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

November 2023

Overview

- Higher for longer
- The big risk cashing out
- Looking beyond China for investment in Asia

Higher for longer

It appears that we have now moved into a new interest rate environment in which interest rates will remain higher than during the previous low inflation, low interest rate regime that occurred from 2010-2021. As and when interest rates do come down, we do not expect them to go back to the same levels as in the aforementioned regime. If interest rates remain higher *and* for longer than markets initially predicted, this presents a number of investment opportunities for us to take advantage of. We explore three key reasons to remain positive in the current market cycle.

1. Separates the wheat from the chaff

You tend to see a dispersion between the good and the bad companies in a higher interest rate environment; rates staying higher for longer may further extenuate the spread.

The winners in this environment will most likely be quality businesses, these are those that invest in technology and embrace it, those with pricing power, monopolistic control, strong balance sheets and companies which aren't exposed to cyclical or interest rate sensitive areas. Poorly run businesses are less likely to survive as the impact of higher interest rates puts pressure on businesses with high levels of debt as their debt servicing costs rise and eat into profits. This is where the value in holding active managers becomes more important as they are the ones who have the freedom to stock pick the winners. The quality equity bias of our portfolios will be a tailwind in a higher for longer environment.

2. A sign of resilience

Higher rates for longer would likely indicate that the economy is holding up better than expected which should be positive for risk assets (e.g., equities and investment grade / high yield bonds) overall. It should also indicate that unemployment levels are low and wage growth is steady; higher for longer means consumers are showing their resilience.

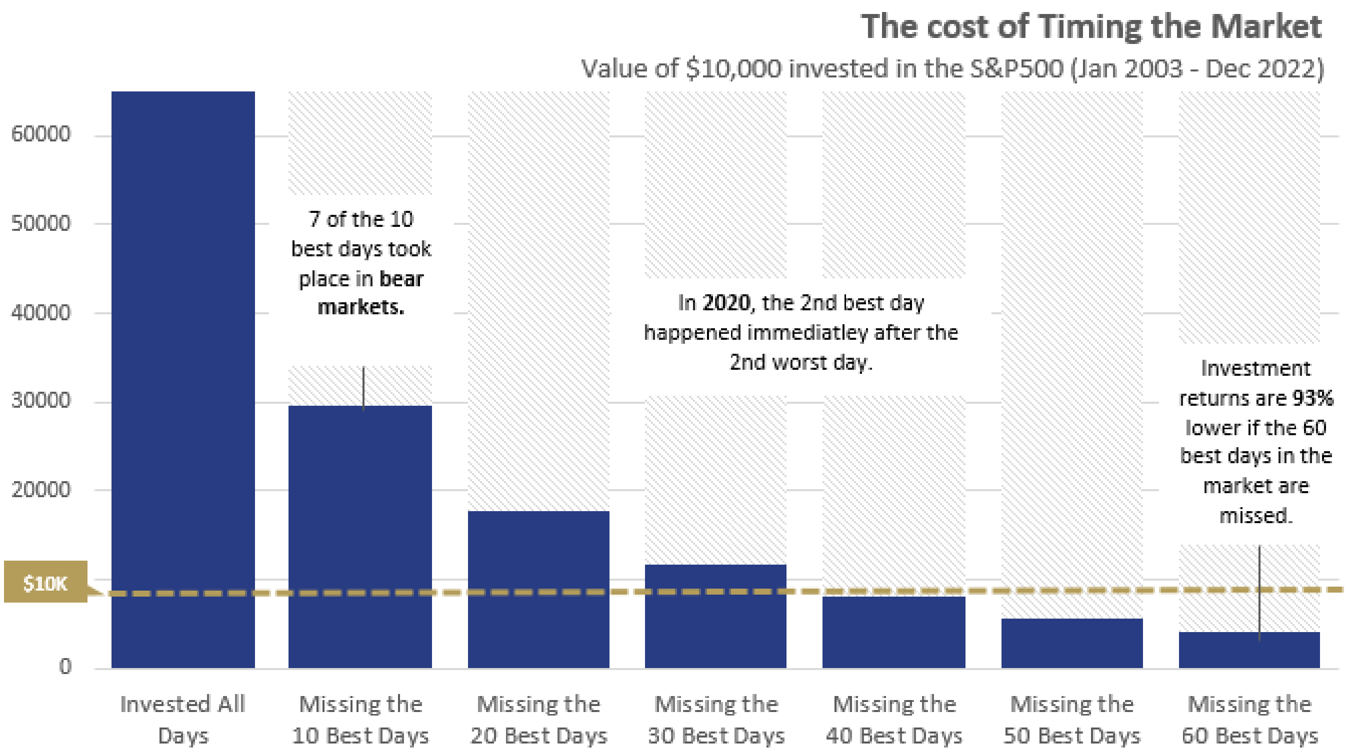
3. Headroom for future policy intervention

This environment also gives more room for future policy intervention. Markets arguably react more when rates go down. Take the pandemic for example, central banks could only cut from a very low base, whereas if we are at 5.25% or higher, there is a lot of room to move in terms of stimulating the economy when the time is right or should any unexpected crisis come along. Higher rates are a central bank's primary policy ammunition.

The big risk with cashing out

Interest rates, and therefore rates on cash, are the highest they have been in the UK for 15 years. For investors that have endured a tough investment landscape for the last few years, it may seem tempting to liquidate, or to invest new money into a fixed return from a cash deposit. However, making this choice is risky for a number of reasons. It is very well-documented that poor, or unlucky timing of such a move can significantly impact long-term returns. The majority of clients have their wealth invested to meet medium or long-term financial objectives. By missing the 10 best days of the market over the last 20 years, would have reduced your $10,000 invested in the S&P 500 from the potential of $64,844 to $29,708[1]. The behavioural phenomenon of buying at the top of the market and selling at the bottom is characteristic of the human psyche and negates the fact that it is often better to leave wealth invested and compounding through the market cycle.

Whilst rates on cash may seem attractive today, we could be close to 'peak' interest rates, as inflation looks to be brought under control and the continuous increasing of interest rates may no longer be required. The Bank of England is cognisant of causing the economy too much pain, and if the Bank starts to see evidence of a coming recession, interest rate cuts could be needed. As and when interest rates do start to fall, the rates on cash investments will also fall, meaning that investors may not just be missing out on equity market moves which would be likely to rise on the back of falling borrowing costs. Investors will also miss out on the yields on bonds that may fall in line with interest rates falling, leading to the price of bonds to appreciate as yields fall. Investing in bonds, and benefiting from the attractiveness of current yields, which unlike cash can today produce a positive return after inflation is an opportunity to consider carefully.



Looking beyond China for investment in Asia

In the ever-evolving landscape of the global economy, Asia has long been a focal point for investors. The region is a vast and diverse continent with a multitude of opportunities beyond the most dominant economy, China, and there are compelling reasons to remain positive about the prospects of Asia as a whole.

Long-term prospects of China

China, often at the centre of discussions about Asia's economic outlook, has indeed faced a number of hurdles over the past few years. Gross Domestic Product (GDP) growth targets have proven elusive and the slowdown in consumer spending has raised concerns. The construction sector's struggles have sent ripples throughout the economy, leading to cautious investment strategies. That being said, China has attractive long-term trends including a growing middle class, a high rate of technological adoption, a growing sustainability sector, soaring healthcare demand along with wealth growth. As China contends with their current challenges, other countries within the Asian region provide attractive investment opportunities.

Alternative manufacturing hubs

One of the key reasons for shorter-term optimism is the potential for other Asian countries to benefit from the challenges faced by China. As global supply chains undergo a transformation, countries such as Vietnam, India, and Indonesia are emerging as alternative manufacturing hubs, attracting investment and diversifying the regional economic landscape.

A cheap and resilient region

Valuations play a pivotal role in the attractiveness of Asian markets. When compared to the often-elevated valuations (expensive stocks) in the United States, many Asian markets appear more reasonably priced. This relative valuation advantage can be a compelling factor for investors seeking opportunities beyond their home markets.

Some Asian companies have continued to demonstrate resilience and adaptability when it comes to earnings expectations. As economies recover and global demand rebounds, these companies are poised to benefit.

A diversified supply chain strategy

The "China + 1" growth story is gaining traction, emphasising the importance of diversifying supply chains beyond China. This approach presents an opportunity for other Asian nations to step into the void, bolstering their economies and positioning themselves as attractive destinations for foreign investment.

Asia offers diverse opportunities and challenges for investors. While China grapples with its own economic woes, the broader Asian region offers good investment prospects. As investors, it is prudent to adopt a diversified approach, exploring not only different countries but also various sectors and investment styles across the region to harness the resilience and opportunity that this dynamic continent has to offer.

A political path to net zero

Prime Minister, Rishi Sunak, has recently announced a watering down of some of the UK's climate policies that were originally engineered to help transition the country to net zero by 2050.

A summary of the changes:

- Delaying the ban on new petrol and diesel car sales from 2030 to 2035
- Delaying requirements to phase out sales of gas boilers by 2025 with homeowners now only having to install heat pumps when they are replacing their boilers. However, boiler upgrade grants will be doubled to £7,500
- Energy efficiency targets for landlords scrapped
- Previously announced in July, a commitment to issue more North Sea oil and gas licences.

These announcements may undermine the UK’s position on the global stage and create further uncertainty for companies that may be looking to invest into climate friendly operations and net zero technologies. If the Government can't provide sufficient confidence and conviction around their commitment to reach net zero emissions by 2050, then companies may be more likely to delay investment or invest elsewhere. This is of course particularly relevant for those industries that need to undergo highly disruptive changes, for example the automotive industry. Interestingly, and perhaps surprisingly, there has been heavy push back on the Government's actions from some leading voices in these sectors.
US carmaker, Ford, was quick to respond saying “the UK 2030 target is a vital catalyst to accelerate Ford into a cleaner future” and “our business needs three things from the UK government: ambition, commitment and consistency. A relaxation of 2030 would undermine all three”.[2] Part of the Government's argument is that Electric Vehicles are still too expensive, but this fails to address the

highly probable innovation and cost efficiencies that will occur from now up until 2030, and such a policy move could allow companies to delay investment and push these cost efficiencies down the road.

The UK's recent changes to key green policies marks a disappointing setback, however, we continue to watch global developments. For example, it has now been a year since the US Government set out its Inflation Reduction Act, which provided $369bn in support for home grown climate investments. Since its announcement, we have seen more than 270 new clean energy projects announced with investments totalling $132bn, supporting the creation of over 130,000 new jobs. The International Energy Agency has also estimated that more than $1.7trn will be invested in renewables this year, which compares to just over $1trn in fossil fuels. Our global approach means we are able to access compelling investment opportunities that can take advantage of both regional and global dynamics and are not dependent on the UK Government's stance and potential missteps.
So, whilst we pay close attention to these bumps in the road and assess whether they indicate any structural shift in the longer-term attractiveness of our sustainability mega trends, we place them into a broader context. To us, it remains clear that the shift from a fossil fuel powered energy system to one reliant on renewables is both environmentally and economically attractive, which will sustain support and progress over time.

Macroeconomic landscape Q3 2023

- Economic growth surpassed expectations throughout the quarter, despite the Federal Reserve's (Fed) efforts to cool the economy with its interest rate hiking cycle. As such, prospects of rate cuts moved further into the future.
- The Fed did pause its interest rate hiking in September, as did the Bank of England due to lower-than-expected inflation in the UK. The Fed have, however, indicated that another rate hike may be necessary later this year, and it expects to maintain higher rates for longer.
- Commodity prices continued to rise, adding to fears that inflation could remain stubbornly high, adding to the 'higher for longer' rhetoric. This provided no comfort to markets, with global developed market indices selling off after the Fed's meeting.
- Interest on bonds (yields) rose sharply on the 'higher for longer' rhetoric. The US 10-year Treasury yield rose above 4.5% for the first time since 2007.
- China attempted to stimulate their flagging economy through a variety of government support measures, such as lowering mortgage rates for first-time-buyers. Despite efforts to restore confidence and boost growth, sentiment to China and Hong Kong was negative over the quarter.
- Going into Q4 there are reasons to be optimistic. Equity valuations in Asia are at a significant discount to the US and it's probable that the recent stimulus hasn't filtered through into the economy yet, so we expect growth to pickup which will be a tailwind for the rest of Asia.
- Rising borrowing costs mean businesses with strong balance sheets should be in a better position to weather a downturn. We continue our selective approach of quality companies that display long-term compounding of earnings.

Fund performance in portfolios

Top performing funds

Vontobel Sustainable ST Bond
+2.18%

L&G UK 100
+3.04%

	Performance	Comment
Vontobel Sustainable ST Bond:	Return +2.18%	The Vontobel Sustainable Short-Term Bond saw a positive return of 2.18% over the quarter. Major economies have continued to be surprisingly resilient despite high interest rates, and so, investors have prioritised shorter term over longer-term bonds (which tend to see more popularity in recessionary conditions). Rising yields presents opportunities in short term assets, increasing their relative attraction.
L&G UK 100	Return +3.04%	The L&G UK 100 Index rose by 3.04% over the quarter. For equities, the UK was a bright spot, with the FTSE 100 seeing notably positive returns, benefiting from higher commodity and oil prices and a weaker Pound. Improving consumer sentiment also enabled several of the fund's top 10 holdings to perform well over the period.

Bottom performing fund

Vanguard UK Long Duration Gilt
-5.74%

Evenload Global Income
-3.58%

	Performance	Comment
Vanguard UK Long Duration Gilt	Return -5.74%	The Vanguard Long Duration Gilt Index posted another negative quarter (-5.74%) as investors anticipated the increasing likelihood of interest rates staying higher for longer. Though some data points hint to weaker economic conditions in the UK, this has not been enough to prompt investors to buy traditionally safer, longer-term gilts (UK Government bonds).
Evenlode Global Income	Return -3.58%	The Evenlode Global Income Fund fell by 3.58% over the quarter. Despite broadly positive results for companies held within the portfolio, market reaction to the results has been negative and investors remained focused on the deteriorating outlook for businesses. There have been signs of slowing demand and lower consumer confidence, which is likely to be felt more as we close out the

Portfolio positioning rationale by asset class

Key

▲ Increased exposure

◀▶ Maintained exposure

▼ Decreased exposure

▲ Fixed Income

Within fixed income, we have added to high quality bonds with shorter maturities which are offering attractively high yields for relatively low risk. Data shows that bonds have always outperformed cash in the preceding 12 months once interest rates have peaked, hence our belief that it is more beneficial to allocate here rather than simply adding further to cash.

▼ Equity

Within equities, we have reduced concentration risk by offsetting our exposure to the ultra-large cap companies in the portfolios known as 'the magnificent seven' and reallocating this exposure to the broader market. Given the recent price moves in these tech companies, they now make up a disproportionately large share of the US and global stock markets and, in our view, are vulnerable to a downturn.

Model portfolio performance as at 30th September 2023

Portfolio	1 month	3 months	6 months	1 year	Since inception
Define Cautious Portfolio 3	-0.58	-0.26	-1.05	2.41	1.93
Define Cautious Balanced Portfolio 4	-0.73	-0.46	-1.38	3.18	4.92
Define Balanced Portfolio 5	-0.91	-0.65	-1.04	3.90	9.44
Define Balanced Growth Portfolio 6	-0.73	-0.69	-0.98	4.25	12.27
Define Growth Portfolio 7	-0.43	-0.50	-0.06	4.91	10.25
Define Adventurous Portfolio 8	-0.66	-0.93	-0.64	4.11	12.84

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.

PHOEBE STONE
Head of Intermediary
LGT WEALTH MANAGEMENT - PARTNER

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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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