MI Brewin Dolphin Voyager Fund Range

Quarterly report – Q3 2024

Introduction

Welcome to the MI Brewin Dolphin Voyager Fund Range investment review. In this report, we cover information and events that influenced performance during the third quarter of 2024.

This year was always going to be an important one from a political perspective, as it is estimated half the world's population will have, or have had, the opportunity to vote during 2024. In July, the UK saw a Labour Party landslide win with a majority of 174 seats, their largest in a quarter of a century.

In September, the Federal Reserve and the European Central Bank both cut interest rates, while the Bank of England and the Bank of Japan remained on hold. However, neither cut had quite the same market impact as the latest stimulus measures from China.

The People's Bank of China (PBOC) cut its reserve requirement ratio (the percentage of deposits commercial banks are required to hold in reserve, rather than use to make loans or invest in other assets) by 0.5 percentage points. The governor of the PBOC, Pan Gongsheng, seemed to suggest further cuts are coming.

China's Ministry of Finance is also planning a significant fiscal support package. It is expected that part of this will be used to subsidise upgrades to existing consumer goods (most notably cars), as well as an explicit payment per child for families having more than one child – a significant incentive to have more children at a time when China's demographic woes are coming into sharp focus.

Manufacturing activity slowed towards the end of the third quarter. The U.S. saw a particularly abrupt slowdown, though its services sector remained quite robust. However, growth in the U.S. was a healthy 3%, essentially maintaining the pace of the second quarter. Europe saw some evidence the manufacturing slump was continuing, and the services sector seemed to be losing momentum as well. The case for interest rate cuts in Europe is strong.

Although the U.S. economy is slowing, rather than slumping, policy makers are likely to continue cutting interests rates gradually, with rates ultimately falling to below 3% in the UK and U.S., and potentially as low as 1% in the Eurozone.

The big picture in Q3 2024

- Q3 2024 saw political surprises, with assassination attempts on former U.S. President Donald Trump, and Vice President Kamala Harris replacing President Joe Biden as the Democratic nominee in November's U.S. election. Despite the upheaval, the presidential race continues to be tight.
- As the anniversary of Hamas' attacks on Israel approached, tensions in the Middle East rose as Israel turned its focus from Gaza in the south to Hezbollah in the north.
- Globally, the picture is mixed. Germany may have slipped into a recession, while France's new minority government faces challenges in implementing tough choices. Even though it's slowing down, the U.S. economy is still robust, and interest rates were cut by a significant half percentage point in September. Japan defied the trend by raising interest rates as inflation returned after nearly three decades of deflation.
- Despite the Labour Party's landslide victory in the UK's general election, the new government's promise of 'hard choices' has already had an impact on consumer and business confidence. However, the economy is still fairly robust and growing at a moderate pace. The Autumn Budget announced on 30 October will be closely watched for any changes to fiscal plans.
- China's recent stimulus package has provided a boost to the stock market, but its impact may be temporary without sustained support.
- The global economy has so far adapted to high interest rates and fluctuations in demand without suffering a significant recession, thanks in part to increasing oil supply and low Chinese demand.
- In the near future, the U.S. elections will be a major focus, with complex investment implications based on the outcome and control of Congress.

Market overview Q3 2024

- Q3 2024 saw a positive return across most asset classes. Gold stood out with a strong return of 6.5%, while Absolute Return offered a more modest 1.2%. Global property was the top-performing asset class overall, delivering a 10.6% return.
- Bonds also gave a positive return over the third quarter, and global bonds outperformed their UK counterparts. Global corporate and sovereign bonds rose 4.8% and 4.1% respectively. UK gilts and corporate bonds advanced 2.4% each, while inflation-linked bonds returned 3.2%.
- In the equities space, Developed Asia ex Japan was a notable outperformer, returning 4.4%. The UK equity market also performed reasonably well, with a return of 2.3%. However, Developed Europe ex UK and Emerging markets, together with Japan and North America, saw a broadly flat performance.

Voyager performance

Voyager performance	Q3	2024 YTD	1yr	2yr	3yr	4yr	5yr	2023	2022	2021	2020	2019
Voyager 40%	2.7	5.8	12.2	14.6	2.0	N/A	N/A	6.7	-11.0	3.5	N/A	N/A
Voyager 60%	2.3	7.2	13.5	16.8	5.9	N/A	N/A	7.6	-10.1	6.5	N/A	N/A
Voyager 70%	1.9	8.0	14.1	18.4	8.3	N/A	N/A	8.3	-9.6	8.6	N/A	N/A
Voyager 80%	1.5	8.5	14.5	19.7	9.5	N/A	N/A	8.9	-9.7	10.6	N/A	N/A
Voyager 90%	0.8	9.4	14.9	20.5	10.7	N/A	N/A	9.2	-9.9	13.5	N/A	N/A
Voyager 100%[1]	0.2	10.5	15.5	22.3	N/A	N/A	N/A	9.9	-9.2	N/A	N/A	N/A

All figures shown above are calculated to 30 September 2024.

Performance Calculation: All income is reinvested. Performance is shown inclusive of underlying fund charges but gross of RBC Brewin Dolphin's investment management charge. Deduction of this charge will have the result of reducing the illustrated performance. Neither simulated nor actual past performance are reliable indicators of future performance.

[1] Inception Date of 15/09/2021

Voyager performance highlights Q3 2024

Asset Allocation

What worked and why?

The quarter saw volatile equity markets, with investors showing some signs of scepticism over the continued outperformance of the U.S. technology sector. However, positive earnings releases helped ease these concerns. This, combined with a softening in the labour market and a taming of inflation, meant that our overweight position to gold was rewarded.

What didn't work and why?

Corporate bonds saw positive returns during the third quarter, which meant that the underweight position was a mild drag. However, this was largely offset by the overweight to sovereign bonds.

Fund Selection

What worked and why?

Over Q3, DWS US Value and BNY Mellon US Equity Income (two strategies that focus on value and therefore have low allocations to the large U.S. technology sector) performed well. In the UK, the Ninety One UK Equity Income strategy was up well over 6%. Among bonds, the Man GLG Sterling Corporate strategy continued its strong run and rose 5%.

What didn't work and why?

U.S. technology stocks had a tricky time over the third quarter, and this was reflected by weak performances in the Brown Advisory US Sustainable Growth and the DWS US Quality Growth strategies. Over the longer term, we believe the technology sector will continue to play a significant role in the U.S. equity market and that Brown Advisory in particular is well placed to navigate the volatility.

The value of investments can fall and you may get back less than you invested.

Voyager portfolio changes Q3 2024

Asset Allocation

The Asset Allocation Committee advised for no tactical changes during the third quarter. It was felt that the overweight position in sovereign bonds remained appropriate ahead of the forthcoming interest rate cutting cycle by central banks. The underweight to corporate bonds has been kept, as credit spreads remain at the tighter end of the range. This implies investors are still not being adequately rewarded for the additional risk of these bonds compared to government issued debt. Overall, portfolios remained overweight global equities, with more diversifying exposure to bonds and alternatives in lower risk profiles.

Fund Selection

In August, the One River Risk Responders strategy was added to the MI Select Managers Alternatives fund. This strategy adds diversification and should provide some protection to portfolios in the event of a sharp equity market sell-off. We also modestly increased the allocation to infrastructure investment trusts to take advantage of some attractive discounts.

In September, we increased the Teviot UK Smaller Companies strategy, as low valuations in the UK market highlight potential for upside.

Information is provided only as an example and is not a recommendation to pursue a particular strategy.

MI Select Manager fund weights

MISM fund weights

Date	MISM Fund	Mandate	Weight (%)
30/09/2024	MI Select Managers Bond Instl Inc	Man GLG Sterling Corporate Bond	14
		DWS US TIPS	15
		Colchester Global Sovereign	20
		Insight UK Government Bond	25
		Robeco Global Credit	26
30/09/2024	MI Select Managers NA Equity Instl Inc	Baillie Gifford American	5
		DWS US Value	20
		BNY Mellon US Equity Income	20
		Brown Advisory US Sust Growth	25
		DWS US Quality Growth	30
30/09/2024	MI Select Managers UK Eq Inc Instl Inc	CT UK Equity Income	18
		Man GLG UK Equity Income	41
		Ninety One UK Equity Income	41
30/09/2024	MI Select Managers UK Equity Instl Inc	Teviot UK Smaller Companies	9
		Lindsell Train UK Equity	29
		Redwheel UK Equity Income	30
		JPM UK Core	32
30/09/2024	MI Select Managers Alternatives	Absolute Return funds	15
		Muzinich Global Tactical Credit	17
		Schroder Global Cities	22
		Commodities and other alternatives	46

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Asset Allocation Committee investment outlook

These views are implemented across our portfolios but there may be deviations where asset classes or suitable investments are unavailable or excluded.

Cash

Although cash continues to offer a decent yield, we are underweight. We see continued scope for equity market gains, government bonds to rally modestly as central banks adopt less tight policy stances, and gold to move higher.

Bonds

Traders have priced in significant monetary policy easing in the months ahead. If there is a soft landing, central banks might cut rates by less than what is priced in. In a recession, they would very likely cut by more. A soft landing remains a reasonable base case, although economic growth risks have intensified. Taking a probability-weighted sum of the various possible outcomes, and considering government bond yields move with central bank rate expectations, we remain overweight government bonds. We remain underweight corporate bonds. Credit spreads are not sufficiently large to compensate for global economic growth risks, in our view.

Global Equities

Subsiding inflation and central bank rate cuts should help bring about a soft landing. Meanwhile, there is the potential for artificial intelligence (AI)-related themes to keep pushing the market higher. As such, we retain a modest equity overweight. But the risk/reward backdrop suggests it is probably not a good time to chase this rally further and add to that overweight at the current stage. A U.S. soft landing is completely priced in, U.S. valuations are elevated, and investors and analysts are already bullish. Meanwhile, economic growth risks are higher than in a typical year, it should become harder for the AI names to continue to positively surprise investors by such a large margin, and a Donald Trump win in November would increase trade uncertainty.

Alternatives

Sentiment and positioning toward gold are bullish, which is unsupportive as it points to good news being priced in. The U.S. presidential election could go either way, but a Trump win in November could cause U.S. growth to a weaken and inflation to strengthen – a supportive backdrop for gold. Gold could also benefit from continued inflows from countries not geopolitically aligned with the West. Finally, gold could do well on the back of just a simple moderation in real yields as the economy slows. Turning to property, while fundamentals are challenging in the office space, the market cap weighting of this subsector is small. The backdrop is notably brighter in other REIT subsectors. Nevertheless, safe haven bond yields may not drop that much in the event of a soft landing. Only a small decline in yields might not be enough to drive strong relative performance in this interest-sensitive sector. Against this mixed backdrop, we maintain a neutral position.

UK Equities

UK relative performance should continue to be closely linked to value vs growth-style performance, and there are reasons to believe the outlook for the latter remains brighter. However, some diversification into the value plays that the UK is so heavily weighted in makes sense at this stage, in our view. Although the domestic economic outlook is less important for UK equity relative performance, it still matters. Indeed, there is a reasonably close relationship between the performance of UK vs global gross domestic product and UK vs global equity performance. We suspect the Labour Party will have some success in boosting economic growth with policies that require a limited fiscal outlay. However, the pathway to success is not guaranteed, and implementation will require careful navigation. The UK equity market trades on very undemanding valuation multiples.

US Equities

A key concern with regards to U.S. equity exposure relates to valuation. Both equity valuation multiples and the valuation of the dollar appear stretched. Nevertheless, we are more optimistic on U.S. equities than other regions, for two main reasons. The first is the secular outlook, which appears relatively bright for the tech stocks the U.S. is so heavily weighted in. The main upside risk for the global equity market over the next few years is if an 'AI boom' scenario unfolds. With the Federal Reserve now cutting rates, a weaker version of the second half of the 1990s is a possibility this cycle. Back then, excitement linked to the growth of the internet drove gains. This cycle, AI could be the driver. The second reason for favouring the U.S. relates to the cyclical outlook. Even though the odds of a soft landing have gone up, economic growth risks appear higher than in any given year. The U.S. has a relatively defensive sector composition compared to other regions, which is an attractive characteristic at a time when economic growth risks are elevated.

Europe ex UK Equities

The relative performance of global tech and the direction of continental European foreign exchange (FX) are the key drivers of Europe ex UK equity relative performance. We are optimistic on the secular outlook of global tech, which bodes poorly for Europe ex UK as it has low weightings in this sector. With regards to continental European FX, over the longer term, there appears to be room for appreciation, which would support regional equity relative performance in common currency terms. Importantly, the euro is cheaply valued (based on purchasing power parity conversion rates).

Japan Equities

There is momentum behind shareholder-friendly reform in Japan, which could help drive a further expansion in relatively depressed price-to-book multiples. However, demographics amount to a major structural headwind for Japanese equity relative performance. Meanwhile, with the unemployment rate low and labour force participation high, Japan does not have much scope to put idle economic resources to work to drive cyclical growth. Despite low price-to-book multiples, Japan does not stand out as cheap, in our view. Indeed, it trades at a premium to the world ex US market on 12-month forward price/earnings.

Asia ex Japan Equities

In late September, the Chinese authorities announced a host of policy measures. The coordinated action suggests the authorities are now taking the deflation risk seriously. To successfully boost inflation, the authorities need to boost growth. The combination of higher inflation, stronger growth, and declining real interest rates is a supportive backdrop for equities. The Chinese housing market remains weak, but the authorities are incentivised to drive an improvement as soon as possible. Given that over 90% of Chinese people own their own home, they would be risking a breakdown in social instability (which they are very keen to avoid) if house prices decline much further. China and Hong Kong equities have rallied aggressively in short time, but on a medium-term view, these equity markets still do not look overbought. We acknowledge that the change in tack by the authorities does not alter the fact that the structural headwinds leaning against China have not gone away. But Trump's odds of winning next month have dropped compared to a few months ago. As such, a major geopolitical risk for China (namely, a damaging trade war) has declined. Importantly, there are structural bright spots in the Asia ex Japan equity index, including India and Taiwan.

Emerging Markets ex Asia Equities

Brazil, Saudi Arabia, South Africa, Mexico, and the United Arab Emirates are the countries with the highest market cap weightings in the EM ex Asia equity index, making it very commodity exposed. We do not expect much upside to commodity prices in an environment where global growth is slowing. That said, EM ex Asia remains very cheaply valued.

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RBCBDM5483_2410_2
Issue date: October 2024