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**CHARLES  
STANLEY** ▲  
*Wealth Managers*

# Tailored Discretionary Managed Portfolios

## Q1 2024 Update



## Latest Market Commentary – March 2024

Equity markets have been rallying for five months as investors look forward to a turn in the interest-rate cycle later this year. Both major US indices, the Dow Jones Industrial Average and the S&P 500, continue to hit new all-time highs.

This year, Japan's Nikkei index also hit a new record, closing above its previous peak set in 1989. The FTSE 100 has also risen, but its performance has been more muted.

Gains in US equities were driven by a shift in the policy guidance from the Federal Reserve (Fed) in December. The central bank maintained its dovish tone following its March meeting, despite a recent uptick in US inflation. Many in the market were worried that higher inflation readings since the turn of the year would force the central bank to take one of the expected interest-rate cuts off the table. However, this was not the case – and members of the central bank's policy committee continue to expect three interest-rate cuts in the second half of the year.

Despite the previous increases in interest rates, US economic growth remains strong. Although it slowed in the final three months of 2023, it fell by significantly less than had been expected. US gross domestic product (GDP) – a broad measure of economic health – in the fourth quarter of 2023 was revised higher at its second reading. The economy grew at 3.4% in the period, compared with the initial reading of 3.2%.

Bank of England governor Andrew Bailey said interest-rate cuts could come before inflation hits its 2% target after the central bank left them unchanged following its March meeting at 5.25%, their highest for 16 years. UK inflation fell to its lowest level in almost two-and-a-half years in February, as price rises for food and eating out slowed sharply. The annual rate of UK inflation has moved rapidly from its peak and is expected to continue to fall in the coming months. Markets expect the first UK interest-rate cut in the middle of the year.

The FTSE 100 has also rallied since November, but its performance has been more subdued compared with other indices. The index's lack of technology companies resulted in a pedestrian rally when compared with Wall Street and valuations are generally lower than in the US market.

The European Central Bank (ECB) is expected to be the first major central bank to cut interest rates. Markets have interpreted discussions at the latest ECB meeting as more dovish than expected.

Chinese equities have started to rebound 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. A court in Hong Kong ordered the liquidation of debt-laden Chinese property giant Evergrande after the developer repeatedly failed to come up with a plan to restructure its debts.

On the geopolitical front, 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 continue 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. 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. The UK may need to keep interest rates "higher for longer" to curb inflation, which has the potential to impede economic growth. However, if another recession emerges in the UK, it is expected to be shallow.

	Tailored Lower Risk	Tailored Medium Low Risk	Tailored Medium High Risk	Tailored Higher Risk
<b>Fixed Income</b>	<b>48%</b>	<b>33%</b>	<b>20%</b>	<b>8%</b>
Government Bond	11%	9%	7%	3%
Inflation Linked Bond	5%	5%	3%	3%
Investment Grade Bond	26%	14%	7%	0%
High Yield Bond	6%	5%	2%	2%
<b>Equity</b>	<b>32%</b>	<b>50%</b>	<b>68%</b>	<b>78%</b>
North America	15%	22%	30%	32%
Japan	5%	6%	7%	7%
Europe	4%	5%	6%	6%
UK	2%	4%	4%	4%
Asia Pacific ex-Japan	3%	5%	9%	10%
Global Emerging Market	0%	2%	5%	7%
Global Equity / Thematics	3%	6%	8%	11%
<b>Alternatives</b>	<b>8%</b>	<b>9%</b>	<b>10%</b>	<b>13%</b>
Property	3%	3%	4%	5%
Infrastructure	6%	6%	6%	8%
<b>Cash &amp; Equivalent</b>	<b>12%</b>	<b>8%</b>	<b>1%</b>	<b>1%</b>

Table 1. Source: Charles Stanley as of 31 March 2024. Figures subject to rounding.

## Portfolio Positioning

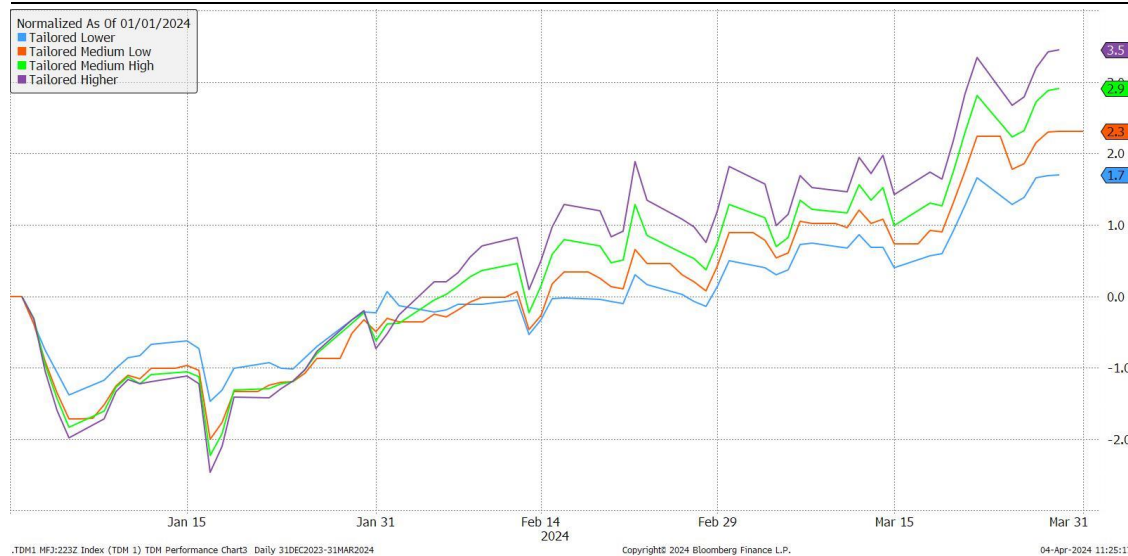
Table 1 shows the current asset allocation of the Tailored Discretionary Managed portfolios.

The first quarter of the year saw us review our Strategic Asset Allocation which reflects our long-term views and underpins all our portfolios. The key changes resulting from the process can be summarised as:

- An increased preference for Investment Grade bond exposure over Government bonds
- A reduced allocation to US and European equities, with greater value now seen in Japanese and Emerging Markets
- Greater weighting towards Alternatives, primarily Infrastructure, as the asset class now looks much more attractive on a risk/reward basis

We implemented these changes in February, using the opportunity to also review our European equity holdings, taking profit on Novo Nordisk and exiting positions in Nestle and Roche where we saw challenges to the long-term investment thesis. The proceeds were redeployed into a broad European ETF and other asset classes.

Figure 1: Rolling Quarterly Performance



Source: Bloomberg, gross performance figures. Past Performance is not a reliable indicator of future returns. As at 31 March 2024.

Tailored Lower: 1.7%; Tailored Medium Low: 2.3%; Tailored Medium High: 2.9%; Tailored Higher: 3.5%

## Quarterly Performance

The quarter has seen a continuation in market performance from the end of 2023, with positive returns across most asset classes and Equity markets leading the way.

US markets continued their strong run, despite expectations for interest rate cuts from the Fed being pushed back into the second half of the year. The S&P 500 & the Nasdaq were up by over 10%, and we did begin to see some broadening of the market rally beyond the technology names that dominated performance in 2023.

Japanese equities were the standout performer in the quarter, MSCI Japan up by 18%, while other regions also posted positive returns - European Equities up by 8%), UK Equities up 4% and Emerging Markets +2%.

Fixed Income asset classes saw more mixed returns as we saw yields creep higher again given the change in expectations for interest rate cuts, however shorter duration instruments and those with a credit spread posted positive returns over the quarter.

Having had a very strong recovery through the final quarter of 2023, the fortunes of our Alternatives sub-asset classes were a bit more mixed as we headed in to 2024. Property assets weakened a bit, while Infrastructure exposures posted low single digit total returns. These asset classes both continue to be very sensitive to market expectations for future rate cuts, but over the long term offer attractive value and portfolio construction benefits to our solutions.

## Performance Attribution

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

Within equities, European and North America produced the highest total return of 21.1% and 20.2% respectively, contributing 1.4% and 5.7% to the overall 1-year return. Amazon (+71.0%) and Novo Nordisk (+59.5%) were the top performers, while Premier Miton (+28%) was a notable contributor to overall performance, despite the funds skew away from the Technology sector.

Japanese and UK equities also performed strongly, with the M&G Japan fund up 25.7% for the year, while the Charles Stanley UK equity fund was up 16%, comfortably outperforming the FTSE 100 (+2%).

Nike (-20%), Nestle (-14%) and Starbucks (-12%) were the notable direct equity underperformers. Global Equity/ Thematics remains the only equity asset class that delivered negative returns over the past year, primarily due to the Schroders Global Energy Transition Fund which has struggled along with the wider alternative energy sector, albeit outperforming the index.

Fixed Income produced positive returns, with High Yield bonds the top performer, supported by solid returns across the other Fixed Income asset classes, aside from Government bonds which have felt the impact of rising yields over the past quarter.

In our Alternatives allocation, Property saw a strong recovery towards the end of 2023, but saw weaker performance through the first quarter of 2024. Infrastructure was a poor performer, still feeling the impact of rising interest rates, and a move from the long-standing share price premium to their Net Asset Values to a significant discount, as investor sentiment changed completely. We continue to believe in their viability, and benefit to portfolio diversification, and we are being well paid to wait for their share prices to recover with dividend yields currently around 7%.

Tailored Discretionary Medium High Risk (DT6)	Average Weight (%)	Total Return (%)	Contribution to Return (%)
<b>Fixed Income</b>	<b>23.9</b>	<b>3.0</b>	<b>0.8</b>
Government Bond	9.6	-0.5	0.0
Inflation Linked Bond	4.8	2.8	0.1
Investment Grade Bond	5.1	2.4	0.1
High Yield Bond	3.1	13.3	0.5
Emerging Market Bond	1.2	3.3	0.1
<b>Equity</b>	<b>65.7</b>	<b>13.4</b>	<b>8.6</b>
North America	29.6	20.2	5.7
Japan	3.1	17.9	0.5
Europe	6.8	21.1	1.4
UK	3.5	16.0	0.6
Asia Pacific ex-Japan	8.7	6.3	0.5
Global Emerging Market	3.7	1.0	0.1
Global Equity / Thematics	10.3	-0.7	-0.2
<b>Alternatives</b>	<b>7.6</b>	<b>1.4</b>	<b>0.1</b>
Property	3.7	14.8	0.5
Infrastructure	4.0	-8.5	-0.4
<b>Cash &amp; Equivalent</b>	<b>2.8</b>	<b>-0.1</b>	<b>0.0</b>

Table 2. Source: Bloomberg, gross performance figures as of 31 March 2024. Figures subject to rounding.



## Performance Attribution – Other Risk Profiles last 12 months

Tailored Discretionary Lower Risk (DT4)	Average Weight (%)	Total Return (%)	Contribution to Return (%)	Tailored Discretionary Medium Low Risk (DT5)	Average Weight (%)	Total Return (%)	Contribution to Return (%)	Tailored Discretionary Higher Risk (DT7)	Average Weight (%)	Total Return (%)	Contribution to Return (%)
<b>Fixed Income</b>	<b>53.4</b>	<b>3.1</b>	<b>1.7</b>	<b>Fixed Income</b>	<b>36.7</b>	<b>3.1</b>	<b>1.2</b>	<b>Fixed Income</b>	<b>9.3</b>	<b>4.5</b>	<b>0.5</b>
Government Bond	20.1	1.2	0.1	Government Bond	12.3	0.4	0.0	Government Bond	3.1	-1.5	0.0
Inflation Linked Bond	4.9	2.8	0.1	Inflation Linked Bond	4.9	2.8	0.1	Inflation Linked Bond	2.9	2.8	0.1
Investment Grade Bond	24.2	3.5	1.0	Investment Grade Bond	15.4	3.4	0.6	Investment Grade Bond	0.0	0.0	0.0
High Yield Bond	3.2	13.4	0.4	High Yield Bond	3.0	13.3	0.4	High Yield Bond	2.1	13.3	0.3
Emerging Market Bond	1.0	3.3	0.1	Emerging Market Bond	1.1	3.3	0.1	Emerging Market Bond	1.2	3.3	0.1
<b>Equity</b>	<b>33.1</b>	<b>16.5</b>	<b>5.1</b>	<b>Equity</b>	<b>51.2</b>	<b>13.8</b>	<b>6.8</b>	<b>Equity</b>	<b>77.4</b>	<b>12.7</b>	<b>9.6</b>
North America	14.8	21.8	3.0	North America	22.3	20.4	4.3	North America	32.7	20.7	6.5
Japan	3.0	21.4	0.6	Japan	3.7	20.2	0.7	Japan	4.4	16.4	0.7
Europe	5.0	20.4	1.0	Europe	6.0	20.8	1.2	Europe	7.2	21.6	1.5
UK	2.1	16.0	0.3	UK	3.7	16.0	0.6	UK	4.1	16.0	0.6
Asia Pacific ex-Japan	3.6	6.6	0.2	Asia Pacific ex-Japan	5.4	6.7	0.3	Asia Pacific ex-Japan	10.3	6.2	0.6
Global Emerging Market	0.3	-3.1	0.0	Global Emerging Market	2.0	-2.6	-0.1	Global Emerging Market	5.2	-0.1	0.0
Global Equity / Thematics	4.4	1.8	0.0	Global Equity / Thematics	8.1	-2.1	-0.3	Global Equity / Thematics	13.5	-1.4	-0.4
<b>Alternatives</b>	<b>4.6</b>	<b>5.0</b>	<b>0.3</b>	<b>Alternatives</b>	<b>6.6</b>	<b>2.4</b>	<b>0.2</b>	<b>Alternatives</b>	<b>11.1</b>	<b>2.5</b>	<b>0.3</b>
Property	2.5	15.7	0.4	Property	3.2	15.9	0.5	Property	4.6	16.4	0.7
Infrastructure	2.1	-4.5	-0.1	Infrastructure	3.3	-8.0	-0.3	Infrastructure	6.5	-5.8	-0.4
<b>Cash &amp; Equivalent</b>	<b>8.9</b>	<b>3.5</b>	<b>0.3</b>	<b>Cash &amp; Equivalent</b>	<b>5.5</b>	<b>2.5</b>	<b>0.2</b>	<b>Cash &amp; Equivalent</b>	<b>2.2</b>	<b>-0.1</b>	<b>0.0</b>

Source: Bloomberg, gross performance figures as of 31 March 2024. Figures subject to rounding.

## Top and Bottom Contributors – 12 months to 31 March 2024

Tailored Lower Risk	Positive Contributors				Negative Contributors			
	Description	Avg. Weight (%)	Return (%)	CTR (%)	Description	Avg. Weight (%)	Return (%)	CTR (%)
	Novo Nordisk	1.7	59.5	0.9	Schroder Global Energy Transition Fund	0.9	-20.3	-0.2
	Amazon	1.3	71.0	0.7	Nike	0.4	-20.5	-0.2
	M&G Japan Fund	2.5	25.7	0.7	Vanguard US Government Bond Index	2.9	-2.1	-0.2
Tailored Medium Low Risk	Positive Contributors				Negative Contributors			
	Description	Avg. Weight (%)	Return (%)	CTR (%)	Description	Avg. Weight (%)	Return (%)	CTR (%)
	Premier Miton US Opportunities	5.2	28.0	1.3	Schroder Global Energy Transition Fund	2.7	-20.3	-0.7
	Novo Nordisk	2.0	59.5	1.0	Nike	0.6	-20.5	-0.3
	M&G Japan Fund	3.0	25.7	0.8	HICL Infrastructure	1.1	-13.1	-0.2
Tailored Medium High Risk	Positive Contributors				Negative Contributors			
	Description	Avg. Weight (%)	Return (%)	CTR (%)	Description	Avg. Weight (%)	Return (%)	CTR (%)
	Premier Miton US Opportunities	5.0	28.0	1.3	Schroder Global Energy Transition Fund	3.1	-20.3	-0.8
	Novo Nordisk	2.3	59.5	1.2	Nike	0.8	-20.5	-0.4
	Microsoft	2.6	44.1	1.0	HICL Infrastructure	1.4	-13.1	-0.2
Tailored Higher Risk	Positive Contributors				Negative Contributors			
	Description	Avg. Weight (%)	Return (%)	CTR (%)	Description	Avg. Weight (%)	Return (%)	CTR (%)
	Amazon	2.5	71.0	1.4	Schroder Global Energy Transition Fund	4.4	-20.3	-1.2
	Novo Nordisk	2.5	59.5	1.3	Nike	0.9	-20.5	-0.5
	Microsoft	2.9	44.1	1.1	Starbucks	2.1	-12.2	-0.3

Source: Bloomberg, gross performance figures as of 31 March 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):

## Alphabet

Alphabet, best known as the parent company of Google, is the undisputed market leader in Search and Advertising, with Google establishing and maintaining the largest and most competitive online advertising ecosystem, supported by advanced artificial intelligence and big data, and accounting for 75% of total revenues. The company is also at the forefront of several other exciting growth segments, notably AI and Cloud Computing, but also more broad digitisation trends and robotics, as well as a smaller exposure to biotech. Importantly, Alphabet has access to the deep pools of capital and technical expertise necessary to ensure that it can appropriately invest and realise success in these areas.



Artificial Intelligence has been the largest talking point over the past year, with Google seen as a laggard following the noise surrounding OpenAI and ChatGPT – with Microsoft seen to be gaining an advantage given their investment there. This comes as a surprise given the level of involvement Google has had in the development of artificial intelligence technology – DeepMind, acquired by Alphabet in 2014, build AI systems and have been responsible for some of the biggest research breakthroughs in AI, many of which underpin the flourishing AI industry we see today, while some of the most respected and important individuals in the field work, or have previously worked, for Google (Geoffrey Hinton – “The Godfather of AI”, Demis Hassabis, Andrew Ng, Fei-Fei Li & Ian Goodfellow amongst others). While it might appear that Microsoft/ChatGPT and others may have stolen a march on Alphabet on bringing AI to market, there should be little doubt that Alphabet will be an important company in the future of the industry, and is already looking to recapture lost ground through the release of Gemini and partnerships with other companies, such as Apple, to integrate artificial intelligence into their offerings.

The share price is up 45% over 1 year and is now above the all-time high reached in late 2021.





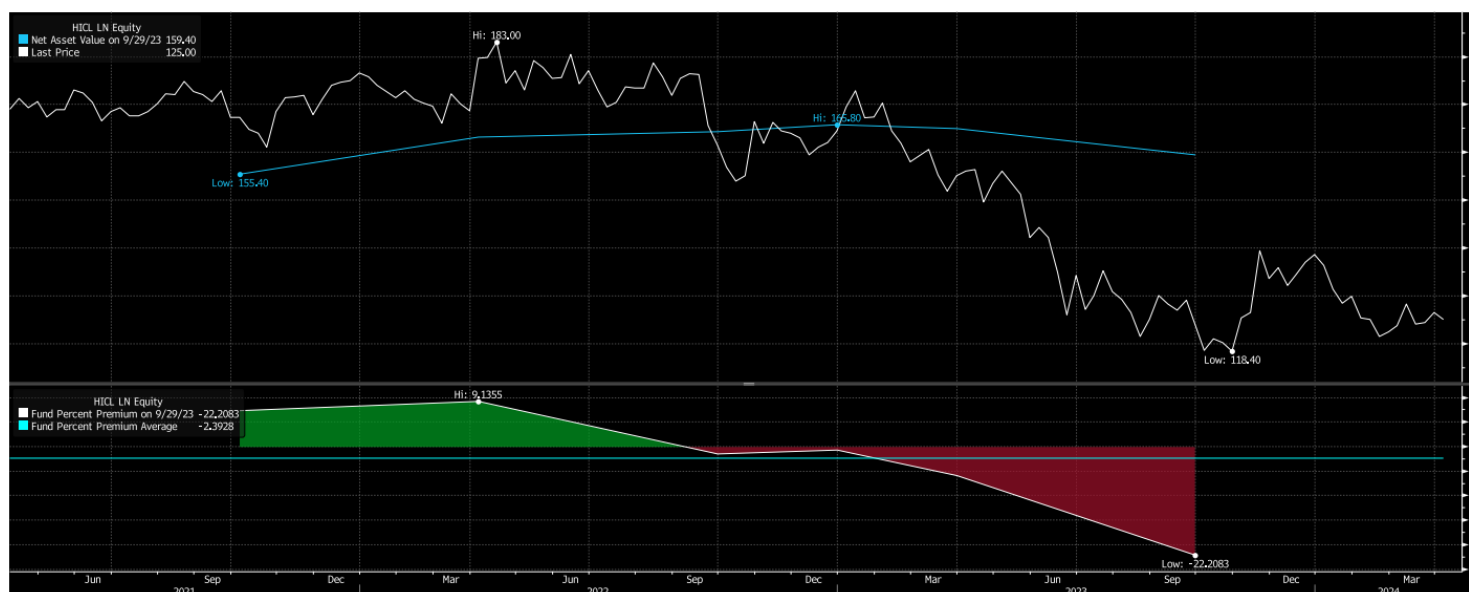
## HICL Infrastructure

HICL is a FTSE 250, London-listed UK investment company that seeks to offer investors sustainable income and capital growth from investments in Core Infrastructure – essential infrastructure assets that underpin economic activity and are comprised of long-life, capital-intensive assets. The company follows an active strategy to manage and grow a portfolio of essential, real assets that deliver resilient, high-quality cashflows to investors.



Recent share price performance (-13% over 1 year) has been highly impacted by interest rate hikes from the Bank of England as it has battled stubborn inflation. This has impacted both the attractiveness of the dividends paid to investors as well as the discount rate applied by the company to the valuation of its assets. The infrastructure assets owned by HICL do benefit from inflation however, with the revenues generated by these assets predominantly inflation-linked, which is reflected in the Net Asset Value (NAV) of the holdings.

We remain optimistic that the share price will recover, at least reducing the discount to the NAV, with the performance of the underlying assets strong and management taking effective action to reduce debt and provide support to the share price through buybacks – a recent disposal of an asset at a 30% premium to the most recent valuation adds support to the manager's view that the portfolio of assets is undervalued by the market. Cuts to interest rates, with the market expecting three cuts from the Bank of England to bring interest rates to 4.5% by the end of the year, should also prove supportive. In the meantime, the current dividend yield of 6.6% ensures that we are being rewarded for holding the investment trust.





2023



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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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