LOWES
INVESTMENT MANAGEMENT

MI Diversified Strategy Fund

Quarterly Report to 30 June 2024

Objective & Strategy

The investment objective of the MI Diversified Strategy Fund is to achieve long term capital growth. The Fund intends to meet its objectives through exposure to a combination of equities, fixed interest and structured products. The majority of the Fund's exposure will be to equities. It may also have exposure to property. With the exception of structured products, this exposure will be through investment in OEICs, Unit Trusts, Investment Trusts, Exchange Traded Funds and other collective investment schemes across several management groups. It may also invest in equities from the world's major markets, bonds and other transferable securities. The Fund has no specific limits on exposures to any asset class, geographic area, industry or economic sectors.

Market Commentary

The quarter was one of mixed returns for different asset classes and geographical markets, which was reflected in the wide dispersion of returns which was seen between funds allocated to within the Fund.

It proved a difficult period for UK fixed interest markets. The winner here was high yield, or non-investment grade bonds. Here a positive return was seen. The fortunes of this asset class is determined by the credit outlook, rather than having a high sensitivity to interest rate movements/expectations. With no sign of any marked pick up in default rates, these bonds continued to produce a positive total return, virtually all of which came from the interest element rather than capital return.

The returns of investment grade bonds and gilts however was negative on a total return basis, with the income produced not sufficient enough to offset capital losses which were seen. 'Will they or won't they' pretty much sums up the state of these markets during the period, as forecasters and investors alike continued to try and second guess when and by how much central banks would make that first interest rate cut. The European Central Bank proved willing, after the Swiss National Bank cut in the first quarter, reducing by 0.25%.

The Bank of England remained reluctant to do so. This was despite consumer price inflation hitting the target of 2% in June, with the central bank preferring to wait for confirmation that this lower rate of inflation was sustainable. Their concerns appear twofold. Firstly, inflation in the service sector is much higher than headline figures, and it is deflation in the manufacturing sector which is dragging the overall figure lower. Secondly, average earnings, or wage growth, continues to grow at a strong pace, in excess of 5%. This means that the consumer is enjoying real wage growth, which is a positive for economic growth as long as it is spent. At the same time however, if this were to be the case, it could mean that inflation sees something of a bounce higher from here. Whilst US inflation has now fallen to 3%, this remains above target and leaves the US Federal Reserve cautious also.

There was significant divergence in equity market returns for the quarter. At the top end we had UK smaller companies, where the index return was in excess of 9%. These stocks benefited from a stronger than expected UK economy, with an upgrade also coming from the International Monetary Fund (IMF). Another strong performer was the Hang Seng, with Chinese equities enjoying a bounce from a cheap valuation position. This helped the performance of Asian and emerging market equity funds. At the other side of the spectrum we saw weakness from Japanese stocks following a very strong run. The return was weaker still in sterling terms as weakness in the Japanese yen continued to be seen. Corporate reform here, however, remains strong.

Fund Performance

There was a wide dispersion of returns posted by underlying funds during the quarter, with a range of almost +7% to just over -6%. This reflected variation in performance across the different equity markets from a geographical perspective. At the top of the performance table were those funds investing in Asian and emerging market equities, with the latter tending to have a high allocation to Asian emerging markets. These funds benefited from the rebound in Chinese equity stocks. Taking the top spot was the FSSA Asia Focus fund, closely followed by Lazard Emerging Markets.

The caveat to this rule was the Redwheel Next Generation Emerging Markets fund, where a negative return was seen. This fund actively avoids investing in Chinese and Indian stocks as part of its investment objective and mandate. Therefore, when we see periods where it is the returns from these large markets which dominate, underperformance can be expected. The medium to long

Fund Performance continued

performance of this fund however remains strong.

Sandwiched between these funds was Schroder Recovery which invests in UK equities, following a valuation driven investment process. Performance was strong on the back of this style bias, along with a meaningful exposure to banks which performed strongly during the quarter. There was also a positive return for the CRUX UK Special Situations fund, which benefited from the strong performance from UK smaller companies.

Whilst the returns posted by fixed income funds were in the main low given the prevailing market conditions, the exception to the rule was the Man Dynamic Income fund. A return of almost 5% was seen. As the name may suggest, the fund manager takes a very active approach to investment selection. Whilst many fixed income managers predominantly focus on macroeconomic variables, instead it is corporate fundamentals which are focussed on. In particular, the manager is looking to exploit market inefficiencies whereby he believes that the market is mispricing the outlook for a company, which ultimately could lead to a positive credit event.

At the lower end of the performance table was Man GLG Japan Core Alpha, which succumbed to weakness in Japanese equities overall. There was also weakness across those funds investing in European equities.

The Fund posted a return of 1.41% for the quarter. This was only a little behind the sector average return of 1.71%. Fund performance had been ahead of the sector average for most of the period, only falling behind in the last two weeks of June.

Source of all performance data: FE Analytics

Fund Activity and Positioning

There were a few changes made to the underlying holdings during the period. In the first we exited the FSSA Japan Focus fund. There were a number of reasons for this. Firstly, the fund has shown a weaker period of performance of late, which has very much been driven by its investment style bias. It has, for example, underperformed the Man GLG Japan Core Alpha fund, also a holding, which has large cap, value style bias. This weaker performance has meant that it's assets under management have dwindled, which potentially impacts the viability of this fund. The decision was therefore made to exit.

Another fund which was exited was the Nomura Dynamic Bond fund. Whilst we still remain constructive on fixed income, in particular given the level of yield on offer, the allocation to fixed income within the Fund had grown to a large overweight position. The decision was therefore reached to reduce this exposure. Following a review of the funds allocated to in this asset class, it was decided that the Nomura fund be exited, primarily on performance grounds.

An overweight position to this asset class remained in place at the end of the quarter, with a weighted yield in excess of 7% and duration of less than 3 years. Allocation remains to strategic bond funds, which affords them flexibility in terms of their investment mandate. There is also exposure to a specialist bond fund in the form of the GAM Star Credit Opportunities fund, which is looking to benefit from investing in a specific niche within the fixed income market, whereby it is able to achieve a higher yield by investing in lower grade bonds, issued by a company with a higher credit rating.

The Fund maintained a neutral weighting to alternatives, gained through exposure to long/short equity funds which, through careful stock picking, are able to produce gains from share prices falling and rising. The returns from these funds were positive during the period, benefiting from a lack of correlation between the performance of share prices of individual companies.

The Fund was marginally overweight the neutral allocation to equity funds at the end of the quarter. Within equities we continue to monitor valuation closely. Whilst some markets are close to all time highs and have high valuation multiples, others have low multiples, relative to their own history and other markets. Given the uncertainty around central bank action around interest rates, along with confidence still being sought that high inflation has been defeated for this cycle, our preference is to maintain a balanced portfolio of funds, across asset classes, geographies and investment styles.