Quarterly Commentary July 2023

Pavis Verso Portfolios & Pavis Premier Portfolios

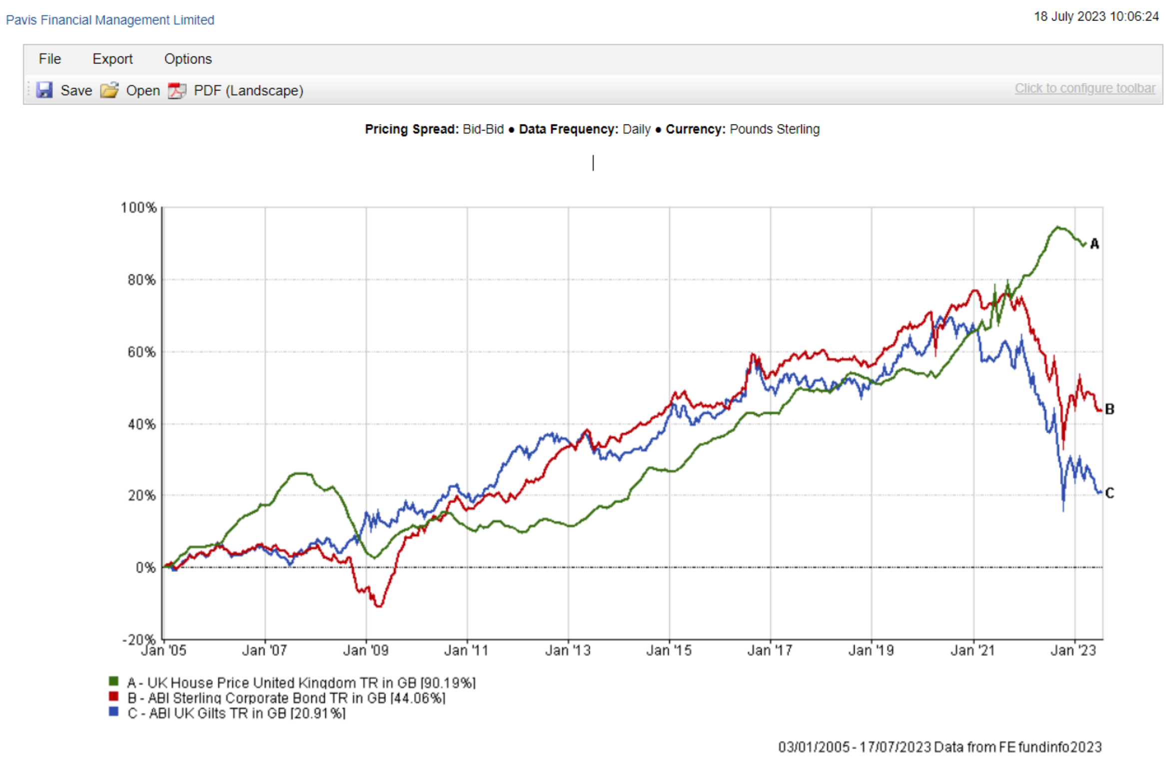
Investment Commentary

Economics

The first 6 months of 2023 (H1) has been dominated both domestically and internationally by inflation and interest rates. The sheer magnitude of the increases in the UK is at times hard to fathom. The Bank of England base rate is now at 5% and predicted to go higher. The last time we saw rates over 5% was 2008 when the trajectory was downward. The last time the Bank of England actually increased rates to 5% was November 2006.

The last 15 years have been a great time for borrowers and has helped increase asset values; most noticeably house prices. This has been to the detriment of long-term savers who have had to accept low returns. In many ways the tide has now turned and with deposit rates in excess of 6% there are surely better times ahead for savers.

The chart below shows the correlation between house prices and the returns from Gilts and Corporate Bonds over the last 10yrs. As you can see, there is usually a high level of correlation as both are closely linked to interest rates. However, since Summer 2021 there has been a big disconnect with bond prices coming down and property prices going up. Over time we would expect this correlation to move back towards historical norms. That means bond prices increasing or property prices declining but, in all likelihood, a bit of both.



In our April update we mentioned the strength of the £GBP and how it had been one of the best performing currencies year to date. With inflation now looking to have peaked in the US and starting to fall, the $USD has come under more pressure as global investors are attracted to the UK's relatively high interest rates and appreciating currency. This has pushed the £ to c.$1.30.

Much has been said about our rising National Debt and rightly so. Servicing a large debt pile with interest rates at c.5%pa is a huge burden on the Nation's finances but we wanted to bring some context to this. When measured as a % of our GDP we still have a lower debt ratio than:

USA/Canada/Greece/Italy/Spain/France/Belgium

Equities

The standout performer in equity markets during H1 2023 was the US tech heavy NASDAQ with a gain of 38.95% which has more or less offset similar losses in 2022.

NASDAQ +38.95%

S&P 500 +18.89%

MSCI Europe +13.29%

FTSE 100 +3.16%

MSCI Asia +2.92%

It's worth noting that the gains on the S&P 500 index of 18.89% for H1 2023 are directly attributable to just 7 big tech companies. Without the gains on these stocks (Apple, Microsoft, Alphabet, Tesla, Nvidia, Meta and Amazon) the returns from the other 493 companies was virtually 0%.

These companies now trade on a forward price / earnings ratio of over 30x. This means that for each $1 of profit a share in these companies generates the cost of buying just 1 share is over $30. To buy the other 493 companies costs about half of this. We are taking this as an opportunity to crystallise some gains on the big tech stocks within a number of portfolios.

Fixed Interest

Faced with rising interest rates most bond and fixed interest markets have recorded losses for H1 2023. However, this is not all bad news for long term investors as a combination of interest rates increasing and bond prices falling means that investment grade bonds are now offering yields of c.6.5%pa. The yield is the expected total return (capital plus interest) that a bond is expected to deliver between today and its predetermined maturity date. These yields are also at levels not seen since before the 2008 banking crisis and will help drive future returns.

Pavis Portfolios

The first half of 2023 was positive for all our portfolios with returns ahead of their benchmarks.

Portfolio	Performance	Portfolio	Performance
Cautious	+2.10%	Pavis Verso 35%	+2.71%
Balanced	+2.54%	Pavis Verso 50%	+3.38%
Growth	+3.11%	Pavis Verso 60%	+3.80%
Adventurous	+3.67%	Pavis Verso 100%	+5.50%

Rebalance

Regular rebalancing of our investment portfolios helps to ensure that they remain aligned to the level of risk and return that investors expect. It also has the effect of reducing the holdings where prices have performed most strongly and buying those which have become more attractively priced.

Both our Pavis Premier Portfolios and Pavis Verso Portfolios will be rebalanced on 28th July 2023 and you will receive contract notes reflecting the sales and purchases that result.

All our portfolios contain an element of flexibility whereby asset weightings can be altered from their normal weighting (within a prescribed range) to reflect market conditions and expectations. The following adjustments will be applied this quarter:

Pavis Verso Discretionary Managed Portfolios Equity and Bond Weightings

The Pavis Verso portfolio asset weightings are reviewed and adjusted on a discretionary basis. The asset allocations on these portfolios will closely mirror the Pavis Premier Portfolios but their increased flexibility means they can be positioned more effectively for shorter term market opportunities.

Region	Adjustment	Reason
UK	No Significant Change	Neutral outlook
North America	No Significant Change	Neutral outlook
Europe excl. UK	No Significant Change	Neutral outlook
Japan	No Significant Change	Neutral outlook
Pacific (ex. Japan)	+9% overweight	Positive outlook due to Market Conditions
Emerging Markets	No Significant Change	Neutral outlook
Global Equity	No Significant Change	Neutral outlook
Global Technology	-20% underweight	Defensive outlook due to Market Conditions
Global Small Cap	-5% underweight	Defensive outlook due to Market Conditions
Property	-10% underweight	Defensive outlook due to Market Conditions
Bonds	Overweight short-term bond holding in portfolios with 50% or over equity holding	Positive outlook due to Market Conditions
Cash	Overweight Cash in portfolios with 50% or over equity holding	Positive outlook due to Market Conditions

*Please note that the above percentages are approximations and are based on the normal asset weighting.

The reasons for the above positions are as follows:

- UK equities have underperformed, and look attractive on valuation grounds, so we have increased to a slight overweight position.
- US equities were topped up at last rebalance, and given the recent strength, we have trimmed exposure here for a more neutral stance.
- European equities have lagged since we trimmed at the last rebalance, and we are reallocating here to take a more neutral position.

- Japanese equities have rallied by 20% this year, on optimism that the economy can finally emerge from years of deflation, and a brighter economic outlook. Given the valuation re-rating, exposure has been trimmed to a neutral position.
- The Asian Pacific region stands to a be a primary beneficiary of a pick-up in Chinese growth and continues to appeal on valuation grounds. We will maintain an overweight position in this market.
- Emerging markets are also starting to appeal on valuation grounds, and we have added here to return to a more neutral position. Emerging market economies are further on in their economic cycle, with inflation declining and central banks in a position to relax monetary policy.
- Within technology, fervour surrounding artificial intelligence has driven a further sharp move up in share prices. Valuations look challenging, and exposure has therefore been reduced.
- The allocation to global small cap equities remains underweight, given the high interest rates and a potential economic slowdown.
- On the whole, allocation to Fixed Income remains broadly unchanged, with yields remaining at their most attractive levels in 15 years. In our portfolios that have 50% or more in equites, some profits have been reallocated to cash and short-term bonds to take advantage of the current high rates of return.

Pavis Premier Portfolios Equity Weightings

Within our Premier Portfolios 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	10% below long-term weighting
Japan	No Change	10% below long-term weighting
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)	**Change**	**20% below long-term weighting**

The main movements in CAPE has been across the major developed regions and whilst this movement was not sufficient enough to warrant changing the weighting for any individual developed region, it was enough to adjust the developed world region as a whole. The CAPE figure for the emerging markets remained at a similar level to last quarter and therefore the current holdings will be maintained. A standard rebalance will take place bringing equity allocations back to this positions and fixed interest allocations back to their original weightings.

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.