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# 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 **30 April 2020** 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:

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

Following a challenging start to 2020, CAPE figures fell for all major equity regions. This subsequently led to the Developed World Equity region (Global Equities) moving from a 20% underweight positioning back to 10%, with CAPE falling from 25.7 to 19.7 across the quarter, i.e. below our trigger point of 22.5 required for this change to occur.

*Please note that this change only impacts our High Income and Long-Term models, which currently hold 'Global' funds.*

Elsewhere, there is no change to North American Equity exposure which remains 20% underweight but is getting close to a -10% position (with a CAPE figure of 23.5). Europe and Japan are also extremely close to returning to a full weight status.

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### *Property Fund Suspension*

Following the COVID-19 outbreak, property valuers cannot be confident in providing property valuations and, as a result, affected property funds are suspended in the interests of customers and in the light of their regulatory responsibilities.

Whilst the affected fund (BMO Property Growth & Income) held in our model portfolios remains liquid, it has taken this action as a prudent and temporary measure until such times as these extreme conditions stabilise and the uncertainty around property valuations is removed.

### *Commentary*

The first quarter of 2020 has been dominated by the Covid-19 pandemic. Across the Globe we have seen borders closed, social distancing and home working. Airlines have been grounded and all but the essential high street shops are shut. Stock-market volatility during March exceeded the high point which was witnessed during the 2008/9 global financial crisis. These are truly unprecedented times and our thoughts are with all those who have suffered and lost friends and family. As you would expect, this has taken its toll on investment markets but there are some signs of recovery.

During the quarter we saw the FTSE 100 index trading in the region of c.7,600 before Covid-19 created a sell-off, the likes of which has not been witnessed since 1987 and, on the 22nd March, was trading at c.4,990. We have since seen the beginnings of recovery in this and other major developed stock markets.

Whilst stock-market volatility often makes the news, it's important to remember that we encourage clients to have diversified portfolios and our typical Balanced portfolio has 50% in bonds and fixed interest. Whilst these also suffered during the initial outbreak of Covid-19, they have since rallied strongly. The Barclays Global Aggregate Bond Index actually recorded a gain of c.0.69% for Q1 2020. The recovery seen in the bond / fixed interest markets has been driven by the substantial Central Bank support which has been announced and, so far, it seems the Federal Reserve, ECB and Bank of England are driven to ensuring their respective economies are well positioned to recover in the future.

At the end of April, we shall proceed with our usual quarterly rebalance on portfolios. This will see us move the desired asset allocation back to the correct long-term position. For example, during the quarter we might have seen a Balanced portfolio go from 50:50 in equites / bonds to 45:55. The rebalance forces us to sell some of those better performing bonds and buy equities – which are now cheaper than they were 3 months ago, i.e. we are selling high and buying low.

By continuing to ensure our portfolios are well constructed for the long term, utilise sensible practises (such as regular rebalancing) and avoiding unnecessary or unwarranted costs, we believe that we are providing our clients' portfolios the best opportunity to recover and remain on track to meet long-term financial goals.

We hope you find this useful but if you have any questions please do not hesitate to contact us on 0151 375 9848 or enquiries@pavis.co.uk.

Kind regards,

*The Pavis Investment Committee*