Quarterly Review

Multi-Asset Blend Cautious Fund

Q2 2024

www.YOU-Asset.co.uk

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 Multi-Asset Blend Cautious Fund ("the Fund") enjoyed another steady quarter of positive returns, rising +1.1% over the second quarter of 2024.
- Given its low risk profile, Fixed Income is the dominant asset class in this Fund, representing 40% of the asset allocation. Fixed Income returns were moderately positive over the quarter.
- What was more impactful on the Fund's returns this quarter however was our holdings in Absolute Return and Property & Real Asset managers, who performed strongly while providing maximum diversification to Equity and Fixed Income markets.
- Equities, which represent 30% of MAB Cautious, 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.

	MAB Cautious	IA Mixed Investment 0-35%
Quarter 2 2024	1.1%	0.6%
1 year	7.4%	7.6%
17th Oct 2022 (Since launch)	12.7%	12.3%

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

The Fund has seen a return of 12.7% 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.

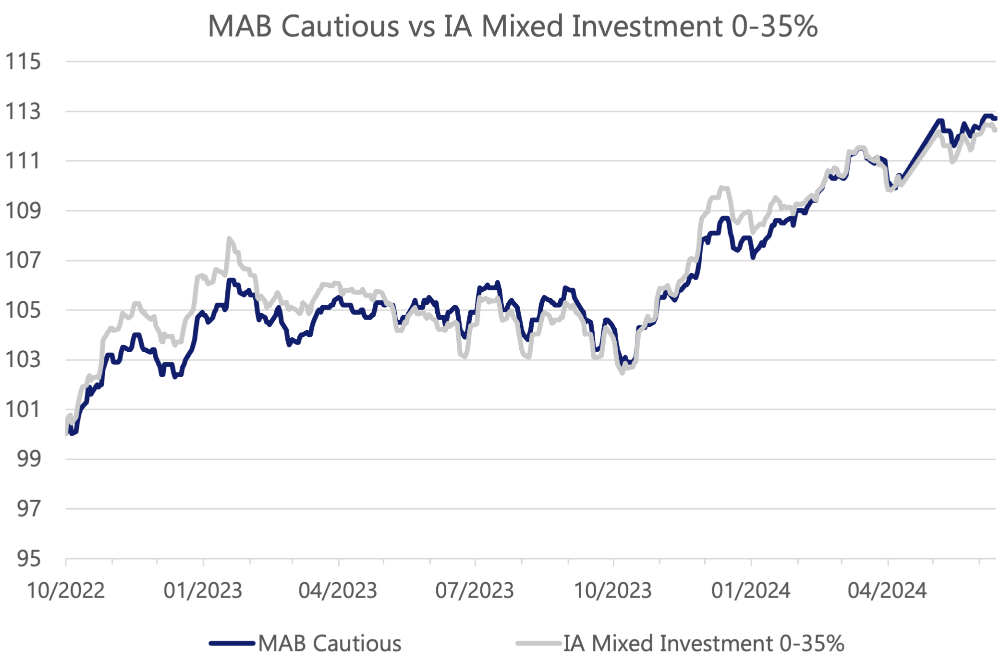
Performance commentary

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%.

Fixed Income returns were less exciting over the quarter, with the Bloomberg Global Aggregate Index of high quality global bonds returning just +0.1% in GBP hedged terms. Global government bond yields broadly did a round-trip over the quarter before ending close to flat as markets awaited further evidence that the disinflationary trends were robust. Lower quality, high yield bonds returned +1.3% for the quarter, but are now trading close to historically expensive levels. Chinese government bonds continued to provide excellent diversification and rallied +2.7% for the quarter as economic growth there remained weak.



Total Fund

The Multi-Asset Blend Cautious Fund ("the Fund") was up +1.1% over the second quarter, outpacing the +0.6% return of its IA Mixed Investment 0-35% Shares performance comparator. Since the Fund's inception on 17th October 2022, the Fund is up +12.7%, also ahead of its IA comparator. It is also worth noting that the Fund's return has been achieved with lower volatility and drawdowns than the IA comparator.

Equities

Our Tactical Asset Allocation in equities was flat for the quarter as the strong performance from our overweight to the UK equity market was 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 in terms of impact 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.

Fixed Income

Within the Fund's fixed income component, the stand-out performer this month was our exposure to Chinese Government Bonds via the JP Morgan China Aggregate ETF. This returned +2.3% as the Chinese economy continues to be weak. The Chinese economy faces multiple challenges as consumer balance sheets remain impaired from the recent property market crash, and it has been unable to export its way to prosperity as it has in the past. Coupled with this, demographics continue to deteriorate as the working age population shrinks. Chinese government bonds have proven to be a fantastic diversifier vs traditional developed market government bonds. Other successful managers within Fixed Income over the quarter include the MAN GLG High Yield Opportunities Fund which is run by Mike Scott. While we have reduced exposure to this Fund as the asset class has become rather expensive, Mike has continued to generate steady outperformance from his idiosyncratic security selection. Our exposure to short dated inflation linked bonds was also positive as real interest rates remained high over the quarter.

The only component of Fixed Income in MAB Cautious which underperformed over the quarter was our holding in the iShares 20+ Year US Treasury ETF which was down -1.6%. We continue to really like this exposure as a portfolio diversifier however, particularly in the context of the weakening US. economic data and the increasing lack of evidence for the ongoing persistence of elevated inflation.

Property, Real Assets & Absolute Return

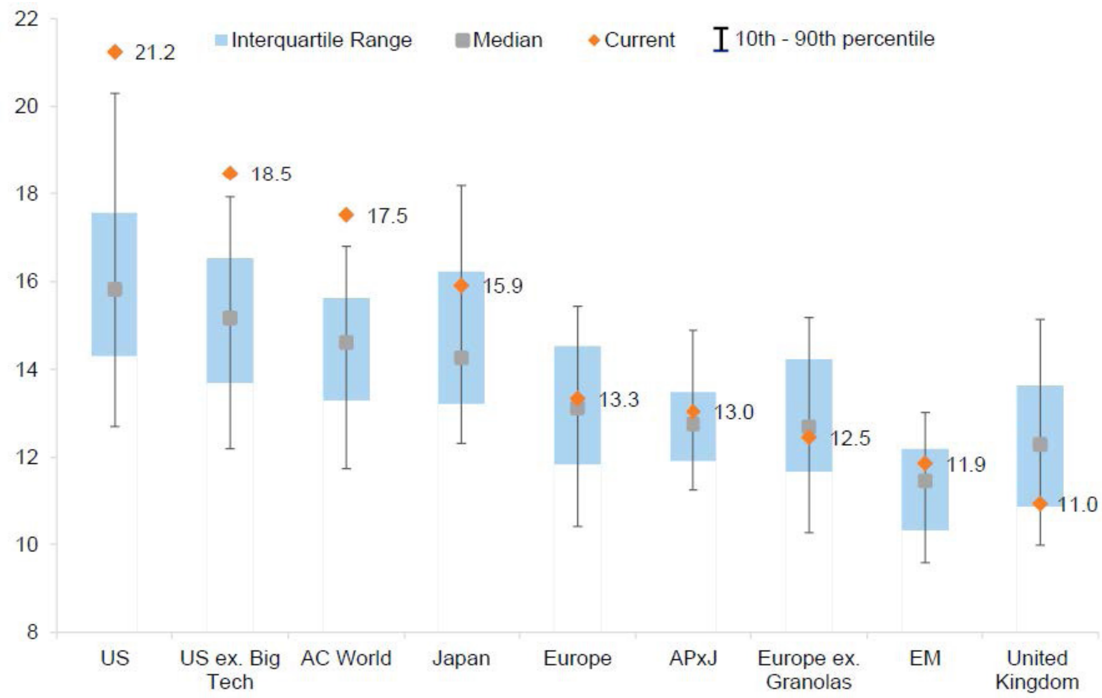
These "liquid diversifiers" within your portfolio are designed to generate positive returns while being unconnected to wider Equity or Fixed Income markets and hence provide maximum diversification without any illiquidity risks. Our equally weighted blend of three Absolute Return managers had another strong quarter, returning +2.2%. This was led by the Fulcrum Thematic Equity Market Neutral Fund which saw continued strong performance from their positioning around weight loss drug treatments as well as their global technology and "AI" exposures. The other components of our blend, namely the Pacific G10 Macro Rates Fund and the Sanlam Multi Strategy Fund also recorded decent returns of +2.2% and +1.6% respectively, allowing the blend to generate strong and steady returns from a variety of sources.

An manager from our Property & Real Assets asset class which was a slight drag on performance this quarter was the AQR Managed Futures Fund, which was down -0.9% following a very strong first quarter of 2024. We continue to really like the diverse sources of return this strategy provides, as it tends to capitalise on the propensity for markets to under-react to new information and the establishment of new trends.

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.

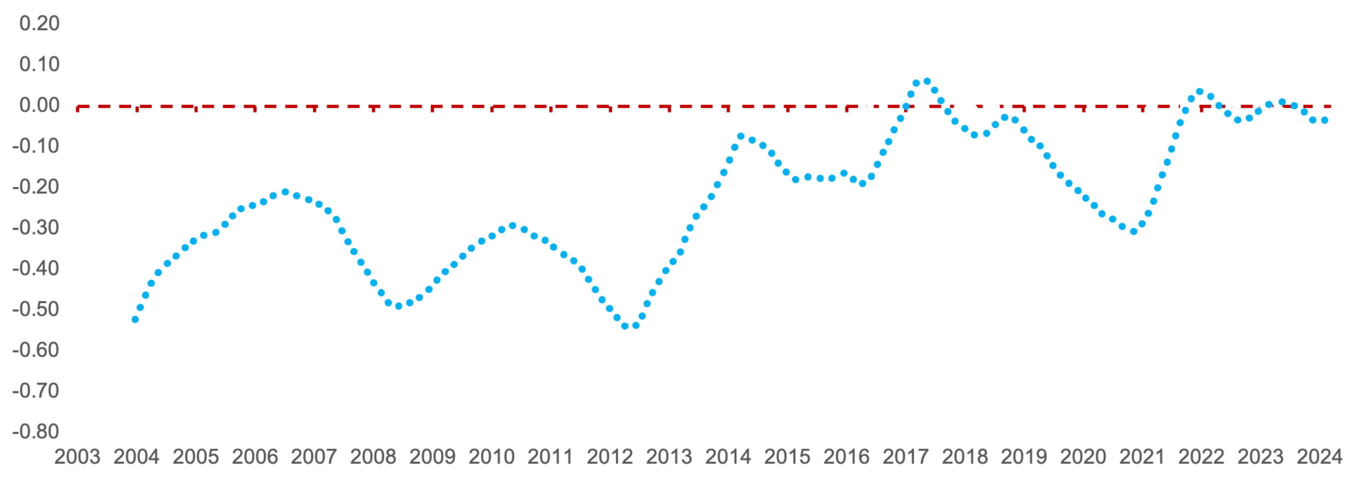
Although retail sentiment towards UK equities remains downbeat, corporates are starting to take advantage of this valuation discrepancy. Depressed share prices have prompted a surge in Mergers & Acquisitions in the UK with $77bn of deals announced this year to end May, compared with just $25bn for the 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.

The Role of Alternative Assets

A characteristic of markets over recent years has been the increased correlation between global equity and bond markets. This effectively means they are increasingly moving in a similar direction. Over the preceding decades, investors had been used to bonds and equities exhibiting negative correlation, with bonds typically providing protection in the form of positive returns in times of equity market stress. However, as the chart below demonstrates, since 2021 the diversification benefits of holding bonds alongside equities has been much less reliable.

12 Month Correlation of MSCI All Country World Index and Bloomberg Global Treasury Index (Source Refinitiv, YOU Asset Management)



This is unlikely to be a permanent feature and is partly to do with the recent move to a higher interest rate regime. However, we are currently sitting at a point where both equity and bond markets are generally responding positively when there is more confidence that rates will be coming down, and both responding negatively when there is more fear that rates will have to stay higher for longer.

Within the Multi-Asset Blend Funds, not only do we diversify our fixed income component into other less correlated segments, we also do not solely rely on bonds to provide diversification versus equities. That is why within all of the Funds, with the exception of the equity dominated Adventurous Fund, we include further diversifying allocations to Absolute Return Strategies and to some more inflation-sensitive strategies within Property & Real Assets.

We have carefully selected three very differentiated Absolute Return Strategies in funds adopting strategies that are designed to provide an attractive positive return over time, and importantly to deliver that return in a pattern that is not driven by the direction of equity or fixed income markets.

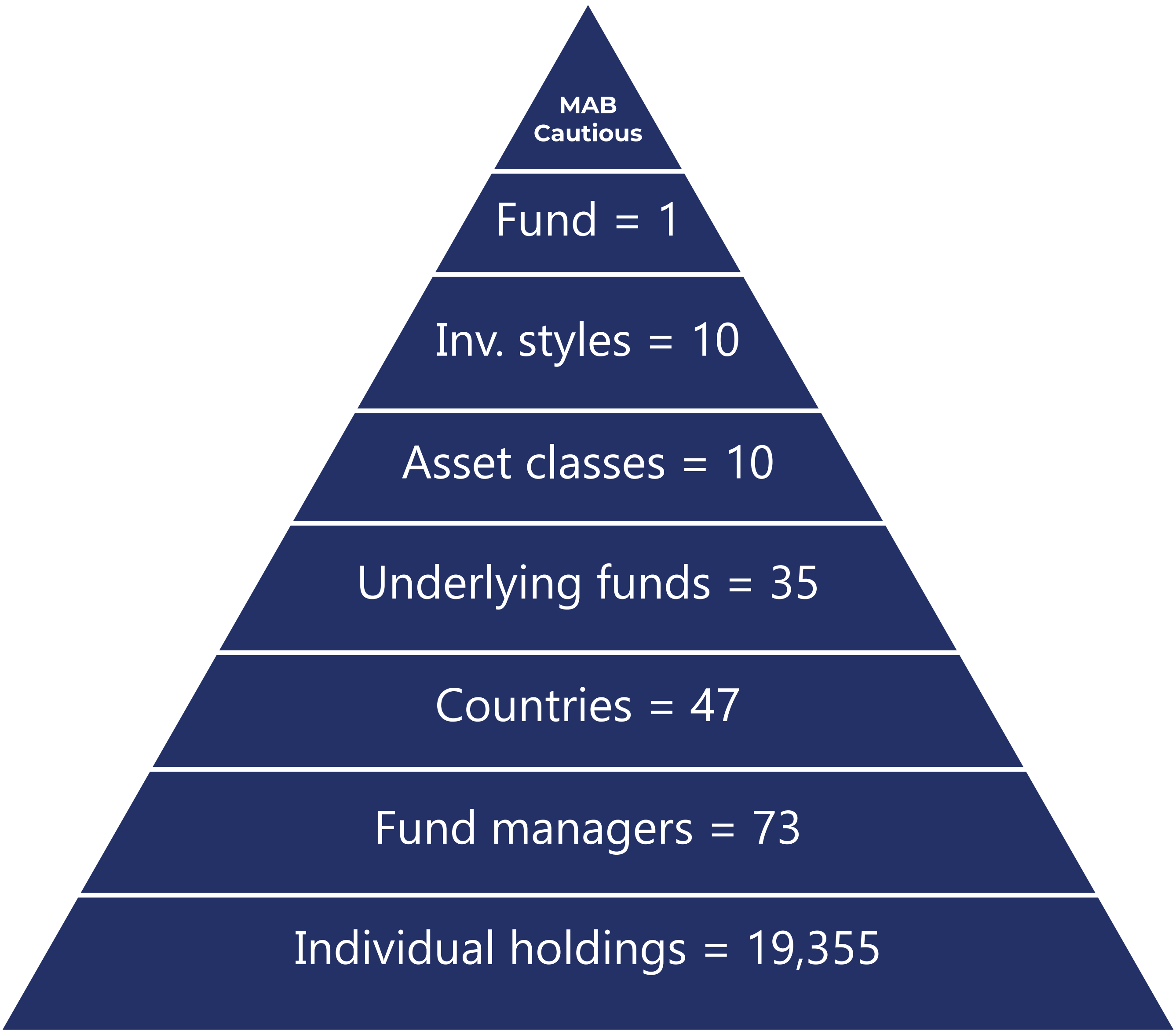
We also have an allocation to Property & Real Assets. These are funds that adopt strategies that have embedded within them some inflation sensitivity. Examples of this in the Funds include commodities, global listed infrastructure assets, an exposure to EU carbon credit prices and a Trend Following strategy that has historically delivered positive returns when inflation has trended upwards, as it did very successfully in the most recent bout of inflation.

We consider these alternative and highly differentiated sources of return will continue to represent a valuable source of additional diversification alongside bonds in an ever uncertain macroeconomic environment. We have carefully selected three very differentiated Absolute Return Strategies in funds adopting strategies that are designed to provide an attractive positive return over time, and importantly to deliver that return in a pattern that is not driven by the direction of equity or fixed income markets.

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 Cautious 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 Cautious Fund
(as at 30th June 2024)

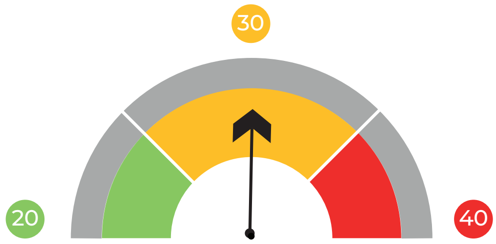
Equity Total	30.1%
UK Equity	**6.6%**
Lyxor Core UK Equity All Cap ETF	3.4%
Lindsell Train UK Equity	1.6%
Polar Capital UK Value Opportunities	1.1%
Invesco UK Opportunities	0.5%
US Equity	**6.1%**
Invesco S&P 500 ETF	3.7%
Neuberger Berman US Small Cap Intrinsic Value	1.5%
Amundi Russell 1000 Growth ETF	0.9%
Europe Ex-UK Equity	**3.3%**
Vanguard FTSE Developed Europe ex-UK ETF	1.7%
Lansdowne Partners European ex-UK	0.8%
BlackRock Continental European	0.8%
Japanese Equity	**4.4%**
Amundi Prime Japan ETF	1.9%
GSAM Japan Equity Partners	1.0%
Nikko Japan Value	1.0%
Neuberger Berman Japan Engagement	0.5%
Global Emerging Market Equity	**4.3%**
HSBC MSCI Emerging Markets ETF	1.6%
North of South EM All Cap	1.1%
Skerryvore Global Emerging Markets	0.8%
Baillie Gifford Pacific	0.8%
Global Developed Market Equity	**5.4%**
Amundi MSCI World ETF	1.8%
Brown Advisory Global Leaders	1.5%
Pzena Global Value	1.4%
Baillie Gifford Global Discovery	0.7%

Other Assets Total	24.8%
Property & Real Assets	**9.9%**
AQR Managed Futures	2.8%
ClearBridge Global Infrastructure Income	2.8%
UBS Bloomberg Commodity CMCI ETF	3.5%
Sparkchange Physical Carbon EUA ETC	0.8%
Absolute Return	**14.9%**
Sanlam Multi Strategy	5.5%
Fulcrum Thematic Equity Market Neutral	4.7%
Pacific G10 Macro Rates	4.7%

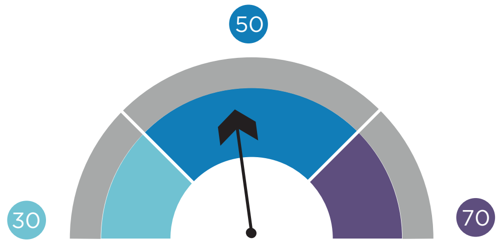
Fixed Income Assets	39.6%
Vanguard Global Aggregate Bond ETF	19.1%
iShares 20+ Year US Treasury ETF	3.3%
JP Morgan China Aggregate Bond	6.5%
ASI Short-Dated ILB Tracker	8.8%
MAN GLG High Yield Opportunities	1.9%

Cash Total	5.7%

CURRENT EQUITY CONTENT - 30.1%



CURRENT ACTIVE CONTENT - 48.1%



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

JP Morgan China Aggregate Bond ETF

The ETF invests primarily in high-quality Chinese government or government-related bonds. We have been invested in high quality Chinese government bonds in the MAB Funds since July 2020, however in October 2023 we switched the position to an ETF format for more efficient implementation.

Team:
Co-Managers Eric Isenberg, who is also the Head of Global Fixed Income, Currency & Commodities Quantitative Solutions, along with Naveen Kumar and Alvaro Quiros.

Team experience:
Over 40 years

Last manager meeting:
14th March 2024

Asset Class:
Fixed Income

Sub Asset Class:
Global Government Bonds

Fund inception date:
17th March 2022

Fund size:
£99.2M

Added to your portfolio:
October 2023

YOU allocation:
£36.2MN (as at the end of May 2024)

Source: Refinitiv/ YOU Asset Management

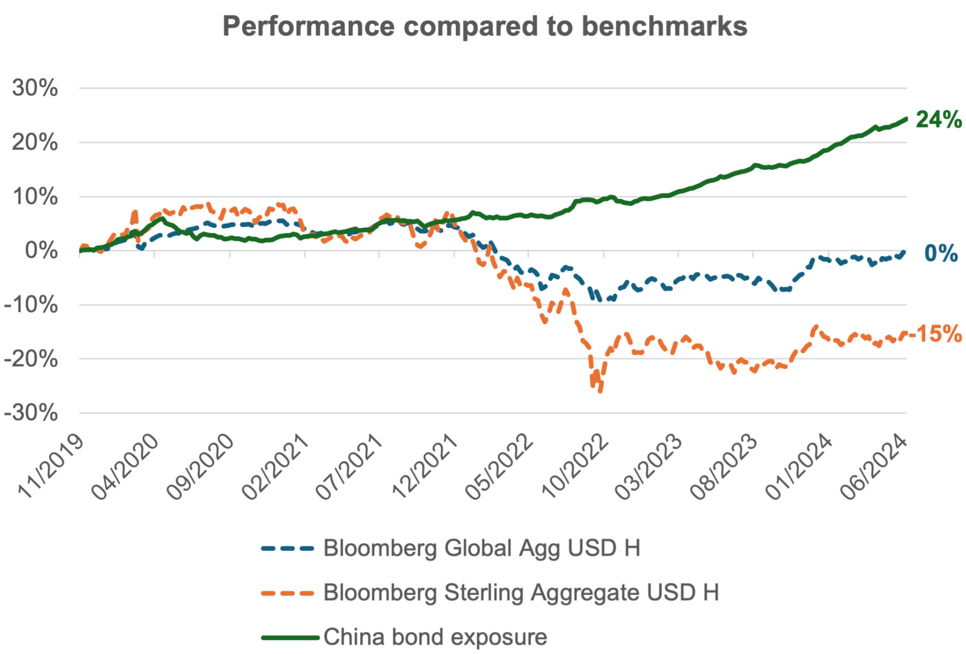
The Facts Behind The Fund

China is now the world's second largest net creditor (after Japan). However, its sovereign debt is massively underrepresented in global portfolios. Foreign ownership now stands at only 2.1% of the onshore bond market. Having previously been closed off to external investors, the onshore Chinese debt market is now opened up to the world.

Chinese consumer price inflation (CPI) is flat year-over-year and is reflective of deficient demand. The economy has remained sluggish in recent months, with the housing market being the principal issue and the primary driver of debt-deflationary pressures. Declining house prices significantly affect household wealth, thereby impacting consumption. Additionally, demographic challenges stemming from decades of the "one-child" policy are another source of demand weakness, as China faces an ageing population. Among the youth, unemployment has surged, reaching a level that led the government to cease reporting the data from July 2023. We expect these dynamics to persist and interest rates to remain low to support the economy, which will be advantageous for the strategy that provides a positive real interest rate for low-volatility government debt.

There are significant portfolio construction benefits from a reasonable allocation to highly rated Chinese sovereign bonds. This has been most evident in the covid market sell-off as well as the record poor performance we witnessed in traditional government bonds in 2022, particularly from UK Gilts.

This exposure presents an excellent opportunity for diversification, given its low correlation with other traditional Fixed Income sub-asset classes, and offers attractive returns maintaining a low volatility profile.



"The fund is an excellent diversifier to traditional developed market Fixed Income as well as more risky assets."

We have held this exposure since July 2020, and more recently, we have expressed this view in the MAB Cautious and Balanced funds through the JP Morgan China Aggregate Bond ETF which is the most efficient method from a trading and implementation point of view.

An interesting aspect of the strategy from our perspective is that hedging the currency exposure now generates a positive yield due to the big difference in short term UK and Chinese interest rates. This is an attractive way to benefit from high UK interest rates in a globally diversified way. The all-in GBP Hedged yield of the strategy is approximately 6%.

Investment insights

The importance of starting and staying invested

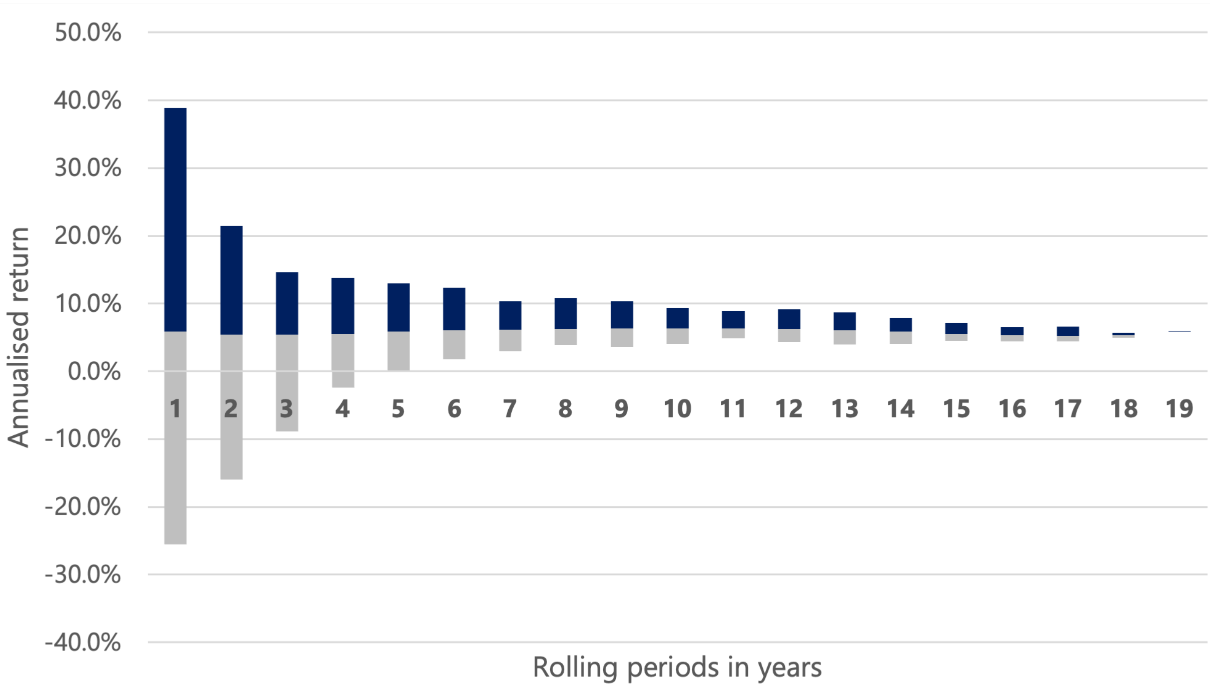
Staying invested is a crucial part of any successful investment strategy. Once you are on your investment journey the decision to stay invested can be easier, especially when you have confidence in your portfolio. Starting is often the biggest hurdle because it is human nature to try and ‘time the markets’ 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 Cautious Fund was launched on 17th 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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