, research capabilities and understanding of markets. We believe that we have found the optimum blend to improve further on the services which we can provide and the ongoing management of your portfolio.

Central to the Model Portfolio Service proposition are LGT Wealth Management's discretionary investment powers and we firmly believe that one of the critical advantages that these discretionary powers bring is the ability to react far more quickly to economic, market and fund management changes.

In Committee, if the analysis of the portfolios and their constituent parts lead to a recommendation for change then we are able act on that proposal immediately and then communicate those changes to you. You no longer have to give your consent every time a portfolio change is made. Instead, the partnership Investment Committee will make changes and rebalance all of the portfolios every quarter and then tell you what changes, if any, have been made.

The joint committee will continue to communicate with you every quarter, providing you with our investment 'outlook', informing you of any changes made to your investment portfolio and explaining the thinking behind those changes. The partnership will work to common governance and investment philosophies, and you can be assured that the Define Wealth portfolios - and their component parts - remain aligned to your attitude to investment risk.

HOW DOES THE MODEL PORTFOLIO SERVICE BENEFIT YOU?

- Investment decisions are made in partnership between Define Wealth and LGT Wealth Management, ensuring your investment is aligned to your needs.
- Your portfolio benefits from specialised and dedicated investment research capabilities provided by LGT Wealth Management, an award-winning investment house.

- Define Wealth has access to effective communication on investment markets and market views, which can be shared with you.
- We have the ability to react nimbly to market events, ensuring your portfolio is positioned appropriately regardless of market fluctuations.
- You have exposure to industry leading investment expertise, providing you with reassurance that your investment is supported by a trusted and reliable partner.

Important information

There may have been a few reallocations of exiting fund weightings as well as the quarterly portfolio rebalance. From an environmental perspective we are trying to keep the amount of paper which we send out to a bare minimum and therefore any new fund facts sheets are available on request.

We trust that you will understand the rationale behind the changes and confirm that there are no costs to you for switching funds or portfolio rebalancing on the Wrap Platforms. Please call if you have any questions. Call 01737 888110 or email admin@definewealth.co.uk

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This document is not intended and should not be construed as an offer, solicitation, or recommendation to buy or sell any investments. You are recommended to seek advice concerning suitability of any investment from your investment adviser.

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

It is important to note that returns from investment funds are not guaranteed and the value of your capital and any income taken can fall as well as rise.

Past performance should not be seen as a guide to future returns.

The views expressed in this Market Review are based on our current understanding of market conditions.