Dynamic Portfolios

A solution from **Foster Denovo**

Quarterly Investment Review

Quarter 1 2023

Dynamic Portfolios Sustainable

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Introduction – Q1 2023

The Dynamic Portfolios (DPs) and the Sustainable Dynamic Portfolios (SDPs) benefit from a responsive approach which means that they reflect up-to-date markets and continue to match a level of risk that you, the investor, are comfortable with.

To help manage and spread risk, we select assets from a wide variety of classes and funds to sit inside the DPs. This enables us to build diversified portfolios that spread investment risk. This includes adjusting the balance between active and passive investment strategies to align with where we believe we are in the market cycle.

This rebalancing is reviewed on a quarterly basis and is linked to your risk tolerance.

This quarterly investment review contains information from the most recent investment committee held on 11th May 2023 and governance oversight committee meeting on 12th May 2023, with the subsequent rebalances occurring on 19th May 2023.

The first quarter of 2023 started with a wave of investor optimism, hoping rather than perhaps believing, that the New Year would bring better times and no repeat of 2022. The same challenges from the ongoing war in Ukraine and international tensions allied to recession, inflation and interest rate uncertainties all remain.

In this context, January exhibited strong returns for equities across the board, with positive returns also from bonds (fixed income) as investors latched onto the possibility of Central Banks reaching the peak in their interest rate hiking cycles and inflation worries easing. As the quarter continued and more economic data was released that was less optimistic than initially hoped for, more realism was evident. As a result, asset classes lost some of their gains although there was no repeat of the sharp volatility of last year.

The final month of the quarter saw an old fashioned ‘bank run’ and resulting collapse of Silicon Valley Bank (SVB) in the US. The size of SVB, it was the 16th largest commercial bank in the US, and was followed by another bank failing, Signature Bank. The fear of a contagion in the wider global banking sector, saw isolated volatility in this sector and the need for Central Banks to calm markets and provide reassurances on financial stability.

Investors presumed that these unanticipated events would indeed positively shorten the time for interest rates to peak and then lead soon after to cuts from the current rates. This was despite further interest rate increases in March from the Central Bank. Thus, the duration (interest rate) risk seen in growth assets last year was flipped into a positive attribute. Within equities, there was a large dispersion in those with growth and value characteristics. Whilst growth stocks, particularly large cap and technology focused, moved ahead strongly, value stocks lagged markedly. Banks are generally designated as value, therefore provided a headwind in this regard. This renaissance in growth equities over Q1 still leaves this philosophy trailing considerably over a rolling 12-month horizon. Bonds, especially government bonds, also benefited from this environment.

Sustainable portfolios, after enduring a difficult 2022 due to their growth focus, recovered well during the quarter. Given the ebb and flow of news and sentiment in only the first 3 months of 2023, we are likely to see more asset class performance dispersion going forward.

The pressing need for more clarity and certainty on several fronts, means there are likely to be more sentiment based short-term decisions by market participants.

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A full quarterly review of the Plus, Lite and Core variants was carried out with the following outcomes.

FD Dynamic Portfolios Plus Risk Grades 4 to 8 and 10

SEE PAGE 5

No changes were made in the previous quarter (Q4 2022) in order that the groundwork for restructuring in Q1 2023 could be finalised.

This restructuring included the removal of the remaining Vanguard LifeStrategy Fund in risk grade 10 due to its fixed allocation nature.

The restructure also included the implementation of a 'soft' upper limit of around 25% on any individual multi-asset funds. This will be staged over a number of quarters.

In addition, the 2023 restructure included use of two new funds from the Sequel fund range (Sequel Real Assets and Sequel World Equity Sectors, i.e. the Sequel Smart Diversification funds), designed exclusively for the FD Dynamic Portfolios.

In line with these two points, and as previously agreed, the twin trimming of the Sequel Target Return and L&G Multi Index funds was combined with the introduction of the new Sequel funds.

Finally, equity risk alignment for all risk grades was completed to maintain diversification.

FD Dynamic Portfolios Lite Risk Grades 4 to 8 and 10

SEE BELOW

As agreed during the previous quarter, the process of trimming the multi asset exposure to L&G Multi Index by 5% commenced, to allow scope for more concentrated passive asset exposure and enhancing diversification, commenced. No changes were made to risk grade 10.

Going forward, we will continue to provide scope for more concentrated passives, further enhancing diversifying assets exposure. These may include some of the underlying passive funds (Exchange Traded Funds (ETFs)) used in the new Sequel funds discussed under Plus (to the left). For now, the 5% will be apportioned amongst the existing ETFs and tracker funds.

This trimming of the L&G Multi Index funds will be gradually phased over a number of quarters.

Finally, equity risk alignment for all risk grades was completed to maintain diversification.

FD Dynamic Portfolios Core Risk Grades 3 to 7

SEE BELOW

Reconfiguration of the fund composition within DP Core to incorporate the two new Sequel Smart Diversification funds focusing on real assets and global equity exposure was completed.

This reconfiguration included the removal of the Vanguard LifeStrategy funds due to their fixed asset allocation nature and trimming the existing Sequel Target Return funds.

Finally, equity risk alignment for all risk grades was completed to maintain diversification.

For further information on the two new Sequel Smart Diversification funds please refer to page 5 below.

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DP Plus Risk Grades 4 to 8 changes

Sequel momentum global investment management
Target Return Funds

Legal & General
Multi Index

Dodge & Cox
US Stock

T. Rowe Price
US Blue Chip

Fidelity International
European

COMGEST
Growth Japan

Baillie Gifford
Japanese

VERITAS Investment Management
Asian

Commentary on the new fund manager

State Street Corporation established State Street Global Advisors (SSgA) in 1978 to provide institutional investment management services to fund managers. Their pioneering credentials are second to none as in 1993 they created the world's first Exchange Traded Fund (ETF) which are now commonplace globally.

This innovative pioneering spirit didn't stop in 1993. Over the next quarter of century – and more – SSgA have developed market leading investment solutions including sector specific ETFs in 1998, multi-class asset strategies in 1999 and the first gold backed ETF in 2004.

Sequel State Street Global Advisors
Smart Diversification Funds

STATE STREET GLOBAL ADVISORS

Moving into the 2010s, they launched a suite of UK retirement funds, and in 2016 acquired GE Asset Management with $33 billion of assets under management.

2016 was a busy year as they launched a Gender Diversity ETF, which was followed in 2017 by them placing the 'Fearless Girl' statue in New York which called on companies to take intentional steps to increase the number of women on their corporate boards.

Moving up to date, as opposed to their institutional clients, SSgA has had a desire to broaden its UK retail investor space. The relationship with Sequel is the first multi-asset mandate for their UK Investment Strategy Group within the retail financial advisory market and the funds were built as bespoke asset building blocks for exclusive use within the FD Dynamic Portfolios.

Commentary on the new funds

Sequel State Street Global Advisors
Real Assets Fund

The Sequel Diversified Real Assets Fund is an actively managed fund.

This means that the manager – SSgA – actively allocates to different 'liquid real asset classes' depending on their relative return outlook.

These real assets include Commodities, Gold, Infrastructure, and Property investments.

Sequel State Street Global Advisors
World Equity Fund

The Sequel World Equity Fund is an actively managed fund.

It aims to outperform world equities by overweighting world equity sectors with greatest return potential, which changes over the market cycle.

Economies moves in reasonably predictable cycles. Various industries and the companies that operate within them flourish or suffer depending on the cycle. 'Sector rotation' is used by fund managers to move money invested in stocks from one industry to another as investors and traders anticipate the next stage of the economic cycle.

'Sector rotation strategies' have become a popular investment process, but the Sequel World Equity fund is thought to be the first of its kind in the UK to formalise this approach within a single fund.

As at 31st March 2023 SSgA have $3.62 trillion (£2.91 trillion) assets under management (1) which makes them the fifth largest asset management firm in the world. In context, this makes them over twice the size of the UK's largest asset manager (L&G) (2). A broader context is total UK HMRC revenue in 2022 was £786.6 billion (3), so SSgA manage about 3.7 times the amount captured in annual tax receipts by the UK exchequer.

(1) https://www.ssga.com/uk/en_gb/institutional/ic/about-us/who-we-are

(2) https://www.advratings.com/top-asset-management-firms

(3) https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk/hmrc-tax-receipts-and-national-insurance-contributions-for-the-uk-new-annual-bulletin

Highlights and changes

A full quarterly review of the Active and Passive Sustainable Dynamic Portfolios (SDP) variants was carried out with the following outcomes.

FD Sustainable Dynamic Portfolios Active Risk Grades 4 to 8 and 10

NO CHANGE

FD Sustainable Dynamic Portfolios Passive Risk Grades 4 to 8 and 10

NO CHANGE

FD Sustainable Dynamic Portfolio Climate Impact Risk Grade 10

NO CHANGE

The consultation deadline for the FCA Consultation Paper CP22/20 on Sustainability Disclosure Requirements (SDR) and investment labels closed on 25th January 2023.

Final rules were expected before the end of June, however these have been delayed. The delay of the publication of the final FCA SDR rules to later this year means we will continue to monitor existing exposures, as well as diversifying assets for potential future inclusion.

Due to likely direction of the FCA SDR rules, passive vehicles are unlikely to achieve the standard to achieve the new sustainable investment labels. This, allied to the limited opportunity for new additions beyond ‘positively tilted’ market cap weighted equity and bonds, means that a long-term decision on the range will be made when the final rules are published.

Smart diversification

To help manage and spread investment risk, assets are selected from a wide variety of classes and funds to sit inside the Dynamic Portfolios. Without knowledge of investment and asset classes, as well as sufficient resources, it may be difficult for you to create a diversified portfolio. To help with this, the Dynamic Portfolios benefit from 'smart diversification'.

What is smart diversification?

Diversification works best when assets are uncorrelated or negatively correlated with one another, in other words, as some parts of a portfolio fall, others potentially rise.

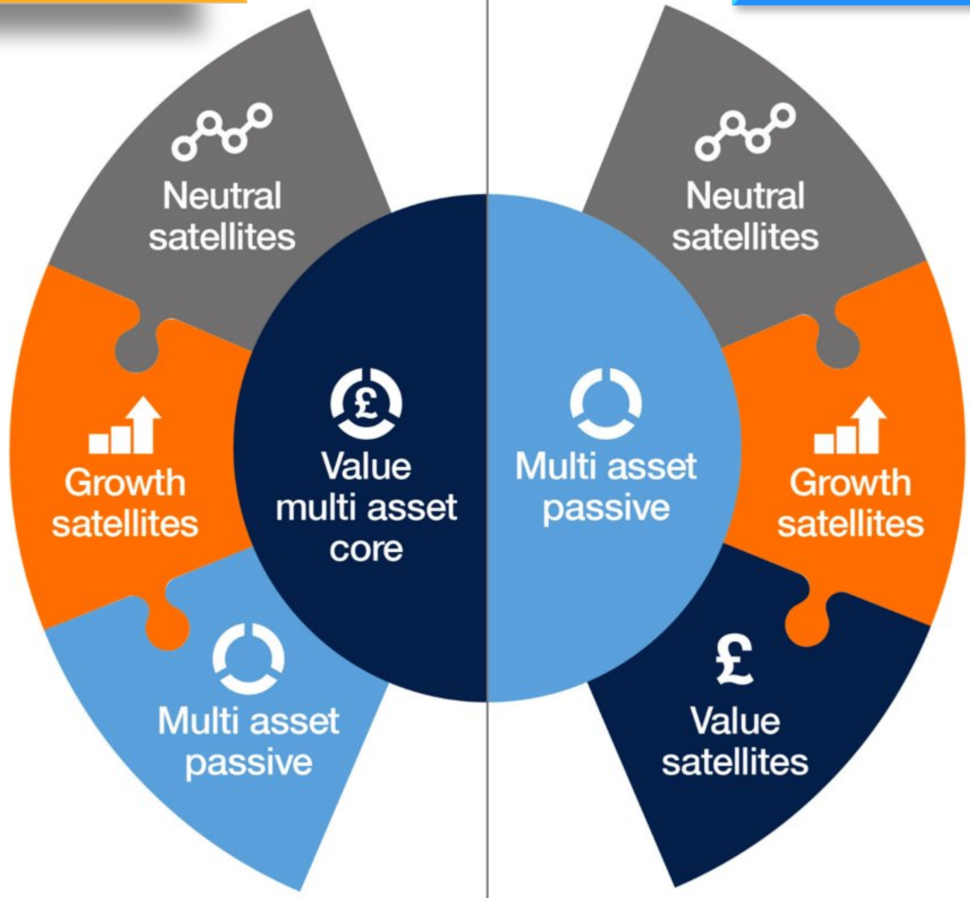
While individual stocks and markets will continue to go up and down, smart diversification across assets, styles and philosophies can help investors minimise their risks. Although it does not guarantee against loss, smart diversification is one of the most important component of reaching long-range financial goals while minimising risk.

"Smart diversification is a continual development; it should adapt as assets and markets evolve."

FD Dynamic Portfolios Investment Team, March 2020

DP Plus smart diversification

DP Lite smart diversification [a]



Scale is illustrative only.

Smart diversification involves?

'Smart diversification', where possible, involves investing across different asset types (i.e., bonds as well as equities, etc.), different investment styles (i.e., active management and passive investing) and different investment philosophies (i.e., growth, value, and neutral bias).

It is also important to note that a fund's stated philosophy (i.e., value, growth etc.) will likely change over time due to valuation criteria; for example, a fund that was once a growth philosophy may now be neutral following sell offs in the growth philosophy.

[a] Although passive funds are used, the asset allocation benefits from being fully actively managed.

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Cash plus benchmarks as at Q1 2023

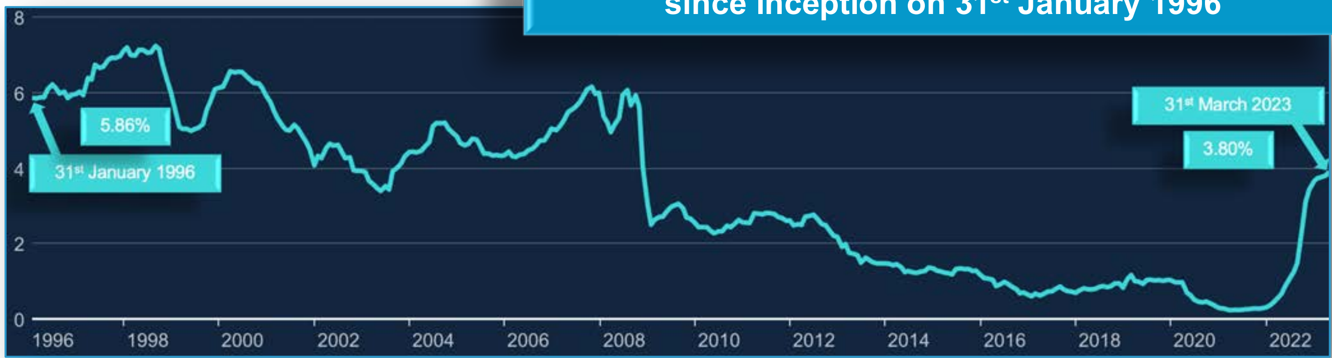
The idea behind a benchmarked investment at Foster Denovo is simple and attractive:
- it has a clearly defined target return; and
- it provides a gauge so that your financial adviser can check the progress of your Dynamic Portfolio.

Most of the Dynamic Portfolios have their own benchmark, known as Cash+ (*), providing a precise benchmarked investment goal – to beat the value of cash in a bank over the medium to long term. This allows you to check that your portfolio is performing as it should and allows you to see if your investments are on track and how your expectations align with your goals.

The Cash+ benchmark is designed to encourage each Dynamic Portfolio to produce returns that are above those you would expect from putting money into a long-term cash deposit. For example, let's say an investment into a Dynamic Portfolio was made, with a target of Cash+ 3.5%. And the calculated Bank of England benchmark interest rate (*) at the time was 1% per year. Then the overall target return, after all fund charges, would be 4.5% a year over the medium term.

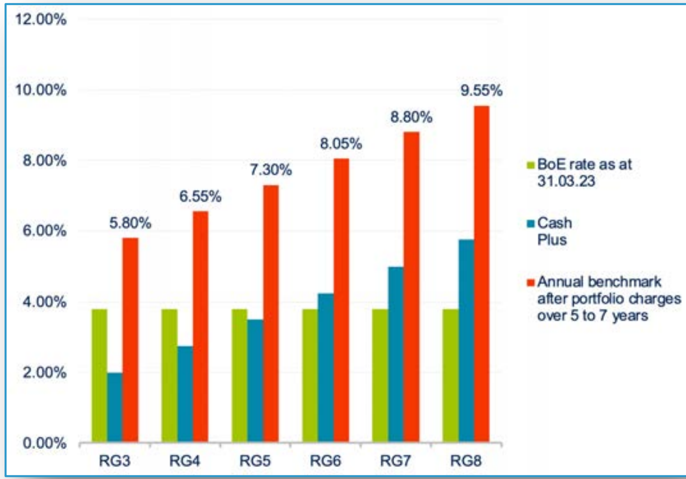
The Cash+ benchmark assigned to each Dynamic Portfolio reflects the amount of risk the investments are designed to take and can help you see which Dynamic Portfolio is right for you and offers transparency and clarity on return expectations.

Bank of England one-year fixed rate bond deposit % since inception on 31st January 1996



Source: Bank of England monthly interest rate of UK MFIs (excl Central Bank) sterling one-year fixed rate bond deposit - IUMWTFA

As can been seen in the above graph, the rate published on 31st March 2023 was 3.80%. This is up from 1.03% on 31st December 2021 and is the highest for over a decade. As the graph also shows the rate has been historically low since 2008 (the Global Financial Crisis caused by the 'credit crunch') and will likely increase further in the coming months due to Bank of England interest rate policy to tackle inflation and recent government fiscal policy meaning the respective benchmarks used will increase.



Source: Bank of England

Risk Grade	BoE rate as at 31.03.23	Cash Plus	Annual benchmark after portfolio charges over 5 to 7 years
RG3	3.80%	2.00%	5.80%
RG4	3.80%	2.75%	6.55%
RG5	3.80%	3.50%	7.30%
RG6	3.80%	4.25%	8.05%
RG7	3.80%	5.00%	8.80%
RG8	3.80%	5.75%	9.55%

Source: Bank of England

*Cash+ (also known as Cash Plus) is an ongoing calculation based on statistics provided by the Bank of England. It's based on the Bank of England monthly interest rate of UK monetary financial institutions (excluding Central Bank) sterling fixed rate bond deposits from households (in percent) not seasonally adjusted. It is used to represent the return that could be expected from long-term (at least five years) cash deposits.

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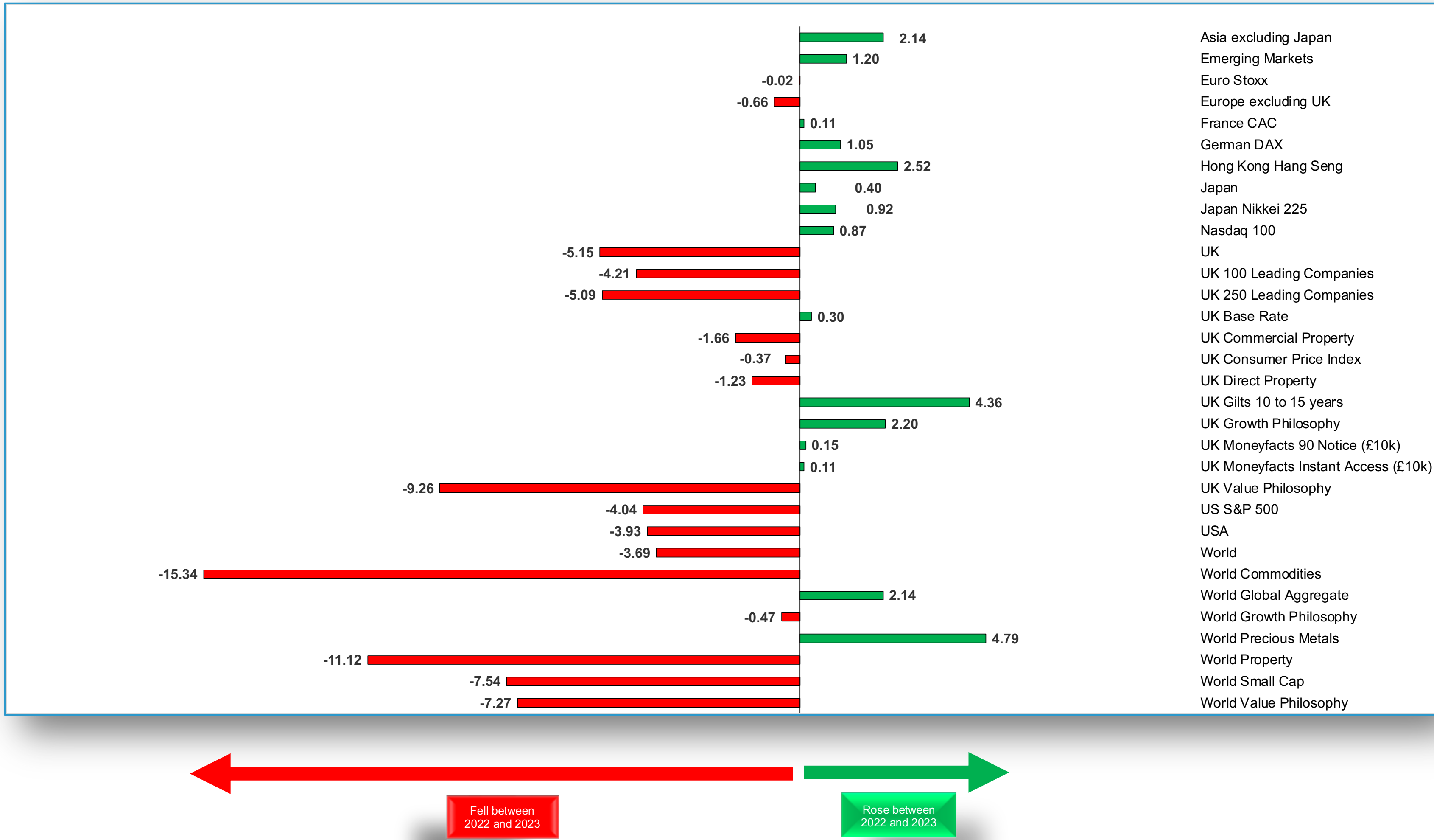
Key indicators as at Q1 2023

The 'Key indicators' shown in the chart to the right are designed to provide an overview analysis of different asset types, different geographical jurisdictions, and industrial sectors.

They also include statistics that show the changes in inflation, property – both residential and commercial – together with how UK base interest rate and 'high street' interest rates change.

The comparison period compares the difference monthly over two 12-month periods. This version compares all key indicators between 28th February 2022 and 28th February 2023, against 31st March 2022 and 31st March 2023. For example, the last entry, World Value Philosophy, fell (by -7.27%) by comparison over these two 12-month periods.



Based on data from investment research software Financial Express Fundinfo

What are the FD Dynamic Portfolios?

The FD Dynamic Portfolios (DPs) are investment portfolios that have been carefully designed to balance investment risk with returns to help investors achieve their financial goals, considering their attitude to risk, time frame and capacity for loss.

They are spread across distinct offerings, enabling the selection of the option that best matches an investor's goals. Each of these portfolios can be further tailored with risk levels ranging from a low-risk tolerance to a high-risk tolerance.

Our responsive approach means that the DPs reflect up-to-date markets and continue to match a level of risk within the given targeted range. This includes adjusting the balance between active and passive investment strategies to align with where we believe we are in the market cycle. This rebalancing is reviewed on a quarterly basis and is linked to an investor's risk tolerance.

To help manage and spread risk, we select assets from a wide variety of classes and funds to sit inside the DPs. This enables us to build diversified portfolios that spread investment risk. All the funds that sit inside the DPs are selected following a comprehensive quantitative and qualitative screening process that brings together both hard and soft facts.

Each of the DPs undergoes rigorous quarterly reviews that involve both internal and external investment experts. The review process is a core part of our dynamic offering, giving investors' confidence that their portfolio is frequently reviewed with their risk tolerance and wider market and economic factors in mind.

Contact us

If you'd like further information about the Dynamic Portfolios or the Sustainable Dynamic Portfolios, please contact your Foster Denovo Partner. Or, if you are new to Foster Denovo:

call: **0330 332 7866**,

email: **info@FDdynamicportfolios.com**; or

visit **fosterdenovo.com/investment-solutions/sustainable-investing/**

Calls are charged at your standard landline rate.

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If a client wishes to obtain financial advice as to whether an investment is suitable for their needs, they should consult their Foster Denovo Partner. Clients should make sure they have understood the contents of their Foster Denovo Partner's suitability report before proceeding with any proposed investment.

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