VINTAGE
ASSET MANAGEMENT

Vintage Asset Management Managed Portfolio Service (MPS)

Quarterly update - August 2021

Market background

The second quarter of 2021 saw continued progress in most equity markets given the strength of the economic recovery and a degree of stability in bond markets. There remained concerns over the persistence of the coronavirus and the challenge from a higher rate of inflation in particular.

The International Monetary Fund has forecast global economic expansion of 6% in 2021, which follows a contraction of 3.3% in 2020 that was less than first feared. One factor in the forecasts for robust growth has been increasing consumer spending as lock-downs were lifted following a period of restrictions, during which the rate of saving soared, at least among the wealthier. The limited number of company defaults during the pandemic has also helped banks, which are able to provide more credit from their balance sheets. Central banks have maintained their support yet there has been a shift in expectations on interest rates as the rate of inflation increased. The central banks still see such inflation as transitory, reflecting low comparatives in 2020 and with the pressure easing if the pace of economic growth becomes more fitful later in 2021. The US Federal Reserve has now indicated that it expects to raise interest rates not in 2024 but a year earlier.

The market expectation has remained that any such rate rises will be quite modest and bond markets saw greater stability as yields moved lower. The current quarter has seen a continued focus on inflation as well as the rotation by investors into or out of more cyclical or inflation-sensitive sectors. Business profits have been robust, although recently the Chinese government has provided a challenge to some sectors.

Asset allocation

We have maintained our asset allocation ranges and neutral positioning. We still consider the outlook as supportive of risk assets such as equities, although valuations are high in some areas of the market. We adjusted the asset allocation for the Cautious mandate if marginally to maintain an alignment in the strategy to its risk profile, with an increase in cash and bonds from a reduction in equities and alternatives.

Mandate		**Bonds**	**Equities**	**Alternatives**	**Cash**
Cautious	*Range*	*40 - 60%*	*15 - 35%*	*10 - 30%*	*0 - 25%*
	Current	42.5%	23%	25.5%	9%
Cautious Balanced	*Range*	*30 - 50%*	*30 - 50%*	*10 - 30%*	*0 - 25%*
	Current	32.5%	40%	22.5%	5%
Balanced	*Range*	*20 - 40%*	*45 - 65%*	*10 - 30%*	*0 - 20%*
	Current	22.5%	55%	17.5%	5%
Balanced Growth	*Range*	*10 - 30%*	*60 - 80%*	*5 - 30%*	*0 - 20%*
	Current	12.5%	67.5%	17.5%	2.5%
Growth	*Range*	*0 - 20%*	*70 - 90%*	*0 - 25%*	*0 - 20%*
	Current	7.5%	77.5%	12.5%	2.5%

Portfolio changes

The changes to portfolios were minimal in the second quarter. We added a new holding in the River & Mercantile UK Smaller Companies fund as part of a switch and we sold the Artemis US Absolute Return fund. We incorporated these changes in the re-balancing of model portfolios on 29th July 2021.

Purchases and increased weightings:

Janus Henderson Absolute Return – greater exposure to a lower volatility fund for Cautious

BlackRock European Absolute Alpha – greater exposure to a lower volatility fund for Cautious

iShares UK Gilts All Stocks Index – higher exposure to core UK government bonds for Cautious

Trojan Fund – greater exposure given a long track record on risk-adjusted returns for Cautious

Sales and reduced weightings:

Artemis US Absolute Return – sold in preference for other holdings given limited returns

JPMorgan Macro Opportunities – sold for Cautious in favour of absolute return funds

Schroder Asian Income – lower exposure for Cautious given risk profile

Switches

Threadneedle UK Smaller Companies to River & Mercantile UK Smaller Companies - favouring an attractive risk-adjusted return profile together with the team's experience and approach.

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