VT Astute Funds

Quarterly Commentary

Q4 2022

Introduction

Thank you for taking the time to read our Q4 commentary. 2022 proved to be a truly terrible year for investment markets, with almost no area spared from the pain of rampant inflation and the ruthless policy response required to tame it. Whilst we expect these years to occur at blissfully irregular intervals, it does not help temper the anxiety of living through them. We must, however, retain our focus on long-term objectives, position ourselves carefully for recovery, and take confidence from that fact that markets have always bounced back. It is this philosophy which will ultimately deliver our investment aims and the financial security to plan for the future.

Whilst we turn over a new leaf in 2023, our CIO letter this quarter muses on the lessons from 2022 and how that will influence our thinking for the years ahead.

In our **Astute Overview** section, we ask each member of the team for one key area they will be watching in 2023 and why.

Our regular **Astute Perspective** shows our current conviction views, while **Astute Positioning** covers how those views translate into the portfolios, and what changes we have made in the past three months.

Finally, **Astute Observations** highlights some of the more interesting research, data, or charts we have encountered recently with a few short (and hopefully enlightening) comments.

As always, we take a long-term approach to investing our clients' assets, but success is a journey, not a destination, and the short-term views expressed herein are aimed at managing risk and making your investment journey as smooth as possible. By taking a risk-adjusted approach to your investments, we aim to deliver reliable growth in line with our stated risk profiles and provide you, and your financial planner, with the consistency and security to plan for your long-term financial future. Thank you for your continued support. If you have any further questions or require any additional information, please do not hesitate to contact your usual financial adviser.

Fund Management Team

Scott Osborne
Chief Investment Officer

Hannah Owen
Head of Group Communications

Nathan Chan
Senior Investment Analyst

Toby Hulse
Investment Analyst

ASTUTE INVESTMENT MANAGEMENT LTD

2023 - Baby Steps to Recovery

Happy New Year to all of our investors; it certainly feels good to exit 2022 from a markets perspective. We have talked at length about the extraordinary nature of the past few years, and how challenging the inflationary environment has proven to be for all asset classes, but particularly for fixed income. As the dust settles on 2022, it is clear that only really energy stocks or certain defensive equity plays saw positive returns, and even here they were often outstripped by inflation. A true annus horribilis. Of course the turning of the year itself is arbitrary in nature, but human behaviour will always be the driving force behind inefficient markets, and it is human behaviour that has created the ritual turning point in our calendar. So while I am keen to embrace the promise of a fresh start, I also cannot ignore the burden 2022 inflicted on our portfolios.

Looking at the year ahead, I find myself once again comparing aspects of my home life and my work life: my wife and I are expecting our second child in the first half of the year. While the prospect fills me with excitement and anticipation, I am also acutely aware that my bundle of joy will likely cover me in vomit (or worse) without the slightest bit of notice. My view on the market in 2023 is not too dissimilar, although you're unlikely to find the same comparison in any other market outlooks. Of course, in both cases it is through careful risk management that the worst outcomes can be avoided, although I think my analysts might be more receptive to my "discipline, diligence and diversification" mantra than my wife and toddler.

One positive that we can take away from 2022 is that the losses experienced, whilst undoubtedly painful, were kept within what we would consider recoverable within the relevant time horizons. With such seismic shifts in markets there is the very real risk of permanent loss of capital, particularly in fixed income assets where the future upside is limited, and we avoided those pitfalls better than most. Of course there's no guarantee that 2023 will provide relief in this regard, but as we end the decade long era of easy money and unconventional monetary policy, we also begin a new cycle, and we must position ourselves to take advantage. This is especially true in light of the inflation experienced last year, and expected this year. Our investment objectives require us to deliver real returns (above inflation) and so we also enter 2023 with significant ground to make up.

The year ahead will certainly not be easy; there are a wide array of potential outcomes and plenty of sources of risk and return. In our Astute Overview this quarter, each member of the team briefly covers one key area they are focused on that could drive market returns, but there are plenty of others we don't have space to write about: the US debt ceiling, European energy markets, the war in Ukraine, Balkan tensions… The list is endless. In broader terms however, our focus remains on navigating this difficult transition whilst still providing sufficient risk to deliver on our long-term objectives.

Despite the gloomy economic outlook and the scars we bear from 2022, I actually feel relatively positive about the portfolios. Firstly, after avoiding the worst of the losses in the bond market we are now taking advantage of lower prices and locking in attractive income in excess of expected inflation. Secondly, the peak in interest rates means we can also reasonably expect to benefit from the traditional portfolio diversification bonds provide should central banks cut rates into a recession. Finally, in equities we retain our risk-on positioning, not on the expectation that 2023 provides us with a strong rally, but because the risk of missing such a rally outweighs the risk of further short-term pain.

The balancing of these risks in the year ahead is how we will start to close the gap that inflation opened up in 2022. Like any marathon however, careful pacing is crucial. I believe 2023 will see us modestly, but steadily, gain back lost ground, but we also remain well placed to put in a strong sprint if the conditions allow.

Scott Osborne PhD CFA
Chief Investment Officer

Horizon Scanning: What We're Watching in 2023

Scott - Company Earnings: Not So Great Expectations

For me, 2023 will finally be the year we stop dissecting every wince, flinch, and micro expression of central bankers and get back to the fundamentals of investing in companies. While we can't wave goodbye completely to inflation risk, if interest rates peak in the first half as expected, then my attention will be much more focused on earnings risk and how different companies navigate very tricky economic conditions. With margins under pressure from rising costs and wages, economies slipping into recession, and all sorts of lurking geopolitical risks, it will not make for a comfortable reporting season. This time last year we were still three months away from the first hike from the US Federal Reserve and about a month and half away from the Russian invasion of Ukraine. It takes time for these effects to feed through to company earnings, and the next couple of quarters will provide a lot of information on how well companies are positioned for the slower growth environment.

Just because recessions are in the base case, it doesn't mean companies won't make money, however. It's crucial to remember that a recession means negative growth *after* inflation. For example, if inflation is 5% next year and an economy "shrinks" by 1%, the nominal growth is still 4%. That nominal growth won't be evenly distributed and in a high inflation environment it represents a relatively large cake for some companies to take a slice of. It's almost certainly going to be a bad year for growth, but global earnings expectations have already been slashed for 2023, with consensus currently sitting around 1.1% on the broadest possible measure. With pessimism baked into prices, and room for some upside surprises, we can find reasons to be positive in an otherwise grim looking environment. The proof is in the pudding, and I'm eager to tuck in.

Hannah - Fixed Income: The Bonds are Back in Town

Whilst I can stretch to a Thin Lizzy reference, I'm a child of the nineties, and my professional career has taken place exclusively post-financial crisis. It's looking like 2023 is the first calendar year that bond yields are genuinely attractive. Whilst bonds have their vital place supporting the diversification of a portfolio (almost like the ballast in a ship), there has been good reason to underweight our exposure to bonds when seeking capital return.

Following the crisis, monetary stimulus was rolled out by central banks to stimulate their respective economies. In the UK specifically, the Bank of England (BoE) slashed the base rate and held it at low levels relative to history. In addition to this, the BoE unveiled quantitative easing, another form of monetary policy that involves buying government bonds, a proxy for printing money. This created an uneconomic buyer in the market, essentially inflating the price of government bonds by creating demand - regardless of the price. Consequently, in recent years, bond yields have been compressed and prices rose, that is until 2022…

In 2022, high inflation saw a sharp shift back towards conventional monetary policy, and we saw the highest bond yields in years. This will provide a much healthier level of income for those investors who wish to hold them until maturity. More importantly perhaps, they can begin to fulfil their traditional role as a diversifier for more volatile equity holdings which tend to struggle as economies slow, or as expected in 2023, tip into recession.

Going forward, it looks likely that inflation has peaked, and the peak of interest rates will follow. If recessions prove to be worse than expected, we may see interest rates and yields come down more quickly, pushing bond prices higher. Given the potentially attractive valuations, it is certainly a space I'll be watching in 2023.

Nathan - Labour Markets: Deep Breaths

As the winter chill turns into a blooming spring, market attention will also turn from interest rates to the overall health of the economy. This year my attention, and probably that of most central bankers, will be firmly on developments within labour markets. These will play a crucial role in determining what type of recession we get and the future path for inflation. Whilst recent economic data have indicated goods price pressures are declining, inflation in services remains stubbornly sticky. Worker shortages amid robust consumer demand has forced companies to offer larger pay packets in order to keep pace. How persistent this trend is will largely depend on how tight labour markets remain. My expectation is that unemployment will slowly begin to increase as aggregate demand softens and companies protect their bottom lines by cutting staff. As slack is introduced into the labour market, wage growth will gradually contract to a more sustainable level, helping to cool inflation.

It isn't all doom, gloom, and mass layoffs however. If inflation continues to fall as the team anticipates, then the fall in household costs should offset the fall in wage growth and thus consumer spending power may hold steady in real terms. For example, most people's pay rises for 2023 will be agreed in January at very high levels, double digits in some cases driven by those tight labour markets, however, costs are expected to continue to decline and this widening gap could support spending power and lead to a shallower recession. Whilst a soft landing in reality is very difficult to achieve, there could be a scenario where growth slows just enough that the labour market loosens without significant layoffs. A recession will still soften spending, but if inflation pressure subsides at the same time, equity markets could remain relatively buoyant. Economic textbooks would say this is nigh on impossible, so perhaps just some wishful thinking from me, but given the turmoil of the last few years I'd say the textbooks are out of date.

Toby - Equities: Bull in a China Shop

2022 wasn't a good year for any market, but it was particularly turbulent for China as it reeled from its costly zero-Covid policy, lack of vaccine uptake, political uncertainty, nationwide protests, and substantial property market crisis. A lot of bad news - and this negativity was priced into equity markets through 2022 and 2021: the MSCI China USD index is down nearly 50% from its peak in 2021 and ended last year down nearly 22%. The zero-Covid policy particularly had serious consequences for Chinese economic growth, but in November, policymakers introduced an 'easing' of control measures which re-ignited confidence that China is moving incrementally away from a zero-Covid policy. Soon after the government started to talk about 'easing' policies, China quickly dismantled much of its zero-Covid regime, with priority shifting from the longstanding goal of stamping out virus transmissions to managing the repercussions. The immediate result of these changes has been much faster viral spread, but some large cities are already reporting local outbreaks topping out in terms of case numbers.

Looking beyond this, the end of zero-Covid policies should trigger significant pent-up consumer demand. I will be watching for signs that this trend is materialising. For example, travel platforms such as Trip.com and Qunar have reported searches for air tickets to tourist hot spots jumped as much as seven times after looser restrictions were announced. Another area to watch for signs of recovery is the property sector, where recent news suggests shift towards more direct government support for developers. Looking into 2023, our view on China is quickly improving and we're not alone. Since the end of October, the MSCI China Index has risen by 36%. Even with this rally, the extensive derating China has faced over the last couple of years means valuations remain well below longer-term averages. As the negativity fades, we see a more supportive environment for China in 2023.

Sources: Refinitiv Lipper, Jefferies Research

Astute Perspective

ASTUTE
INVESTMENT MANAGEMENT LTD

UK – Neutral

UK markets biggest beneficiary of energy stock rally

Prefer smaller companies with growth opportunities

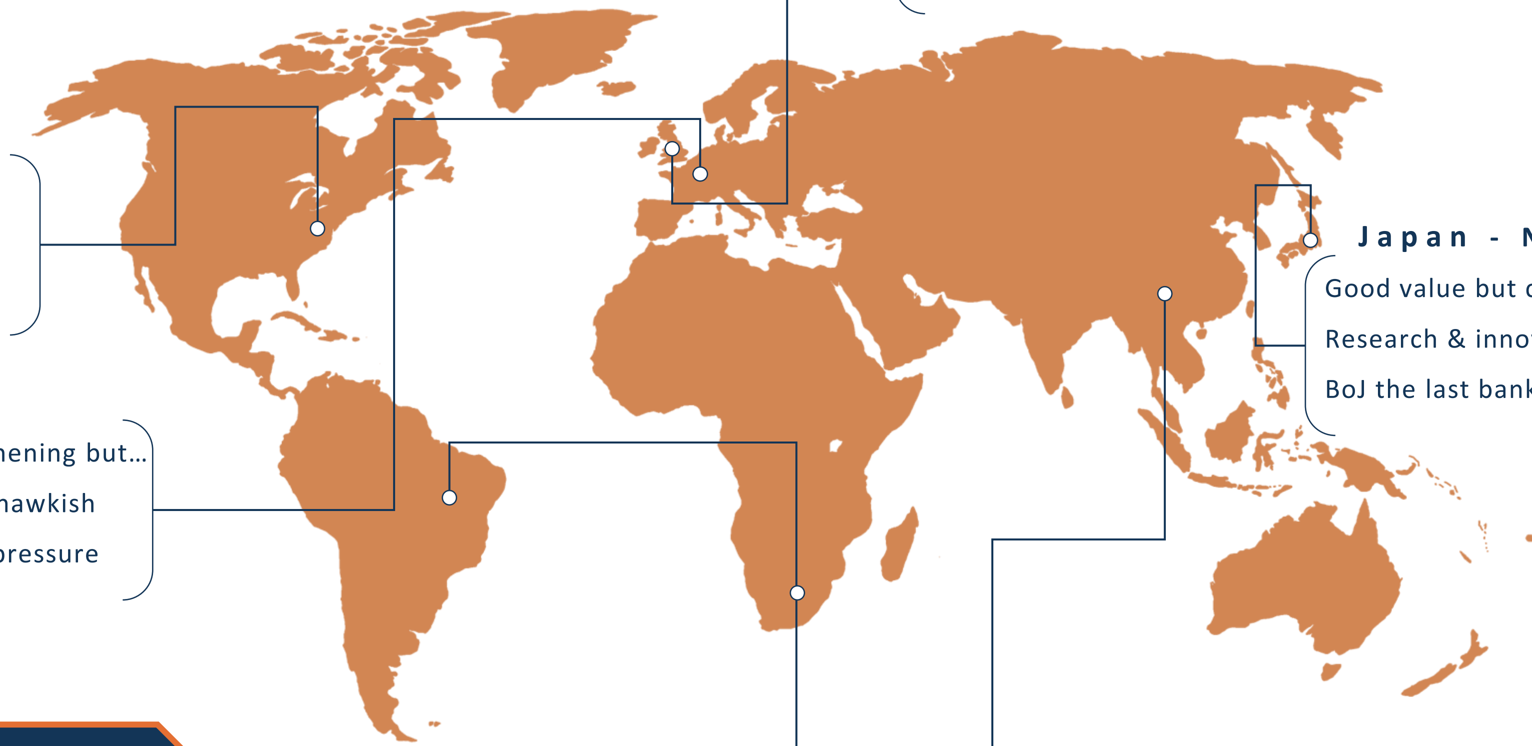
Underlying economic growth looks challenged

N. America - Neutral

Peak in interest rates looks imminent

Fed remains worried about labour markets

Recession maybe required to tame price growth



Japan - Neutral/Overweight

Good value but corporate nationalism persists

Research & innovation remains strong suit

BoJ the last bank standing with loose policy

Europe - Neutral

Fiscal and political co-operation strengthening but…

…inflation rising and ECB growing more hawkish

Falling gas prices easing some inflation pressure

Asia & Emerging - Overweight

End of zero-Covid leading to release of pent-up demand

Company valuations attractive vs western equivalents

Caution around second order effects of new Covid wave

Conviction Views

A key part of our process is building conviction ideas which are then expressed across each of the portfolios. While asset class and regional views are an important input into this process, the opinions outlined below will be the driving force behind any potential future returns.

1. Focus on Quality
   - Economic rebound will broaden growth opportunities, benefiting cyclical sectors most
   - Risks arising from inflation and geopolitics necessitate a refocus on quality, in both expensive secular growers and cyclical value rebounders.

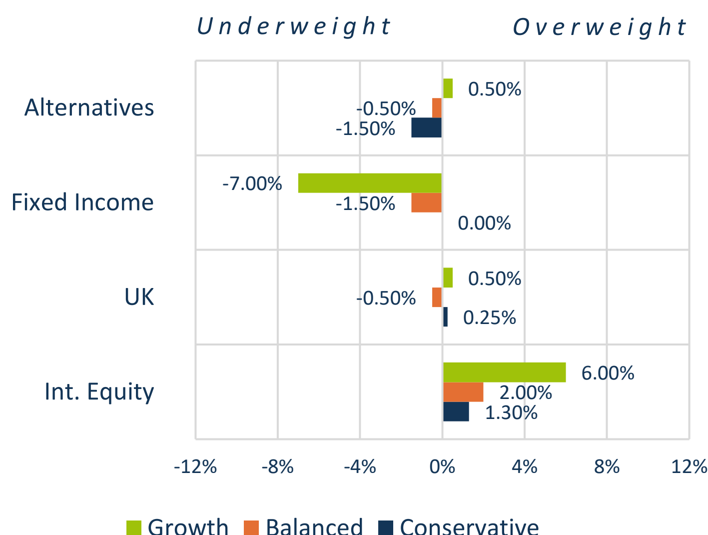
2. Overweight Technology
   - Technological revolution will continue, lean into disruptive areas, the strong get stronger
   - Look beyond current global leaders and use specialists to stay ahead of the curve

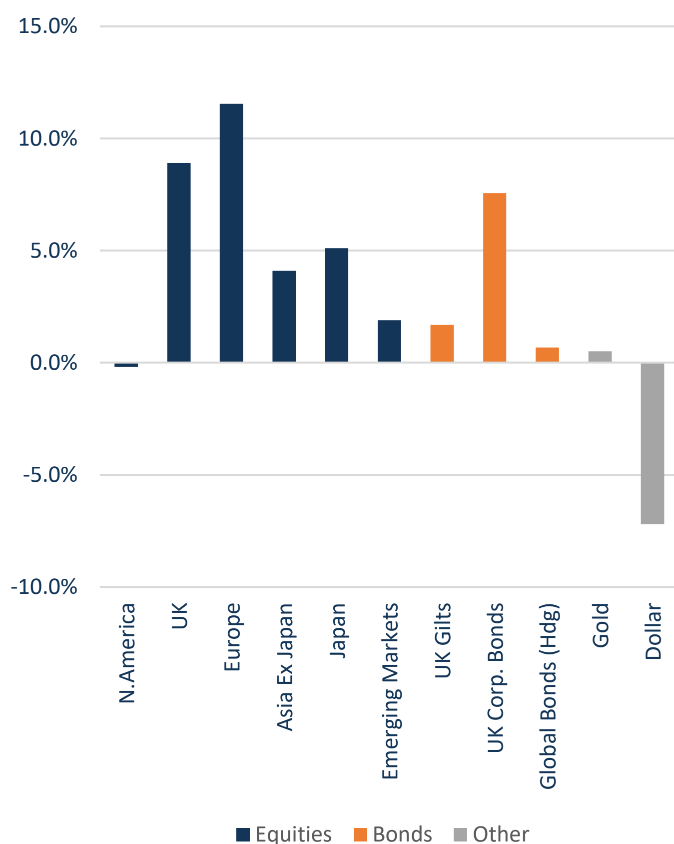
3. Invest Sustainably
   - ESG will become the default option, and the market will shift accordingly
   - If sustainable investing is the future, invest with those who have ESG way into their past.

Asset Class Views

Fixed Income	Negative				Positive		
Sovereign Bonds							
Corporate Bonds							
High-yield bonds							
EM Debt							
Alternatives	Negative				Positive		

Equities	Negative				Positive		
UK							
Europe							
Asia & Emerging							
Japan							
US							





Astute Positioning

Fund Activity

Activity	Fund	Portfolios
New Purchase	Barclays FTSE100/S&P500 Defensive Autocall	Con, Bal
New Purchase	Barclays FTSE100/S&P500 Daily Accrual Income	Con, Bal
New Purchase	Royal London Short Duration Global High Yield	Con, Bal
New Purchase	Natixis S&P500/EuroStoxx 50 Digital Synthetic	Bal, Gro
Top Up	iShares $ Treasury Bond 1-3yr ETF GBP Hedged	Con, Bal
Top Up	iShares Core UK Gilts ETF GBP	Con, Bal
Trim	VT RM Alternative Income	Con
Trim	JPM UK Equity Core	Con, Bal, Gro
Trim	HarbourVest Global Private Equity	Bal
Trim	iShares China CNY Bond	Con, Bal
Trim	Aegon European ABS	Con, Bal
Trim	Allianz Fixed Income Macro	Con
Trim	LXI REIT Ord	Bal, Gro
Trim	VT Gravis Clean Energy Income	Bal
Trim	Premier Miton European Opportunities	Bal, Gro
Sold	HarbourVest Global Private Equity	Bal
Sold	Aquila European Renewables Income	Bal
Sold	VT RM Alternative Income	Con
Sold	Sequoia Economic Infrastructure	Con
Sold	Allianz Fixed Income Macro	Bal
Sold	Aegon European ABS	Con, Bal

The first half of October saw the continuation of the negative sentiment from the previous quarter, as fears of further central bank tightening sparked several news headlines of market capitulation. With market indicators and investor sentiment readings now signaling peak pessimism, we saw this as a tactical opportunity to introduce structured products into the portfolios for the first time since inception.

These structured products are a combination of derivatives built to provide a fixed return profile. The underlying mechanics are quite sophisticated, but the potential outcomes are not. We have purchased structures which pay a fixed return, typically in excess of 10% annualised, if equity markets stay above a certain level. This level is known as the capital protection barrier and is set at 35% below the market price on the day we purchased the products. However, if markets drop below that level, the product drops by the equivalent amount i.e. at least 35%.

So, in simple terms if markets are up less than the defined return level on the structure, say 10%, and don't fall more than 35% at maturity, the structure has a better return profile than owning equity directly. The best relative scenario being a 34% drop in the market which would still result in a 10% return for the structured product. Of course, the market could rally in excess of the fixed return in which case the product generates relatively lower, albeit still positive, returns. We like these structures now as we can see an environment where equities struggle to make strong returns but also don't fall much further. This sideways scenario is positive for structured products as the risk of breaching the capital protection barrier is low, but we can still generate strong double-digit returns while equity markets are stalled.

Towards the end of the month, we continued to introduce other structured products into the portfolio whilst focusing much of our fund research on fixed income. The combination of rising interest rates and widening credit spreads i.e., the premium required for the increased risk in holding corporate bonds, meant that corporate bonds were now offering very decent yields for the level of risk an investor would need to bear, given how robust corporate balance sheets appear. This new regime of higher yields led us to re-position our fixed income exposure by selling down our lower yielding and defensive assets such as Chinese government bonds, Aegon asset backed securities and Allianz Fixed Income Macro in favour of Royal London, which delivers a double-digit yield with very low levels of volatility, due to its low sensitivity to interest rates.

As we progressed into November, the bear market rally was fully underway, but with an important rate decision still awaiting us in December, we remained completely focused on fixed income with the view of slowly increasing our exposure back into long duration. We did this by completely selling out of our asset backed securities fund which had very little duration, in favour of adding shorter dated US treasuries and longer maturity UK gilts, both parts of the curve where we believed offered the most value. With the end of the rate hiking cycle in sight, adding duration will be beneficial, as a cut back in rate expectations will be positive for a bond's price. Even if rates do end up higher than expected, markets should only pull forward rate cuts based on the increased probability of a deeper recession and therefore long duration should still perform relatively well. Whilst the benefits of shorter duration will start to fade very quickly, we do recognise that there remains a high degree of interest rate risk, given how high inflation is, and therefore we will continue this transition gradually over the year.

Strengthening our fixed income component will likely be a theme that we stick to throughout the first half of 2023, as we await further clarity from policymakers. In addition, with the increased likelihood of a recession in most developed nations, there remains very little incentive for us to make any changes in the short-term within equities as the risks outweighs any potential rewards.

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2022. Past Performance is not a reliable indicator of future results.
[1] Relative positioning is expressed versus Astute's long-term strategic weights. [2] Total returns in GBP. Broad market indices are used to represent the performance of different regions over the period 30/09/2022 to 31/12/2022.

VT Astute

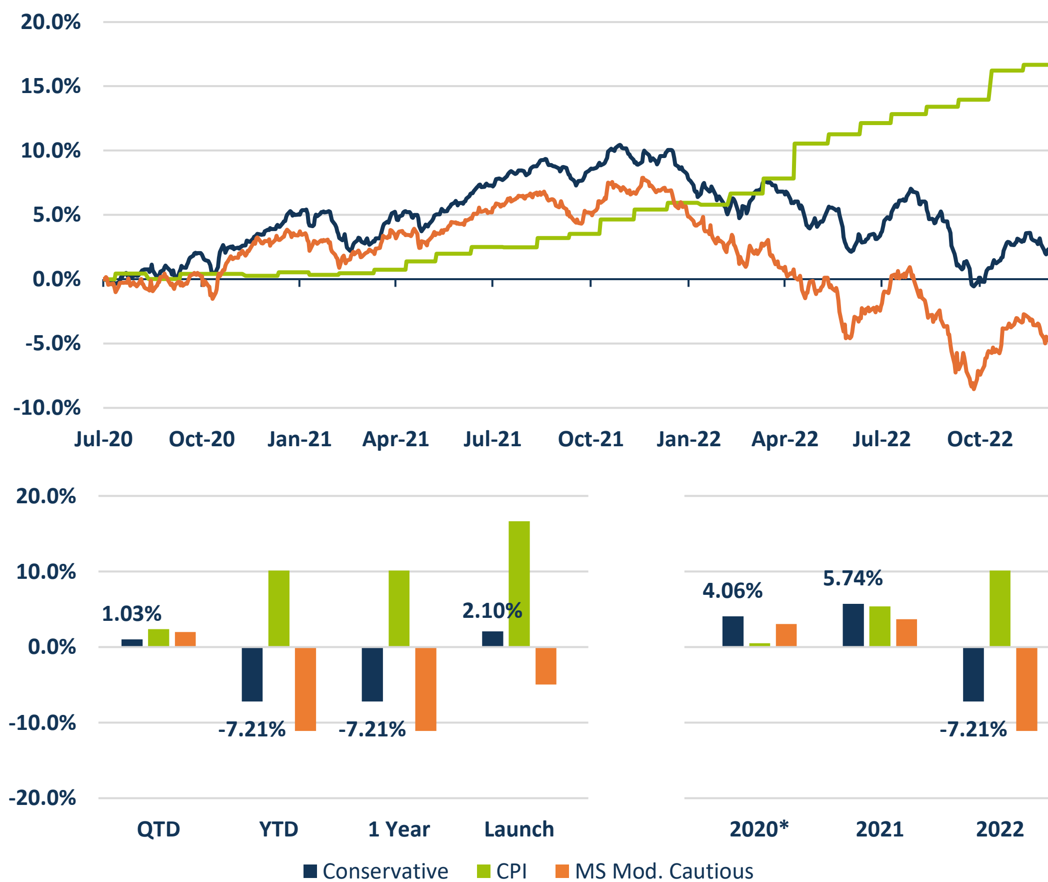
Conservative

The Conservative fund underperformed its market comparator this quarter, driven primarily by the defensive positioning within our fixed income component. The continued preference for shorter maturity bonds proved to be painful over the period alongside our significant underweight position to corporate bonds.

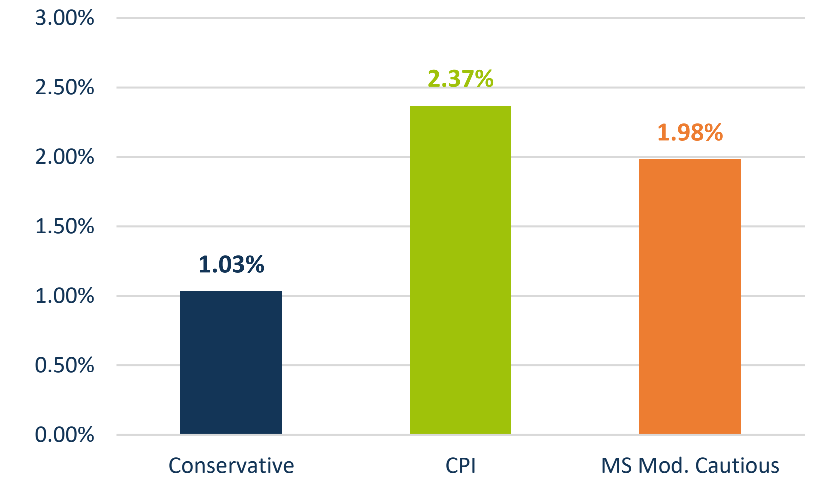
Over the quarter, fears of market capitulation and softer inflation readings helped to rein in expectations of further central bank tightening, which led to a rally in both bonds and equities. This was particularly beneficial for bonds with a longer duration, but our underweight to duration in both sovereigns and corporates weighed heavily on relative returns despite our underlying managers generally performing well on an absolute basis. Our real assets exposure also detracted from performance as capital rotated back to traditional fixed income investments where yields now look more attractive on a relative basis.

The outstanding performer was Hermes US SMID Equity, which delivered a strong return, led by its ability to identify quality stocks at reasonable valuations. We also use this fund to hedge some currency risk and thus avoided currency losses on the weaker US Dollar in Q4. Other positive contributors included R&M European and JPM UK Core, both of whom were supported by slightly improved energy outlook in Europe.

Performance[1]



Q4 Returns[2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	10.37%	0.98%	+0.09%
Government	22.87%	0.18%	+0.03%
Credit	16.25%	2.36%	+0.41%
UK	4.00%	6.65%	+0.26%
N. America	10.36%	1.47%	+0.15%
Europe	3.01%	9.49%	+0.27%
Japan	1.99%	2.65%	+0.05%
Asia & Emerging	4.43%	-0.07%	+0.00%
Thematic	2.91%	1.73%	+0.05%
Alternatives	23.79%	-1.27%	-0.28%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
Federated Hermes US SMID Equity Hedged	3.20%	10.42%	+0.32%
ES R&M European	2.02%	15.77%	+0.28%
M&G UK Inflation Linked Corporate	6.06%	4.73%	+0.28%
JPM UK Equity Core	2.06%	9.21%	+0.17%
Federated Hermes MltStgy Crdt Hedged	3.96%	4.35%	+0.17%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2022. Past Performance is not a reliable indicator of future results. All performance is shown net of ongoing charges. Morningstar Target Allocation indices are used as performance comparators. [1] Data for the period 20/07/2020 to the 31/12/2022. [2] Data for the period 30/09/2022 to the 31/12/2022. * 2020 data covers the period 20/07/2020 to 31/12/2020. Contribution to return may not sum to the total return due to rounding and averaging.

VT Astute Balanced

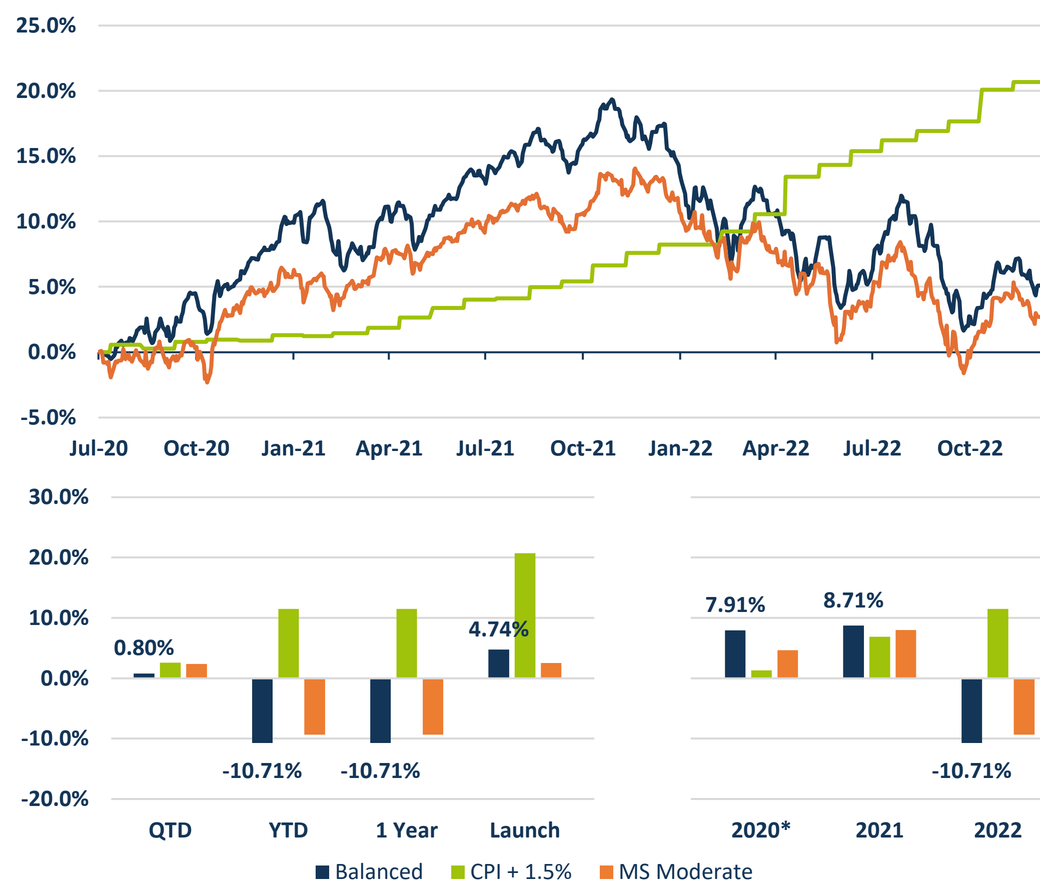
ASTUTE INVESTMENT MANAGEMENT LTD

Over the quarter, the Balanced fund underperformed its market comparator due to our defensive positioning in fixed income combined with negative stock selection on the equity side. Being significantly underweight UK corporate bonds, and exposure to Chinese equities proved costly on a relative basis.

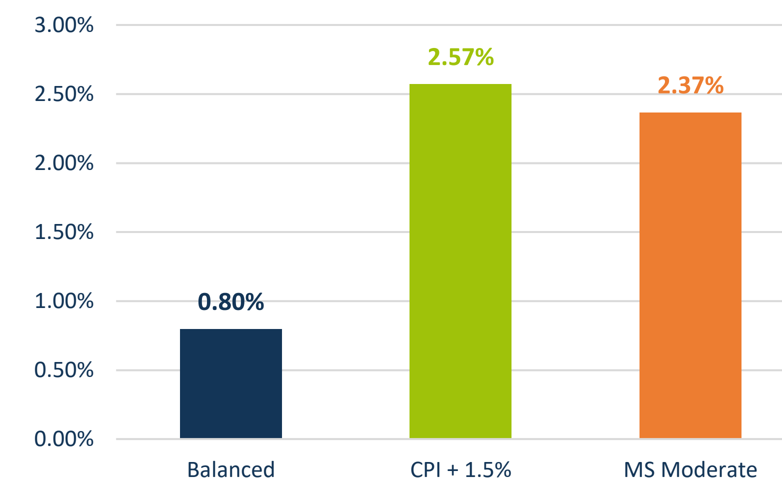
Despite our shorter duration bonds posting positive absolute returns, the fund did lag the recovery, as the cut back in rate expectations was more beneficial to longer duration bonds because of their higher sensitivity to interest rate movements. In addition to this, whilst it's only a relatively small position, our onshore Chinese manager suffered from severe swings in performance as the government struggled with anti-lockdown protests before capitulating and abandoning the zero-Covid policy entirely late in the year.

The standout performer was R&M European, who generated a healthy return of +15.77%, supported by the rising optimism that the region will navigate the energy crisis better than previously expected. Other holdings which also contributed strongly included our core US tracker and our core blend US manager which benefitted from currency hedging as the US Dollar depreciated by -7.20% over the period.

Performance[1]



Q4 Returns[2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	4.38%	0.29%	+0.01%
Government	13.12%	0.18%	+0.02%
Credit	10.20%	1.02%	+0.13%
UK	7.17%	4.12%	+0.29%
N. America	21.72%	-0.20%	-0.05%
Europe	6.73%	5.97%	+0.38%
Japan	4.41%	2.15%	+0.10%
Asia & Emerging	8.91%	-0.14%	-0.01%
Thematic	3.48%	1.07%	+0.04%
Alternatives	19.88%	-0.93%	-0.11%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
ES R&M European	3.05%	15.77%	+0.43%
Premier Miton European Opps	2.71%	14.95%	+0.39%
iShares Core S&P 500 ETF GBPH	4.47%	6.78%	+0.38%
JPM UK Equity Core	4.23%	9.21%	+0.30%
Federated Hermes US SMID Hegded	2.98%	10.42%	+0.18%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2022. Past Performance is not a reliable indicator of future results. All performance is shown net of ongoing charges. Morningstar Target Allocation indices are used as performance comparators. [1] Data for the period 20/07/2020 to the 31/12/2022. [2] Data for the period 30/09/2022 to the 31/12/2022. * 2020 data covers the period 20/07/2020 to 31/12/2020. Contribution to return may not sum to the total return due to rounding and averaging.

VT Astute
Growth

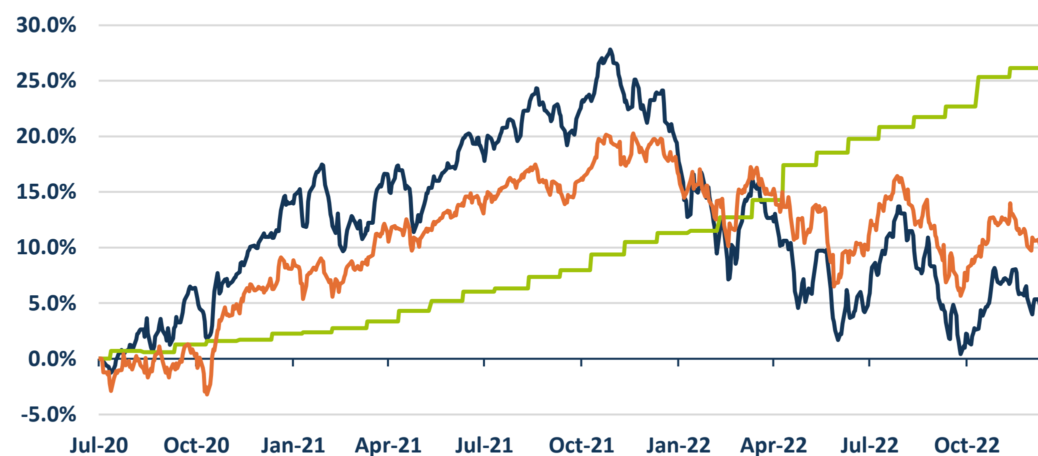
ASTUTE INVESTMENT MANAGEMENT LTD

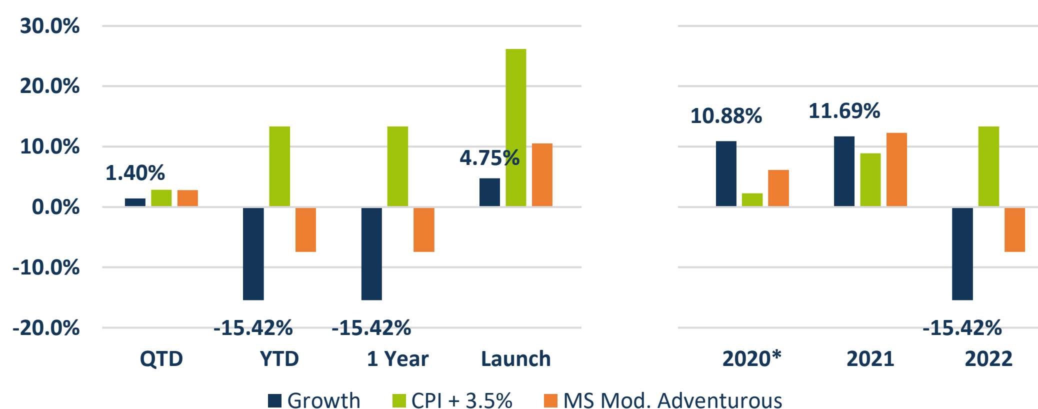
Despite the rally in equity markets, the Growth fund underperformed its market comparator this quarter as the temporary recovery was cut short by the continued hawkish rhetoric from the Federal Reserve. Whilst asset class positioning overall contributed positively to performance, stock selection in the US and Asia held back returns.

Within Asia, the performance of our onshore Chinese manager was particularly volatile as the ruling communist party struggled with anti-lockdown protests before capitulating and abandoning the zero-Covid policy entirely late in the year. Whilst in the US, our concentrated US growth manager suffered from stock selection issues with one of their top holdings experiencing double-digit losses alongside the broader weakness in the technology sector, which was finally worsened by the strong depreciation in the US dollar.

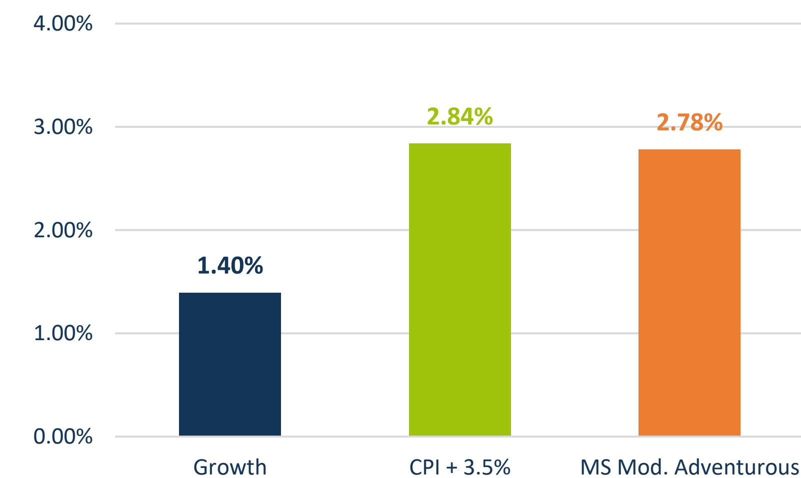
The standout performer was R&M European, who generated a healthy return of +15.77%, supported by the rising optimism that the region will navigate the energy crisis better than previously expected. Other holdings which also contributed strongly included our core US tracker and our core blend US manager which benefitted from currency hedging as the US Dollar depreciated by -7.20% over the period.

Performance[1]





Q4 Returns[2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	3.04%	0.00%	0.00%
Government	0.00%	0.00%	0.00%
Credit	0.00%	0.00%	0.00%
UK	12.64%	4.35%	+0.54%
N. America	34.15%	-0.11%	-0.05%
Europe	11.78%	6.20%	+0.69%
Japan	7.04%	2.15%	+0.16%
Asia & Emerging	14.09%	-0.18%	-0.01%
Thematic	7.45%	1.06%	+0.09%
Alternatives	9.81%	-1.32%	-0.01%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
ES R&M European	5.65%	15.77%	+0.81%
iShares Core S&P 500 ETF GBPH	8.10%	6.78%	+0.71%
Premier Miton European Opps	4.70%	14.95%	+0.67%
JPM UK Equity Core	6.66%	9.21%	+0.54%
Federated Hermes US SMID Hedged	5.14%	10.42%	+0.53%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2022. Past Performance is not a reliable indicator of future results. All performance is shown net of ongoing charges. Morningstar Target Allocation indices are used as performance comparators. [1] Data for the period 20/07/2020 to the 31/12/2022. [2] Data for the period 30/09/2022 to the 31/12/2022. * 2020 data covers the period 20/07/2020 to 31/12/2020. Contribution to return may not sum to the total return due to rounding and averaging.

Astute Observations

ASTUTE INVESTMENT MANAGEMENT LTD

2022 – A YEAR TO REMEMBER OR TO FORGET?

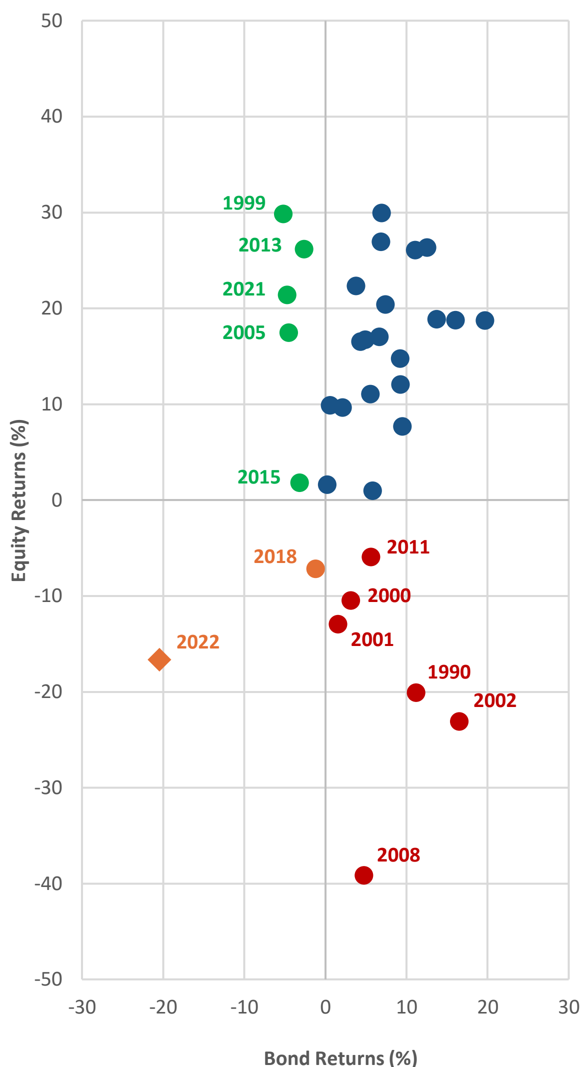
In 2022, both equity and bond markets faced a number of challenges, with the most notable being central banks' efforts to combat rising inflation. The scale and pace of interest rate rises, combined with the inflationary effects of the war in Ukraine, produced a perfect storm for asset prices. The significant drop in "safe" government bond prices, combined with falling equity valuations, left investors with few options for stable returns.

This decline was caused by central banks raising interest rates more than investors had expected at the beginning of the year. UK government bonds, also known as gilts, were one of the worst effected markets, experiencing a 25% drop over the year. This is despite a strong recovery from the UK mini-budget turmoil, which saw UK borrowing costs spike, and temporarily sent the pound to a record low against the US dollar.

The scatter chart to the right highlights the typical relationship between bond and equity market returns. The top right quadrant contains the years when both bonds and equity generated positive returns, the top left contains the generally unremarkable years when equity markets were positive, but bonds fell in value (most align with prior interest rate hiking cycles). The bottom right quadrant contains the years when equity markets fell but bonds offered some level of protection, many of these are more familiar e.g. the years after the dot com bubble burst, the 1990 oil price shock and the global financial crisis of 2008.

The years when both asset types fell at the same time, the bottom left quadrant, are highly irregular, as you can see. The very clear outlier is 2022. Within the last 35 years, we have never seen market dynamics such as those that prevailed last year. Whilst there are clearly other factors that could have influenced investor returns (foreign currency weights and varying regional exposures etc.), a mixed asset portfolio containing both bonds and equities likely had its worst ever year.

The chart also shows that the roughly 15% drawdown in equity markets is not that unusual in isolation. What makes this year exceptional is the scale and synchronicity of the drawdown in bonds.



Source: Refinitiv Lipper

All data is valid to the 31st December 2022 and collated by Astute Investment Management. The views expressed herein should not be taken as statements of fact or relied upon when making investment decisions. This document does not constitute an offer to subscribe for, buy or sell the investment mentioned herein. An investment into the Astute Funds should only be made having read the Key Investor Information Document ("KIID"). Past performance is not a reliable indicator of future results. Investors may not get back the amount invested.

Astute Investment Management Limited is the appointed investment manager of the VT Astute funds. Registered in England & Wales No. 11782438. Registered Office: Vista, 2nd Floor, St David's Park, Ewloe, Flintshire, CH5 3DT. Authorised and regulated by the Financial Conduct Authority. Financial Services Register Number 842580. Valu-Trac Investment Management Ltd is the Authorised Corporate Director (ACD) of the VT Astute OEIC. Valu-Trac is registered in England No. 02428648 and is Authorised and regulated by the Financial Conduct Authority, registration number 145168. Registered office: Level 13 Broadgate Tower, 20 Primrose Street, London, EC2A 2EW.