Pavis Premier Model Portfolios

April 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 29th April 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 (i.e. Global)	No Change	20% below long-term weighting

The main movements in CAPE were in Northern America, Developed Europe and Developed World, which all reduced, but it was not enough to change the weightings. The Japanese and Emerging Markets CAPE also reduced, but not as significantly. The Pacific ex-Japan bucked the trend by increasing slightly. The CAPE of the UK market has risen however remains within the parameters for the current weighting. There has therefore been no change to the CAPE weightings this quarter.

The CAPE ratio is a comparison of a stock or index price to its total earnings, which is used to tell whether its's over or undervalued. It's an extension of the traditional price-to-earnings ratio (P/E) that monitors a ten-year period to account for variations in profitability due to economic cycles. Therefore the recent market volatility has not led to sufficient changes in the ten-year ratio to warrant adjustments to the current long-term weightings detailed above.

Investment Commentary April 2022

Economics

The first quarter of 2022 was a rough ride for investors characterised by a change in outlook for global interest rates, the war in Ukraine and sharply higher energy prices.

Russia's invasion of Ukraine caused a global shock to the markets and commodity prices soared further adding to the inflationary pressures. This added uncertainty and increased volatility.

With rising inflation everywhere, central Banks raised short-term interest rates. The Federal Reserve in the USA raised interest rates by 0.25% and indicated further rate rises to come. The Bank of England raised interest rates by 0.25% on two occasions.

The impact of soaring energy prices led to the Bank of England Governor Andrew Bailey warning of 'a historic shock to incomes' when increased prices filter through to consumers.

Investment Markets

<u>Equities</u>

US shares had their worst quarter in two years. The S&P 500 and the tech-heavy Nasdaq Composite dropped -4.9% and -9.1% in their first three months of 2022.

The Europe Stoxx 600 index fell almost -7% in the first quarter. The German DAX was down c.-9% and the French CAC40 was also down, by about -6%.

The UK FTSE held up well because of its defensive stocks and rose by c.2% over the quarter, driven by the oil, mining, healthcare and banking sectors.

The Japanese stock market was slightly below its end of 2021 level, rising in March after weakness in January and February. The Asia ex-Japan region declined sharply due to the challenging and volatile market environment and increased Covid cases in China.

<u>Fixed Interest</u>

During Q1 2022 UK Gilts were typically down by -7% and Corporate Bonds fell by -5.1%. It was also the worst quarter for US Treasuries on record, falling in value by -5.5%.

The fall in bond prices shows investors are growing wary about economic growth in the years ahead as central banks start tightening monetary policy to curb surging inflation.

These recent falls in bond prices will not impact investors who remain committed for the longer term. This is because the interest on bonds in the future will be greater than had previously been anticipated. For example, a 7 year bond paying 2% per annum would give a total return of 14%. If it was previously priced at £1.00 the price would now have fallen to about £0.93p, but over the next 7 years it is now expected to pay 3% per annum. A payment of 3% per annum over 7 years equals 21% from which you then need to deduct the recent loss of about 7%. This gives you the same total return of 14% as previously expected.

Commodities

The prices of everything Russia produces – oil, gas, metals and wheat increased significantly. Brent crude oil soared 38% during the quarter. There were strong price gains and increased volatility in natural gas.

With precious metals, gold and silver achieved small gains over the quarter. Gold became a safe haven briefly at the time of the Russian invasion trading at close to its all-time high.

Pavis Portfolios

During the quarter our Balanced Portfolio fell by -2.8% compared to its benchmark which was down by -3.2%. Our more aggressive portfolios performed better as they had less exposure to bond markets and a high level of global diversification. We have recently maintained a full weighting to UK equities, and they were amongst the strongest performers for the quarter. Our Adventurous Portfolio showed a return of -0.9% for the quarter compared to its benchmark which was down by -4.2%. Since launch on the 31st Dec 2014 our portfolios have consistently outperformed their respective benchmarks and rewarded investors accordingly. We are now looking at ways to further improve the portfolios and lower charges. We look forward to communicating this with you in the coming months.

Outlook

The falls in the equity markets from the start of the year have been regarded as a resetting of expectations in line with the proposed interest rate rises and the impact of them and not of fundamental economic weakness. However, it is an ongoing challenging environment for policymakers to harbour growth in the environment of higher prices. We will continue to manage our portfolios in the same way we always highlight, with good diversification, regular rebalancing and maintaining a low cost base.

Kind regards,

The Pavis Investment Committee