Apogee Cautious Model Portfolio Update

Recommended Fund Changes

The following changes are being made to the fund selection within the Cautious Model Portfolio:

- Schroder Global Cities Real Estate is to be removed from the portfolio and our position in FTF Clearbridge Global Infrastructure is to be reduced.

- Allocations to UK, US, European and Japanese equities are to be increased.

- Small changes have been made to the defensive allocation, which will add greater interest rate sensitivity to the portfolio and take a higher conviction approach to credit quality.

New Fund Selection

The following portfolio of funds is the recommended investment fund selection as part of our updated Apogee Cautious Model Portfolio:

Fund	Sector	Current Holding	New Holding
Product Cash	Cash	2.0%	2.0%
AXA Global Short Duration Bonds	Global Bonds	2.0%	-
BlackRock Continental European	Europe Excluding UK	3.5%	5.5%
BlackRock Corporate Bond	Sterling Corporate Bond	5.5%	5.0%
BNY Mellon International Bond	Global Bonds	6.0%	6.5%
CFP SDL UK Buffettology	UK All Companies	4.0%	4.0%
Fidelity Asia	Asia Pacific Excluding Japan	5.0%	5.0%
FSSA Global Emerging Markets Focus	Global Emerging Markets	3.0%	3.0%
FTF ClearBridge Global Infrastructure Income	Global Equity Income	4.5%	1.0%
FTF Martin Currie UK Rising Dividends	UK All Companies	3.0%	3.5%
HSBC American Index	North America	6.5%	7.0%
iShares Overseas Corporate Bond Index (UK)	Global Bonds	4.5%	6.5%
iShares Overseas Government Bond Index (UK)	Global Bonds	12.0%	12.0%
L&G Inflation Linked Bond Index	Global Inflation Linked Bond	7.5%	7.5%
M&G Global Floating Rate High Yield Hedged	Sterling High Yield	2.5%	3.5%
M&G Japan	Japan	1.5%	4.0%
M&G UK Inflation Linked Corporate Bond	Sterling Strategic Bond	3.5%	3.5%
Man GLG Undervalued Assets	UK All Companies	4.0%	4.0%
Ninety-One Emerging Markets Local Currency Debt	Global EM Bond-Local Currency	2.5%	2.5%
Royal London Short Duration Credit	Sterling Strategic Bond	1.5%	1.5%
Schroder Global Cities Real Estate	Property Other	3.0%	-
Schroder Sterling Corporate Bond	Sterling Corporate Bond	5.5%	5.5%
UBS US Growth	North America	7.0%	7.0%

The funds selected give consideration to the level of volatility suitable for the agreed attitude to risk and model asset allocation. Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds being recommended is still designed to meet your stated tolerance.

Further details on each fund selected within our models and the investment methodology of the fund managers are contained within the Key Investor Information Documents (KIIDs). Copies of the current KIIDs are available on request.

Updated Fund Charges

The following table compares the approximate current charges of the existing Apogee Cautious Model Portfolio and our updated Cautious Model Portfolio, excluding any incidental transaction charges incurred:

	Ongoing fund charges (OCF)
Existing Apogee Cautious Model Portfolio	c.0.53%
New Apogee Cautious Model Portfolio	c.0.51%

As you can see, comparing the ongoing fund charges for the existing model portfolio and our updated model, the proposed fund switches will lead to a marginally lower level of ongoing fund charges.

Note that the above fund charges are based on the underlying Ongoing Charges Figure (OCF) of each fund when held on a typical investment platform, and do not include any additional ad hoc transaction costs incurred within the individual funds.

Portfolio Performance Analysis

Our cautious portfolio returned 17.90% in the five years running to the end of Q3 2024, this compares to a return of 15.28% from the benchmark. The overall asset allocation of the portfolio is 50% Defensive assets, 50% Growth assets.

Within the defensive component of the portfolio, which is primarily invested in a range of bond funds, third-quarter performance of defensive assets was driven primarily by interest rate sensitivity. The US Federal Reserve cut rates twice, with the first cut of 0.5% exceeding market expectations of 0.25%. Longer-duration bonds benefited most from this move but gave back some gains towards the end of the quarter. Inflation-linked government bonds performed best due to improved inflation sentiment.

The proposed changes to the defensive component of the portfolio have been made to ensure that the portfolio is best positioned to profit from falling interest rates in the coming years. We have made slight modifications to increase exposure to more rate-sensitive funds while also boosting the allocation to funds investing in the highest credit quality bonds. This means that the portfolio is able to profit in a falling rate environment and where rates are cut, like is looking more likely in Europe than the US, due to concerns about growth credit risk is reduced by giving preference to the highest quality issuers.

In terms of the growth assets within the portfolio, the interest rate sensitive property sector has performed most strongly with FTF Clearbridge Global Infrastructure Income returning 8.08% and Schroder Global Cities Real Estate returning 8.05%. These substantial gains reflected the market's view on the direction of interest rates towards the end of the quarter. However, where the approach in the defensive allocation has been to slightly increase exposure to rate sensitivity, in the growth section we conclude that it may be an ideal time to take profits from the assets that have profited most from the commencement of the rate cutting cycle and reallocate to assets we feel have superior long term growth potential.

Where property and infrastructure drove growth in the third quarter, the performance of the other equity funds within the portfolio was more mixed. In July, poor economic data caused US markets to decline due to concerns that the Federal Reserve had delayed rate cuts too long, impacting highly valued technology stocks. However, broader based growth supported the market, and a subsequent rate cut helped these stocks recover. The US, home to many of the world's most profitable companies, has shown significant long-term outperformance. As a result, we have slightly increased the portfolio's US allocation.

In the UK the CFP SDL UK Buffettology returned -0.37% in the quarter underperforming slightly in July, but keeping pace through the rest of the quarter. The manager has frequently expressed frustration that some of his most profitable holdings have attracted takeover interest, suggesting that these companies are attractive but perceived to be undervalued. Recently, Hargreaves Lansdown and the relatively new addition, Rightmove, have been subject to potential takeover interest, although this has been refuted by the company. In contrast, the FTF Martin Currie UK Rising Dividends fund returned 4.01% over the quarter. This fund invests in larger, well-established companies, with wealth manager St James's Place driving returns with a remarkable 35.5% gain in the third quarter. This rebound followed a challenging 12–18 months for the company, marked by a reset in fees and provisions for client servicing failures. UK companies continue to trade at discounted values relative to their European and American counterparts, despite strong projected growth. Considering the UK's relative political stability compared to other developed economies, these factors make it an attractive region for increased allocation.

BlackRock Continental European delivered a fourth quartile return of -3.53%, compared to 0.28% for the IA European ex UK sector. Positive performance came from industrials, financial services, and basic materials, while technology and healthcare detracted. Despite current negative sentiment towards European stocks, the continent offers access to leading companies attractively valued against their US counterparts. Concerns about the European economy could be argued to be based on fairly short-term sentiment, as many of the companies in the allocation to Europe derive a significant proportion of their profits, or a majority in a number of cases, from overseas which reduces the effect of a slowing domestic economy. For this reason, it seems to be an attractive opportunity to increase allocation with a longer-term time horizon in mind.

M&G Japan returned 1.31% in the third quarter of 2024 despite a fall in the Japanese stock market as returns for sterling-based investors were boosted by the appreciation of the yen. Performance was driven by stock picking, with a key contributor being Sanrio, which owns the intellectual property for the Hello Kitty franchise, and Seven & I Holdings, the holding company of 7-eleven, Japan's largest convenience store operator. The Japanese economy appears to be in its best shape for years, with corporate culture reforms enhancing its appeal to investors. Consequently, we will increase our allocation to Japanese equities.

Our exposure to wider Asia is in part gained through the Fidelity Asia fund which delivered a return of 1.21% in the quarter. Fund performance was hindered by weak sentiment in the semiconductor sector, affecting holdings like Samsung Electronics. Conversely, Trip.com, the Chinese owner of Skyscanner, boosted returns due to positive market reactions to Chinese stimulus measures.

The two bond fund holdings within the growth assets performed reasonably well. Ninety-One Emerging Market Local Currency Debt added 4.05% as local currency EM debt outperformed on the rates outlook and M&G Global Floating Rate High yield added 2.19%. We have increased the position in high yield at the expense of our other corporate bond exposure where we have increased the credit quality, this enables our bond allocation to be exposed to a degree of credit risk, but only where we are well compensated.

[*] *Please note that the returns shown are net of fund managers fees and show the historic returns achieved by the Apogee Model Portfolio managed in conjunction with RSMR. The performance achieved by individual client portfolios may vary slightly from our headline figures depending upon the date the investment was made, the platform selected and the date that any recommended rebalances were actioned. Please also note that past performance is no guarantee of future returns.*