ASTUTE
INVESTMENT MANAGEMENT

VT Astute Funds

Quarterly Commentary

Q2 2024

Introduction

Thank you for taking the time to read our Q2 commentary. The second quarter certainly delivered a few surprises as interest rates, for once, took a back seat and politics took center stage. Politics rarely makes life easier for investors and the high degree of unpredictability combined with potential for significant impact makes elections a key risk to be managed within portfolios. While politicians will create the headlines for a while, we will stick to our knitting and focus on the fundamentals of the global economy, where we are confident that our disciplined and patient approach can deliver the most consistent returns to investors.

As elections dominate the headlines, our CIO letter this quarter ponders what political uncertainty can mean for portfolios and why stability is a desirable asset.

In our Astute Overview section, we take a deeper look at the UK election outcome, why markets were unmoved by such a big shift and why the UK now stands apart from peers in France and the US.

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

Weather and Politics: Unpredictable and Unavoidable

As a rain-soaked Rishi Sunak took to the airways to announce the UK general election back in May, I had the good fortune to be enjoying uninterrupted Greek sunshine and, more importantly, a well-staffed kids' club. The surprise timing (at least for most people) of the election put the announcement at the mercy of the Great British weather and, unfortunately for the Conservative party, set the tone for a rather damp campaign. The reasons for the early poll remain somewhat mysterious to me, but with such a commanding lead for Labour, the outcome was never really in doubt.

This, for once, allowed a degree of certainty in the eventual outcome, a rarity for political risk which is so difficult to account for when constructing an investment portfolio. The second quarter also saw pivotal elections in Mexico, South Africa and India. The first saw markets dip as Claudia Sheinbaum won a super majority, the latter saw markets dip because Narendra Modi failed to do the same. All three elections may have long lasting implications for key emerging market economies, but the unpredictability of the outcome and the market response shows that positioning around such events is almost always a fool's errand.

Which brings me to my broader point about unpredictability. 2024 was always going to be a year buffeted by political risks, the largest of which still sits ahead of us in November. Unpredictability creates volatility in markets, increasing risk. As investors we should expect to get paid more if we're being asked to accept higher risk, and if that's not the case then we should reevaluate our position relative to what else is available to us. The UK election result, when measured against the constantly shifting sands of European politics or the Hollywood drama of the US, starts to look reassuringly mundane.

It might not be the biggest factor in global investor decision making, but for companies looking to invest, or capital markets with money to lend, a stable, sensible government is a major plus. Like winter weary British tourists paying a premium for guaranteed sunshine overseas, the UK economy could become that safe haven for global investment. It remains to be seen if Kier Starmer can deliver that stability, but the opportunity is clear, as are some of the challenges he will face.

While the UK and global economy have proven much more resilient to the steep increases in interest rates, so has inflation. The US has led the way in terms of tackling inflation without de-railing growth, but even here there are early signs of a weakening jobs market. Debt costs and debt loads are of increasing concern and, as a newly un-employed Liz Truss can testify to, markets have little time for fiscal largesse. Low growth and high debt costs are the proverbial rock and hard place, but there are responsible paths to sustainable growth and falling debt burdens for any colour of government in every nation.

On balance, the economic developments over the course of the year make us fractionally more worried about the global economy than we were, but the soft landing is still achievable. The question is simply will the economic recovery survive even as interest rates come down, or will the cuts come too late? Add into that conundrum the long shadow of political hazard, particularly from US presidential elections in November, and the outlook for the rest of the year starts to sound like a British summer: sunshine with a chance of showers.

When it comes to our portfolio however, maintaining diversification and flexibility is key. You can pack both your sun hat and your raincoat for the first time in many years as bond prices now allow for conventional equity risk hedging, if that summer rainstorm does arrive. Most importantly, our disciplined and long-term approach ensures we remain focused on the fundamentals that really matter, after all the best way of knowing what the weather is doing… is to simply look out of the window.

Scott Osborne PhD CFA
Chief Investment Officer

Astute Overview

Politics & Markets – Spinners & Losers

In our Q4 2023 quarterly commentary, we highlighted "elections" as something we are watching this year. 6 months on and it feels like an appropriate time to revisit the topic; as results come in revealing divided nations, the UK can stand apart as an island of calm amid the storm.

It's no secret that the UK political landscape has been turbulent in recent years, with a high prime minister turnover, most notably the 44-day tenure of Liz Truss following a market scaring, growth focused mini-budget that lacked any convincing budgeting detail. Any politician swimming in the wake knows they must work tirelessly to convince global markets that the UK is fiscally responsible.

This brings us to July's election, which spelled political shake-up for the nation: after 14 years of Conservatives in power, the Labour party landed a huge victory, securing 411 seats in the general election, with the Conservative party holding on to only 121.

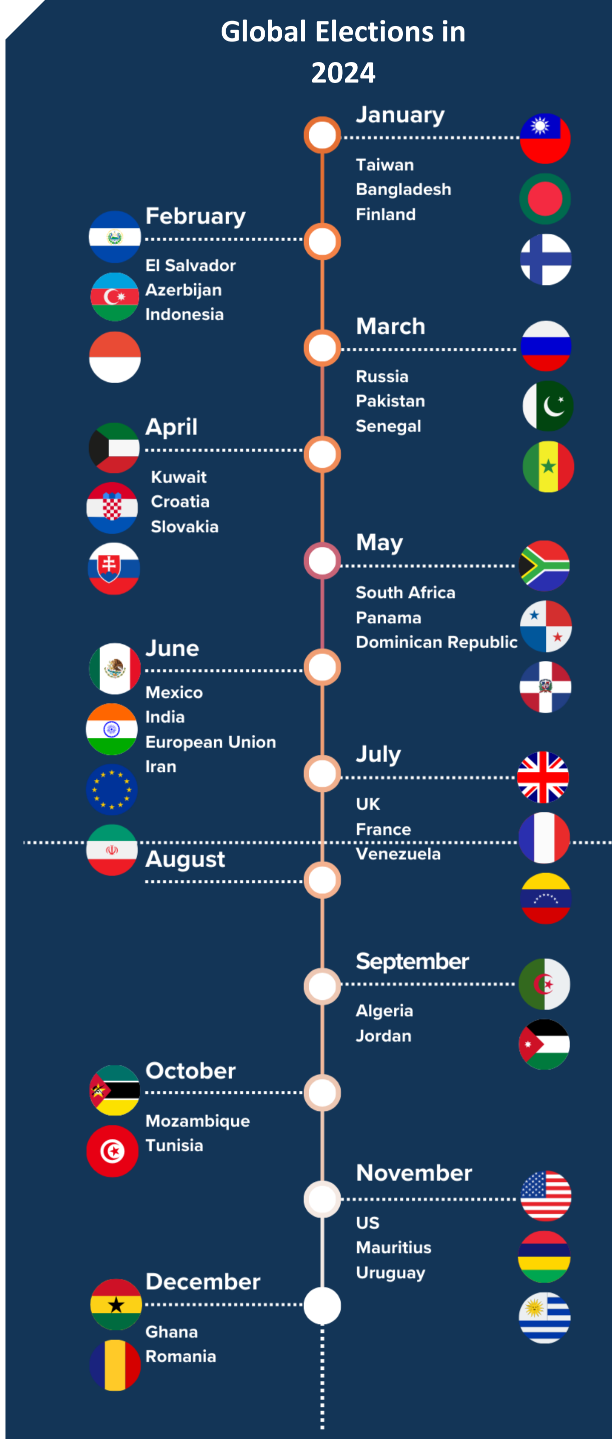
Markets welcomed the result, but not necessarily due to the party in question (the markets would likely have been equally satisfied with a huge victory for the blue team). The markets were happy with the results for three main reasons:

1. Labour's majority means that the government will be able to easily pass legislation, implement their manifesto pledges and simply, get things done - music to the ears of markets.
2. Given that the Labour party won by a good majority, if they don't upset the apple cart by unveiling radical or controversial plans, then this majority could be enough for another win again in 4 years' time. The party expects to be here to stay and has already set out a plan for debt falling as a share of the economy by the 5th year, beyond their elected term.
3. Labour's winning manifesto lacked radical policies, as did the other major parties. Most proposals were moderate, boring even. But boring is good news for markets – it suggests stability and predictability.

The Labour party have committed to fully funded and budgeted announcements, which reassures markets and prevents any "emergency" budgets without independent oversight from the Office for Budget Responsibility. Whilst there will be policy changes down the line, the new government are unlikely to take any huge risks in the early days of office - government finances are tight regardless, with significant spending reductions baked into current projections. During the election, Labour were careful not to rule out some tax rises and so the unpledged areas such as capital gains or inheritance tax may come under the spotlight. Even so, such tax increases might be eaten up by the reality of departmental budgeting.

Looking ahead, the two major improvements to the fiscal picture would be reduced borrowing costs (interest rates falling more quickly than previously forecast) and better growth, with 2.5% GDP growth set as an ambitious target. Raising growth without spending will rely heavily on changing legislation to facilitate more economic activity, so-called supply-side reforms.

Following the results of the general election, the immediate UK market reaction for both large and medium sized companies, was a jump on open (FTSE 100 and FTSE 250). However, markets calmed by the end of the day.



Not to be outdone by Rishi Sunak's early election, French President Emmanuel Macron called his snap election 3 years early. The shocking move was greeted with astonishment in Europe, where right wing and far right parties had just won more seats than ever in the European parliament.

With a huge win for Marine Le Pen's far right National Rally in the first round it appeared that Macron's gamble had failed. However, the week between the first and second round votes was long enough for the centrist and left parties to cooperate and prevent the right gaining an outright majority, plunging the country into uncertainty in the process, with no natural governing party.

While Macron might be relieved that his Renaissance party did not lose even more seats, he has failed in his quest for clarity. A grid-locked French parliament will struggle to pass any significant reform, providing a stark contrast to the UK.

And finally, over in the US we are 6 months closer to the next presidential election, but no clearer on the outlook. Joe Biden and Donald Trump squared up during a televised debate but as Biden repeatedly stumbled over his words, the small age gap between the candidates had never seemed so large. Already a major issue for Biden, his debate performance only exacerbated fears he is too old to govern, and Trump extended his lead in the polls.

Despite increasing clamour within the Democratic Party for Biden to step aside, the President is adamant he will continue. Unless he withdraws, he will almost certainly be confirmed as the official candidate at the Democratic convention in August. With Trump currently leading it's not clear if any change would improve the Democrat's chances or simply create more uncertainty.

Sources: Commons Library

Astute Perspective

UK – Neutral

UK markets lacking support to drive a persistent rally

Prefer smaller companies with growth opportunities

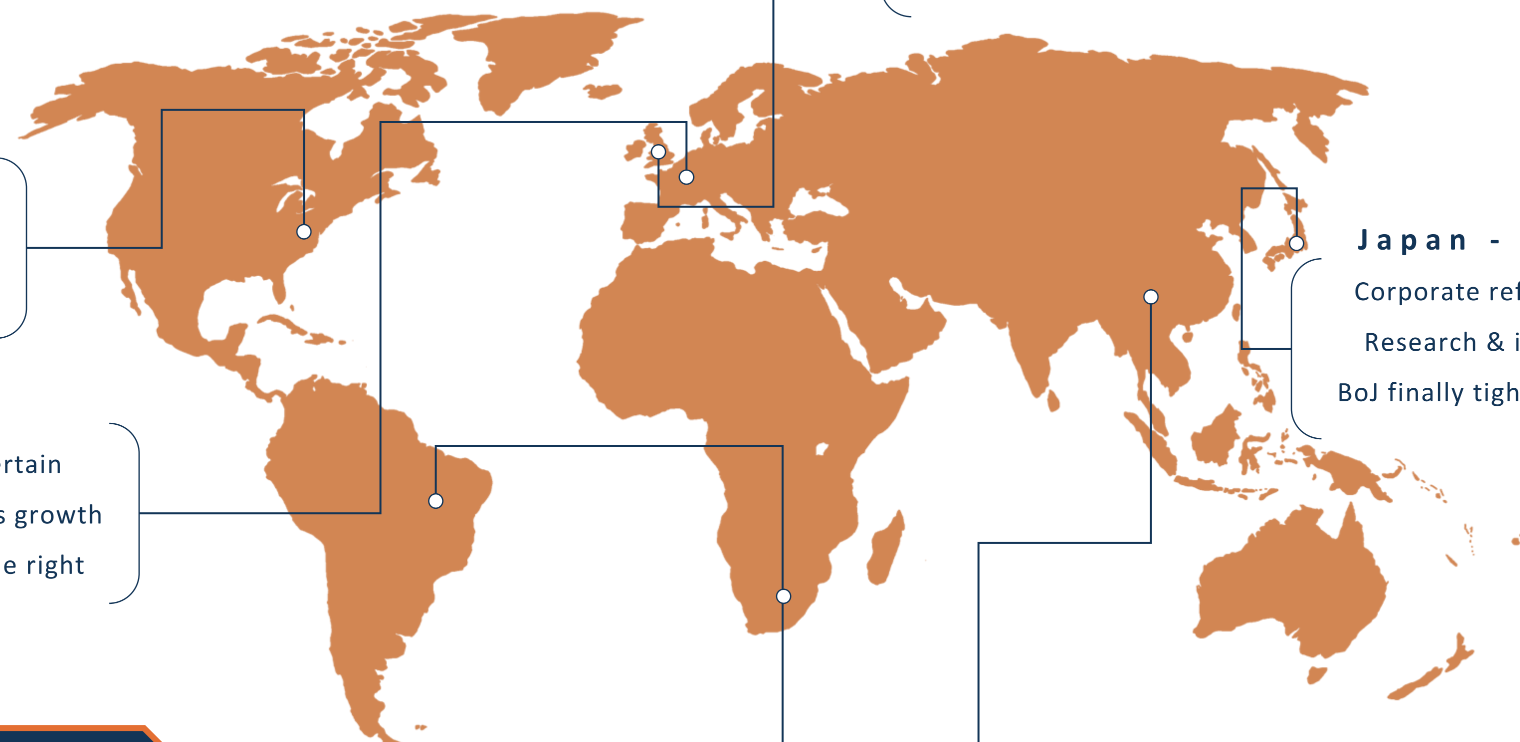
Underlying economic growth challenged but improving

N. America - Neutral

Rate cuts now pushed to September 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 leads on cuts but future path uncertain

Economic role reversal as periphery drives growth

Political stress as elections shift EU to the right

Asia & Emerging - Overweight

China consumer pain continues but markets rebounding

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.

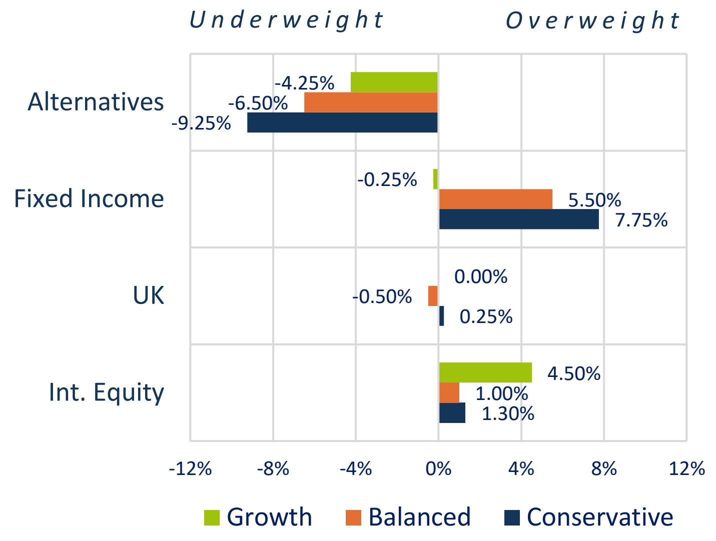
Asset Class Views

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

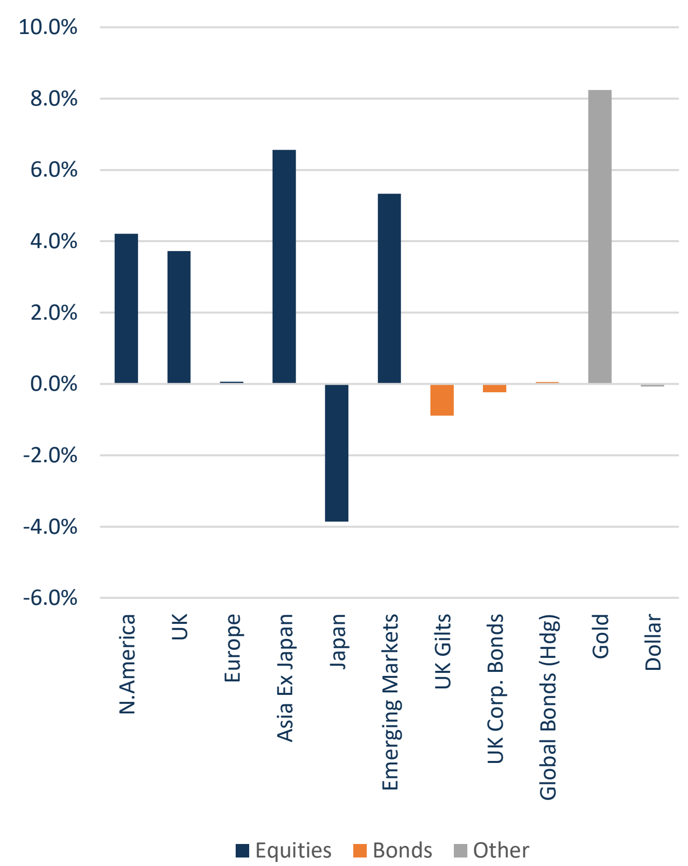
Equities	Negative		Positive
UK			
Europe			
Asia & Emerging			
Japan			
US			

Astute Positioning

Tactical Asset Allocation[1]



Asset Class Returns[2]



Fund Activity

	Fund	Portfolios
New Purchase	iShares $ Treasury Bond 20+ yr ETF	Con / Bal
	UK Gilt 4.375% 31/07/2054	Con / Bal / Gro
	Lazard US Small Cap Equity	Con / Bal / Gro
	iShares S&P 500 Equal Weight ETF	Con
	Invesco S&P 500 ETF GBP Hedged	Con / Bal / Gro
	Aegon Investment Grade Global Bond	Con / Bal
	M&G Japan Smaller Companies	Con
Top Up	Regnan Sustainable Water and Waste	Con / Bal / Gro
	iShares S&P 500 Equal Weight ETF	Bal / Gro
	Lazard Japanese Strategic Equity	Con / Bal / Gro
	M&G Japan Smaller Companies	Gro
Trim	Robeco Global Multi-Factor Credits	Con / Bal
	iShares Core UK Gilts ETF	Con / Bal
	M&G Global Listed Infrastructure	Con / Bal / Gro
	L&G US Equity	Con / Bal / Gro
	M&G UK Inflation Linked Corporate Bond	Con / Bal
	BlueBay Financial Capital Bond	Gro
Sold	Federated Hermes US SMID Equity	Con / Bal / Gro
	iShares Core S&P 500 ETF GBP Hedged	Con / Bal / Gro
	L&G Russell 2000 US Small Cap ETF	Bal / Gro
	Robeco Global Multi-Factor Credits	Con / Bal
	Jupiter Japan Income	Con / Bal / Gro
	Ninety One EM Blended Debt	Gro

Government borrowing costs resumed their upward trend in April driven by the persistent expectation of “higher for longer” rates. Seasonal factors caused some volatility in economic data, but we always believed the threshold for even higher rates was unreachable. While this also reduced the likelihood of rate cuts, the dip in bond prices presented us with an attractive opportunity to further add interest rate sensitivity into the funds and with bond yields north of 4%, we are paid to be patient. Consequently, we sold our short duration global investment grade manager and repurchased the iShares Treasury Bond 20+ yrs ETF, which we previously sold on price strength in January.

During May, we made several minor adjustments to the portfolio to optimise our risk levels given our milder economic outlook, and the potential impact of upcoming elections on policy decisions. Following our previous trades, we switched our core UK gilts exposure to a direct 30-year gilt. This move not only generates a cost saving but also increases the portfolio’s duration and locks in a 4.375% coupon, which should comfortably exceed long-term inflation expectations. Additionally, we hedged some of our US dollar to manage currency risk within the portfolios and avoid being over exposed to a potentially weakening currency considering the direction of future monetary policy. We also reduced M&G Global Listed Infrastructure in favour of a cheaper and more defensive growth position in Regnan Sustainable Water and Waste. Hermes was sold in favour of the S&P 500 equal weight as it represented a cheaper alternative to small to mid-cap names.

Given our longer-term view that the macro environment is shifting in favour of small-caps, and the historic outperformance of small-caps over large-caps, we seized the chance to participate in a new US small-cap manager launch to replace our Russell 2000 tracker. The fund is systematic in nature, combining the benefits of disciplined fundamental theory with the speed and scalability of a systematic process. This strategy effectively exploits inefficiencies in the US small-cap market with only benchmark-level risk. Over the short term, there are still plenty of risks to navigate in the small-cap space, but the fund’s quality bias should allow it to continue to outperform the Russell 2000 index.

As we moved into June, the ongoing softening in data releases continued to support the expectation that the first rate cut from the US Federal Reserve would likely be in September. With this in mind, we continued to extend the portfolio’s duration by selling down our shorter duration holdings, such as Robeco and M&G, to purchase a new core global credit fund. This fund employs a flexible approach to alpha generation, with the core belief that taking tactical views on credit and duration can enhance the fundamental work in individual credit selection, adding value through market cycles. While the fund may struggle in a strong trending market, we’re anticipating a more conventional market ahead which should present ample opportunities to selectively add alpha, particularly given how tight current credit spreads are.

Our base case remains that risk assets will be supported by a slow decline in economic activity, allowing policymakers to start lowering rates without triggering a resurgence in inflation. While current data supports this view, we recognise that achieving this balance is challenging, with a fine line between perfect policy and a mistake. Therefore, in our highest risk portfolio, we opted to add additional protection by buying longer-dated gilts in place of our more economically sensitive fixed income holdings. This strategy also allows us to maintain our equity upside potential if our base case holds true, but adds some protection if the economic picture deteriorates. Finally, we continued to invest in Lazard Japanese Strategic Equity over Jupiter Japan Income, whilst adding M&G Japan Smaller Companies to our Conservative portfolio to achieve a better balance between large-cap and small-cap exposure.

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 30/06/2024. 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 31/03/2024 to 30/06/2024.

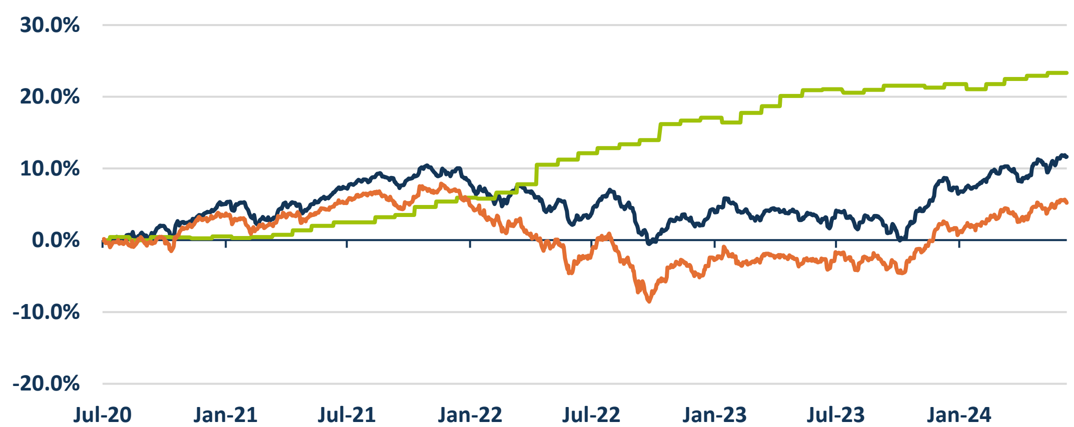
VT Astute Conservative

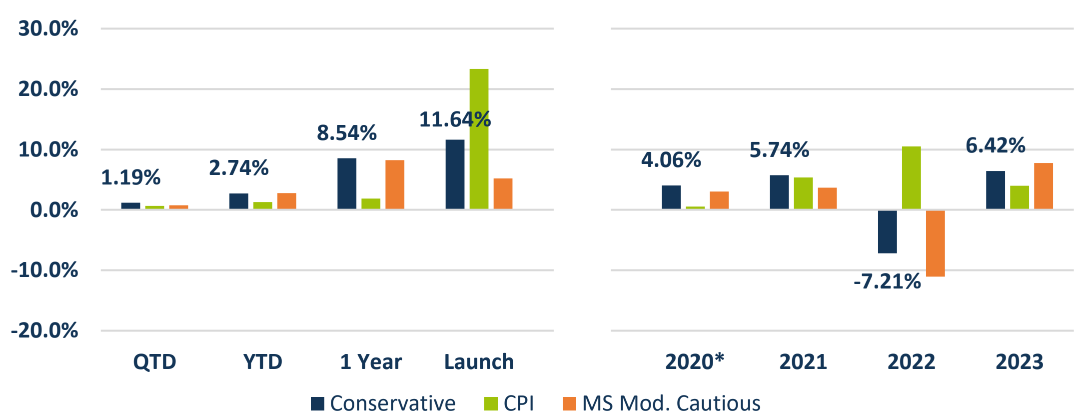
The Conservative fund had a relatively strong second quarter in 2024, surpassing both inflation and its market comparator. This outperformance was driven primarily by our fixed income managers, who delivered strong relative gains through effective credit selection, despite us being slightly underweight.

While softer economic readings were good news for investors, the promise of further spending during election campaigns raised concerns about the sustainability of government debt. This caused global yields to be highly volatile, negatively impacting our sovereign positions, however, our credit managers continued to outperform. Our equity managers also delivered positive gains overall, but the Federal Reserve's reluctance to cut rates proved to be a relative drag on our smaller to mid-cap names.

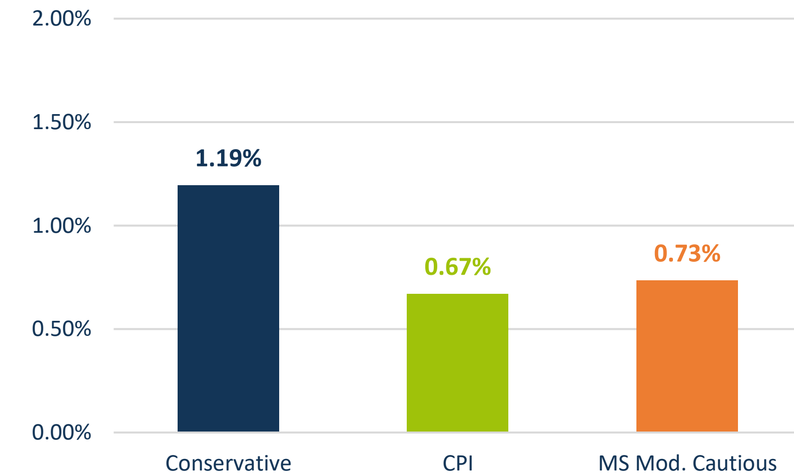
During the period, the top contributor was Gresham House Energy Storage, which surged +68.18%, recovering some of its recent falls. This followed successful upgrades that significantly increased operational capacity. Man GLG Dynamic Income also delivered solid returns supported their overweight positions to real estate and financials. Other contributors included Invesco S&P 500 and L&G US Equity, driven by the continued push from the "Magnificent Seven".

Performance[1]





Q2 Returns[2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	2.83%	1.34%	+0.04%
Government	29.76%	-0.15%	-0.07%
Credit	25.05%	1.67%	+0.32%
UK	4.04%	4.98%	+0.17%
N. America	10.60%	3.42%	+0.24%
Europe	2.96%	-3.39%	-0.10%
Japan	2.02%	-3.18%	-0.05%
Asia & Emerging	4.65%	4.77%	+0.18%
Thematic	2.51%	0.21%	-0.01%
Alternatives	15.58%	3.35%	+0.47%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
Gresham House Energy Storage	0.46%	68.18%	+0.22%
Invesco S&P 500 ETF GBP Hedged	5.56%	2.99%	+0.17%
Man GLG Dynamic Income	3.05%	4.71%	+0.13%
iShares $ Treasury Bd 20+ yr GBP Hedged	3.01%	3.93%	+0.13%
L&G US Equity ETF	3.49%	4.21%	+0.12%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 30/06/2024. 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 30/06/2024. [2] Data for the period 31/03/2024 to the 30/06/2024. * 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.

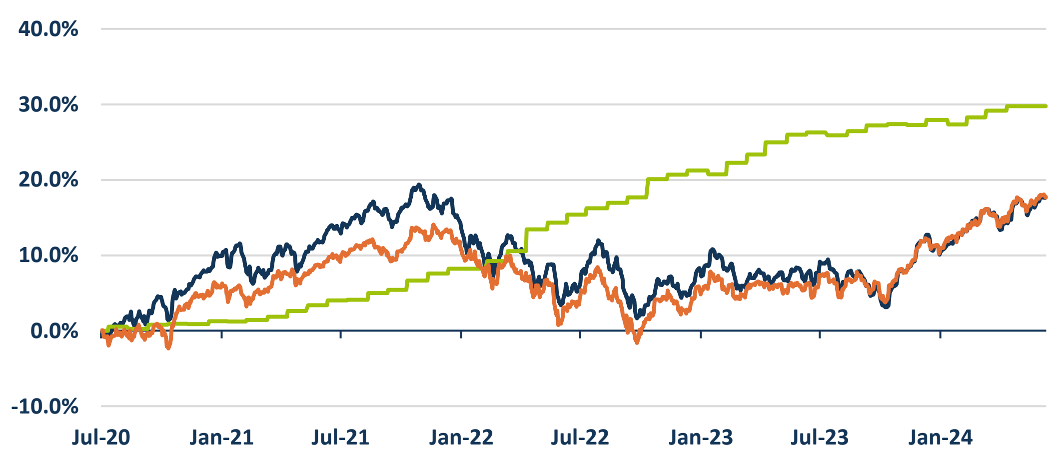
VT Astute
Balanced

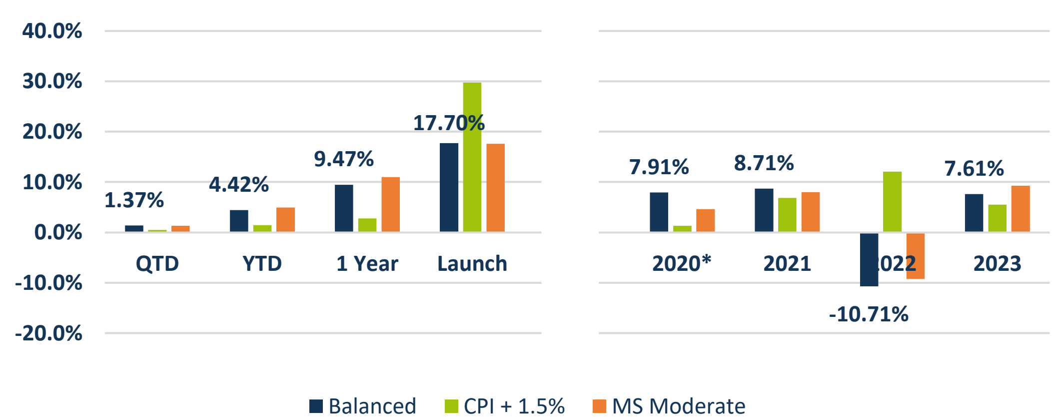
During the quarter, the Balanced fund marginally outperformed its benchmark but notably exceeded inflation. The fund delivered positive gains across most components, but most of the outperformance was generated by our fixed income credit managers due to their strong credit specific research.

Global yields ended the quarter relatively unchanged, though the path was somewhat volatile due to softer economic data being partially offset by concerns about the budget deficit. This volatility negatively impacted our sovereign positions, but our credit managers performed exceptionally well as risk premiums in certain sectors continued to narrow. While some equity indices continued to reach new highs driven by tech, broader economic weakness is weighing on our small to mid-cap managers despite their strong fundamentals.

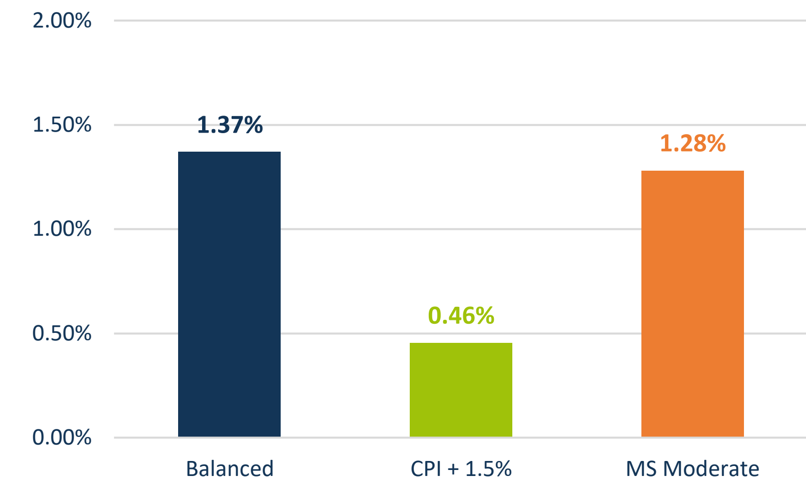
Given the continued strength in the "Magnificent Seven", the top contributing funds included both of our passive US equity ETFs. JPM UK Equity also posted strong returns of +4.71% backed by renewed enthusiasm in the region's overlooked value assets. Finally, Gresham House Energy posted a significant gain of +68.18%, recovering some of its recent falls. This followed successful upgrades that significantly increased operational capacity

Performance[1]





Q2 Returns[2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	2.51%	1.34%	+0.03%
Government	16.97%	-0.06%	+0.02%
Credit	15.97%	1.57%	+0.18%
UK	7.04%	4.87%	+0.29%
N. America	22.38%	3.05%	+0.44%
Europe	5.36%	-2.34%	-0.10%
Japan	4.57%	-3.73%	-0.15%
Asia & Emerging	9.23%	4.60%	+0.34%
Thematic	2.95%	-0.17%	-0.01%
Alternatives	13.02%	2.92%	+0.33%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
L&G US Equity ETF	7.49%	4.21%	+0.29%
Invesco S&P 500 ETF GBP Hedged	8.14%	2.99%	+0.24%
Gresham House Energy Storage	0.43%	68.18%	+0.21%
iShares $ Treasury Bd 20+ yr GBP Hedged	3.02%	3.93%	+0.13%
JPM UK Equity Core	2.03%	4.71%	+0.10%

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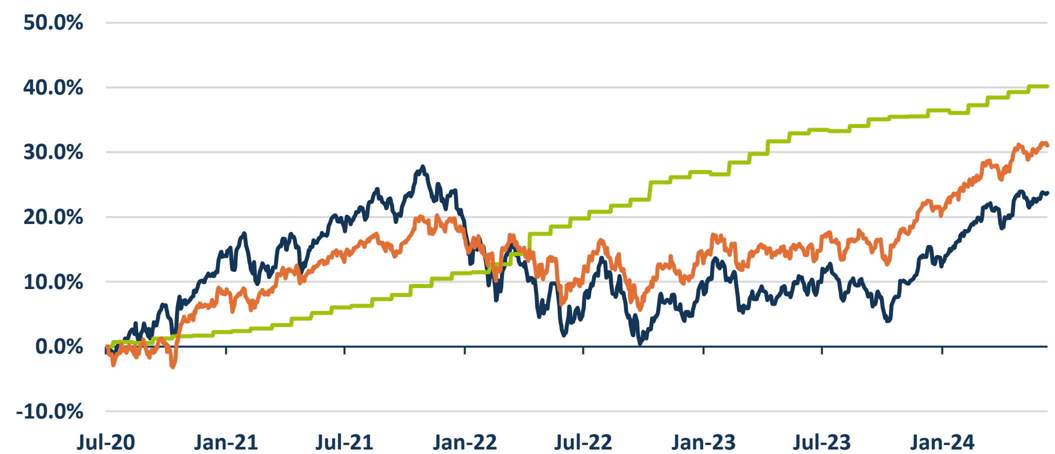
VT Astute Growth

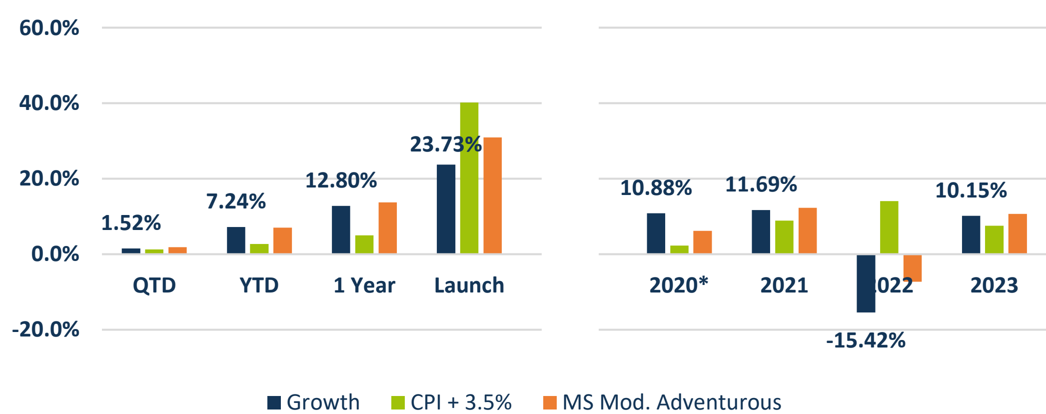
Although broader developed markets saw positive gains, the Growth fund slightly underperformed its market comparator this quarter but outpaced inflation. While our equity component did achieve positive returns, an overweight position to smaller-cap names versus mega-cap limited overall performance.

Recent softer inflation readings across developed markets has been welcome news for policymakers, however the likelihood of substantial rate cuts remains low, which continues to weigh on the valuations of smaller-cap companies that are more sensitive to the economic cycle. In Asia, Chinese equity prices fully reaped the rewards of the earlier stimulus efforts from the Government, which drove a rebound in manufacturing and consumer spending, but with several headwinds remaining this optimism slowly faded into the end of the period.

With the usual tech names in the US continuing to perform strongly, the top contributing funds include the Invesco S&P 500 ETF and the L&G US Equity ETF. Our emerging market holdings, iShares MSCI EM SRI and Polar Capital Emerging Markets, also delivered positive gains as beneficiaries of a potentially weaker dollar. Finally, JPM UK Equity posted robust gains backed by renewed enthusiasm due to an attractive relative valuation gap.

Performance [1]





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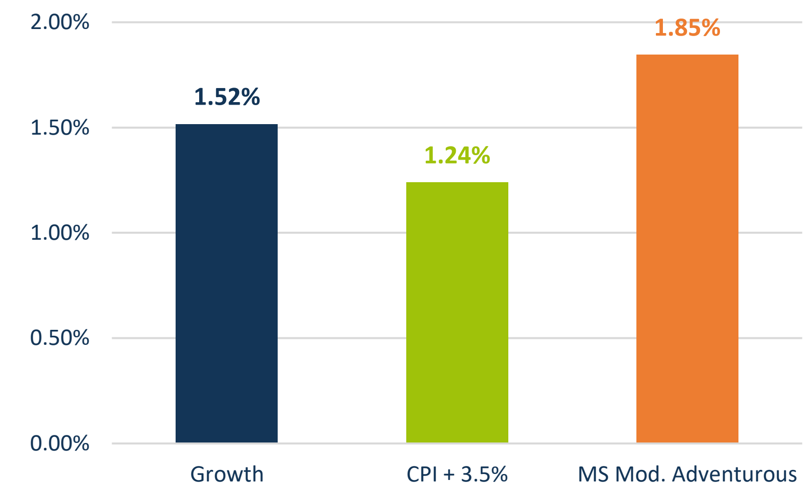

Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	2.48%	1.34%	+0.03%
Government	3.51%	1.25%	+0.04%
Credit	3.84%	2.16%	+0.12%
UK	11.86%	4.96%	+0.51%
N. America	35.88%	3.05%	+0.76%
Europe	10.03%	-2.32%	-0.17%
Japan	6.92%	-3.66%	-0.22%
Asia & Emerging	14.25%	4.55%	+0.55%
Thematic	6.36%	-0.45%	-0.05%
Alternatives	4.88%	-0.95%	-0.05%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
Invesco S&P 500 ETF GBP Hedged	14.31%	2.99%	+0.42%
L&G US Equity ETF	10.54%	4.21%	+0.40%
iShares MSCI EM SRI ETF	7.96%	3.18%	+0.16%
JPM UK Equity Core	2.92%	4.71%	+0.14%
Polar Capital EM Market Stars	6.07%	5.05%	+0.13%

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Astute Observations

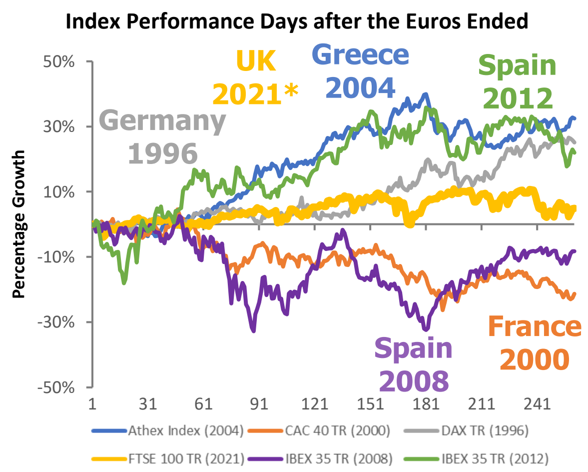
From Free Kicks to Green Ticks

In the hallowed halls of both football stadiums and stock exchanges, legends are made, fortunes lost, and unlikely heroes emerge. But what if the success of the national men's team is more than just football coming home, what if it has a magical influence on the country's equity market? Is the future of the UK market reliant on Harry Kane's goals?

For example, picture this, it's 2004, and Greece, a country known more for its ancient philosophers than its football prowess, pulls off a stunning victory. The stock market reaction? Cue the Zorba dance in the trading pits! The Athens Stock Exchange saw a bizarre yet jubilant spike. Investors, inspired by the underdog story, seemed to say, "If they can beat Portugal in Portugal, surely our stocks can beat the market!".

Fast forward to 2008 and 2012, Spain, a country famous for its siestas and fiestas, winning back-to-back Euros. One might think the Spanish equities would take a nap, but no! Instead, stocks rallied. Was it the tactical genius of their midfield, or the sheer power of the goals from Fernando Torres? Financial analysts scratched their heads whilst in their La Roja jerseys, but the market data was clear: winning trophies seemed to boost investor returns, except during the hell that is a recession (2008).

Ah, Germany, where engineering precision meets football perfection. In 1996, as the Germans clinched the Euros, the Frankfurt Stock Exchange hummed to the tune of increased investor enthusiasm. Coincidence, or maybe it was efficient market hypothesis on steroids, with German efficiency trickling down from the field to the trading floor. When France won the Euros in 2000, the effect on the Paris Bourse was as delightful as a warm croissant on a chilly morning. The dotcom bubble, however, left the French jubilant, but with significantly lighter pockets.



Though they didn't win*, England's unexpected journey to the final in 2021 had traders and investors alike glued to their screens. The FTSE 100 seemed to catch football fever too, rising in sync, which is everything the region needs today. For many years, many investors had fallen out with the UK on the back of higher inflation, Brexit, and weaker growth forecasts, but things seem to be hotting up again with the volume of M&A interest spiking, as investors are beginning to appreciate the disconnect between valuations and the fundamentals. Perhaps England winning the trophy is the exact catalyst required to get the country roaring again.

This bizarre intersection of football and finance makes you wonder if traders have secret altars dedicated to football gods, praying for goals that translate into gains. Even if the positive vibes and national pride from a victory might just be a temporary boost to sentiment at least you'll have a great story for the office water cooler.

Sources: Lipper for Investment Management.

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