



# Quarterly Investment Report

Balanced Portfolio | Q4 2024 - 1st October 2024 - 31st December 2024



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# Your Investment Manager

## Blackfinch

We're part of Blackfinch Group, an independent investment specialist with a heritage dating back over 25 years. We're a responsible investor working to build positive future prospects. We work closely with your financial adviser to deliver attractive risk-adjusted returns over the long term to help you meet your goals and aspirations. Our investment objectives are centred on delivering returns targeted at beating inflation, against which you and your financial adviser can easily measure us.

### Responsible Focus

As a UN PRI signatory, we take multiple factors into account when assessing an investment. We positive screen for businesses with responsible practices and policies in place. We prioritise investments where there's active engagement on risk-management issues and fund managers value this approach

### Our Approach

Our investment team includes dedicated specialists whose sole focus is the portfolios. We're active investment managers, buying into and selling out of investments, as market conditions dictate. We invest globally, aiming to both capture returns and manage downside risk. Transparency is central to how we work, so you can know where your money is invested at all times.

### An Independent Specialist

As part of an independently owned company, we can look across many investments and strategies to find the most suitable ones. Your portfolio holds a wide range of investments, including shares (equities) and bonds (fixed income). We review, rebalance and restructure the portfolios on an ongoing basis.

### Your Reporting

We aim to keep you as up to date and informed as possible. This quarterly investment report gives detail on financial markets and factors that have driven returns. The report is supplementary to monthly factsheets, featuring market commentary and details of portfolio activity. We also provide ad-hoc commentary on topics affecting your portfolio's performance.

# The Last Quarter In Focus

Market participants were buoyed by the prospects of a pro-business US presidency, and equities, Bitcoin, and the US dollar all climbed higher. The market rally was broad-based, but smaller domestically-focused companies appeared to be the biggest beneficiaries from potential tax cuts from the new administration.

US President-elect Donald Trump secured his second term in office with a Republican 'Red Sweep' on 5th November 2024, sparking an equity market rally. Investors rushed to take part in the 'Trump Trade', buying those assets that would benefit from his proposed policies in 2025.

Past performance is no guarantee of future performance.  
Date of inception: 2nd July 2018.  
All performance figures are quoted net of AMC and fund OCFs.

The year ended on a much more grounded level, after UK and US central banks both dampened investor expectations for interest rate cuts in 2025. Concerns mounted over persistent inflation, causing risk asset valuations to retreat, given stricter financial measures could prove necessary.



# A Bird's Eye View

## Global Events

### Impacting your Portfolio

#### Emerging Markets:

Donald Trump's election victory was a headwind for Emerging Markets over the quarter. Investors were concerned over the impact of Trump's proposed tariffs, particularly on China. South Korea's equity market posted sizeable losses in December after both its president and acting president were impeached, causing political unrest. India ended the quarter lower as a result of the strengthening US dollar, another by-product of the 'Trump Trade.'

#### UK

UK equities experienced selling pressure in the run-up to the Autumn Budget. However, the negative sentiment reversed when the proposals announced were not as bad as investors had feared. The equity market rally fizzled out after the Bank of England made comments that "the risk of inflation persistence" would result in fewer interest rate cuts in 2025 than previously expected. That said, UK investors are looking forward to the positive effects of the Autumn Budget becoming evident in 2025, particularly given the 'sugar rush' in proposed government spending may boost company performance over the near term.

#### US

The 'Trump Trade,' those assets expected to benefit from the President-elect's proposed policies, finished what was already a stellar year for the US on the front foot. Investor optimism surged in the run-up to the final Federal Reserve (Fed) meeting of 2024, where domestically-focused and, more generally, smaller US companies appeared the main winners from the election result. Profit-taking was evident after Fed Chair Jerome Powell updated expectations for the number of interest rate cuts in 2025, and the world awaits the Presidential inauguration on 20th January.

### European

Politics dominated headlines in the eurozone, both in France at the start of the quarter and latterly Germany. French Prime Minister Michel Barnier resigned after a no-confidence vote just months into his term, and the outlook for the wider French equity market remains clouded. German politics is also undergoing a period of upheaval, and uncertainty could likely weigh on markets until clarity is found. The government vote to replace outgoing Chancellor Olaf Scholz is scheduled for February, with the hope that a stronger coalition can help drive policy decisions and get the German economy moving again. In December, European Central Bank President Christine Lagarde, signalled more interest rates to come in 2025, which could help combat sluggish economic growth across the region.

### China

Chinese equity markets were relatively flat over the period. The lack of further detail relating to the policy stimulus measures announced in September, combined with investor concerns over proposed Trump trade tariffs on Chinese exports, had a negative impact. To counter deteriorating sentiment, President Xi Jinping pledged China would meet its 5% gross domestic product (GDP) economic growth target and continue to be an engine of global economic expansion. Chinese policymakers changed their stance on monetary policy from “prudent” to “moderately loose” for the first time in 14 years, a positive step along the road to recovery.

### Japan

The earnings outlook for Japanese companies improved notably in the second half of 2024 as the yen continued to weaken against the dollar, boosting prospects for Japanese exporters. The Shunto – or Spring wage negotiations – which start in March 2025 are expected to provide positive momentum for real wages, with the hopes of improving domestic consumption and ultimately economic growth. The actions of Bank of Japan Governor Kazuo Ueda remain vitally important for 2025 after the market volatility following his July speech.



# Market Commentary

Politics and macroeconomic factors continued to shape the direction of travel for global markets over the fourth quarter of 2024. In the UK, equity markets experienced selling pressure in the run-up to the first Autumn Budget delivered by the Labour Party in over 14 years. The Budget – described as monumental by columnists – appeared to be a traditional ‘tax and spend’ Budget, as the new Chancellor announced plans to raise £40bn in revenue, additional borrowing of £32bn, and big promises on public spending. The Office for Budget Responsibility reacted by saying higher taxes could weaken long-term growth, suggesting the UK economy could grow by just over 1% for 2024 and 2% next year. UK investment markets, which had suffered a steady decline in sentiment that pushed down valuations in the weeks running up to the Budget, were upbeat, given the measures announced appeared less detrimental than previously feared.

The Bank of England (BoE) maintained interest rates at 4.75% at its December meeting, with most Monetary Policy Committee members holding firm due to recent increases in wages and prices that “added to the risk of inflation persistence.” This was evidenced by November’s consumers prices index (CPI) reading of 2.6%, the highest level in eight months, and up from 2.3% in October. Comments from BoE Governor Andrew Bailey dashed hopes for multiple interest rate cuts in 2025, which led to a broad-based asset correction, stating the BoE “can’t commit to when or by how much we will cut rates in the coming year.” As the UK enters the new year, the 2024 Budget could prove a key driving force for economic growth in 2025. The UK economy is benefitting from robust household spending, underpinned by continued real wage growth, and paired with the ‘sugar rush’ from the Budget’s additional government spending, growth could accelerate in 2025, with some UK companies reaping the reward.

President-elect Donald Trump stole headlines and was one of the key determinants of asset returns over the quarter, as he secured his second term in the Oval Office. Trump’s win – combined with a Republican ‘red sweep’ of Congress – puts him in a strong

position to implement his economic and political agenda in early 2025. US markets welcomed the result, with many investors participating in the ‘Trump Trade’, investments expected to benefit from Trump’s policies, such as a potentially lower tax regime. Trump’s return to power sparked much debate in the investment world, with escalating trade frictions becoming one of the key themes of the economic outlook for 2025 and 2026. Trump’s incoming administration has repeatedly signalled a willingness to use tariff measures to achieve policy goals – likely a negotiation tactic to reach concessions from trade partners. These tariffs could also provoke inflation as well as global trade tensions, dampening global growth prospects and posing risks for Asia and Europe – which are known for being export-reliant economies.

The US Federal Reserve (Fed) chose its final meeting of 2024 to announce a widely-signalled interest rate cut of 0.25% to a range of 4.25%-4.50%, marking 100 basis points worth of cuts over the last three meetings of 2024. While the cut was in line with expectations, sentiment turned sour as investors digested forecasts and commentary from Fed officials regarding the path



forward for interest rates. Fed Chair Jerome Powell noted that its forecasts for core inflation in 2025 rose from 2.2% in September to 2.5%, and remarked that the central bank is “going to be cautious about further cuts.” Most Fed officials now expect up to two rate cuts in 2025, down from four in September. As a result, the end of the quarter saw a retreat in risk assets, including those that had been enjoying the Trump Trade before the Fed’s announcement.

The eurozone battled significant political uncertainty over the fourth quarter, with France firmly in the spotlight. French Prime Minister, Michel Barnier, was dismissed from office only months into his term. Barnier had attempted to formulate a 2025 economic budget that would gain a majority in parliament and begin to reel-in France’s indebted finances. Its economy has been fighting economic challenges for some time, including rising public debt, slow economic growth, and the need for major pension and energy reform. The French government is split across three political parties, with the chances of decisive changes to policy unlikely and the direction of travel for its equity market remains unclear. The French market has been

underperforming the wider eurozone, and questions persist over the recovery and how US president-elect Donald Trump’s policies may further impact the Euro and wider European markets.

Japanese equity markets experienced moderate gains to end the year. The country benefitted from the developments in the US and their impact on global financial markets, especially on currencies. The weakness in the yen in the second half of 2024 strongly aided the earnings outlook for Japanese exporters, with the broader market finishing the year with a flourish. The Bank of Japan (BoJ) maintained interest rates at its December meeting. BoJ Governor Ueda was more tactful with his tone after the market aftermath following his July speech. The Shunto – or Spring wage negotiations – are set to start in March 2025, and are expected to provide positive momentum for real wages, with the hopes of this improving domestic consumption and ultimately economic growth in 2025.

China’s economic recovery remained uneven, as speculation over a looming trade war with the US mounted. Retail sales in November grew by a below-consensus 3% from one year ago,

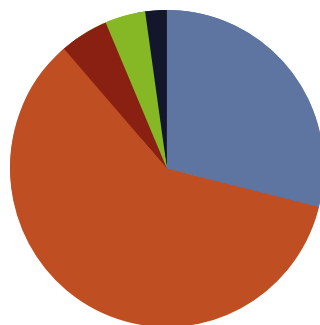
down from October’s 4.8% and highlighting the unwillingness of China’s consumers to spend. To counter the deteriorating sentiment, President Xi Jinping pledged China would meet its 5% gross domestic product (GDP) economic growth target and continue to be an engine of global economic expansion. Chinese policymakers changed their stance on monetary policy from “prudent” to “moderately loose” for the first time in 14 years, a positive step along the road to recovery. A lack of further detail relating to the policy stimulus measures announced in September, combined with investor concerns relating to the implications of proposed Trump trade tariffs on Chinese exports, had a negative impact on the equity market over the quarter.

# Portfolio Breakdown

## Balanced Portfolio

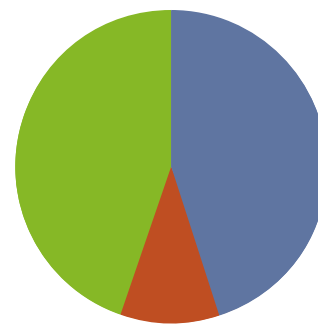
### Investment Objective

The Balanced portfolio is designed to achieve a total return in excess of the Consumer Price Index plus 3% 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. As a UN PRI signatory, responsible investing is implemented through a positive screening approach whereby investments are not solely excluded based on the sector in which they operate. 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. All data is at 31st December 2024.



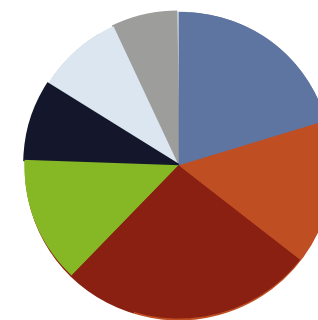
Tactical Asset Allocation

Fixed Income	<b>29.10%</b>
Equities	<b>59.60%</b>
Property	<b>5.10%</b>
Alternatives	<b>4.20%</b>
Cash & Equivalent	<b>2.00%</b>



Fixed Income Breakdown

Sterling Corporate	<b>45.02%</b>
UK Government	<b>10.31%</b>
UK Index Linked Government	<b>0.00%</b>
Global Bonds	<b>44.67%</b>



Equity Breakdown

United Kingdom	<b>20.47%</b>
Europe Ex UK	<b>15.10%</b>
North America	<b>26.85%</b>
Japan	<b>13.26%</b>
Asia-Pacific Ex Japan	<b>8.39%</b>
Thematic	<b>9.23%</b>
Emerging Markets	<b>6.71%</b>

# Portfolio Holdings

## Balanced Portfolio

### Fixed Income

Man GLG - Sterling Corporate Bond	<b>4.20%</b>
Capital Group - Global High Income Opportunities	<b>3.40%</b>
Vanguard - Global Bond Index	<b>3.20%</b>
iShares - Corporate Bond Index (UK)	<b>3.00%</b>
Rathbone - Ethical Bond	<b>3.00%</b>
Vanguard - UK Government Bond Index	<b>3.00%</b>
Liontrust - Sustainable Future Monthly Income Bond	<b>2.90%</b>
iShares - ESG Overseas Corporate Bond Index (UK)	<b>2.20%</b>
M&G - Emerging Markets Bond	<b>2.20%</b>
Vanguard - US Government Bond Index	<b>2.00%</b>

### Equities

Fidelity - Index Japan	<b>7.90%</b>
Vanguard - FTSE 100 Index	<b>6.20%</b>
Blackfinch - NextGen Infrastructure	<b>5.50%</b>
Brown Advisory - US Sustainable Growth	<b>5.00%</b>
iShares - US Equity Index	<b>4.60%</b>
BNY Mellon - US Equity Income	<b>4.40%</b>
HSBC - European Index	<b>4.00%</b>
Fidelity - Asian Dividend	<b>3.00%</b>
LF Montanaro - UK Income	<b>3.00%</b>
Gresham House - UK Multi-Cap Income	<b>3.00%</b>
LF Lightman - European	<b>2.50%</b>
Premier Miton - European Opportunities	<b>2.50%</b>
iShares - Pacific ex Japan Equity Index (UK)	<b>2.00%</b>
JPM - Emerging Markets Sustainable Equity	<b>2.00%</b>

iShares - Emerging Markets Equity Index (UK)	<b>2.00%</b>
T. Rowe Price - US Smaller Companies Equity	<b>2.00%</b>

### Property

Blackfinch - NextGen Property Securities	<b>5.10%</b>
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### Alternatives

TM Tellworth - UK Select	<b>4.20%</b>
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### Cash & Equivalent

Cash	<b>2.00%</b>
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# Portfolio Activity

## Fixed Income

Global bonds were more volatile than average in the fourth quarter, largely driven by central bank policy decisions and rising geopolitical tensions. Similar to equity markets, major government bond markets sold off after US and UK central banks indicated fewer interest rate cuts in 2025 due to persistent inflation concerns. The 10-year US Treasury yield spiked to a high of 4.57% at the end of the year, indicating uncertainty over the Fed's response should Trump's policies prove inflationary, adding to already persistent inflation. In a similar vein, the 10-year Gilt yield spiked in the UK in October after the Autumn Budget, where concerns over projected borrowing became apparent. Our allocation to government bonds, including those mentioned, came under pressure by the end of the year and experienced declines in value.

The varied performance of corporate bonds was noteworthy. High yield bonds, typically of lower credit quality and therefore higher risk, notably outperformed their investment grade counterparts, which are usually issued by well capitalised and reputable companies, and are therefore seen as higher quality. This was largely driven by expectations of a pro-business environment under the incoming Trump administration.

## Property

As one would expect given the sharp readjustment of interest rate cut expectations, property as an asset class declined in value of period. Property remains highly-sensitive to central bank actions as the underlying companies rely on financing for future projects. With strong operational performance, growing rents and healthy balance sheets, we still believe specialist property assets have the potential to deliver long-term capital appreciation plus a growing income, despite the recent volatility. With the macroeconomic headwinds facing the property market over the past three years beginning to abate, current valuations continue to offer potentially a very attractive entry point to the asset class.

# Portfolio Activity

## Equities

The final quarter of the year showed the continued stark disparity in the performance of global equity markets. US shares made gains in the fourth quarter, which rounded out a strong year and ensured the US topped the performance tables. Returns were particularly buoyed by expectations that Trump's "America First" policies will lift economic growth, lower taxes and reduce regulation. Our positioning across the US market – including the more domestically-focused smaller companies that could be the biggest beneficiaries – allowed us to capture much of the trend. The stock market correction after the December meeting of the US Federal Reserve (US) saw some profit-taking, with many investment portfolios sitting atop sizeable US gains – an understandable exercise given the year's events.

Eurozone shares declined in the fourth quarter amid economic recession and political instability, with the real estate sector being one of the weakest on the list. The European Central Bank (ECB) cut interest rates by an expected 0.25% in both October and December. ECB President Christine Lagarde signalled more cuts to come in 2025 noting the "direction of travel currently is very clear", as the region struggles with "disappointing" economic growth. The UK followed in a similar vein, with posted moderate equity market losses and disappointing growth. The Office for National Statistics (ONS) reported the UK economy shrank for the second month in a row in October. At the same time, it revised growth figures over the summer from 0.1% to zero. Hopes remain that proposed government spending announced in the Autumn Budget will help drive more domestically-focused companies to more positive gains for 2025.

As expected, the Republican 'Red Sweep' election win proved a headwind for Emerging Markets (EM) over the quarter. EM investors grappled with the possibility of a US President proposing tariffs that could heavily impact China's exports (which China is heavily reliant upon for growth), and many are looking to Trump's inauguration in January to understand more. Concerns over a lack of further detail on policy stimulus measures announced in September further depressed share prices in the quarter. One of the bright spots was Japan, as considerable corporate governance reform, strong earnings results and yen weakness all helped boost the Japanese equity market by the end of the year.

## Alternatives & Cash Equivalents

Alternative investments once again offered diversification against both bonds and equities, smoothing the return profile over the quarter. Of particular note were the protection offered on the downside market events, including the recent December sell-off caused by central bank comments on the potential for fewer interest rate cuts in 2025. We believe holding varied funds can offer uncorrelated returns amid this level of sensitivity and maintained our current positioning.

# Important Information

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The Blackfinch MPS Portfolios are actively managed by Blackfinch Investments Limited. Blackfinch Asset Management Limited act as the promoter and distributor of the model portfolios.

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The Blackfinch MPS Portfolio range may not be suitable for all investors and we would recommend that prospective investors seek independent advice before making a decision.

