INVESTMENT MANAGEMENT

VT Astute Funds

Quarterly Commentary

Q3 2024

Introduction

Thank you for taking the time to read our Q3 commentary. The roller coaster politics of Q2 continued into the third quarter this year with the shifting landscape of the US election in the headlines. Our focus continues to be on the fundamentals of the global economy, where we saw the first rate cuts of this cycle from all the major central banks and consensus shift more in line with our base case of falling inflation and moderate growth. So while we remain relatively positive about the future, we are always vigilant to developing risks.

As we see the first rate cuts materialise across developed economies, our CIO letter explores the market shift towards a "soft landing" and what risks might otherwise lead growth to stumble.

In our Astute Overview section, we take a glance back 12 months ago and ponder, with the benefit of hindsight, the improvements in the outlook and why we continue to be relatively cheerful about the future.

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.

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

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Chief Investment Officer

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Head of Group Communications

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Sticking the Soft Landing

In markets we often see something of a lull in trading over the summer months. Like other industries, summer holidays leave offices emptier than usual and less "stuff" gets done. This does not however mean markets are "quiet". In fact, the fewer rational decision makers present, the more jumpy conditions can get, especially in response to unexpected events. So, whilst I love the summer, especially an Olympic one (Kayak Cross anybody?), it's always a relief when you make it through to Autumn with your sanity intact. A condition which, in my case, largely depends on the size and frequency of tantrums from both the market and/or my 5-year-old daughter.

As it happens, this summer the biggest tantrum came from the markets, including the biggest one day drop in the Japanese stock market since Black Friday. Perhaps surprisingly, it was not in response to the attempted assassination of Donald Trump, nor the continued escalation of the war in the Middle East. It was in response to a worse-than-expected jobs report in the United States. The fact that we finished the quarter comfortably in the black on all three funds should tell you that the wobble did not last, but it does sum up the last 18 months nicely: individual data releases lead to over-reactions, followed by corrections (up and down) as fundamentals re-assert themselves.

The notable change in this last tantrum was that the data release was not directly related to inflation but instead to the health of the economy, specifically job creation, a sure sign that sentiment has shifted sufficiently to declare the war on inflation won and that the focus has shifted to counting the cost. The consensus remains the US will escape a recession, certainly any type of severe recession. Given the astonishing pace of interest rate rises, sticking a soft landing in the US economy (avoiding recession) will be up there with the best of Simone Biles' performances in Paris.

As I write today however, this environment of benign growth with falling inflation is what the market expects. The US Federal Reserve's bumper 0.5% cut was cheered by markets, dispelling worries that their first cut could be perceived as a panicked move to a prevent the slide into recession. Time will tell how soft the landing proves, but regular readers will know we have positioned for this type of environment for some time, and if growth holds up and additional interest rate cuts materialise (likely at least another 0.5% from the Fed and between 0.25%-0.5% from the Bank of England before year end) there is further for this current rally to run.

I couldn't write an overview of the last quarter without returning to those other risks mentioned above, namely the US election and the war in the Middle East. While obviously very different in nature, both risks share a common factor in that they are hard to predict and uncertain in their outcomes. So much so that even correct predictions of future events might lead to unexpected results.

The principal risk to global markets following the horrific Hamas attack in October 2023 was a broader conflict either with Iran or Lebanon, or both. This has now materialised with tragic consequences, and yet the oil price remains below its recent highs. Perhaps because the unused oil supply within OPEC is more than double the entire Iranian output, or perhaps because the creeping nature of the conflict has made people complacent. The US presidential election has also seen its fair share of twists and turns. When I last penned a commentary Biden was still the presumptive candidate and Trump had all of his right ear intact. In true Hollywood style the race is, and likely remains, a cliff hanger until November 5th. It's a coin toss, and so we just have to wait and see.

In both cases we can see obvious paths to market volatility but we're not changing our positioning at all, at least for now, as the likely impact of all but the worst outcome does not justify guessing ahead of time, particularly when the long-term fundamental backdrop is so supportive for risk assets. Looking through short-term risks where we can is key to delivering long-term returns. As always however we stand ready to shift course if we perceive that balance of risk to have shifted. Reacting to events quickly and decisively remains a key aspect of our active management but like a goalkeeper in a shootout, sometimes you have to hold your nerve and stand still.

Scott Osborne PhD CFA
Chief Investment Officer

Astute Overview

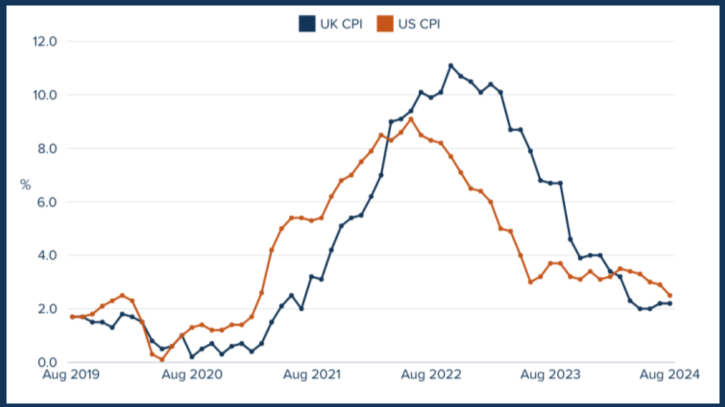
Reasons to be Cheerful, 3 Parts

As humans we can't help but worry, it's in our nature. Many of us are guilty of obsessing over media headlines, consumed by rising prices, worrying about mortgage rates soaring and watching markets react to every bit of news. This behaviour became even more natural in recent years: since the COVID-19 pandemic was declared in 2020 and markets sold off, there have been huge changes to market dynamics and global economies. But if we take a step back, we can see just how far we've come. Growth has proved resilient, inflation is hugging its target, and the VT Astute funds have proved themselves through challenging times. So, we bring to you: reasons to be cheerful, 3 parts.

After many years of economic turbulence – high inflation, hikes to interest rates and a huge shift in market dynamics – the dust is settling. Economies are returning to normality, and central banks appear to be pulling off a soft landing: interest rates, which were hiked up to restrictive levels in the UK, Eurozone, and US, are now beginning their journey downwards towards a sustainable level; growth is back on the horizon after fear of a deep recession; and ultimately, markets have come through the other side in good order.

For over 30 years the UK enjoyed low and stable price increases. That was until a perfect storm of supply chain bottlenecks, COVID-19 induced demand dynamics, and Russia's invasion of Ukraine throwing out the balance of global oil and gas supply sent prices soaring. In 2022, UK CPI inflation hit a staggering 11.1%, levels not seen since the 1980s, when *Reasons to be Cheerful, Part 3* by Ian Dury and the Blockheads was hot off the charts and inflation was hitting nearly 18%!

UK and US Consumer Prices Index Inflation



Fast forward to today, and inflation in the UK, US and Eurozone has cooled down, coming back under control and nearing the 2% target set by central banks.

As prices soared, central banks increased interest rates, holding them at restrictive levels until they had enough confidence to begin cutting rates. Policymakers are comfortable that inflation is heading sustainably towards 2% targets, with a cut of 0.25% in the UK, two 0.25% cuts from the European Central Bank and a 0.5% from the Federal Reserve so far this year.

As prices soared and interest rates were ratcheted up, it was difficult to see clearly how central banks would control inflation without upending the economy, causing a deep and painful recession with mass unemployment to boot. Time and time again the economies of the UK, US and Eurozone held strong, with the UK and Eurozone hitting a technical recession last year (defined as two consecutive quarters of negative GDP growth) before rebounding. The dip in growth for both regions did little more than meet the minimum criteria for a technical recession. Blink, and you would have missed it.

GDP Growth Projections for the UK, US, Euro Area, and G20 for 2024 and 2025

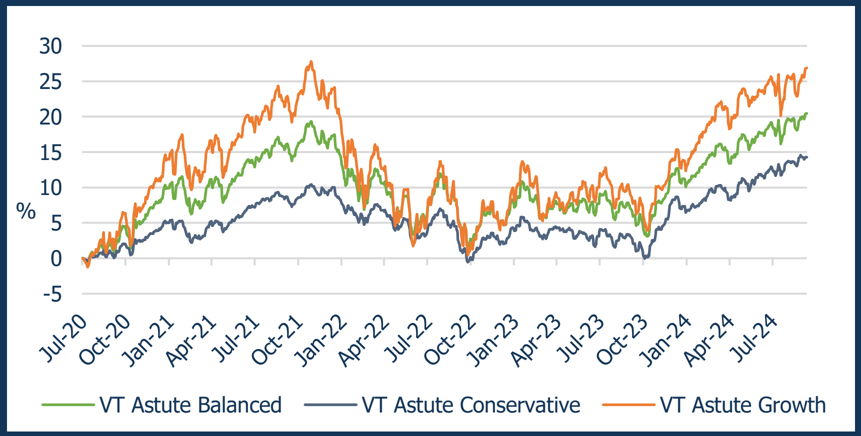
	2024	2025
G20	3.1%	3.1%
UK	0.4%	1.0%
US	2.6%	1.8%
Euro Area	0.7%	1.5%

Despite expectations for economic collapse, labour markets have remained robust, with US unemployment below the long-term average, and UK unemployment only slightly above pre-pandemic levels. Furthermore, the OECD forecast strong economic growth for G20 countries, with 3.1% forecast for both 2024 and 2025.

Whilst it would be inappropriate to claim that the feet of many key global economies are firmly back on the ground, it appears that a very soft landing is taking place.

This outlook stands in huge contrast to the sentiment just 12 months ago when inflation, recession, and geopolitical risk was pilling more misery on markets after a truly dismal 2022. Looking back over the last 12 months however, investment markets have performed strongly as sentiment shifted, erasing the losses of the previous two years. We positioned the VT Astute funds well to benefits from this upswing in markets whilst also taking advantage of short-term moves in the bond market, as prices fluctuated in response to every bit of news. Whilst it wasn't easy being positive at that time, it demonstrates how a long-term focus is key to achieving investment objectives.

VT Astute Funds



Looking ahead, whilst inflation and interest rates are no longer a major concern, we do closely monitor global growth dynamics and continue to take opportunities when markets are mispricing due to interest rate expectations in the short-term. In the long-term, we see a constructive environment for risk assets. Strong income potential from holding bonds and a supportive policy environment for equities should sustain this current rally for longer. We always have to remain vigilant to developing risks but there are plenty of reasons to be cheerful about the road ahead.

Sources: OECD, Office for National Statistics, U.S. Bureau of Labor Statistics, Refinitiv Lipper for Investment Management & Astute Investment Management as at 30/09/2024. Past performance is not a reliable indicator of future results.

Astute Perspective

UK – Neutral

UK markets lacking support to drive a persistent rally

Prefer smaller companies with growth opportunities

October budget a huge event for policy & sentiment

N. America - Neutral

First rate cut lands at a bumper 0.5%

Inflation now a secondary concern to growth

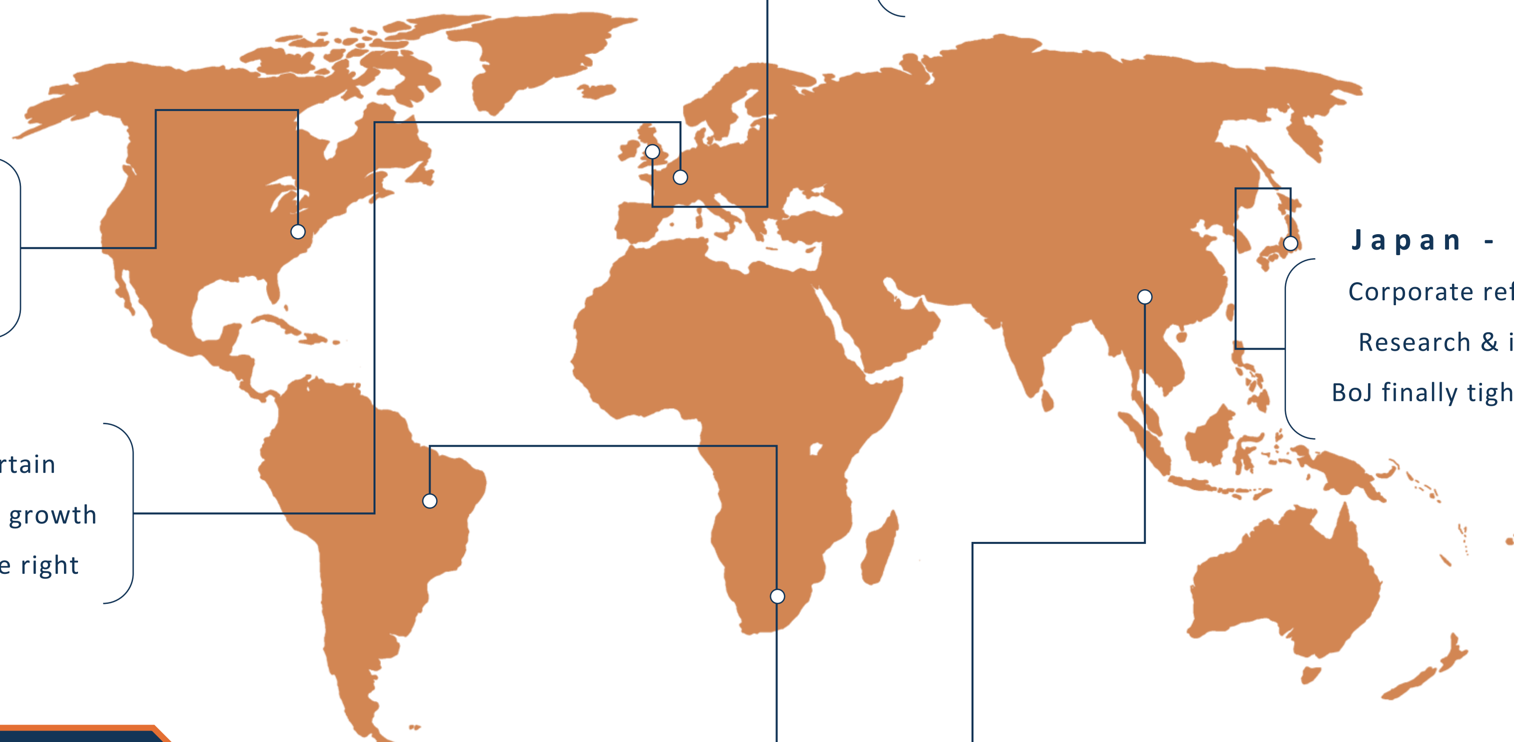
Early signs of broadening of market returns

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



Japan - Neutral/Overweight

Corporate reforms delivering strong returns

Research & innovation remains strong suit

BoJ finally tightened policy as inflation returns

Asia & Emerging - Overweight

China fires the stimulus bazooka but is it sustainable?

Strong China rally may have weak foundations

Opportunities remain attractive outside of India & China

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

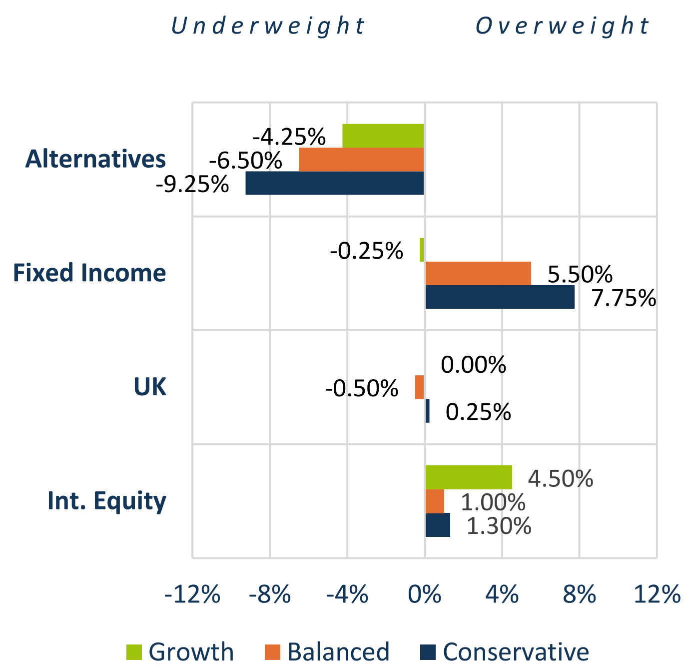
Fixed Income	Negative		Positive
Sovereign Bonds			
Corporate Bonds			
High-yield bonds			
EM Debt			

Alternatives	Negative		Positive

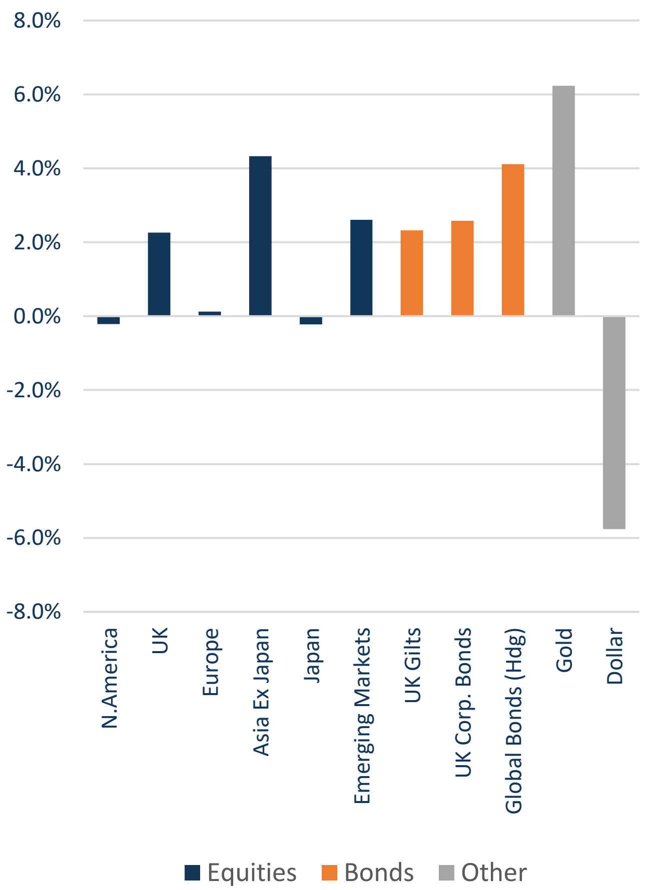
Equities	Negative		Positive
UK			
Europe			
Asia & Emerging			
Japan			
US			

Astute Positioning

Tactical Asset Allocation[1]



Asset Class Returns[2]



Fund Activity

New Purchase	M&G Global Emerging Markets	Con / Bal / Gro
	Nomura Emerging Market Corporate Bond	Bal
Top Up	L&G US Equity ETF	Con / Bal / Gro
	Invesco S&P 500 ETF GBP Hedged	Gro
	Nomura Corporate Hybrid Bond	Con / Bal
	Man GLG Dynamic Income	Con / Bal
	Aegon Global Investment Grade Bond	Con / Bal
	Man GLG Sterling Corporate Bond	Con / Bal
	Premier Miton European Opportunities	Con
Trim	iShares MSCI EM SRI ETF	Con / Bal / Gro
Sold	iShares $ Treasury Bond 20+ yrs ETF GBPH	Con / Bal
	M&G Global Listed Infrastructure	Con / Bal / Gro
	NinetyOne EM Blended Debt	Bal
	Comgest Growth Europe ex UK	Con

Encouraging progress in both headline and core inflation in the US over the summer saw equities continue their momentum from the first half of the year, as investors priced in imminent rate cuts. With our confidence growing towards this outlook, we decided to sell our position in a listed infrastructure manager to further reduce our underweight to the broader US market. This shift allowed us to reallocate some of our defensive exposure into a more growth-orientated position that stands to benefit more from a market cycle turnaround. Additionally, this also provided funds to introduce an active manager in emerging markets where we believe the divergent market valuations are driving the best opportunities for stock picking.

M&G Global Emerging Markets employs a pragmatic value strategy, focusing on identifying various types of quality companies through a disciplined valuation approach. Their bottom-up research process seeks out businesses with robust returns on capital and shareholder alignment, but whose valuations are currently depressed or misunderstood. At present, the team is concentrating on areas such as China, where the post-pandemic recovery has been challenging, though there are early signs of improving sentiment. In contrast, regions like India, Taiwan, or the broader semiconductor supply chain appear to be expensive and thus the manager is underweight. If this theme continues to drive performance in the same way it has over the past few years, the strategy is likely to underperform but the core of the investment thesis is that any underperformance when it occurs should be more than offset by the alpha generated in the better periods.

Heading into August, a wave of weak labour market and economic data led markets to prematurely price in an emergency rate cut from the Fed, as recession fears became severely exaggerated. Despite our confidence that rate cuts would eventually be required, the team never believed that the slowdown in data justified such a negative shift in market sentiment. Thus, as numerous rate cuts were priced in for 2024, extending into 2025, we chose to take profits on our longer-dated Treasuries, where the price now offered limited upside, and rotated a proportion of the proceeds opportunistically into US equities, given the sizeable dip in valuations.

As borrowing costs trended closer to our estimate of fair value, we further shifted our focus to our credit positions, opting to replace our existing emerging market debt manager with another via a cost-effective founder share class. Nomura's strategy is centered around credit research, targeting companies that align with its "Strong Horse" philosophy i.e., those able to manage debt loads across economic cycles while maintaining strong cash flows. This asset class currently presents significant upside potential and, in our view, will only become more attractive as the US continues to cut rates. Recognising that market expectations of bond defaults are fairly optimistic at the moment, the Nomura strategy also presents additional sources of return through the flexibility to use Treasury futures when opportunities in emerging companies are limited.

The rest of the quarter was relatively quiet in terms of activity. Towards the end of August, we used the remainder of the proceeds from our Treasury sale to top up our existing credit positions whilst credit spreads widened again from weaker economic data. We also chose to take profit on our more defensive large-cap European manager to top up our existing growth manager with a small to mid-cap bias, as we believe they will benefit relatively more from the ECB rate cuts. With markets now moving in line with our expectations we feel the portfolios are positioned well for our base case, but we remain mindful of the risks of a recession considering the number of possible exogenous events and stay ready to be tactical if necessary.

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 30/09/2024. 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 30/06/2024 to 30/09/2024.

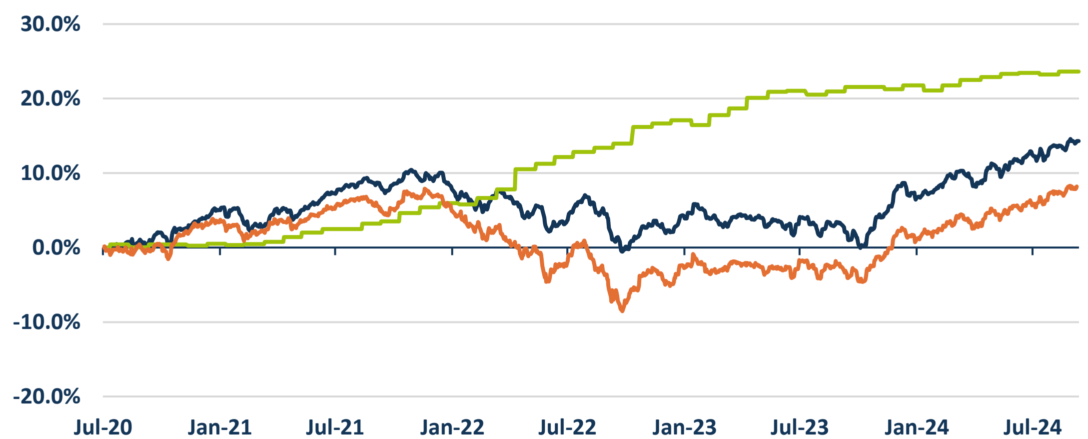
VT Astute Conservative

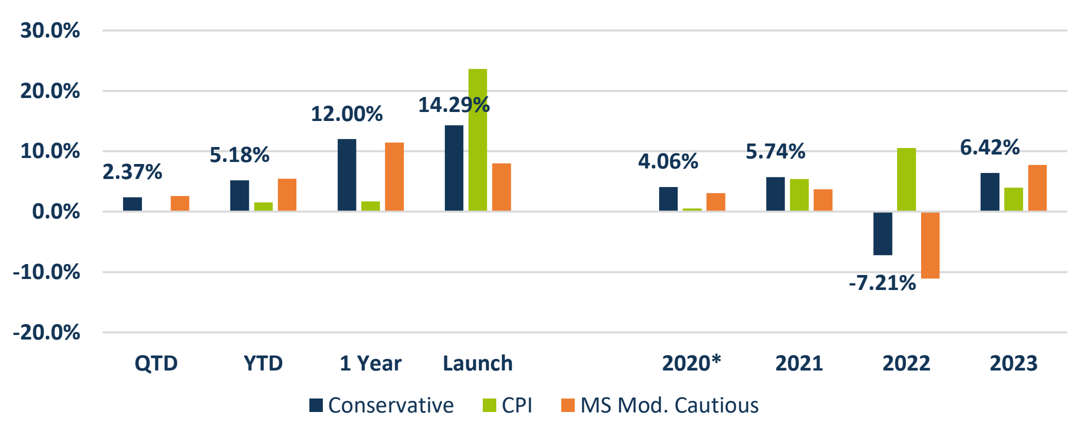
The Conservative fund slightly underperformed its market comparator this quarter, but did significantly outpace inflation. This underperformance was driven primarily by our large position in an equity market-neutral manager, who struggled to deliver returns in a strong reversal environment.

With good progress being made on inflation globally, markets have been quick to price in several rate cuts across 2024, extending into 2025, and consequently global yields fell dramatically. This move was very beneficial for our fixed income positions, particularly those with a longer duration i.e., a higher sensitivity to rates. Our equity managers also delivered strong gains, supported by the overweight to small to mid-cap names, as falling rates ease their debt burden proportionally more than larger cap companies.

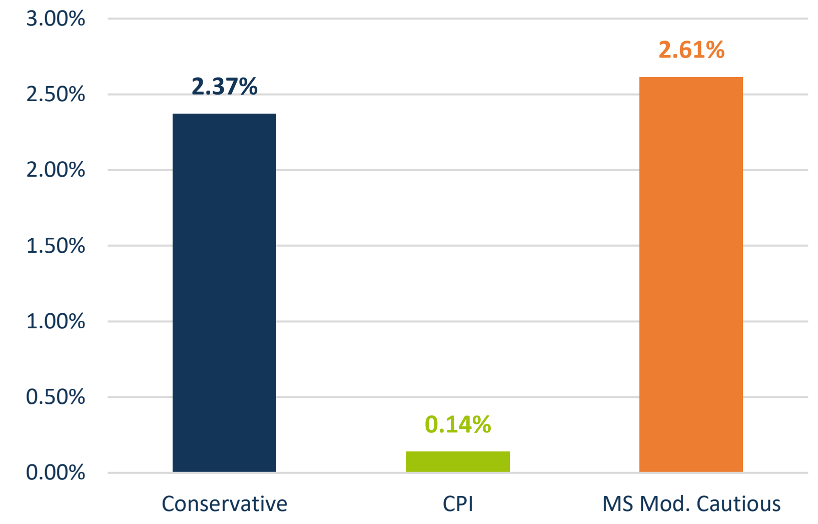
During the period, the top contributors unsurprisingly included our sovereign positions in both gilts and US Treasuries, with a stellar +7.61% return from our 20-year Treasuries, as well as our star credit manager Man GLG Sterling Corporate Bond. Our passive US equity position in Invesco S&P 500 ETF also performed well supported by not only rate cuts but broadly a weakening US dollar versus the UK pound.

Performance[1]





Q3 Returns[2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	3.30%	1.32%	+0.02%
Government	28.20%	2.77%	+0.86%
Credit	26.28%	3.72%	+0.85%
UK	4.04%	2.73%	+0.09%
N. America	11.47%	3.39%	+0.38%
Europe	2.97%	0.85%	+0.02%
Japan	2.10%	4.55%	+0.09%
Asia & Emerging	4.52%	3.11%	+0.11%
Thematic	1.76%	4.84%	+0.08%
Alternatives	15.36%	-0.25%	-0.14%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
iShares Core UK Gilts ETF GBP	13.09%	+2.31%	+0.47%
iShares $ Treasury Bond ETF GBPH	6.01%	+4.60%	+0.31%
Invesco S&P 500 ETF GBP Hedged	5.58%	+5.70%	+0.31%
iShares $ Treasury Bond 20+ years ETF	2.96%	+7.61%	+0.29%
Man GLG Sterling Corporate Bond	4.19%	+5.06%	+0.21%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 30/09/2024. 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 30/09/2024. [2] Data for the period 30/06/2024 to the 30/09/2024. * 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.

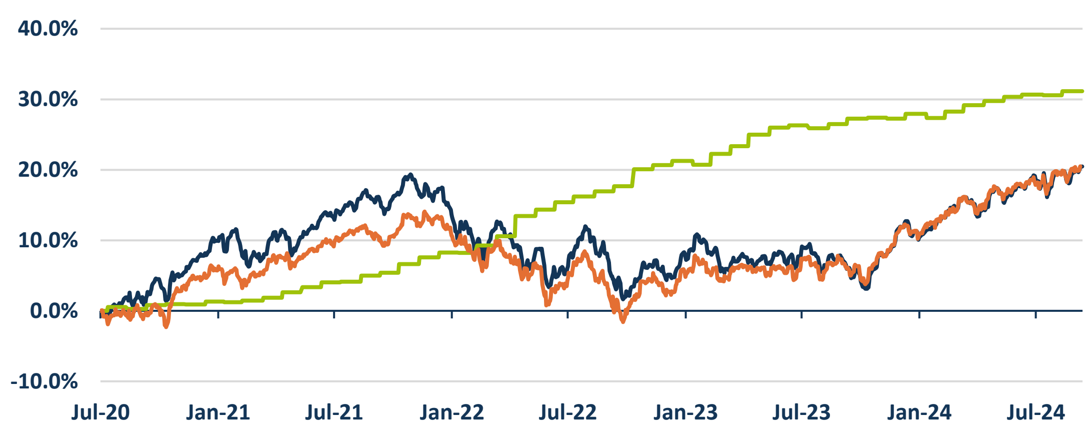
VT Astute
Balanced

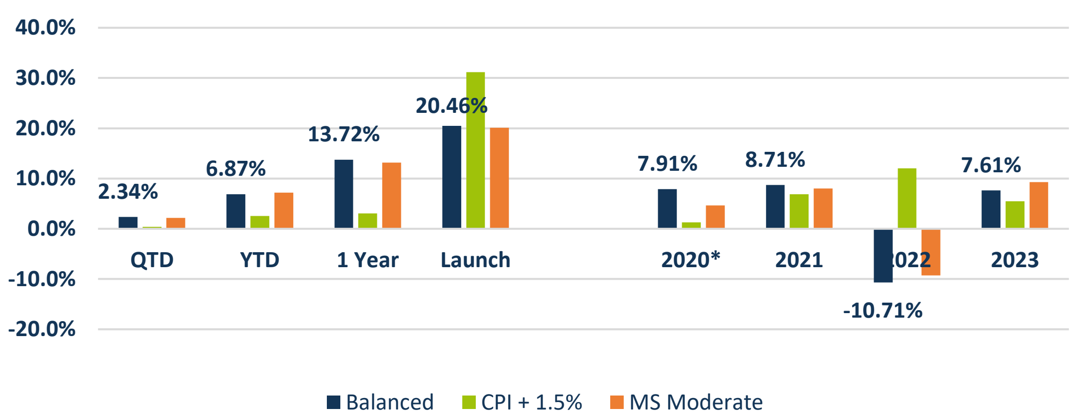
During the third quarter, the Balanced fund marginally outperformed its benchmark but notably exceeded its inflation target. The fund delivered positive gains across most components, but the primary outperformance was generated by our US equity positions, particularly those with a small to mid-cap bias.

As inflation shows improvement globally, markets have swiftly priced in multiple rate cuts throughout 2024, continuing into 2025, leading to a sharp decline in global yields. This trend greatly benefited our fixed income holdings, particularly those with longer durations, which are more sensitive to interest rate changes. Our equity managers also achieved significant gains, bolstered by an overweight in small to mid-cap stocks, as lower rates tend to reduce their debt burdens more significantly compared to larger-cap companies.

Given the positive returns from equities globally, the top contributing funds included both our passive S&P 500 holding and our newly purchased M&G Global Emerging Markets fund which rose by almost +8%. The fact that both the market cap weighted and the equal weighted made it into the top performing funds shows this recovery has spread out from just the usual “Magnificent Seven” stocks.

Performance[1]





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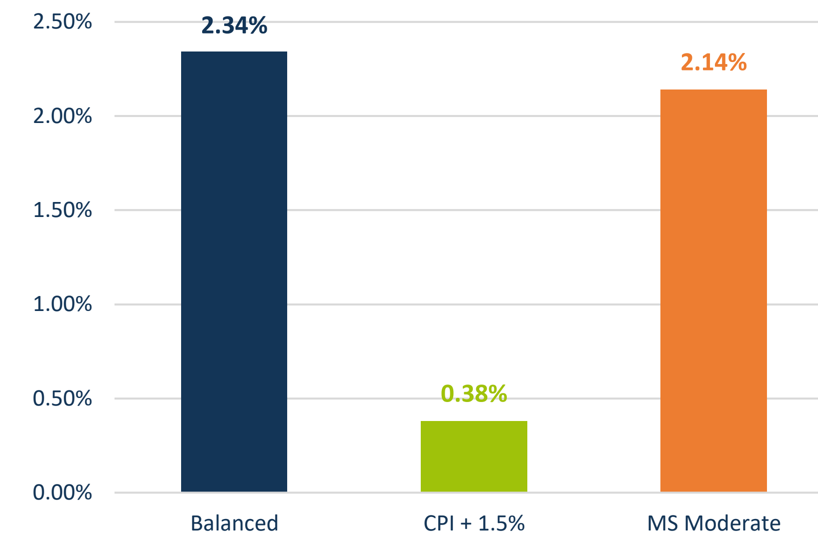


Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	3.02%	1.32%	0.00%
Government	15.28%	2.68%	+0.53%
Credit	17.19%	3.91%	+0.57%
UK	7.04%	2.70%	+0.16%
N. America	23.15%	2.82%	+0.50%
Europe	5.42%	1.45%	+0.07%
Japan	4.73%	4.14%	+0.18%
Asia & Emerging	9.04%	3.95%	+0.29%
Thematic	2.24%	4.78%	+0.10%
Alternatives	12.89%	-0.18%	-0.09%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
Invesco S&P 500 ETF GBP Hedged	8.17%	+5.70%	+0.44%
iShares $ Treasury Bond 20+ years ETF	2.99%	+7.61%	+0.29%
iShares Core UK Gilts ETF GBP	7.06%	+2.31%	+0.25%
M&G Global Emerging Markets	2.98%	+7.58%	+0.22%
iShares S&P 500 Equal Weight ETF USD	3.98%	+3.15%	+0.17%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 30/09/2024. 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 30/09/2024. [2] Data for the period 30/06/2024 to the 30/09/2024. * 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.

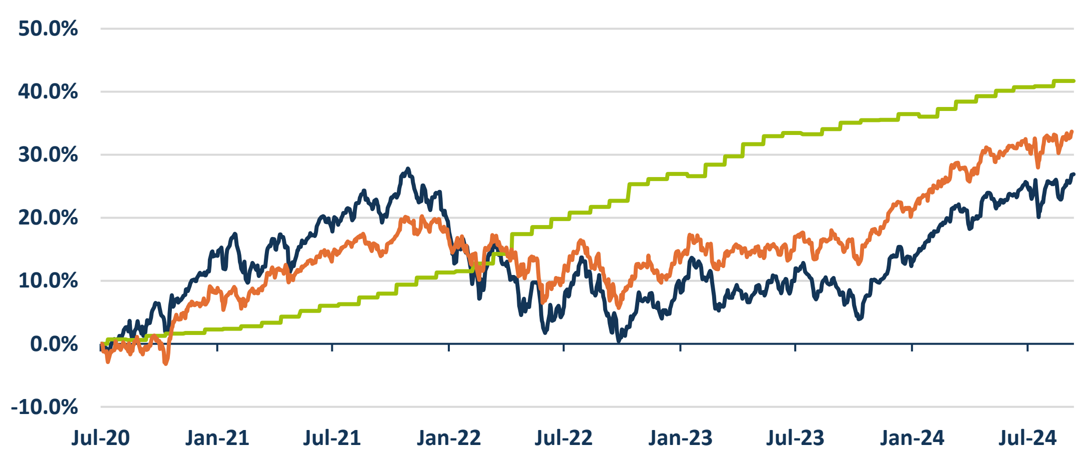
VT Astute
Growth

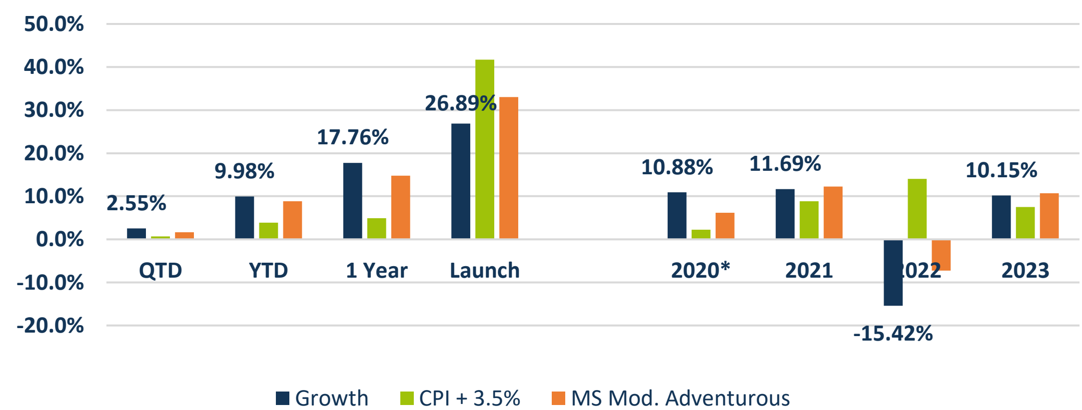
Given global equities performed strongly, the Growth fund outpaced both its market comparator and inflation this quarter. Positive returns were generated across the entire portfolio, but the outperformance was primarily driven by our US equity exposure and an overweight to smaller-cap names.

With inflation showing significant improvement worldwide, markets have swiftly factored in several interest rate cuts throughout 2024, extending into 2025, leading to a sharp decline in global yields. This development greatly benefited our fixed income positions, especially those with longer durations, which are more sensitive to rate changes. Our equity managers also achieved strong gains, bolstered by an overweight allocation to small and mid-cap stocks, as falling rates ease their debt burden more than that of larger-cap companies.

As we envisioned growth is slowly beginning to broaden out as rate cuts come through and thus our top contributing funds includes both the Invesco S&P 500 ETF and the Equal Weighted version. Our newly purchased emerging market manager also performed well supported by his China exposure whilst our 30-year UK Gilt delivered positive gains supported by the expectations of further rate cuts from the Bank of England.

Performance[1]





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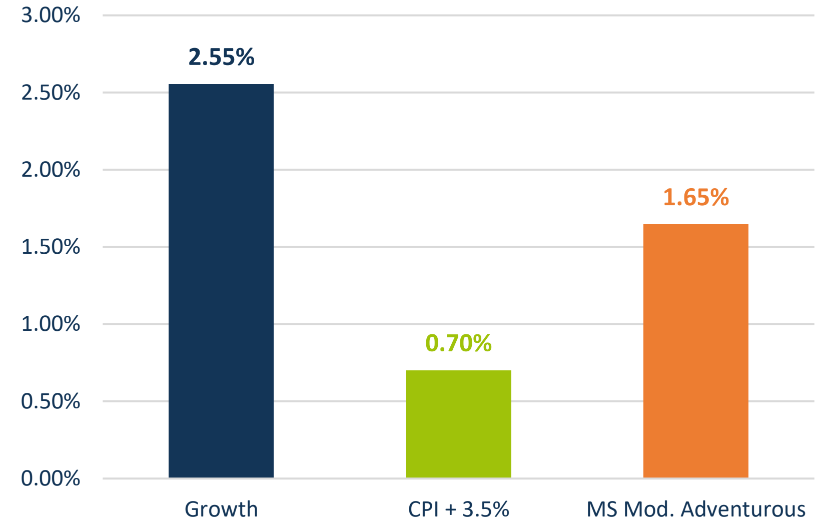

Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	2.48%	1.32%	+0.02%
Government	3.54%	3.02%	+0.09%
Credit	3.90%	4.74%	+0.15%
UK	12.11%	2.75%	+0.26%
N. America	36.99%	3.20%	+0.88%
Europe	10.06%	1.48%	+0.12%
Japan	7.06%	4.01%	+0.23%
Asia & Emerging	13.96%	4.12%	+0.44%
Thematic	4.96%	4.77%	+0.20%
Alternatives	4.94%	2.39%	+0.10%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
Invesco S&P 500 ETF GBP Hedged	15.17%	+5.70%	+0.88%
iShares S&P 500 Equal Weight ETF USD	6.96%	+3.15%	+0.30%
iShares MSCI EM SRI ETF USD	6.42%	+6.20%	+0.29%
M&G Global Emerging Markets	2.93%	+7.58%	+0.21%
UK Gilt 4.375% 31/07/2054	3.54%	+3.08%	+0.17%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 30/09/2024. 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 30/09/2024. [2] Data for the period 30/06/2024 to the 30/09/2024. * 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

INVESTMENT MANAGEMENT LTD