MARKET UPDATE

August 2022

In July, all of the BAM portfolios produced positive returns as more favourable market performance re-emerged. The main driver of returns came from the equity content within the portfolios with Japanese and US equities particularly standing out. The BAM portfolios all underperformed their respective benchmarks in July but this does not come as a surprise to us. We are of the belief that we are experiencing what is known as a bear market rally, where market prices temporarily rise in the middle of a longer period of negative returns. Therefore, we believe that whilst we are starting to see more reasons for optimism, it is not yet time to move away from the portfolios' defensive positioning.

REASONS TO BE POSITIVE

The performance of the BAM portfolios in July has been a rare positive in an otherwise gloomy 2022 thus far. We are, however, seeing signs that sentiment is slowly beginning to improve. Supply chains, often cited as a leading cause of rising inflation, continue to ease as cargo ship backlogs were reported as falling for the fifth consecutive month.

Turkey has mediated a deal that has seen Russia lift its blockade of Ukraine's seaports resulting in the movement of grain which should help to ease the emerging global food crisis. In the US, the Fed have started to change their tone with the consensus being that they are likely to slow the pace of rate hikes in order to allow previous rate increases to take effect, a sign that whilst peak interest rates are not yet here, they are getting ever closer.

POLITICAL CHANGE

The first half of the year wasn't short of significant political turmoil, with UK Prime Minister Boris Johnson resigning, Italian prime minister Mario Draghi resigning and speaker of the US House of Repesentatives Nancy Pelosi stoking the US-China relations fire with a visit to Taiwan. As UK based investors, our attention is naturally drawn to domestic issues and so the Conservative leadership election comes into focus. At the time of writing, Liz Truss appears to be the popular choice amongst Conservative members with her favourable promises of personal and corporate tax cuts, coupled with a desire for fiscal discipline in the future. The impact upon markets in the short term is likely to be minimal, however, and with mounting calls to increase support to ease cost pressures for individuals and companies alike, it's very possible that there may be some significant decisions for the elected individual to make before they even get their feet under the table at Number 10.

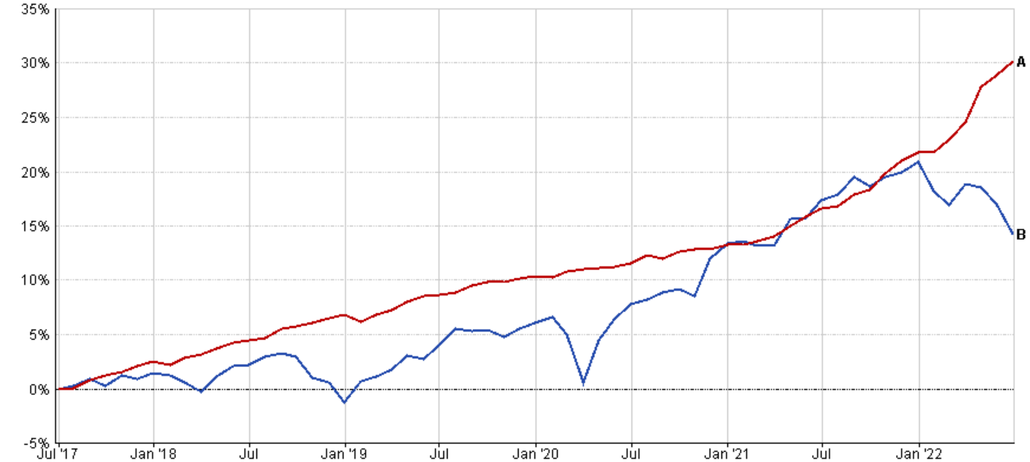
DATA GUIDED RATE RISES

Many financial decisions are guided by data: we recently calculated that as part of our own investment process we routinely utilise over 600,000 data points and central banks are now stating that future monetary policy will become increasingly data guided. In July, the European Central Bank hiked rates for the first time in over a decade, adding 0.5% to its base rate as part of its plan to try to engineer a 'soft landing', in which inflation is brought under control without triggering a recession. We are currently of the belief that it is highly likely that we will see a recession across Europe, the UK and parts of Asia. It is important, however, to remember that a recession does not equal poor investment returns. Investment markets are a discounting mechanism; they look into the future and discount probable future events into today's prices. In other words, you generally see poor returns prior to, not during, a recession. With this in mind we would argue that as far as investment markets are concerned, a recession should be viewed as an opportunity and we are therefore preparing to deploy some of the cash we have built up to position the BAM portfolios to capture the upside in positive markets when they inevitably come.

SOCIAL IMPACT MODEL

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL



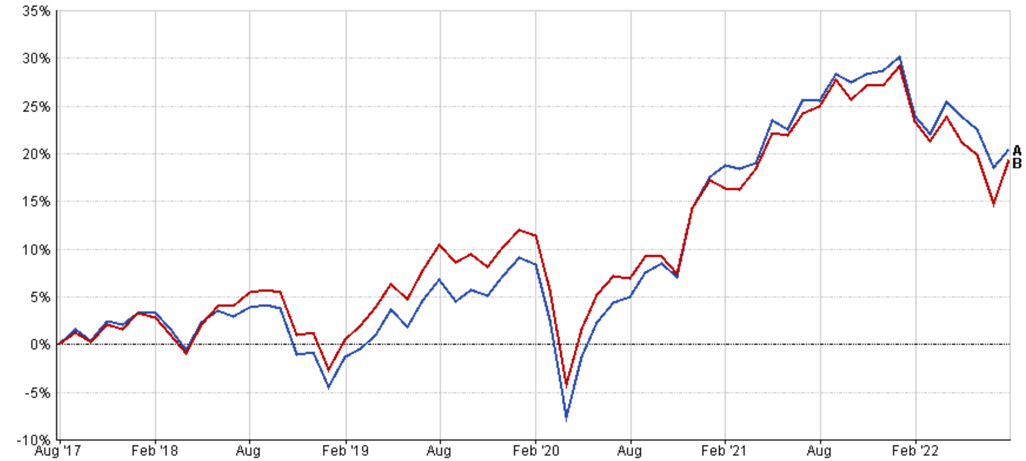
A - UK Consumer Price Index + 2% TR in GB [30.18%]
B - Defensive Mixed Assets 16/07/2021 TR in GB [14.29%]

*5 Years to 30/06/2022 (last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL

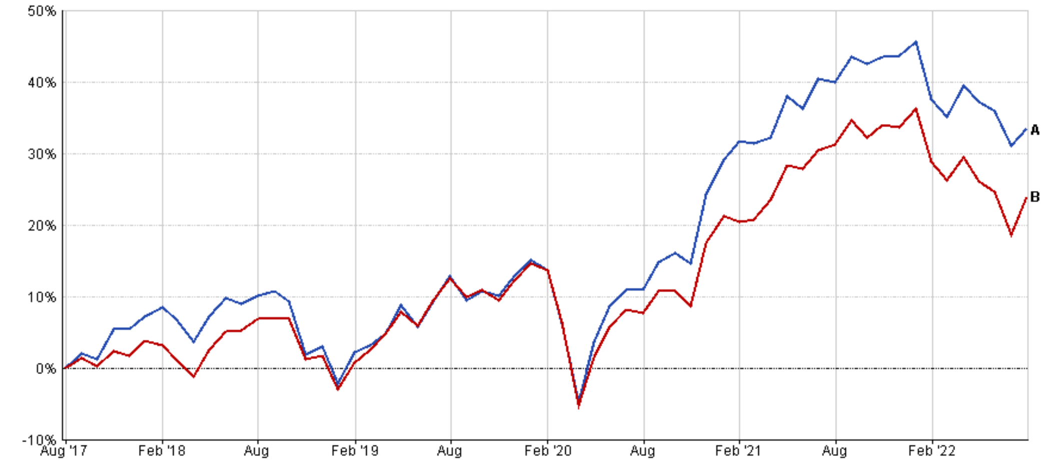
A - Defensive Balanced Mixed Assets 23/08/2021 TR in GB [15.60%]
B - ARC Sterling Balanced Asset PCI TR in GB [14.34%]

BALANCED MIXED ASSETS MODEL



A - Balanced Mixed Assets 16/07/2021 TR in GB [20.49%]
B - ARC Sterling Steady Growth PCI TR in GB [19.44%]

FOCUSED GROWTH MIXED ASSETS MODEL



A - Focused Growth Mixed Assets 16/07/2021 TR in GB [33.59%]
B - ARC Sterling Equity Risk PCI TR in GB [24.10%]

Total Return figures take into account normal dealing costs but not Adviser fees. Source: FE Analytics – Total Return.