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BROOKS MACDONALD

Quarterly report for the SVS Cornelian Managed Income 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	20 March 2015
Fund Size	£29.87 million
Historic Yield	3.68% 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)	-1.17	1.27	0.45	4.56	8.51	39.50	50.80	49.29
RPI + 2.0%	-	-	-	5.48	30.58	48.97	87.10	88.14

Discrete performance (%) to 31 March 2025

	2020	2021	2022	2023	2024	YTD*
'D' Accumulation Shares (Platform)	3.88	7.19	-7.43	7.58	6.03	1.27
RPI + 2.0%	3.23	9.70	15.71	7.26	5.53	-

**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 Managed Income Fund is managed within Cornelian risk level C 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 20 March 2015
Actual volatility	5.34	6.69	7.08	7.39	7.38
Maximum drawdown	-1.17	-9.01	-10.33	-14.65	-21.75

Source: Morningstar

Past performance is not a reliable indicator of future results.

Portfolio holdings

(as of 31 March 2025)

UK Equity	19.90%
Lloyds Banking Group	1.28%
Shell	1.15%
Legal and General	1.13%
Astrazeneca	1.08%
Balfour Beatty	1.08%
Intertek	1.06%
Rio Tinto	1.04%
RELX	1.05%
Experian	1.01%
Auto Trader	0.96%
Cairn Homes	0.92%
BP	0.81%
Convatec	0.65%
Prudential	0.66%
Computacenter	0.63%
Phoenix Group	0.60%
Smith & Nephew	0.59%
Weir Group	0.57%
LSE Group	0.56%
Cranswick	0.55%
GSK	0.54%
Compass	0.53%
Vesuvius	0.51%
CRH	0.48%
Rentokil Initial	0.47%

International Equity	27.41%
US Equity	**10.08%**
Schroder US Equity Income Maximiser Fund	6.10%
Vanguard US Equity Index Fund	3.97%
Far East (ex Japan) Equity	**4.85%**
Schroder Asian Income Fund	2.97%
L&G Pacific Index Trust	1.88%
Europe (ex UK) Equity	**3.99%**
Vanguard FTSE Developed Europe ex-UK (ETF)	2.01%
Guinness European Equity Income Fund	1.98%
Emerging Market Equity	**3.51%**
JP Morgan Emerging Markets Income Fund	2.50%
Vanguard FTSE Emerging Markets (ETF)	1.01%
Japan Equity	**3.51%**
Chikara Japan Income & Growth Fund	2.06%
Amundi Prime Japan (ETF)	1.45%
Global/Thematic Equity	**1.47%**
Polar Capital Global Convertible Fund	1.47%

Fixed Interest	37.95%
Corporate Bonds/Credit	**33.81%**
TwentyFour Strategic Income Fund	7.39%
L&G Short Dated Sterling Corporate Bond Index Fund	4.99%
TwentyFour Absolute Return Credit Fund	4.48%
Vanguard UK Investment Grade Bond Index Fund	4.50%
Baillie Gifford Strategic Bond Fund	4.02%
PIMCO Global Investment Grade Credit Fund	3.96%
TwentyFour Income Fund (IT)	1.58%
iShares £ Ultrashort Bond (ETF)	1.06%
Invesco AT1 Capital Bond (ETF)	1.06%
Sequoia Economic Infrastructure Income (IT)	0.76%
Index Linked Government Bonds	**2.63%**
iShares $ TIPS 0-5 Year GBP Hedged (ETF)	1.58%
Index-linked Gilt 4.125% 22/07/2030	1.05%
Government Bonds	**1.50%**
4.25% UK Treasury Gilt 07/12/2040	0.98%
4.5% UK Treasury Gilt 07/06/2028	0.52%

Other Assets	12.62%
Real Estate	**6.82%**
Assura (REIT)	1.58%
LondonMetric Property (REIT)	1.23%
Tritax Big Box (REIT)	1.19%
Target Healthcare REIT (REIT)	0.99%
Care REIT (REIT)	0.74%
Supermarket Income REIT (REIT)	0.58%
AEW UK REIT (REIT)	0.51%
Infrastructure	**5.80%**
HICL Infrastructure (IT)	2.46%
International Public Partnerships (IT)	2.30%
Foresight Environmental Infrastructure (IT)	1.04%

Cash	2.11%
GBP Capital Cash	2.11%

Total	100.00%

Investment performance

The Managed Income Fund produced a 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. The **iShares $ TIPS 0 – 5 year GBP Hedged ETF** performed strongly. 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, ahead of index. The **Polar Capital Global Convertible Fund** produced a modestly positive return which was well ahead of the index as a whole, thus demonstrating its defensive qualities. Elsewhere, income strategies such as the **JP Morgan Emerging Markets Income Fund** and the **Schroder Asian Income Fund** (which tend to have relatively low exposure to the technology sector and relatively high exposure to financials) performed relatively well.

UK equities

The Fund's portfolio of direct UK equities produced a robust return inline with 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.

Cairn Homes and **Rentokil** produced double digit share price declines. Investors took profits in Cairn Homes following the very strong share price performance seen during 2024. Rentokil updated the market concerning their integration plans for their US acquisition, Terminex. Whilst we continue to believe the end result will be a dominant company executing well in a very attractive sector, it is clear that there remains a lot of work to do to turn the Terminex business around. Nonetheless, the valuation of Rentokil remains attractive with significant upside potential, once the management team get Terminex back on track, which we remain convinced they will.

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 abrdn Europe ex UK Equity Income fund was sold due to changes to the management of the fund and the Guinness European Equity Income fund bought, during March. The fund is an active European equity strategy with a high conviction portfolio of approximately 30 stocks. It is managed by a seasoned European equity fund manager and seeks to provide investors with consistent, compounding income and capital growth through disciplined investment in high quality companies with strong balance sheets and persistent high returns on capital.

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.

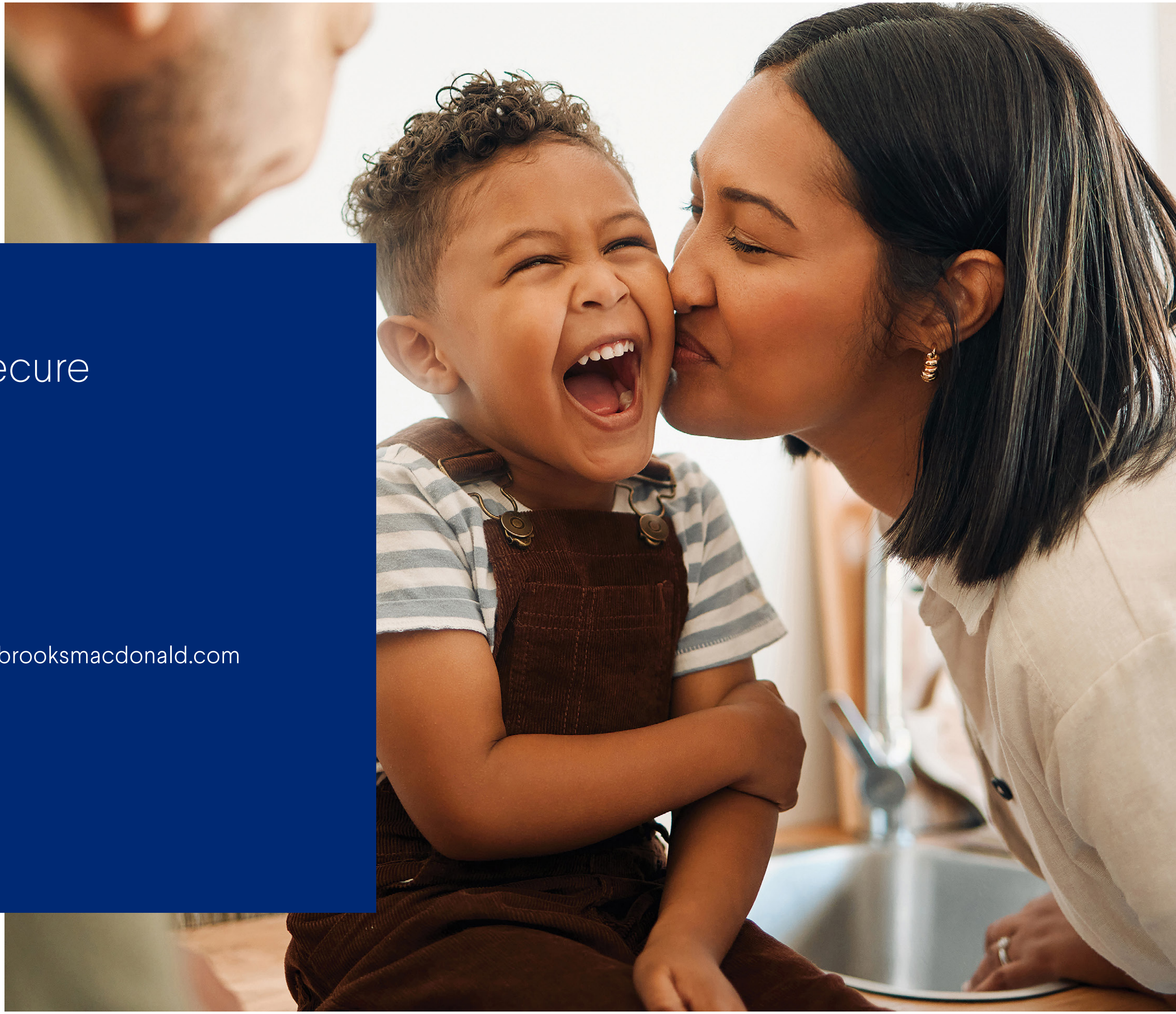
Past performance is not a reliable indicator of future results.

Hector Kilpatrick

Senior Investment Director;
Head of Risk Managed Funds

3 April 2025

Contact us



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