Q4 2024

ASTUTE

INVESTMENT MANAGEMENT

Quarterly Commentary.

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Introduction.

Happy New Year and thank you for taking the time to read our Q4 commentary. 2024, the year of politics, is finally behind us and it was a positive year for the funds. Now we have to deal with the results of all that change. Trump will dominate the narrative, creating more uncertainty, and so we expect markets to be more volatile from here. Europe and emerging economies have their own issues and will have to battle whatever changes emerge from the new US administration. Our cautious optimism persists, but we have to concede that more extreme outcomes, both good and bad, are more likely in this new phase of political leadership.

With the US market dominating headlines and markets, our CIO letter ponders how to balance the risks in a world of diverging opinion and stay focused on what really matters.

In our Astute Observations section, we seek to challenge some of the prevailing views on two important topics: will Trump create more inflation? And is the UK worth investing in anymore?

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.

Putting the financial plan at the heart of our process means our investment philosophy is built intentionally to deliver on your long-term objectives, providing a truly joined up approach between advice and investments.

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.

Scott Osborne
Chief Investment Officer

Hannah Owen
Head of Group Communications

Nathan Chan
Senior Investment Analyst

Cordelia French
Junior Investment Analyst

Thinking Differently.

Happy New Year to all our readers. Hopefully the haze of the Christmas season has passed and normality, whatever that means to you, has been restored. This time every year market commentary is focused on "the year ahead". The fact that most of them were penned in November and are already out of date by the time they are consumed somewhat undermines the exercise in my mind, but the industry persists anyway. I usually find it more interesting to look back at the previous year and remind myself of the futility of short-term predictions.

It is fair to say however, that 2024 was another good year for markets, and for the Astute funds. We once again outperformed our benchmarks and our peers, delivering 4.7%, 7.7% and 11.8% for the Conservative, Balanced and Growth funds respectively. In very broad terms this performance was built on our cautious optimism about the global economy and the downward path of inflation. While that has helped deliver strong returns to our investors, the manner in which they arrived, particularly the concentration within the so called "magnificent 7" US mega stocks, leaves me somewhat frustrated. I'm not contrarian by nature, but I find myself increasingly challenging the prevailing views.

Speaking of which, we have two short pieces in our Astute Observations this quarter, both challenging pessimism: firstly, around Trump-induced inflation and secondly around the UK economy. Trump will clearly be a wildcard this year and I won't waste my valuable word limit guessing what his plans are. Some things are inevitable: Republicans will argue over spending limits, Trump will sack staff on a regular basis, and a lot of golf will be played. In terms of actual plans though, he probably doesn't know himself. Having said that, I doubt they involve annexing Greenland… but I wouldn't rule it out. That sums up our approach to Trump this year. Nothing is real until it has actually happened and almost anything can happen. Be prepared to react but don't overreact.

In the UK we have a firmer ground, valuations are much more attractive, but it is sentiment which remains elusive. Labour's budget front loaded the bad news for businesses and all the good stuff, more spending and higher wages, will take time to hit the economy. The economy needs to shake off the blues somehow or the negativity will stop consumers spending, even when they have more money in their pockets. Even modest growth here, however, would be enough to deliver strong returns for domestic companies.

Our positioning has for some time been based around broader growth and a wider set of winners, typically mid and smaller companies more sensitive to the "real" economy. This value has still not been recognized and not just in the UK. If anything, the gaps between the few big US winners and everything else have grown, the rising tide simply lifted all boats last year. This pattern makes me more uncomfortable writing my look ahead for 2025 than I did writing it for 2024. The stonking returns from a tiny number of the world's largest stocks has led to a certain degree of herding and groupthink. It's so painful to not participate in the rally that even the most sceptical managers are giving in. After all, if the bubble pops you're only in the same boat as most of the market. The "career" risk is in being wrong in the good years.

The same is true for us of course, but while we always want to outperform the markets we invest in, our main focus is risk management in order to reliably achieve our clients' investment objectives. We do worry about a bubble in valuations in the US and it keeps us underweight that area, but we also worry about missing another double-digit year of growth, so we're not going to avoid it completely. Our job is to balance those risks, and if we can find sufficient returns with less risk, we will always take that path. It's often harder, requires more work and rarely feels comfortable but I firmly believe it is the only way to consistently deliver the best risk adjusted returns.

Forget benchmarks, "alpha", markets and everything else, the best service we can provide is peace of mind for our clients. By taking a long-term view and aligning our objectives directly with our investors, we aim to deliver that security to your financial plan. So, whatever happens this year, we will always be working tirelessly to achieve your goals.

S. Osborne

S Osborne, PhD CFA
Chief Investment Officer

Astute Observations.

Shopping in the Discount Isles

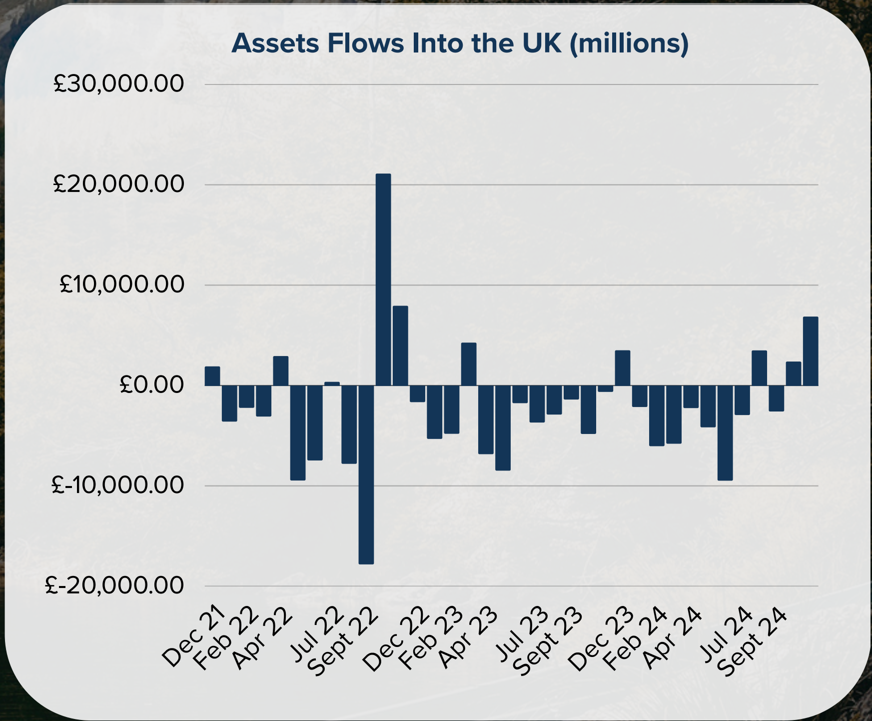
While Britain will always keep its boastful title as the largest island in the archipelago, the UK equity markets have been anything but "great". That title has once again been awarded to the US, with the world's largest tech companies glittering like jewels in a crown. However, as we enter 2025, the gap between the two has become so stretched that we can see plenty of reasons the market might correct somewhat as investors re-assess positioning (see the inflows chart).

Looking at many key metrics today, the UK equity market is cheap. The P/E (price to earnings) ratio for the FTSE All Share closed out the year at 11.3x, lower than the average this century of 13.8x, and significantly lower than over 27x in the US in December. The lower the number, the lower a share costs for a given level of earnings, an indication that the UK is cheap. Often, assets are cheap for good reason. For example, who wants mince pies in January? But occasionally, you can pick up a bargain on sale.

The UK economic picture has improved, as inflation sits well below its 2021-23 levels and the Bank of England gears up to cut rates this year. The OBR forecast positive 2% growth for 2025 which should be a boon for markets. 2% may sound low, but globally the bar for 2025 GDP growth for advanced economies is low.

UK companies are likely to benefit from the government's recent capital expenditure announcements. In the Autumn Budget, the Labour government committed to a £100billion boost in capital investment over the next 5 years, spending in the areas of transport, housing, and research and development. This is a huge boost for UK companies coming into 2025.

So, whilst we don't have an overweight position to the unloved UK, we are comfortable with our holdings here. Furthermore, if the right opportunity presents itself, we may well go shopping in the new year sales.



Sources: JP Morgan Asset Management, World PE Ratio, OBR, House of Commons, Refinitiv Lipper. Chart data from December 2021 to November 2024.
Past performance is not a reliable indicator of future results.

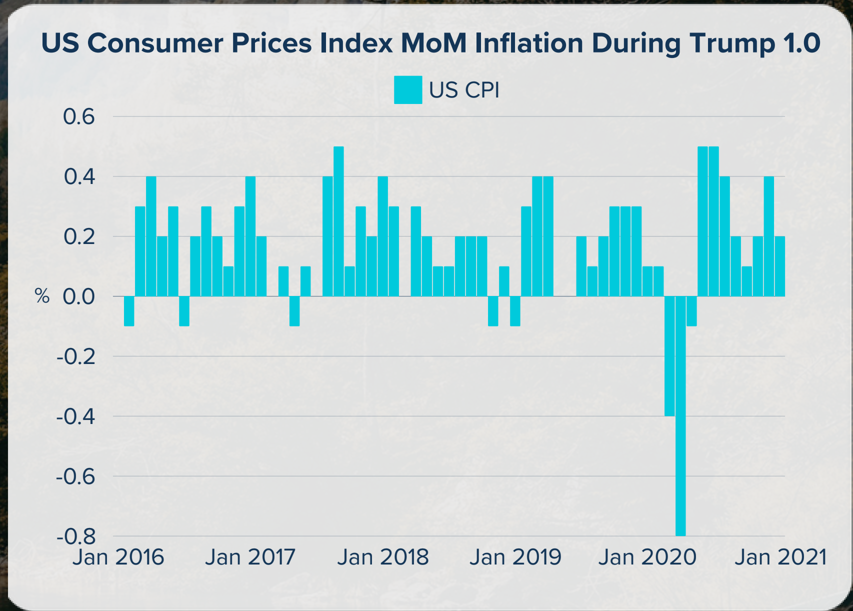
Astute Observations.

The Marmite Effect

Trump's return to the political stage has stirred global markets, reigniting what some call the "Trump Trade". Just like the famous Marmite slogan, "you either love it or hate it," Trump's policies also polarise opinions. His growth agenda and market-friendly proposals, such as extending corporate tax cuts and slashing regulation, have buoyed equity markets, but unfortunately not without its caveats. A key concern is the inflationary impact of his policies and spending plans, which have led to rising global yields, but while some see these initiatives as inflationary, the reality may not be so straightforward.

For instance, 'tariffs' was one of the major policies that Trump was proposing from day one, with headline-grabbing figures like "100% tariffs on Mexico unless it cracks down on its border crossing". However, tariffs should only ever be a one-off inflationary shock, and thus shouldn't significantly influence the Fed's rate decisions, unless accompanied by sustained monthly inflation spikes. The chart on the right shows that monthly US CPI during his first term supports this pattern. Headline figures are distorted by base effects and thus less relevant in this context.

Market pricing currently seems to assume other nations won't retaliate against Trump's tariffs. Yet history from "Trump 1.0" proves otherwise: China, Canada, and the EU responded swiftly, targeting products like pork and raw materials. This tit-for-tat dynamic could disrupt trade flows, leading to higher import costs and diminished export levels. While some trade might re-route to other regions, overcapacity and inefficiency are likely deflationary outcomes as domestic economies are unable to absorb the extra supply. (continued over the page)



Sources: US Bureau of Labor Statistics as at 30/11/2024. MoM = month on month.

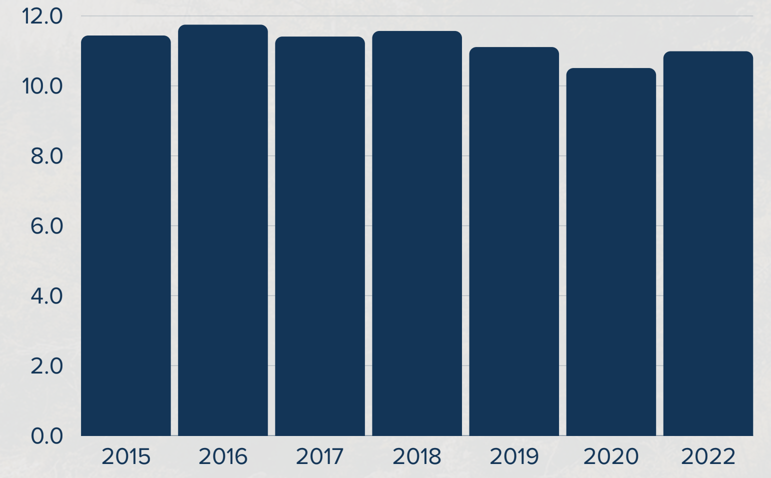
The Marmite Effect (continued)

Trump's tough stance on immigration was also marked as an inflationary card, with markets bracing for wage inflation, driven by a tighter labor supply. However, the flipside is often overlooked: deporting close to 11m unauthorised immigrants also removes them as consumers, who contribute to the demand for housing, food, and utilities, for example. This disinflationary effect on goods and services should help to offset wage inflation, if any. Moreover, higher import costs due to tariffs may actually prompt companies to cut jobs to protect bottom lines, which will further dampen inflationary pressures.

With companies potentially facing higher input costs, absorbing the increase might mitigate any inflation effect. Deregulation may boost corporate cash flows, but spending less on compliance is just another way of cutting someone else's income, and therefore it's hard to conclude with certainty that there would be a large net inflationary impact. Economists largely agreed that tariffs in Trump's first term hurt the US economy more than they helped, and thus they may only serve as bargaining chips this time round rather than effective economic tools.

Amid the economic debates, there still lies a lot of uncertainty regarding the timeline on what he can do and at what point of the term he'll manage to achieve it. Not to mention his spending is contradictory to Secretary Bessent's plans to cut the budget deficit, which has bought most of the US's growth. So, whilst his policies do generate significant market buzz, markets may be overestimating their impact. Just as during Trump's first presidency, the effects of tariffs and other measures may be more bark than bite.

US Unauthorised Immigrant Population (Millions)



Sources: Office of Homeland Security Statistics as at 18/04/2024.

Astute Perspective.

UK - Neutral
UK markets lacking support to drive a persistent rally
Prefer smaller companies with growth opportunities

N. America - Neutral/Underweight
Crushing other markets but very stretched
Trump will define the economic outlook

Europe - Neutral
ECB will continue to ease financial conditions
Difficult politics but could lead to fiscal loosening

Japan - Neutral/Overweight
Return of inflation a positive sign
Good source of untapped value but currency volatile

Asia and Emerging - Overweight
Is tariff uncertainty delaying more China stimulus?
US trade policy will drive returns with a stronger dollar a headwind.

Asset Class Views

A key pillar of our investment process is driven by our asset class views, something which we keep under review. The scale below shows how we currently feel about each asset class, which is reflected in our underlying investments.

Alternatives

Fixed Income

Sovereign Bonds

Corporate Bonds

High-yield bonds

EM Debt

Equites

UK

Europe

Asia & Emerging

Japan

USA

Astute Positioning.

Despite heightened levels of market volatility, the year concluded with another positive quarter, driven by resilient economic fundamentals and renewed enthusiasm for the so-called “Trump Trade”. In contrast to the flurry of headlines from the numerous potential turning points, such as the UK budget, the US election and the Federal Reserve’s Summary of Economic Projections in December (all of which serve as key indicators for growth in 2025) activity within our funds remained relatively subdued. This was largely because our holdings performed as expected, but also the risk to reward balance of adjusting allocations ahead of significant macro uncertainties was just not favourable and something we tend to avoid if possible.

During October, there was no activity within the funds apart from a minor adjustment to the weights of two real estate investment trusts Starwood European Real Estate and Aberdeen Standard European Logistics. Both of these trusts were already in the process of realisation but the adjustment was made to reflect the money that is paid back to shareholders once the underlying assets are sold. Given that we were still happy with our asset allocation at the time, the proceeds remained in cash.

As we headed into November and the result of the US election was nearing, the anticipation that a Trump return to the White House would be highly inflationary drove global yields to surge higher and led us to revaluate our sovereign bond exposure. The final decision to favour UK government bonds over US government bonds stemmed from the dislocation of yields from the fundamentals. Whilst better economic data and the spending from Rachel Reeve’s Autumn budget were reasonable explanations for less rate cuts and thus higher yields, we felt this move was overdone given the US economy was in a much more commanding position than the UK economy. Thus, with UK government bonds now offering a 20 basis point premium over US government bonds, this provided us with a great opportunity to capitalise on higher potential returns as 20 year gilts were offering a 5% yield.

Mid November, a Natixis structured product that we bought almost 2 years ago matured and produced a healthy 20% return over that period. The proceeds were all invested into a cash product to generate a small return ahead of pending trades. As we rounded off November, we made our first and only real change to asset allocation as we assessed the potential implications of a Trump 2.0, and what this would mean for the risks within the portfolios, not only from the first but second order effects too.

With Trump threatening almost every region with tariffs ranging from 20% to 100%, the deportation of millions of immigrants, and many other controversial policies, we felt the probability of an outlier risk occurring had increased to both the US economy and several Emerging Market economies, particularly China. Given this outlook, we took the decision to pare back our tactical risk within the portfolios, by reducing our overweight to Emerging Markets and adding further exposure to the US to reduce our underweight. We did however choose to add to the S&P 500 equal weight as relative valuations are still heavily in favour of smaller to mid-cap stocks, an area where we believe the potential for superior growth to lie going forward. Switching from the iShares product into the L&G product allowed us to take advantage of a significant fee discount.

Whilst markets have continued to proceed in a ‘party on’ mode, the question still remains on whether the party has just started, or whether the music has started to slow already. We continue to remain cautiously optimistic heading into the New Year given the number of possible exogenous events, but we’re confident that we are positioned well to generate returns if markets continue to perform well, alongside sufficient enough protection to offset against more of those potential negative scenarios.

Fund Activity

New Purchase

UK Gilt 4.75% 22/10/2043	Con / Bal / Gro
L&G S&P 500 US Equal Weight	Con / Bal / Gro

Top Up

UK Gilt 4.25% 07/12/2040	Con

Trim

Starwood European Real Estate	Con
Aberdeen European Logistics	Gro
Polar Capital EM Market Stars	Con
iShares S&P 500 Equal Weight	Con / Bal / Gro
iShares MSCI EM SRI ETF	Bal / Gro

Sold

iShares $ Treasury Bond ETF GBPH	Con / Bal
Natixis Structured Product	Bal / Gro
Tritax EuroBox	Con / Bal

Con = Conservative, Bal = Balanced, Gro = Growth

Sources: Astute Investment Management as at 31/12/2024. Past performance is not a reliable indicator of future results.

VT Astute Conservative.

The Conservative fund underperformed both inflation and its market comparator this quarter. This underperformance was largely driven by our highly rate sensitive UK Government bonds, which struggled to deliver returns under a rising yield environment. The preference for smaller companies in the US over their larger cap counterparts also exacerbated relative losses.

The return of Trump and generally looser fiscal plans from most developed regions has raised concerns that inflation may be stickier than expected. This caused global yields to surge higher despite ongoing rate cuts as markets significantly pared back their expectations for 2025. Our highly rate sensitive UK Government bonds suffered as a consequence although our credit manager helped offset these losses through the narrowing of credit spreads and positive credit selection.

During the period, the top contributors featured several of our US holdings with our passive US equity position in L&G performing strongly with a return of +9.95% supported by the usual selection of popular tech names. Other contributors include Blackrock European Absolute Alpha who delivered a small positive gain despite falling European markets.

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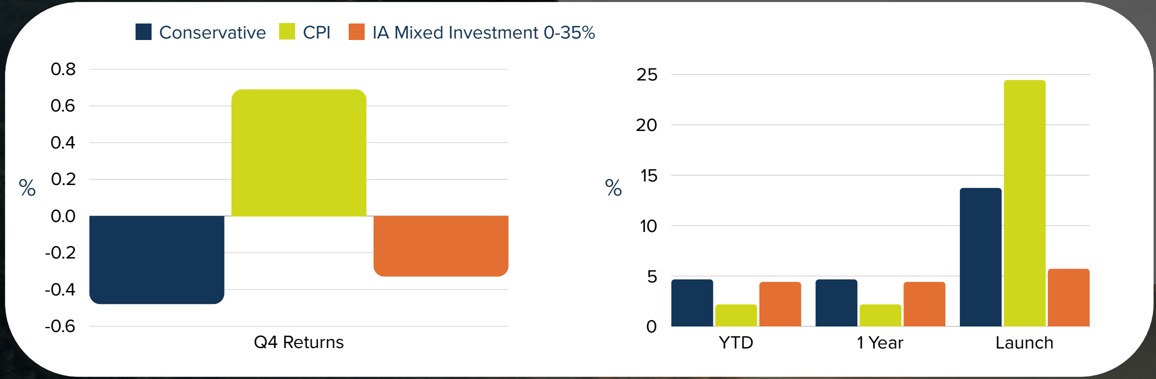
Performance



Asset Classes

Asset Classes	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	3.28%	1.24%	+0.03%
Government	26.89%	-3.90%	-1.17%
Credit	28.12%	0.78%	+0.07%
UK	4.00%	-1.96%	-0.06%
N. America	12.23%	6.03%	+0.69%
Europe	2.97%	-3.96%	-0.12%
Japan	1.99%	0.27%	+0.05%
Asia & Emerging	4.41%	-2.83%	-0.13%
Thematic	1.02%	-0.56%	-0.01%
Alternatives	15.08%	1.43%	+0.16%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
L&G US Equity	3.57%	+9.95%	+0.40%
Invesco S&P 500	5.56%	+2.28%	+0.24%
Blackrock European Absolute Alpha	7.04%	+3.43%	+0.24%
iShares S&P 500 Equal Weight	1.88%	+4.98%	+0.14%
Lazard US Small Cap	1.04%	+5.98%	+0.10%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2024. 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. Launch data is for the period 20/07/2020 to 31/12/2024. 1 year data is for the period 31/12/2023 to the 31/12/2024. Contribution to return may not sum to the total return due to rounding and averaging.

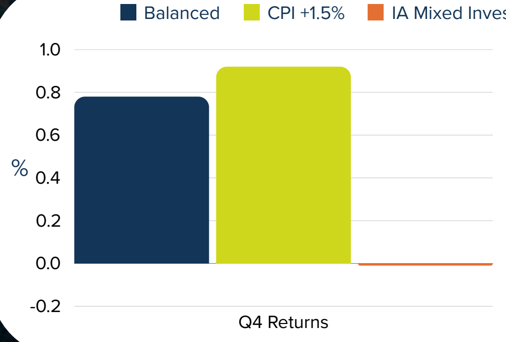
VT Astute Balanced.

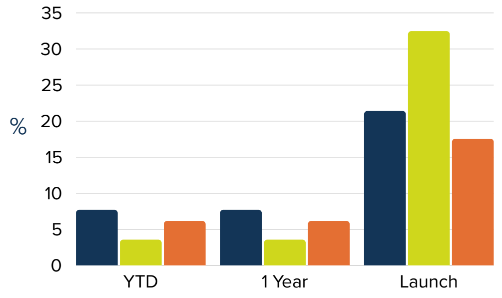
During the fourth quarter, the Balanced fund marginally underperformed inflation but notably exceeded its market comparator. Whilst returns across the board were a rather mixed bag, the outperformance was primarily generated via our strong global credit managers alongside our decision to underweight Europe in favour of Japan.

The return of Trump and generally looser fiscal plans from most developed regions has raised concerns that inflation may be stickier than expected. This caused global yields to surge higher despite ongoing rate cuts as markets significantly pared back their expectations for 2025. This caused our UK government bonds to fall particularly those with a longer duration i.e., a higher sensitivity to rates. Our equity managers generally performed in-line with peers but the preference to overweight small to mid-caps, where we believe the superior growth opportunities to be, remained a drag across the board.

Given the standout returns from the US, the top contributing funds all feature our US holdings with particularly strong returns from Baillie Gifford American and Lazard US Small Cap. The partial realisation of value in the smaller to mid-cap space in some areas has been very beneficial for fund performance and also gives us an indication of the potential recovery in the quarters to come.

Performance





Asset Classes

Asset Classes	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	2.54%	1.24%	+0.03%
Government	14.18%	-4.57%	-0.72%
Credit	17.95%	0.96%	+0.13%
UK	7.01%	-1.88%	-0.09%
N. America	24.51%	7.42%	+1.76%
Europe	5.49%	-3.96%	-0.20%
Japan	4.77%	0.43%	+0.13%
Asia & Emerging	8.96%	-2.57%	-0.21%
Thematic	1.51%	-0.56%	-0.01%
Alternatives	12.10%	-0.15%	-0.04%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
L&G US Equity	7.89%	+9.95%	+0.86%
Invesco S&P 500	8.18%	+2.28%	+0.36%
iShares S&P 500 Equal Weight	3.77%	+4.98%	+0.28%
Baillie Gifford American	1.61%	+19.75%	+0.28%
Lazard US Small Cap	2.62	+7.72%	+0.25%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2024. 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. Launch data is for the period 20/07/2020 to 31/12/2024. 1 year data is for the period 31/12/2024 to the 31/12/2024. Contribution to return may not sum to the total return due to rounding and averaging.

VT Astute Growth.

With the exception of the US, global equities broadly struggled this quarter, but the Growth fund outpaced both its market comparator and inflation over the period. Despite being a small weight, it was our global credit managers that drove most of the outperformance alongside our decision to overweight Japan at the expense of Europe.

The return of Trump and generally looser fiscal plans from most developed regions has raised concerns that inflation may be stickier than expected. This caused global yields to surge higher despite ongoing rate cuts as markets significantly pared back their expectations for 2025. This was particularly painful for our UK government bonds with a longer duration i.e., a higher sensitivity to rates. Our equity managers generally performed in-line with peers but the preference to overweight small to mid-caps, where we believe the superior growth opportunities to be, remained a drag across the board.

As US exceptionalism continues to dominate with an almost 10% return, our top contributing funds were all holdings from our US component with our mid-cap growth manager Baillie Gifford performing the best with a +19.75% return. Whilst small to mid-cap exposure in general is still somewhat undervalued, these returns do show the potential returns when some of the intrinsic value starts to be realised.

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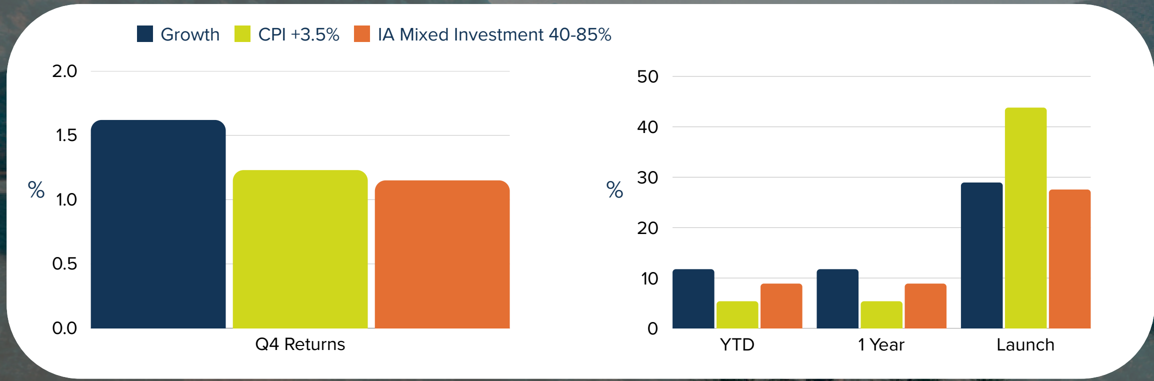
Performance



Asset Classes

Asset Classes	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	2.53%	1.24%	+0.02%
Government	3.88%	-7.81%	-0.38%
Credit	3.85%	2.01%	+0.06%
UK	11.93%	-1.94%	-0.17%
N. America	39.01%	7.05%	+2.67%
Europe	9.98%	-3.99%	-0.38%
Japan	7.16%	0.43%	+0.19%
Asia & Emerging	13.89%	-2.37%	-0.30%
Thematic	3.52%	-0.56%	-0.03%
Alternatives	4.26%	-1.37%	-0.06%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
L&G US Equity	9.74%	+9.95%	+1.07%
Invesco S&P 500	15.80%	+2.28%	+0.71%
Baillie Gifford American	3.16%	+19.75%	+0.54%
iShares S&P 500 Equal Weight	6.33%	+4.98%	+0.52%
Lazard US Small Cap	3.13%	+7.72%	+0.30%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2024. 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. Launch data is for the period 20/07/2020 to 31/12/2024. 1 year data is for the period 31/12/2024 to the 31/12/2024. Contribution to return may not sum to the total return due to rounding and averaging.

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