BLACKFINCH
ASSET MANAGEMENT

VT Blackfinch Defensive Portfolio
Fund Factsheet

# December 2022

ESG Committed

Targeting CPI **+1%**

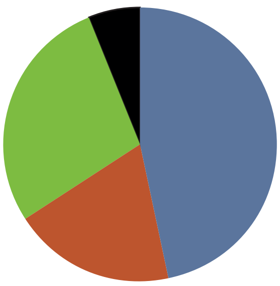
per annum, over a rolling 5 year basis net of fees.

## Investment Objective

The Defensive portfolio is designed to achieve a total return in excess of the Consumer Price Index plus 1% per annum, over a rolling 5 year basis net of fees. The portfolio is globally diversified and contains multi asset investments including fixed income, equities, property, alternatives and cash. Exposure to fixed income, equities, property, alternatives is via collective investment schemes. There is no guarantee that the objective will be met or that a positive return will be delivered over any time period. Capital at risk.

## Asset Allocation (as at 30/12/2022)

| | |
|---|---|
| Fixed Income | **46.86%** |
| Equities | **19.17%** |
| Property | **0.00%** |
| Alternatives | **28.01%** |
| Cash | **5.95%** |



## Tactical Deviation

| | | |
|---|---|---|
| Fixed Income | **6.96%** | Overweight |
| Equities | **-0.43%** | Underweight |
| Property | **-6.00%** | Underweight |
| Alternatives | **3.21%** | Overweight |
| Cash | **-3.75%** | Underweight |

## Market Commentary

Markets began December on the front foot, buoyed by hopes inflation may have peaked in the US and would soon be reaching its peak in other western economies. Attention soon turned to mid-December, when the last data releases of the year would confirm whether such buoyancy would continue.

First to be released was US inflation for November, which continued its downward trend at 7.1% year-on-year, below market expectations of 7.3%. Core inflation, which strips out the more volatile food and energy components – and the measure that the Federal Reserve (Fed) is particularly focused on – also came in 0.1% below forecasts at 6.0%. The Fed's interest rate decision was announced the following day, with a widely anticipated 0.5% increase bringing the rate to a target range of 4.25% to 4.50%.

In the UK, inflation eased from 11.1% to 10.7%, and while it continues its path of destruction, a fall from the previous peak raised hopes that the UK may follow a similar downward trajectory to the US. The Bank of England offered no surprises in its interest rate review, also raising rates by 0.5% to 3.5%.

Despite positive signs on inflation, comments from both central banks, and the ongoing job markets strength on both sides of the Atlantic confirmed we are not approaching the end of the current rate hiking cycle. A report from the Office for National Statistics showed that 32% of UK companies with ten or more employees were experiencing a shortage of workers, while in the US, the unemployment rate remained at just 3.7%, close to a 50-year low, as average hourly earnings continued to grow above expectations.

In China, the spread of COVID-19 continued, and in response to widespread protests the government relaxed its zero-tolerance stance. While restrictive policies have ensured outbreaks have been localised, they have also hampered China from a social and economic standpoint. The relaxation of restrictions was well received by investors, having positive spill over effects for broader Asian and Emerging Markets too.

## Performance

| | |
|---|---|
| 3 months | **1.40%** |
| 6 months | **-1.85%** |
| 12 months | **-11.90%** |
| Since Inception* | **-1.83%** |

*Past performance is no guarantee of future performance.*

**Date of inception: 1st May 2020.*
*All Blackfinch unitised fund performance figures are quoted net of AMC and fund OCFs.*
*The above performance is that of the F Accumulation Share Class.*

## Portfolio Holdings (as at 30/12/2022)

| | |
|---|---|
| Vanguard - Global Bond Index Hedged | 9.06% |
| BNY Mellon - Global Dynamic Bond | 8.77% |
| Ninety One - Diversified Income | 8.56% |
| iShares - US Equity Index (UK) | 6.88% |
| Vanguard - UK Government Bond Index | 6.31% |
| Vanguard - US Government Bond Index | 6.07% |
| Pimco GIS - Income | 5.78% |
| iShares - Corporate Bond Index (UK) | 5.55% |
| Vanguard - FTSE 100 Index Unit Trust | 5.05% |
| Rathbone - Ethical Bond | 5.03% |
| Liontrust - Monthly Income Bond | 4.98% |
| JPM - Global Macro Opportunities | 4.54% |
| iShares - ESG Overseas Corporate Bond Index (UK) | 4.08% |
| HSBC - European Index | 3.63% |
| VT RM - Alternative Income | 3.12% |
| FP Foresight - Global Real Infrastructure | 3.03% |
| Jupiter - Japan Income | 2.29% |
| Comgest - Growth Japan | 1.33% |
| Cash | 5.95% |

## This Month's Activity

December was another month of significant disparity across equity markets. Despite inflation seemingly peaking in the US, equity valuations fell as comments from the US Federal Reserve suggested it is unlikely any rate cuts would be seen until 2024. In the UK and Europe, however, there was a more muted reaction to the most recent inflation and interest rate announcements.

While it may seem counterintuitive that a widespread COVID-19 outbreak would be followed by a market rally, this is exactly what happened in China in December. Markets were buoyed by news of a relaxation of severe lockdown restrictions, believing this could bring an end to China's stop-start economic journey that has plagued markets this year.

Within our Alternatives allocation, we introduced a new fund to further diversify our exposure. There remains little chance that volatility across equity and bond markets will reduce in the coming months, as markets continue to react to unfolding economic news. As such, we felt it prudent to introduce a further fund which is designed to dampen volatility across varying market conditions.

**Please note:** EValue risk tolerance scores are based on a 10-year time horizon. The mappings are only for use by financial advisers licensed to use EValue's risk profiling system and does not constitute financial advice.

Dynamic Planner Profiled 3 | defaqto Risk Rating 3 Very Low Risk | defaqto Expert Rated Risk Focused Fund Family 2021 | ev Risk 1 - 5: 2, Risk 1 - 7: 2, Risk 1 - 10: 3

## Portfolio Information

| Class S Accumulation Share ISIN | Class S Management Fee | Class S Underlying fund charges |
|---|---|---|
| GB00BLF82B02 | 0.55% | 0.37% |

| Class F Accumulation Share ISIN | Class F Management Fee | Class F Underlying fund charges |
|---|---|---|
| GB00BKP3DS21 | 0.45% | 0.37% |

| Estimated Annual Income Yield | Number of holdings |
|---|---|
| 2.86% | 18 |

## Investment Directors

Gareth Deacon and Alex Sumner co-manage the Blackfinch Asset Management multi-asset portfolio range. They bring expertise in the construction of mainstream investment products, managing private client portfolios and working closely with financial advisers. Each is a chartered fellow of the Chartered Institute for Securities & Investment.

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# ESG at Blackfinch Asset Management

## *Working towards a more sustainable world*

We believe environmental, social and governance (ESG) factors are core to the future success of any business, and that investing in companies aligned with ESG principles can lead to superior returns. We see a positive correlation between companies focused on improving their ESG factors and share price growth. Our aim is to invest in funds that either have a focus on improving sustainability issues, or businesses with strong metrics relating to ESG criteria. Our focus on ESG factors is core to our investment process and integral to how we work. We apply these principles to every portfolio we manage.

## Positive Screening Approach

As stewards of capital, we have a pivotal role in ensuring that the companies we invest in are answerable to ESG concerns. Our positive screening process makes it possible to unearth and support forward-thinking companies, and invest in them via responsible fund managers who actively engage and monitor their ESG targets. We strongly feel fund managers should exercise their power as shareholders to shape the direction of investee companies, and to positively impact the way such businesses are run.

### We invest with a **core focus** on the UN Global Compact Principles

We invest with a central focus on ESG considerations

We take a forward-looking approach to investment selection using positive screening

We encourage 'engagement' with both sustainability 'leaders' and 'improvers'

We're committed to transparency on ESG and reflect this in our investment approach

## ESG in Action

We're pleased to share our ESG insights with you, as well as to highlight some of the positive engagement activities undertaken by funds within our portfolios and the companies they invest in.

### CLIMATE-RELATED VOTING ON DIRECTORS' ELECTIONS

Some of the world's largest companies by market capitalisation have been in the spotlight recently, given the urgent need for companies to align their social and environmental activities with society's broader sustainable development objectives. As a result, there is an increased expectation on these 'industry giants' to lead the transition to more renewable energy sources, in the hope of reducing global warming.

With this in mind, one of the world's largest manufacturers of electronics and computer equipment recently held its 2022 Annual General Meeting (AGM). However, shareholders were limited in their ability to assess the company's capacity to adapt its business model and operations. One of the fund houses we hold investments with made it clear that the company's capacity to navigate the energy transition was lacking when compared to its competitors, due to an absence of meaningful greenhouse gas emissions reduction targets.

Following discussions between the investment team and the company's board of directors, it agreed to bring in additional directors to improve its expertise on climate and environmental-related issues. The company is also now in the process of renewing its climate strategy, which would replace commitments that had expired in 2020. As such, the fund house supported all director elections at the AGM. Soon after the meeting, the company also signalled its intentions to join an initiative to support 100% renewable energy. Blackfinch welcomes this development, and the company's responsiveness to the investment team's feedback.

Request our ESG Policy document for more information.

PRI Principles for Responsible Investment