SARASIN & PARTNERS

Working in partnership with CONDIES WEALTH

MODEL PORTFOLIOS
REBALANCING REVIEW JANUARY 2023

If you are a private investor, you should not act or rely on this document but should contact your professional adviser.

WHY WE REBALANCED

Further declines in inflation support our cautiously optimistic view that the peak is behind us and interest rates may not have much further to rise. In addition, China's decision to remove COVID restrictions bodes well for both Chinese and wider emerging markets, which also stand to benefit from a weakening US dollar. We have increased exposure to emerging market equities to capitalise on this major shift in global markets.

However, significant risks are still present. Core inflation is likely to remain elevated and the reopening of China could add to global inflation. Meanwhile, interest rate rises are likely to take their toll on consumers and company earnings this year, placing downward pressure on equity valuations. We have therefore moved to a slight underweight in equities and increased our exposure to uncorrelated alternatives.

While the near-term outlook remains challenging, there are reasons for cautious optimism longer term: a lot of the post-COVID froth has been taken out of markets and valuations are at much more sensible levels.

Neutral ↔

Equities

Following a rally in equities since Q3 2022 we have trimmed equity exposure to a slight underweight relative to our composite benchmarks, reflecting our view that company earnings look vulnerable in 2023 and the risk of sticky inflation and sustained higher interest rates remains.

We increased exposure to the Fidelity Index Emerging Markets Fund, which provides a cost-effective way to benefit from any broad emerging market rally resulting from China's reopening and a weaker US dollar. To fund this we reduced our overweight to UK equities - which performed well in 2022 - and sold Vontobel MTX Sustainable Emerging Market Leaders, which provides more tightly-focused emerging market exposure.

Underweight ↓

Fixed income

Following a long period of unattractive fundamentals, gilts now offer a reasonable nominal yield. Continuing the work of our rebalance in Q4 2022, we have increased holdings of short- and long-dated gilts to bring our overall government debt exposure to a roughly neutral weighting relative to our strategic neutral allocations.

This shift complements additions made in previous rebalances to corporate bond allocations, which were brought up to neutral weightings around the time of the ill-fated Truss/Kwarteng mini-budget in the autumn of 2022.

Overweight ↑

Alternatives

We remain overweight alternatives overall but, as an extension of our risk-aware positioning in equities and bonds, we have increased our emphasis on uncorrelated alternatives. By way of a reminder, uncorrelated alternatives are generally less risk facing than correlated alternatives. Having already reduced our correlated alternatives in previous rebalances, we have now added to the NB Uncorrelated Strategies Fund, which provides a diversified range of investment strategies that have low correlations with equity and bond markets.

NB Uncorrelated Strategies provided a welcome source of returns during 2022 and may prove its worth again in 2023 if we see further market sell-offs.

In our correlated alternatives portion of the portfolio we continue to hold the L&G Global Infrastructure Index and Muzinich Global Tactical Credit funds.

Neutral

Cash

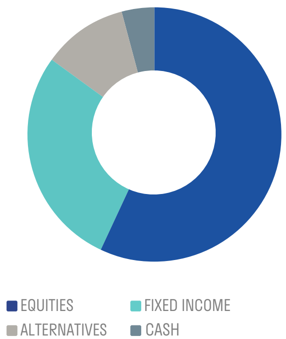
Having reduced our allocation to cash to neutral at the end of 2022, primarily to fund our investment in the Royal London Short-Duration Gilt Fund, we have since redeployed cash further, primarily to boost exposure to gilts.

We continue to hold moderate levels of cash, reflecting our tempered optimism while keeping reserves available to invest should opportunities be created by any further market volatility.

FUND IN FOCUS
AIA AND PRUDENTIAL

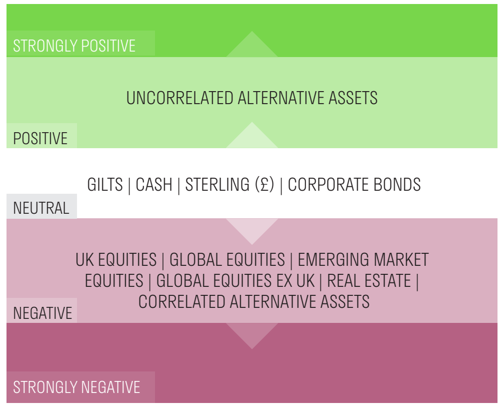
The re-opening of China bodes well for insurers AIA and Prudential, both of which are held in Sarasin's Model Portfolios as part of Sarasin's Evolving Consumption and Ageing investment themes. Insurance is a high-growth business in Asia as its increasingly wealthy and ageing middle classes seek greater security and access to global investment markets. Sales of insurance products in China rely heavily on face-to-face meetings, which are becoming possible once again with the lifting of COVID restrictions.

MODEL PORTFOLIO
ASSET ALLOCATION



Asset allocation of Sarasin Balanced Model Portfolio as at 16.01.2023

MODEL PORTFOLIO
TACTICAL ASSET ALLOCATION



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IMPORTANT INFORMATION

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