Quarterly Report Q3 2022

IFSL Equilibrium Adventurous 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
C = Cash
DR = Defined Returns
EQ = Equities
FI = Fixed Interest
RA = Assets
CPI = Consumer Price Index (inflation)

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	1.6	0.0	1.6	0.9	0.7
Fixed Interest	10.6	10.9	-0.3	16.6	-6.0
Real Assets	13.9	15.1	-1.2	10.7	3.2
Defined Returns	10.8	11.1	-0.3	12.8	-2.0
Alternatives	7.3	7.1	0.2	8.4	-1.1
Equity	55.9	55.9	0.0	50.6	5.2

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 %
RA	Gravis Clean Energy Income	1.95	-	1.95
EQ	L&G US Equity Responsible Exclusion ETF	3.93	2.17	1.76
FI	Royal London Sterling Extra Yield Bond	3.39	1.65	1.74
EQ	IShares Core FTSE 100 ETF	1.62	-	1.62
EQ	Morgan Stanley Global Brands	4.65	3.23	1.42

Significant decreased positions

Asset class	Fund	Current %	3 months ago %	3 month change %
FI	Muzinich Asia Credit Opportunities	-	2.97	-2.97
EQ	Sanlam Artificial Intelligence	-	2.48	-2.48
EQ	Miton UK Value Opportunities	2.48	4.85	-2.37
RA	Foresight Global Real Infrastructure	2.90	4.06	-1.16
EQ	Octopus UK Micro Cap Growth	1.94	2.87	-0.92

Source: Equilibrium Investment Management LLP / Thomson Reuters Eikon. These figures are indicative. Note that contribution is not simply a function of average position x return since this does not take into account of sales and purchases made during the period. The column "12 month return" shows the return since the position was held, if that is less than a full 12 months. Contributions calculated before fees.

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.

	3 months			12 months		
Asset	**Average weight %**	**Asset class return %**	**Contribution to return %**	**Average weight %**	**Asset class return %**	**Contribution to return %**
Cash	0.8	5.0	0.1	0.8	7.5	0.1
Fixed Interest	10.4	-7.4	-0.8	12.5	-19.0	-2.3
Real Assets	15.0	-9.7	-1.4	13.3	-7.4	-1.1
Defined Returns	11.2	-4.3	-0.4	11.8	-1.5	-0.0
Alternatives	7.1	2.0	0.1	8.6	1.3	0.0
Equity	55.5	-2.1	-1.2	53.0	-20.4	-10.9
Overall Portfolio			**-3.7**			**-14.8**

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.

	3 months			12 months		
Regional equity portfolio	**Average weight %**	**Equity region return %**	**Contribution to return %**	**Average weight %**	**Equity region return %**	**Contribution to return %**
UK Equity	13.9	-8.6	-1.1	13.9	-26.1	-3.7
Global Developed	23.2	2.8	0.5	21.5	-13.7	-2.9
Global Emerging	15.2	-0.5	-0.1	14.3	-15.2	-2.2
Private Equity	3.2	-14.7	-0.4	3.3	-53.1	-2.2
Vol Trade	-	-	-	-	-	-

Source: Equilibrium Investment Management LLP / Thomson Reuters Eikon. These figures are indicative. Note that contribution is not simply a function of average position x return since this does not take into account of sales and purchases made during the period. The column "12 month return" shows the return since the position was held, if that is less than a full 12 months. Contributions calculated before fees.

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 %
EQ	Baillie Gifford American	2.4	3.0	16.7	0.4
EQ	Goldman Sachs India	2.7	2.6	15.9	0.4
EQ	Royal London Global Equity Select	4.2	4.8	5.8	0.2
A	THEAM Dynamic Volatility Carry	2.8	2.9	6.7	0.2
EQ	iShares NASDAQ 100 ETF	1.5	1.5	6.5	0.1

Bottom five contributors over three months

Asset class	Asset	Average weight %	Current weight %	Holding return %	Contribution to return %
EQ	Chrysalis Investments Ltd	1.0	0.7	-45.0	-0.5
EQ	Miton UK Value Opportunities	4.4	2.5	-12.4	-0.5
RA	Tritax Big Box REIT Ord Shs	1.2	1.0	-27.1	-0.3
EQ	Miton UK Multi Cap Income	2.5	2.6	-12.0	-0.3
RA	Segro	1.2	1.1	-24.6	-0.3

Top five contributors over 12 months

Asset class	Asset	Average weight %	Current weight %	Holding return %	Contribution to return %
RA	Legg Mason Clearbridge Global Infrastructure	2.2	0.0	10.7	0.2
EQ	Royal London Global Equity Select	2.0	4.8	4.7	0.2
A	THEAM Dynamic Volatility Carry	2.4	2.9	5.0	0.1
A	Lazard Global Listed Infrastructure	0.5	0.0	7.4	0.1
DR	BNP Paribas FTSE/S&P Autocall Feb 2020	0.6	0.0	7.8	0.1

Bottom five contributors over 12 months

Asset class	Asset	Average weight %	Current weight %	Holding return %	Contribution to return %
EQ	Chrysalis Investments Ltd	1.4	0.7	-78.2	-1.7
EQ	Miton UK Value Opportunities	4.8	2.5	-33.0	-1.6
EQ	Octopus UK Micro Cap Growth	2.7	1.9	-34.8	-1.0
EQ	Miton European Opportunities	2.6	2.8	-29.7	-0.8
FI	Muzinich Asia Credit Opportunities	2.4	0.0	-22.8	-0.7

Source: Equilibrium Investment Management LLP / Thomson Reuters Eikon. These figures are indicative. Note that contribution is not simply a function of average position x return since this does not take into account of sales and purchases made during the period. The column "12 month return" shows the return since the position was held, if that is less than a full 12 months. Contributions calculated before fees.

Portfolio commentary

The past quarter has seen a further pullback in various asset classes.

The current high level of inflation has proven more persistent than many had thought. As a result, central banks are putting up interest rates more quickly and more steeply than markets had expected.

The assets most sensitive to interest rates have been hit the hardest. This means that fixed interest – normally seen as a relatively low-risk asset class - has performed particularly poorly, in many cases worse than equity markets.

Also hit hard have been assets like real estate, where the increased cost of borrowing looks set to hit property prices, in commercial as well as residential.

Even infrastructure, previously one of the best-performing areas in portfolios, has been hit by increased borrowing costs. Here in the UK, it has also been affected by proposed changes to cap the price at which renewable energy providers can sell their electricity.

After the government's mini-budget there has been an additional hit to most UK-based asset classes. This has been well covered elsewhere, but the upshot was an even bigger increase in borrowing costs in the UK compared to elsewhere, a fall in the pound, and concerns that the UK will fall into recession.

This has led to UK equities losing more than many other parts of the world, and UK bonds underperforming their developed market counterparts. Overseas assets have also had a boost for sterling-based investors, with most currencies gaining against the pound.

The table below shows the returns of some selected asset classes over the past three months both in nominal and currency adjusted terms:

Asset class	Return (local currency)	Return in sterling
FTSE 100 (UK large companies)	-2.72	-2.72
S&P 500 (US equities)	-5.00	3.35
FTSE 250 (UK mid caps)	-7.30	-7.30
MSCI Emerging Markets	-8.18	-3.80
UT Sterling Corporate Bonds	-9.40	-9.40
FTSE Gilts All Stocks Index	-12.85	-12.85

Source: FE Analytics 30 June 2022 to 30 September 2022

Whilst many asset classes have fallen in value, this has left a number of them looking relatively cheap relative to history. Whilst we expect further volatility in the short term, driven by government and central bank actions, we are very optimistic about future returns with yields on various assets now being much higher than they have been for some time.

Please see the latest edition of the Pulse for details on some of the recent actions taken in the portfolio **www.equilibrium.co.uk/library/the-pulse-october-2022**.

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Adventurous commentary

The portfolio was down 3.7% over the past three months.

On the plus side, alternatives made a positive contribution to returns, as did cash where our holding in US dollars gained strongly due to the fall in the pound.

However, the other asset classes all lost money. The biggest detractor was real assets, with real estate and to a lesser extent infrastructure both being hit hard.

Equities were the second biggest detractor from returns overall, mainly down to our UK equity holdings. Private equity, which has a technology focus, was also hit hard by expectations of rising rates.

However, our overseas equities actually added to returns over this period despite falling markets, helped by the fall in the pound relative to other currencies.

Fixed interest was another detractor from returns, despite our fixed interest funds falling significantly less than a typical corporate bond fund or gilts.

At a fund level, Some of the top performers include technology-based funds, such as Baillie Gifford American and our Nasdaq 100 ETF holding. Our India fund also performed strongly, as did the Royal London Global Equity Select fund.

Another top performer was the THEAM Dynamic Volatility Carry fund – this is an alternative fund designed to produce positive returns when equity markets are positive.

The biggest fund detractors included two UK equity funds, and the Tritax and Segro real estate investment trusts. However, the worst performer was Chrysalis Investments, a UK-based private equity trust focused on technology. Again, rising rates and a UK focus are two primary reasons why this performed poorly.

In terms of asset allocation, we have topped up both equity and fixed interest over the period, with alternatives and real assets being reduced.

Performance

Rolling total returns

	10 years %	5 years %	3 years %	1 year %	6 months %
Fund	80.12	11.15	1.75	-14.83	-11.79
CPI	27.56	18.25	13.46	9.52	5.12

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 September 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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