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Tailored Discretionary Managed Portfolios

Q2 2024 Update

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Latest Market Commentary – June 2024

The rally in US equity markets continued in June, with both the S&P 500 and Nasdaq Composite hitting new all-time highs. Mega-cap technology companies with elevated valuations continued to dominate the headlines.

The FTSE 100 had a more tepid performance, finishing June slightly lower than it started. The performance of UK indices was more subdued compared with those in the US. The lack of technology companies in London markets resulted in a pedestrian rally when compared with US valuations, which are generally higher on Wall Street.

The first-quarter reporting season saw investors focusing on financial guidance for the coming quarters. Any company that issued weak outlook statements saw sharp share-price falls. The rise of artificial intelligence and an increase in demand for cloud computing has supported shares in US technology majors such as Microsoft, Amazon and Google-owner Alphabet.

Inflation is now in retreat on both sides of the Atlantic. Indeed, the European Central Bank cut interest rates in the Eurozone for the first time in almost five years. However, the central bank warned future reductions would depend on price pressures easing further. Canada's central bank also cut its benchmark interest rate and hinted there would be more to come.

Borrowing costs in the US and UK are also expected to fall in the coming months. Bank of England governor Andrew Bailey has said interest-rate cuts could come before inflation hits its 2% target. However, inflation has proved stubborn – but the technical recession seen at the end of last year is over. Major lenders such as HSBC and Barclays have started to reduce mortgage rates in anticipation of the rate cut, but any shift in monetary policy is likely to be data dependent.

Chinese equities have rebounded from a lengthy period of weakness. However, the country's economy is recovering from the Covid-19 pandemic slowly and there are still problems in its property sector. Its equities have remained relatively out of favour.

Campaigning continued in the UK general election campaign, with Labour maintaining a lead over the Conservatives of about 20 points. The US presidential election takes place in November and, following a poorly received performance in the first 2024 presidential debate against Donald Trump, there were some calls for Joe Biden to withdraw.

France's President Emmanuel Macron made a risky decision to hold an election after the success of populist parties in the European elections. The gamble backfired and the far right is in pole position after the first round of parliamentary elections.

There appeared to be some progress on healing the fractured relationship between Washington and Beijing. US President Joe Biden and Chinese President Xi Jinping held a face-to-face meeting for the first time in a year and agreed to resume military-to-military communication amid efforts to normalise ties. However, restrictions remain on US companies selling cutting-edge technology to China – particularly in the chip sector.

The conflicts in the Middle East continued to be unresolved. A short ceasefire in the Israel-Hamas conflict ended after less than a week and the situation remains tense. Attacks by Houthi forces on shipping have resulted in many tankers and container ships avoiding the Red Sea area and this has driven oil prices higher, although the price has moved off highs. The Russia-Ukraine war continues, with little sign of a resolution any time soon.

Market participants now think the US can engineer a soft economic landing as inflation is brought down to the Fed's target level – although interest rates are likely to be kept "higher for longer" to curb inflation in both the US and UK – which has the potential to impede economic growth.

	Tailored Lower Risk	Tailored Medium Low Risk	Tailored Medium High Risk	Tailored Higher Risk
Fixed Income	**47%**	**32%**	**20%**	**8%**
Government Bond	11%	9%	7%	3%
Inflation Linked Bond	4%	4%	3%	3%
Investment Grade Bond	26%	14%	7%	0%
High Yield Bond	6%	5%	2%	2%
Equity	**33%**	**50%**	**69%**	**78%**
North America	15%	21%	29%	31%
Japan	5%	6%	6%	7%
Europe	5%	7%	8%	8%
UK	2%	4%	4%	4%
Asia Pacific ex-Japan	3%	5%	9%	10%
Global Emerging Market	0%	2%	6%	7%
Global Equity / Thematics	2%	6%	7%	10%
Alternatives	**8%**	**9%**	**10%**	**13%**
Property	2%	3%	3%	4%
Infrastructure	6%	6%	6%	8%
Cash & Equivalent	**12%**	**8%**	**2%**	**1%**

Table 1. Source: Charles Stanley as of 30 June 2024. Figures subject to rounding.

Portfolio Positioning

Table 1 shows the current asset allocation of the Tailored Discretionary Managed portfolios.

There were limited changes to our top-level asset allocation through the second quarter of the year, however there were some reallocations within asset classes.

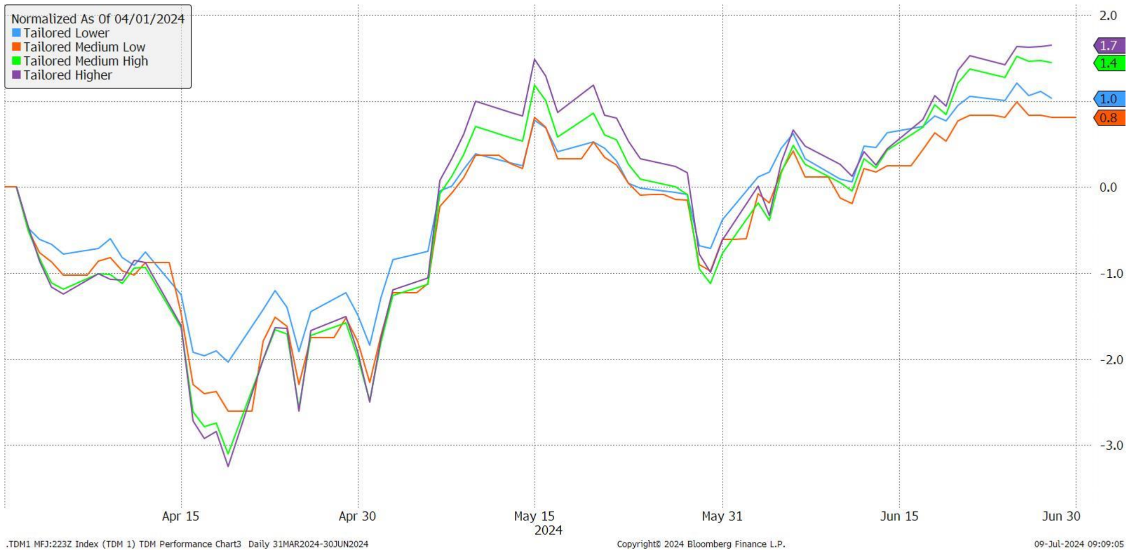
The key portfolio changes through the quarter can be summarised as:

- An amendment to our European equity allocation, introducing a Small Cap ETF in May where we see opportunities given the valuation discount to Large Cap companies, an improving macroeconomic environment, and low earnings expectations with room for upside surprise.
- A reduced allocation to the Green Energy thematic, used as a funding source for the European Small Cap ETF addition.
- Changes to our US Equity allocation, introducing several new names – Synopsys (April), Micron Technology (June) and S&P Global (June) –, exiting our positions in J&J (April), Comcast (May) and trimming Booking.com (June).

We continue to believe the infrastructure sector has a strong outlook and trades on inexpensive valuations compared to other parts of the market and expect peaking interest rates to be a tailwind for the sector.

While there were no headline changes to the fixed-income ratings, we do currently have a preference for UK & European credit over the US, where we view spreads as having tightened to expensive levels. We continue to see the new interest rate/bond yield environment as offering attractive risk-adjusted return opportunities, particularly with peaking Central Bank interest rates. Our preference remains to hold shorter to mid-dated Investment Grade Corporate Bonds, alongside 7–10-year maturity sovereign bonds as a risk anchor.

Figure 1: Rolling Quarterly Performance



Source: Bloomberg, gross performance figures. Past Performance is not a reliable indicator of future returns. As at 30 June 2024.

Tailored Lower: 1.0%; Tailored Medium Low: 0.8%; Tailored Medium High: 1.4%; Tailored Higher: 1.7%

Quarterly Performance

The second quarter of the 2024 was positive for portfolios overall, though it was slightly more volatile than the first quarter.

The rally in equity markets that started in November last year lost steam in April as market expectations of the number of interest rate cuts in the US and UK this year dropped. This was due to stubborn inflation and continuing resilience in jobs markets. Markets then turned their attention to earnings with investors focusing on financial guidance for the coming quarters. In this period, the FTSE 100 was a bright spot and pleasingly we saw stronger performance from the FTSE 250.

As the quarter evolved, the equity markets recovered. The observed 'broadening out' of the S&P 500 index reversed, as the mega cap AI darlings once again re-established themselves as market leaders. Tech related outperformance also drove other markets, such as Taiwan which has a sizeable weighting to Taiwan Semiconductor Manufacturing. Emerging market equities in general performed better, with India being the brightest spot despite some jitters around the election.

The tempering of rate cut expectations led to volatility over the quarter for fixed income holdings. In general, better performance was seen from corporates, with our allocations tilted towards shorter maturity bonds rather than longer maturity bonds.

Tailored Discretionary Medium High Risk (DT6)	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	22.9	5.5	1.4
Government Bond	9.0	3.2	0.4
Inflation Linked Bond	4.4	4.9	0.2
Investment Grade Bond	5.7	4.9	0.3
High Yield Bond	3.0	14.8	0.5
Emerging Market Bond	0.8	1.6	0.0
Equity	66.3	13.1	8.5
North America	29.7	16.8	4.9
Japan	4.0	6.8	0.1
Europe	6.8	21.8	1.4
UK	3.6	20.5	0.7
Asia Pacific ex-Japan	8.6	11.4	1.0
Global Emerging Market	4.2	9.2	0.5
Global Equity / Thematics	9.5	1.1	0.0
Alternatives	8.2	7.7	0.6
Property	3.6	14.4	0.5
Infrastructure	4.5	1.9	0.1
Cash & Equivalent	2.6	-0.1	0.0

Table 2. Source: Bloomberg, gross performance figures as of 30 June 2024.
Figures subject to rounding.

Performance Attribution

Table 2 show the attribution of the medium-high (DT 6) risk portfolio over the last 12 months.

We saw very strong returns across equity markets over the last twelve months, with the European UK, and US allocations leading the way, producing the highest total returns of 21.8%, 20.5% and 16.8% respectively, contributing a total of 7.0% to the overall 1-year return. Novo Nordisk (+82.6%), Booking (48.3%) and Alphabet (53.3%) were the top performers and contributors to overall performance.

Other notable holdings include TR Property (+22.5%) and the Charles Stanley UK equity fund (+21%) which comfortably outperformed the FTSE 100 (+13%).

Starbucks (-19%), Roche (-13%) and Nestle (-13%) were the notable direct equity underperformers, while the Schroders Global Energy Transition Fund (-21%) has continued to impact the Global Equity/ Thematics asset class, albeit outperforming the alternative energy sector index.

Fixed Income returns were modest, with corporate bonds performing well – High Yield in particular – with credit spreads tightening materially. The Man GLG High Yield Opportunities fund is up 14.45% over 1 year.

The Alternatives allocation positively contributed to portfolios despite a turbulent journey, particularly in Infrastructure, that echoed sovereign bond markets movements. TR Property is the standout holding having returned 22.5% over 1 year, well ahead of the global real-estate index (3.1%).

Performance Attribution – Other Risk Profiles last 12 months

Tailored Discretionary Lower Risk (DT4)	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	**51.5**	**5.3**	**2.9**
Government Bond	20.3	2.6	0.7
Inflation Linked Bond	4.7	4.9	0.2
Investment Grade Bond	22.0	6.3	1.3
High Yield Bond	4.0	14.9	0.6
Emerging Market Bond	0.5	1.6	0.0
Equity	**32.2**	**15.6**	**4.8**
North America	14.8	18.8	2.7
Japan	3.6	9.3	0.2
Europe	4.9	20.6	1.0
UK	2.1	20.5	0.4
Asia Pacific ex-Japan	3.2	11.3	0.3
Global Emerging Market	0.1	1.0	0.0
Global Equity / Thematics	3.5	7.0	0.2
Alternatives	**5.6**	**9.3**	**0.5**
Property	2.5	15.2	0.4
Infrastructure	3.1	2.5	0.1
Cash & Equivalent	**10.7**	**4.1**	**0.5**

Tailored Discretionary Medium Low Risk (DT5)	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	**35.5**	**5.6**	**2.1**
Government Bond	12.3	2.9	0.4
Inflation Linked Bond	4.8	4.9	0.2
Investment Grade Bond	14.2	5.8	0.9
High Yield Bond	3.5	14.8	0.5
Emerging Market Bond	0.7	1.6	0.0
Equity	**50.1**	**12.5**	**6.1**
North America	22.1	15.3	3.3
Japan	4.3	8.5	0.2
Europe	6.0	20.6	1.2
UK	3.8	20.5	0.7
Asia Pacific ex-Japan	5.1	11.7	0.6
Global Emerging Market	1.7	4.6	0.1
Global Equity / Thematics	7.1	0.3	0.0
Alternatives	**7.1**	**8.3**	**0.6**
Property	3.2	15.5	0.5
Infrastructure	3.9	1.8	0.1
Cash & Equivalent	**7.2**	**3.7**	**0.3**

Tailored Discretionary Higher Risk (DT7)	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	**9.0**	**5.8**	**0.6**
Government Bond	3.2	0.1	0.0
Inflation Linked Bond	2.8	4.9	0.1
Investment Grade Bond	0.0	0.0	0.0
High Yield Bond	2.2	14.8	0.4
Emerging Market Bond	0.8	1.6	0.0
Equity	**77.4**	**12.5**	**9.5**
North America	32.4	17.0	5.4
Japan	5.1	5.7	0.1
Europe	7.1	22.5	1.6
UK	4.2	20.5	0.8
Asia Pacific ex-Japan	10.3	11.1	1.1
Global Emerging Market	5.7	8.2	0.6
Global Equity / Thematics	12.6	0.8	0.0
Alternatives	**11.5**	**7.2**	**0.9**
Property	4.6	16.0	0.7
Infrastructure	7.0	1.5	0.1
Cash & Equivalent	**2.1**	**-0.1**	**0.0**

Source: Bloomberg, gross performance figures as of 30 June 2024. Figures subject to rounding.

Top and Bottom Contributors – 12 months to 30 June 2024

	Positive Contributors				Negative Contributors			
	Description	Avg. Weight (%)	Return (%)	CTR (%)	Description	Avg. Weight (%)	Return (%)	CTR (%)
Tailored Lower Risk	Novo Nordisk	1.6	82.6	1.1	Starbucks	0.8	-19.0	-0.2
	Booking	1.7	48.3	0.7	Schroder Global Energy Transition Fund	0.8	-15.0	-0.2
	AXA Sterling Credit Short Duration Bond	5.1	7.6	0.6	Roche	0.6	-12.7	-0.1

	Positive Contributors				Negative Contributors			
	Description	Avg. Weight (%)	Return (%)	CTR (%)	Description	Avg. Weight (%)	Return (%)	CTR (%)
Tailored Medium Low Risk	Novo Nordisk	1.9	82.6	1.2	Schroder Global Energy Transition Fund	2.4	-20.8	-0.6
	Charles Stanley UK Equity	3.8	20.6	0.7	Starbucks	1.3	-19.0	-0.3
	Booking	1.7	48.3	0.7	Roche	0.7	-12.7	-0.1

	Positive Contributors				Negative Contributors			
	Description	Avg. Weight (%)	Return (%)	CTR (%)	Description	Avg. Weight (%)	Return (%)	CTR (%)
Tailored Medium High Risk	Novo Nordisk	2.3	82.6	1.5	Schroder Global Energy Transition Fund	2.8	-20.8	-0.7
	Booking	3.2	48.3	1.3	Starbucks	1.7	-19.0	-0.3
	Alphabet	2.5	53.3	1.1	Roche	0.8	-12.7	-0.2

	Positive Contributors				Negative Contributors			
	Description	Avg. Weight (%)	Return (%)	CTR (%)	Description	Avg. Weight (%)	Return (%)	CTR (%)
Tailored Higher Risk	Novo Nordisk	2.5	82.6	1.6	Schroder Global Energy Transition Fund	4.0	-20.8	-1.0
	Booking	3.2	48.3	1.3	Starbucks	1.7	-19.0	-0.4
	Amazon	2.6	49.1	1.1	Baillie Gifford Japan Trust	0.8	-12.2	-0.3

Source: Bloomberg, gross performance figures as of 30 June 2024. Figures subject to rounding.

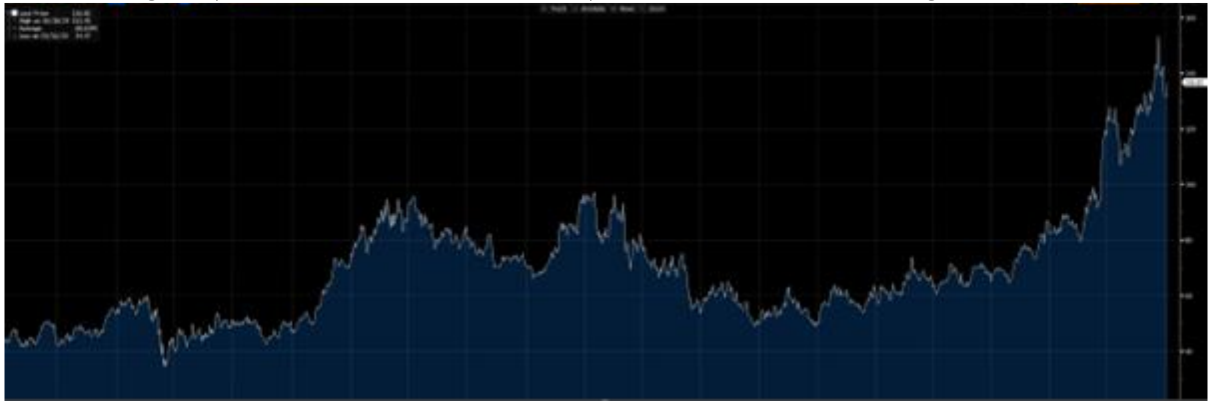
Spotlight:

Each quarter we take a look at some of the holdings in the portfolio to provide some insight into what we like about the company or fund, and their role in the portfolio(s):

Micron Technology is a major player in the memory and storage semiconductor market, producing essential components like DRAM (70% of revenue) and NAND flash memory (27%). The company serves a diverse range of industries, including data centres, PCs, mobile devices, automotive, and industrial applications.

The Micron Technology investment thesis is based on the memory industry in the early innings of a multiyear growth phase. Inventories across end markets are normalising and demand is underpinned by secular drivers including AI, 5G, automotive, and IoT, that are expected to drive growth faster than the broader semiconductor industry. Micron has a leading product portfolio and a strong competitive position in the concentrated DRAM market, and its latest high-bandwidth memory product, which the company argues has 30% lower power consumption compared to competitor products, enables it to capitalise on robust growth in data centres. Disciplined capex across the industry supports favourable pricing trends.

With record revenues and significant margin expansion in 2025, Micron is well-positioned to drive a meaningful inflection in fundamentals from here.

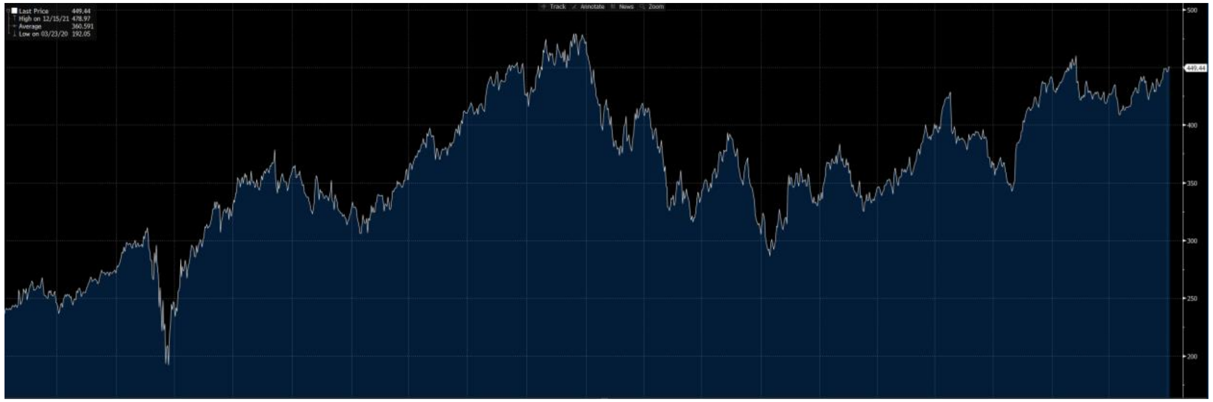


Source: Bloomberg, as at 30/06/2024

Micron's FY'24 Q3 results surpassed estimates due to robust pricing, despite the Taiwan earthquake's impact on sales volume. Micron's FY25 outlook and market share gains in high-bandwidth memory (HBM) are promising. We believe Micron is a good investment opportunity, given its improving revenue, margins, and earnings. We believe the potential for a stronger memory cycle driven by HBM is underestimated by the market. We anticipate a continued improvement in fundamentals and upward-trending earnings estimates, which should deliver an improving share price.
The share price is up 108% over 1 year.

S&P Global

A leader in the provision of financial information and analytics, the company operates through several segments, including Ratings, Market Intelligence, Platts (Commodity Insights), and Indices. S&P Global's Ratings segment provides credit ratings, research, and analytics, which are critical for issuers and investors. The Market Intelligence segment offers data and analytics for investment professionals, while Platts provides benchmark prices and analytics for the energy and commodities markets. The Indices segment includes the renowned S&P Dow Jones Indices.



Source: Bloomberg, as at 30/06/2024

In 2022, ratings revenue took a big hit driven by significant interest rate rises, which was also exacerbated by the pull-forward in debt issuance from the ultra-low interest rate environment post the COVID crisis in 2020. Nonetheless, long-term projections and analysts' forecasts indicate a considerable potential for revenue recovery.

S&P Global Inc. (SPGI) holds a strong position in the ratings market, with a significant expansion anticipated in corporate ratings, accounting for about half of their ratings revenue. The company enjoys the advantages of limited competition (with only three major competitors) and high transition costs for issuers and investors, ensuring consistent revenue flows. The recent results reveal 29% year over year growth in Q1 2024 ratings revenue, surpassing estimates and demonstrating a robust recovery in demand. Investing in S&P Global Inc. shares presents an attractive opportunity, considering the company's solid market standing and positive long-term growth factors.

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General Regulatory Disclosure

The value of investments, and any income derived from them, can fall as well as rise and may be affected by exchange rate variations. Investors may get back less than invested.

Performance is calculated on a Total Return basis using a notional portfolio in Bloomberg. Performance is gross of all investment fees, adviser fees, and platform costs. Any charges and fees applied by the platform, Eden Park Investment Management and/or authorised intermediaries reduce the return. Full costs and charges information can be generated via the Hubwise platform.

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