QUARTERLY RESPONSIBLE CHOICE REBALANCE COMMENTARY
AUGUST 2023

Overview

Markets have been buoyant since our last model portfolio rebalance in May.

May was all about the mega cap tech. The theme of mega cap tech propping up the world feels familiar, especially since 2020, but this year the narrowness of US stock performance has been even more extreme. This positive S&P 500 performance has been driven by a small number of stocks and NVIDIA really shot the lights out during May, accounting for most of the S&P's performance.

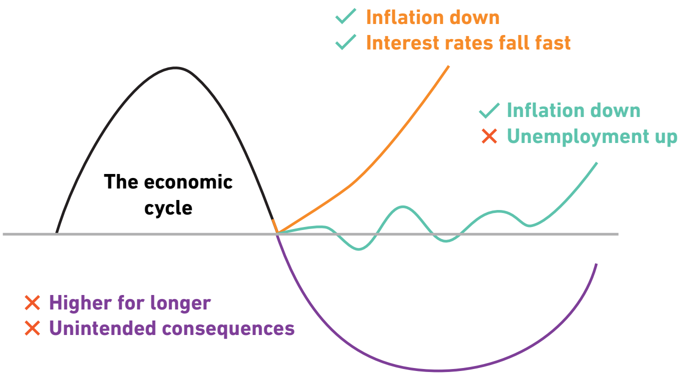
Financial markets were relatively well behaved in June, bringing to a close a very positive first six months of the year. Despite the most forecasted recession in history supposedly being just around the corner, stock markets indices have performed very well over the first half of 2023. Strong index-level performance continued to be driven by a small number of stocks, with Apple being the largest contributor to S&P 500's performance in June. This was due to highly mixed economic data combined with a huge amount of excitement around AI/tech. The best-performing regional equity index was the Topix, mainly due to a weak Yen that has helped many Japanese stocks. June also saw more positive news headline figures as rates rose, meaning US inflation fell from a high of 9% in 2022 to 3%.

July was another busy month. The financial markets have also been dealing with lots of events. In line with market expectations, central banks continued their fights against rising inflation. The FED and ECB raised rates, and the Bank of Japan also joined the tightening wave after decades of monetary stimulus. There have also been some positive economic rumbles in Beijing as China signalled more support for the real estate sector and to boost domestic consumption. Global equity markets have had another month of gains, showing the market remains bullish following a stronger than expected growth data, corporate earnings, and cooling inflation. The AI mania remains a driver of performance of US stocks. As the Q2 earnings start to come out in August, the mega-cap Magnificent Seven will have to show they're worth the hype.

Core investment views

At 7IM, we have a number of long-term core views that help to guide our investment decisions and allocations within portfolios.

Over the next twelve months, we think there are a range of possible outcomes that investors will need to contend with. The possible scenarios are laid out below:



Back to growth – policymakers nail it
Possible, but a lot needs to go right

Inflation falls faster than expected, the demands for higher wages tail off and central banks find the space to reduce interest rates. This allows the world economy to fire on all cylinders again and profits resume growing.

Sluggish and sideways – uncertainty and scepticism continue
Most likely, until inflation is under control

A continuation of the last 12 months... will it be a recession? Won't it? High inflation and interest rates will keep that question going.

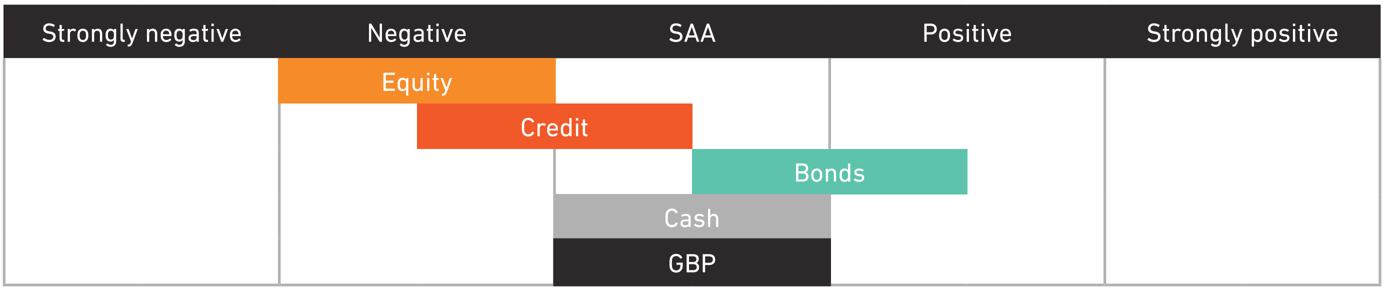
Whether growth is just above zero (not a recession) or below zero (recession) is not the point. The uncertainty will keep investors cautious – creating choppy markets, prone to sharp sell-offs and rapid rallies. This environment requires careful selection to find the right opportunities and avoid risks.

Deep recession – policymakers DON'T nail it
Unlikely, but important to watch

Inflation continues to remain too high for comfort and central banks keep policy tighter for longer. Eventually, the lags catch up with the economy, leading to a deeper than expected recession.

Tactical Asset Allocation

In an environment with lots of uncertainty and a lack of confidence, we want to make sure portfolios are insulated against shocks, while still generating sufficient returns to make investing worthwhile. And we think our portfolios are set up to do just that.



7IM Responsible Choice long term themes

Portfolio themes	Comment
The world is getting older	The healthcare sector is best placed to take advantage of this. The sector still trades at a discount and we believe that the sector is starting to be recognised for its strengths – especially given its importance during the Covid pandemic.
Fighting climate change	Climate change is one of the biggest threats that humanity faces in the near future; without drastic action the planet will warm by more than the 1.5°C level agreed at the Paris Agreement. The Responsible Choice Models target companies that are managing their environmental risks and investing in a cleaner future.
Emerging markets will drive change	The funding gap to meet the Sustainable Development Goals by 2030 is between USD 6-8trillion and 70% of that is needed in emerging markets. This creates opportunities which we access in equity and fixed income markets.
Global impact	Impact investments are those that lead to a material and measurable improvement to environmental and social problems. The Responsible Choice Models have access to companies that are driving positive change around the world.
Sustainable finance	The private sector will be increasingly leaned on to drive environmental change and find solutions for an ageing population. The Responsible Choice Models have exposure to both green bonds and social bonds, which are linked to sustainable projects.

Asset Allocation Changes

We have made the following tactical changes to portfolios in this quarterly rebalance:

Adding to Healthcare — We believe the defensive Healthcare earnings should weather the profits downturn better than most sectors.

Manager Changes

This quarter, we have:

Added Royal London Sustainable Leaders Trust and Janus Henderson UK Responsible Income Fund — We replaced our holding in the Liontrust Sustainable Future UK Growth Fund with the Royal London Sustainable Leaders Trust and Janus Henderson UK Responsible Income Funds across the portfolios. We have a strong conviction in both funds and the respective investment teams integrate ESG at every step of the investment process.

Please note: All of the comments in this document refer to the models we run on the 7IM platform, but the models are also available on a range of other platforms. As much as possible, we try to replicate the models we run of the 7IM platform across all platforms, but due to differing security availability, not all of the points outlined in this document may be relevant across these platforms. If you are unsure whether certain changes apply to models on a specific platform, please reach out to a member of the team.

The past performance of investments is not a guide to future performance. The value of investments can go down as well as up and you may get back less than you originally invested. Any reference to specific investments are included for information purposes only and are not intended to provide stock recommendation or investment recommendations to individual investors.

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