VINTAGE
ASSET MANAGEMENT

Vintage Asset Management – MPS update 2021 Q1

Market background

Equity markets started 2021 with the degree of optimism that was a feature of the fourth quarter of 2020, in response to the prospect of an economic recovery boosted by the launch of vaccines against the coronavirus Covid-19. This has been tempered in part by a resurgence of incidences in the virus and its new variants, which have prompted further restrictions. Markets also reacted positively to the election of Joe Biden as the new president in the US as well as the UK's agreement on a deal of sorts to leave the European Union. The IMF has forecast that global economic growth will exceed 5% in 2021 which will make up for the previous decline and will owe much to those countries in Asia which have been quicker to bring the pandemic under control. Governments have benefitted from low interest rates to provide further substantial packages of support, but the debt will still need to be addressed. The low level of interest rates has driven a search for yield and has helped to underpin equity valuations, which have looked somewhat stretched in areas.

Asset allocation

We have maintained our approach of trusting in the longer-term potential of interesting positions that should offer resilience as well as future growth. While mindful of potential volatility we have kept the holdings in cash and equities at broadly long-term neutral position. Our latest quarterly investment committee agreed to tighten the ranges for bonds, equities and to an extent cash, whilst still maintaining flexibility.

We have reduced the fixed income exposure, particularly government bonds which have relatively limited prospects. Within equities we have added to Asia, which offers growth potential, and in the UK we see scope from the lifting of much uncertainty over Brexit for a re-rating of the market from its relatively modest valuation levels.

Within alternatives we have adjusted how we classify certain holdings, including the funds with a target return into a broader absolute return sector (and increasing the overall proportion) as well as combining property and infrastructure into a single grouping. The balance comprises the likes of commodities, private equity and digital assets.

The asset allocation for each mandate and their ranges are now**:**

Mandate		**Bonds**	**Equities**	**Alternatives**	**Cash**
Cautious	*Range*	*40 - 60%*	*15 - 35%*	*10 - 30%*	*0 - 25%*
	Current	40%	22.5%	30%	7.5%
Cautious Balanced	*Range*	*30 - 50%*	*25 - 45%*	*10 - 30%*	*0 - 25%*
	Current	32.5%	35%	27.5%	5%
Balanced	*Range*	*20 - 40%*	*40 - 60%*	*10 - 30%*	*0 - 20%*
	Current	25%	47.5%	22.5%	5%
Balanced Growth	*Range*	*10 - 30%*	*50 - 70%*	*10 - 30%*	*0 - 20%*
	Current	17.5%	57.5%	22.5%	2.5%
Growth	*Range*	*0 - 20%*	*60 - 80%*	*10 - 30%*	*0 - 20%*
	Current	10%	67.5%	20%	2.5%

Portfolio changes

We have adjusted allocations increasing the portfolio exposure to equities and alternatives whilst reducing the amount in fixed income. The increase in equities included adding to our existing holdings in the UK, Asia and Emerging Markets while within alternatives we added a multi-asset fund with a steady long term track record. For fixed income we reduced the exposure to US Treasuries. We reduced the cash position modestly for Cautious, Cautious Balanced and Balanced Growth portfolios.

We made the following changes in the re-balancing of model portfolios on 26th January.

Purchases and increased weightings:

Fidelity Emerging Markets – increased position for Balanced, Balanced Growth and Growth to benefit from higher growth levels in Emerging Markets;

JP Morgan Emerging Markets Income – new position for Cautious and Cautious Balanced to gain exposure to the asset class with potentially less volatility;

Baillie Gifford Japanese Income Growth – increasing exposure for Balanced, Balanced Growth and Growth to attractive sectors within the Japanese market;

Man GLG Income – increased position across the portfolios to take advantage of underappreciated assets within the UK market;

CG Absolute Return – new position with a multi-asset manager with a strong track record focused on generating real returns with lower volatility; and

Threadneedle UK Smaller Companies – new position for Balanced and increased positions for Balanced Growth and Growth to benefit from the potential in the UK.

Sales and reduced weightings:

Vanguard US Government Bond Index – sold or reduced given its sensitivity to a rise in rates; and

Henderson UK Absolute Return – sold from Cautious Balanced to concentrate exposure in other absolute return positions.

Switches

Ninety One Global Energy to BlackRock World Energy – keeping sector exposure given a change of focus at Ninety One.

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