Pavis Premier Model Portfolios

January Quarterly Rebalance

At the end of each quarter, a rebalance takes place to bring all our Premier Model Portfolios back in line with the desired allocations. This is to ensure that the portfolios are always positioned to deliver the level of risk and return that investors expect and will result in reducing the holdings where prices have performed most strongly and buying those which have become more attractively priced.

As you are invested in the Premier Models, your portfolio will be rebalanced on 31st January 2022 and you will receive contract notes reflecting the sales and purchases that result.

Equity Weightings

We reduce our weighting to equity markets that appear expensive. We use a rules-based approach to measure markets based on the ratio of price to average earnings. This is known as the 'Cyclically Adjusted Price Earnings' (CAPE) ratio.

Below is a summary of the resulting positions for the next quarter:

Region	*Move this Quarter*	*Current Position*
UK	No Change	In line with long-term weighting
North America	No Change	20% below long-term weighting
Europe excl. UK	No Change	20% below long-term weighting
Japan	No Change	10% below long-term weighting
Developed Pacific (ex. Japan)	No Change	10% below long-term weighting
Emerging Markets	No Change	10% below long-term weighting
Developed World (ie Global)	No Change	20% below long-term weighting

The stock market rises in the US, Europe and the UK in the 3 months to the end of December 2021 led to rises in the CAPE ratios for these regions. However, the rises were within the current parameters therefore did not lead to a change (reduction) in the asset allocation to these regions.

Marginal stock market falls in Japan, Developed Pacific (ex. Japan) and Emerging Markets regions in the 3 months to the end of December 2021 led to marginal decreases in the CAPE ratios for these regions. However, the rises were within the current parameters therefore did not lead to a change (increase) in the asset allocation to these regions.

Hence there was no change to the asset allocation of the model portfolios since the last quarter.

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Commentary

Investment Commentary January 2022

Economics

The global economy continued its recovery from the March 2020 low point and produced GDP growth of 5.88%* for the year. This figure should be taken with a degree of caution due to the pandemic distorting the starting figures. Domestically, the UK economy also recovered strongly with growth of 6.76%* for 2021. Over recent months the Bank of England along with many economic forecasters are suggesting that for 2022 the UK will have some of the strongest growth of any G7 nation.

Of course, this growth has led to inflationary pressure particularly within the UK and US with the price of raw materials and energy increasing sharply. The Central Banks have already started to increase interest rates to hopefully contain the inflation bubble and we wait to see if increased prices are a short-term blip or part of a longer-term trend.

Markets

<u>UK equities</u>

The FTSE 100 saw a total return of c.18.5% in 2021.

The performance of the UK markets has generally flagged in comparison to its US counterparts. One factor has been Brexit; however, another is the absence of major tech giants which have contributed most to US equity growth. The UK market ended the year strongly at 7384 after falling below 7100 in late November on fears of the Omicron virus.

<u>Developed Markets</u>

Performance in the US markets was extremely strong over the year, fueled by the stimulus packages and low interest rates. The S&P 500 rose c. 28% during 2021. The total return of the technology weighted NASDAQ was c. 27.5% during the year.

The capital markets were very busy with many Initial Public Offerings, secondary share sales, bond offerings and loan deals. Company conditions for seeking investment and borrowing funds have been easy, as interest rates remained at rock bottom.

Markets reacted to the withdrawal of the monetary support (QE) and the prospect of future interest rate rises with a wobble in September. The emergence of the Omicron virus in November increased volatility as markets initially reacted with a sell-off and then subsequent recovery. More recently as the Fed reaffirmed its position to raise interest raise sooner rather than later, markets have fallen back. This was reflected most in the tech-focused NASDAQ where stock valuations are based on future earnings which are affected more by interest rate rises.

European markets also rose significantly during the year. Both the German DAX 30 and the French CAC 40 indices reached record highs in November. Europe's broad STOXX 600 index of the biggest European companies by market capitalisation returned c. 23% during 2021 on a total return basis.

The Japanese market lagged behind with the Nikkei rising c. 4.9% during the year.

<u>Emerging Markets</u>

The performance of emerging market equities significantly lagged behind that of developed market equities in 2021. The MSCI Emerging Markets index, which captures large and mid-cap company performance across 25 countries, was largely flat in US dollar terms, including dividends.

China's CSI 300 index, which tracks the largest mainland-listed stocks, fell by c. 3.5% during the year. In Hong Kong, where many of China's tech titans are listed, the <u>Hang Seng index</u> has plummeted more than 14% in the same period. There were concerns about the impact on the economy of the Chinese real estate sector (which makes up 28% of the economy) amid concerns over defaults as developers faced a credit crunch.

<u>Commodity prices</u>

The recovery of the global economy following the shock of the pandemic has favored rising commodity prices. Oil prices posted their biggest annual gains since 2016, spurred by the global economic recovery. Demand for oil has remained high and reached c. $86 a barrel in October.

Natural gas prices have risen sharply during the year. Wholesale gas prices have risen fivefold from a year ago. Precious metals saw negative performance during 2021 with gold falling 6% since the start of the year and silver losing 16%. Industrial metals ended 2021 posting their biggest annual price gains since 2009 driven by tight supply and increased demand.

<u>Bond market and Interest Rates</u>

Bond prices have been particularly volatile recently. We saw prices plummet during September and then make a recovery in October and November before falling back to recent lows during December. Generally speaking, they now seem to have factored interest rate rises of a further 0.75% during 2022.

Yields on investment grade UK bonds are c.2.1%pa, on 10yr Gilts they are c.1.2% and on 10yr US Treasuries c.1.80%pa.

Interest rates in the UK were increased during the final quarter of 2021 and this meant bond prices (which had performed strongly in October and November) fell back sharply in December to record a loss of c.-2% for the month and to end the quarter broadly flat.

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Pavis Portfolios

All of our Pavis Premier Portfolios saw a positive return over the year, with our Risk Averse Portfolio giving a return of 0.7%, the Balanced Portfolio achieving 8.1% and our risker, Adventurous Portfolio showing an impressive 16.1% return. A full summary of the portfolio returns is shown below.

All portfolios ended the year above their respective benchmarks, and we continue to keep costs to a minimum whilst delivering a consistent level of return.

Total Return 2021

Risk Portfolio	Premier Model Portfolios		
	Standard	Long -Term	Income
Risk Averse	0.68%	n/a	n/a
Defensive	3.57%	n/a	n/a
Cautious	5.77%	n/a	6.56%
Balanced	8.05%	8.54%	8.54%
Moderate Growth	9.63%	10.22%	9.88%
Growth	12.78%	12.04%	n/a
Moderately Adventurous	14.46%	15.35%	n/a
Adventurous	16.09%	17.09%	n/a

01/01/2021-31/12/2021 Data from FE Fundinfo 2022

Outlook

We believe that 2022 will be dominated by interest rates and inflation. Companies are likely to report strong profit figures, but markets will be looking to the future. Global corporate debt is in the region of £55tn so an increase in borrowing cost of just 0.5%pa increases debt servicing costs by a huge £275bn per annum. This directly impacts company profitability. On the plus side, rises in interest rates should mean higher returns on the fixed interest element of our portfolios and should also allow some of our banks to improve their profit margins quite significantly.

Kind regards,

The Pavis Investment Committee