

FOR PROFESSIONAL ADVISERS ONLY



# Quarterly report for the SVS Cornelian Defensive Fund

1 January 2025 to 31 March 2025

*Realising Ambitions. Securing Futures. We are Brooks Macdonald.*



# Market overview

3 April 2025



**In local currencies, the MSCI UK IMI NR index returned +5.1% over the three month period to the end of March, significantly outperforming the MSCI World ex UK NR index (-3.0%). Given US Dollar weakness, the performance of overseas equities for Sterling based investors was considerably weaker (MSCI World ex UK NR (£) index, -5.1%).**

In Sterling terms, the US stock market retrenched materially (MSCI USA £ NR Index, -7.4%), as initial euphoria that a Trump presidency would bring deregulation and lower taxes gave way to fears that the new administration's plans for the imposition of tariffs were far more stringent than previously believed and, alongside other policies, could harm the outlook for the domestic economy.

The Trump administration gave investors all the excuses they needed to take profits in US stocks and the technology sector, in particular. The European and UK stock markets performed particularly strongly (MSCI Europe ex UK £ NR Index, +6.2%; MSCI UK IMI NR Index, +5.1%) as so-called value sectors such as oil & gas and financials did well.

The Bloomberg Barclays UK Government All Bonds TR index produced a total return of +0.4% as investors considered whether the Chancellor's policy changes would be to the detriment to economic growth. Sterling investment grade corporate credit (Bloomberg Barclays Sterling Corporate Bond Index, +0.3%) marginally underperformed as the spread between government and corporate debt yields widened on concerns that clouds may be appearing in the global economy. The move was small, however, in the historical context.

The Brent crude oil price traded in a fairly tight range over the period, considering the geo-political noise, and finished unchanged over the three-month period (US\$74.7/barrel). Whilst economic growth forecasts have been pared back, additional fiscal stimuli have been announced in Germany and China. Investors continue to ascribe only a low probability to the potential for a cessation of hostilities in Ukraine and developed economies lifting sanctions on Russian oil.

The US Dollar gold price rose 19% to US\$3,123.6/oz (and the price in Sterling rose +15.4% to £2,420.1/oz). The gold price continued to climb as the Chinese central bank (amongst others) continued to buy the metal and retail demand remained robust. Erratic policy pronouncements from the US, alongside a challenge to long-established strategic relationships have heightened geo-political and economic risks. Concerns about the risk of US fiscal profligacy and possible US Dollar weakness remain.

# Performance

## Fund summary

Launch Date	4 May 2010
Fund Size	£25.01 million
Historic Yield	3.09% based on 'D' Income Shares
Distribution Dates	15 June, 15 December
Investment Association Sector	IA Volatility Managed

## Cumulative performance (%) to 31 March 2025

	1m	3m	6m	1yr	3yr	5yr	10yr	Since Launch
'D' Accumulation Shares (Platform)	-0.97	0.25	-0.68	2.86	3.20	17.53	23.68	67.00
RPI + 1.0%	-	-	-	4.45	26.78	41.81	69.55	107.07



## Discrete performance (%) to 31 March 2025

	2020	2021	2022	2023	2024	YTD*
'D' Accumulation Shares (Platform)	4.01	3.08	-7.21	5.10	3.18	0.25
RPI + 1.0%	2.21	8.62	14.57	6.21	4.49	-

\*Year to Date. Source: Morningstar.

Performance figures are net of fees and are based on the 'D' Accumulation Shares (Platform) which do not incur an initial charge. RPI Data is the latest available, normally from a data point at least one month earlier. For example, performance for one year to end April will be shown against the latest RPI information available, i.e. 12 months to end March. The Authorised Corporate Director (ACD) has selected this target benchmark as the ACD believes it best reflects the target of returns above inflation over a five to seven year investment cycle after costs.

Past performance is not a reliable indicator of future results.





### Managing risk in the Fund

The SVS Cornelian Defensive Fund is managed within Cornelian risk level A on a risk scale of A to E (A being the lowest and E being the highest risk). The Fund is one of a range of funds designed to achieve their RPI+ objectives whilst being managed below an upper expected risk limit. This upper expected risk limit is calculated by an independent third party and is based on the historical volatility of asset classes held within the Fund. The upper expected volatility limit may change from time to time. The Fund's upper expected volatility is not the same as the actual (or historic) share price volatility.

### Risk Analysis as at 31 March 2025

Cornelian Risk Level	A	B	C	D	E
Upper Expected Volatility Limit (%)	6.30	8.40	10.50	12.60	14.70
Fund Expected Volatility (%)	5.42	6.90	8.71	10.60	12.65

Source: Distribution Technology and Brooks Macdonald

	1 year	3 year	5 year	10 year	Since launch on 4 May 2010
Actual volatility	3.75	4.88	4.62	4.40	4.54
Maximum drawdown	-0.97	-7.53	-9.91	-9.91	-13.20

Source: Morningstar

Past performance is not a reliable indicator of future results.



# Portfolio holdings

(as of 31 March 2025)

UK Equity	6.16%
Astrazeneca	0.45%
Shell	0.41%
RELX	0.33%
Balfour Beatty	0.32%
Prudential	0.32%
Lloyds Banking Group	0.32%
Intertek	0.31%
LSE Group	0.31%
Auto Trader	0.29%
Compass	0.28%
Experian	0.28%
Rentokil Initial	0.27%
Future	0.26%
Convatec	0.20%
BP	0.18%
Cranswick	0.18%
GSK	0.17%
Smith & Nephew	0.16%
Weir Group	0.16%
Computacenter	0.15%
Vesuvius	0.15%
Rio Tinto	0.15%
CRH	0.13%
Cairn Homes	0.13%
Trainline	0.12%
Ashtead Group	0.11%

International Equity	12.04%
US Equity	5.58%
SPDR S&P 500 (ETF)	1.96%
Vanguard US Equity Index Fund	1.36%
Findlay Park American Fund	0.94%
T.Rowe Price US Smaller Companies Fund	0.90%
Artemis US Select	0.43%
Global/Thematic Equity	1.92%
L&G Global Health & Pharmaceutical Index Trust	0.97%
Polar Capital Global Convertible Fund	0.49%
Impax Environmental Markets	0.46%
Emerging Market Equity	1.54%
BlackRock Emerging Markets Fund	1.00%
JP Morgan Emerging Markets Income Fund	0.54%
Japan Equity	1.05%
Amundi Prime Japan (ETF)	0.52%
Pictet Japanese Equity Opportunities Fund	0.52%
Europe (ex UK) Equity	0.97%
Waverton European Capital Growth Fund	0.49%
Vanguard FTSE Developed Europe ex-UK (ETF)	0.48%
Far East (ex Japan) Equity	0.98%
Schroder Asian Total Return Fund	0.51%
L&G Pacific Index Trust	0.47%

<b>Fixed Interest</b>	<b>63.99%</b>
<b>Corporate Bonds/Credit</b>	<b>51.21%</b>
Vanguard UK Investment Grade Bond Index Fund	8.99%
TwentyFour Absolute Return Credit Fund	8.39%
L&G Short Dated Sterling Corporate Bond Index Fund	7.96%
TwentyFour Strategic Income Fund	6.39%
PIMCO Global Investment Grade Credit Fund	5.48%
Royal London Short Term Fixed Income Enhanced Fund	5.02%
Baillie Gifford Strategic Bond Fund	3.97%
iShares £ Ultrashort Bond (ETF)	2.49%
Invesco AT1 Capital Bond (ETF)	1.02%
TwentyFour Income Fund (IT)	0.99%
Sequoia Economic Infrastructure Income (IT)	0.50%
<b>Government Bonds</b>	<b>6.76%</b>
4.5% UK Treasury Gilt 07/09/2034	1.98%
4.5% UK Treasury Gilt 07/06/2028	1.77%
4.25% UK Treasury Gilt 07/12/2040	1.48%
Amundi US Treasury Bond 3-7Y GBP Hedged (ETF)	1.01%
4.25% UK Treasury Gilt 07/12/2049	0.52%
<b>Index Linked Government Bonds</b>	<b>6.02%</b>
iShares \$ TIPS 0-5 Year GBP Hedged (ETF)	3.01%
Index-linked Gilt 4.125% 22/07/2030	1.99%
Index-Linked Gilt 0.125% 22/11/2036	1.01%

<b>Other Assets</b>	<b>14.77%</b>
<b>Infrastructure</b>	<b>5.83%</b>
HICL Infrastructure (IT)	2.49%
International Public Partnerships (IT)	2.39%
Foresight Environmental Infrastructure (IT)	0.95%
<b>Absolute Return</b>	<b>4.96%</b>
BH Macro (IT)	1.91%
Brevan Howard Absolute Return Government Bond Fund - A	1.53%
Fulcrum Diversified Core Absolute Return Fund	1.49%
Brevan Howard Absolute Return Government Bond Fund - A2	0.04%
<b>Real Estate</b>	<b>3.98%</b>
Tritax Big Box (REIT)	1.00%
LondonMetric Property (REIT)	0.98%
Target Healthcare REIT (REIT)	0.76%
Assura (REIT)	0.74%
Care REIT (REIT)	0.25%
Supermarket Income REIT (REIT)	0.25%
<b>Cash</b>	<b>3.03%</b>
GBP Capital Cash	3.03%
<b>Total</b>	<b>100.00%</b>

# Investment performance



The Defensive Fund produced a small positive total return for the three months to the end of March.

## Fixed Income

The Fund's portfolio of fixed interest investments outperformed the wider market producing a decent total return given the lacklustre market. Areas of strength included the **Amundi US Treasury Bond 3 – 7 year GBP Hedged ETF** and the **iShares \$ TIPS 0 – 5 year GBP Hedged ETF**. Investors started to price in lower interest rates in the US as they weigh the potential impact of tariffs on the economy. Elsewhere the **TwentyFour Income Fund** investment trust produced a strong total return as the share price discount to the trust's net asset value narrowed appreciably as investors sought to lock into the trust's high yield.

## Equities

### *International equities*

The portfolio's international equity holdings, in aggregate, produced a negative total return which was, nonetheless, a little ahead of index. The standout performer by far was the **Waverton European Capital Growth Fund** which significantly outperformed the strong return exhibited by the European index. Elsewhere, the **L&G Health and Pharmaceutical Index Trust** and the

**Polar Capital Global Convertible Fund** produced modestly positive returns which were well ahead of the index as a whole, thus demonstrating their defensive qualities. In a tough market, the **Findlay Park American Fund** performed relatively well helped by its low exposure to the 'mega-cap' technology related stocks which performed very poorly over the period. The same could not be said of the **Artemis US Select Fund** which produced double digit negative returns.

### *UK equities*

The Fund's portfolio of direct UK equities, whilst producing a positive return, lagged the market. Stand out performers included **Prudential** and **Lloyds Banking Group**. Prudential produced good results but, more importantly, the Chief Executive Officer and Chief Financial Officer spoke confidently about the outlook, especially concerning the probability of a marked and sustained improvement in cash generation. The company also announced an acceleration of their share buy back program. Lloyds Banking Group produced very strong results well above expectations and pointed to the hedging they have in place which all but guarantees strong underlying earnings for the next three years.





However, **Trainline** fell sharply and **Future** also performed poorly. Trainline produced results which were broadly inline with guidance which has, previously, been revised up and, in this context, the numbers were fine. However, news concerning the government's wish to amalgamate the rail operators into one single entity and investigate pay as you go technology hit sentiment and the shares sold off. Nonetheless, we believe Trainline's dominant 'incumbent' position and expansion into Europe means that they will be able to fend off this threat successfully. Future produced numbers which were inline with expectations, however they pointed to a slightly softer than expected start to 2025.

#### **Other Assets**

The 'other assets' portion of the portfolio produced a positive return, courtesy of the Fund's holdings in the commercial property sector. Both **Assura** and **Care REIT** received takeover approaches and, as a result, their share prices performed strongly. **Target Healthcare REIT**, which operates in the same segment (care homes) as Care REIT saw its share price also rise as a result of the news.



# Trading activity

Given the chaotic communication of policy emanating from the US during the first quarter of the year, trading was deliberately kept to a minimum.



## Equities

The Fund's L&G US Equity Exchange-Traded Fund (ETF) holding was switched into the lower cost SPDR S&P 500 ETF during March.



## Fixed Income

There was neither a complete sale nor a new holding bought during the period under review.



## Other Assets

There was neither a complete sale nor a new holding bought during the period under review.





# Market outlook

The change in direction at the White House has been abrupt. Ad hoc policy announcements by social media are harming the economy and undermining long-held strategic relationships. For some of Trump's domestic audience the rapid pace and outrageous demands must be intoxicating. However, it is not at all certain that the electorate will stay with 'the program' and this matters to the Trump administration as the mid-term elections are just 19 months away.

Trump professes that he doesn't mind if prices go up in the near term, given the 'prize' of a domestic manufacturing renaissance, but it is unlikely the electorate will be so forgiving after promises were made during the election campaign 'to end inflation and make America affordable again'.

Given little spare capacity in the US economy, the extraordinary step change in the cost of imported goods, announced on 2 April, guarantees an immediate increase in the US cost of living. It remains to be seen whether individual countries will be able to negotiate the tariffs applied to them down in any meaningful way. The simplistic formula used to determine the scale of country-specific tariffs makes a technical negotiation all but meaningless.

At time of writing (on the morning of 3 April), we have not seen any tangible responses from impacted countries in terms of retaliatory tariffs being imposed on US exports, but these will surely come. Currency devaluations are likely to follow.

The second-round impact from countries trying to protect their own domestic industries from dumping of surplus capacity that had been destined for the US has yet to be seen and remains a considerable concern.

US consumer confidence has taken a knock already and expectations for higher inflation are rising and with good reason. The share prices of companies that are exposed to US domestic activity and construction markets (such as tool hire companies, aggregate and cement producers, homebuilders or plumbing and Heating, Ventilation and Air-Conditioning systems (HVAC) suppliers) have fallen sharply as investors revise down their expectations for US economic growth.



A key question for investors and the Trump administration going forwards will be: how much pain will the US Federal Reserve tolerate before stepping in and making significant interest rate cuts? The answer is clouded by the current low unemployment rate and the increased probability of rising inflation. At time of writing, investors are revising their expectations for interest rates downwards. It will be interesting to see whether this dynamic persists.

However, despite the above, there remains a positive case for risk assets.

Trump's first 100 days in power have been extraordinary as he rushes to implement his mandate. The pace and surprise engendered by his moves will slow and a clear direction of travel will emerge. Investors will be quick to adjust to the new realities.

Private sector balance sheets are generally healthy, unemployment is low and banks are well capitalised. Signs of excess, outside of private equity (and the Artificial Intelligence (AI) hype cycle), are few and far between. The Trump administration has committed to deregulate the financial sector to promote economic growth.

Manufacturing in the US is a relatively small part of their economy and although manufacturing will be impacted by trade wars, services will continue to underpin the economy. Therefore, the prospect of a significant recession seems slim.

As economic activity slows, underlying inflationary pressures may dissipate, giving central banks the leeway to cut interest rates significantly, if needed.

Europe is, for perhaps the first time, finding a real reason for being and acting at pace to confront the many challenges it now faces. The German plan to unleash a massive spending program over the next ten years is a good case in point, but more will need to be done in terms of fiscal and monetary integration. The adoption of policies that promote deregulation and innovation may follow.

China has gone through a period of supporting national manufacturing champions in strategic sectors but is now redirecting its policy making towards promoting domestic demand growth and measures are finally being implemented to recapitalise its bank sector and deal with the housing crisis.



In UK, it has been really noticeable that external capital is being brought to bear in the 'real assets' space (namely commercial property and infrastructure). Clearly, investors are beginning to recognise value in these sectors after a torrid few years helped by a growing recognition that the peak in interest rates may well be behind, rather than in-front of, us.

Similar to stocks in Europe, the UK and China stocks are cheap and under-owned, any improvement in confidence could see the recent period of outperformance persist.

Furthermore, the cessation of hostilities in Ukraine remains a wildcard which, if it came about, would probably reduce energy prices and help boost consumption.

Finally, whilst it may be difficult to see those companies that are investing massively in AI capability and infrastructure generating returns to justify that investment, AI productivity benefits will course through economies helping to support company profit margins and increase growth potential.

So, in summary, the Trump administration is determined to reshape the US economy and its relationship with the rest of the world in ways which stretch credulity. Some aspects are clearly negative but from an investment perspective some positives remain and these should not be drowned out by all the noise. It is open to debate as to whether the US electorate will tolerate the significant short-term costs being imposed upon them on the promise of longer-term gains.

*Past performance is not a reliable indicator of future results.*



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3 April 2025





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