of interest

summer 2023



# Exchange Traded Funds

## Welcome

to the latest edition of our newsletter 'Of interest'. Inside, we feature Exchange Traded Funds and explain how they work and differ from traditional managed funds. Most ETFs are passive investments meaning they tend to track markets without being actively managed. For this reason, the costs are generally much lower meaning more of your hard-earned money stays invested equating to better long-term outcomes assuming equivalent growth rates.

You can invest in ETFs through us via Fidelity FundsNetwork. If you require more information, please don't hesitate to contact us.

As usual, we feature other various articles and our regular £1,000 prize competition. We hope you find this newsletter 'Of interest'.

**Important Information**

You should not interpret anything in this newsletter as a recommendation to acquire or dispose of any investment or to enter into any other transaction.

Past performance is not necessarily a guide to future returns. Market and exchange rate movements may cause the value of investments and any income from them to fall as well as rise and you may not get back the amount originally invested.

Some of the funds featured in this newsletter invest in specialist sectors. As a result they may carry greater risks in return for higher potential rewards. The stock markets and currencies of emerging markets can be extremely volatile. Investors should only invest if prepared to accept a high degree of risk. If you are unsure about the risks attached to a certain fund, you should seek professional advice.

Tax benefits, if any, may vary as a result of individual circumstances and the levels and bases of and reliefs from taxation may change. The tax advantages of ISAs may be subject to future statutory change. Eligibility to invest in an ISA and the value of tax savings on ISAs will depend on individual circumstances.

We will not be offering any advice as to the suitability of the investments we have highlighted in this newsletter. These investments are not suitable for everyone. If you have any doubts as to whether an investment is suitable for you, you should obtain expert advice.

# News

## Premier Miton UK Smaller Companies - Lifting of Soft Closure

Premier Miton have stated that the soft closure has been lifted for the Premier Miton UK Smaller Companies fund. The soft closure had been in effect since 19th July 2021. This means that requests to subscribe for (and/or convert from another fund into shares of the Fund by a Shareholder and any new investor) will be permitted.

## Jupiter Multi Asset Income and Growth Name Change

On 5th April 2023, the Jupiter Multi Asset Income and Growth fund changed name to Jupiter Merlin Income and Growth Select fund.

The changes to the fund objective is shown below:

### Previous Fund Objective

To provide income and capital growth over the long term (at least five years) by investing globally in shares of companies, fixed-interest debt securities, exchange traded funds (ETFs), open-ended funds (including funds managed or operated by Jupiter or an associate of Jupiter), cash, near cash, money market instruments and deposits.

### New Fund Objective

To provide a return, through a combination of income and capital growth, net of fees, over the long term (at least five years) by investing at least 70% of the fund globally in collective investment schemes and exchange traded funds (ETFs) which give exposure to shares of companies, fixed-interest debt securities, money market instruments, deposits and cash.

The fund forms part of the Jupiter Select range, meaning that typically between 40% to 70% and at least 25% will be invested in funds managed or operated by Jupiter or an associate of Jupiter.

## M&G European Corporate Bond Fund Merger

On 9th June 2023, the M&G European Corporate Bond fund merged into the M&G Strategic Corporate Bond Fund. M&G have stated the following:

"Both Funds invest in investment grade corporate bonds, that is, corporate debt securities issued by companies considered to be at lower risk of default than issuers with higher default risk and lower credit ratings. Default means that an issuer is unable to meet interest payments or repay the initial investment amount at the end of a bond's life.

"They also have similar duration, which is a measure of their sensitivity to changes in interest rates. However, whilst the Merging Fund mainly invests in assets denominated in any European currency, the Receiving Fund can invest in assets denominated in any currency. The Receiving Fund's investment strategy is the closest match to the Merging Fund's in the M&G range and we believe the Merger to be the best option for investors as it would provide investors an alternative investment solution for the long term."

## Baillie Gifford Global Stewardship Name Change

On 31st March 2023, the Baillie Gifford Global Stewardship Fund changed its name to Baillie Gifford Sustainable Growth Fund.

From January 2023, the fund has been managed by a dedicated team lead by Toby Ross and Katherine Davidson.

The fund was launched in 2015 and invests in sustainable growth companies - enduring businesses that make a difference to society. The overall investment proposition of the fund will remain unchanged, namely a focus on long-term growth with a strong emphasis on sustainability. However, the typical number of stocks held by the Fund will reduce from between 70-100 holdings to between 55-80 holdings. Toby Ross has been closely involved in developing Baillie Gifford's Responsible Global Equity Income strategy, where he continues to have decision-making input. Katherine Davidson joined Baillie Gifford in September 2022 after a fourteen-year career at Schroders where she was a specialist sustainability fund manager. Baillie Gifford recently announced that Toby will become a partner in the firm from May 2023.

James Budden, Director, Marketing and Distribution, Baillie Gifford, says: "These changes represent an evolution and clarification of the investment proposition of this Fund. It looks for companies that can sustain profitable growth for a long time, businesses which will prosper because they are a force for good. Baillie Gifford Sustainable Growth brings these two aspects together, and Toby and Katherine are well-placed to deliver returns to investors in this way. Toby has been with Baillie Gifford since 2006 and Katherine has recently joined us with the express intention of managing this exciting sustainable growth approach."

## Pound Cost Averaging

With the new tax year now upon us, it could be time to invest into a 2023/24 ISA. Your £20,000 limit could be invested in one lump sum, monthly or in individual lump sum amounts of your choosing.

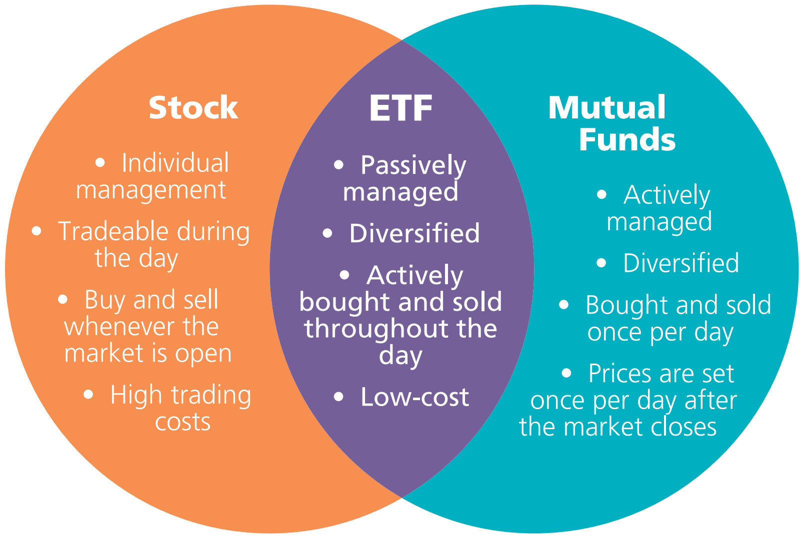
By investing in smaller regular lump sums you spread the risk rather than potentially making a poorly timed investment. This process is known as 'pound cost averaging'.

For example, if you invest the whole subscription at a market high and fund price(s) drop soon after, it could be some time before you see a profit. So instead of the entire investment suffering this loss, only the invested part does. The remainder, in theory, is then invested at lower prices.

It's certainly something to consider in challenging economic times. Rarely do investors make a perfectly timed investment.

Please contact us for a quote and application if there are any funds you are considering for this tax year.

# Exchange Traded Funds




An Exchange Traded Fund or ETF is a type of fund that issues shares and is traded on a stock exchange. ETFs cover a broad spectrum of asset classes. They facilitate access to different markets and sectors enabling investors to create bespoke low-cost investment strategies to suit their needs and risk tolerance. Many ETFs track indices, for example, the FTSE 100 or the S&P 500. Some track a group of securities such as property, bonds or commodities and can also be focused on a particular geographical area or even specific stocks in an index.

The main difference between ETFs and open-ended funds is that ETFs operate more like shares which can be traded throughout trading hours (intra-day trading) rather than being priced once daily. Fidelity FundsNetwork (the platform provider we use for ETFs) offer two dealing points during business days. These are at 9am and 3pm.

Investing in an ETF offers several advantages. First, the variety of investment options on offer is substantial. At the time of writing, there are 489 ETFs available via Fidelity FundsNetwork, our preferred platform provider. Investors can track the performance of numerous indices, asset classes and industries. Second, and arguably their best selling point, is their super-low charges, typically ranging from 0.05% to 0.4% p.a. As you know, the level of charges can make a significant impact on an investment over the longer term. Lower charges mean that more of your hard-earned money remains invested giving rise to better long-term investment outcomes. What's more, if you require income from your investments, there's a big choice of ETFs paying varying levels of income.

You can also take advantage of your ISA allowance with an ETF in the same way you would with a Unit Trust/open-ended fund. This means that any returns are free of Income Tax and Capital Gains Tax.

With regards to liquidity, as ETFs are traded on stock exchanges, they tend to be relatively liquid. As with Mutual Funds, however, liquidity cannot be guaranteed. For example, during stressed market conditions, it is possible that the basket of underlying securities may no longer be readily tradable. In extreme circumstances, an ETF could become 'closed' to new money and to withdrawals until market conditions return to normal.

Most ETF's are passively managed as they track the underlying index they represent. There are however some actively managed ETFs that are run by fund managers who trade in the underlying basket of stocks. These actively managed ETFs tend to have higher charges.

## Charges - ETF vs Managed Unit Trust

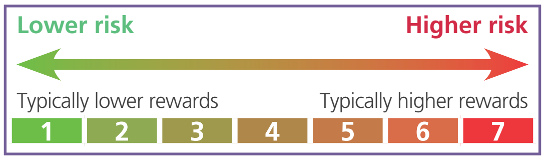
The majority of our clients' funds are currently invested in Unit Trusts. Why not take a look at the typical overall charges and the potential savings you can make on a passively managed ETFs.

| Fund Manager | Fund Name | OCF/TER | Platform Charge | Elson Annual Service Fee | Total Annual Charge |
|---|---|---|---|---|---|
| Invesco | UK Equity High Inc UT | 1.67% | 0.00% | 0.00% | 1.67% |
| Fidelity FundsNetwork | Invesco UK Equity High Inc UT | 0.87% | 0.25% | 0.35% | 1.47% |
| Fidelity FundsNetwork | Vanguard FTSE All World ETF | 0.22% | 0.25% | 0.35% | 0.82% |
| Fidelity FundsNetwork | L&G UK Equity ETF | 0.05% | 0.25% | 0.35% | 0.65% |

Fidelity make a dealing charge of £1.50 or £3 for each ETF you buy or sell. The exact charge for your chosen ETF(s) will be shown on your Personalised Illustration.

# Our ETF Selections

Risk is rated on a scale of 1 to 7 where 1 is the lowest and 7 is the highest level.




## Income

If you're looking to boost your income and are prepared to accept the risks associated with stock market investments, here is a selection of ETFs that might be of interest to you. They have been selected by us to provide a combination of high income and low charges. Several of the Vanguard ETFs, in particular, offer a highly diversified number of individual shares and bonds from major indices and markets worldwide.

| Area/Sector | Fund Name | Risk | Yield | Holdings | Charge |
|---|---|---|---|---|---|
| Global | Vanguard FTSE All World High Dividend | 6 | 3.50% | 1765 | 0.03% |
| Global | Vanguard USD Corporate Bond | 4 | 4.00% | 8982 | 0.10% |
| UK | Vanguard FTSE 100 | 6 | 3.81% | 98 | 0.09% |
| UK | iShares UK Dividend | 6 | 6.09% | 50 | 0.40% |
| US | Fidelity US Quality Income | 6 | 2.18% | 116 | 0.25% |
| US | SPDR Bloomberg SASB US High Yield | 4 | 6.38% | 606 | 0.30% |
| EUR | Fidelity Europe Quality Income | 6 | 3.82% | 82 | 0.30% |
| EUR | ishares Core Euro Stoxx 50 | 6 | 3.06% | 50 | 0.10% |
| ASIA | HSBC MSCI Pacific ex Japan | 6 | 4.19% | 119 | 0.15% |
| EMG MKT | Vanguard FTSE Emerging Markets | 6 | 2.88% | 2019 | 0.22% |

## Growth

If capital growth is your main objective, and you're happy to accept the risks associated with stock market investments, these ETFs might be worth a closer look. They have been selected by us to provide a combination of long-term growth with an emphasis on particularly low charges from a broad spectrum of passive investments.

| Area/Sector | Fund Name | Risk | Yield | Holdings | Charge |
|---|---|---|---|---|---|
| Global | Vanguard FTSE All World | 6 | 1.80% | 3668 | 0.22% |
| UK | L&G UK Equity | 6 | 0.00% | 93 | 0.05% |
| UK | Vanguard FTSE 250 | 6 | 3.44% | 164 | 0.11% |
| US | Vanguard S&P 500 | 6 | 1.29% | 503 | 0.07% |
| US | L&G US Equity | 6 | 0.00% | 488 | 0.05% |
| EUR | HSBC Euro Stoxx 50 | 6 | 2.58% | 50 | 0.05% |
| EUR | L&G Europe Exc UK | 6 | 0.00% | 353 | 0.10% |
| ASIA | L&G Asia ex Japan | 6 | 0.00% | 152 | 0.10% |
| EMG MKT | ishares Core MSCI Emerging Markets | 6 | 0.00% | 3137 | 0.18% |

## Cautious

If you'd rather take a more cautious approach to investing, but still require some income from your investments, these bond ETFs might suit. They have been selected by us to provide a stable income from a highly diversified selection of bonds. Of note, the Vanguard USD Corporate Bond ETF has over 8,000 individual holdings.

| Area/Sector | Fund Name | Risk | Yield | Holdings | Charge |
|---|---|---|---|---|---|
| Global | Vanguard USD Corporate Bond | 4 | 4.00% | 8982 | 0.09% |
| UK | ishares £ Corporate Bond 0-5Year | 3 | 2.37% | 410 | 0.20% |
| US | Invesco US Treasury Bond 1-3 Year | 2 | 3.38% | 96 | 0.06% |
| Eur | Vanguard EUR Corporate Bond | 3 | 1.99% | 3213 | 0.09% |

There are risks associated with ETFs, as with any other investment product. Those risks are linked to the index components, for example; market, currency, counterparty, credit, operational etc. Details of the risks can be viewed on the Key Investor Information Documents. The value of investments and the income from them can fall as well as rise and you may not get back the amount invested. Figures correct as at 04.07.2023.

Vanguard

# Investment costs 'Ready Reckoner'

## Costs matter

Costs, like interest, have a compounding effect over time. They can have a dramatic impact on investment returns, one that's not always obvious or transparent.

## Uncovering the effect of costs

In order to clearly see and understand the true importance of costs, we've constructed this `Ready Reckoner' which shows the impact of Annual Management Charges (AMC) / Ongoing Charges Figure (OCF)* over time.

## Assume neutral growth

We've assumed neutral growth so that the compounding effect of costs is readily apparent and not obscured by investment returns (either positive or negative). Note how a low-cost portfolio, such as 0.2%, has over 95% of the capital after 25 years, while a high-cost portfolio, say 2%, has eroded by almost 40%.

| AMC/OCF (%) | Percentage of portfolio retained after costs | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Years | | | | | | | |
| | 1 | 3 | 5 | 10 | 15 | 20 | 25 | 30 |
| 0.10 | 99.90 | 99.70 | 99.50 | 99.00 | 98.51 | 98.02 | 97.53 | 97.04 |
| 0.15 | 99.85 | 99.55 | 99.25 | 98.51 | 97.77 | 97.04 | 96.32 | 95.60 |
| 0.20 | 99.80 | 99.40 | 99.00 | 98.02 | 97.04 | 96.08 | **95.12** | 94.17 |
| 0.25 | 99.75 | 99.25 | 98.76 | 97.53 | 96.31 | 95.12 | 93.93 | 92.77 |
| 0.30 | 99.70 | 99.10 | 98.51 | 97.04 | 95.59 | 94.17 | 92.76 | 91.38 |
| 0.35 | 99.65 | 98.95 | 98.26 | 96.55 | 94.88 | 93.23 | 91.61 | 90.02 |
| 0.40 | 99.60 | 98.80 | 98.02 | 96.07 | 94.17 | 92.30 | 90.47 | 88.67 |
| 0.45 | 99.55 | 98.66 | 97.77 | 95.59 | 93.46 | 91.37 | 89.34 | 87.34 |
| 0.50 | 99.50 | 98.51 | 97.52 | 95.11 | 92.76 | 90.46 | 88.22 | 86.04 |
| 0.55 | 99.45 | 98.36 | 97.28 | 94.63 | 92.06 | 89.56 | 87.12 | 84.75 |
| 0.60 | 99.40 | 98.21 | 97.04 | 94.16 | 91.37 | 88.66 | 86.03 | 83.48 |
| 0.70 | 99.30 | 97.91 | 96.55 | 93.22 | 90.00 | 86.89 | 83.89 | 81.00 |
| 0.80 | 99.20 | 97.62 | 96.06 | 92.28 | 88.65 | 85.16 | 81.81 | 78.59 |
| 0.90 | 99.10 | 97.32 | 95.58 | 91.36 | 87.32 | 83.46 | 79.77 | 76.24 |
| 1.00 | 99.00 | 97.03 | 95.10 | 90.44 | 86.01 | 81.79 | 77.78 | 73.97 |
| 1.10 | 98.90 | 96.74 | 94.62 | 89.53 | 84.71 | 80.15 | 75.84 | 71.76 |
| 1.20 | 98.80 | 96.44 | 94.14 | 88.63 | 83.44 | 78.55 | 73.95 | 69.62 |
| 1.30 | 98.70 | 96.15 | 93.67 | 87.73 | 82.18 | 76.97 | 72.10 | 67.53 |
| 1.40 | 98.60 | 95.86 | 93.19 | 86.85 | 80.94 | 75.43 | 70.29 | 65.51 |
| 1.50 | 98.50 | 95.57 | 92.72 | 85.97 | 79.72 | 73.91 | 68.53 | 63.55 |
| 1.60 | 98.40 | 95.28 | 92.25 | 85.10 | 78.51 | 72.43 | 66.82 | 61.64 |
| 1.70 | 98.30 | 94.99 | 91.78 | 84.24 | 77.32 | 70.97 | 65.14 | 59.79 |
| 1.80 | 98.20 | 94.70 | 91.32 | 83.39 | 76.15 | 69.54 | 63.50 | 57.99 |
| 1.90 | 98.10 | 94.41 | 90.85 | 82.54 | 75.00 | 68.14 | 61.90 | 56.24 |
| 2.00 | 98.00 | 94.12 | 90.39 | 81.71 | 73.86 | 66.76 | **60.35** | 54.55 |
| 2.10 | 97.90 | 93.83 | 89.93 | 80.88 | 72.73 | 65.41 | 58.83 | 52.90 |
| 2.20 | 97.80 | 93.54 | 89.47 | 80.06 | 71.63 | 64.09 | 57.34 | 51.31 |
| 2.30 | 97.70 | 93.26 | 89.02 | 79.24 | 70.54 | 62.79 | 55.89 | 49.76 |
| 2.40 | 97.60 | 92.97 | 88.56 | 78.43 | 69.46 | 61.52 | 54.48 | 48.25 |
| 2.50 | 97.50 | 92.69 | 88.11 | 77.63 | 68.40 | 60.27 | 53.10 | 46.79 |
| 2.60 | 97.40 | 92.40 | 87.66 | 76.84 | 67.36 | 59.04 | 51.76 | 45.37 |
| 2.70 | 97.30 | 92.12 | 87.21 | 76.06 | 66.33 | 57.84 | 50.45 | 43.99 |
| 2.80 | 97.20 | 91.83 | 86.76 | 75.28 | 65.31 | 56.67 | 49.17 | 42.66 |
| 2.90 | 97.10 | 91.55 | 86.32 | 74.51 | 64.31 | 55.51 | 47.92 | 41.36 |
| 3.00 | 97.00 | 91.27 | 85.87 | 73.74 | 63.33 | 54.38 | 46.70 | 40.10 |

*The AMC / OCF covers the fund manager's costs of managing the fund. It does not include dealing costs or additional costs such as audit fees.

**Investment risk information**

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

**Important information**

**Vanguard only gives information on products and services and does not give investment advice based on individual circumstances. If you have any questions related to your investment decision or the suitability or appropriateness for you of the product[s] described in this document, please contact your financial adviser.**

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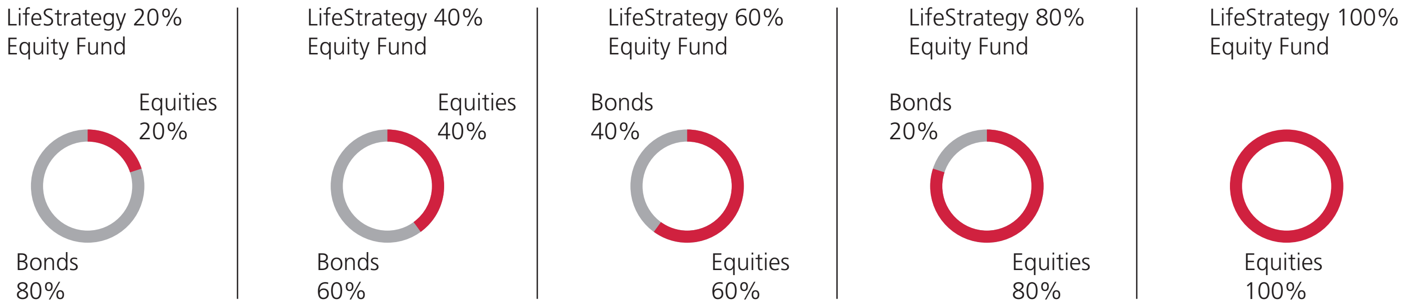
# Vanguard LifeStrategy

Vanguard LifeStrategy is designed to provide clear value to investors and advisers alike. Their flagship multi-asset range includes five different equity-to-bond ratios, from 20% equity to 100% equity, each designed to cater for different client goals and preferences. Through a single multi-asset solution, you can access up to 24,000 securities in 45+ countries and more than 35 currencies across a broad range of index funds. These are regularly rebalanced to keep investments aligned with clients' financial goals.

Vanguard is a global leader in providing multi-asset solutions for investors. With £750 billion invested in their multi-asset solutions around the world, they have a proven track record of developing, risk-managing and overseeing multi-asset funds. The key feature that all their multi-asset solutions have in common is their outward simplicity. Multi-asset investing does not need to be complicated. In their view, a straightforward, diversified, low-cost approach should serve their investors well.

One of the best features of this product is the choice of Equity to Bond split. You can choose from one or more of the following options:




| | | |
|---|---|---|
| For shorter term investing (3-5 years)* and investors with less tolerance for risk | For medium to longer term investing (5+ years) and investors with a moderate tolerance for risk | For longer term investing (10+ years) and investors with a higher tolerance for risk |

LifeStrategy is designed to deliver a diversified exposure to global equity and fixed income markets, using Vanguard index funds as the building blocks. This gives you a wide choice of options depending on your attitude towards risk and allows you to choose which suits you best for your circumstances, wants and needs. Alongside choice, the LifeStrategy fund charge is very low. In fact, at 0.22% p.a. for the fund charge, this offers extremely good value for the client. Compare that to a typical charge of a managed fund on a platform like Fidelity FundsNetwork, you would be paying approximately 0.87% p.a. and on a directly managed fund you would be paying around 1.5% p.a.!

### Why are these funds so cheap?

As these are passively managed index funds (no Fund Manager or investment team to pay) you only pay around a quarter of what you would in a managed fund! This will have a huge effect on your returns as shown in the previous Vanguard Ready Reckoner document.

# Tactical asset allocation
# - A recipe for disappointment

## The Argument for a multi-asset global spread

When taking a global approach to investing, it's worth looking back at what were the best and worst performing sectors over the years. This document shows why it's not easy to pick the next best thing and why maybe a diversified global approach could definitely spread the risk of an unfortunately timed investment into one sector or geographical area.

Betting on a winning asset class and timing it to maximise returns is very difficult to do. The chart below shows the performance of various asset classes over the past ten years. You can see that persistence among asset classes is fleeting, with top-performing investments from one year often falling to the bottom of the rankings in subsequent years. For example, if you invested in European equities in early 2014 following a period of strong returns, you would have been disappointed to see the asset class fall to the bottom of the rankings that year.

Key bond and equity index returns (%), ranked by performance

| 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| 28.3 | 19.6 | 8.8 | 35.4 | 21.1 | 0.8 | 26.5 | 16.4 | 28.1 | 0.3 |
| 24.0 | 18.8 | 5.5 | 34.1 | 17.2 | 0.5 | 22.3 | 13.0 | 20.0 | -3.3 |
| 21.0 | 14.6 | 5.3 | 29.6 | 16.9 | 0.1 | 21.2 | 12.8 | 18.3 | -6.4 |
| 20.8 | 12.5 | 4.0 | 25.5 | 13.8 | -0.4 | 19.2 | 11.9 | 17.6 | -7.3 |
| 13.6 | 11.3 | 1.4 | 25.4 | 13.1 | -2.2 | 15.9 | 11.3 | 4.0 | -8.8 |
| 1.6 | 7.9 | 1.0 | 21.2 | 11.3 | -3.4 | 14.0 | 9.1 | 2.5 | -9.4 |
| 0.6 | 7.9 | 0.7 | 16.8 | 4.9 | -7.6 | 11.0 | 8.9 | 1.0 | -12.2 |
| 0.0 | 2.8 | 0.5 | 12.3 | 2.4 | -8.0 | 7.1 | 7.8 | -1.5 | -19.3 |
| -4.2 | 1.2 | -1.1 | 10.7 | 2.0 | -9.1 | 6.5 | 5.0 | -3.3 | -25.1 |
| -5.3 | -1.4 | -10.3 | 3.7 | 1.9 | -9.5 | 6.3 | -9.8 | -5.3 | -34.5 |

Top-performing asset class

Bottom-performing asset class

Past performance is not a reliable indicator of future results.

- Global equities
- North American equities
- Emerging market equities
- Developed Asia equities
- European equities
- UK equities
- UK government bonds
- UK index-linked gilts
- UK investment grade corporate bonds
- Hedged global bonds

Source: Vanguard calculations, data from 1 January 2012 to 31 December 2022, using data from Barclays Capital and Thompson Reuters Datastream and FactSet. Global equities as the FTSE All World Index, North American equities as the FTSE World North America Index, Emerging market equities as the FTSE All-World Emerging Index, Developed Asia equities as the FTSE All World Developed Asia Pacific Index, European equities as the FTSE All World Europe ex-UK Index, UK equities is defined as the FTSE All Share Index, UK government bonds as Bloomberg Sterling Gilt Index, UK index-linked gilts as Bloomberg UK Govt Inflation-Linked UK Index, UK investment grade corporate bonds as Bloomberg Sterling Aggregate Non-Gilts - Corporate Index, Hedged global bonds as Bloomberg Global Aggregate Index (hedged in GBP). Performance shown is cumulative and denominated in GBP. It includes the reinvestment of all dividends and any capital gains distributions. The performance data does not take account of the commissions and costs incurred in the issue and redemption of shares.

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

# Summary and benefits of LifeStrategy

## 45 years of experience since they were founded in 1975

Vanguard has consistently driven innovation in the investment market. They are one of the largest asset managers in the world with almost £6 trillion in assets under management. They have been managing multi-asset funds since 1994 with £750 billion in assets under management.

Source: Vanguard, data as at 30 April 2022

LifeStrategy offers:

- Choice - 5 choices of Equity to Bond split depending you your risk and your circumstances. These are all also available in accumulation or income units should you with to take an income from the fund.
- Huge global diversification - up to 24,000 securities in 45+ countries and more than 35 currencies across a broad range of index funds
- Low Charges - 0.22% Fund charge, a quarter of a typical managed fund
- Reputation - Vanguard is a name you can trust and with £6 trillion under management, this makes them one of the worlds largest asset managers. Vanguard's scale and ownership structure helps them keep costs low. With no shareholders to please, they can return their profits to investors through lower costs. As they gain more investors and their assets under management grow, they can reduce expense ratios further for their investors.

If you would like to receive more information on the Vanguard LifeStrategy products or would like a quote, please call or email us. All LifeStrategy options are available via Fidelity FundsNetwork or Aegon and as usual there are no upfront charges through Elson.

# Economic update

## Persistent inflation is a worldwide challenge

Andrew Patterson
- Senior International Economist, Vanguard

**In the second half of 2023, we anticipate further worldwide economic challenges in the mid-year update to our economic and market outlook.**

- Developed market economies have proved resilient in the face of persistent inflation, tight labour markets and rising policy interest rates. But we anticipate some economic weakness in the months ahead.
- Central banks have needed to raise monetary policy rates higher than we had anticipated. The last leg of inflation reduction to target levels may be the most challenging, in our view.
- Equity and bond markets worldwide have generally recorded positive returns since the start of the year - for most investors around the world, the gains have pushed our expected return forecasts slightly lower.

The themes we highlighted in this Vanguard Economic and Market Outlook for 2023: Beating Back Inflation-persistent inflation, tight labour markets and rising policy interest rates-remain at mid-year. Developed market economies have proved resilient. Labour markets have remained strong, leading to slower-than-expected disinflation. Wage pressures have moderated but remain persistent, especially in service industries. As a result, central banks have needed to raise monetary policy rates somewhat higher than we had anticipated.

We expect continued progress in the fight against inflation, with central banks having to keep interest rates in restrictive territory for longer. And with that, we anticipate some economic weakness to come in the months ahead.

### The last mile to tame inflation may take some time

There's been progress in the fight against inflation. But it's too early to declare victory. Vanguard foresees developed market core inflation (which excludes food and energy prices) continuing to fall through to the end of 2023 from recent generational highs. But we expect it will only be late 2024 or even 2025 before inflation falls back to central banks' target levels, which are mostly around 2%.

We believe central banks have more work to do. We've always believed inflation wouldn't come down magically, even as post-pandemic supply chain issues were resolved. The pandemic accelerated demographics-driven changes to labour markets. Strong demand for workers who can command higher pay than historical standards requires monetary policy that is clearly restrictive. The last leg of inflation reduction to central bank targets may be the most challenging, in our view.

That last leg is also likely to vary by region. The initial catalysts for the surge in inflation were global in nature, and the pace at which inflation travels that last mile to the target level will depend more heavily on local drivers: how restrictive policy tightening is in each country or region, as well as local demand, labour market and housing dynamics.

### Inflation and monetary policy elevate the risk of recession

In the United States, policymakers have paused in what had been a relentless cycle of rate hikes - but the US Federal Reserve (Fed) has hinted they will resume lifting rates.

The recovery from the shortest recession in more than 150 years-a two-month downturn in early 2020-has endured one of the most aggressive interest rate-hiking cycles in the Fed's history. Recent growth has been stable at about 2%, annualised. We still assign a high probability to a recession, though the odds have risen that it could be delayed from 2023 to 2024. Housing inflation should slow in the second half of 2023 and return to its pre-pandemic pace by 2024. Slowing momentum in labour markets should also lower ex-housing services inflation later this year.

In our initial outlook for 2023, we described a weakening of the labour market (along with slowing growth) as a necessary condition for falling rates of inflation. The labour market has had its own idea, remaining resilient even as disinflation has continued. Unemployment remains below 4%, where it stood when the Fed started its current rate-hiking cycle. We continue to expect some softening.

Given the long and variable lags between monetary policy shifts and discernible changes in economic activity, Fed policymakers could decide that the 500 basis points (5 percentage points) of interest rate hikes they've enacted since March 2022 are enough to knock inflation down to their 2% target. But we view at least one more rate increase as probable.

## Euro area and the UK

In the euro area, we expect the slight economic contraction in the fourth quarter of 2022 and the first quarter of 2023, likely caused by the energy crisis, to give way to a new but short-lived expansion. Another downturn is likely to arrive this year or next, as the lagged effects of monetary policy tightening are realised.

By any measure, euro area inflation has declined meaningfully. Falling energy prices should help the headline inflation rate to ease further in the coming months. Service-price inflation, linked to wage growth, is stickier and central to our expectation that core inflation will end 2023 at 3.3%, still well above the European Central Bank's (ECB's) 2% target.

The ECB has hiked interest rates by 400 basis points (4 percentage points) in 12 months, and we expect one or two additional increases in 2023. Currently at 3.5%, a deposit rate of 3.75%–4% would represent a restrictive policy stance (the deposit rate is the annualised rate of interest paid by the ECB on banks' overnight deposits). It would exceed our inflation forecast and be more than twice our 1.5%–2% estimate of the region's neutral rate of interest, a theoretical rate that neither stimulates nor inhibits growth.

After peaking in 2020 at 8.6% amid the Covid-19 pandemic, the unemployment rate eased to 6.5% in April 2023. We foresee a partial retracement to 7%–7.5% by year-end, as the ECB's inflation-fighting campaign passes the one-year mark.

As in other markets, we've been surprised by the resilience of the United Kingdom economy. Our initial forecast of a 2023 contraction in the production of goods and services has given way to an estimate of no year-over-year change in output. As elsewhere, we believe a recession remains more likely than a soft landing.

By a variety of measures, notably rates of employment and wage growth, the UK labour market displayed strength in the opening months of 2023. Yet consumers have not been confident about future employment. We expect a modest rise in unemployment in the second half of the year, to 4%–4.5% at year-end.

Strengthening services inflation has driven core inflation in the UK to more than 30-year highs, whereas core inflation is retreating in many other developed markets. We expect core services inflation to drive broader headline inflation in the year ahead as price increases for food, energy and other goods wane. We expect both core and headline inflation in the UK to average 5.3% in 2023, more than a percentage point higher than our view at the start of the year.

We've recently raised our forecast for the Bank of England's terminal rate by three-quarters of a percentage point, to a year-end level of 5.5%–5.75%, given stronger-than-expected inflation data, the continued tight labour market and accelerating wage growth. We maintain our view that rates will not be cut until mid-2024 at the earliest.

## China and emerging markets

In China, we now expect year-over-year economic growth of 5.5%–6% in 2023, more than we anticipated at the start of the year. But the bulk of those gains have already occurred, meaning that growth is likely to slow in the second half of the year. Full-year growth above a conservative government target is likely, but three years of policy uncertainty will weigh on confidence.

The labour market has improved steadily since China's post-pandemic reopening, with the headline unemployment rate declining to 5.2%. However, youth unemployment has climbed to a record high, posing a downside risk to growth. We forecast a year-end headline rate of unemployment of 4.7%.

Lower energy and pork prices have contributed to weak inflation readings. A rebound later this year is likely as credit demand strengthens and food and energy prices stabilise. Still, we have nearly halved our initial inflation forecast, to 1% on a year-over-year basis at year-end.

A recent cut to 2.65% for the key 1-year medium-term lending facility by the People's Bank of China should have little tangible economic effect. We believe an additional 10–20 basis points (0.1–0.2 percentage point) of cuts are likely. But China's challenge is a lack of demand for money, not a lack of supply. The likelihood of aggressive fiscal stimulus is low because of an increasing local government debt burden.

Our perception of economic conditions in emerging markets varies by region. In Latin America, inflation appears to have peaked, but we expect central banks to lower their interest rate targets slowly. Meanwhile, the challenges facing the euro area and the UK are magnified in developing Europe. We expect growth of around 1% in 2023 and just below that level in 2024 in the greater Central Europe and Africa regions and core inflation to remain in double digits. We expect emerging Asia to boast sharply higher growth than the rest of the world's emerging markets, with growth of 5.25% this year, cooling somewhat to 5% in 2024.

## Slow but sure progress on inflation


Notes: We use year-over-year changes to the core consumer price index (CPI) for all locations. Year-end 2023 figures are Vanguard forecasts.

Sources: Vanguard calculations, using data from the US Bureau of Labor Statistics, Eurostat, and the UK Office for National Statistics accessed through Macrobond on 15 June 2023.

## Vanguard's forecasts for year-end 2023

| | 2023 economic growth | 2023 inflation |
|---|---|---|
| **United States** | 0.75% | 3.3% |
| **Euro area** | 0.5% | 3.3% |
| **United Kingdom** | 0% | 4.9% |
| **China** | 5.5%-6% | 1% |

Please note that inflation forecasts are for core inflation, which excludes volatile energy and food prices. Our forecast for the United States year-end monetary policy rate reflects the low end of the Federal Reserve's federal funds target range. Notes: Figures related to economic growth, inflation, monetary policy and unemployment rate are Vanguard forecasts for the end of 2023. Growth and inflation are comparisons with the end of the preceding year; monetary policy and unemployment rate are absolute levels.

Source: Vanguard, as at 26 June 2023.

## Expected 10-year asset class returns

Equity markets around the world generally have rallied strongly-with the notable exception of China, the dominant emerging market by total value-since we issued Vanguard Economic and Market Outlook for 2023: Beating Back Inflation. For most investors around the world, the gains have reduced the expected returns of global equities excluding local markets.

Bond markets worldwide also generally have recorded solid gains-if only in nominal, not inflation-adjusted terms-since late 2022. Relative to our initial forecast, expected returns have generally declined slightly.

Bucking the global trend of strong equity and solid bond performance, markets in the UK struggled in the first half of 2023. Falling equity valuations and rising bond yields boosted our expectations for 10-year annualised returns in British pounds. Widening interest rate differentials between the UK and the US improved the outlook for global equities and bonds excluding British issues.

### IMPORTANT:

The projections and other information generated by the Vanguard Capital Markets Model (VCMM) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for each modeled asset class. Simulations are as at 31 December 2021; 31 December 2022; and 31 May 2023. Results from the model may vary with each use and over time.

### Note:

Figures are based on a 2-point range around the 50th percentile of the distribution of return outcomes for equities and a 1-point range around the 50th percentile for fixed income. Indices used in VCMM calculations: UK equities: Bloomberg Equity Gilt Study from 1900 to 1964, Thomson Reuters Datastream UK Market Index from 1965 to 1969; MSCI UK thereafter; global ex-UK equities: S&P 90 Index from January 1926 to 3 March 1957; S&P 500 Index from 4 March 1957 to 1969; MSCI World ex-UK Index from 1970 to 1987; MSCI AC World ex-UK thereafter; UK aggregate bonds: Bloomberg Sterling Aggregate Bond Index; Global ex-UK bonds: Standard & Poor's High Grade Corporate Index from 1926 to 1968, Citigroup High Grade Index from 1969 to 1972, Lehman Brothers US Long Credit AA Index from 1973 to 1975, Bloomberg US Aggregate Bond Index from 1976 to 1990, Bloomberg Global Aggregate Index from 1990 to 2001; Bloomberg Global Aggregate ex GBP Index thereafter.

Source: Vanguard.

# Leaders, Laggards and Losers

## Our very own unique fund performance rating system

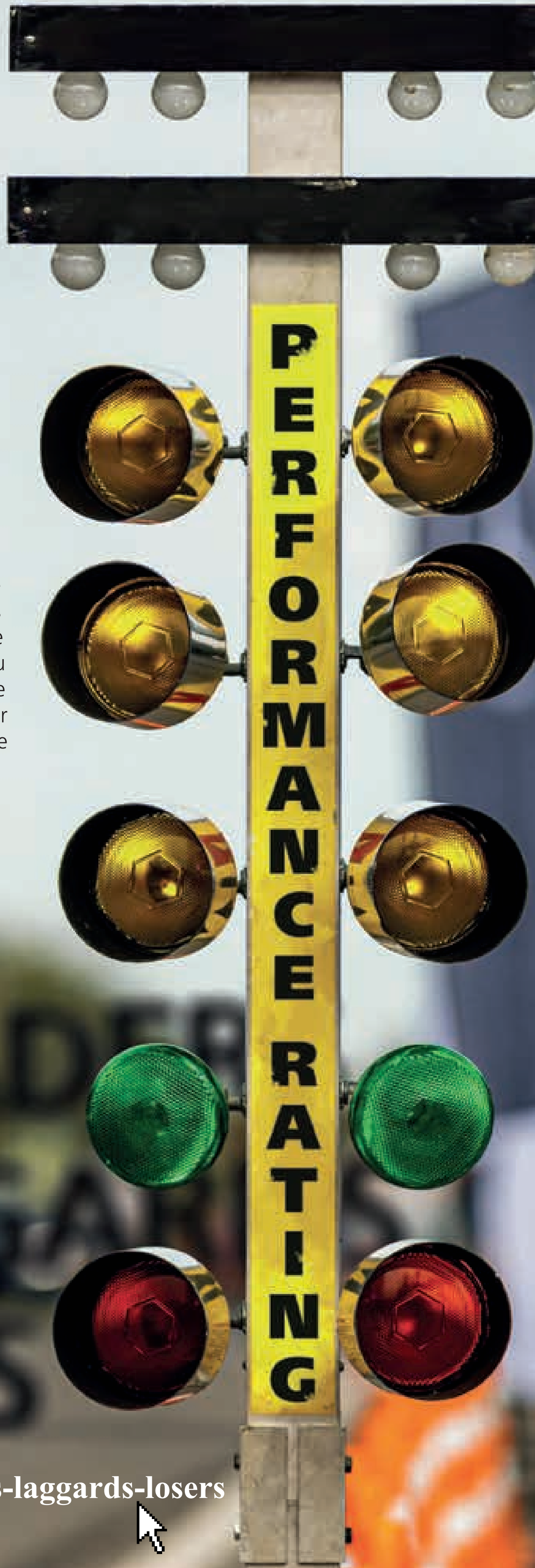
This helpful online tool, designed by ourselves, provides a rating for over 2,000 funds highlighting both the out-performers and underachievers over a three year period. You'll now be able to see at the click of a button just how well (or badly) your funds are doing compared to their peers, highlighting both the out-performers and underperformers, relative to their sector averages over the past three years. To be a Leader, a Laggard or a Loser, your fund must fulfil certain criteria. Its category rating will be arrived at by looking not only at its relative performance over a full three year period but also how consistently it has either out-performed or under-performed its sector average in each of the last three discrete one year periods.

Many funds won't meet the criteria to be classified as a Leader, Laggard or Loser. These funds will appear in the 'Others' category. This simply means a fund's performance is not good enough to achieve the status of a Leader, but neither is it so poor as to appear in the Laggards or Losers list.

There are literally thousands of funds on the market and to be honest, there is no way of predicting how any of these funds will perform in the future, despite how well or poorly they've performed in the past. There are so many factors that could affect performance going forward and there are no guarantees as to what lies ahead.

**On pages 15 and 16 we've listed the Leaders in some of the more popular sectors.**

If you would like more information and a more comprehensive and detailed overview of this tool, please visit our website www.elsonassociates.com. If you do not have internet access, we will be happy to send you a paper copy of whichever sector(s) you are interested in.




**www.elsonassociates.com/leaders-laggards-losers**

## Leaders

# Global Equity Income Sector

| Company | Fund | Perf. 36m | Crown rating |
|---|---|---|---|
| Royal London Unit Tst Mgrs Ltd | Global Equity Income M I | 55.73% | FE fundinfo Crown Fund Rating |
| Invesco Fund Managers Ltd | Global Equity Income UK Z Acc | 51.18% | FE fundinfo Crown Fund Rating ♛♛ |
| JP Morgan Asset Management UK | Global Equity Income C Acc | 50.35% | FE fundinfo Crown Fund Rating ♛♛♛♛♛ |
| Scottish Wid UT Mgr Limited | Fundamental Index Global Equity X | 49.76% | FE fundinfo Crown Fund Rating |
| T. Bailey Fund Srvs Ltd (ACD) | Saracen Global Income & Growth B Acc | 48.44% | FE fundinfo Crown Fund Rating ♛♛♛ |
| Fidelity International (FIL In | Sustainable Global Equity Income W Acc | 47.28% | FE fundinfo Crown Fund Rating ♛♛♛♛♛ |
| M&G UK | Global Dividend I Acc GBP | 45.70% | FE fundinfo Crown Fund Rating ♛♛♛♛ |

## Leaders

# Europe Excluding UK Sector

| Company | Fund | Perf. 36m | Crown rating |
|---|---|---|---|
| Brook Asset Management | Continental European I Acc | 76.15% | FE fundinfo Crown Fund Rating ♛♛♛♛ |
| Liontrust | European Dynamic I Inc | 68.96% | FE fundinfo Crown Fund Rating ♛♛♛♛♛ |
| Schroder UT Managers | European Recovery Z Acc | 56.60% | FE fundinfo Crown Fund Rating ♛♛♛ |
| Invesco Fund Managers Ltd | European Focus UK Z Acc | 54.80% | FE fundinfo Crown Fund Rating ♛♛♛♛♛ |
| Invesco Fund Managers Ltd | European Equity (UK) Z Acc | 45.98% | FE fundinfo Crown Fund Rating ♛♛♛ |
| Artemis Fund Managers Limited | SmartGARP European Equity I Acc | 45.28% | FE fundinfo Crown Fund Rating ♛♛ |
| EdenTree Investment Management | Responsible & Sustainable European Equity B | 40.42% | FE fundinfo Crown Fund Rating ♛♛♛♛ |
| JP Morgan Asset Management UK | European Dynamic Ex UK C Acc | 38.50% | FE fundinfo Crown Fund Rating ♛♛♛♛ |
| JP Morgan Asset Management UK | European Sustainable Equity C Acc | 35.78% | FE fundinfo Crown Fund Rating ♛♛♛ |
| Santander Asset Mgmt UK Ltd | Europe Ex UK Equities A | 34.06% | FE fundinfo Crown Fund Rating ♛♛♛♛ |



LEADERS LAGGARDS LOSERS

## Leaders

# North America

### Sector

| Company | Fund | Perf. 36m | Crown rating |
|---|---|---|---|
| Franklin Templeton Fund Mgt Lt | ClearBridge US Value W Acc GBP | 66.47% | FE fundinfo Crown Fund Rating ♛♛♛♛♛ |
| BlackRock | US Dynamic D Acc | 51.09% | FE fundinfo Crown Fund Rating ♛♛♛♛♛ |
| UBS Asset Mgmt Funds Ltd | US Equity C Acc | 47.87% | FE fundinfo Crown Fund Rating ♛♛♛♛ |
| Vanguard Investments UK Limite | US Equity Index A £ | 41.71% | FE fundinfo Crown Fund Rating |

## Leaders

# UK All Companies

### Sector

| Company | Fund | Perf. 36m | Crown rating |
|---|---|---|---|
| Aberdeen Standard Investments | UK Value Equity P1 A £ | 67.32% | FE fundinfo Crown Fund Rating ♛♛ |
| Invesco Fund Managers Ltd | UK Opportunities (UK) Z Acc | 64.64% | FE fundinfo Crown Fund Rating ♛♛♛♛ |
| Artemis Fund Managers Limited | SmartGARP UK Equity I Acc | 60.50% | FE fundinfo Crown Fund Rating ♛♛♛♛ |
| Schroder UT Managers | Cazenove Charity Equity Value Z Inc | 57.65% | FE fundinfo Crown Fund Rating ♛♛♛ |
| JO Hambro Capital Management | UK Dynamic A Acc | 49.02% | FE fundinfo Crown Fund Rating ♛♛ |
| Jupiter Unit Trust Mgrs Ltd | UK Alpha I Acc £ | 41.12% | FE fundinfo Crown Fund Rating ♛♛ |
| Man Fund Management UK Limited | Undervalued Assets Professional C Acc | 40.86% | FE fundinfo Crown Fund Rating ♛ |
| Schroder UT Managers | Prime UK Equity Institutional Acc | 38.81% | FE fundinfo Crown Fund Rating ♛♛♛ |
| Lazard Fund Managers | UK Omega C Acc | 38.62% | FE fundinfo Crown Fund Rating ♛♛♛ |
| AFH Wealth Management | AFH DA UK Alpha R | 37.80% | FE fundinfo Crown Fund Rating ♛♛ |

# Receive £100...

## and more with Elson ***Friends & Family***

Do you know anyone who might want to take advantage of our investment discount service? If so then we would love to reward you! If someone you refer to us takes out a new investment, ISA Transfer or an Agency Appointment for at least £20,000, then we will send you a cheque for **£100.00**. There is **no limit** to the amount of **£100.00** cheques that you could receive so long as each new client that you introduce has no previous business through us.

All you need to do is provide us with your name and client number below and complete the details of the person you wish to refer. They will then receive an information pack and if they proceed with a qualifying investment, you will automatically receive your cheque for **£100.00**. If you have any questions regarding this new service, please do not hesitate to contact us on **FREEPHONE 0800 0961111**.

Please note - this is a new service and we are unable to offer introductory fees retrospectively for any previous referrals.

### Your Details

Name:

Client No.:

### Friends/Family Details

Name:

Address:

Postcode:

Name:

Address:

Postcode:

Please tear off this page ensuring your name, client number and friends/family details are correct and return it to us in the enclosed FREEPOST envelope.

# Win £1,000

Elson

Do you enjoy the challenge of puzzle solving? If so, why not have a go at the Sudoku puzzle opposite. You don't even need to invest to be in with a chance of winning our £1,000 cash prize!

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 9 | | | | | 6 | | 8 | 4 |
| | | 6 | | | 1 | | | |
| 3 | | | 8 | | | | | |
| | | 5 | | | | 1 | 9 | |
| | 1 | | | 8 | | | 4 | |
| | 7 | 9 | | | | 6 | | |
| | | | | | 4 | | | 9 |
| | | | 2 | | | 7 | | |
| 2 | 9 | | 7 | | | | | 5 |

**Name:** 

**Client No:** 

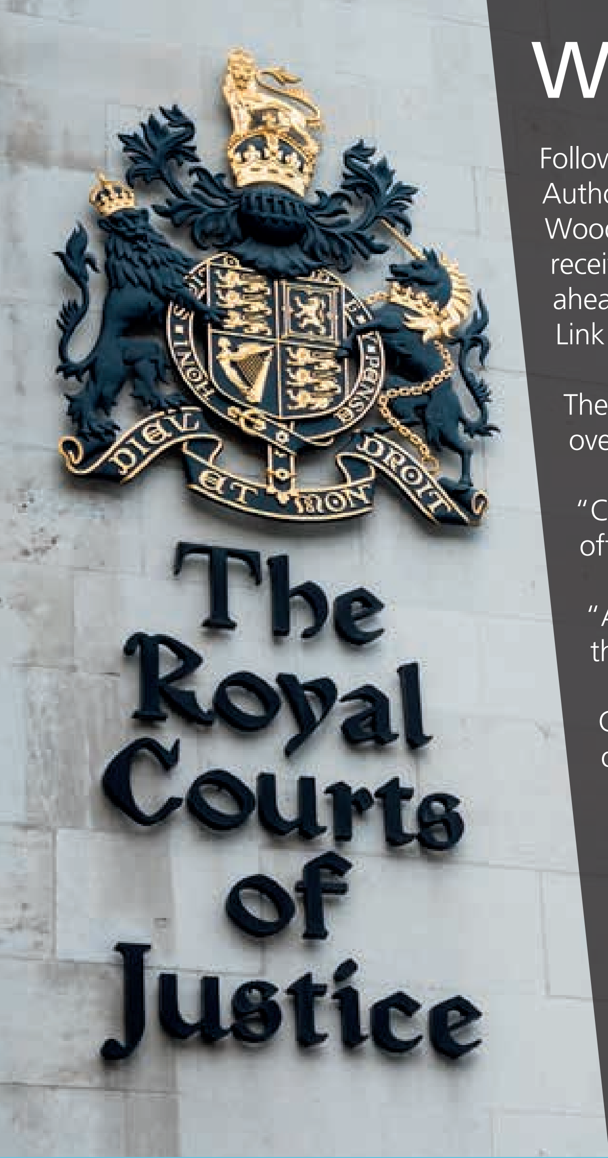
### How to play

If you're not familiar with Sudoku, let me briefly explain. Put simply, Sudoku is a number-placement puzzle based on a square grid, typically 9 squares by 9, giving 81 squares in all. The puzzle is further divided (by bold gridlines) into 9 boxes or 'regions', each a square measuring 3 squares by 3. Figures from 1 to 9 (known as 'givens') are already inserted in some of the squares. To complete the puzzle, a player must insert the missing numbers so that each row, each column, and each region contains the numbers 1 to 9 once and once only, without any repeats.

Once you think you have correctly completed the puzzle, tear off this page ensuring your name and client number is correct and return it to us in the enclosed FREEPOST envelope. Please ensure your entry reaches us no later than 29 September 2023.

### Competition Rules

- Entries must reach Elson Associates plc no later than 29 September 2023. By submitting their entry, entrants will be deemed to have agreed to be bound by these rules.
- The winner will be notified personally as soon as practical after the date given above.
- The competition is open to all customers on our database except employees of Elson Associates plc, any other company affiliated with Elson Associates plc including the distribution of this newsletter, or any member of their households.
- There is a limit of one entry per client. Responsibility cannot be accepted for entries lost, damaged or delayed in transit.
- The winning entry will be drawn from those that have correctly completed the Sudoku puzzle.
- No purchase is necessary.
- The reward will be a cheque to the winning entrant for £1,000.
- No other prizes will be awarded.




# Woodford Fund Update

Following hearings in the High Court, the City regulator, the Financial Conduct Authority (FCA) has stated that investors who had money invested in the Woodford Equity Income fund when it was suspended in October 2019 could receive a share of £235m in redress. However, for the redress payment to go ahead it will need the approval of investors and it is dependent on the sale of Link Group's Fund Solutions business.

Therese Chambers, joint executive director of enforcement and market oversight at the FCA has stated the following:

"Creditors for Woodford Equity Income Fund should seriously consider the offer on the table – this is the quickest and best chance to obtain redress".

"Although the redress scheme does not cover all losses, we consider it is in the interests of investors to seriously consider it," she added.

Chambers said the proposed scheme "offers investors the best chance to obtain a better outcome than might be achieved by any other means".

She also warned investors who are considering joining litigation funds to not be led astray by "self-interested" and "unrealistic" offers of recovering more cash.

Subject to gaining shareholder approval and the sale of Link Group's Fund Solutions' business, investors will be notified in writing of the redress payment by Link Fund Solutions. The amount will also show on the quarterly Aegon/Fidelity FundsNetwork statements that are sent to clients by post.

# Consumer duty

Our Regulator, The Financial Conduct Authority, has recently introduced 'The Consumer Duty'. This is a new set of Rules introducing a more outcome-focused approach to consumer protection. The objective is to implement higher expectations for the standard of care that firms give their customers. This comes into effect from 31 July this year and will be available to read on our website. A paper copy will also be available on request should you require one.

'Outcomes' can be improved in a number of ways. For us, our focus as a 'discount broker' has always been to minimise costs for investors happy to make their own decisions. Although we have no control over how an investment will perform, we do know that lower charges equate to better returns. As an example, assuming neutral returns over a 20 year period, a 2% p.a. charge would reduce your investment by around 15% more than a 1% p.a. charge. (source: Vanguard).

So, to ensure you are receiving the best value from us on your ISA investments, we have conducted a review of the charges currently levied on our clients direct ISA holdings through our agency. If applicable, we will shortly be writing to you giving details on how to reduce charges on the existing funds you hold. We've found that in many instances (but not all), holding your investments via a platform, like Fidelity FundsNetwork, rather than directly with a fund manager can lead to significant savings and therefore better outcomes for you.

If you would like to discuss this further please feel free to contact us. We will be happy to see if this applies to you and take you through the process required to start making significant savings.

# Contact us today

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