INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 1 2023

The first quarter of 2023 got off to a bright start, with all portfolios making progress in January and February. Yet come March, we saw valuations slide and gave back returns as panic surfaced in the banking industry following the demise of Silicon Valley Bank in the US and a state-orchestrated takeover of Credit Suisse.

The stresses in the US banking system initially caused a knee-jerk reaction in broader financial markets. Still, as the quarter ended, things settled somewhat as the Fed quickly responded to the banking crisis, providing liquidity totalling $400 billion in the form of an emergency lending programme to banks.

UK and European banks are not immune to interest rate pressure but are generally well-capitalised and far more robust than in 2008. A banking crisis rarely happens overnight, so we pay close attention to liquidity, bank lending and standards. Although we don't know the degree of impact, we expect a contraction in bank lending (more so for US regional banks, which account for a third of total lending in the US) to act as a brake on growth and lead to a potentially earlier pause in central bank rate rises, as this does some of the "tightening" of the conditions for them. Expectations are now high for an end to the hiking cycle, with perhaps some cuts on the horizon by the end of the year, yet calling that with any confidence, given what's happened so far versus expectations, is very difficult.

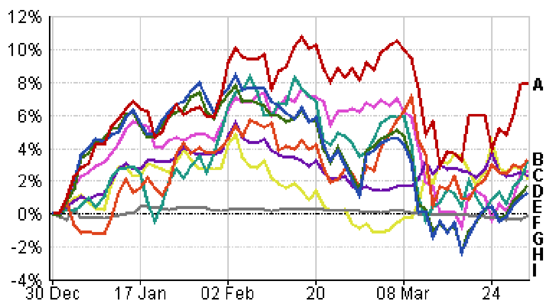
Money market funds attracted 340 USD billion in four weeks in March (source Pictet); the largest flow outside of the Covid crisis, mirroring a flight from bank deposits. Outflows from equities were limited with US redemptions offset by emerging market inflows. Active funds have a good chance of outperforming indices, which might not go anywhere fast.

In the Spring budget, the Chancellor said the UK might well avoid a recession, but it's too early to pop the champagne corks. Given the unwinding of 13 years of cheap money and associated leverage, the effects are still to be fully felt. This means we still like investment grade corporate bonds as the huge rise in yields last year is still close to extremes and the risk reward trade off appears very attractive. Many investors who have been in the bond market for a long time had thought 2.5% of rate hikes by the Fed in 1994 would be the most painful hiking in a career; then we had 2022, which saw a 4.5% increase.

PANIC, NOT A CRISIS IN THE BANKING SYSTEM

A PAUSE IN RATE RISES IN SIGHT?

GREEN METAL OPPORTUNITY



- A - IA Europe Excluding UK TR in GB [8.01%]
- B - IA Japan TR in GB [3.31%]
- C - IA North America TR in GB [3.22%]
- D - IA UK All Companies TR in GB [2.63%]
- E - IA Sterling Corporate Bond TR in GB [2.28%]
- F - IA UK Gilts TR in GB [2.16%]
- G - IA Global Emerging Markets TR in GB [1.74%]
- H - IA Asia Pacific Excluding Japan TR in GB [1.31%]
- I - IA UK Direct Property TR in GB [-0.04%]

Figures shown are for a sterling denominated investor, for the 3 month period to 31/03/2023. Source: Financial Express Analytics

Some of the valuation opportunities around different assets classes are incredible. As investors were clearly concerned about the impact of rising interest rates on valuations, the listed infrastructure sector has suffered. However, we see the indiscriminate sell-off as unjustified. Private markets have record levels of cash to deploy and given the relative yield to other assets, infrastructure has multiple ways to deliver capital growth in order to achieve a total return far in excess of cash. To emphasise this point, just after the end of the quarter on the 3rd of April, Industrials REIT agreed on a sale to Blackstone at a 42% increase on their last closing price.

The BAM investment team has held more than 100 meetings this quarter as we work tirelessly to ensure the best risk-reward outcomes for our investors. Some of you have been invested with us for decades and have been through ups and downs. Still, we understand that for more recent investors, your nerves may have been tested with several risk-off events in a short time, hitting portfolio valuations. There is a lot of negativity around, and it's easy to be bearish in volatile markets. However, there are still many reasons to be optimistic about the investment opportunities in this new regime. Our alternative fund, for example, has over 40% direct or partial inflation-linked returns and invests in what are becoming "planet essential assets" like battery storage. Four key metals for a green energy world are copper, cobalt, nickel and lithium. There are increasing concerns around the availability in the supply of these materials, which are critical to the energy transition, and the global need to reduce carbon emissions to be Net Zero by 2050 sets the scene for an incredibly supportive environment for Green Metals on a multi-year time frame, to which the portfolios are exposed.

The potential for peaking or even falling interest rates in the not-too-distant future is good for fixed income and paints a more positive outlook for equities. Short-term volatility may continue to disturb markets, but focusing on asset allocation and sensible portfolio construction should help guide us through those threats. We expect investors to be rewarded for enduring the current volatility, leading to robust performance for most asset classes in the long term.

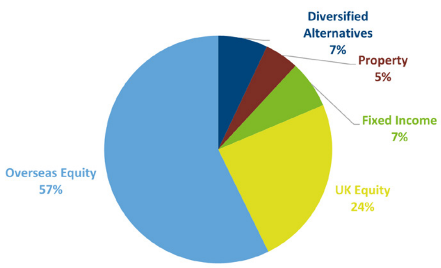
BAM Portfolio Models’ Investment Performance

	31/03/2018 to 31/03/2019	31/03/2019 to 31/03/2020	31/03/2020 to 31/03/2021	31/03/2021 to 31/03/2022	31/03/2022 to 31/03/2023
Defensive Mixed Assets*	+2.02	-1.19	+12.50	+5.08	-6.28
UK CONSUMER PRICE INDEX + 2%*	+3.94	+3.54	+2.75	+9.18	+11.22
Defensive Balanced Mixed Assets	+2.83	-5.38	+18.04	+5.06	-6.34
Social Impact Portfolio	+4.02	+0.01	+17.82	+4.42	-3.01
ARC Sterling Balanced Assets	+2.98	-5.44	+17.86	+3.46	-4.32
Balanced Mixed Assets	+1.66	-8.48	+28.71	+5.42	-5.39
ARC Sterling Steady Growth PCI	+4.85	-7.71	+23.53	+4.64	-4.60
Focused Growth Mixed Assets	+1.09	-9.08	+38.67	+5.49	-4.99
ARC Sterling Equity Risk PCI	+6.04	-9.65	+30.35	+4.84	-4.80

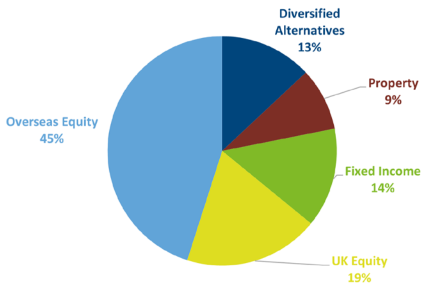
Notes: BAM MPS performance figures take into account the ongoing charges of the underlying holdings but exclude adviser charges and platform fees. Inclusion of these will result in a lower return to the end investor, depending on the client agreement and the platform used.
ARC PCI: Asset Risk Consultants (ARC) operate the Private Client Indices (PCI) across the risk spectrum as performance measurement and yard-sticks for discretionary portfolio managers. This data includes platform fees and may be estimated and subject to revision.
The Defensive Mixed Assets model aims to outperform the stated benchmark over 36-month rolling periods. *DMA and CPI+2% data is 12 months to the last available inflation print.

Target Model Portfolio Structures

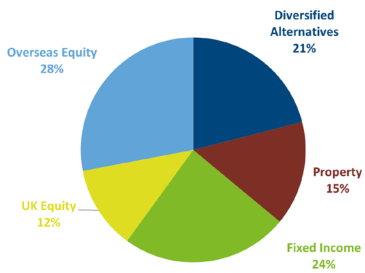
Focused Growth Mixed Assets



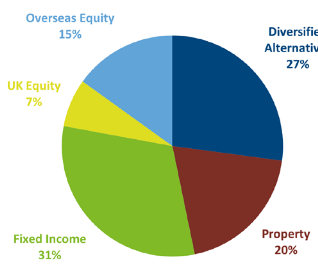
Balanced Mixed Assets



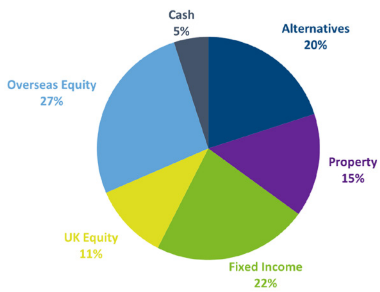
Defensive Balanced Mixed Assets



Defensive Mixed Assets



Social Impact



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