1825 Portfolio 5

Commentary second quarter 2020

This summary provides market commentary from our investment experts, and details any changes made to Portfolio 5 during the second quarter of 2020. The commentary is intended to give you a general overview of the market, and does not constitute advice.

In brief:

- Global shares continued to rise in May and June as businesses in Western countries began to reopen.
- Investor optimism was tempered by fears of a potential second wave of infections.
- Capital values fell across all UK property sectors with retail, leisure and hotels suffering the most.

Market

Global equities rallied in the second quarter as the announcement of massive central bank and government stimulus packages to combat the coronavirus epidemic reinvigorated risk appetite. After selling off steeply in March amid global economic shutdowns, stock markets around the world surged in April. The US Federal Reserve committed to unlimited purchases of government and corporate debt. It also slashed interest rates to near zero in March. This helped to support shares. Global shares continued to rise in May and June as businesses in Western countries began to reopen and hopes of a rapid economic recovery took hold. Investor optimism was tempered by fears of a potential second wave of infections and warnings that the road back to normality would be a long one.

Core government bond yields were largely flat over the quarter. Substantial fiscal stimulus and central-bank intervention propped up markets. As the coronavirus pandemic started to recede in many countries, and many major economies began to reopen, demand for riskier assets returned. This led to a fall in demand for government bonds in early June. However, fears of a second wave of infections anchored yields at relatively low levels thereafter. The UK, on the other hand, saw a drop in yields to record lows and a rise in prices. Global corporate bonds recovered sharply over the quarter, spurred on by increasingly supportive fiscal and central-bank policy. In particular, the Federal Reserve's expanded bond-purchasing programme, which included the buying of corporate bond exchange-traded funds, buoyed US corporate debt.

The effects of the Covid-19 pandemic dominated UK property in the second quarter. Capital values fell across all sectors as uncertainty rose and investor sentiment weakened. Retail, leisure and hotels suffered the most, as enforced closures saw many businesses grind to a halt. In many cases, landlords have also struggled with rent collection as financially distressed businesses have failed to pay rent. Retail rent collection is widely expected to be worse than the previous quarter, with retailers now having protection against forfeiture until the end of September.

Activity

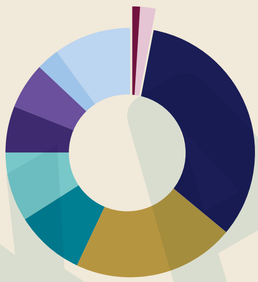
We review the Strategic Asset Allocation (SAA) for each of the 1825 Portfolios every quarter with the aim of ensuring that we continue to meet investors' long-term interests. At the most recent review, we made no changes to the SAA model.

During the second quarter of 2020, we made the following Tactical Asset Allocation (TAA) change:

- Reduced to neutral, our overweight position in Japanese equities

In terms of the underlying funds, we purchased Jupiter UK Special Situations, Artemis US Select, Hermes US Small and Mid equities and Vanguard Emerging Markets Stock Index. We sold Merian North American equity and Vanguard US equity Index.

1825 Portfolio 5 Asset class breakdown



Growth Assets 97%

- UK Equities
- US Equities
- European Equities
- Japan Equities
- Asia Pacific Equities
- Emerging Market Equities
- Global High Yield Bonds
- Emerging Market Local Curr Bonds
- UK Real Estate
- Global REITs
- Diversifying Growth Assets

Defensive Assets 3%

- Cash & Money Markets
- Short Dated Sterling Corporate Bonds

Outlook

Within global equities, market action indicates that investors are taking the view that there will be a V-shaped economic recovery. A typical pattern seen during recovery phases is unfolding: strong gains for equities, the US dollar weakening and the US starting to underperform other regions. Investors will continue to react to newsflow. They are likely to receive data supporting a recovery well. Any setback will lead to another leg down in the markets.

Political and economic factors will continue to dominate fixed income markets. The US elections are looming, and tensions between China and the rest of the world are escalating. Central banks and governments have mitigated the effects of the pandemic on financial markets. However, there will not be a sustained recovery until the virus is contained, allowing the easing of lockdown measures. Market uncertainty should continue to be favourable for government bonds. Meanwhile, US Federal Reserve purchases of investment-grade credit will continue to provide some support for corporate bonds.

Turning to UK commercial real estate, we forecast a total return fall of -9.5% in 2020. This would be the second weakest total return in the 40-year history of MSCI data. Only 2008 surpassed the decline in capital values that we expect this year. The retail sector is likely to drive the size of the decline. Leisure and hotels are also bearing the full brunt of measures to contain the Covid-19 outbreak.

Performance

The portfolio delivered a positive return over Quarter 2. Our Strategic Asset Allocation added to performance, with key contributors being UK, US and European equities. Tactical asset allocation added to performance, driven by our underweight to Short Dated Sterling Corporate Bonds. Manager selection was flat, as losses within US and Asian equities were offset by strong gains across Absolute Return Growth and UK equities.

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.

1825 Portfolio 5 breakdown	Q2 2020	Q1 2020	change
Holding	**Weights**	**Weights**	**+/-**
JPM UK Equity Core	16.43%	16.43%	0.00%
Fidelity Index US	13.61%	6.29%	7.32%
Vanguard FTSE UK All Share Index	8.21%	11.50%	-3.29%
Aberdeen European Equity Enhanced Index	7.82%	7.82%	0.00%
Schroder Multi-Asset Total Return	5.82%	5.82%	0.00%
CF Morant Wright Nippon Yield	5.70%	5.85%	-0.15%
Artemis US Select	5.24%	0.00%	5.24%
Jupiter UK Special Situations	4.93%	0.00%	4.93%
TM Fulcrum Diversified Absolute Return	3.88%	3.88%	0.00%
Invesco Japanese Equity Advantage	3.80%	3.90%	-0.10%
Artemis Global Emerging Markets	3.33%	4.78%	-1.45%
Hermes Asia Ex Japan Equity Fund	3.25%	3.25%	0.00%
First State Asia Focus	3.25%	3.25%	0.00%
L&G Emerging Markets Local Government Bond Index	2.30%	2.30%	0.00%
Vanguard Emerging Markets Stock Index	2.18%	0.00%	2.18%
Hermes US Small & Mid Equities	2.10%	0.00%	2.10%
RWC Global Emerging Markets	1.74%	2.47%	-0.73%
LF Tellworth UK Smaller Companies	1.64%	2.46%	-0.82%
Fidelity UK Smaller Companies	1.64%	2.46%	-0.82%
Lazard European Smaller Companies	1.38%	1.38%	0.00%
Pimco GIS Global High Yield Bond	1.00%	1.00%	0.00%
Cash (£)	0.75%	1.00%	-0.25%
Aberdeen Liquidity Fund	0.00%	-0.50%	0.50%
Merian North American Equity	0.00%	7.33%	-7.33%
Vanguard US Equity Index	0.00%	7.33%	-7.33%
	100.00%	**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 (0.25%) 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	**0.75%**

NOTE: the Portfolio holdings,asset class breakdowns, and ongoing charges, figure shown on this page are correct as at 30/06/2020. They will change from time to time. Source: Aberdeen Standard Capital.