Quarterly Review

Multi-Asset Blend Adventurous Fund

Q2 2024

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Contents

Welcome to our Quarterly Review

Q2 2024

In this report, we review how recent economic events may have impacted your investment portfolio and explore what this means for you. We provide insights into current market conditions and introduce some of our experienced fund managers. Additionally, we discuss the importance of diversification in managing risks, enhancing portfolio stability, and ensuring long-term growth. By understanding these key aspects, you will be better prepared to navigate future opportunities and challenges in the investment landscape.

Performance summary

- The Adventurous Fund ("the Fund") enjoyed another steady quarter of positive returns, rising +1.3% over the second quarter of 2024.
- Given its higher risk profile, Equities represent 97% of Adventurous. They broadly performed strongly over the quarter. This was led by US., UK and Emerging Market equities, while Continental European equities were flat and our Japanese exposure detracted from returns slightly.
- A narrow group of large cap equities dominated returns over the quarter once again, with styles like Momentum and Growth strongly eclipsing styles such as Value or Small Cap. We remain very mindful of how concentrated certain equity markets have become.

	Adventurous	IA Flexible Investment
Quarter 2 2024	1.3%	1.7%
1 year	12.7%	11.8%
6th Oct 2022 (Since launch)	21.2%	15.1%

The Fund performance figures are presented net of the Ongoing Charges Figure (OCF) and run from launch.

The Fund has seen a return of 21.2% since launch in October 2022.

Key portfolio activity

0 Sales

There were no new sales in Q2 2024.

0 Buys

There were no new buys in Q2 2024.

86 Manager meetings

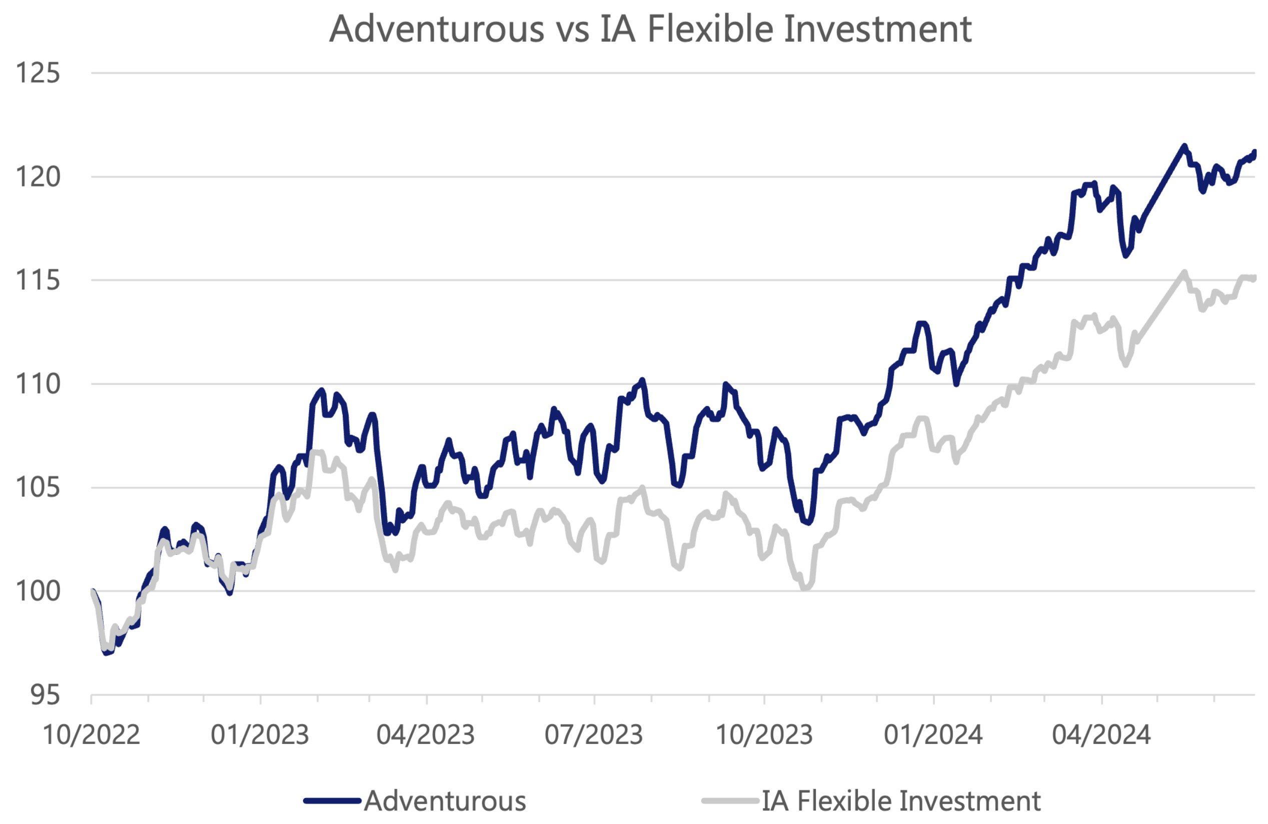
We attended 86 meetings during the quarter to review existing and prospective managers.

Performance commentary

Market

Equity markets recorded robust returns between April and June, following on from a strong first quarter. The MSCI All Country World Index of global equities was up +2.9% in GBP terms, however there was a large degree of variety between the global equity markets in which we are invested. Similar to the first quarter of this year, the US equity market recorded strong returns of +4.2% in GBP, but again this rally was led by an increasingly narrow set of already expensive technology related names. The Momentum and Growth styles dominated returns again, and despite the strong returns mentioned by the market cap weighted S&P 500 index above, the equally-weighted index of the same set of equities was actually down -2.7% for the quarter, illustrating the extraordinary narrowness of the rally.

After a strong first quarter, Japanese Equities were weak in Q2. The local market return was up +1.8% in Japanese Yen, but ongoing weakness in the currency translated this into a -4.3% return for GBP investors. Global Emerging Market Equities did however rebound over the quarter and returned +5.0% in GBP terms as measured by the MSCI Emerging Market Index. This was boosted by a revival of the Chinese market which was up +7.1%.



Total Fund

The Adventurous Fund ("the Fund") was up +1.3% over the second quarter, slightly behind the +1.7% return of its IA Flexible Investment performance comparator. Since the Fund's inception on 6th October 2022, the Fund is up +21.2%, well ahead of its IA comparator.

Equities

Our Tactical Asset Allocation in equities was positive for the quarter as the strong performance from our overweight to the UK equity market was only partially offset by our overweight to Japanese markets which struggled over the quarter due to weakness in the Yen. Our underweight to Continental European markets was flat for the quarter.

In the context of the diverse equity market returns highlighted previously, the managers who outperformed in this environment were also highly variable. Our US large-cap growth exposure, in the form of the Amundi Russell 1000 Growth ETF outperformed as the continued strong performance of a narrow set of names in this space drove overall market returns. In the Far East, the Nikko Japan Value Fund and the Baillie Gifford Pacific Fund also generated modest outperformance while operating very different investment styles.

A clear underperformance was observable over the quarter from equity strategies which focused further down the market cap spectrum, given the extraordinary outperformance of a narrow set of large cap names relative to everything else. These included managers such as the Pzena Global Value Fund, the Neuberger Berman US Small Cap Intrinsic Value Fund and the Baillie Gifford Global Discovery Fund. While their returns were eclipsed by large cap names, the absolute returns of these managers were only moderately negative over the quarter and we continue to think they offer compelling and diversified sources of future returns.

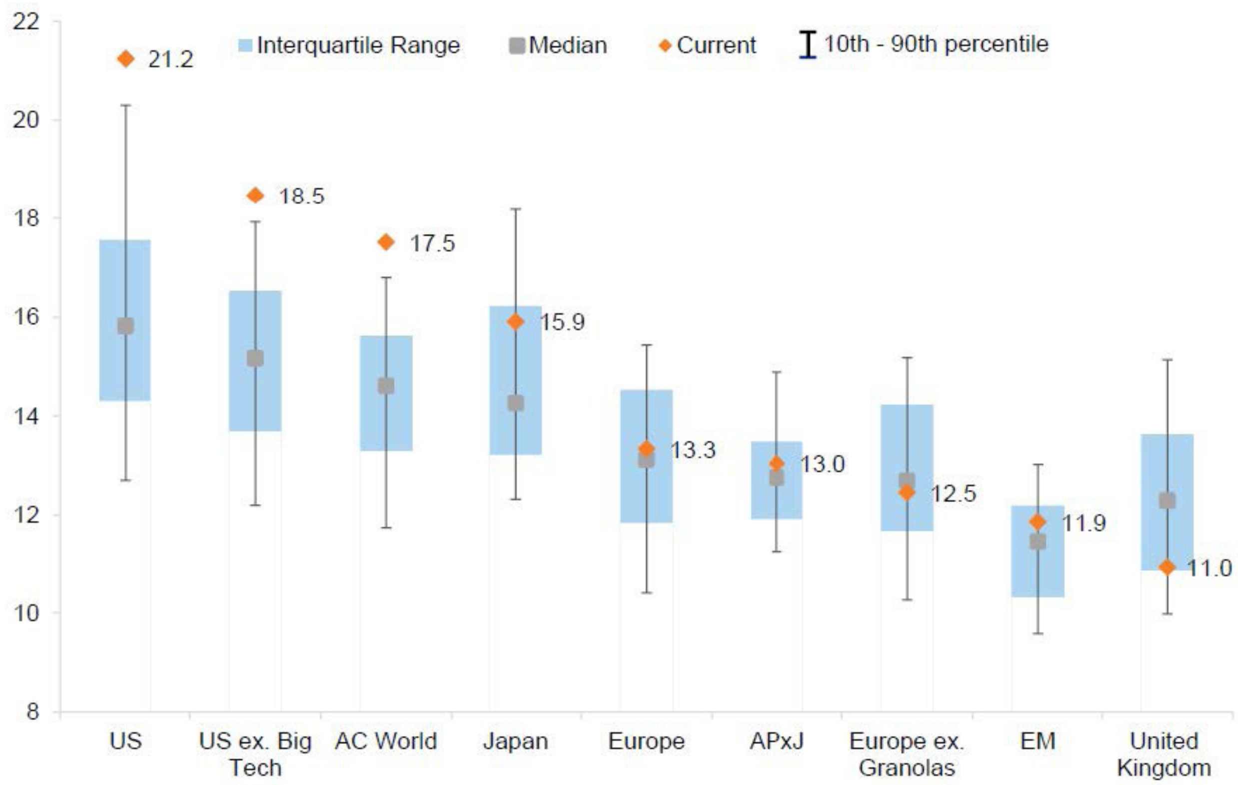
Property & Real Assets

Within our Property & Real Assets asset class, the only component held in the Adventurous Fund added to returns over the quarter. This was our holding in European Union carbon credits via the SparkChange EUA ETC. After a challenging first quarter, the market for EU carbon offsets was very strong in April and May as market participants began to price in how tight supply will likely become in the coming years.

Market Outlook

Certain global equity indices are trading at valuations that, by the standards of the last 20 years, are undoubtedly elevated. Investors are having to pay an unusually high price for every pound of profits that companies are expected to generate in the coming year, what's known as a forward Price/Earnings ratio. Currently this ratio is over 21x in the US, way above its long term average of 16x. This is being heavily influenced by an increasingly narrow group of big US technology companies, although even excluding those, overall US valuations are at the very top of their historical range (see below).

12 Month Forward Price/Earnings Ratios – Last 20 Years (Source BNY Mellon)



Equities

One market where this is certainly not the case is the UK equity market. At the overall index level you are only having to pay 11x forward earnings, almost half the price you pay for a pound of profits in the US. In addition, the UK equity index is also providing you with a dividend yield of around 4%, which is more than double that of the US market.

Based upon the exceptional investment opportunities availability in the UK equity market today, we are tactically overweight to UK equities across the Multi Asset-Blend Funds. We achieve that exposure via a passive component alongside three very different active UK equity strategies; one investing in steady growth companies that are listed in the UK but more global in orientation, one which is more value oriented and a third taking advantage of what we believe to be an even richer opportunity set in UK mid and small caps.

Although retail sentiment towards UK equities remains downbeat, corporates are starting to take advantage of this valuation discrepancy. Depressed share prices have prompted a surge in Mergers & Acquisitions in the UK with $77bn of deals announced this year to end May, compared with just $25bn for the whole of 2023 (Source: Polar/ Numis). The Fund's have benefitted from this via our active managers' portfolios.

That said, the largest buyer of UK equities in 2024 has actually been UK companies themselves, with a continuous stream of announced share buybacks. This is companies using their profits to buy their own undervalued shares, thereby increasing future Earnings (profit) Per Share for the remaining shareholders. Given share prices tend to follow earnings over time, this is a promising sign for future UK equity returns.

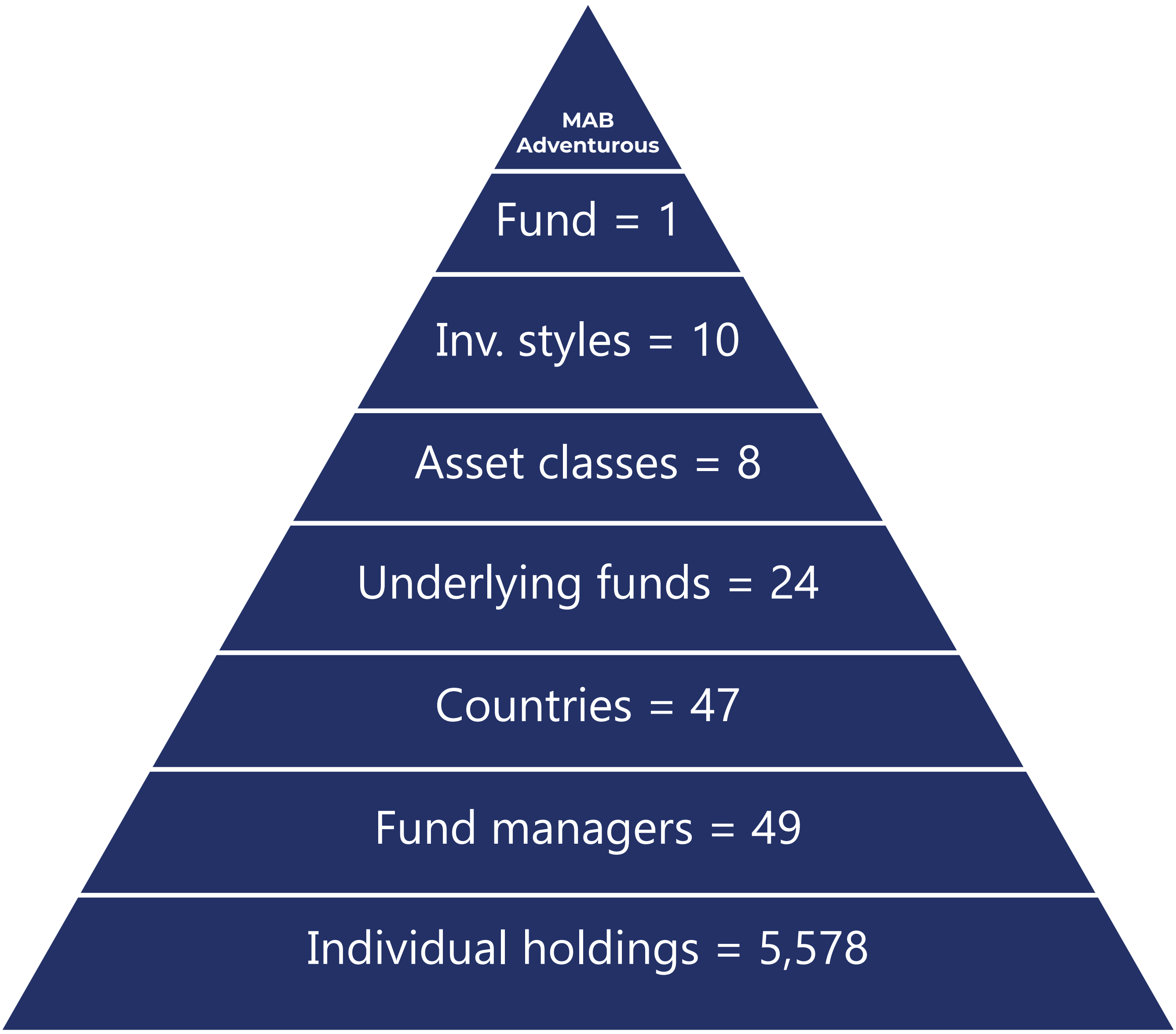
We also continue to tactically overweight the Fund's exposure to Japanese equities. Although when looking at the market as a whole valuations have expanded through recent strong performance, away from the largest capitalisation companies we continue to see some highly attractive opportunities for our Japanese focused managers to take advantage of. In addition, the structural changes to corporate governance practices in Japan that are resulting in companies focusing more on generating returns for their shareholders are also still in their early stages and we believe the benefits of these have some way to run across the entire Japanese market.

In summary, while headline valuations for global equities are no longer optically cheap, by maintaining a portfolio that is diversified by region, by style and by market capitalisation, we continue to identify a broad array of opportunities globally where the upside potential remains highly attractive going forward.

What’s in your Multi-Asset Blend Fund?

We aim to provide our clients with a full range of investment solutions that help deliver their financial plans. We have evolved our investment offering since 2004 and the YOU Multi-Asset Blend Funds are the most modern iteration of our investment process.

This pyramid below is designed to illustrate how highly diversified the MAB Adventurous Fund is and to help you understand the benefits of the Multi-Asset Blend Fund structure.



To find out more visit:
www.you-asset.co.uk/wp-content/uploads/2024/03/YOU-Client-Guide-Whats-in-a-YOU-Multi-Asset-Blend-Fund.pdf

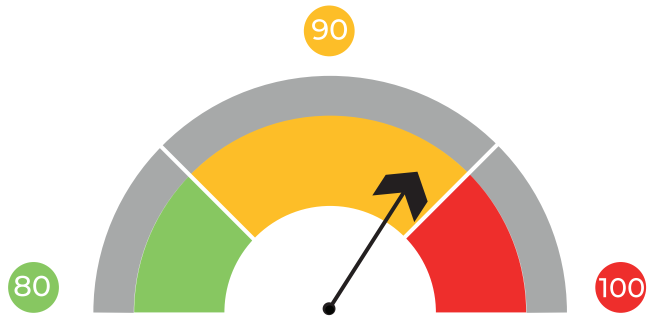
IFSL YOU Multi-Asset Blend Adventurous Fund
(as at 30th June 2024)

Equity Total	94%
UK Equity	**20.7%**
Lyxor Core UK Equity All Cap ETF	10.7%
Lindsell Train UK Equity	5.1%
Polar Capital UK Value Opportunities	3.4%
Invesco UK Opportunities	1.5%
US Equity	**19.3%**
Invesco S&P 500 ETF	11.8%
Neuberger Berman US Small Cap Intrinsic Value	4.7%
Amundi Russell 1000 Growth ETF	2.8%
Europe Ex-UK Equity	**10.2%**
Vanguard FTSE Developed Europe ex-UK ETF	5.3%
Lansdowne Partners European ex-UK	2.4%
BlackRock Continental European	2.5%
Japanese Equity	**13.5%**
Amundi Prime Japan ETF	5.6%
GSAM Japan Equity Partners	3.2%
Nikko Japan Value	3.1%
Neuberger Berman Japan Engagement	1.6%
Global Emerging Market Equity	**13.7%**
HSBC MSCI Emerging Markets ETF	5.0%
North of South EM All Cap	3.4%
Skerryvore Global Emerging Markets	2.6%
Baillie Gifford Pacific	2.7%
Global Developed Market Equity	**16.6%**
Amundi MSCI World ETF	5.2%
Brown Advisory Global Leaders	4.7%
Pzena Global Value	4.4%
Baillie Gifford Global Discovery	2.3%

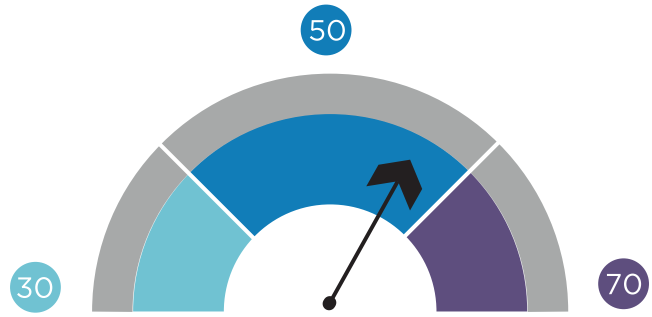
Other Assets Total	1.0%
Property & Real Assets	**1.0%**
Sparkchange Physical Carbon EUA ETC	1.0%

Cash Total	5.2%

CURRENT EQUITY CONTENT - 94%



CURRENT ACTIVE CONTENT - 53.5%



The readings above are correct as at 30th June 2024.

We recommend that potential investors seek professional financial advice before making any investment. The material in this report has been prepared by YOU Asset Management and provides background information about YOU Asset Management's activities as at the date of this report.

Manager Spotlight

Polar UK Value Opportunities Fund

UK Equity fund investing across the capitalisation spectrum but with a bias towards mid and smaller sized companies. Adopts a value style, identifying significantly undervalued companies with durable business models and strong balance sheets.

Team:
George Godber, Georgina Hamilton

Team experience:
37 years combined

Last manager meeting:
March 2024

Asset Class:
Equities

Sub Asset Class:
UK Equities

Fund inception date:
31st January 2017

Fund size:
£877 million

Added to your portfolio:
November 2022 (MAB), December 2022 (MPS)

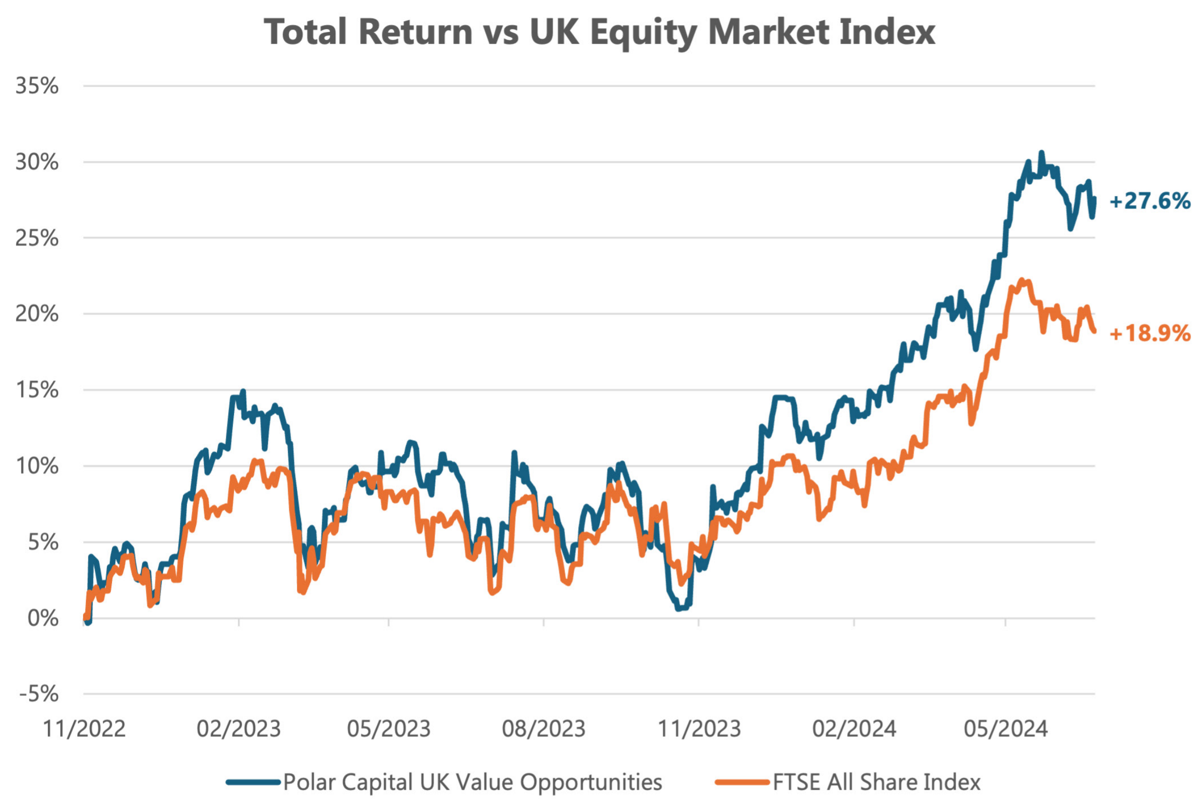
YOU allocation:
£53.2 million

Source: Refinitiv/ YOU Asset Management

In the fourth quarter of 2022 it became very apparent to us that a significant opportunity had arisen in the mid and smaller capitalisation segment of the UK equity market. After an indiscriminate fire-sale of UK mid and small sized companies throughout the market crisis of 2022, high-quality, growing UK companies with solid balance sheets had been sold down to valuations that are typically only available in times of extreme crisis..

We were attracted to Polar UK Value Opportunities Fund because it had also been through a very tough period of performance, but we believed its highly experienced portfolio management team were well placed to construct a portfolio of the most attractive opportunities across the UK market. We also liked that not only is the fund's strategy focused on identifying the most undervalued opportunities, but there is also a strict focus on the balance sheet strength of these companies. In what had become a higher interest rate environment where it was expensive to borrow, they were focused on only selecting companies that had strong cashflow and would be able to survive what was a tough and uncertain economic environment due to them not having unduly high levels of debt.

As you can see from the chart below, this has proved to be a timely addition. The fund is up approximately 28% since we first invested in the manager, almost 10% ahead of the FTSE All Share Index over this period. This represents first quartile performance over both 2023 and 2024 year -to-date.



It is not only us who could see the exceptional value that had arisen within the manager's area of focus. Other corporate buyers have taken advantage of this opportunity and we have seen numerous takeover bids within their chosen portfolio holdings. Examples include Hargreaves Lansdown, Wincanton, Redrow, Crest Nicholson and Anglo American Mining, each of which has resulted in significant boosts to their share prices and contributed to the manager's attractive absolute and relative outperformance so far.

It is important to note that, although this opportunity has proved to be a profitable one so far, we still think this has a long way to run. Many of the manager's portfolio holdings still trade on what we and the manager consider to be very low valuations given the quality and expected growth profile of their underlying businesses. As the political and economic backdrop in the UK continues to stabilise, we are confident that this manager can continue to make a significant contribution to our UK equity manager blends going forward.

Investment insights

The importance of starting and staying invested

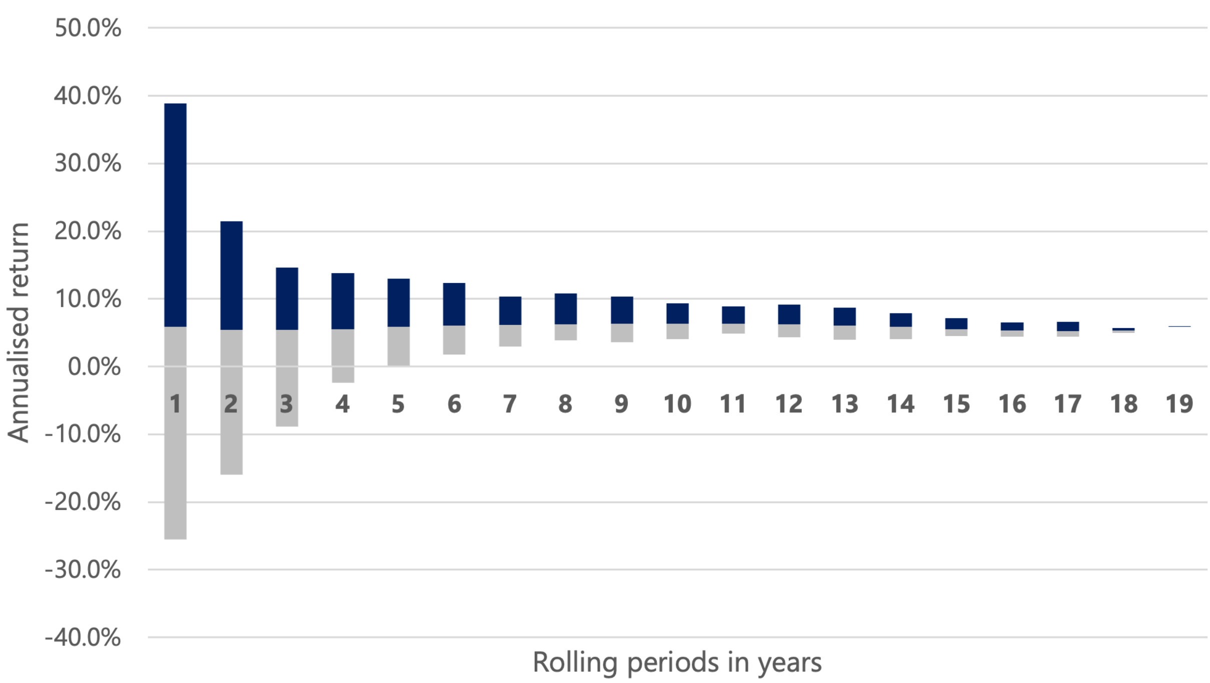
Staying invested is a crucial part of any successful investment strategy. Once you are on your investment journey the decision to stay invested can be easier, especially when you have confidence in your portfolio. Starting is often the biggest hurdle because it is human nature to try and 'time the markets' particularly when the current geopolitical noise is amplified by the media.

Last quarter we wrote about the extraordinary power of compound growth and although the growth may initially seem modest, the longer you stay invested the potential for greater returns increases. In order for investors to potentially benefit from this power of compound growth they have to start investing and the best time to start is now.

This is not because we think now is a perfect entry point for investors, but the sooner you can start the investment journey, the sooner you can benefit from compounding growth and longer-term returns.

The key realisation is that as long as you are investing for the long-term, it does not necessarily matter what the returns in the first few years are.

In the chart below we show the actual returns from our Active MPS portfolio that has 50% invested in equities; it is the equivalent of our Multi-Asset Blend Balanced Fund..



The track record goes back 19 years and shows the annualised returns that were delivered over the different rolling periods. The key learning point is the dispersion in the early years is significant. Looking at one year periods, the dispersion is large, ranging from almost +40% to -25%. This highlights the pitfalls of investing over short-term periods, where returns are highly volatile. For example, the worst one-year period was from end of March 2007 to end of March 2008. While the best one-year period was from end of April 2008 to end of April 2009, just a year after the worst.

However, the longer you invest for, the narrower the dispersions become. Over five year rolling periods you have had no negative outcomes; even if you did invest at the worst possible time in 2007 and stayed invested, five years later you were no longer under water.

Look forward ten years and the gap between the top and bottom is small, which leads us to the conclusion that it does not matter when you start investing, the key is to start and then stay invested. The longer you stay invested the closer you get to the average rolling returns, which is the point where the blue and grey bars meet; the average is also fairly consistent over all the rolling time periods. It is also important to ensure that you are appropriately invested in a global diversified, multi-asset investment strategy.

The longest rolling periods for actual performance is currently 19 years and we celebrate our 20th year of running clients' money in November 2024. This reminds us of the Chinese proverb that we believe encapsulates this particular investment insight:

"The best time to plant a tree was 20 years ago. The second best time is now."

If you are currently invested, then stay invested. If you are not invested, then start now, and begin your journey to securing you best financial life.

If there are any investment topics that you would like us to feature in this section of the Quarterly Report, we would love to hear from you at Marketing@YOU-Asset.co.uk

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Get in touch

Whether you have questions about your portfolio, need assistance with your investments, or simply want to touch base, our dedicated team is readily available to support you.

Don't hesitate to reach out to us through any of the following channels:

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Important information

All data provided by Investment Fund Services Limited (IFSL) is correct as at 30th June 2024. The IFSL YOU MAB Adventurous Fund was launched on 6th October 2022. It's crucial to understand that past performance does not predict future returns, and the value of investments can change, potentially resulting in not recovering the initial investment.

Investment performance is subject to fluctuations due to changes in currency rates and market conditions, especially for funds invested in international markets or different currencies. The Investment Asset Allocation Committee may adjust asset allocations in response to market evaluations, which could affect portfolio performance. Also, performance figures may not align with individual experiences if there were changes in portfolio investment during the quarter.

Be aware that inflation can impact the future value of capital, and investments focused on specific sectors or regions are generally riskier. Additionally, investments in emerging markets or smaller companies are subject to higher volatility and risks. Lastly, the performance of funds can vary significantly based on the timing of investment switches.

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