ASTUTE
INVESTMENT MANAGEMENT

VT Astute Funds

Quarterly Commentary

Q1 2024

Introduction

Thank you for taking the time to read our Q1 commentary. The first quarter of the year provided some support for our idea that markets are returning to some kind of normality. Despite the persistence of inflation most assets have continued to increase in value as the economy holds up better than expected. There's still plenty of volatility out there, but we remain optimistic that this environment is where our disciplined and patient approach should deliver the most consistent returns to investors.

As we kick off 2024 in reasonably good health, our CIO letter this quarter looks at why markets might be returning to normal and the drivers of the recent rally.

In our Astute Overview section, we take a look at the so called “Magnificent 7” technology stocks, examining why returns have been so strong and if it represents a bubble.

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 planner.

Fund Management Team

Scott Osborne
Chief Investment Officer

Hannah Owen
Head of Group Communications

Nathan Chan
Senior Investment Analyst

Toby Hulse
Investment Analyst

Chocolate Chips

The first quarter of each year is typically when we run a series of in-person seminars at the Astute head office, which gives us a great chance to speak to clients face to face and tackle any burning questions. Whilst I enjoy these sessions immensely, there is always the risk that we are overtaken by events. In 2023 this was the mini-banking crisis, in 2022 it was the Russian invasion of Ukraine and in 2021 we were in our third national lockdown. Much to my relief no nasty surprises were sprung this time, further support to the idea that some normality is returning to markets. A key aspect of this return to normality is that markets are no longer solely in thrall to inflation and interest rates. While we can’t declare victory on this point yet, it has been very encouraging to see markets continue to rally, hitting new highs in many cases, despite the fact that interest rate expectations have shifted significantly. When we started the year markets expected up to six cuts (totalling 1.5%) off US interest rates in 2024. The US Federal Reserve themselves indicated that maybe only three would occur and, as I write today, current pricing has only two cuts this year.

That’s quite a significant move, and indeed has led to poor returns for government bonds where the price is set by the prevailing interest rate expectations of the day, but pretty much everything else has done well. A marked change from the previous two years. Why? Well, in the words of Bill Clinton’s election strategist James Carville, “it’s the economy stupid”. The key motivation for cutting interest rates is to ease off the economic brake and prevent a recession. Despite the historic pace and size of previous hikes, economic growth remains robust, particularly in the US. Even in Europe, the UK flirted with the shallowest of recessions before almost certainly returning to growth while the EU has, so far, avoided one altogether, at least technically speaking. If the economy is okay, maybe even good in the US, then people will keep their jobs, spend their wages, pay their mortgages and good companies will be fine.

There is one other major theme helping drive stocks particularly higher, and that is the dawn of generative artificial intelligence (AI). The excitement and hype around this transformative technology has propelled some stocks into the stratosphere and has company CEOs falling over themselves to mention how they are going to integrate it into their own operating model. There is more detail on this trend later in the commentary, however my executive summary would be as follows.

This technology will transform how we live and work, and the global corporate spend in this space will be humongous. However, unlike the dawn of the internet and the subsequent bubble, the big winners are already known and have been rewarded considerably. Nvidia, the chip maker which operates a near global monopoly on the graphics processing units required to train these AI models, has increased almost 20x in the last 5 years. Despite this astronomical price rise it is hardly more expensive today than it was 5 years ago simply because the revenues generated, particularly in the last few years, have also sky rocketed. If that keeps up and earnings don’t then we may be in bubble territory, but we are not there yet. On the flip side, it’s also hard for it to keep beating expectations, especially now everybody is expecting this technology to change the world. Markets love a story, and AI is a Hollywood blockbuster of a story. Our job is to stay focused on the fundamentals and find the fair price for that story. That’s what long term investors should be focused on.

Finally, there is an asset that has outperformed Nvidia this year: cocoa. A global supply shortage resulting from an Il Nino impacted harvest has pushed prices to an all-time high. Something I couldn’t quite believe given the glut of easter eggs currently sitting around my house. I’m not sure why people think my 10-month-old needs several kilos of chocolate for Easter but the price rise made me think stockpiling might not be such a bad idea. Now if only can stop myself from eating the damn things…

Scott Osborne PhD CFA
Chief Investment Officer

Astute Overview

2023 US Returns? They Went That-a-Way

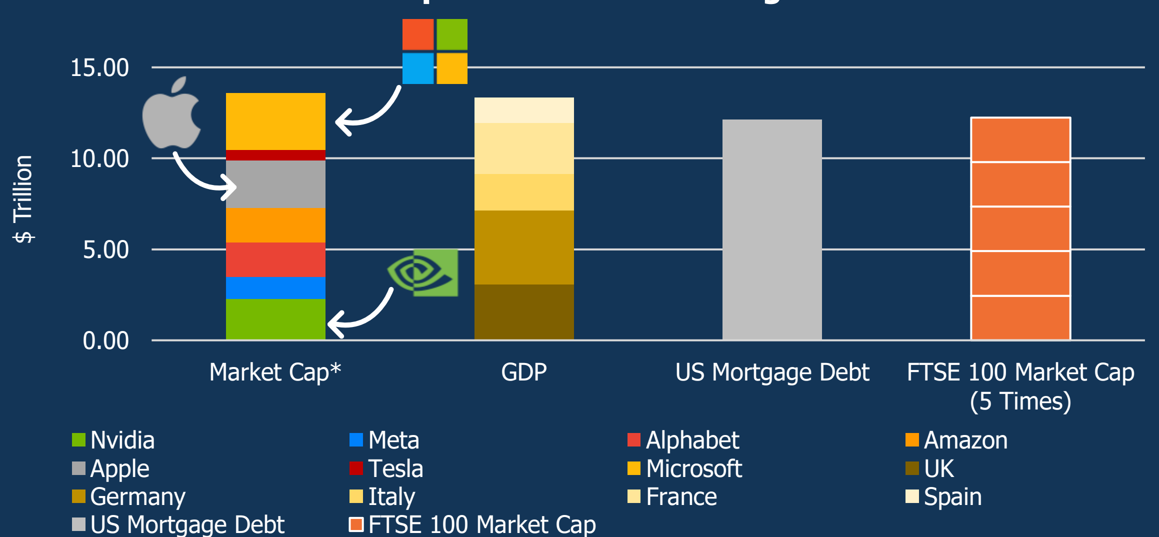
Who are "the Magnificent 7"? A group of fictional gunslinging mercenaries, hired to protect a small village from some up-to-no-good bandits! This time last year, that would likely be the first thing to spring to our minds. However, in 2024, the phrase is now embedded in the general consciousness as seven large US companies that drove US and global stock market performance in 2023: Alphabet (the parent company of Google), Amazon, Apple, Meta (previously Facebook), Microsoft, Nvidia and Tesla.

In 2023, these companies made up almost 30% of the S&P 500 (a US index with the 500 largest US companies), with their share prices increasing by over 107% in 2023, vs 24% for the S&P 500. Due to this, the US equity market is highly concentrated – with performance overly influenced by few stocks.

Not only do the seven make up a large part of the US market, but the US market makes us a large part of the global equity market. Consequently, these seven companies alone played their part in defending the village, making up a large part of global equity performance.

How big are these seven warriors, sorry, companies? The collective market capitalisation of these companies (the value of their shares) is huge – over $13,000,000,000,000 at our last count*. That's 13 trillion dollars for those not well rehearsed in reading 14-digit numbers - to put this into context, this is larger than the Gross Domestic Product of UK, Germany, France, Italy and Spain combined. Or, over 5x the market capitalisation of the 100 biggest UK listed companies – FTSE 100. Or, if you prefer, all the mortgage debt in the US.

The Market Capitalisation of the Magnificent 7



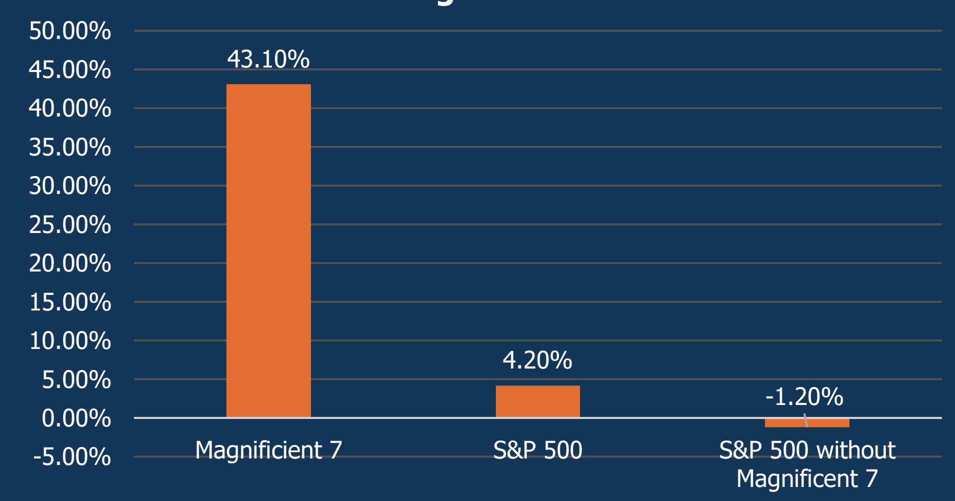
As we round off the first quarter of 2024, the share prices of Apple and Tesla have fallen and underperformed the S&P 500 as a whole, calling for spectators to quickly think of new phrases. Whitling down The Magnificent 7, to The Famous 5, Fantastic 4, 3 Musketeers, The Dynamic Duo, or just: Nvidia. Having risen 239% in 2023, the shares of Nvidia are up over 70% so far in 2024. You can read more about Nvidia, the GPU and chip maker, on the back page.

When certain companies are performing strongly for a protracted period, unless your investment portfolio is heavily concentrated in those companies, it can feel like you are missing out on something big. This leads to a fear of missing out, the worry that you are not investing enough in those companies that are doing well and might continue to do so. For investors, this feeling is often counter balanced by the concern about buying too many shares at their peak valuation, and losing a lot of money if the price suddenly drops.

The quandary leads to a question: are The Magnificent 7 forming a bubble? This is something we have discussed many times as a team, and something we discuss with advisers and clients, when we have the pleasure. A stock market bubble happens when an asset is overinflated – it has increased in price much more than its fundamental value, and it dramatically and painfully pops.

Broadly, when looking under the bonnet at these fundamentals, strong earnings posted in 2023 go some way towards explaining the growth in the share price of the seven, with collective earnings growth of 43.1% for 2023 vs 4.2% for the S&P 500. The Nvidia share price particularly rests on its laurels of earnings that have consistently exceeded expectations. This then raises the question; can they keep exceeding expectations?

Earnings Growth 2023



In truth, the conundrum – "are The Magnificent 7 forming a share price bubble or are they valued fairly?" isn't something that we are overly concerned about. Within the VT Astute Funds, we have exposure to The Magnificent 7. We don't spend more time than we need to fretting over whether we should hold an overweight position in The Magnificent 7, or whether the technology companies' share prices are forming a bubble ready to pop, or whether the concentration of a small amount of companies making a large weighting of a market is a risk.

Why is this? There are plenty of opportunities in markets, and we are looking to utilise money elsewhere. Stock valuations in most other regions are cheap by historical standards and lots of good companies are being overlooked amidst the AI goldrush, providing us with good investment opportunities. You can read more about our current positioning on the Astute Positioning page.

Source: Bloomberg Magnificent 7 Total Return Index, Morningstar, FactSet Worldometer. *Market capitalization as at 31/03/2024

Astute Perspective

ASTUTE INVESTMENT MANAGEMENT LTD

UK – Neutral

UK markets lacking support to drive a persistent rally

Prefer smaller companies with growth opportunities

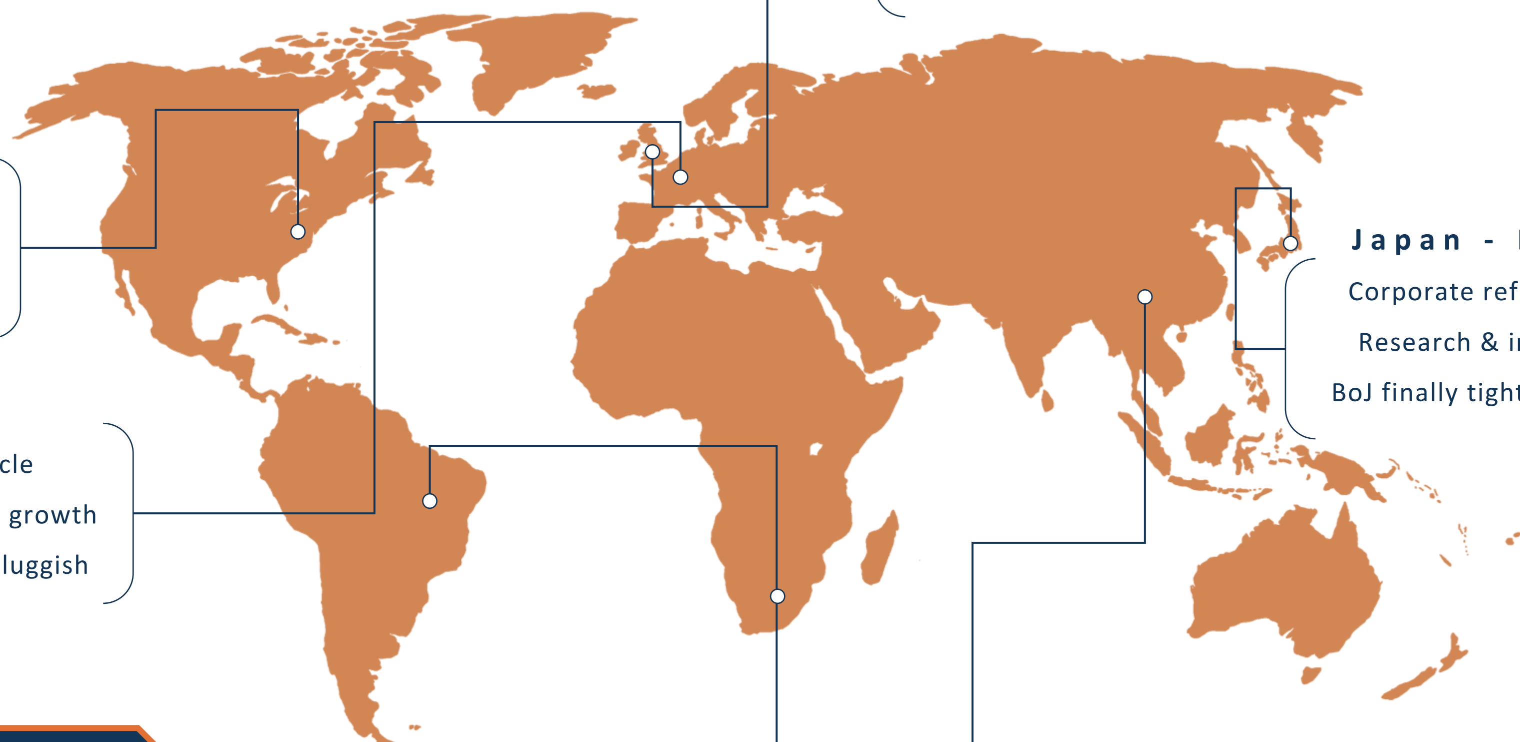
Underlying economic growth challenged but improving

N. America - Neutral

Rate cuts now pushed to June at earliest

Fed in no hurry to cut if growth remains strong

Artificial intelligence driving mega cap valuations



Japan - Neutral/Overweight

Corporate reforms delivering strong returns

Research & innovation remains strong suit

BoJ finally tightened policy as inflation returns

Europe - Neutral

ECB playing catch up in rate hiking cycle

Economic role reversal as periphery drives growth

EU may dodge recession but growth still sluggish

Asia & Emerging - Overweight

China consumer negativity continues

Company valuations attractive vs western equivalents

Geo-politics an increasing risk as election cycles begin

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

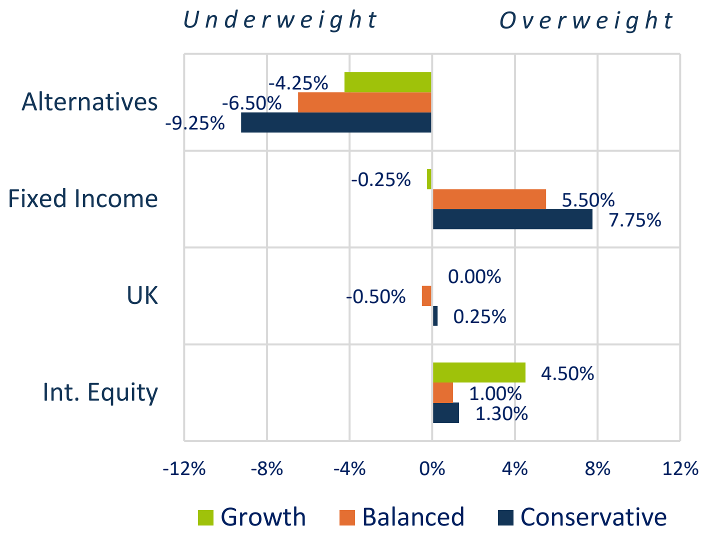
Fixed Income	Negative						Positive
Sovereign Bonds							
Corporate Bonds							
High-yield bonds							
EM Debt							

Alternatives	Negative						Positive

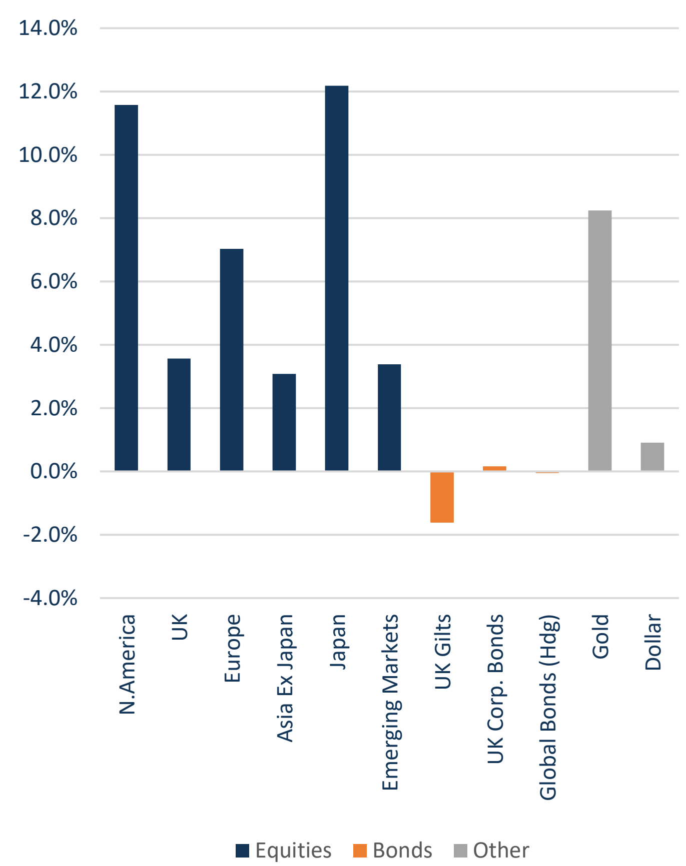
Equities	Negative						Positive
UK							
Europe							
Asia & Emerging							
Japan							
US							

Astute Positioning

Tactical Asset Allocation[1]



Asset Class Returns[2]



Fund Activity

New Purchase	UK Gilt 4.25% 12/07/2040	Bal
	Nomura Corporate Hybrid Bond	Con / Bal
Top Up	UK Gilt 4.25% 12/07/2040	Con
	Lazard Japanese Strategic Equity	Con / Bal / Gro
	Blackrock European Absolute Alpha	Con / Bal
	Man GLG Dynamic Income	Con / Bal
Trim	Jupiter Japan Income	Con / Bal / Gro
Sold	iShares $ Treasury Bond 20yr+ ETF	Con / Bal
	Protea ECO Advisors ESG Absolute Return	Con / Bal

Both bonds and equities began the year on a subdued note, following their robust conclusion to 2023, spurred by the anticipation of rate cuts. This muted sentiment, however, quickly escalated as markets began to price-in immaculate disinflation, with over 6 rate cuts incorporated into expectations. Consequently, this led to inflated valuations that made it very challenging for asset prices to continue the momentum. In addition, despite the current level of interest rates, economic data has failed to show signs of significant slowing. This resilience confirmed our belief that rate cuts would only come later in the year. Therefore, we took advantage of this aggressive pricing and realised the gains in our long-dated Treasuries in favour of UK Gilts, where the yield was much more favourable.

Even as the market scaled back interest rate cut expectations to only 2 or 3 in 2024 (aligning with the Federal Reserve's own guidance) stock markets continued to reach new highs. Nonetheless, outcomes remain uncertain, as even a slight change of tone from one of the monetary policy decision makers in the US could have lowered the expectation for 2024 rate cuts. This delicate balance underscores the precarious nature of the current market environment.

In February, we took the opportunity to introduce a new high-yield fixed income manager, who specialises in corporate hybrids. This asset class is often mispriced as it is mistakenly associated with a riskier asset class - contingent convertibles. While both types of bonds are typically issued by top-tier entities, hybrids are notably more favourable to bond holders, and cannot be converted into equity, or written down, whilst the issuer remains a going concern. Issuing hybrids also enables companies to support their credit ratings in a cost-effective manner, as credit rating agencies perceive them as a blend of 50% equity and 50% debt. Failure to repay, however, would nullify these benefits, causing the company to potentially lose access to this funding source and suffer reputational damage. With rates expected to fall this year and credit spreads remaining historically tight, hybrids offer us a chance to access higher yields for very little added risk.

March marked a significant milestone for Japan, as the Bank of Japan (BoJ) announced the end of negative interest rates and yield curve control, a widely anticipated decision, given the historic 5.30% wage increase achieved in this year's Shunto wage negotiations. Consequently, the TOPIX reached a symbolic high with domestic investors starting to show renewed interest in their own market. Whilst the initial hype was tempered by concerns about the market overheating, the key to Japan's recent strength primarily stems from improving corporate governance. This has spurred increased share buybacks, higher dividends, and forecasts of strong earnings growth. Many companies have already taken steps to address their undervaluation, and with the momentum growing, there is the potential to unlock further value from Japanese companies. In the medium term, wage growth remains crucial to ensuring whether Japan has fully departed from structural deflation, but we have strong conviction that Japan is improving, and thus continued to rotate into Lazard Japan which holds higher upside potential.

As a sidenote, earlier this quarter, we received a shareholder letter regarding the liquidation of ECO Advisors, due to the unforeseen challenges in navigating the regulatory landscape, and a broader decline in demand for ESG-related strategies. Following its completion in February, the proceeds were reinvested into Blackrock European Absolute Alpha to help maintain our exposure to Alternatives, while a portion was reallocated to building our existing position in Man GLG Dynamic Income. Despite this setback, our conviction remains, and we'll likely revisit the strategy if it re-launches.

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/03/2024. 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 31/12/2023 to 31/03/2024.

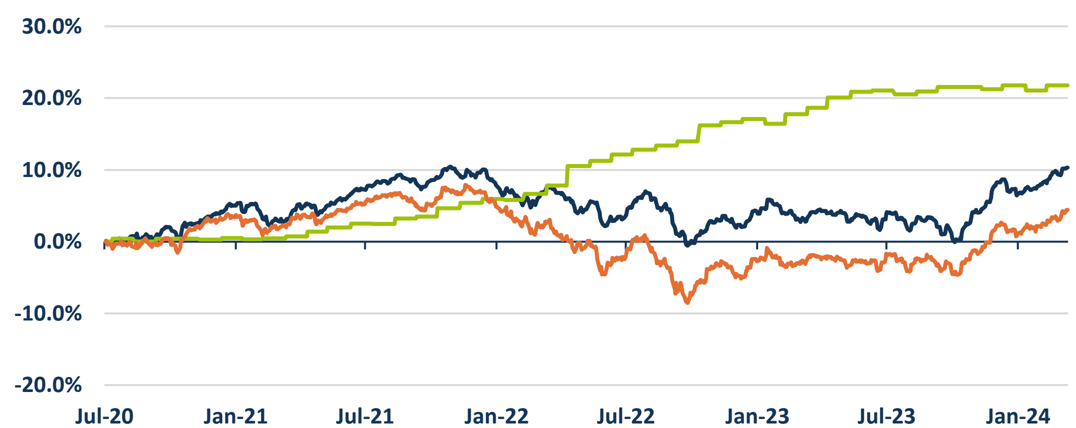
VT Astute
Conservative

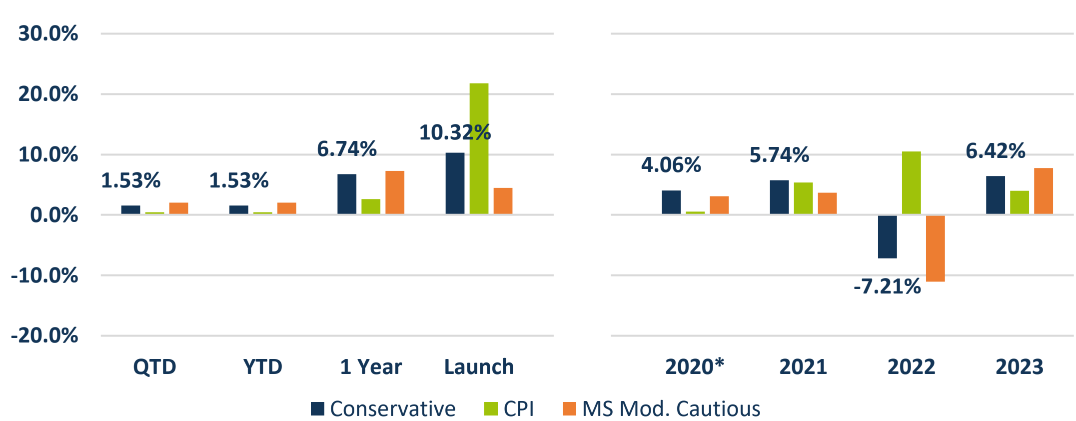
The Conservative fund had a relatively strong performance this quarter, surpassing inflation but slightly lagging behind its market comparator. This underperformance was mainly due to our higher allocation to fixed income duration and rate-sensitive assets. However, both our credit selection and equities delivered robust gains.

The persistent challenge in combating inflation led to a rise in yields as investors tempered their expectations of rate cuts. This exerted pressure on our fixed income component, but our credit managers did navigate the situation well. Despite the minor setback at the beginning of the year, equities surged to new highs driven by strong earnings, softer inflation, and the growing potential of AI productivity gains. While our equity market neutral manager performed well, our renewables manager suffered from a broader weakening in revenues.

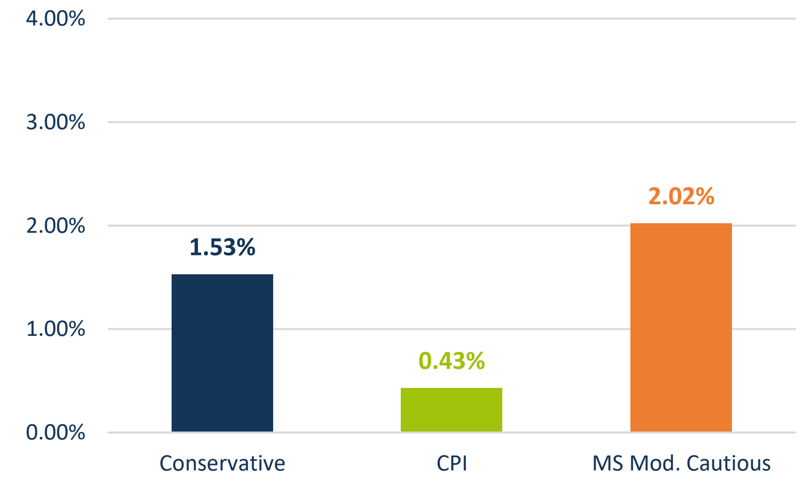
Given the more accommodative stance from central banks and positive sentiment towards AI, the standout performers were concentrated around the US with L&G US Equity, Hermes US SMID, and iShares S&P 500, all delivering impressive gains. Man GLG Sterling Corporate Bond also contributed significantly, benefitting from the discount closing on the fund's undervalued real estate and financial positions.

Performance [1]





Q1 Returns [2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	4.25%	1.34%	+0.05%
Government	26.70%	-2.36%	-0.55%
Credit	26.46%	1.72%	+0.45%
UK	4.13%	3.20%	+0.12%
N. America	10.14%	9.77%	+0.93%
Europe	3.24%	7.02%	+0.21%
Japan	2.12%	9.03%	+0.17%
Asia & Emerging	4.53%	3.07%	+0.14%
Thematic	3.03%	1.78%	+0.05%
Alternatives	15.41%	-5.91%	-0.04%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
L&G US Equity ETF	5.11%	11.31%	+0.54%
Blackrock European Absolute Alpha	6.59%	6.70%	+0.44%
Federated Hermes US SMID Equity GBPH	3.06%	7.38%	+0.25%
Man GLG Sterling Corp Bond	4.07%	5.32%	+0.22%
iShares Core S&P 500 ETF GBP Hedged	2.07%	10.44%	+0.22%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/03/2024. 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 31/03/2024. [2] Data for the period 31/12/2023 to the 31/03/2024. * 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

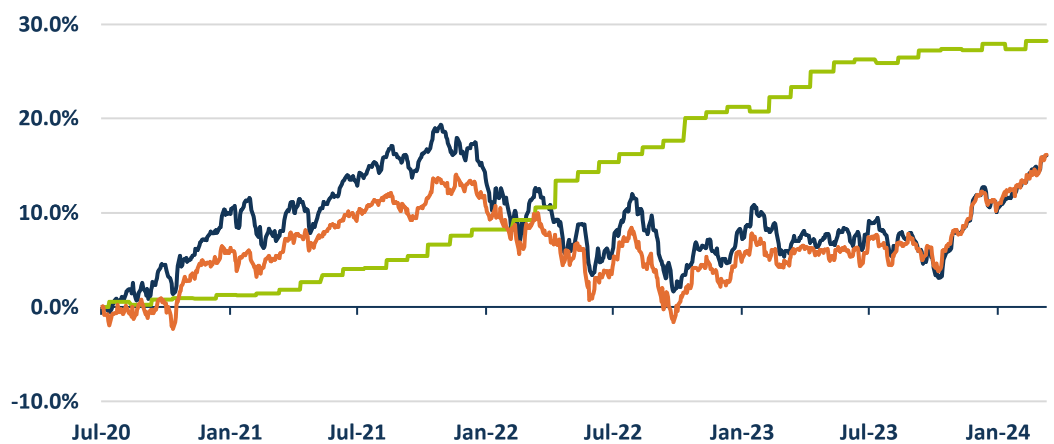
Balanced

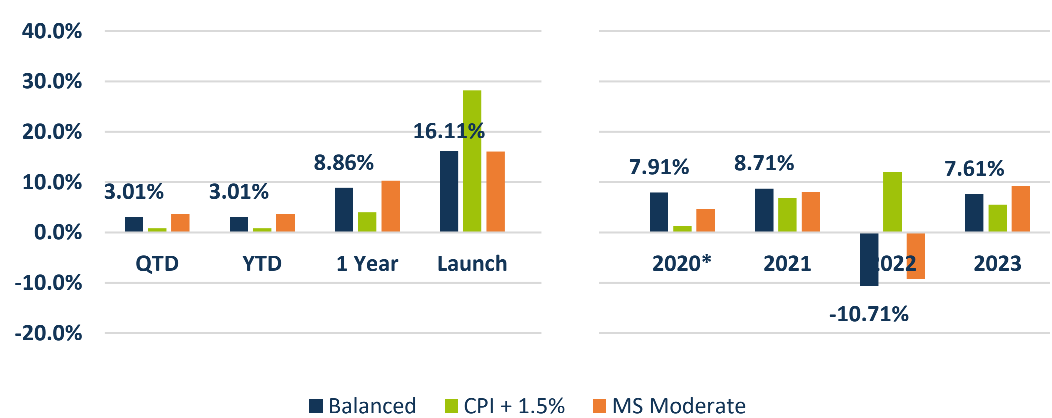
During the quarter, the Balanced fund fell short compared to its benchmark but notably exceeded inflation. The fund generated strong returns overall, particularly in our credit managers and more cyclically exposed equity names. However, this was somewhat offset by an overweight to duration and rate-sensitive real assets.

Stickier inflation led to an increase in yields as investors adjusted their expectations regarding rate reductions. This placed pressure on our fixed income investments, particularly sovereigns, although our credit managers navigated this environment well. Equities continued to reach new heights driven by robust earnings, softer inflation, and the potential productivity gains from AI technology. While our equity market neutral strategy performed very well, our renewables investments faced challenges due to declining revenues in the sector.

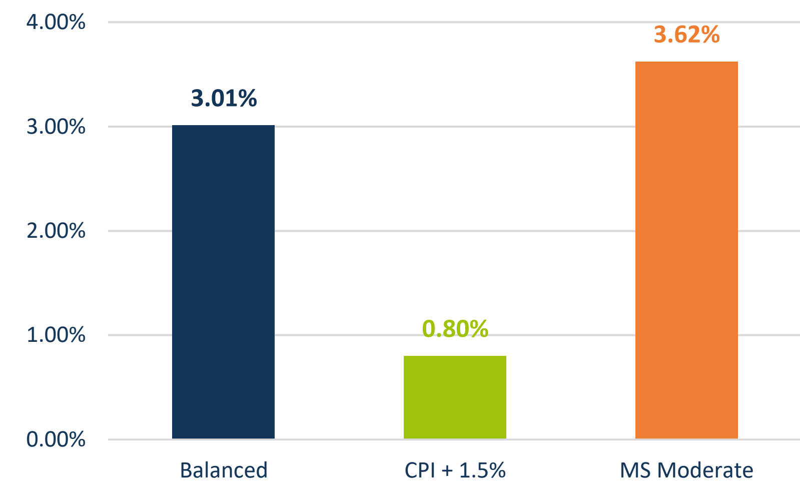
With policymakers confirming peak interest rates and optimism regarding AI advancements, top performers included technology-heavy US stocks such as L&G US Equity, iShares Core S&P 500, and Hermes US SMID Equity, all of which posted significant gains. Additionally, Polar Capital EM Mkts Stars and R&M European benefited from the resurgence in China following government initiatives aimed at bolstering growth.

Performance[1]





Q1 Returns[2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	3.00%	1.34%	+0.06%
Government	13.71%	-2.69%	-0.30%
Credit	18.28%	1.39%	+0.29%
UK	6.93%	3.37%	+0.23%
N. America	22.23%	9.47%	+2.01%
Europe	5.82%	6.69%	+0.37%
Japan	4.56%	8.33%	+0.36%
Asia & Emerging	9.00%	2.38%	+0.22%
Thematic	3.52%	3.07%	+0.11%
Alternatives	12.93%	-18.20%	-0.34%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
L&G US Equity ETF	9.13%	11.31%	+0.97%
iShares Core S&P 500 ETF GBP Hedged	4.69%	10.44%	+0.50%
Federated Hermes US SMID Equity GBPH	3.03%	7.38%	+0.25%
Polar Capital EM Stars	3.98%	6.41%	+0.23%
ES R&M European	3.04%	5.75%	+0.23%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/03/2024. 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 31/03/2024. [2] Data for the period 31/12/2023 to the 31/03/2024. * 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.

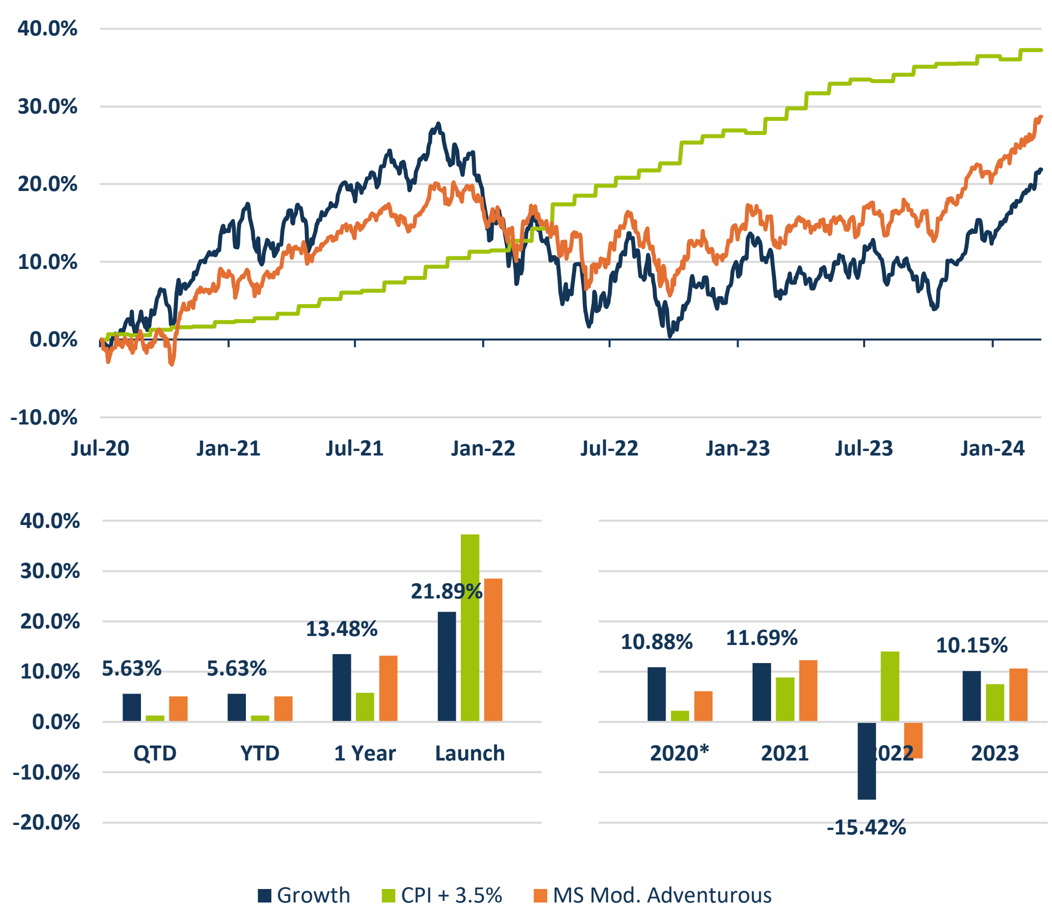
VT Astute
Growth

With the gains in equity markets, the Growth fund surpassed its market comparator this quarter, whilst also beating inflation. All components of the portfolio performed strongly both in absolute and relative terms, with our significant overweight to cyclically exposed small cap names yielding the highest returns.

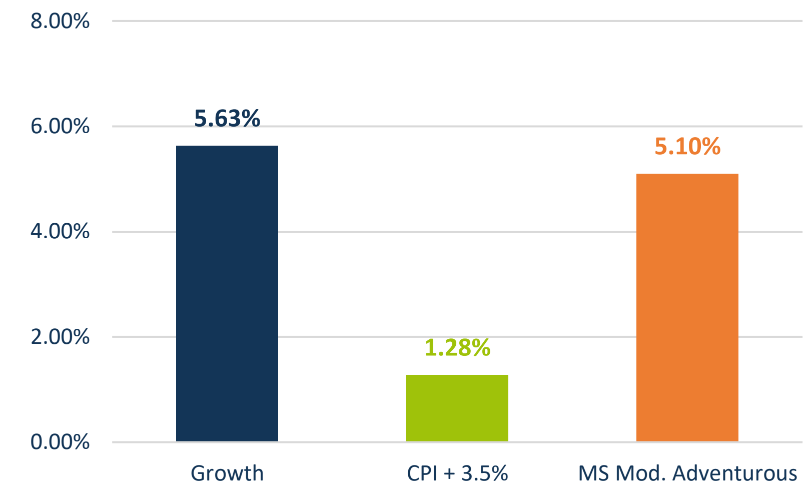
Increased inflationary pressures led to rising yields as investors adjusted their expectations on interest rate cuts, putting pressure on our fixed income investments. However, our credit managers adeptly navigated this environment. Meanwhile, equities continued their upward trajectory driven by robust earnings, subdued inflation, and the potential productivity enhancements from AI technology. Fed Powell's indication of potential QT soon, alongside rate cuts, helped sustain the positive momentum benefitting our higher beta positions.

With policymakers confirming the peak in rates and optimism surrounding advancements in AI, the top performers included technology-heavy US stocks such as L&G US Equity, iShares Core S&P 500, and Hermes US SMID Equity, all posting significant gains. Additionally, Polar Capital EM Mkts Stars and R&M European benefited from China's resurgence following government initiatives aimed at bolstering growth.

Performance[1]



Q1 Returns[2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	2.33%	0.00%	0.00%
Government	0.00%	0.00%	0.00%
Credit	7.31%	3.53%	+0.24%
UK	11.34%	3.19%	+0.32%
N. America	35.17%	9.41%	+3.11%
Europe	10.45%	6.65%	+0.62%
Japan	6.93%	9.53%	+0.61%
Asia & Emerging	13.87%	2.34%	+0.30%
Thematic	7.46%	4.08%	+0.28%
Alternatives	5.13%	2.63%	+0.14%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
L&G US Equity ETF	13.28%	11.31%	+1.40%
iShares Core S&P 500 ETF GBP Hedged	8.30%	10.44%	+0.88%
Federated Hermes US SMID Equity GBPH	5.22%	7.38%	+0.42%
ES R&M European	5.48%	6.41%	+0.40%
Polar Capital EM Stars	6.04%	5.75%	+0.35%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/03/2024. 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 31/03/2024. [2] Data for the period 31/12/2023 to the 31/03/2024. * 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

Believe the Hype?

Arctic Monkeys frontman, Alex Turner, famously croaked out "don't believe the hype" during one of their early gigs back in 2005, before they went onto become one of the most successful UK bands to date – so, he got that wrong, but should we listen to him when it comes to Nvidia?

In late February, Nvidia made history with a single-day surge in its share price, adding $276.6 billion to its market capitalisation, representing a remarkable 16.4% increase. This surge alone surpassed the market cap of competitors such as Advanced Micro Devices and Bank of America, trailing only slightly behind Nestlé's valuation. Since May 2023, Nvidia has epitomized the AI-driven stock market rally that has propelled the S&P 500 to record highs.

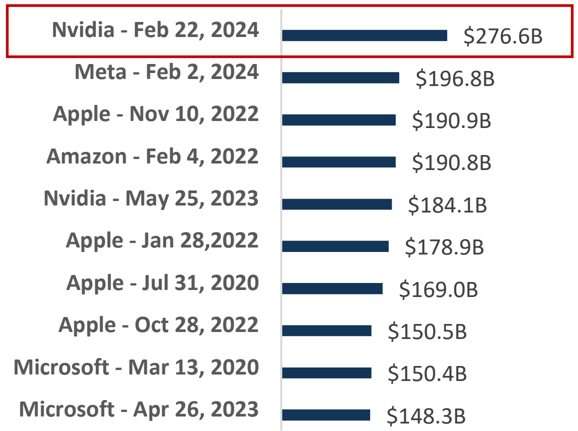
Nvidia's outlook for the ongoing quarter promises continued growth, with expectations of another substantial revenue increase at a high gross margin. In the last three months leading up to 29th January 2024, Nvidia's revenue soared by 265% compared to the same period the previous year, reaching $22.1 billion, surpassing its own $20 billion outlook. Once again, Nvidia's data center business played a pivotal role, experiencing a remarkable 409% revenue surge year-over-year and contributing over 80% of total sales. The company reported a net income of $12.3 billion in the past quarter, surpassing its full-year profit for fiscal 2023 by over 100%, thanks to a gross margin of 76%.

Nvidia's valuation, at about 30 times expected earnings ahead of its report and down from 49 times a year before, so is technically cheaper even following its rise in share price, and remains within its historic range, though challengers are emerging. The three major cloud companies—Microsoft, Amazon, and Google—are transitioning from Nvidia customers to competitors, having designed their own chips. Additionally, chip industry rivals are catching up with Nvidia's most advanced offerings, with AMD releasing a next-generation chip that is widely acknowledged to outperform Nvidia's equivalent.

Despite these challenges, Nvidia's position appears robust amid the ongoing AI boom. While the in-house chips developed by major cloud companies may impact Nvidia's business in the short term, their broader influence remains uncertain and AMD, for instance, has set a target of only $3.5bn of AI chips for this year, a fraction of Nvidia. As of now, Nvidia seems poised to maintain its leadership position in 2024. However, with the immense potential market for AI and the ambitious efforts of tech giants, Nvidia will need to remain vigilant to sustain its dominance.

Sources: FT, LESG, Bloomberg, Factset

Top 10 Biggest Single-Day Market Cap Gains



ASTUTE
INVESTMENT MANAGEMENT LTD