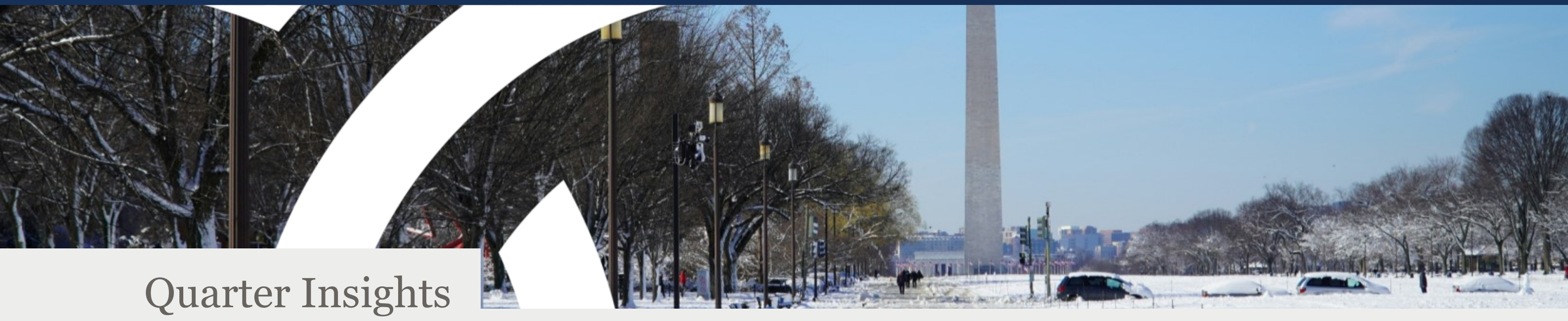
CHETWOOD

INVESTMENT MANAGEMENT

TAILORED 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 uncertainly 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.

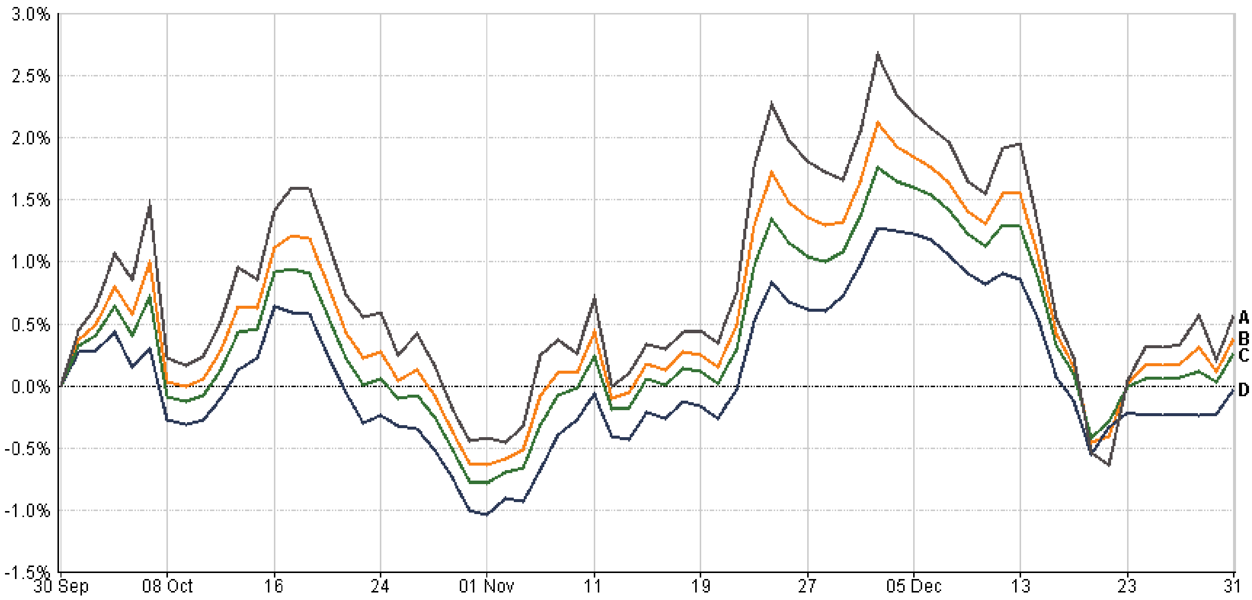
Portfolios performance

Portfolio / Comparator	3 months
CIM Tailored MPS Conservative Decumulation	-0.03%
ARC Sterling Cautious PCI	0.49%
CIM Tailored MPS Moderate Decumulation	0.26%
ARC Sterling Balanced Asset PCI	1.09%
CIM Tailored MPS Strategic Decumulation	0.39%
ARC Sterling Steady Growth PCI	1.59%
CIM Tailored MPS Global Decumulation Opportunities	0.56%
ARC Sterling Equity Risk PCI	2.09%

Index Returns[1]	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



A - CIM Tailored Global Opportunities Decumulation MPS 17/12/2024 TR in GB [0.56%]
B - CIM Tailored Strategic Decumulation MPS 17/12/2024 TR in GB [0.39%]
C - CIM Tailored Moderate Decumulation MPS 17/12/2024 TR in GB [0.26%]
D - CIM Tailored Conservative Decumulation MPS 17/12/2024 TR in GB [-0.03%]

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

Key Funds and Trades over the Quarter

Top 3 Model Funds	3 months	
Schroder US Equity Income Maximiser	9.57%	▲
M&G Emerging Markets Bond	3.84%	▲
AQR Style Premia	3.79%	▲

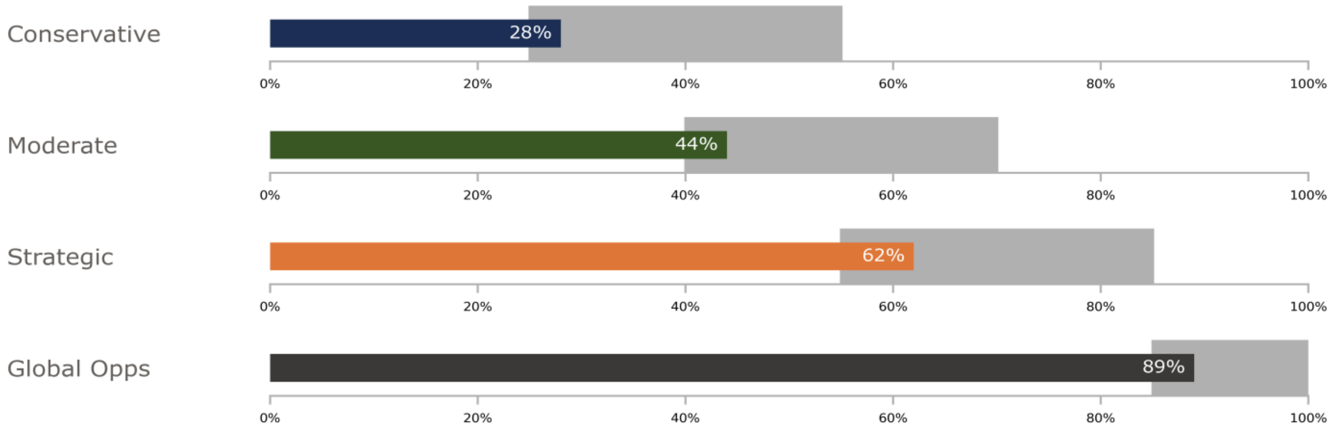
Bottom 3 Model Funds	3 months	
SPDR S&P Euro Dividend Aristocrats ETF	-5.66%	▼
SPDR Bloomberg 15+ Year Gilt ETF	-7.16%	▼
SPDR MSCI Europe Health Care ETF	-9.63%	▼

Source FE Analytics to 31st 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.
SPDR MSCI European Energy ETF	We have added this fund, which is heavily weighted toward UK energy companies like BP. After monitoring the sector amid falling oil prices and earnings downgrades, we are now seeing signs of crude price stabilisation and a bottoming in corporate earnings trends. The sector offers an attractive total shareholder return yield, including dividends and buybacks. Additionally, European energy companies trade at significant discounts to US peers, increasing M&A potential under Trump's pro-energy policies. This investment also provides a hedge against inflation and geopolitical shocks.
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%.
AQR Adaptive Equity Market Neutral	During the quarter, we transitioned from the AQR Style Premia fund to this offering. This fund leverages AQR's top-tier stock selection capabilities while remaining market-direction agnostic, offering exposure independent of equity market movements. Additionally, its performance exhibits a low correlation to the other defensive bond funds held, enhancing the portfolio's overall diversification.

Asset class review

Equity Exposure



Conservative

Ten largest fund holdings (%)

SPDR Bloomberg 15+ Year Gilt	11.3%
Invesco UK Gilt 1-5 Year ETF	10.7%
AQR Adpative Equity Market Neutral	9.7%
Amundi Index Global Agg Hedged ETF	8.2%
M&G Emerging Market Bond	8.2%
AQR Apex	8.1%
Vanguard Global Credit Bond Inst Hedged	7.1%
JPM Glb HY Corp Bond Multi-Factor Hdged	6.6%
SPDR MSCI Europe Energy	3.6%
Invesco Markets Real Estate S&P US	3.1%
Assets in top ten holdings	76.6%

Ten largest asset class exposures (%)

Government Bonds	27.8%
Other Alternatives	17.8%
Corporate Bonds	9.6%
North American Equities	8.7%
Emerging Market Bonds	8.2%
High Yield Bonds	6.6%
European Equities	6.1%
UK Equities	5.0%
Asia Pacific ex Japan Equities	4.8%
Japan Equities	2.4%

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

Moderate

Ten largest fund holdings (%)

AQR Adpative Equity Market Neutral	8.6%
SPDR Bloomberg 15+ Year Gilt	7.6%
AQR Apex	7.2%
Invesco UK Gilt 1-5 Year ETF	7.1%
M&G Emerging Market Bond	6.7%
Vanguard Global Credit Bond Inst Hedged	5.8%
SPDR MSCI Europe Energy	5.7%
Amundi Index Global Agg Hedged ETF	5.5%
JPM Glb HY Corp Bond Multi-Factor Hdged	5.4%
Invesco Markets Real Estate S&P US	4.9%
Assets in top ten holdings	64.5%

Ten largest asset class exposures (%)

Government Bonds	18.6%
Other Alternatives	15.8%
North American Equities	13.6%
European Equities	9.5%
UK Equities	7.8%
Asia Pacific ex Japan Equities	7.6%
Corporate Bonds	7.5%
Emerging Market Bonds	6.7%
High Yield Bonds	5.4%
Japan Equities	3.8%

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

Asset class review

Strategic

Ten largest fund holdings (%)

SPDR MSCI Europe Energy	8.0%
Invesco Markets Real Estate S&P US	6.9%
AQR Adpative Equity Market Neutral	6.9%
Schroder UK Equity Income Maximiser	6.7%
Federated Hermes Asia Ex-Japan Equity	5.9%
Schroder US Equity Income Maximiser	5.8%
AQR Apex	5.7%
JPM Climate Change Solutions ETF	5.5%
Amundi IS Prime Japan ETF	4.9%
SPDR Bloomberg 15+ Year Gilt	4.6%
Assets in top ten holdings	60.9%

Ten largest asset class exposures (%)

North American Equities	19.1%
European Equities	13.4%
Other Alternatives	12.6%
Government Bonds	11.2%
UK Equities	11.0%
Asia Pacific ex Japan Equities	10.6%
Japan Equities	5.3%
Corporate Bonds	4.7%
Emerging Market Bonds	4.2%
High Yield Bonds	3.4%

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

Global Opps

Ten largest fund holdings (%)

SPDR MSCI Europe Energy	11.5%
Invesco Markets Real Estate S&P US	10.0%
Schroder UK Equity Income Maximiser	9.6%
Federated Hermes Asia Ex-Japan Equity	8.5%
Schroder US Equity Income Maximiser	8.3%
JPM Climate Change Solutions ETF	7.9%
Amundi IS Prime Japan ETF	7.1%
JPM Global Equity Premimum Income	6.6%
SSGA SPDR MSCI Europe Health Care	5.6%
Artemis SmartGARP Global EM	5.3%
Assets in top ten holdings	80.4%

Ten largest asset class exposures (%)

North American Equities	27.6%
European Equities	19.4%
UK Equities	15.9%
Asia Pacific ex Japan Equities	15.4%
Other Alternatives	8.6%
Japan Equities	7.7%
Emerging Market Equities	3.2%
Cash	2.0%
Other	0.3%

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.

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Risk factors should be taken into account and understood including (but not limited to) currency movements, market risk, liquidity risk, concentration risk, inflation risk, performance risk, local market risk and credit risk.

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.

[1] 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