EQUILIBRIUM

# Quarterly investment report

July 2026

## Introduction

Welcome to our latest quarterly report.

2026 so far has been yet another period where geopolitics has been a big driver of markets. Frankly, we're a bit fed up with writing about President Trump and the way his policies are moving different asset classes – his unpredictability certainly makes our job more challenging sometimes!

Over recent times, it has been the conflict in Iran which has been impacting markets. At the time of our last quarterly review, equity and bond markets had both been hit, with the conflict pushing up energy prices and therefore inflation expectations. In turn, this meant markets had started expecting interest rate hikes and slowing economic growth.

However, since the last report, stock markets have moved sharply higher. This began happening even whilst the conflict was going on and was largely driven by the expectation of rising profits, mainly linked to artificial intelligence (AI) and technology.

It is interesting that stock markets were essentially able to ignore geopolitics, with AI seen as a much greater positive force than the potential negative of higher inflation or rates. Later on, we'll explore how this is changing markets which are becoming more and more concentrated (less diverse) and potentially more vulnerable to a setback.

On the other hand, bond markets DO seem to care about the conflict. At the time of writing, the recent deal to re-open the Strait of Hormuz (meaning ships can enter and exit the Persian Gulf again) appears to have eased some of those concerns, helping bonds recover as some of those expected interest rate hikes may not be required after all.

All in all, that means we've seen a positive quarter of returns for all the portfolios. In relative terms, most of our portfolios have outperformed since the start of the Middle East conflict. Our approach of trying to mitigate downside risks worked well earlier this year, with portfolios generally falling less than the sectors during the sell-off, and they have generally kept pace during the recovery. That's the sort of behaviour we like to see from our core, mixed investment portfolios where we're trying to produce consistent returns well above inflation.

**Table one** shows how this objective has been more than achieved over the long term. In the coming pages, we'll examine further what's moving markets and the economy, and the impact on portfolios.

**Table one:**

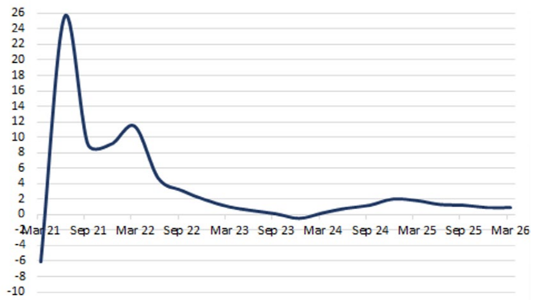
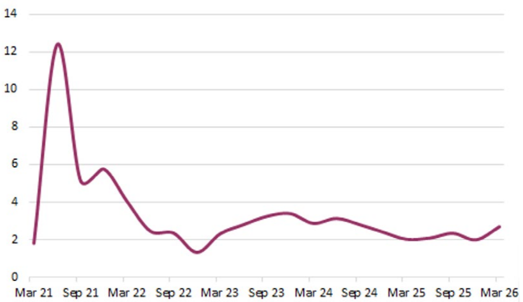
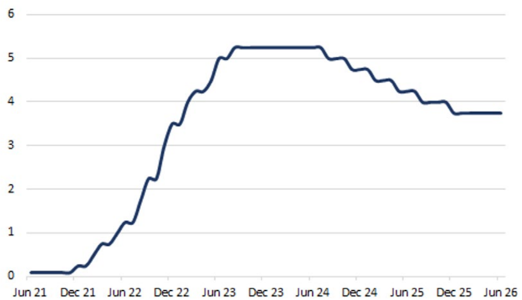
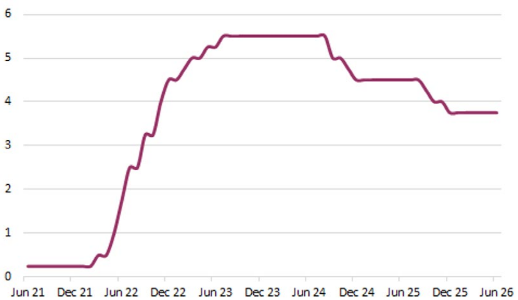
| Portfolio | 10-year total return % | 10-year % p.a. |
|---|---|---|
| Cautious | 57.02 | 4.62 |
| Balanced | 67.87 | 5.32 |
| Adventurous | 88.06 | 6.52 |
| Competitor mixed investment fund (balanced)* | 61.59 | 4.92 |
| Competitor discretionary portfolio (balanced) ** | 58.36 | 4.70 |
| UK Inflation (CPI) | 41.55 | 3.54 |
| Cash (Bank of England base rate) | 21.08 | 1.93 |

*UT Mixed Investment 20-60% Shares. ** ARC Sterling Balanced Index.

Source: FE Analytics 31/03/2016 to 30/06/2026. Green numbers denote the outperformance of the competitor fund.. All portfolios based on IFSL Equilibrium fund and discretionary model performance prior to fund launch.

# The economy

On this page, we look at some key economic indicators and how they have changed over the last five years, focusing on the UK and the US, which have the most significant impact on portfolios.

| | UK | US | Equilibrium view |
|---|---|---|---|
| **Inflation % p.a.** (Consumer Prices Index) |  |  | After the very high inflation of a few years ago, the rate of price increases in the UK has continued to slow. Were it not for the impact of the conflict in the Middle East, we'd expect CPI to be below the 2% target now. Should the Strait of Hormuz be fully reopened, then we'd expect to see inflation resume its downward trend later in the year.<br><br>In the US however, inflation has moved higher and is now back above 4%, partly due to the impact of trade tariffs as well as higher energy costs. |
| **Economic growth % p.a.** |  |  | Economic growth in the UK continues to be positive but fairly sluggish. To be fair, the first quarter of this year saw stronger growth than expected, but forward-looking surveys point to a slower second quarter.<br><br>However, in the US, growth seems to have accelerated of late. This is partly driven by all the spending on AI infrastructure by big tech firms, which is having a meaningful effect on GDP, as well as on the stock market. |
| **Interest rates %** |  |  | After peaking at over 5%, interest rates in both the UK and the US have been gradually cut over the past couple of years. However, they have now been on hold for more than six months on both sides of the Atlantic. Before the Iran conflict, investors had been expecting further rate cuts in both the UK and the US.<br><br>With the relative inflation rates, we now think rate hikes are more likely in the US than the UK, a turnaround from a few months ago. |

Source: LSEG Eikon, ONS, Bank of England, Equilibrium Investment Management.

## Markets

The table below shows the returns of some of the major asset classes over the last 10 years. It is colour coded with the darker green showing the better performers in each calendar year, the darker the red, the worse the performer. Yellow shows mid-range returns.

| | Asset class | 2016 % | 2017 % | 2018 % | 2019 % | 2020 % | 2021 % | 2022 % | 2023 % | 2024 % | 2025 % | 2026 % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Equity markets | UK | 19.07 | 11.95 | -8.73 | 17.32 | -11.55 | 18.44 | 4.70 | 7.93 | 9.66 | 25.82 | 9.48 |
| | Europe ex UK | 18.62 | 15.84 | -9.87 | 19.99 | 7.49 | 16.73 | -7.62 | 14.83 | 1.94 | 26.18 | 10.63 |
| | US (S&P 500) | 32.67 | 10.62 | 0.96 | 25.65 | 14.12 | 29.34 | -8.25 | 18.58 | 26.73 | 9.34 | 10.41 |
| | Japan | 23.00 | 15.23 | -8.67 | 14.21 | 9.14 | 1.69 | -4.54 | 12.83 | 9.59 | 16.69 | 17.74 |
| | Emerging Markets | 32.63 | 25.40 | -9.27 | 13.86 | 14.65 | -1.64 | -10.02 | 3.63 | 9.43 | 24.33 | 24.72 |
| Fixed interest | Corporate Bonds | 9.08 | 5.10 | -2.23 | 9.52 | 7.93 | -2.04 | -16.62 | 9.55 | 2.53 | 7.01 | 0.95 |
| | High-Yield Corp Bonds | 9.87 | 6.48 | -3.48 | 11.45 | 5.09 | 3.90 | -11.09 | 11.49 | 9.04 | 7.67 | 2.19 |
| | Gilts | 10.10 | 1.83 | 0.57 | 6.90 | 8.27 | -5.16 | -23.83 | 3.69 | -3.32 | 5.03 | -0.01 |
| Real assets | UK Real Estate | -8.36 | 9.86 | -17.37 | 34.89 | -13.19 | 34.65 | -34.88 | 15.75 | -15.15 | 0.53 | 15.93 |
| | Global Infrastructure | 34.88 | 6.75 | 5.24 | 21.39 | -3.73 | 18.93 | 6.08 | -4.15 | 11.78 | 10.29 | 13.99 |

We like to include this chart for a couple of reasons. Of course, it gives you an idea of which assets classes are working well, and which aren't. But it also shows why diversification and regular portfolio rebalancing is so important. Often the best performing asset class one year is amongst the worst the following year – UK Real Estate illustrates this well, tending to either be green or red, and rarely amber.

The best performing asset this year is emerging markets, which is about 8% ahead of the next best performing asset, Japanese equities. There has been a big turnaround for US stocks which at the time of our last report had lost money in 2026 but are now 10% up for the year. Despite this rebound, it is just in the middle of the pack compared to other markets. In general, equities and real assets have seen decent returns, but bonds have struggled due to expectations of rate hikes.

Source: Financial Express, total return in sterling to 03/07/2026, based on FTSE 100, MSCI Europe Ex UK, S&P 500, Topix, MSCI Emerging Markets, UT Sterling Corporate Bonds, UT Sterling High Yield, FTSE Allstocks Gilts, FTSE UK Real Estate, FTSE Global Infrastructure. This is a non-exhaustive list of some of the major asset classes we can invest in.

# Portfolios

The tables below show our portfolios over various time periods, compared to other funds with similar objectives and risk tolerances.

### Calendar year returns over 10 years relative to other funds to 3 July 2026

| Portfolio | 2026% | 2025% | 2024% | 2023% | 2022% | 2021% | 2020% | 2019% | 2018% | 2017% | 2016% |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cautious | 4.53 | 8.15 | 6.18 | 4.91 | -9.62 | 6.51 | 3.60 | 12.37 | -3.60 | 8.58 | 7.76 |
| Balanced | 5.08 | 8.99 | 7.14 | 6.50 | -10.93 | 7.73 | 4.31 | 13.79 | -4.12 | 9.75 | 8.93 |
| Adventurous | 5.53 | 10.46 | 9.08 | 8.69 | -14.54 | 9.58 | 6.98 | 16.61 | -5.60 | 12.79 | 12.44 |
| **IA Mixed Investment 20-60% Shares** | **5.38** | **10.18** | **6.07** | **6.81** | **-9.47** | **7.20** | **3.51** | **11.84** | **-5.10** | **7.16** | **10.32** |
| | | | | | | | | | | | |
| Global Equity | 8.12 | 12.37 | 12.76 | 10.63 | -18.37 | 11.10 | 13.36 | 20.99 | -8.40 | 19.08 | 18.06 |
| **IA Flexible Investment** | **8.21** | **12.05** | **9.41** | **7.08** | **-8.98** | **11.30** | **6.70** | **15.66** | **-6.72** | **11.21** | **13.82** |
| | | | | | | | | | | | |
| Defensive | 1.98 | 5.48 | 5.31 | 2.93 | -9.21 | 1.93 | 7.39 | 6.29 | 0.01 | 4.95 | 4.64 |
| **IA Mixed Investment 0-35% Shares** | **3.27** | **7.84** | **4.42** | **5.97** | **-10.87** | **2.84** | **3.90** | **8.70** | **-3.35** | **4.84** | **8.47** |

### Various time periods to 3 July 2026

| Portfolio | 3 months % | 6 months % | 1 year % | 3 years % | 5 years % | 10 years % |
|---|---|---|---|---|---|---|
| Cautious | 4.29 | 4.62 | 9.85 | 25.46 | 15.55 | 55.57 |
| Balanced | 5.31 | 5.16 | 11.22 | 28.44 | 18.33 | 66.15 |
| Adventurous | 6.41 | 5.67 | 12.86 | 33.71 | 19.67 | 85.84 |
| **IA Mixed Investment 20-60% Shares** | **5.19** | **5.30** | **11.97** | **29.62** | **21.80** | **59.59** |
| Inflation (UK Consumer Prices Index) | 0.99 | 1.64 | 2.52 | 8.29 | 27.94 | 41.55 |
| | | | | | | |
| Global Equity | 10.57 | 8.27 | 19.25 | 44.48 | 24.32 | 128.38 |
| **IA Flexible Investment** | **8.15** | **8.06** | **18.07** | **38.95** | **33.23** | **101.88** |
| | | | | | | |
| Defensive | 2.18 | 2.08 | 5.06 | 18.08 | 6.67 | 30.93 |
| **IA Mixed Investment 0-35% Shares** | **3.42** | **3.26** | **8.22** | **22.29** | **10.76** | **33.88** |
| Cash (Bank of England Base Rate) | 0.92 | 1.84 | 3.88 | 14.47 | 18.60 | 21.08 |

Source: Financial Express, total return in sterling to 03/07/2026. Green numbers denote outperformance of the sector. All the portfolios are based on IFSL Equilibrium fund data back to launch. Returns prior to launch are based on the corresponding model portfolios, with data available back to 2008. Defensive and Global Equity long-term returns based on back-tested portfolio. The portfolios moved to the sectors shown as of August 2024.

# Portfolios

The tables below show our portfolios over various time periods, compared to wealth manager portfolios that have similar objectives and risk tolerances, as calculated by Asset Risk Consultants (ARC). Green numbers denote outperformance of the sector.

### Calendar year returns over 10 years relative to wealth manager portfolios to 30 June 2026

| Portfolio | 2026% | 2025% | 2024% | 2023% | 2022% | 2021% | 2020% | 2019% | 2018% | 2017% | 2016% |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cautious | 4.30 | 8.15 | 6.18 | 4.91 | -9.62 | 6.51 | 3.60 | 12.37 | -3.60 | 8.58 | 7.76 |
| **Cautious Wealth Manager Portfolios** | **2.63** | **6.58** | **4.37** | **4.43** | **-7.60** | **4.23** | **4.20** | **8.05** | **-3.63** | **4.48** | **5.52** |
| | | | | | | | | | | | |
| Balanced | 4.71 | 8.99 | 7.14 | 6.50 | -10.93 | 7.73 | 4.31 | 13.79 | -4.12 | 9.75 | 8.93 |
| Adventurous | 5.18 | 10.46 | 9.08 | 8.69 | -14.54 | 9.58 | 6.98 | 16.61 | -5.60 | 12.79 | 12.44 |
| **Balanced Wealth Manager Portfolios** | **4.64** | **8.68** | **6.81** | **5.98** | **-9.14** | **7.64** | **4.31** | **11.73** | **-5.10** | **6.69** | **8.64** |
| | | | | | | | | | | | |
| Global Equity | 7.72 | 12.37 | 12.76 | 10.63 | -18.37 | 11.10 | 13.36 | 20.99 | -8.40 | 19.08 | 18.06 |
| **Equity Wealth Manager Portfolios** | **6.67** | **9.48** | **9.80** | **8.10** | **-11.40** | **12.31** | **5.82** | **18.04** | **-6.50** | **11.39** | **13.73** |

### Various time periods to 30 June 2026

| Portfolio | 3 months % | 6 months % | 1 year % | 3 years % | 5 years % | 10 years % |
|---|---|---|---|---|---|---|
| Cautious | 5.02 | 4.46 | 10.04 | 25.37 | 15.76 | 57.02 |
| **Cautious Wealth Manager Portfolios** | **2.31** | **2.63** | **7.20** | **18.68** | **11.78** | **34.78** |
| | | | | | | |
| Balanced | 6.10 | 5.01 | 11.49 | 28.47 | 18.44 | 67.87 |
| Adventurous | 7.32 | 5.32 | 13.14 | 33.68 | 19.53 | 88.06 |
| **Balanced Wealth Manager Portfolios** | **5.49** | **4.64** | **11.99** | **27.28** | **20.44** | **58.36** |
| | | | | | | |
| Global Equity | 12.16 | 7.72 | 19.60 | 44.33 | 23.75 | 131.74 |
| **Equity Wealth Manager Portfolios** | **9.55** | **6.67** | **15.97** | **35.01** | **28.57** | **98.47** |

Our portfolios have largely outperformed the typical wealth manager portfolio over most time frames, with our riskier portfolios also outperforming the typical mixed investment fund (sector average).

The more cautious portfolios have outperformed wealth managers but have lagged behind sector in pure performance terms over some time frames. Typically, this is because we have been less risky than the sector, with our portfolios producing strong risk-adjusted returns as shown in the commentary on page 13. Defensive for example, is designed to outperform cash with as little risk as possible, which has been achieved over the past three years.

Source: Financial Express, total return in sterling to 30/06/2026. Green numbers denote outperformance of the relevant ARC index (ARC Sterling Cautious, ARC Sterling Balanced, and ARC Sterling Equity Risk PCI). All the portfolios are based on IFSL Equilibrium fund data back to launch. Returns prior to launch are based on the corresponding model portfolios, with data available back to 2008. Defensive and Global Equity long-term returns based on back-tested portfolio. Note, that there is no relevant ARC index for Defensive.

## Drivers of performance

**Table two** shows the performance of each of our core asset class portfolios over the past 12 months, along with the current asset allocation of the Balanced portfolio and its allocation a year ago. We have made similar changes in other portfolios to a greater or lesser extent.

**Table two:** Calendar year returns

| Asset class | 1-year return %* | Current allocation % | Allocation 1 year ago % | Change in allocation % | Commentary |
|---|---|---|---|---|---|
| **Cash and money market** | **n/a** | **0** | **1** | -1 | We have kept overall fixed interest exposure largely the same over the period but have allocated more towards shorter-dated corporate bonds. In our view, they offer an attractive yield but are less sensitive to changes in interest rates than longer-dated bonds. |
| **Fixed interest** | **5.60** | **38** | **38** | = | However, during the period after the beginning of the Iran conflict, we took advantage of volatility and higher yields in gilts to top up this asset class. We did so by buying a structured product which will pay out 7.4% p.a. provided the 10-year gilt yield remains below 6.5% (it is currently around 4.75% p.a.). |
| **Real assets** | **15.02** | **4** | **2** | +2 | We increased exposure slightly over the period by topping up our holding in Utilities – a form of infrastructure. This helped returns at the beginning of the Iran conflict with these stocks able to pass on higher energy costs to consumers. |
| **Defined returns** | **12.21** | **16** | **14** | +2 | We have increased defined returns slightly over this period. Once more, we think they offer attractive double-digit returns with a higher degree of confidence than direct stock market investments – we only need to see stocks go sideways to achieve the return. Over this period, we would have been better off holding more direct equities as markets have produced strong returns, but the defined returns have done their job with much less volatility (see page 12 for more commentary). |
| **Alternatives** | **5.78** | **7** | **9** | -2 | We largely use Alternatives as a substitute for fixed interest. This includes absolute return funds which are designed to be low volatility and with low correlation to stock and bond markets. It is interesting to see they have produced essentially the same returns as fixed interest over this period, whilst diversifying our portfolio. |
| **Equity** | **25.63** | **34** | **34** | = | Stocks have had an extremely good run over the last couple of years. Whilst the headlines are all about AI, returns have been positive for many sectors and regions, not just US tech stocks. In particular, we have benefited from strong Japanese market returns as we hold a structured product which provides geared returns on this market. More recently, smaller companies have begun to outperform larger ones, which bodes well for our equity portfolios. We tend to be more diversified than global stock market indices which are highly concentrated in a small number of areas. |

Source: LSEG Datastream. *Source: Financial Express, the 12-month total return of relevant Equilibrium asset class portfolio from 04/07/2025 to 03/07/2026, gross of fees. Equity is based on the Balanced Equity mix. Real Assets assumes 50% real estate, 50% infrastructure, although in reality we have switched from one to another during the period. Allocations may not add up to 100% due to rounding etc.

# Commentary

Whilst bond markets have been fixated on the impact of the Iran conflict, and the knock-on effect on inflation and interest rates, stock markets have been looking the other way!

Artificial intelligence (AI) seems to be driving a large proportion of market returns. It has the potential to be a genuinely revolutionary technology, increasing productivity and growth over the long term. However, to get to that point, there is a lot of spending required on AI infrastructure – chiefly on data centres and the microchips required to fill them.

**Chart one** shows just how big this spending is in the US. This looks at the capital expenditure (capex) of companies within the S&P 500 and Nasdaq indices, relative to the size of the US economy (Gross Domestic Product or GDP) and how this has changed over time.

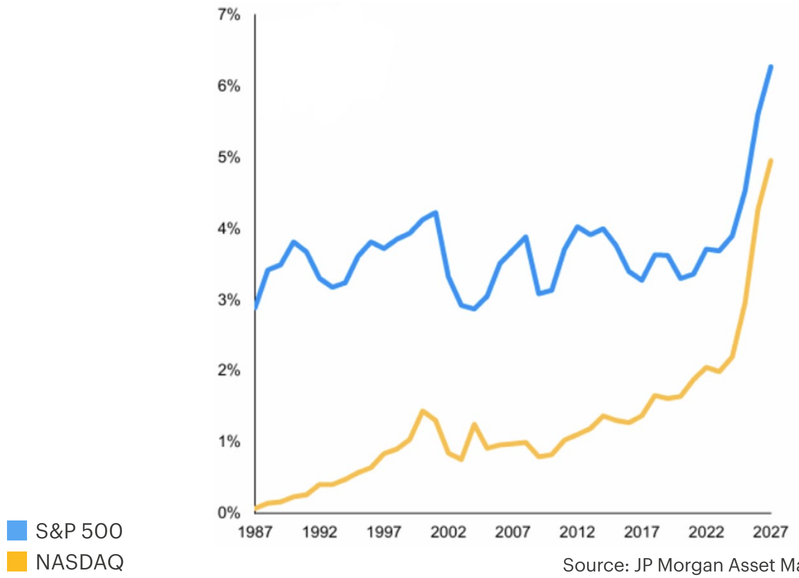
Typically, capital expenditure by S&P 500 companies has historically been around 3% to 4% of GDP. Now it's over 6% and rising. The Nasdaq index – where most of the tech companies are also listed – is over 5% of GDP, showing that most of this spending is being done by big tech.

As noted in the Pulse in June (equilibrium.co.uk/library/the-pulse-june-2026), this marks a fundamental shift. Tech companies, which have historically had low levels of debt and large amounts of cash on their balance sheets, are fast burning through that cash to invest in the computing power required to run their AI models.

This is not a problem, provided the companies achieve the return on this investment that they hope. However, it's just worth noting this change in the characteristic from what were previously low overhead businesses. Interestingly, the big US tech stocks have actually underperformed this year.

**Chart two** shows the return of the so-called Magnificent Seven big tech firms in the US in green. So far this year, an equal-weighted basket of the seven companies has returned essentially zero. That is despite the S&P 500 (red line) provided a 10% return, showing that other US stocks have performed better. However, the blue line on the chart has more than twice this level of growth. This is the emerging market index, which has returned almost 25% this year.

**Chart one:** Capex as a percent of US GDP




Source: JP Morgan Asset Management, Bloomberg

**Chart two:** Returns of the Magnificent Seven, S&P 500 and emerging market index in 2026


Source: FE Analytics, 31/12/2025 - 03/07/2026

# Emerging beneficiaries of AI

Big US tech stocks are doing all the spending, but the biggest beneficiaries of this investment in the short term may actually be in emerging markets.

**Chart three** shows the proportion of various stock markets which are exposed to AI-related industries. Both the US and emerging markets are now about 50% exposed to AI, far in excess of Japan and Europe. However, the makeup of this exposure is different. In the emerging market index, a big proportion (about 30%) is in semiconductor or chip makers (green on this chart).

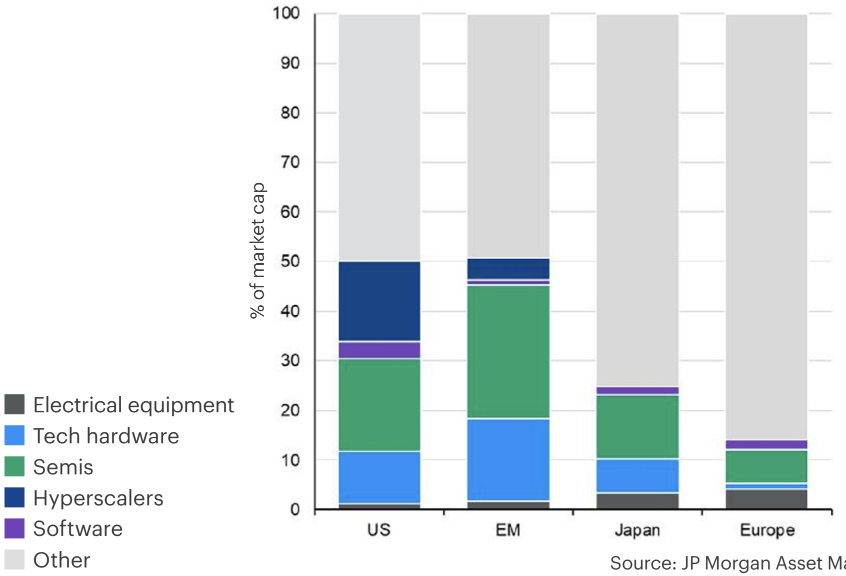
Most of the microchips are manufactured by a few big companies; Taiwan Semiconductor Manufacturing Corporation (TSMC), Samsung, and SK Hynix. These together represent more than a quarter of the MSCI emerging market index (although it's arguable whether Taiwan or South Korea should still be classed as emerging markets!)

With both the US and emerging markets, it is worth noting quite how much of the market is now AI related. Again, this is not a problem provided that AI delivers on its promises. However, it does mean that any disappointment in AI or the revenue generated could have a disproportionate negative effect on markets too. Earnings (profit) growth is predicted to be extremely strong in 2026, as shown in **Chart four**.

Investors are expecting over 20% earnings growth globally, a little more than this in the US, and a little less in the UK and Europe (but still an impressive mid-teen rate). But the standout is emerging markets, where about 60% growth is expected this year, largely due to the chip makers. However, it should be noted that the semiconductor industry tends to be quite cyclical. We don't really see any reason why this should be different this time.

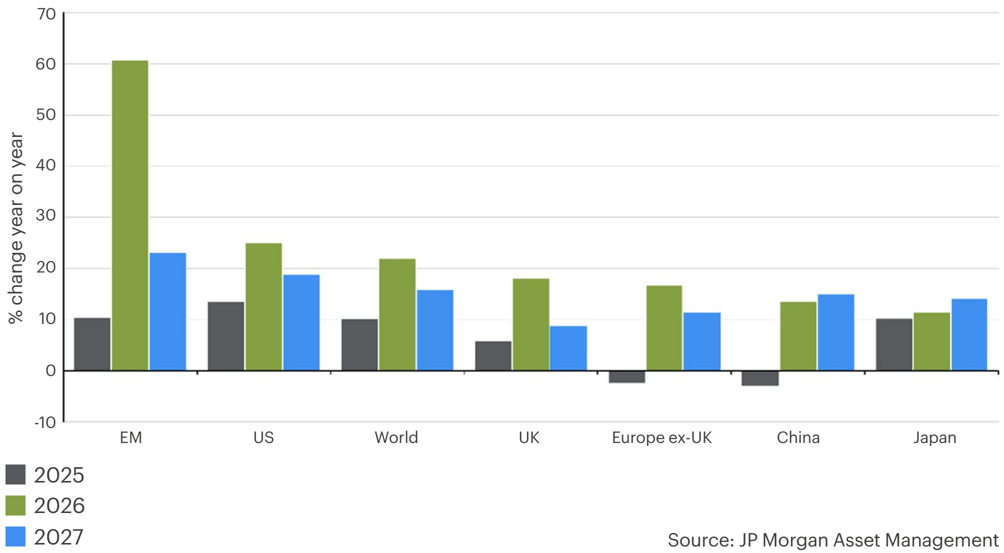
If anything, this may just be an extended and more inflated cycle. Whilst at present, the big tech stocks are spending a huge amount on data centres, presumably this won't continue for ever! For AI to be successful, it needs to become more efficient and not just reliant on increasingly more computing power. A lot of this investment is simply bringing forward spending that might otherwise have happened over several years. Investors often tend to extrapolate current trends into the future and can be caught out when that turns out not to be the case. In our view, that is a reason for caution.

**Chart three:** Equity index exposure to AI-related industries




Source: JP Morgan Asset Management, MSCI

**Chart four:** Consensus estimates for earnings per share growth




Source: JP Morgan Asset Management

# Inflation and rates

If AI improves productivity over time, this could potentially help bring down the cost of goods and services and therefore dampen long-term inflation. However, for now it is actually making inflation worse in certain industries.

For example, Apple has just increased the cost of MacBook and iPads by around 20%, and the price of an Xbox game console has increased by a similar amount. This is all due to a shortage of memory chips, amidst demand from data centres.

This comes at a time when there's already been inflationary pressures as a result of the conflict in Iran. Since the start of the conflict, the Strait of Hormuz – which connects the Persian Gulf to global shipping lanes – has essentially been closed.

This means there has been a much-reduced supply of several vital commodities from the Gulf region. This includes not just oil, but natural gas, and other chemicals which go into fertiliser.

The rising oil price of course has an immediate impact at the petrol pump. Rising natural gas prices won't be felt here in the UK by most consumers yet, due to the price cap mechanism. However, the price cap will increase this month, having previously been predicted to fall this year.

The knock-on effects of the reduced fertiliser supply may not be felt for some time but could have a longer-term impact on crop yields and therefore food prices.

Happily, the US and Iran have now signed a deal to end hostilities whilst they talk about a lasting settlement. The Strait is now open again and shipping seems to be gradually getting back closer to normal at the time of writing (6 July).

Should this continue, then inflationary pressures should die back somewhat.

Initially, many commentators believed the UK and Europe would be hit harder than the US, which is now a net exporter of oil and therefore less exposed to rising energy prices.

**Chart five** compares UK and US inflation, and in fact it looks like US price increases are accelerating even as UK inflation remains steady. This is partly due to the ongoing impact of Trump's trade tariffs, as well as the strong growth in the US economy.

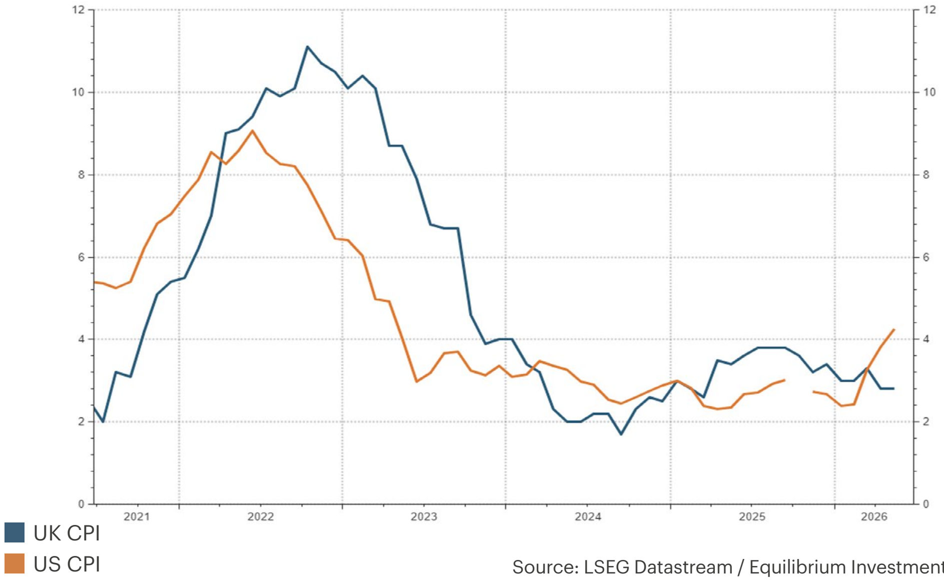
Before the conflict, it had been expected that interest rates would be cut in 2026, on both sides of the Atlantic. At one point in March, that had completely changed and four 0.25% rate HIKES were being priced into the UK bond market, with two hikes expected in the US.

Our view is that rate hikes are still fairly unlikely here in the UK, especially if the conflict is truly over. We still have fairly sluggish economic growth and there is a lack of wage pressure. However, in the US rate hikes look more likely, given the higher inflation and economic growth, and the solid labour market.

During the conflict, we marginally added to our equity exposure in the portfolios by increasing exposure to defined returns. But we added more to gilts, after the increase in interest rate expectations led to a big increase in gilt yields (and, given the inverse relationship, weak gilt prices).

Happily, as things have settled down, gilt yields have fallen back again, meaning gilt prices have gone up. The prospect of Andy Burnham in 10 Downing Street has not had an impact on the cost of borrowing, given he has committed to sticking to the government's current fiscal rules.

**Chart five:** US vs UK inflation (2021-26)




Source: LSEG Datastream / Equilibrium Investment Team

## Greater certainty

In this environment, we still feel bonds look quite attractive, especially corporate bonds where we can often get 6% + yield from lending to highly rated companies, and 8% + from slightly less credit-worthy firms.

We also continue to like defined returns. To briefly summarise, these are fixed-term products of usually five or 6 years, which will provide an element of capital protection at the end of the term if markets are down. If markets have gone up, or even gone sideways, the products will produce a pre-defined, usually double-digit return.

These have continued to do their job in the portfolio, producing a compound annual growth rate of 12.4% p.a. over the last three years, as shown in table three.

These products increase the probability of achieving a double-digit return compared to buying equities directly. However, one of the downsides is that the return is capped. If a product promises to return 12% p.a., but the market then goes up 20%, the product will "underperform". However, we think this is a trade-off worth making in parts of our portfolios for the extra confidence value.

**Table three** also shows the return of the FTSE 100 and the S&P 500 indices over the same three years. You would have been better off buying a fund that tracks one of these indices than the defined returns.

However, it also shows the risk of the products. The products had less than half of the volatility of the S&P 500 for example. When markets fell, they lost a lot less. The "maximum drawdown" column shows the worst return you could have achieved, by buying at the peak and selling at the low point. The worst run for defined returns was a -5.5% drop, compared to the S&P 500 which at one point fell over 20%.

**Table three:** Equilibrium Defined Returns portfolio compared to FTSE100 and S&P 500 (2023-26)

| Portfolio | 3-year return % p.a. | Max. drawdown % | Volatility | Risk-adjusted return |
|---|---|---|---|---|
| Equilibrium Defined Returns portfolio | 12.40 | -5.50 | 6.15 | 2.02 |
| FTSE 100 | 17.90 | -8.92 | 11.53 | 1.55 |
| S&P 500 | 18.82 | -20.05 | 14.03 | 1.34 |

Source: FE Analytics, 08/07/2023 - 03/07/2026

We always like to look at "risk-adjusted" returns.

As we always say, risk and return are highly correlated. If you want higher returns, you generally need to accept greater risk (meaning short-term losses when markets fall). If you can't or don't want to take any risk, you'll need to accept lower returns. We need to make sure we are getting paid for the risks we are taking.

One way of working out whether we've received a good return is to divide the return by the volatility. This measure is shown on the table (column headed 'Risk-adjusted return'). For each percentage point of risk, defined returns achieved more than a 2% return, whereas the FTSE and S&P only returned around 1.3% to 1.5% for each unit of risk. This is a very strong risk-adjusted return.

# Risk-adjusted returns

The predictability of defined returns accords with our philosophy of trying to produce returns without taking any more risk than is necessary.

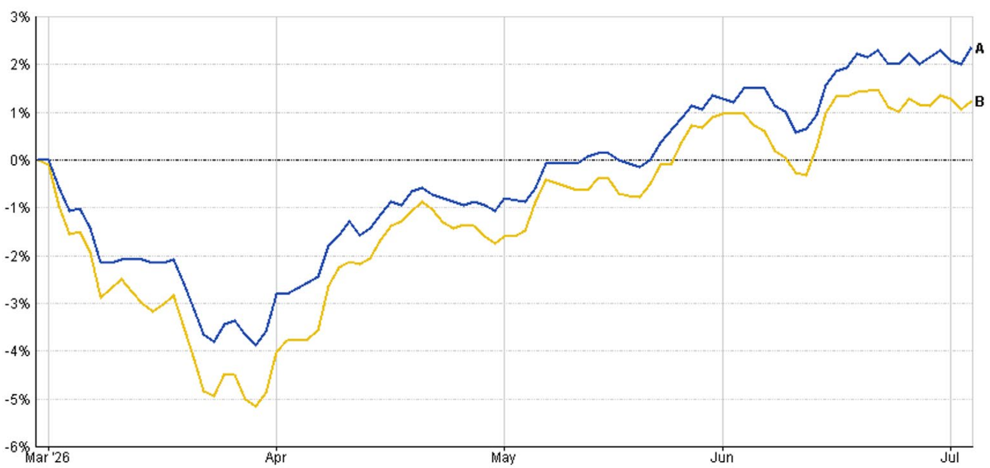
We're trying to give our clients a reasonable degree of predictability as well as a return well above inflation. The idea is that this will enable clients to plan ahead and hopefully help them not to worry too much when markets fall!

Short-term market falls are an inevitable part of investment and can't be avoided, but we can do our best to mitigate them. If we can reduce the losses when markets fall and keep pace when they rise, over the long term we will end up in a good place.

In recent times we've been positioned a bit more cautiously than we sometimes are, as after a strong run we feel the risk of a large pull back in markets has risen. We've seen some sharp corrections over the past couple years, notably after "Liberation Day" last year when President Trump announced his trade tariffs, and this year after the Iran conflict began, but both times markets recovered fairly quickly.

In both these periods our portfolios held up well and lost less than the sectors in which they sit. For example, **chart six** shows the returns of our Balanced portfolio since 27 February 2026 (when the Iran conflict began) relative to the Mixed Investment 20-60% Shares sector. We fell less than the sector in March and have more than kept pace with the sector during the subsequent recovery, leading to outperformance over this period.

**Chart six:** Balanced portfolio returns since 27 February 2026




A - IFSL - Equilibrium Balanced Portfolio (2.37%)
B - AI Mixed Investment 20-60% shares (1.23%)

Source: FE Analytics, 27/02/2026 - 03/07/2026

This is exactly the type of behaviour we aim to see from the Balanced portfolio. By focusing on risk-adjusted returns, this approach has delivered strong results across our range of portfolios in recent years.

**Chart seven** shows the three-year return of our five main portfolios, compared to their volatility – how much they go up or down when the market goes up or down. Each portfolio is shown as a dot on the chart. The higher up this is, the higher the returns were.

The horizonal axis shows the amount of risk taken. Lower risk on the left, higher risk on the right. You'll see the dots form a line from bottom left to top right, showing the correlation between higher risk and higher return.

The ideal place to be on this chart would be top left – all the return and none of the risk! Unfortunately, that isn't possible to achieve in the real world, but we would like to be as far towards the top left as we can overall.

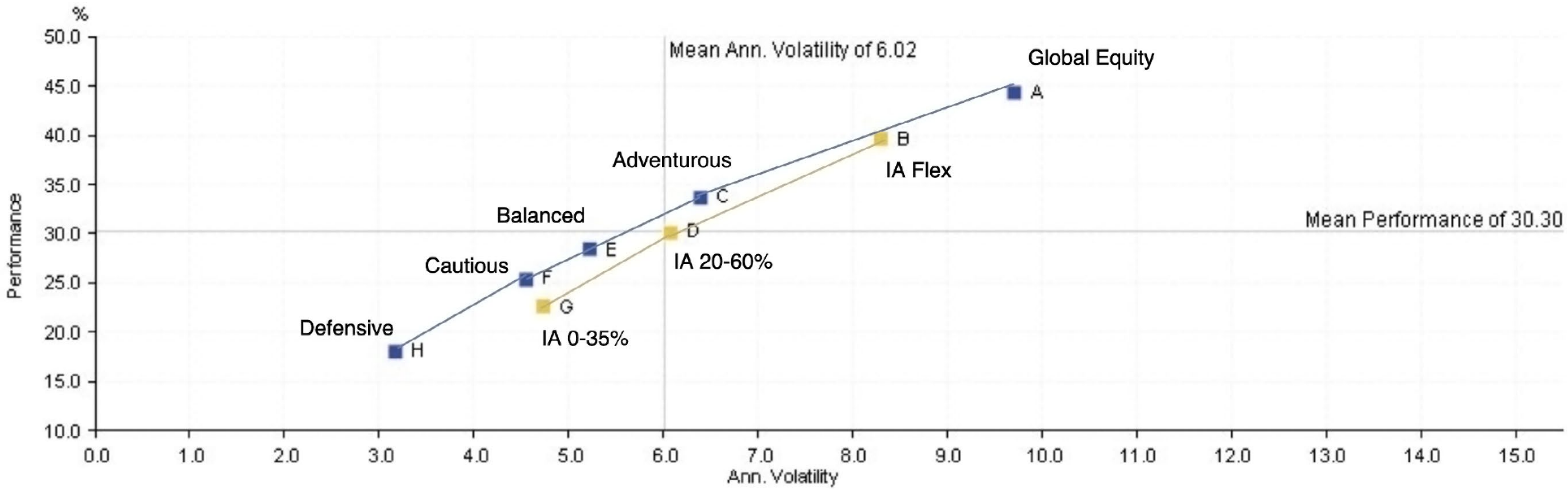
The chart shows we've been able to achieve this. We've drawn a line on the chart connecting all our portfolios in blue, and another line connecting all the various sectors in yellow.

Our line is higher and to the left, showing we've produced higher returns per unit of risk than our competitors.

Where we've deliberately taken more risk - such as in our Global Equity portfolio - we've achieved a higher return; we've been "paid" for taking this risk. In our Balanced portfolio, we've seen a similar return to the sectors but with less ups and downs along the way.

We feel this approach, trying to mitigate risk and diversify the portfolio widely, can continue to serve clients well over the long term.

**Chart seven:** Equilibrium portfolio returns compared to their volatility (2023-26)




Source: FE fundinfo, 30/06/2023 - 30/06/2026

## Risk warnings and notes

Past performance is never a guide to future performance. Investments will fall as well as rise.

Any performance targets shown are what we believe are realistic long-term returns. They are never guaranteed.

None of the information in this document constitutes a recommendation. Please contact your adviser before taking any action.

Unless stated otherwise:

- All performance statistics are from Financial Express Analytics on a bid-bid basis with income reinvested.
- All performance data is to 3 July 2026 unless stated.
- Model portfolio performance is stated after a 0.5% investment management fee with no adjustment for financial planning or platform charges.
- Your own performance may vary from that shown due to dividend pay dates, transaction dates, contributions and withdrawals.
- Actual performance may also differ slightly due to constraints over how we can reflect fees and discounts from fund managers. These are assumed not to change over the whole investment period. In reality, discount levels change as we change the funds in which we invest.
- Individual sector portfolios are shown with no charges taken off or fund manager discounts applied.

For details of your own portfolio performance, please refer to your half-yearly statement from the wrap platform in which you are invested. We will also provide personalised performance information at your regular reviews.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