pavis
Chartered Financial Planners

Pavis Premier Model Portfolios

July 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 **31 July 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 (i.e. Global)	No change	10% below long-term average

As shown above, there have been no alterations to the equity weightings this quarter. This this means that the equity regions that were either expensive or fair value in April 2020, continue to be so.

Commentary

The extreme pessimism that was prevalent at the time of our Q1 update has since diminished – but not disappeared. Of course, Covid-19 remains the single most important factor driving short term markets but since the 1st April we have seen the FTSE 100 increase from 5454 to 6169 as of 30th June. This has been accompanied by a sharp fall in market volatility which back in March was virtually at an all-time high. Our Q1 update said that markets had all but written off 2020 and our view has not changed. Over the coming months we are going to see huge numbers of redundancies and business failures as the furlough scheme is wound down. Only then shall we see what the real economy looks like.

In his Summer Statement last week, the Chancellor announced some measures to aid the longer-term recovery of our economy as we ease out of lockdown and as the furlough scheme comes to an end. This included bonuses for companies taking staff back on following furlough, a stamp duty holiday to boost the housing market, VAT reduction and discounts to encourage us to partake in the leisure industry, amongst other plans for infrastructure investments, upgrades to schools and grants for home improvements and house building. Only time will tell, if indeed these measures have the desired positive effect.

Globally, the Central Banks find themselves in a fortunate position, as money has never been so cheap. During May 2020, the UK's Debt Management Office managed to sell £3.8bn of 3-year GILTS on a negative interest rate of 0.003%. This means that buying the GILT and holding through to maturity is guaranteed to make a loss. This is quite remarkable but even more so when you consider the issue was over-subscribed with £8.1bn of orders chasing the £3.8bn issue. So, whilst this increases the National Debt, the cost of servicing this borrowing has virtually no impact on HM Treasury cashflow. This is why we are going to see huge stimulus packages offered to get the economy moving again.

All this has been positive for the performance of our portfolios and compared to a rolling 12 month loss of -3.7% from 13th April 2019 to 12th April 2020, our Balanced Portfolio has now returned to positive territory with a 12 month gain from 1st July 2019 to 30th June 2020 of 0.1% compared to its benchmark, ARC Balanced, which is down -2.1% over the same period. Since launch on 31st December 2014 the Balanced Portfolio has now made a total return of 30.5%. As the old saying goes, "short term volatility is the price you pay for long term gains".

Whilst the last few months have not been easy, we have continued to function well as a business and the investment performance has been good. But we have also been making progress on alternative portfolios and further develop our offering in the Ethical / ESG (Environment, Social and Governance) space. If you would like to know more about this, please contact your adviser.

The outlook remains difficult to predict and we have no more of a crystal ball than you. There is talk of a second spike and what impact this might have. The truth is we don't know and what we really want to avoid is clients being on the wrong side of a "call" we make on short term market movements. We therefore stick to our basic principles of diversification, low-cost and rebalancing.

We hope you and your families are continuing to stay safe and well through these challenging times.

Kind regards,

The Pavis Investment Committee