1825 Portfolio 4

Commentary first quarter 2021

This summary provides market commentary from our investment experts, and details any changes made to Portfolio 4 during the first quarter of 2021. The commentary is intended to give you a general overview of the market, and does not constitute advice.

In brief:

- Vaccine rollouts and news of large-scale US stimulus supports global equities
- Developed markets outperform, with Europe one of the strongest regions
- Recovery-linked inflation fears lead to global government bond sell-off

Environment

Global equities rose over the first quarter, with all major world indices posting positive returns. Worldwide Covid-19 vaccine rollouts raised hopes of a return to normality, and US fiscal stimulus further supported markets. This was despite fears of vaccine-resistant Covid-19 variants and rising concerns about inflation weighing on shares. UK shares fared particularly well, with the impressive domestic vaccine rollout driving sentiment. Over 30 million people in the UK had received their first vaccine dose by the end of the quarter. In line with increasing investor risk appetite globally, smaller companies outperformed their larger counterparts. However, emerging markets generally underperformed developed countries, but still rose overall. Inflation worries drove investor rotation out of 'pandemic winners' and into cyclical stocks and sectors that should benefit from an economic recovery.

Government bonds had a challenging quarter and fell globally. As the US House of Representatives approved President Joe Biden's US$1.9 trillion pandemic stimulus package, fears over inflation hit bond markets. With US inflation expectations hitting their highest level since 2014, investors sold government bonds. Long-dated issues in the US suffered the most. UK gilts were among the weakest performers, experiencing their worst quarter in over 20 years. Corporate bond returns were generally negative over the quarter, largely due to rising government bond yields (falling prices) across global markets. The first quarter was generally beneficial for sectors and issuers that have been most adversely affected by the pandemic, following the global rollout of vaccination programmes. Accordingly, high-yield debt outperformed investment-grade issues.

Activity and performance

Please refer to Page 5 for a full breakdown of portfolio holdings.

Strategic Asset Allocation (SAA)

Strategic asset allocation (SAA) yielded mixed outcomes during the first quarter with lower-risk mandates faring less well than those mandates able to take on more risk.

Fixed income asset classes proved somewhat of a minefield due to rising Government bond yields. In such an environment, even global high yield bonds – a strong driver of returns since financial markets bottomed in March 2020 – began to lose their lustre. They nevertheless managed to grind out a small positive return (0.65%). Looking further afield, a confluence of factors created headwinds for emerging market (EM) debt. These included a slower global vaccine rollout than hoped, the threat of further periods of lockdown and strengthening of the US dollar. The removal of the well-respected governor of the Turkish central bank also served to unsettled EM assets. Both hard currency (US dollar) and local currency bonds delivered negative returns, falling 5.96% and 5.63% respectively.

Stock markets were far more upbeat, generally performing well during the quarter. A rotation in leadership that began at the end of last year continued. Stocks, sectors and markets that have traditionally benefited from cyclical rebounds tended to perform the best; areas that benefit from a growth orientation did less well. Japan and Europe performed strongly in local currency terms – the Topix rose 9.15% and the FTSE World Europe ex UK gained 6.17%. Asia Pacific (excluding Japan) and EM equities were weak in comparison – the MSCI Asia ex Japan nudged up 2.61% and MSCI Emerging Markets 2.21%. US and the UK equity markets delivered respectable returns of 6.17% for the S&P 500 and 5.19% for the FTSE All-Share, but sat middle of the range over the three-month period. It is also important to highlight that although returns in local-currency terms appear attractive, sterling strengthened against most developed market currencies and by a considerable margin (7.5%) against the Japanese yen. This strength diluted returns for UK investors in the main.

Tactical Asset Allocation

Tactical asset allocation (TAA) delivered a positive outcome during the quarter.

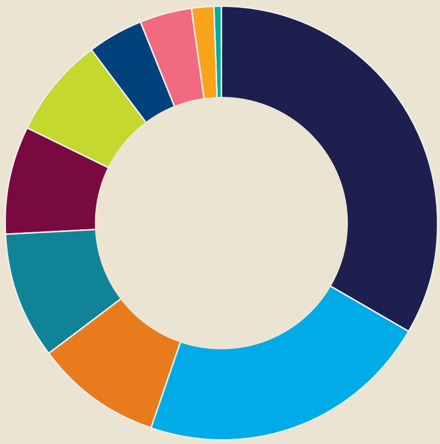
The Portfolio benefited from an underweight position in alternatives, specifically infrastructure. We redistributed most of this to US equities. These performed strongly over the period, contributing positively to relative returns.

Manager selection

Pleasingly, our fund selection was a positive contributor to performance during the first quarter.

The Portfolio enjoyed a strong period of fund selection. Infrastructure was an area of strength. The First Sentier Global Listed Infrastructure Fund delivered solid returns during a tricky time for alternatives given their implicit correlation to interest rate sensitivity. Within US equities, the Vanguard US Equity Index Fund, which has exposure to small and mid-caps as well as large and mega-caps, outperformed the mega-cap dominated S&P 500 Index. Similarly within UK equities, the JO Hambro UK Dynamic, Lazard UK Omega, JPM UK Equity Core and TM Tellworth UK Smaller Companies Funds outperformed their respective benchmarks. Within emerging market equities, the Artemis Global Emerging Markets Fund continued its strong run of returns that began in the fourth quarter of last year. Within Asia ex-Japan equities, the Fidelity Asia Fund outperformed amid difficult market conditions. Fund selection within European equities was weaker. The BlackRock European Dynamic Fund meaningfully underperformed its benchmark following an incredibly strong 2020. Elsewhere, performance suffered from passive funds lagging the market after fees and taxes. The L&G Emering Markets Government Bond (Local Currency) Index Fund trailed its benchmark.

1825 Portfolio 4 Asset class breakdown



US Equities	**33.50**
UK Equities	**21.88**
Emerging Market Debt Hard Currency (Hedged to Sterling)	**9.55**
Emerging Market Debt	**9.51**
Infrastructure	**8.00**
European Equities	**7.42**
Japanese Equities	**4.13**
Asia-Pacific ex Japan Equities	**3.93**
Emerging Market Equities	**1.59**
Cash & Money Markets	**0.50**

The comments above refer to the past. Past performance is not a reliable guide to future performance. As with any investment, the value of your portfolio can fall as well as rise – you may get back less than you pay in.

Outlook

The ramp up of Covid-19 vaccine rollouts and China's rapid recovery added fuel to an expected sharp economic rebound in 2021. With a recovery in sight, investors moved into cyclical companies at the expense of growth companies in late 2020, which continued into 2021. Continued low policy rates and extra fiscal expenditure are supportive for equities. Low bond yields have underpinned equity valuations that look stretched. A sustained rise in long-term rates on inflation worries will likely cause spikes in market volatility. Vaccine setbacks, weak corporate earnings or policy mistakes could also cause sharp sell-offs.

Within fixed income, on the corporate bond side, increasing vaccine dissemination, along with huge US fiscal stimulus, is driving sentiment. However, less favourably, the expected strong economic rebound is stoking some inflation fears, putting upward pressure on core government bond yields. Most notably, the 10-year US Treasury yield has risen sharply from lows seen in August 2020. Since bond prices move in the opposite direction, continued yield rises would be unwelcome for both government and corporate bonds.

1825 Portfolio 4 breakdown	Q1 2021
Holding	**Weights**
Asia-Pacific ex Japan Equities	**3.93**
Fidelity Asia Fund Accum W GBP	3.93
Cash & Money Markets	**0.50**
British Pounds	0.50
Emerging Market Debt	**9.51**
Legal & General Emerging Markets Govt Bond (LC) Index Fd Accum Units Class C GBP	9.51
Emerging Market Debt Hard Currency (Hedged to Sterling)	**9.55**
Barings Emerging Markets Sovereign Debt Fund GBP Tranche B	9.55
Emerging Market Equities	**1.59**
Artemis Funds (Lux) SICAV Global Emerging Markets FI Capitalisation	0.80
RWC Global Emerging Markets Fund S GBP Capitalisation	0.79
European Equities	**7.42**
Aberdeen European Equity Enhanced Index Fund accum N GBP	1.87
Barings Europe Select Trust Units I GBP	0.74
Blackrock European Dynamic Fund Class FD GBP Units	1.84
Invesco European Equity Income Fund (UK) Y GBP	1.11
Schroder European Fund Class L GBP Ptg Units	1.86
Infrastructure	**8.00**
First Sentier Global Listed Infrastructure Fund B GBP	8.00
Japanese Equities	**4.13**
Legal & General Japan Index Trust Class C GBP Units	4.13
UK Equities	**21.88**
JOHCM UK Dynamic Fund Class Y GBP	5.46
JPM UK Active Index Plus Fund Class E GBP Accum Shs	8.72
Lazard UK Omega Fund Class F GBP	5.48
LF Tellworth UK Smaller Companies Fund Accum F Unhedged GBP	2.22
US Equities	**33.50**
Vanguard US Equity Index Fund Institutional Plus Class GBP Ptg Shs	33.50
	100.00%

Each client portfolio is reviewed and rebalanced regularly where necessary. Fund selection and asset allocation are monitored on an ongoing basis, and will be changed as considered appropriate by the Portfolio Managers.

Charges

The ongoing charges figure quoted below includes the ASC discretionary investment management charge (0.20%) and fund level management charges. It does not include product and adviser specific charges – speak to your 1825 Financial Planner for full details.

Ongoing charges figure	**0.61%**

NOTE: the Portfolio holdings,asset class breakdowns, and ongoing charges, figure shown on this page are correct as at 31/03/2021. They will change from time to time. Source: Aberdeen Standard Capital.