SCOTTISH WIDOWS HORIZON MULTI-ASSET FUNDS

Performance Update
Quarter 4 2024

SCOTTISH WIDOWS

This information is for UK financial adviser use only and should not be distributed to or relied upon by any other person.

SCOTTISH WIDOWS HORIZON MULTI-ASSET FUNDS

The Scottish Widows Horizon Multi-Asset Fund range consists of five active, globally-diversified, volatility-managed solutions, designed to match five typical risk profiles with a medium to long-term investment focus (five or more years).

They aim to adapt to changing market conditions and provide the right balance of risk and reward to help deliver your clients' retirement and investment goals.

Even though the Horizon Multi-Asset Funds are distinct in their risk profiles and asset allocations, the distinctive investment process provides a consistent and robust governance framework, giving your clients' confidence their investments remain well-placed to meet their needs.

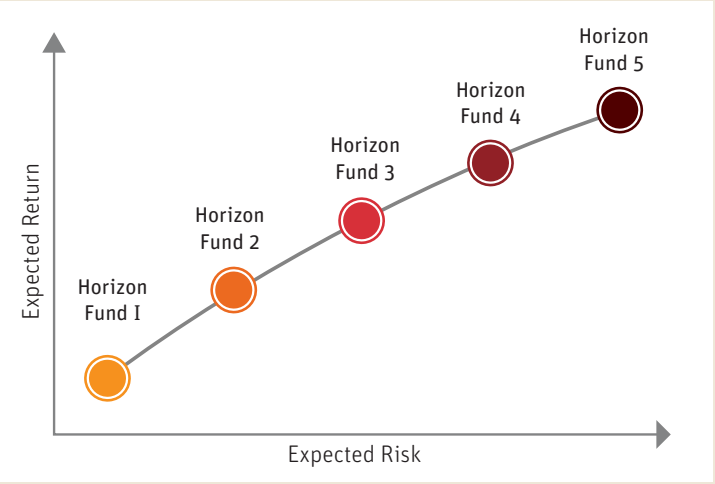
HOW THE FUNDS ARE MANAGED

The Strategic Asset Allocation (SAA) is provided by a leading asset allocation specialist, Evalue (EV), and the Tactical Asset Allocation (TAA) and fund selection is provided by a premier global investment manager, BlackRock. The Horizon Funds use the five strategic weightings of asset classes produced by EV. EV updates its strategic asset weightings every quarter. BlackRock can make tactical changes to the EV asset class weighting. However, all of these decisions are taken in the context of the EV risk models with the aim of ensuring that the funds remain aligned to their risk profiles.

BlackRock adds two layers of active management. Its views on asset allocation is overlaid on that produced from EV and then BlackRock actively selects which underlying funds to include within the tactical asset allocation.

Once the asset allocation is set, BlackRock selects a blend of its in-house active and passive funds and actively managed third-party funds. The aim is to strengthen the depth and breadth of the fund selection universe and align to the risk profiles while maximising possible returns. BlackRock is deliberate in selection and sizing of alpha seeking third-party managers to create an optimal blend within an asset class to build resilient and complementary portfolios by ensuring deliberate and diversified risk-taking and avoiding over-diversification.

RISK PROFILES



Source: Scottish Widows, for Illustrative purposes only.

RISK RATINGS

Fund	Fund Size[1] AUM	EV[2]	Distribution Technology[3]	FinaMetrica		Defaqto Risk Rating[5]
				Growth Assets[4]	Best Fit Risk Comfort Zone[4]	
Horizon 1	£16.3m	1	4	35%	32-48	3
Horizon 2	£104.7m	2	4	43%	49-54	4
Horizon 3	£210.5m	3	5	54%	55-62	5
Horizon 4	£88.7m	4	6	71%	63-76	6
Horizon 5	£60.3m	5	7	95%	77-100	8

Source: [1] Scottish Widows as at 31/12/24. [2] EV's 5-point scale as at 30/09/2024. [3] Distribution Technology as at Q4 2024. [4] © FinaMetrica Pty Ltd. Risk tolerance scores were mapped to the funds' strategic asset allocations as at 30/09/2024. The mappings are only for use by financial advisers licensed to use FinaMetrica's risk profiling system and do not constitute financial advice. Financial advisers must satisfy themselves that the funds' current asset allocations reflect the risk/return expectations of the funds when mapped. Scottish Widows pays FinaMetrica for the mappings in the table. However, these mappings are calculated independently by FinaMetrica. [5] Defaqto is a financial information business. Data as at 05/12/2024.

HORIZON FUNDS ASSET ALLOCATION AS AT 31ST DECEMBER 2024

Horizon Multi-Asset Fund	1	2	3	4	5
Fixed interest[1]					
UK Government Bonds					
• iShares Core UK Gilts UCITS ETF	28.82%	18.49%	0.00%	0.00%	0.00%
• iShares GiltTrak Index Fund	8.12%	0.00%	0.00%	0.00%	0.00%
Corporate Bonds					
• iShares Core £ Corp Bond UCITS ETF	0.04%	9.75%	19.84%	7.19%	0.00%
• Legal & General Active Sterling Corporate Bond Fund	22.06%	22.62%	19.86%	16.25%	3.32%
Equities[2]					
Global Developed Equity					
• Dimensional US Core Equity Fund	0.38%	1.64%	3.07%	3.32%	7.63%
• PGIM Jennison US Growth Fund	0.41%	0.73%	1.71%	1.77%	5.10%
• iShares Core S&P 500 UCITS ETF	0.80%	1.01%	1.46%	4.04%	2.32%
• iShares S&P 500 Equal Weight UCITS	0.71%	0.77%	0.90%	1.23%	1.48%
• iShares Japan Equity Index Fund	4.19%	5.00%	5.79%	5.77%	5.54%
• iShares Core MSCI Japan UCITS ETF	0.00%	0.00%	0.00%	0.00%	0.00%
• BlackRock Continental European Fund	8.57%	8.42%	6.59%	11.51%	15.31%
• iShares Core EURO STOXX 50 UCITS ETF	0.00%	2.15%	6.71%	7.73%	10.49%
• BlackRock Global Unconstrained Equity Fund	6.52%	6.00%	6.41%	4.88%	3.91%
• Dodge & Cox Worldwide Funds - Global Stock Fund	6.14%	5.94%	6.51%	4.92%	6.55%
• BlackRock Sustainable Equity Factor Plus Fund	5.33%	8.33%	8.59%	14.91%	16.05%
Emerging Market Equity					
• Oaktree Emerging Markets Equity Fund	4.59%	5.25%	4.53%	5.93%	2.85%
• iShares Core MSCI EM IMI UCITS ETF	0.00%	2.58%	5.28%	9.43%	17.21%
Cash[3]					
• BlackRock ICS Sterling Liquid Environment Aware Fund	1.62%	1.63%	1.75%	1.57%	1.70%
• Cash	1.69%	-0.30%	1.01%	-0.43%	0.53%
Total Fixed Interest[1]	59.04%	50.86%	39.70%	23.44%	3.32%
Total Equities[2]	37.64%	47.82%	57.55%	75.44%	94.44%
Total Cash[3]	3.31%	1.33%	2.76%	1.14%	2.23%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

MARKET REVIEW

SUMMARY

In the fourth quarter of 2024, the FTSE All World, a representative global equity index, increased 5.9% in sterling terms, but only rose 1.2% in local currency terms, as sterling weakened against the US dollar. Japan and the US were the strongest regional markets, while Europe, the UK and emerging markets lagged. Over 2024 as a whole, the FTSE All World rose 19.3% in sterling terms. Once more, growth outperformed value over the fourth quarter. In bonds, the ICE BofA Global Government Index added 0.4% in sterling terms but fell back 2.1% in local currency terms. Market sentiment was influenced by the US presidential election victory for Donald Trump, which bolstered US shares but negatively impacted other regions concerned about potential trade restrictions. Additionally, the outlook for global growth and the pace of central bank rate cuts also impacted shares over the period.

Crude oil price futures initially gained on fears of an escalation of the conflict in the Middle East. Prices then lost ground as the quarter progressed, but rose in the final week of the period, in part on an ongoing drop in US oil inventories. European natural gas futures soared, amid worries about supply and declining inventories in Europe.

UK equities

The largest UK-listed stocks, as represented by the FTSE 100 Index, fell back 0.2%. Meanwhile, the FTSE All Share Index, which also includes mid- and small-cap stocks, dropped 0.4%. UK quarter-on-quarter (q/q) gross domestic product (GDP) growth stalled in the third quarter, down from 0.4% q/q growth in the previous period. In November, the Bank of England's Monetary Policy Committee (MPC) cut interest rates for the second time in the current cycle, bringing its Bank Rate down 25 basis points (bps) to 4.75%. The reduction was voted for by eight of the nine MPC members. At its December meeting, the MPC decided to keep rates on hold as inflation and wage growth risks increased. The UK inflation rate rose over the period, from 1.7% in September, to hit 2.6% by November, led by prices in recreation and culture, and housing and utilities. Elsewhere in the economy, the unemployment rate rose from 4.0% for the period to end August to settle at 4.3% in September and October. The preliminary estimate of December's UK manufacturing PMI came in at 47.3, missing expectations and falling further into negative territory. If confirmed, this would mark the fifth month of a slowdown in the pace of manufacturing and the third month in contraction, as new orders slowed, and output weakened. The flash figure for November's services sector PMI showed an improvement to reach 51.4 from 50.8 in the previous month. (Note that a PMI figure over 50 indicates expansion.)

US equities

The FTSE North America Index added 9.8% in sterling terms, while it gained just 2.7% in local terms. The technology- and growth-focused Nasdaq Composite Index jumped 15.1% in sterling terms and 7.3% in US dollar terms. US investment markets rose on news of the clear-cut US presidential election outcome. As Donald Trump's Republican Party would now control both the House of Representatives and the Senate, expectations grew that his new government would likely push ahead with a programme that could lead to tax cuts and a reduction in regulation. The Federal Reserve (Fed) cut its benchmark fed funds rate by 25 bps in both November and December, taking it to the 4.25%-4.50% range. There was some disappointment on the back of the December cut, however, as policymakers were now noted to be anticipating fewer rate cuts in 2025, compared with the group's expectations a few months earlier. The Fed also reduced its GDP forecast for 2024, bringing it to 2.0% from 2.5% previously. The final reading of third-quarter gross domestic product (GDP) came in at 3.1% annualised, slightly up on the previous quarter's 3.0%, helped by improved services spending and growth in consumer goods spending. Annual inflation edged up from 2.4% in September to 2.6% in October and 2.7% in November, in part because energy price declines became less steep. September's non-farm payroll saw 255K job additions, on the back of new hires in the food service, health care and government sectors. October's data was weaker-than-expected, coming in at just 12K job additions, compared with expectations for 113K, amid the negative influence of strikes and hurricane disruption. This was subsequently revised higher, to 36K additions. December showed something of a recovery with 227K additions. US manufacturing PMI remained in contraction during the period. Despite almost hitting the 50 level, with a reading of 49.7 in November, the preliminary figure for December edged lower to 48.3, as new orders weakened somewhat. The services PMI, meanwhile, remained in robust expansionary territory.

Europe equities

The FTSE Developed Europe ex UK Index declined 4.1% in sterling terms and moved 3.5% lower in local terms. Spain and Germany gained ground in local-currency terms, while the Netherlands, Switzerland and France weakened. Economic data was broadly lacklustre, while in politics, Germany's coalition government collapsed In October, and France saw ongoing political turmoil. In October, the European Central Bank (ECB) reduced its key interest rates by 25 bps, following cuts in June and September. It then took another 25 bps off its rates in December, amid expectations of an ongoing slowdown in inflation. However, inflation inched up over the period, from 1.7% in September to reach 2.2% by November.

MARKET REVIEW CONTINUED

The eurozone's third-quarter GDP growth saw a slight improvement to hit 0.4% quarter-on-quarter (q/q) expansion, which compared with the previous quarter's rate of 0.2% q/q. Among the larger euro area economies, France saw a 0.4% q/q GDP increase, Germany's rebounded from a contraction in the second quarter to register a 0.1% q/q expansion in the third quarter, while Italy's GDP flatlined. Unemployment in the euro area remained at a new record low of 6.3% over the quarter. Preliminary figures for December's manufacturing PMI for the eurozone remained in contraction – where it has been since 2022 – amid weak new orders. More positively, the early services PMI figure for December rebounded into expansion after contracting during the previous month.

Japan equities

The FTSE Japan Index was up 2.7% in sterling terms and 5.4% in yen terms. Over the quarter, the yen weakened against the US dollar, bolstering certain export-focused sectors. Japan also experienced some political uncertainty as the prime minister announced a snap election that led to the coalition government losing its parliamentary majority. The Bank of Japan (BoJ) maintained its main interest rate at 0.25% following its policy meetings in October and December. The BoJ expects the economy to see a moderate improvement but took a wait-and-see approach as it monitors several potential risks. After slipping from 3.0% in August to register 2.3% by October, annual inflation stepped up in November to hit 2.9% as food prices gained ground. After a preliminary reading of 0.2% q/q expansion, GDP growth was upped to 0.3% q/q in the final figure for the third quarter.

Emerging market equities

The FTSE Emerging Index moved up by just 0.1% in sterling terms and retreated 6.5% in local-currency terms. Progress in emerging market equities was hindered by US-dollar strength and uncertainty about the potential for the incoming US president to impose new trade tariffs. At the country level, Taiwan and Malaysia increased in local terms, while Brazil, China, Indonesia and India declined. After policy moves at the end of the third quarter, China announced further support measures, including a policy designed to speed up bank lending for certain eligible unfinished property projects. China's annual GDP grew 4.6% y/y for the third quarter, compared with the pace of 4.7% y/y in the second quarter. Industrial production remained broadly steady to finish the quarter at 5.4% y/y growth for November. After registering a 12.7% y/y rise in October, potentially on orders being pushed through ahead of any possible US tariff increases in the coming year, export growth slowed to 6.7% y/y in November. Imports saw marginal growth of 0.3% y/y in September, before declining 2.3% and 3.9% in October and November, respectively. The Reserve Bank of India maintained its key interest rate at 6.5% over the period, amid a softening of growth. India posted third-quarter growth of 5.4% y/y, compared with 6.7% y/y in the second quarter and the consensus estimate for 6.5% y/y expansion, as manufacturing and utilities slowed. After its annual inflation overstepped the upper limit of the RBI's tolerance band with a reading of 6.21% in October, it dipped back under with 5.48% in November as food prices eased. The Brazilian real finished the quarter close to record lows against the US dollar. Meanwhile, Brazil's inflation rose steadily over the quarter with a figure of 4.87% in November, as food and beverage prices gained. The country's central bank increased its benchmark interest rate from 10.75% to 12.25% in two steps over the quarter, in part due to rising prices.

Asia Pacific equities

The FTSE Asia Pacific ex Japan Index was down 1.8% and 4.2% in sterling and local terms, respectively. Taiwan, New Zealand and Malaysia gained ground, while Indonesia, China and Korea dropped back in local-currency terms. Indonesia's interest rate was maintained at 6.0% as the central bank aimed for stability in both inflation and the rupiah. Elsewhere, the Korean won lost ground against the US dollar. The Bank of Korea cut its benchmark interest rate twice during the quarter against a lacklustre economic backdrop. The country's third quarter GDP expanded 0.1% q/q versus a small drop in the second quarter. However, Korea's annual inflation stepped up from 1.3% in September to hit 1.9% by November. In Australia, inflation continued to slow in the third quarter, reaching 2.8%. The Reserve Bank of New Zealand reduced rates to 4.25%, with cuts coming in October and November, aided by slowing inflation.

Bonds

In fixed income markets, government bonds were up marginally in sterling terms but fell back in local currency terms. In credit, high yield gained ground in sterling terms, driven by expectations of business-friendly policies from the incoming US administration, while investment grade trailed. In the US, the 10-year Treasury yield rose from 3.79% to 4.57% over the quarter, signalling some fixed income market uncertainty on the future path of rates and inflation. In December, the Fed highlighted the potential for fewer rate cuts than previously expected during 2025. UK gilt yields also increased as did Germany's 10-year bund yield, despite a sharp fall in November. Markets were volatile as central bank decision making and politics were to the fore. Emerging market bond prices fell back.

Property

The FTSE EPRA Nareit Developed Index, a measure of the performance of Real Estate Investment Trusts (REITs), decreased 3.3% in sterling terms and 2.7% in local currency terms. REITs tend to be sensitive to interest rate expectations. During the three months to end-November – the latest period with available figures – the MSCI UK Monthly Property Index advanced 2.4%. The interest rate backdrop appeared to help sentiment improve across the UK commercial property market. Recently, retail warehousing has been a strong subsector and retail investment has picked up. Office availability is tight at the premium end of the market in London.

*All index data are shown in total return sterling.
Source: FE Analytics.

For monthly market reviews and quarterly outlooks go to **Investment Perspectives.**

Q1 MARKET OUTLOOK

OVERVIEW

Though we manage funds for the long term, here are our thoughts on markets as we look forward over the coming quarters.

Global equity markets produced strong returns over the year, with all major regions advancing to varying degrees, in sterling terms. Markets broadly benefited from the policy pivot towards rate cuts at key central banks as inflation softened. The US managed to sustain strong momentum in the fourth quarter, while Japan also advanced in sterling terms. We retain our generally positive view on equities but recognise valuations in the US are full. Expectations for further rate cuts could help support global economic growth and corporate earnings. However, we continue to monitor for potential risks. We believe in having a spread of global equity market exposure.

In fixed income, the potential for credit to outperform is currently limited, in our view. Among government bonds, if rate cuts continue, inflation stays contained and there is a backdrop of modest growth, then we believe shorter-term bonds could adjust towards more conventional positioning on the yield curve. However, if inflation rises once more or interest rate cut expectations falter, then bond markets could see volatility.

UK equities

We believe the UK market remains undervalued relative to some global peers. Economic growth has broadly flatlined, business confidence has dropped, and consumer confidence remains relatively weak. In the short to medium term the market lacks an obvious catalyst to help narrow the valuation gap.

US equities

The US market continued to lead the way in the fourth quarter. The US has kept posting relatively solid economic growth figures, but we remain watchful of elevated stock valuation levels and the recent tempering of interest rate cut expectations. We will also monitor the policies of the new US president for any potential impact on US or international markets.

European equities

European economic growth has started to show some limited signs of life. However, manufacturing data remains solidly in contraction. Despite a small step up in the pace of inflation, it still remains close to the European Central Bank's (ECB's) target level. It is possible that the ECB's relatively aggressive rate cuts help spur an improvement of conditions in the currency bloc, but the potential for trade tariffs and political uncertainty present ongoing risks.

Japanese equities

While other economies are cutting rates, the Bank of Japan is trying to bring interest rates up to normalise its monetary policy. After volatility in the third quarter on interest rate expectations, there could be further market adjustments to come. Meanwhile, the country should still benefit from structural tailwinds such as corporate governance reforms, but its exporters could suffer if international trade is hit by rising tariffs.

Asia/Emerging Markets

The emerging market and Asia regions, led by economies like China and India, play key roles in terms of index composition. Recent stimulus measures provided a boost to the Chinese market, but real-estate market difficulties remain. Meanwhile, India has retreated somewhat from its recent all-time market highs. We believe the emerging market and Asia regions remain attractively valued, and there remains the potential for growth to improve from here.

Developed Market Government Bonds

Government bonds trailed credit during the quarter. The Federal Reserve (Fed), Bank of England and ECB all continued to reduce rates, though rate cut expectations were tempered somewhat by the Fed in the final month of the year. This may limit short-term potential. Further out, we think that the short end of the yield curve may hold the greatest upside.

Credit

Credit markets have outperformed government bonds over the quarter and year. Given spreads are narrow, current upside potential is limited in our view. Our expectation is that bonds – government and credit – will continue to provide diversification and income generation benefits for portfolios, rather than having the potential to be one of the main drivers of returns on a longer term view. However, if there is volatility, near-term opportunities may crop up.

Emerging Market Debt

A number of key emerging economies are running pragmatic fiscal policies and have managed to tame inflation. Emerging market debt (EMD) valuations are relatively attractive. EMD should continue to receive support from a further lowering of interest rates in the US, but if recent US-dollar strength continues, the asset class will likely be hindered in the short to medium term. Idiosyncratic risk on the back of local politics remains something to monitor.

HORIZON MULTI-ASSET FUNDS PERFORMANCE AS AT 31ST DECEMBER 2024

% Annualised Growth	Horizon 1	Horizon 2	Horizon 3	Horizon 4	Horizon 5
Quarter (%)	-1.36	-0.60	0.37	0.65	1.14
1 year (%)	1.67	3.56	5.70	7.49	10.05
3 years (%)	-3.29	-1.52	0.23	0.99	2.07
5 years (%)	-0.40	1.05	2.71	3.82	6.12
Since fund inception (%)	3.24	4.60	6.00	7.19	8.99

Performance source: FE fund info. All performance data as at 31/12/2024. Performance is calculated using bid to bid pricing net of all charges, with net income reinvested, based on Z acc shares, in Pound Sterling. The Scottish Widows Horizon Multi-Asset Funds were launched on 27/03/2015 (as "Zurich Horizon Multi-Asset Funds"). Performance before then is based on the Threadneedle Multi-Asset Zurich Funds, and attributable to Columbia Threadneedle Investments. The Fund may use derivatives to reduce risk or cost or to generate additional capital or income at proportionate risk (known as "Efficient Portfolio Management").

Performance of IA sectors

For comparison purposes only, please see below three mixed-asset Investment Association (IA) sectors. **The Horizon funds are in the IA Volatility Managed sector.** Past performance is not a reliable indicator of future results.

	IA sector			
% Growth	Flexible managed	Mixed investment 20-60% shares	Mixed investment 40-85% shares	Volatility managed
Quarter (%)	1.90	0.06	1.23	0.72
1 year (%)	9.42	6.07	8.98	7.82
3 years (%)	2.17	0.85	1.95	1.68
5 years (%)	4.84	2.62	4.36	3.70
10 years (%)	5.84	3.75	5.54	4.82

Source: Scottish Widows, Financial Express, on a bid-to-bid basis, annualised, total return, tax default, in £s. As at 31st December 2024.

Performance for the Horizon Multi-Asset Funds can vary on factors such as market conditions, the economy, the level of risk you undertake, and the assets in which the funds invest.

PERFORMANCE COMMENTARY

Strategic asset allocation

The strategic asset allocation contributed to positive performance. Allocation to US equity was the largest driver of returns this quarter, with Japanese equity also contributing. However, European and Emerging Market equities detracted over the quarter. EV's SAA update for Q3 showed the following:

- **Horizon 1:** a minor tilt away from US equities, towards Japanese equities.[1]
- **Horizon 2:** no change this quarter.[1]
- **Horizon 3:** a minor tilt away from US equities and UK equities, towards European and Japanese equities.[1]
- **Horizon 4 and 5:** a tilt away from UK equities, towards US, European and Japanese equities and corporate bonds.[1]

Tactical asset allocation

Tactical Asset Allocation was a positive contribution to relative performance over the quarter. Positive impacts from an overweight to US equities and underweight to UK fixed income outweighed some negative performance effects, particularly in relation to the European exposure.

- **Horizon 1 and 2:** The overweight to Emerging Market equities contributed to performance however this was outweighed by the funding of positions from UK Gilts which detracted from TAA performance overall as yields fell over the quarter.
- **Horizon 3, 4 and 5:** The overweight to Emerging Market equities did contribute to performance however this was outweighed by the funding of positions from UK IG Credit which detracted from TAA performance overall as yields fell over the quarter.

Fund selection

Fund selection detracted from returns over the quarter.

The BlackRock Global Unconstrained Equity strategy was the largest detractor from active returns. Roughly two-thirds of the underperformance came from stocks in the information technology sector, and the rest from healthcare.

The BlackRock Sustainable Equity Factor Plus Fund also detracted. Exposures to Momentum and Quality were the biggest detractors.

The BlackRock Continental European Equities strategy detracted over the quarter as news flow dragged on semiconductor sentiment, however the manager expects this to be a short-term setback.

The Oaktree Emerging Markets fund contributed to manager selection, with regional positioning paying off, notably an overweight to China.[2]

[1] Source: Scottish Widows and EV, as at 31st December 2024.
[2] Source: Scottish Widows and BlackRock, as at 31st December 2024.

The information contained in this update has been derived from sources which we consider to be reasonable and appropriate. It may also include our views and expectations, which cannot be taken as fact.

Investment markets and conditions can change rapidly and, as such, the views expressed in this update should not be taken as statements of fact nor be relied on when making investment decisions. Forecasts are opinions only, cannot be guaranteed and should not be relied on when making investment decisions.

SCOTTISH WIDOWS

Scottish Widows Limited. Registered in England and Wales No. 3196171. Registered office in the United Kingdom at 25 Gresham Street, London EC2V 7HN.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Financial Services Register number 181655.

61381 02/25