Pavis Premier Model Portfolios

July 2021 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 30th July 2021 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 average
Europe excl. UK	No Change	20% below long-term average
Japan	No change	10% below long-term average
Developed Pacific (ex. Japan)	No Change	10% below long-term average
Emerging Markets	No Change	10% below long-term average
Developed World (ie Global)	No Change	20% below long-term average

The CAPE figures have risen marginally across all areas, except Japan in which the figure marginally reduced. However, the changes did not breach the parameters which otherwise would have led to reductions in allocations to the relevant regions. Therefore, there are no changes to region allocations and the current remains the same as the previous quarter.

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Commentary

As forecast, the UK economy is thankfully bouncing back at a record rate, in particular the service sector, with looser pandemic restrictions releasing pent-up demand for business and consumer services. This is indicated by the PMI (Purchasing Managers Index) output reading, which in June was 62.4, where any reading above 50 represents growth. Similarly in the US, Biden's stimulus package and the reopening of the economy is creating economic growth.

Although inflation readings have ticked up, inflationary fears have softened recently. Central Banks have reminded the markets that it takes the inflation targets seriously by continuing central bank debt purchasing. Therefore, fears of imminent interest rate rises and the potential negative impact on asset prices and highly indebted economies have abated.

Bond prices fell sharply (and yields rose to record levels) in March 2021 on the back of these fears. However, bond prices have now risen from these levels and yields have fallen again. Although yields are above (and bond prices below) the levels at the start of the year, the reaction in March seems exaggerated in the current context.

During the last quarter stock markets have been trading with less volatility. The Covid related reductions in March 2020 subsequently saw prices recovering rapidly, with some indices then surpassing previous levels. This has given way to a steadier and calmer environment. For instance, the S&P 500 benchmark index of US stocks moved more than 1% in either direction in a single day only twice in the whole of June. The markets are finding new highs regularly, however, by way of small rises. Performance in the US has still been impressive with the S&P 500 up +6.2% since 1st May. European shares have also done well, up +4.6% in the same period. The UK Stock market continues to struggle in comparison with the FTSE All Share up +1.64%. The pound was down marginally against the Dollar during this period.

For the last quarter our Premier Balanced Portfolio achieved a total return of +3.9% and since inception on 1/1/2015 a total return of +46.6%. This compares to +35.9% for its benchmark, ARC Balanced.

House prices, which are seen as important because they affect consumer confidence have risen at the quickest rate for 17 years. Whilst partly caused by economic drivers, this has also been due to urban workers looking for somewhere different to live with flexible homeworking now being more common.

Commodities have surged in price in the recovery and the oil price has reached nearly its highest level for two and a half years. Emerging markets, usually highly correlated to commodities, have recently decoupled from this trend. Whilst China has slowed down recently, emerging markets have been more uncertain due to concerns with riskier assets and global vaccine rollout.

Our outlook for the remainder of 2021 remains uncertain. We believe that many equity markets appear overvalued, and any economic disappointment could prove challenging. We do however remain positive about the UK where valuations are far less stretched.

Kind regards,

The Pavis Investment Committee