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Tailored Discretionary Managed Portfolios

Q3 2024 Update

Latest Market Commentary – September 2024

September was a positive month for equity markets, with indices in the US and Europe hitting record highs. This followed a 50-basis point (bp) interest rate cut by the Federal Reserve and hopes there would be further reductions in the cost of borrowing this year.

There was an improvement in tone from August, where fears of a recession in the US resulted in significant market volatility. However, these worries were overblown and equity markets generally recovered in the latter part of the month to end higher.

The sharp fall in early August was triggered by disappointing US employment data, as well as concerns about elevated valuations in the technology sector as second-quarter earnings season progressed. However, subsequent US jobs data proved reassuring and the official estimate of US output growth in the second quarter was revised higher – to 3% from an initial reading of 2.8%. This helped bring a sense of calm back to markets.

The size of the interest rate cut by the US central bank in September was large but has been interpreted by markets as an "insurance" cut to assist the economy following a slight weakening in the employment market rather than a portent of recession. However, the central bank has not provided any clarification on how fast rates will fall – and futures markets appear to have priced in an overly optimistic view of the pace in interest rate cuts. This expectation will need to be managed by the US central bank to prevent any disappointment if rates are not cut as swiftly as many in the market currently hope.

At the start of August, the Bank of England (BoE) surprised markets as it reduced interest rates for the first time in more than four years. BoE governor Andrew Bailey warned that the 25bp move would not herald a rapid succession of further cuts. Indeed, interest rates were held at the bank's September meeting. The action followed a rate cut by the European Central Bank in June. Both central banks warned that future reductions would depend on a further easing of price pressures.

Concerns about high valuations in the technology sector have been around for some time, but nervousness increased during the second-quarter earnings season. Statements from Google-owner Alphabet and electric-vehicle-maker Tesla disappointed investors and helped spark a wider sector sell-off.

The mega-cap technology stocks – known as the 'Magnificent 7' – have been major drivers of recent equity market gains, with perhaps the most important member of this cohort, artificial intelligence (AI) microchip designer Nvidia, reporting highly-anticipated earnings at the end of August. Although revenue and profits came in ahead of Wall Street expectations, the shares fell as the valuation of the company implied an outcome that was even better than the good results reported by the business.

Chinese equities rallied sharply in September after authorities announced the largest raft of stimulus measures since the Covid-19 pandemic. The nation's economy is teetering on the brink of deflation and there are concerns that a prolonged structural slowdown is in prospect. The measures are aimed at stimulating domestic consumption in the export-dependent economy.

The property market support package included a 50bp reduction in average interest rates for existing mortgages, and a cut in the minimum downpayment requirement to 15% on all types of homes. The Federal Reserve's 50bp cut in rates in the previous week allowed the People's Bank of China (PBOC) to follow suit without putting too much pressure on the yuan. PBOC Governor Pan Gongsheng said the central bank would cut the amount of cash banks have to hold in reserve – known as reserve requirement ratios – which will allow them to issue more loans.

The US is expected to engineer a soft economic landing as inflation is brought down to the Federal Reserve's target level – although the pace of interest rates cuts by most central banks is likely to be slower than many in the market currently believe.

	Tailored Lower Risk	Tailored Medium Low Risk	Tailored Medium High Risk	Tailored Higher Risk
Fixed Income	**48%**	**33%**	**21%**	**7%**
Government Bond	11%	9%	7%	3%
Inflation Linked Bond	4%	4%	3%	2%
Investment Grade Bond	26%	14%	8%	0%
High Yield Bond	6%	5%	3%	2%
Equity	**32%**	**50%**	**68%**	**78%**
North America	14%	21%	30%	32%
Japan	5%	6%	6%	7%
Europe	5%	7%	7%	7%
UK	4%	6%	6%	7%
Asia Pacific ex-Japan	3%	5%	9%	10%
Global Emerging Market	0%	2%	6%	7%
Global Equity / Thematics	2%	4%	4%	8%
Alternatives	**9%**	**9%**	**10%**	**14%**
Property	3%	3%	4%	5%
Infrastructure	6%	6%	7%	9%
Cash & Equivalent	**11%**	**7%**	**1%**	**1%**

Table 1. Source: Charles Stanley as of 30 September 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 third quarter of the year, however there were some reallocations within asset classes.

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

- An increase to our UK Mid-Cap exposure, taking advantage of the pull-back in August to increase this allocation
- Completing the exit from our Green Energy thematic, used as a funding source for the UK exposure

Given the moves in government bond yields we view UK Gilts as offering greater value than US Treasuries, with more realistic expectations for rate cuts from the Bank of England and higher nominal yields on offer. We have reviewed positioning in light of this and have determined that no changes are required at this point. We continue to prefer UK and European credit with spreads at more attractive levels compared to the US which we view as having tightened to expensive levels.

We continue to believe in a strong outlook for Infrastructure. The sector is trading on inexpensive valuations compared to other parts of the market, and we expect the interest rate cutting cycle to be a tailwind.

Despite the sharp moves in Chinese equities, we retain our underweight to the country, wider region, and emerging market equities as a whole. We do not believe that the substance of the measures announced warrants such a rapid appreciation with much of the rally sentiment-based. We will be monitoring announcements and will consider positioning appropriately, including proxies that may be more appropriate than a direct allocation to China.

Figure 1: Rolling Quarterly Performance

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

Tailored Lower: 2.4%; Tailored Medium Low: 1.9%; Tailored Medium High: 1.2%; Tailored Higher: 0.9%

Quarterly Performance

The third quarter of 2024 was positive for portfolios overall but required a recovery from significant falls in global equity markets from mid-July, repeating the pattern seen in Q2.

In this case, growing investor concerns around high valuations and the ability of companies to meet lofty growth expectations, particularly those highly linked to AI, coupled with weak US employment data sparked a sell-off in the US and other regions with a large exposure to technology such as Taiwan and South Korea. Elsewhere, Japan also saw notable volatility as a sharp appreciation in the yen following an interest rate rise impacted Japanese equities. More reassuring economic data led to a recovery in almost all regions through the quarter.

Conversely, July marked an upturn for bond markets as interest rate cuts took centre stage and the Fed guided the market towards a September cut as inflationary pressures eased. While aggressive cuts into the year-end were initially priced in, these have pulled back to more realistic levels with bond markets providing good returns as yields fell. Credit spreads also tightened over the quarter, supporting corporate and high yield bonds.

Outside of developed markets, Chinese equity markets saw a sharp rise on the back of supportive fiscal and monetary stimulus with the government's change in stance being warmly received by markets.

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Performance Attribution

Tailored Discretionary Medium High Risk (DT6)	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	**22.1**	**11.5**	**2.6**
Government Bond	8.5	9.5	0.9
Inflation Linked Bond	4.0	7.0	0.3
Investment Grade Bond	6.3	13.1	0.8
High Yield Bond	3.0	20.6	0.6
Emerging Market Bond	0.3	3.2	0.1
Equity	**66.7**	**12.3**	**8.1**
North America	29.5	12.6	3.7
Japan	4.8	10.5	0.2
Europe	7.0	15.2	1.0
UK	4.0	22.6	0.8
Asia Pacific ex-Japan	8.7	12.6	1.1
Global Emerging Market	4.7	14.1	0.7
Global Equity / Thematics	8.1	6.1	0.6
Alternatives	**8.9**	**18.4**	**1.6**
Property	3.7	25.9	0.9
Infrastructure	5.2	13.4	0.7
Cash & Equivalent	**2.3**	**-0.1**	**0.0**

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

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

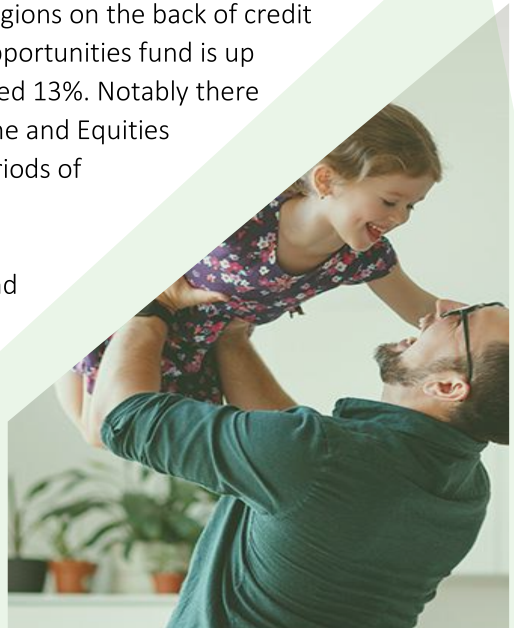
We saw strong returns across all asset classes and regions, with Alternatives the standout within Tailored. Property delivered the highest 12-month return for an asset class with TR Property (+33%) and PGIM Global Real Estate (+19%) performing well, buoyed by expected cuts to interest rates. Similarly, Infrastructure delivered good returns (+13%), although Listed Infrastructure outperformed the specialist Trusts in the portfolio given the strong performance of Utilities.

All Equity regions delivered double-digit returns, with our UK and European allocations the outstanding regions while Emerging Markets staged a recovery on the back of the improvement in China sentiment, returning 22.6%, 15.2% and 14.1% respectively. The US remains the largest contributor to performance given its weight, accounting for 3.7% of the overall 1-year return. Global Thematics remains the primary detractor from overall returns with the Schroders Global Energy Transition fund – now sold from portfolios – down 11% over the year, albeit outperforming the alternative energy sector index.

Fixed Income returns were also very positive with corporate bonds performing well. High Yield and Investment Grade outperformed most equity regions on the back of credit spreads tightening materially. The Man GLG High Yield Opportunities fund is up 16% over 1 year while Vanguard Global Credit has delivered 13%. Notably there was a return to negative correlation between Fixed Income and Equities which led to a greater ability for portfolios to weather periods of volatility, particularly at lower risk levels.

Booking (+25%), the Charles Stanley Equity Fund (21%) and Siemens (32%) were the top performers and contributors to overall performance.

Comcast (-14%), Micron (-26%) and Synopsys (-11%) were the notable direct equity underperformers.



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eden park INVESTMENT MANAGEMENT

CHARLES STANLEY Wealth Managers

Performance Attribution – Other Risk Profiles last 12 months

Tailored Discretionary Lower Risk (DT4)	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	**49.9**	**10.6**	**5.4**
Government Bond	16.8	8.3	1.6
Inflation Linked Bond	4.6	7.0	0.3
Investment Grade Bond	23.6	11.2	2.6
High Yield Bond	4.7	20.7	0.9
Emerging Market Bond	0.2	3.2	0.0
Equity	**32.0**	**13.5**	**4.2**
North America	14.6	13.0	1.9
Japan	4.0	10.5	0.3
Europe	4.9	14.3	0.7
UK	2.4	22.6	0.5
Asia Pacific ex-Japan	3.1	12.9	0.4
Global Emerging Market	0.0	0.0	0.0
Global Equity / Thematics	2.9	17.5	0.5
Alternatives	**6.7**	**18.8**	**1.2**
Property	2.5	26.7	0.6
Infrastructure	4.2	13.9	0.6
Cash & Equivalent	**11.4**	**4.4**	**0.5**

Tailored Discretionary Medium Low Risk (DT5)	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	**34.5**	**11.2**	**3.9**
Government Bond	11.3	8.6	1.0
Inflation Linked Bond	4.6	7.0	0.3
Investment Grade Bond	14.2	11.9	1.7
High Yield Bond	4.0	20.6	0.8
Emerging Market Bond	0.3	3.2	0.1
Equity	**49.8**	**12.5**	**6.1**
North America	21.7	12.5	2.7
Japan	4.7	10.6	0.3
Europe	6.2	15.4	0.9
UK	4.1	22.4	0.8
Asia Pacific ex-Japan	5.1	13.2	0.7
Global Emerging Market	1.6	9.1	0.1
Global Equity / Thematics	6.3	8.3	0.5
Alternatives	**7.9**	**18.9**	**1.5**
Property	3.3	26.9	0.8
Infrastructure	4.6	13.6	0.6
Cash & Equivalent	**7.9**	**4.1**	**0.3**

Tailored Discretionary Higher Risk (DT7)	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	**8.6**	**11.9**	**1.0**
Government Bond	3.4	9.7	0.3
Inflation Linked Bond	2.7	7.0	0.2
Investment Grade Bond	0.0	0.0	0.0
High Yield Bond	2.3	20.6	0.5
Emerging Market Bond	0.3	3.2	0.1
Equity	**77.2**	**12.4**	**9.5**
North America	31.9	13.1	4.2
Japan	5.8	10.6	0.4
Europe	7.3	15.4	1.1
UK	4.7	22.6	0.9
Asia Pacific ex-Japan	10.1	12.2	1.2
Global Emerging Market	6.2	13.1	0.9
Global Equity / Thematics	11.3	6.6	0.8
Alternatives	**12.2**	**19.2**	**2.3**
Property	4.7	27.3	1.2
Infrastructure	7.5	14.5	1.1
Cash & Equivalent	**2.0**	**-0.1**	**0.0**

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

Top and Bottom Contributors – 12 months to 30 September 2024

	Positive Contributors				Negative Contributors			
	Description	Avg. Weight (%)	Return (%)	CTR (%)	Description	Avg. Weight (%)	Return (%)	CTR (%)
Tailored Lower Risk	Vanguard Global Credit	7.0	13.4	0.9	Comcast	0.4	-14.1	-0.1
	Man GLG High Yield Opportunities	4.1	16.1	0.7	Synopsys Inc	0.5	-11.0	-0.1
	Invesco US Treasuries 7-10 year	5.2	10.4	0.6	Micron Technology	0.2	-25.6	-0.3

	Positive Contributors				Negative Contributors			
	Description	Avg. Weight (%)	Return (%)	CTR (%)	Description	Avg. Weight (%)	Return (%)	CTR (%)
Tailored Medium Low Risk	Charles Stanley UK Equity Fund	3.9	21.2	0.8	Comcast	0.7	-14.1	-0.2
	Man GLG High Yield Opportunities	3.5	16.1	0.6	Schroder Global Energy Transition Fund	1.9	-10.7	-0.2
	Vanguard Global Credit	4.5	13.4	0.6	Micron Technology	0.3	-25.6	-0.4

	Positive Contributors				Negative Contributors			
	Description	Avg. Weight (%)	Return (%)	CTR (%)	Description	Avg. Weight (%)	Return (%)	CTR (%)
Tailored Medium High Risk	Booking	2.9	25.2	0.8	Comcast	0.9	-14.1	-0.2
	Charles Stanley UK Equity Fund	3.7	21.2	0.7	Schroder Global Energy Transition Fund	2.1	-10.7	-0.2
	Siemens	2.3	31.9	0.7	Micron Technology	0.4	-25.6	-0.5

	Positive Contributors				Negative Contributors			
	Description	Avg. Weight (%)	Return (%)	CTR (%)	Description	Avg. Weight (%)	Return (%)	CTR (%)
Tailored Higher Risk	TR Property	2.8	32.9	0.9	Comcast	1.1	-14.1	-0.3
	Charles Stanley UK Equity Fund	4.3	21.2	0.9	Schroder Global Energy Transition Fund	3.1	-10.7	-0.3
	Amazon	2.6	33.4	0.8	Micron Technology	0.4	-25.6	-0.6

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

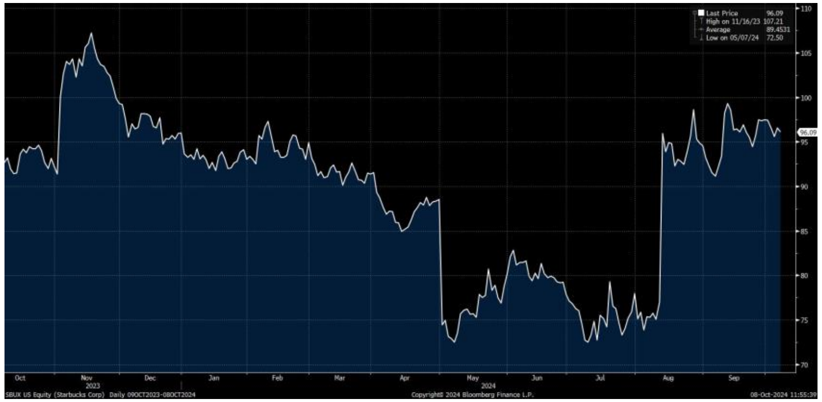
Spotlight:

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):

Having last written about Starbucks in our Q2 2023 update, now feels a timely opportunity to revisit the world's leading roaster, marketer, and retailer of speciality coffee products.

The share price has been under pressure through most of 2024 as its global growth has stalled, most significantly in China which was a core focus in the company's long-term growth strategy, and the innovative new product offerings for which it is famous gained little traction. Weak earnings results in Q2 '24 and less positive future guidance led to a sharp drop in the share price as investors adjusted their expectations for growth over the near and medium-term.

With this, the Board decided that a change in leadership was required and announced a change in CEO in August, appointing Brian Niccol – former CEO of Chipotle and Taco Bell. Given his record in generating strong revenue growth and driving innovation and operational excellence the market reacted very positively with the share price up 26.5%.



We retain similarly positive views on the appointment and are monitoring developments in the company closely.

The key areas of focus for us are:

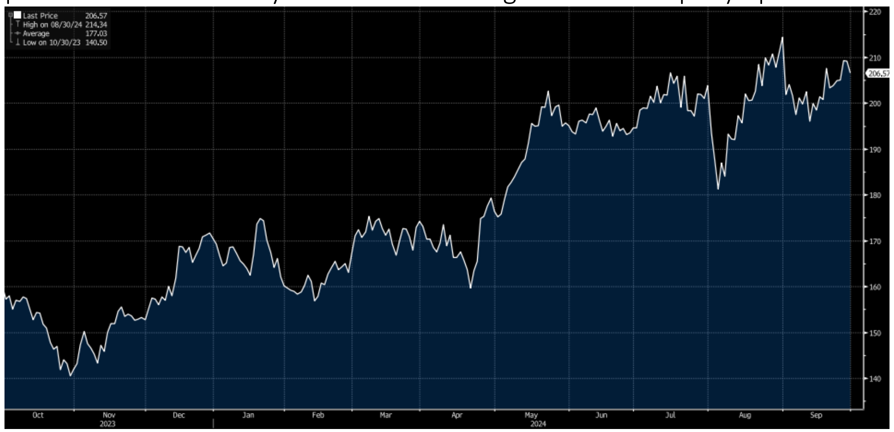
- Addressing US market growth through improving throughput, improving customer experience, and improving innovation and marketing.
- China strategy focus – providing clarity on the growth strategy or implementing an exit strategy (sell-off or licencing).

Source: Bloomberg, as at 30/09/2024

While this is not expected to be a quick turnaround, the re-rating of the business reflects renewed optimism in the long-term growth prospects of the company where share price negativity had become embedded. New leadership with a track record of success in key areas of focus for Starbucks, with public backing from renowned former CEO and Chairman Howard Schultz, leave us confident holders of the shares in portfolios.

Texas Instruments (TXN) is a key player in the semiconductor industry, known for designing and manufacturing analog and embedded processing chips that power a wide array of technologies, from automotive systems to industrial machinery and consumer electronics. These products are essential for many sectors, allowing TXN to maintain a strong and diverse customer base.

In its second-quarter results, TXN demonstrated early signs of recovery with $3.8 billion in revenue, a 4% sequential increase, though still down 16% year-over-year. Growth was particularly noticeable in personal electronics, which rebounded from a low point earlier this year, while industrial and automotive markets saw less severe declines compared to previous quarters. Positive order trends and fewer cancellations indicate that demand may be turning a corner. Share price performance over the year has been strong with the company up 30% over the past year.



Source: Bloomberg, as at 30/09/2024

The company’s strategic focus is on enhancing its production efficiency and expanding its presence in high-demand sectors like analog and embedded processing. This approach, combined with its robust capital investment—around $5 billion annually—positions TXN well to capture long-term growth in the semiconductor market. Its diversified product and customer base adds a layer of resilience. As TXN continues to execute on these strategies, it is well-positioned to benefit from the broader secular trends in digitisation and automation.

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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