

CKI Model Portfolios - Strategic Review

Strategic review

Hymans Robertson Investment Services (HRIS) has worked closely with the advisers at Chantler Kent Investments (CKI) to develop a range of investment portfolios that are designed to best meet the needs of its clients.

As part of our strategic review of the portfolios we have made a number of changes to reflect our current market views, and further details of the changes being made are set out below.

Investment Approach

Firstly, a quick reminder of the HRIS investment philosophy;

1. **We focus on asset allocation** because a portfolio's exposure to asset classes and regions has the greatest impact on its outcomes.
2. **We diversify portfolios** across asset class (e.g. equities, bonds), geography (e.g. UK and overseas) and style (active, passive and factor investing).
3. **We invest for the long term** and do not typically expect to make significant tactical short-term changes to portfolios.
4. **We carefully manage costs**, through making use of lower cost funds where appropriate, as we believe that this is key to maximising investment returns.

Key strategic changes

At a high level, our strategic position (e.g. balance between equities and bonds) remains broadly unchanged.

The key changes are at a sub-asset class level and are summarised below.

- **Modest reduction in Emerging Market Debt ("EMD").** We continue to believe that EMD has a role in the portfolio, noting that yield from EMD is looking attractive at this moment. However, rising US interest rates and yields which increase the opportunity cost of investing in emerging markets and tend to be supportive of the US dollar, could pose a headwind to EM markets in the near-term, and so we believe it sensible to reduce our exposure.
- **Addition of small cap equities into Accumulation portfolios.** Strategically, small cap provides the opportunity for enhancing returns and offers diversification from some of the large cap names in sectors such as pharmaceuticals, banks and oil.
- **Addition of an active income generating equity fund into Decumulation portfolios.** Equity income investments offer an additional return component to capital gains which is desirable in decumulation portfolios. Further, income paying companies are more defensive in their approach and we'd expect volatility to be lower than the broader equity market.
- **Additional environmental, social and governance ("ESG") related funds.** In addition to rating these funds highly from an investment perspective, these additions will help diversify the ESG funds in our portfolios and help manage climate and ESG risks.
- **More fund diversification.** The number of portfolio holdings have increased. This largely is an outcome of the above points, but reflects a general desire to increase diversification at this time, given increased market volatility.

Risk warning

The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS.

In summary, the changes are designed to offer increased diversification, both from a manager and asset class perspective. We think this is particularly important given the current volatility within financial markets.

We have included a summary of the fund changes and impacts on OCFs in the appendix of this note.

Fund Changes: portfolio comparisons

	CKI Accumulation 20	CKI Accumulation 30	CKI Accumulation 40	CKI Accumulation 50	CKI Accumulation 60	CKI Accumulation 70	CKI Accumulation 80	CKI Accumulation 90	CKI Accumulation 100
Current OCF	0.19%	0.19%	0.19%	0.18%	0.17%	0.19%	0.19%	0.18%	0.14%
Proposed OCF	0.19%	0.20%	0.22%	0.21%	0.20%	0.18%	0.16%	0.15%	0.14%
Number of holdings (current)	17	19	19	19	18	20	20	16	12
Number of holdings (proposed)	27	27	27	26	26	26	26	26	18

	CKI Decumulation Defensive	CKI Decumulation Cautious	CKI Decumulation Balanced	CKI Decumulation Growth	CKI Decumulation Adventurous
Current OCF	0.19%	0.18%	0.18%	0.17%	0.16%
Proposed OCF	0.19%	0.19%	0.20%	0.20%	0.18%
Number of holdings (current)	21	20	20	18	16
Number of holdings (proposed)	28	28	28	27	27

Source: Morningstar, Hymans Robertson

Fund Changes: Removal from the portfolios

Funds being removed from portfolios	Portfolios impacted	Rationale
ASI Sterling Short Term Gilts	CKI Accumulation 20 CKI Accumulation 30 CKI Accumulation 40 CKI Decumulation Defensive CKI Decumulation Cautious CKI Decumulation Balanced	The Vanguard Short Term Bond fund provides exposure to short term bonds for a reduced price. ASI Fund not considered to be adding enough value for the cost. Significant AUM changes over the year have caused some concern over future outlook.
L&G Sterling Corporate Bond	CKI Accumulation 20 CKI Accumulation 30 CKI Accumulation 40 CKI Accumulation 50 CKI Accumulation 60 CKI Accumulation 70 CKI Accumulation 80 CKI Decumulation Defensive	Fund being replaced with Vanguard UK Investment Grade Bond Fund which offers exposure to lower credit rated bonds. While duration is shortening, we see opportunity to increase credit risk.

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Fund Changes: Additions to the portfolios

Funds being added from portfolios	Portfolios impacted	Rationale
L&G Future World ESG Developed	All portfolios	To diversify L&G Future World Climate Change Factor Fund and reduce allocations. Provides additional ESG and global equity exposure.
Vanguard ESG Developed World All Cap Equity Index	All portfolios	To diversify L&G Future World Climate Change Factor Fund and reduce allocations. Provides additional ESG and global equity exposure.
Vanguard Global Small Cap	Accumulation portfolios	A directional change to support return in the accumulation portfolios. Small cap fund is intended to provide higher expected returns than market cap over the long term but may show more volatility.
RWC Global Equity Income	Decumulation portfolios	A directional change to support the need for income in the decumulation portfolios.
JPM Global High Yield	All portfolios	High yield allocations have increased as a consequence of the reduction of EMD. This additional high yield fund provides diversification and reduces the manager risk of only using PIMCO.
JPM Global Bond Opportunities	Decumulation portfolios	This additional fund is another lower volatility Multi-Asset Credit fund, providing diversification and reducing manager risk.
Vanguard Global Short Term Bond	All portfolios	To reduce cost of short gilts.
<u>TwentyFour</u> Monument Bond	All portfolios	This provides floating rate exposure in rising interest rate environment.

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