



IFSL Equilibrium Defensive Portfolio

Each month we provide factsheets for the IFSL Equilibrium funds which give details of the holdings as at the end of the month, together with market commentary.

In addition to this, each quarter we provide more detailed analysis of the holdings, focusing on what has been performing well and what has been underperforming.

Key

A = Alternatives

EQ = Equities

CPI = Consumer Price Index (inflation)

C = Cash

FI = Fixed Interest

DR = Defined Returns

RA = Assets

Asset allocation changes

The table below shows our current allocation compared to three months and 12 months ago, the changes are highlighted from dark green to dark red in terms of largest increase to largest decrease.

Asset	Current %	3 months ago %	3 month change %	12 months ago %	12 month change %
Cash	1.4	7.6	-6.2	8.0	-5.4
Fixed Interest	54.3	52.5	1.9	65.4	-13.1
Real Assets	13.5	12.2	1.4	6.1	8.4
Defined Returns	0.0	0.0	0.0	0.0	0.0
Alternatives	22.6	19.4	3.1	14.8	7.7
Equity	8.2	8.3	-0.1	5.8	2.4

Recent fund changes

The tables below show any significant changes we have made to the holdings in the portfolio over the quarter.

Significant increased positions

Asset class	Fund	Current %	3 months ago %	3 month change %
FI	iShares Core UK Gilts ETF	5.91	1.96	3.95
FI	iShares \$ Treasury Bond 7-10yr Hedged ETF	3.48	-	3.48
A	Ruffer Diversified Return	3.15	-	3.15
FI	Vanguard UK Investment Grade Bond Index	4.85	2.90	1.96
FI	Royal London Sterling Extra Yield Bond	4.00	2.07	1.94
FI	Waverton Sterling Bond	5.45	4.03	1.42

Significant decreased positions

Asset class	Fund	Current %	3 months ago %	3 month change %
FI	L&G Short Dated Corporate Bond Index	-	4.20	-4.20
FI	Royal London Short Duration High Yield Bond	2.51	5.34	-2.83
FI	Allianz Strategic Bond	3.01	4.83	-1.82
FI	Nomura Global Dynamic Bond	3.27	4.76	-1.49
EQ	Morgan Stanley Global Brands	2.03	3.25	-1.22
FI	TwentyFour Dynamic Bond	3.93	5.05	-1.11



Contribution to return by sector

The table below shows each of our asset classes and the equity regions we invest in. It breaks down the average exposure, the return for the asset class over the period we have been invested and the contribution to the overall portfolio return over three months and 12 months.

Asset	3 months			12 months		
	Average weight %	Asset class return %	Contribution to return %	Average weight %	Asset class return %	Contribution to return %
Cash	3.3	0.5	0.1	5.6	1.7	0.1
Fixed Interest	52.8	-4.8	-2.6	57.3	-8.1	-4.3
Real Assets	13.5	-3.2	-0.4	11.0	0.1	0.0
Defined Returns	-	-	-	-	-	-
Alternatives	22.4	0.7	-0.1	18.8	2.9	0.1
Equity	8.0	-7.5	-0.6	7.3	-8.2	-0.7
Overall Portfolio			-6.3			-5.5

Asset class portfolio return and contribution to return calculations use daily positions and don't take into consideration charges, aggregated contribution to returns may not equal overall portfolio return.

Regional equity portfolio	3 months			12 months		
	Average weight %	Equity region return %	Contribution to return %	Average weight %	Equity region return %	Contribution to return %
UK Equity	2.6	-2.9	-0.1	2.5	-6.1	-0.1
Global Developed	5.4	-9.4	-0.5	4.8	-8.4	-0.5



Top and bottom contributors to return

The tables below show the top and bottom five contributors to return over the past three and 12 months, it breaks down the average exposure, the return over the holding period and the contribution to the overall portfolio return.

Top five contributors over three months

Asset class	Asset	Average weight %	Current weight %	Holding return %	Contribution to return %
FI	iShares \$ Treasury Bond 7-10yr ETF	3.0	2.1	3.9	0.2
A	THEAM Dynamic Volatility Carry	3.9	4.0	0.0	0.1
A	Foresight Sustainable Forestry	1.0	1.1	10.9	0.1
A	Carmignac Long-Short European Equities	3.0	3.0	2.7	0.1
C	BlackRock US Treasury Liquidity	0.6	0.0	1.0	0.0

Bottom five contributors over three months

Asset class	Asset	Average weight %	Current weight %	Holding return %	Contribution to return %
FI	Vanguard UK Investment Grade Bond Index	5.1	4.9	-6.9	-0.5
FI	Short Dated Fixed Interest	17.6	15.8	-2.8	-0.5
FI	iShares Core UK Gilts ETF	4.7	5.9	-7.7	-0.4
EQ	L&G US Equity Responsible Exclusion ETF	2.4	2.5	-13.8	-0.4
FI	Waverton Sterling Bond	4.9	5.4	-6.7	-0.3

Top five contributors over 12 months

Asset class	Asset	Average weight %	Current weight %	Holding return %	Contribution to return %
A	Foresight UK Infrastructure Income	3.6	4.0	6.3	0.2
A	Carmignac Long-Short European Equities	3.0	3.0	6.4	0.2
FI	iShares \$ Treasury Bond 7-10yr ETF	1.1	2.1	3.9	0.2
A	Crabel Gemini Fund	3.0	3.1	5.0	0.2
C	BlackRock US Treasury Liquidity	1.3	0.0	4.1	0.1

Bottom five contributors over 12 months

Asset class	Asset	Average weight %	Current weight %	Holding return %	Contribution to return %
FI	Vanguard UK Investment Grade Bond Index	3.4	4.9	-13.3	-0.7
FI	Allianz Strategic Bond	4.4	3.0	-15.4	-0.7
FI	Nomura Global Dynamic Bond	4.4	3.3	-13.9	-0.6
FI	TwentyFour Dynamic Bond	4.4	3.9	-12.4	-0.5
FI	Short Dated Fixed Interest	23.3	15.8	-3.1	-0.5

Portfolio commentary

Based on the news headlines you would think there is very little good news around at present!

Rising inflation, weakening economic data, interest rate increases and geopolitical conflict are weighing on consumer and business confidence. Against this backdrop it has indeed been a difficult time for investors as the slowdown in consumption and the higher interest rate environment is evaluated and factored into market prices.

However, generally speaking corporate earnings and margins remain robust. For example, on average there was a 6.6% increase in first quarter earnings for S&P 500 Index companies and forward profit guidance remaining stable. This leaves equities looking better value in our view, as earnings increase but prices have fallen.

With inflation data being driven higher by the volatile energy and food components we have seen an aggressive raising of interest rate expectations.



This volatility has provided opportunity. For example, in fixed interest it has allowed us to increase US Treasury and Gilt exposure at more attractive levels as yields have increased.

Our holding of US Treasuries was our top contributor during the most recent quarter. Government bonds rallied during the second half of June as markets discounted a slower tightening cycle and signs that inflation may have peaked or is near to the peak.

Over the last year the biggest change to asset allocation has been a reduction in the cash weighting as we have been able to invest into markets at much more attractive levels with alternatives through the Ruffer Diversified Return Fund being our biggest change.

Our top two contributors over the last 12 months were Infrastructure Funds, Foresight UK and Clearbridge Global. These benefit from predictable and stable inflation-linked cash flows that have benefitted from the rising inflation environment and the structural tailwind of renewable energy amid surging commodity prices.

Market volatility has also allowed us to increase exposure to property with Tritax Big Box and Segro both increased over the quarter. These focus on industrial property which is an asset class which has shown strong growth, even as the share

price of the funds has fallen. This means they now trade on big discounts to their true worth.

The biggest detractors of performance have been the fixed interest funds that have had the highest corporate bond exposure as higher rates been priced into the market have meant that fixed interest markets have struggled. These rate increases have also hurt equity markets leading to the L&G US Equity ETF we hold being one of our bottom contributors.

One of our best performing fund over the past quarter was the Carmignac Long Short European Equity Fund, highlighting the benefits of a flexible fund with the ability to go short in the current market. Our second best performer was the BNP THEAM product, which is a fund designed to do well in times of volatility. It is therefore pleasing that it generated a positive return during this backdrop.

Looking forward, we think most of the major asset classes now look much better value than a few months ago, generally trading at much more attractive valuations. Whilst volatility might continue for some time, we think the long term potential returns therefore look very positive.

Performance

Rolling total returns

	3 months	6 months	1 year	3 years	5 years
Fund	-6.34%	-3.35%	-5.51%	-	-
CPI	1.82%	1.75%	3.40%	-	-

Further reading

For holdings and market commentary as at the end of the month, please see our [latest monthly factsheets](#). Attribution analysis is for indication only.

Risk information

All data is from 30 June 2022 and provided by Equilibrium Investment Management LLP unless otherwise stated. The views expressed herein should not be taken as statements of fact or relied upon when making investment decisions.

Past performance is never a guide to future performance. Investments may (will) fall as well as rise and you may not get back your original investment. Changes in currency exchange rates or interest rates may have an adverse effect on the value of your investments.

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