HURST

FINANCIAL CONSULTANCY

October 2023

Investment Review

Welcome

Welcome to our Autumn investment review.

Those of you who keep a keen eye on your investments will be fully aware that challenges remain in the form of the various macroeconomic and geo-political events including the ongoing Ukraine War, inflationary pressures, interest rate hikes and the cost-of-living crisis.

It is worth highlighting that the majority of the issues being faced by our clients are also being felt by investors across the globe and are not unique to us here in the UK.

Long Term Financial Plan

When interest rates rise and banks and building societies offer attractive returns on deposit accounts it is natural for investors to place additional funds into these accounts, and some may also consider whether it is worth divesting from other investments in the quest for greater returns.

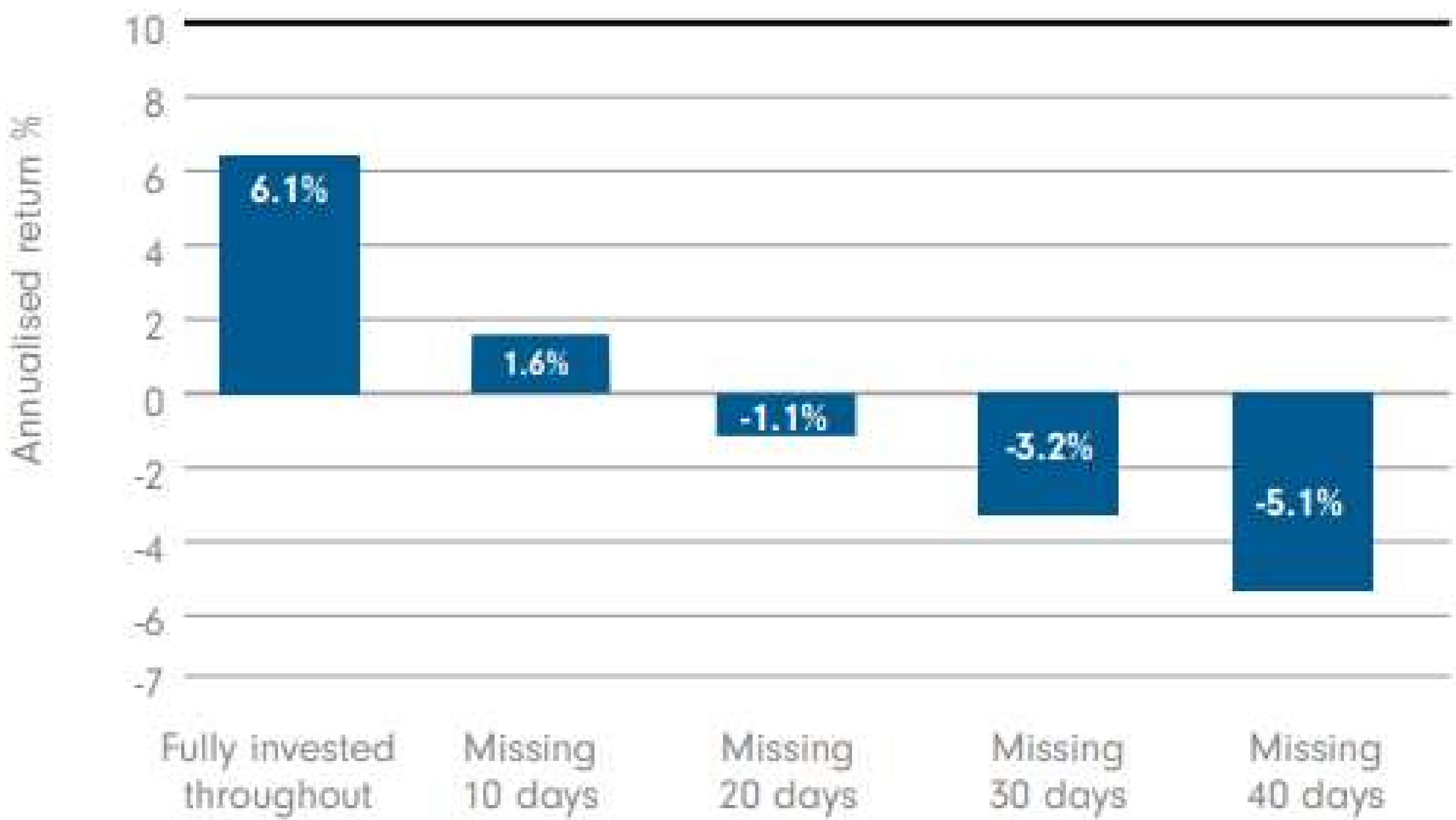
When your investments were first set up, a risk-rated financial plan was put in place for you, and this includes holding an amount in lower-risk assets and cash savings to provide a buffer in the event of emergencies.

When investing over the longer term, accepting some risk and volatility are a natural and necessary part of the process to ensure your money is able to generate value and make a profit over time.

It is therefore important not to sell an investment (designed as part of a long-term investment plan) as a knee-jerk reaction if prices go down temporarily over a short time frame.

It is vital to remain focused on the long-term, stick to the plans put in place and not to try and time the market as highlighted by the chart on the next slide:

FTSE All-Share: Effect of missing best days



Source: Refinitiv Datastream, from 29.08.2008 to 31.08.2023. Based on the annualised total return of the FTSE All Share in GBP terms.

This chart shows the annualised investment returns of investing in the FTSE ALL Share index between 2008 and 2023 and compares remaining invested (the blue bar on the far left) with the impact of missing the best 10, 20, 30 and 40 investment days (i.e., those days when the index increased by the most in a single day) during this period.

As highlighted by the chart, a portfolio which remained fully invested throughout this period would have achieved just over 6%pa.

However, an investor who tried to time the market (i.e., sold and reinvested) over this period resulting in them missing the 10 best days would have seen this annualised return drop to just 1.6%pa.

Had this approach resulted in them missing the best 40 days over this period their annualised return would have sunk to -5.1%pa. It is worth remembering that often these “best days” follow some of the most difficult times hence our advice to our clients is to remain invested and seek to capture these returns over the longer term.

Diversification

The portfolios we create for our clients mean you are invested in a wide range of different assets, countries and currencies with the aim of giving your money the potential to grow whilst not placing too much into any one area and exposing you to unnecessary risk.

As mentioned earlier, at the outset of the planning process, we discuss cash reserves with you for liquidity purposes and in case of emergencies in the short term. The aim of the funds you have entrusted with HFC is for these to remain invested for the medium to long term in line with your agreed risk profile to achieve your financial objectives.

The table on the next slide shows the current asset allocation of our HFC balanced portfolio.

The table is available as a separate PDF. See links below.

HURST

FINANCIAL CONSULTANCY

Fund	ISIN	SEDOL	HFC Balanced
CASH	CASH	CASH	1%
BlackRock ICS Sterling Liquidity Acc -U	IE00B43FT809	B43FT80	2%
Sub Total Cash			3.00%
Fixed Income			
UK Govt Bonds			
Vanguard UK Government Bond Index Institutional Plus Acc	IE00BPT2BS66	BPT2BS6	5.00%
Sub Total			5.00%
Sovereign Bonds ex UK			
Vanguard US Government Bond Index Acc Hdg	IE00BFRTDB69	BFRTDB6	5.00%
Sub Total			5.00%
Corporate/Strategic Bonds			
L&G Global Inflation Linked Bond Index C Acc	GB00BG0QPQ07	BG0QPQ0	5.00%
Vanguard Global Short-Term Corporate Bond Index I+ GBP-hedge	IE00BDFB6W20	BDFB6W2	5.00%
Vanguard Global Corporate Bond I+ (GBP Hedged)	IE00BDFB5D65	BDFB5D6	9.50%
Sub Total			19.50%
SubTotal Fixed Income			29.50%
Equities			
UK Equity			
Fidelity UK Index P Acc	GB00BJS8SF95	BJS8SF9	6.00%
HSBC 250 Index C Acc	GB00B80QG052	B80QG05	5.00%
L&G UK Index C Acc	GB00BG0QPF91	BG0QPF9	5.00%
Sub Total			16.00%
US Equity			
BlackRock iShares US Equity Index Fund Acc D GBP	GB00B5VRGY09	B5VRGY0	6.00%
L&G US Index C Acc	GB00BG0QPL51	BG0QPL5	6.00%
Sub Total			12.00%
European Equity			
HSBC European Index Income C	GB00B80QGD89	B80QGD8	4.00%
Sub Total			4.00%
Asia Pacific & Emerging Market Equity			
HSBC Pacific Index Fund Income C	GB00B80QGR26	B80QGR2	4.00%
Fidelity Index Emerging Markets Fund	GB00BP8RYT47	BP8RYT4	4.00%
SubTotal			8.00%
Japanese Equity			
iShares Japan Equity Index	GB00B6QQ9X96	B6QQ9X9	3.00%
Sub Total			3.00%
Global Equity			
UBS FTSE RAFI Developed 1000 Index © Acc GBP	GB00BX9C1L56	BX9C1L56	5.00%
Vanguard Global Stock Index Fund I+	IE00BYVQ3L68	BYVQ3L6	8.00%
Vanguard Global Small-Cap Index Fund - Institutional Plus GBP Acc	IE00BPT2BD14	BPT2BD1	4.00%
Sub Total			17.00%
Sub Total Equity			60.00%
Alternative Assets			
Structured Products			
Fortem Capital Progressive Growth A GBP Acc	IE00BF047831	BF04783	7.50%
Sub Total			7.50%
Sub Total Alternative Assets			7.50%
Portfolio Total			100.00%

You will note that the portfolio is invested across three broad areas or “asset classes”. The allocation to these different assets is monitored to ensure the portfolio remains in line with its risk rating.

- 32.5% of the portfolio is held in various fixed interest instruments (e.g. corporate and government bonds)
- 60% is held in worldwide equity markets
- 7.5% is held in structured products

We receive a lot of questions asking why the portfolios do not track the FTSE 100 and the graphic shows that we currently have a 16% exposure to UK equities.

The Benefits of Diversification

What proves to be the best asset class to invest in one year could be the worst asset class the following year. This is why we believe in a well-diversified portfolio allocating your funds across different asset classes, countries, sectors and currencies.

The chart on the next slide highlights the performance of a range of different asset classes over the last 10 years each represented by a different coloured tile.

The chart is available as a separate PDF. See links below.

The benefits of diversification

By spreading your money across different types of assets, it is possible to avoid exposing your investments to undue risk.

The jumble of colours below – with each colour representing a different type of asset – shows how varied the performance of equities (company shares), bonds, and property has been over the past 10 years. There is no guarantee that the investment that is top in one year will perform well in the next.

Return (%)	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019	2019 - 2020	2020 - 2021	2021 - 2022	2022 - 2023
Best	Europe ex UK equities	China equities	US equities	China equities	China equities	US equities	China equities	US equities	UK property	Europe ex UK equities
	UK equities	Japan equities	Global equities	Europe ex UK equities	US equities	Global equities	US equities	Emerging markets equities	UK equities	US equities
	UK property	US equities	Global bonds	Asia Pacific ex Japan equities	Global equities	Europe ex UK equities	Japan equities	Global equities	Cash	Japan equities
	US equities	UK property	Japan equities	Emerging markets equities	Japan equities	Global bonds	Global equities	Asia Pacific ex Japan equities	US equities	Global equities
	Global equities	Global equities	Asia Pacific ex Japan equities	Japan equities	UK equities	Emerging markets equities	Global bonds	Europe ex UK equities	Global equities	UK equities
	Global bonds	Asia Pacific ex Japan equities	Europe ex UK equities	Global equities	Asia Pacific ex Japan equities	Asia Pacific ex Japan equities	Asia Pacific ex Japan equities	UK equities	Japan equities	Cash
	Asia Pacific ex Japan equities	Emerging markets equities	Emerging markets equities	US equities	Emerging markets equities	UK equities	Europe ex UK equities	China equities	Global bonds	Global bonds
	China equities	Global bonds	UK equities	UK equities	UK property	UK property	Cash	Japan equities	Europe ex UK equities	Emerging markets equities
	Emerging markets equities	Europe ex UK equities	Cash	UK property	Europe ex UK equities	Cash	Emerging markets equities	UK property	Asia Pacific ex Japan equities	Asia Pacific ex Japan equities
	Cash	Cash	UK property	Cash	Cash	Japan equities	UK property	Cash	Emerging markets equities	UK property
Worst	Japan equities	UK equities	China equities	Global bonds	Global bonds	China equities	UK equities	Global bonds	China equities	China equities

Key takeaways

- Spread your money across a range of different investments to reduce risk.
- Don't assume that the past performance of an investment will reflect its future performance.
- Investing in a range of assets is likely to be more successful than trying to pick just one or two.

Source: *Quilter Investors as at 30 June 2023. Total return, percentage growth in pounds sterling. Discrete annual returns over period 1 July 2013 to 30 June 2023. Global bonds is represented by the Bloomberg Global Aggregate Index; UK equities is represented by the MSCI United Kingdom; UK property is represented by the IA UK Direct Property sector average; Global equities is represented by the MSCI All Country World Index; China equities is represented by the MSCI China Index; Emerging markets equities is represented by the MSCI EM (Emerging Markets) Index; Europe ex UK equities is represented by the MSCI Europe Ex UK Index; Japan equities is represented by the MSCI Japan Index; US equities is represented by the MSCI North America Index; Asia Pacific ex Japan equities is represented by the MSCI AC Asia Pacific Ex Japan Index; and Cash is represented by the Bank of England Base Rate. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. It is not possible to invest directly into an index.*

As can be seen from the chart, no one coloured tile is consistently at the top (nor at the bottom) over this 10-year period, indeed some swing from being amongst the best performing in one year to the worst performing the following year.

This reiterates the point about not "placing all your eggs in one basket" but taking an informed view around where the long-term allocation of funds should be as well as tweaking this in the short term if there are opportunities that can be taken advantage of.

Market Analysis – General Overview

HURST FINANCIAL CONSULTANCY

Since our last communication, pressures remain on equity markets and sovereign bond yields being pushed up further as labour market data remains stubbornly high and the oil price has seen a sharp rise (this has been further exacerbated by recent events in the Middle East).

Most markets saw negative returns in September with the one exception (in the developed world) being the energy-heavy UK index which benefited from the oil price surge.

Whilst UK and US CPI figures continue to head in the right direction, labour market data remains strong, and focus has now shifted to 'higher for longer' (in relation to interest rates) rhetoric coming out of the BoE and US Fed.

Fixed Income

Unusually, fixed income has not helped diversified investors absorb equity losses as it has in previous years.

That said, direct government bonds remain great value at current prices as not only do they offer high, relatively risk-free returns, they also offer a great hedge should we have a worse recession than anticipated or we start to see interest rates coming down again which is expected.

The reset in fixed income pricing does indicate that core bonds will act as a positive hedge against any equity weakness. The recent moves also highlight the benefit of holding alternative assets.

Global Markets

HURST FINANCIAL CONSULTANCY

Looking globally there are some good opportunities to be found across the emerging markets and Asia at present, as the shifting demographics across countries like India, parts of Africa and Pakistan are likely to provide a boost to growth over the coming decade with growing work forces.

China

When China abolished its highly restrictive Covid-19 policy six months ago, analysts expected it would drive an economic resurgence, but this has simply not happened.

Instead, China has recorded slowing retail sales growth, weakened infrastructure investment, and falling prices with annual CPI running at -0.3% in July.

This has all cast doubt over China’s ability to meet its 2023 GDP growth target of 5%.

To stimulate growth, the People's Bank of China (PBoC) lowered its interest rate twice in August and announced targeted measures to support financial markets and the property market.

However, analysts are concerned that the announced size and extent of the stimulus will not be enough to meet both the scale and complexity of China's economic problems.

For reference we currently hold a very small exposure to China in our balanced portfolio of around 1.6%.

Japan

HURST
FINANCIAL CONSULTANCY

Japan has been a disappointing market for investors for multiple decades. Despite hosting many leading global brands, the stock market has struggled with low valuations and corporations focusing less than their Western peers on creating shareholder value.

This is now changing; reforms are encouraging firms to take a greater interest in maximising share prices and positive inflation figures are generating economic growth. The weakened yen is also supporting exports, whilst naturally, making imported goods more expensive.

Although the Bank of Japan (BoJ) is loosening its yield curve control approach – purchasing variable amounts of government bonds or other financial assets to target interest rates at a certain level – it has not yet ended. The policy has been a major factor in the yen reaching its lowest level, in real terms, since the 1970s, raising the possibility of further government intervention to support the currency.

The weak yen has meant that while equity market returns have been strong, with the MSCI Japan Index gaining 25.3% so far this year to the end of August, these returns fall to 7.8% in sterling terms.

For reference we currently have exposure of around 3% to Japanese equities in our balanced portfolio.

Sticking To Your Financial Plan

We do appreciate that the last 18 months has been uncomfortable. However, there are plenty of examples from the past of turbulent economic times which, although not identical to the current situation, certainly appear similar when looking back with the benefit of hindsight.

The following graphic is a reminder of the historical benefits of remaining calm and staying invested during these difficult events and enjoying the rewards of the subsequent recoveries.

The chart is available as a separate PDF. See links below.

The importance of investing for the long term

Investing with a long-term outlook is the best way for you to reduce the impact of stock market fluctuations and to grow your investments over time.

The chart below shows that over the long term, there is an upward trend of returns from equities and bonds, despite the short-term volatility caused by major events. In fact, an investment into global equities could have grown by more than 1020% over the past 30 years.

Cumulative returns

	5 years	10 years	20 years	30 years
Global equities	57%	191%	592%	1020%
Global bonds	0%	16%	92%	353%
Cash	5%	7%	41%	146%

Key takeaways

- Don't let short-term blips distract you from your long-term plan.
- People who stay invested are more likely to see their investments recover.
- Investing over the longer term (five years or more) is more likely to be successful.

Source: *Quilter Investors as at 30 June 2023. Total return in pounds sterling over period 30 June 1993 to 30 June 2023. Based on an initial investment of £10,000. Global equities is represented by the MSCI All Country World Index; global bonds is represented by the Bloomberg Global Aggregate Index; and cash is represented by the Bank of England Base Rate. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. It is not possible to invest directly into an index.*

Summary

We do expect inflation and consequently interest rates to reduce globally, the exact timescales of these reductions is unknown, however being invested in a well-diversified and professionally managed portfolio has the benefit of being positioned for the upturn in markets when they do occur.

Keeping In Touch

HURST

FINANCIAL CONSULTANCY

Mike hfc@unbiased-advice.co.uk

Jon 01722 434 975
jpbudden@unbiased-advice.co.uk

Adam 01722 434 973
adam@unbiased-advice.co.uk

Neil 01722 434 974
neil@unbiased-advice.co.uk

Chris 01722 434 976
chris@unbiased-advice.co.uk

Telephone:
01722 411 411

Email:
hfc@unbiased-advice.co.uk

Website:
http://www.unbiased-advice.co.uk

Client log in facility:
http://valuations.fenetra.co.uk