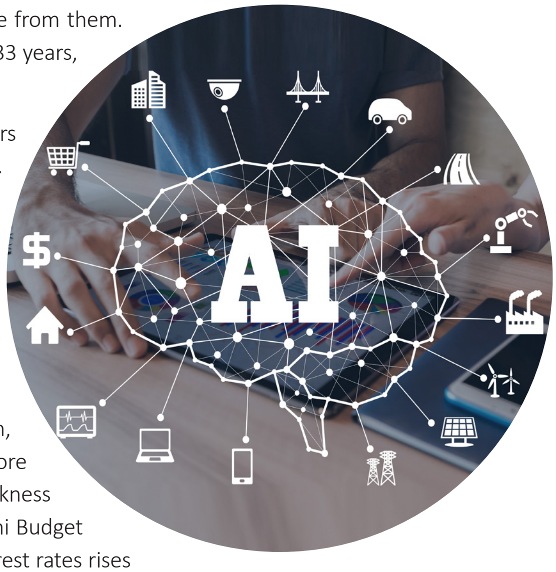
INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 2 2023

The quarter was marked by extreme exuberance around AI related stocks, leading to a very narrowly driven US market back into bull market territory, while the CBOE Volatility Index (VIX- an indicator of risk sentiment) plummeted to a two year low in mid-June. The S&P 500 has been driven higher by just seven stocks this year with the other 493 barely positive. BAM does have an allocation to an S&P 500 index tracking fund in the core models as well as some active funds. Active managers though are often told by their risk managers that they cannot hold companies at index weights because their portfolios won't be diversified enough, leading to shorter term underperformance from them. Japan has also been on a tear this year with the Nikkei 225 index climbing to its highest level for 33 years, which the portfolios have benefited from.

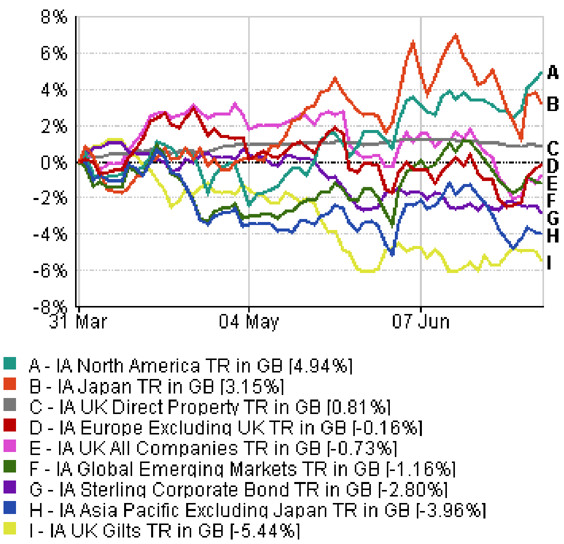


Economic data has picked up but can be largely attributed to falling energy prices, helping consumers to carry on spending. We had been braced for a horrible earning cycle, but it wasn't too bad. Sentiment could be over optimistic though and the Oxford Economics risk sentiment indicator, which is a composite of 10 individual measures, has spiked to its highest level since the second half of 2021- before a peak in US equities. We had thought that the super aggressive tightening which started back in Q1 2022 would be more dominant and fuel a recession, exacerbated by tighter financial conditions following the banking stresses in Q1. There are arguments for a lagged impact to be longer than the 12 months seen historically, but this merely delays a contraction and doesn't prevent it. The Fed surveys now suggest US lending standards are as tight as in mid-2008. Indeed Powell, the Fed Chair, sounded rather hawkish at the recent Central Bankers Symposium, signalling another two rate rises and how their 2% inflation target is unlikely to be reached before 2025. The Bank of England increased the base rate by a further 0.5% in June and this caused weakness in bond prices as yields backed up again. The UK 10-year gilt yield retuned to the disastrous Mini Budget levels of 2022. We have had a preference for short, dated bonds which are less sensitive to interest rates rises and therefore help to protect capital.

AI MANIA

BUMPER RATE HIKES

PHYSICAL THREATS



Figures shown are for a sterling denominated investor, for the 3 month period to 30/06/2023. Source: Financial Express Analytics

June saw the biggest number of monthly interest rate hikes year to date as central banks grapple to get the upper hand in the battle against inflation. The ECB raised borrowing costs to their highest levels in 22 years and Turkey had one of the biggest hikes of 6.5% in one go, but the markets thought this wasn't enough! China though bucked the trend by cutting rates with more expected to come to provide stimulus. The post covid recovery in China has been somewhat underwhelming thus far and has caused weakness in the prices of Chinese equities and many commodity prices. We don't just invest in emerging market equities but also emerging market debt. Inflation isn't as big an issue in emerging markets and further cuts in interest rates are likely to come sooner than in developed markets and we expect these parts of the portfolios to do quite well.

The physical world continues to play a part in the financial one with news of very low river levels in Rhine and Panama canals which could threaten trade as container ships and barges have to reduce loads considerably. The Keil Institute has carried out research measuring the economic impact of low water levels and found that in a month where water levels are below a 78cm threshold every day German Industrial production is a 1% lower than in a month without low water days. The results show that disturbances in a very small sector of the economy such as river transport can cause significant impact at the macroeconomic level, known as the butterfly effect. In addition, the southern US states are in the midst of a record-breaking heatwave at the end of June and according to the Reuters news agency half the US population were told to take precautions when they are outdoors either due to the heatwave or the lingering impact of the Canadian wildfires on air quality. Maps from the US drought monitor reveal that the "Corn Belt" states are experiencing moderate to exceptional drought which is likely to push up food prices.

So, what lies ahead in the second half of 2023? The global economy is not doing brilliantly but better than expected. Therefore, we think it means higher rates until something breaks, but we keep a watching brief. Is all the bad news in the price? We think most of it is, but we have a fair bit of cash that we can deploy if it isn't.

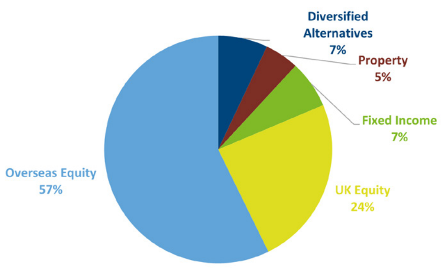
BAM Portfolio Models' Investment Performance

	30/06/2018 to 30/06/2019	30/06/2019 to 30/06/2020	30/06/2020 to 30/06/2021	30/06/2021 to 30/06/2022	30/06/2022 to 30/06/2023
Defensive Mixed Assets*	+1.71	+3.69	+8.80	-2.58	-2.71
UK CONSUMER PRICE INDEX + 2%*	+4.02	+2.68	+4.53	+11.62	+9.78
Defensive Balanced Mixed Assets	+2.82	+0.66	+12.19	-3.86	-1.88
Social Impact Portfolio	+5.34	+3.64	+12.47	-3.44	+1.33
ARC Sterling Balanced Assets	+2.74	+0.50	+11.84	-6.54	+1.49
Balanced Mixed Assets	+1.68	-0.18	+20.36	-5.67	+0.45
ARC Sterling Steady Growth PCI	+3.54	-0.51	+15.87	-7.54	+3.01
Focused Growth Mixed Assets	+0.38	+1.43	+26.57	-6.7	+1.63
ARC Sterling Equity Risk PCI	+4.02	-1.13	+20.57	-9.09	+4.43

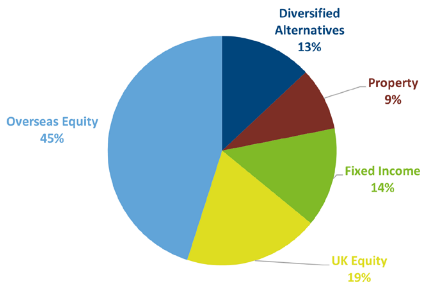
Notes: BAM MPS performance figures take into account the ongoing charges of the underlying holdings but exclude adviser charges and platform fees. Inclusion of these will result in a lower return to the end investor, depending on the client agreement and the platform used.
ARC PCI: Asset Risk Consultants (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

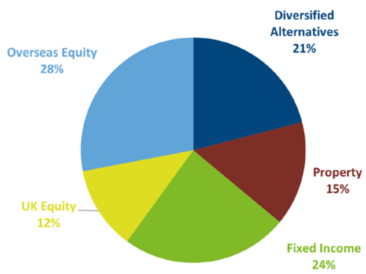
Focused Growth Mixed Assets



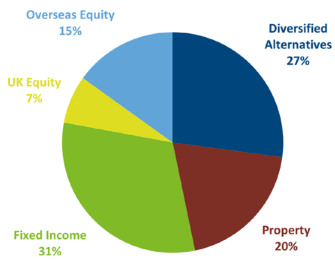
Balanced Mixed Assets



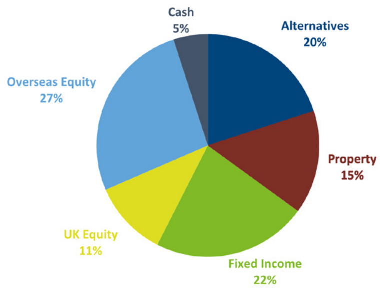
Defensive Balanced Mixed Assets



Defensive Mixed Assets



Social Impact



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