

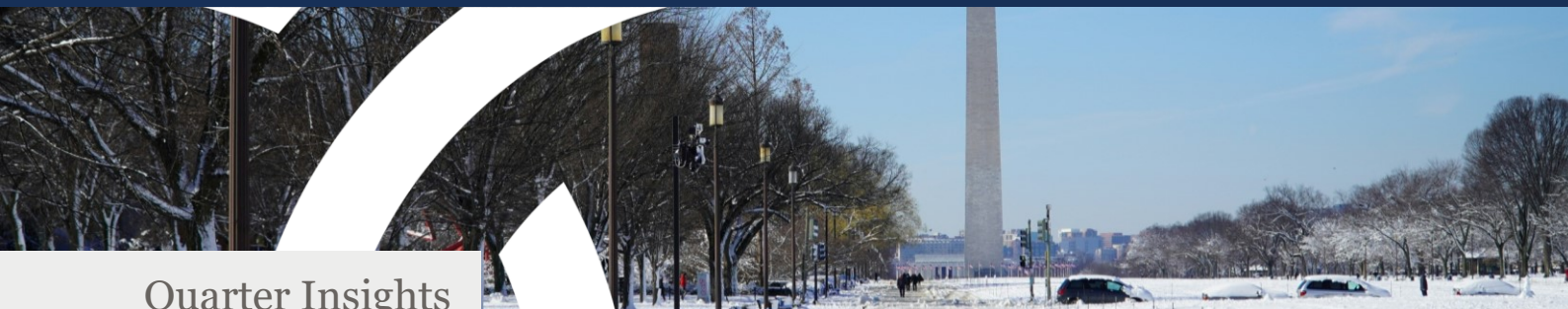
CHETWOOD

INVESTMENT MANAGEMENT

**CORE DECUMULATION  
PORTFOLIOS**

QUARTER 4 2024 REPORT





## Quarter Insights

- Donald Trump won the US presidential election, with Republicans securing full control of Congress. Political commentators anticipate policies focused on business deregulation, tax cuts, tariffs, and stricter immigration enforcement.
- US stocks were the only significant winner this quarter, with most investments suffering from the uncertainty over what Trump 2.0 will bring.
- US third-quarter corporate earnings grew by 8.5% year-over-year, with strong profit margins driving the positive results.
- The UK Autumn Budget introduced higher taxes, increased borrowing, and spending measures aimed at revitalising UK growth, which had stagnated during the second half of 2024. Chancellor Rachel Reeves also announced new fiscal rules to boost investment.
- The US Federal Reserve implemented two 0.25% rate cuts during the quarter, while the Bank of England reduced rates just once.
- A cautious outlook from Fed Chair Jerome Powell and signs of resurgent inflation pressured bond markets. The US dollar recorded its largest quarterly gain since 2015, while 10-year UK government bond yields rose from 4% to 4.6%.

## Market Review

The US elections were a pivotal driver of market performance during the fourth quarter. Donald Trump's re-election and Republican gains in Congress boosted expectations for policies favoring US economic dominance. Anticipation of further tax cuts, expansionary fiscal measures, and nationalist trade policies strengthened US equities and the US dollar.

The Fed cut interest rates twice during the quarter, responding to signs of economic moderation. However, Jerome Powell's cautious tone regarding future rate cuts weighed on sentiment. Despite the easing measures, markets reacted negatively following the December rate cut as the Fed indicated a more restrained approach for 2025, citing a solid labour market and slower progress in reducing inflation. The US election result has also been perceived by many as likely to put upward pressure on inflation.

This hawkish sentiment contributed to a stronger US dollar and rising bond yields over the quarter. Higher yields pushed bond prices lower, creating headwinds for fixed-income investors.

*Market expectations now project only two additional Fed rate cuts in 2025, further highlighting the central bank's cautious stance.*

US equity markets experienced a notable divergence in performance in the latter half of this quarter. While the Nasdaq posted strong gains, driven by renewed strength in large-cap technology stocks (often referred to as the "Magnificent Seven") other indices struggled. The Dow Jones Industrial Average, with its limited exposure to the Mag 7, endured a historic ten-day losing streak, its longest in over 50 years.

Globally, equity markets were broadly flat to down. The renewed concentration of returns in US large-cap technology stocks reversed the broadening trend observed earlier in the year. This highlighted the ongoing challenges for investors seeking diversification beyond a handful of dominant names.

In the UK, Labour's first budget since re-election was met with scepticism from the business community. Viewed as broadly anti-growth, the budget's measures compounded existing economic challenges. Data released during the quarter showed that UK GDP growth was flat in the third quarter, with a 0.2% contraction in October.

UK equities faced headwinds from this subdued growth and limited investor confidence. Despite attractive valuations, political uncertainty and tepid economic momentum kept performance muted. Corporate activity, however, remained a bright spot, with mergers and acquisitions providing some support to specific sectors.

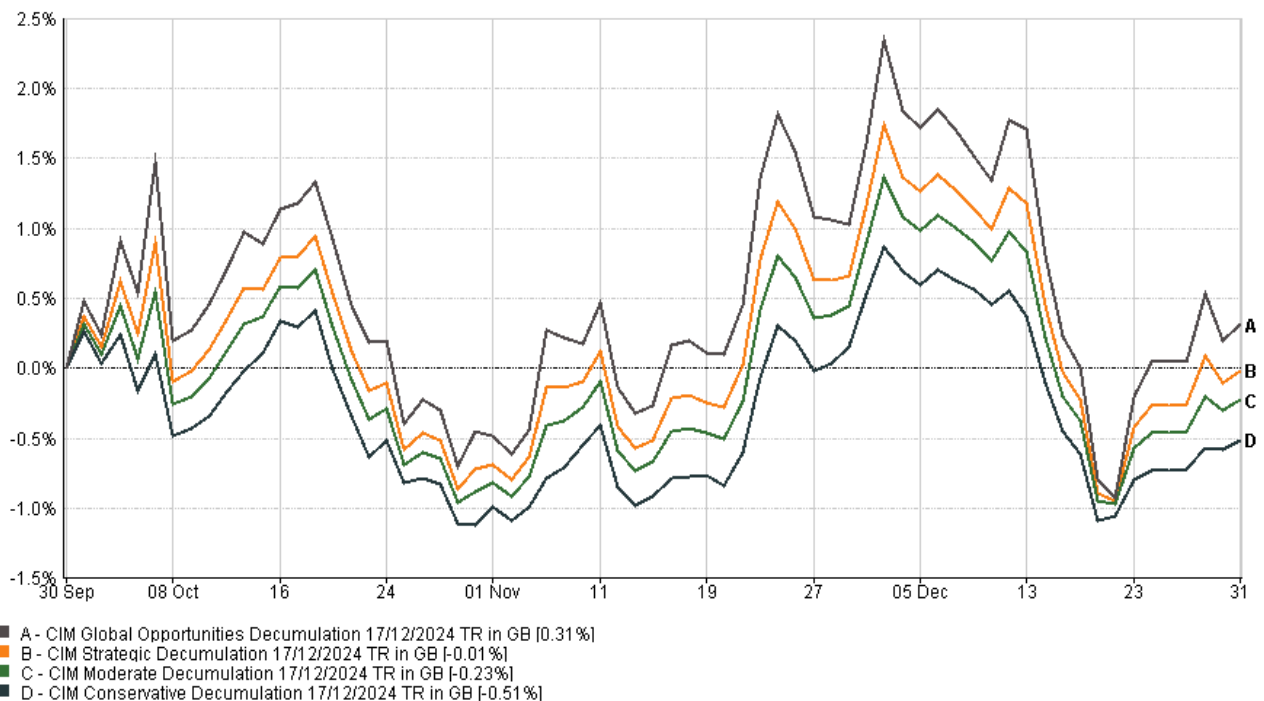
## Portfolios performance

Portfolio / Comparator	3 months
CIM Conservative Decumulation Portfolio	-0.51%
ARC Sterling Cautious PCI	0.49%
CIM Moderate Decumulation Portfolio	-0.23%
ARC Sterling Balanced Asset PCI	1.09%
CIM Strategic Decumulation Portfolio	-0.01%
ARC Sterling Steady Growth PCI	1.59%
CIM Global Decumulation Opportunities Portfolio	0.31%
ARC Sterling Equity Risk PCI	2.09%

Index Returns <sup>1</sup>	3 months
UK Equities	-0.20%
UK Government Bonds (Gilts)	-3.10%
All Country World Equities	5.94%
Pacific Equities (ex Japan)	-2.69%
Emerging Market Equities	-1.22%
US Equities	9.61%
UK Headline Inflation	0.60%

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

## Performance graph



30/09/2024 - 31/12/2024 Data from FE fundinfo2025

## Key Funds and Trades over the Quarter

Top 3 Model Funds	3 months
Invesco S&P 500 High Dividend Low Volatility ETF	3.01% ▲
Amundi Prime Japan ETF	2.98% ▲
Vanguard FTSE All World High Dividend Yield ETF	1.81% ▲

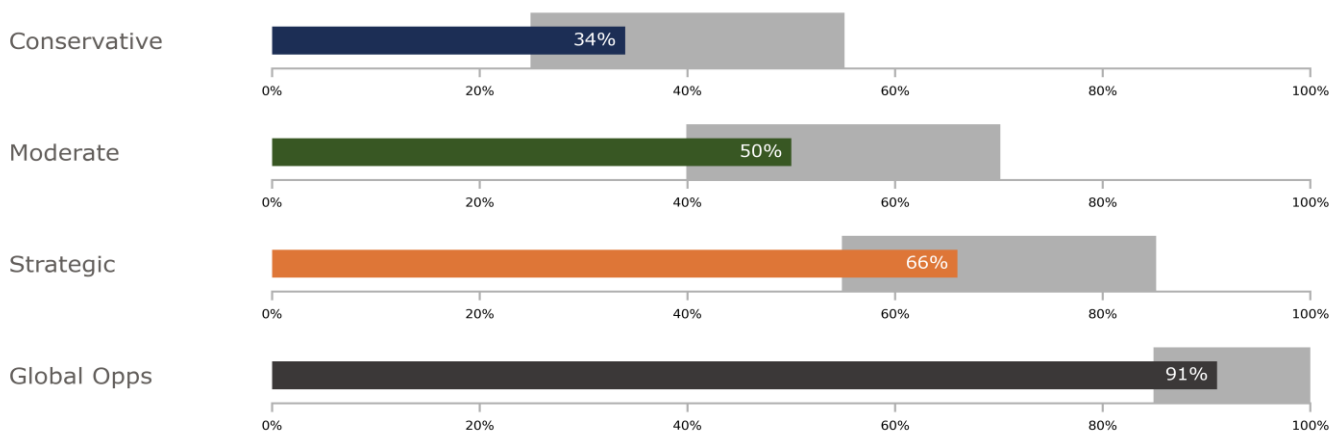
Bottom 3 Model Funds	3 months
Vanguard Global Credit Bond Hedged	-1.62% ▼
Liontrust European Dynamic	-2.73% ▼
Lyxor Core UK Government Bond ETF	-3.11% ▼

Source FE Analytics to 31<sup>st</sup> December 2024

Key fund	Commentary
AQR Apex	We have exited the Man Alternative Style Risk Premia fund, realising gains, and reallocated to the AQR Apex fund. Following extensive due diligence, we view AQR Apex as an enhanced alternative, offering diversified strategies such as equity long/short, trend following, and corporate event-driven approaches. AQR's robust investment process underpins our confidence in delivering higher, more diversified returns for our clients. The position also offers a relatively uncorrelated exposure to bond and equity funds, which improves the diversification of the portfolio.
Invesco S&P 500 High Dividend Low Volatility ETF	We have sold the Invesco High Dividend Low Volatility ETF, which had significant exposure to utilities and real estate sectors. These sectors had been outperforming the S&P 500, driven by falling bond yields and rising electricity demand tied to the AI boom. With robust performance and slightly elevated valuations, we felt it prudent to lock in gains. Proceeds have been reinvested into the Schroder US Equity Income Maximiser fund, which offers diversified US equity exposure.
JPM Global Equity Premium Income ETF	We have introduced a holding of this actively managed fund. It holds a portfolio of global defensive stocks, which we currently favour. It also employs an option overlay strategy that further enhances the defensiveness of the fund and significantly boosts the yield to above 7%.
Schroder UK-Listed Equity Income Maximiser	We increased the allocation to this fund over the quarter, which is invested in UK stocks. It is focussed on larger blue chip UK companies, with a low exposure to smaller more domestically oriented companies, which means it is less reliant on the health of the UK economy.

## Asset class review

### Equity Exposure



### Conservative

#### Ten largest fund holdings (%)

AQR Apex	15.9%
Invesco UK Gilt 1-5 Year ETF	15.3%
Amundi Index Global Agg Hedged ETF	11.8%
Vanguard Global Credit Bond Inst Hedged	10.9%
JPM Glb HY Corp Bond Multi-Factor Hdged	10.1%
Schroder UK Equity Income Maximiser	8.0%
Schroder US Equity Income Maximiser	7.0%
Amundi IS Prime Japan ETF	5.9%
SPDR S&P Euro Dividend Aristocrats ETF	3.9%
JPM Emerging Markets Income	3.7%
Assets in top ten holdings	92.5%

#### Ten largest asset class exposures (%)

Government Bonds	23.6%
Other Alternatives	15.9%
Corporate Bonds	14.4%
North American Equities	12.4%
High Yield Bonds	10.1%
UK Equities	8.0%
Japan Equities	5.9%
European Equities	3.9%
Asia Pacific ex Japan Equities	2.7%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

### Moderate

#### Ten largest fund holdings (%)

AQR Apex	13.9%
Schroder UK Equity Income Maximiser	11.8%
Schroder US Equity Income Maximiser	10.2%
Invesco UK Gilt 1-5 Year ETF	9.7%
Vanguard Global Credit Bond Inst Hedged	8.8%
Amundi IS Prime Japan ETF	8.7%
JPM Glb HY Corp Bond Multi-Factor Hdged	8.1%
Amundi Index Global Agg Hedged ETF	7.5%
SPDR S&P Euro Dividend Aristocrats ETF	5.7%
JPM Emerging Markets Income	5.4%
Assets in top ten holdings	89.8%

#### Ten largest asset class exposures (%)

North American Equities	18.3%
Government Bonds	14.9%
Other Alternatives	13.9%
UK Equities	11.7%
Corporate Bonds	11.1%
Japan Equities	8.7%
High Yield Bonds	8.1%
European Equities	5.8%
Asia Pacific ex Japan Equities	3.9%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

## Asset class review

### Strategic

#### Ten largest fund holdings (%)

Schroder UK Equity Income Maximiser	15.6%
Schroder US Equity Income Maximiser	13.5%
Amundi IS Prime Japan ETF	11.5%
AQR Apex	11.3%
SPDR S&P Euro Dividend Aristocrats ETF	7.5%
JPM Emerging Markets Income	7.1%
Invesco UK Gilt 1-5 Year ETF	5.7%
Vanguard Global Credit Bond Inst Hedged	5.5%
JPM Glb HY Corp Bond Multi-Factor Hdged	5.1%
Amundi Index Global Agg Hedged ETF	4.4%
Assets in top ten holdings	87.2%

#### Ten largest asset class exposures (%)

North American Equities	24.1%
UK Equities	15.4%
Japan Equities	11.5%
Other Alternatives	11.3%
Government Bonds	8.8%
European Equities	7.6%
Corporate Bonds	6.8%
Asia Pacific ex Japan Equities	5.2%
High Yield Bonds	5.1%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

### Global Opps

#### Ten largest fund holdings (%)

Schroder UK Equity Income Maximiser	21.4%
Schroder US Equity Income Maximiser	18.6%
Amundi IS Prime Japan ETF	15.8%
JPM Global Equity Premium Income	14.7%
SPDR S&P Euro Dividend Aristocrats ETF	10.4%
JPM Emerging Markets Income	9.8%
AQR Apex	7.3%
Assets in top ten holdings	98.0%

#### Ten largest asset class exposures (%)

North American Equities	33.1%
UK Equities	21.2%
Japan Equities	15.8%
European Equities	10.5%
Other Alternatives	7.3%
Asia Pacific ex Japan Equities	7.1%
Emerging Market Equities	2.4%
Cash	2.0%
Other	0.6%

Cash includes cash held in underlying funds plus GBP held in model.

Asset Class	Portfolio Views
Fixed Interest	Concerns over inflation and excessive government spending have pushed bond yields to appealing levels, meaning bonds are attractive even with no capital return. The Fed's dovish stance should also support bond prices. Tight credit spreads lead us to favour government bonds and high-quality credit, which should perform especially well if geopolitical tensions spark a recession.
UK Equities	We hold a constructive view on UK equities, underpinned by attractive dividends, robust stock buybacks, and reasonable valuations. Rising merger and acquisition activity further supports the market. The UK's service-driven economy makes it less exposed to global trade weaknesses. We particularly favour blue-chip equities, including energy stocks, which are less dependent on domestic economic performance.
US Equity	We see opportunities in US equities despite stretched valuations and signs of economic cooling. Optimism from the election suggests a pro-business, pro-growth environment, but fiscal tightening may dampen economic expansion. We favour sectors beyond mega-cap tech, focusing on stocks with lower valuations and realistic earnings expectations as profit growth broadens across the market in 2025.
Japan Equity	We maintain a positive outlook, supported by structural reforms and a reflating economy. Despite robust earnings-per-share growth, Japanese stocks trade at a discount to global peers. Additionally, a weaker yen is enhancing the competitiveness of Japan's semiconductor and auto sectors, further supporting market performance.
Asia and Emerging Market Equity	We hold a positive view on Asia and emerging market equities, supported by premium growth prospects, particularly in China and India. While undervalued markets present attractive diversification opportunities, risks remain from a strong dollar, potential under-delivery of Chinese stimulus, and protectionist policies.
Alternatives	We view alternative investments as valuable diversifiers, particularly if inflation persists. They enable reduced equity exposure without increasing reliance on bonds. We currently favour liquid strategies managed by experienced teams, offering low correlation to traditional assets and potential resilience in volatile markets.

## Outlook

As we look ahead to 2025, political uncertainty remains the key theme following a year in which nearly half the world's population went to the polls. Newly elected governments are poised to shape markets, potentially amplifying volatility. In the US, Donald Trump's return to the White House introduces fresh geopolitical, trade, and fiscal considerations. His campaign's focus on trade tariffs, if enacted, could heighten inflationary pressures and lower global growth.

*We are concerned the market may be underestimating the risks associated with early Trump 2.0 policies.*

Globally, rising debt levels leave governments with limited fiscal flexibility. However, the cost of living and economic growth may prompt more expansive fiscal policies. In the UK, Labour's budget combined higher taxes with significant upfront government spending. While increased taxes may weigh on sentiment, we are optimistic the increased spending could support growth in 2025. The UK's balanced trade relationship with the US also positions it better than surplus-heavy nations in avoiding potential US trade tariffs.

Monetary policy remains pivotal. While markets anticipate further rate cuts, new protectionist measures and higher government spending could reignite inflation, potentially slowing the pace of interest rate easing. Elevated geopolitical tensions in Eastern Europe and the Middle East are likely to continue to influence commodity markets and investor sentiment.

Equities remain attractive, supported by resilient consumer spending and improving corporate profits. The AI investment narrative is set to broaden, creating opportunities beyond mega-cap technology stocks. Meanwhile, areas of the market with modest valuations offer compelling opportunities, underscoring the importance of active management in 2025.

In fixed income, government bonds now offer appealing yields and a valuable buffer against equity volatility, while tight credit spreads make corporate bonds less attractive.

While challenges persist, the resilience demonstrated by businesses and consumers in 2024 provides a foundation for cautious optimism in 2025.

## Thoughts for the quarter ahead...



- Q4 results for S&P 500 companies have high expectations, with analysts predicting the strongest earnings growth in three years. However, any disappointments, particularly from AI leader Nvidia, could weigh on sentiment. Profit margins remain a key focus.
- The strong US dollar, often linked to weaker equity markets, could present challenges if its strength persists.
- Markets are nervously await the new US administration's policies following Donald Trump's return on January 20th, especially regarding potential tariff changes.
- Higher inflation could limit central banks' ability to cut interest rates further. Growth and labour market data will play a critical role in determining monetary policy direction.
- Increasing bond yields may strain government fiscal operations by driving up borrowing costs, potentially necessitating spending cuts.
- Developments in the Russia-Ukraine conflict and the Middle East remain crucial, as they could influence the global macroeconomic environment.

### Important information

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**Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.**

<sup>1</sup> For the comparative index returns, we have used the total return performances of the following ETF's:

Comparative index	ETF Name
UK Equities	ISHARES CORE FTSE 100
US Equities	ISHARES CORE S&P 500
European Equities (ex UK)	ISHARES MSCI EUROPE EX-UK
Emerging Market Equities	ISHARES CORE EM IMI ACC
Japanese Equities	ISHARES CORE MSCI JAPAN
Pacific Equities (ex Japan)	ISHARES CORE MSCI PACIF X-JP
UK Government Bonds (Gilts)	ISHARES CORE UK GILTS
Global Bonds (GBP hedged)	ISHARES CORE GLB AGG GBP-H D
Commodities	ISH DIVERS COMMOD SWAP ETF