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February 2024

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Review prepared by Morningstar Investment Management Europe Ltd  
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# Balanced Portfolio (Medium and Long Term)

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**MORNINGSTAR**<sup>®</sup>

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# Introduction to Morningstar Investment Management Europe and the Model Portfolios

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## Introduction

Morningstar Investment Management Europe Limited has been engaged by Embark Investment Services Limited (EISL) to advise upon the fund selection for a range of Model Portfolios. The Portfolios are available for use by UK authorised Intermediaries and are designed to suit differing risk appetites.

EV is the asset allocation provider and Morningstar Investment Management Europe advises upon the fund selection for the Model Portfolios, drawing from the Morningstar Rated fund universe. The asset allocation is provided to Morningstar Investment Management Europe by EISL.

While the Model Portfolios are continuously monitored, a formal quarterly review takes place following which updated Portfolios are sent to EISL. Quarterly reports explaining the performance of the Models are made available on a quarterly basis. Any recommendations for fund changes are included and explained in the 'Change Rationale' document.

The model portfolio service is provided by Morningstar Investment Management Europe.

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## About Morningstar Investment Management Europe Limited

Morningstar Investment Management Europe Limited provides comprehensive investment advisory and portfolio management services for financial institutions and financial advisers.

Morningstar Investment Management Europe Limited applies the independent qualitative investment research from Morningstar, Inc. analysts to provide asset allocation, investment selection and portfolio construction services to life, pension and fund-of-funds providers.

Our investment research approach has been in place since 1994 and is forward-looking in nature, which leads to a strong emphasis on the qualitative aspects of research. Morningstar Investment Management Europe's aim is to recommend a relatively small number of funds that are of the highest quality and deliver risk and return outcomes that support various investment objectives.

## Balanced Portfolio (Medium Term) – Overview

### Key Facts

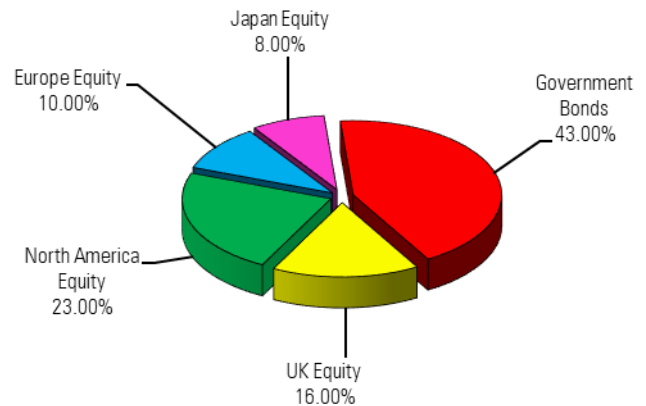
The Model Portfolios were established in September 2012. Asset allocation is provided by EISL and sourced from EV. Morningstar Investment Management Europe populates the asset allocation with funds it considers appropriate and attractive as a result of its in-depth, qualitatively-driven research process. The objective is to deliver a risk and return profile in each of the asset classes that is commensurate with the underlying markets, whilst seeking outperformance over the long-term.

EV describes a potential investor in this Portfolio as follows: “You are prepared to take a measured risk with your investment in return for the prospect of good longer term investment performance.”

While investing in company shares and property often gives the best potential for growth, you wish to limit the amount you invest in these areas.

You are looking for an investment with the potential to produce good returns above inflation but with less fluctuation in value compared to company shares alone. You appreciate that over some periods of time the value of your investment will fall and you may get back less than you invest.”

### Asset Allocation (February 2024)



### Model Portfolio - February 2024

Asset Classes	% Asset Allocation	Fund	Suggested Fund Weight (%)	Morningstar Medalist Rating
<b>Fixed Interest</b>				
<b>Government Bonds</b>	<b>43.00</b>	iShares UK Gilts All Stocks Index	10.50	Silver
		Allianz Gilt Yield	11.00	Neutral
		Vanguard UK Government Bond Index	10.50	Silver
		Royal London UK Government Bond Index	11.00	Bronze
<b>Equities</b>				
<b>UK Equity</b>	<b>16.00</b>	Jupiter UK Special Situations	4.80	Under Review
		Liontrust UK Growth	4.80	Bronze
		Artemis Income	4.00	Silver
		Royal London Sustainable Leaders	2.40	Silver
<b>North America Equity</b>	<b>23.00</b>	Dodge & Cox Worldwide US Stock	6.00	Gold
		iShares North American Equity Index	11.00	Gold
		TM Natixis Loomis Sayles US Equity Leaders	6.00	Silver
<b>Europe Equity</b>	<b>10.00</b>	JPM Europe Dynamic (ex UK)	6.00	Bronze
		Fidelity European	4.00	Gold
<b>Japan Equity</b>	<b>8.00</b>	Baillie Gifford Japanese Income Growth	4.00	Bronze
		Jupiter Japan Income	4.00	Bronze

# Balanced Portfolio (Medium Term) – Overview

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## Equity

### UK Equity

For the UK Equity portion, four funds are recommended, Liontrust UK Growth, Royal London Sustainable Leaders, Jupiter UK Special Situations and Artemis Income.

Within the UK Equity blend, we are seeking to provide exposure to a combination of funds with growth and value styles.

The two growth-biased funds are from Liontrust and Royal London.

The Liontrust UK Growth fund is run by Julian Fosh and seeks companies able to sustain excess profitability for longer than the market expects, based on their intangible assets. The focus of the approach adds differentiation, clarity and narrows the investment universe, with the experienced Julian Fosh being well placed to implement this proven process. There is a clear bias to quality metrics and valuation metrics tend to be higher than the index.

Royal London Sustainable Leaders aims to invest in companies that deliver a net benefit to society in terms of ESG. The ESG approach is designed to be flexible and is in line with the longer-term growth investment approach adopted by the manager, Mike Fox. Fox has managed this strategy since 2003 with great success.

These funds are complemented by an allocation to Jupiter UK Special Situations and Artemis Income.

Jupiter fund manager, Ben Whitmore, has a genuinely contrarian investment philosophy, which is married with a long-term mindset. His process has been tried and tested over market cycles and we have high conviction that the fund can outperform.

Artemis Income aims to provide investors with a yield in excess of that of the FTSE All-Share Index, along with growth. The long-term manager, Adrian Frost is supported by two co-managers who are both well regarded. Assessments of free cash flow and company management are key areas of research focus. This is a core mandate with a slight value bias that is managed using a sensible, tried and tested process.

### North America Equity

For the North America Equity portion, three funds are recommended. The blend is composed of Dodge & Cox Worldwide US Stock, iShares North American Equity Index and Natixis Loomis Sayles US Equity Leaders.

The iShares North American Equity Tracker fund is held within the blend to provide index-like returns. This holding is supplemented by the two actively managed funds. The Dodge & Cox Worldwide US Stock fund is predominately a large-cap oriented mandate which is managed on a bottom-up basis. The fund is led by a team-based approach that plays to the group's strength, in terms of size of resources, experience and stability. Their valuation discipline often leads them to invest in contrarian ideas and the portfolio is constructed with little reference to the benchmark.

Natixis Loomis Sayles US Equity Leaders fund is suggested as a complement to the Dodge & Cox fund as it invests with a growth focus. The managers are looking for three major characteristics in a company: quality, growth, and attractive valuation. Overall, the team members are trying to identify companies that have difficult-to-replicate business models and competitive advantages such as a network effect, low-cost advantage, or a strong brand. As a result, the portfolio has one of the highest Morningstar Moat scores we have seen.

### Europe Equity

In the European Equity portion of the Portfolio, we have recommended JPM Europe Dynamic (ex-UK) and Fidelity European.

Within the Europe Equity blend, we are seeking to provide exposure to a combination of funds with value and growth styles, with JPM offering the former and Fidelity the latter.

JPM Europe Dynamic (ex-UK) offers exposure to an established quantitative process that uses various factors to identify stocks with attractive quality, value and/or momentum characteristics. The fund typically provides us with exposure to stocks with a value style bias. This fund has been blended with Fidelity European where manager Sam Morse focuses on a company's ability to grow its dividends, which is viewed as an indicator of the potential to provide steady cash flow growth over the long term, thereby given the fund more of a growth style bias.

### Japan Equity

In the Japan Equity portion of the Portfolio, we have recommended two funds, namely Baillie Gifford Japanese Income Growth and Jupiter Japan Income.

The Baillie Gifford fund is co-managed by Matthew Brett and Karen See and the core principle that underpins the investment process is that active management and in-depth fundamental analysis, combined with a patient approach to investing, delivers outperformance over the long term. The fund's dual income and growth objective over the longer term, with a focus on portfolio dividend growth, provide the managers with great flexibility and mean that the fund can perform well across the market cycle. The portfolio is however constructed with little regard to the benchmark which could lead to returns deviating significantly from those of the benchmark from time-to-time.

Dan Carter and Mitesh Patel, the managers of Jupiter Japan Income aim to manage the fund as a core option. Stocks selected for the portfolio typically trade on a premium yield and generate strong dividend growth. The emphasis is on well-managed companies that demonstrate strong cash flows above cost of capital, good growth prospects and management aligned with shareholders' interests.

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## Fixed Income

We have recommended four funds for the UK government bond portion of the Portfolio, the iShares UK Gilts All Stocks Index fund, the Vanguard UK Government Bond Index, the Royal London UK Government Bond fund and the Allianz Gilt Yield fund. Both the iShares and Vanguard funds are passively managed and seek to track closely the performance of UK Gilts, while the Royal London and Allianz funds are actively managed funds that seek to generate attractive relative performance through duration, yield curve positioning and stock selection.

## Balanced Portfolio (Long Term) – Overview

### Key Facts

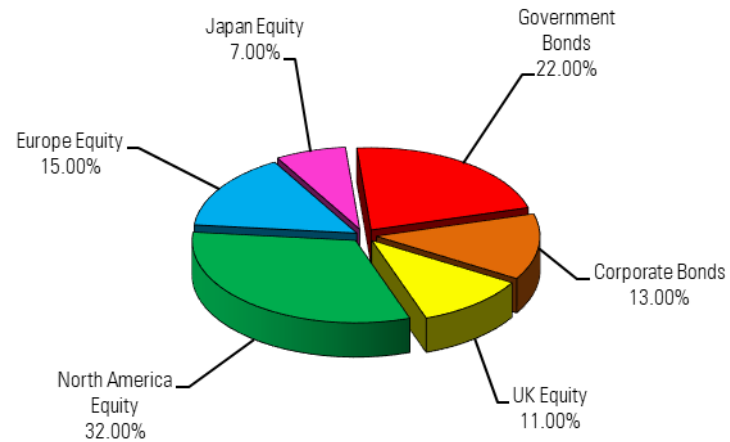
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### Asset Allocation (February 2024)



### Model Portfolio - February 2024

Asset Classes	% Asset Allocation	Fund	Suggested Fund Weight (%)	Morningstar Medalist Rating
<b>Fixed Interest</b>				
<b>Government Bonds</b>	<b>22.00</b>	iShares UK Gilts All Stocks Index	7.70	Silver
		Allianz Gilt Yield	7.15	Neutral
		Royal London UK Government Bond	7.15	Bronze
<b>Corporate Bonds</b>	<b>13.00</b>	iShares Corporate Bond Index	7.80	Bronze
		Royal London Corporate Bond	5.20	Bronze
<b>Equities</b>				
<b>UK Equity</b>	<b>11.00</b>	Jupiter UK Special Situations	3.30	Under Review
		Liontrust UK Growth	3.30	Bronze
		Artemis Income	2.75	Silver
		Royal London Sustainable Leaders	1.65	Silver
<b>North America Equity</b>	<b>32.00</b>	Dodge & Cox Worldwide US Stock	8.25	Gold
		iShares North American Equity Index	7.75	Gold
		TM Natixis Loomis Sayles US Equity Leaders	8.25	Silver
		HSBC American Index	7.75	Gold
<b>Europe Equity</b>	<b>15.00</b>	JPM Europe Dynamic (ex UK)	9.00	Bronze
		Fidelity European	6.00	Gold
<b>Japan Equity</b>	<b>7.00</b>	Baillie Gifford Japanese Income Growth	3.50	Bronze
		Jupiter Japan Income	3.50	Bronze

## Balanced Portfolio (Long Term) – Overview

### Equity

#### UK Equity

For the UK Equity portion, four funds are recommended, Liontrust UK Growth, Royal London Sustainable Leaders, Jupiter UK Special Situations and Artemis Income.

Within the UK Equity blend, we are seeking to provide exposure to a combination of funds with growth and value styles.

The two growth-biased funds are from Liontrust and Royal London.

The Liontrust UK Growth fund is run by Julian Fosh and seeks companies able to sustain excess profitability for longer than the market expects, based on their intangible assets. The focus of the approach adds differentiation, clarity and narrows the investment universe, with the experienced Julian Fosh being well placed to implement this proven process. There is a clear bias to quality metrics and valuation metrics tend to be higher than the index.

Royal London Sustainable Leaders aims to invest in companies that deliver a net benefit to society in terms of ESG. The ESG approach is designed to be flexible and is in line with the longer-term growth investment approach adopted by the manager, Mike Fox. Fox has managed this strategy since 2003 with great success.

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Artemis Income aims to provide investors with a yield in excess of that of the FTSE All-Share Index, along with growth. The long-term manager, Adrian Frost is supported by two co-managers who are both well regarded. Assessments of free cash flow and company management are key areas of research focus. This is a core mandate with a slight value bias that is managed using a sensible, tried and tested process.

#### North America Equity

For the North America Equity portion, four funds are recommended. The blend is composed of HSBC American Index, iShares North American Equity Index, Dodge & Cox Worldwide US Stock and Natixis Loomis Sayles US Equity Leaders.

The iShares North American Equity Tracker and HSBC American funds are held within the blend to provide index-like returns. These holdings are supplemented by two actively managed funds.

The Dodge & Cox Worldwide US Stock fund is predominately a large-cap oriented mandate which is managed on a bottom-up basis. The fund is led by a team-based approach that plays to the group's strength, in terms of size of resources, experience and stability. Their valuation discipline often leads them to invest in contrarian ideas and the portfolio is constructed with little reference to the benchmark.

Natixis Loomis Sayles US Equity Leaders fund is suggested as a complement to the Dodge & Cox fund as it invests with a growth focus. The managers are looking for three major characteristics in a company: quality, growth, and attractive valuation. Overall, the team members are trying to identify companies that have difficult-to-replicate business models and competitive advantages such as a network effect, low-cost advantage, or a strong brand. As a result, the portfolio has one of the highest Morningstar Moat scores we have seen.

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#### Japan Equity

In the Japan Equity portion of the Portfolio, we have recommended two funds, namely Baillie Gifford Japanese Income Growth and Jupiter Japan Income.

The Baillie Gifford fund is co-managed by Matthew Brett and Karen See and the core principle that underpins the investment process is that active management and in-depth fundamental analysis, combined with a patient approach to investing, delivers outperformance over the long term. The fund's dual income and growth objective over the longer term, with a focus on portfolio dividend growth, provide the managers with great flexibility and mean that the fund can perform well across the market cycle. The portfolio is however constructed with little regard to the benchmark which could lead to returns deviating significantly from those of the benchmark from time-to-time.

Dan Carter and Mitesh Patel, the managers of Jupiter Japan Income aim to manage the fund as a core option. Stocks selected for the portfolio typically trade on a premium yield and generate strong dividend growth. The emphasis is on well-managed companies that demonstrate strong cash flows above cost of capital, good growth prospects and management aligned with shareholders' interests.

#### Fixed Income

We have recommended three funds for the UK government bond portion of the Portfolio, the iShares UK Gilts All Stocks Index fund as well as the Allianz Gilt Yield and Royal London UK Government Bond funds. The iShares fund is a passively managed fund that seeks to track closely the performance of the FTSE-A UK Gilts All Stock index while the Allianz Gilt Yield and Royal London UK Government Bond funds are actively managed funds that seek to generate attractive relative performance through duration, yield curve positioning and stock selection.

For the allocation to UK corporate bonds, we have recommended two funds, namely the iShares Corporate Bond Index fund and the Royal London Corporate Bond fund.

The iShares Corporate Bond Index fund is a passively managed fund that seeks to track closely the performance of the Markit iBoxx GBP Non-Gilts overall index. This is complemented by an allocation to the Royal London Corporate Bond fund, which is managed by Jonathan Platt, who has been involved with the strategy since its launch in 1999. The investment process starts with a review of the macro environment to identify the most attractive credit markets. This is followed by in-depth bottom-up credit research, with a heavy emphasis on bond covenants and structure, which forms the core of the strategy.

## Model Portfolios – Fund Descriptions

The below provides further information about the funds that have been selected for the Model Portfolios.

### Fixed Interest

#### Government Bonds

##### Allianz Gilt Yield

###### Key Pillars

The fund is managed by Mike Riddell who joined from M&G in November 2015 where he managed the M&G Gilt fund for six years. He is joined by Joe Pak, who became deputy portfolio manager in November 2021 after joining Allianz from Rothesay Life. Pak has 11 years' experience and a background mainly in derivatives trading. Gaurav Saroliya and Ravin Seeneevassen, who also joined Allianz in 2021, bring 19 years of average experience to the team and the team also includes Jack Norris, who has been on the team since 2016 and was promoted to portfolio management responsibilities in 2019, and Daniel Schmidt, who joined as an investment graduate in 2018.

Riddell believes that government bond markets are macro driven and portfolio themes are therefore constructed from a top-down, global view. The aim is for yield curve positioning to drive the majority of the excess returns, with duration positioning and inflation-linked bond exposure an additional source of alpha.

Over Riddell's tenure the fund has delivered returns that are modestly ahead of the FTSE Gilts All Stocks index and peers. The flexible nature of the mandate does however mean that from time-to-time returns may be more volatile than those of both the index and peers.

###### Opinion

This is a flexible strategy, run by an experienced manager who has demonstrated his ability to exploit inefficiencies in what is a narrow gilt universe.

The team has been bolstered following the departure of the previous deputy fund manager, Kacper Brzezniak, however our view is tempered by the significant level of team turnover within the broader team in 2021.

##### iShares UK Gilts All Stocks Index

###### Key Pillars

Tracks the FTSE Gilts All Stocks Index, an index which provides exposure to a broad range of conventional bonds issued by the UK government.

A low fee and a soundly constructed and reasonably representative portfolio leave the fund well positioned to continue its long streak of superior risk-adjusted returns relative to its peers over the long haul.

###### Opinion

This inexpensive fund tracks a broadly representative and well diversified benchmark.

##### Vanguard UK Government Bond Index

###### Key Pillars

Tracks the performance of the Bloomberg Barclays UK Government Float Adjusted Bond Index hedged to Sterling. This market-weighted index is designed to reflect the total universe of GBP denominated UK Treasury and government-related securities with maturities greater than 1 year and an average maturity of 19 years and average duration of 14 years.

A low-fee, soundly constructed and reasonably representative portfolio.

###### Opinion

This inexpensive fund tracks a broadly representative and well diversified benchmark.

#### Royal London UK Government Bond Index

##### Key Pillars

Craig Inches has been a lead manager on this strategy since 2009, having joined from Scottish Widows. Ben Nicholl was promoted to co-manager from assistant manager in 2021, having already spent three years as co-manager on the short duration strategy. Paul Rayner, who heads up the group's alpha strategies and has over 30 years' experience in fixed income markets remains fully involved in the process but has primary responsibility for inflation-linked bond funds, global government bond portfolios, and the absolute return government bond strategy.

The fund aims to achieve modest outperformance of the benchmark through a combination of duration and yield curve positions held directly within the UK gilt market. They will also apply more sophisticated relative value strategies within the broader global fixed income markets, including off-benchmark exposure in overseas government bonds and UK government guaranteed corporate bonds, with the latter limited to 5%. The fund's interest rate sensitivity (duration) is managed closely in line with the benchmark and is unlikely to deviate significantly.

The strategy's underweight duration stance for much of the decade through to 2020 had been a key detractor to performance when compared to the index, however this has been offset to some extent by tactical positions, such as yield curve flatteners. However in recent years performance has much improved as this duration call, coupled with tactical cross-market trades, helped the fund curb losses in 2022, which was moved to overweight in 2023, capturing the market rally.

###### Opinion

The fund is managed by experienced managers who have worked together successfully and demonstrated the ability to combine macroeconomic analysis with an understanding of the dynamics of the UK government bond market.

Bond selection and allocation decisions are both important parts of alpha generation.

Bond selection and allocation decisions are both important parts of alpha generation.

#### Corporate Bonds

##### iShares Corporate Bond Index

###### Key Pillars

Tracks the Markit iBoxx GBP Non-Gilts Overall Index and invests in fixed income securities that, at the time of purchase, comply with the credit rating requirements of the benchmark.

A low fee and a soundly constructed and reasonably representative portfolio leave the fund well positioned to continue its long streak of superior risk-adjusted returns relative to its peers over the long haul.

###### Opinion

This inexpensive fund tracks a broadly representative and well diversified benchmark.

##### Royal London Corporate Bond Index

###### Key Pillars

The fund's two named managers are Shalin Shah and Matt Franklin. Shah joined the team in mid-2008 and has been a co-manager on the strategy since October 2016, taking on responsibility following the departure of long-standing manager Sajiv Vaid. Franklin was added as co-manager in January 2022 having been a member of the Sterling Credit team for eight years. Head of fixed income Jonathan Platt is no longer a named manager but will continue to provide strategic input and challenge the other managers as head of fixed income.



## Model Portfolios – Fund Descriptions

The investment process starts with a review of the macro environment to identify the most-attractive credit markets. This is followed by in-depth bottom-up credit research, with a heavy emphasis on bond covenants and structure, which forms the core of the strategy. This has led to a bias towards secured bonds historically in sectors such as social housing, investment trusts, and asset-backed securities.

While more than 80% of the fund typically consists of agency-rated "high-profile" bonds, the team members actively look for under-researched "low-profile" bonds (including unrated bonds) that offer higher return potential, in their view. The strategy's long-term horizon allows it to exploit the illiquidity premium built into these bonds, but diversification across 250-350 holdings helps reduce specific issuer risk.

Returns since inception are comfortably ahead of category peers on an absolute and risk-adjusted basis and has been consistent over multiple years.

### Opinion

Although Franklin has limited PM experience, Shah is well tenured and the managers are backed by a collegial team led by veteran Jonathan Platt, who employs a time-tested, team-based approach.

The strong performance reflects a focus on under-researched bonds and the long-term approach.

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## Equities

### UK All Companies

#### Artemis Income

##### Key Pillars

Adrian Frost is an experienced investor and has managed the fund since January 2002. He is supported by Nick Shenton who joined the team in mid-2012, initially providing analytical support before becoming a co-manager on the fund in July 2014. The pair hired Andy Marsh as a third co-manager in February 2018.

The strategy aims to outperform the FTSE All-Share benchmark over the long term, while providing a growing income and a dividend yield at a premium to that of the index. Free cash flow is the cornerstone of the process. The co-managers primarily hunt for companies with attractive free cash flow yields, with the goal of constructing a portfolio that generates cash flow in excess of the market.

The team spend a significant amount of time appraising company management and believe that management's ability to allocate capital efficiently is crucial.

The strategy, in part because of its focus on cash flow, has a value bias compared with the FTSE All Share Index. However, this slight value bias it is not more pronounced than that of the average UK Equity Income peer. The fund is managed as a core mandate and, with its considerable size, does not have the flexibility to invest significantly down the market-cap scale, but that has not hindered performance relative to the index over the medium term.

### Opinion

The strategy benefits from a highly experienced management team that has consistently applied a sensible, tried-and-tested approach. The core-like nature of the approach means it is unlikely to significantly under- or outperform, over shorter-term time periods, however the consistency of approach has delivered strong returns over the long term.

### Jupiter UK Special Situations

#### Key Pillars

The fund has been managed by Ben Whitmore since November 2006, when he joined Jupiter from Schroder Investment Management. He joined Schroders in 1994 as an insurance analyst before becoming a UK equity

fund manager in 1998. Whitmore was joined by analyst, Dermot Murphy in 2013, who was made assistant manager in April 2016. He is currently a comanager and actively participates in the final decision-making for the strategy, a structure that has been in place on the global equities product since November 2016. They are also supported by Brian McCormick (who joined as an analyst in March 2020 and was promoted to assistant fund manager in March 2022) and Ellen Mann (who joined as an analyst in March 2020).

The investment approach reflects the fund manager's contrarian and value-orientated investment philosophy. They aim to identify longer-term valuation anomalies by looking for stocks that have an attractive P/E ratio when calculated using 10-year average earnings but are nevertheless well-run companies with sound balance sheets. Qualifying stocks are then subject to fundamental analysis before being added to the portfolio, which is unconstrained relative to the FTSE All-Share benchmark. The manager recognises that realising value can often take time, so the average holding period for a stock is often high, with fund turnover consequently low.

The fund's value bias and contrarian approach do mean that positioning can deviate significantly from that of the index. These biases can result in periods of weakness such as in 2019 and 2020, but the fund has seen success over longer periods.

### Opinion

Jupiter UK Special Situations features a highly experienced manager applying his approach in a disciplined and consistent fashion. The fund has seen longer-term success, but investors should be aware that the value style may result in shorter-term periods of relative weakness.

### Liontrust UK Growth

#### Key Pillars

The fund has been managed by Julian Fosh with support from Anthony Cross since 2009. Further support is provided by the four other members of this UK all-cap team.

The approach seeks companies able to sustain excess profitability for longer than the market expects, based on their intangible assets. Three key intangible assets are sought, intellectual property, strong distribution channels and significant recurring business. Analysis of future returns and valuation is then assessed, with any new purchase having to show below market valuation on one of five ratio-based metrics. Individual stock weightings are the result of a structured risk grading process.

The portfolio is focused on the FTSE 350 and at the sector level has tended to favour consumer staples and industrials at the expense of utilities and materials. There is a clear bias to quality metrics and valuation metrics tend to be higher than the index and these biases may impact returns over the shorter term, however the fund has seen longer-term success.

### Opinion

The fund is primarily invested in large and mid-cap UK equity names and as such does not suffer from the liquidity concerns present in some of the small-cap offerings from this team.

The focus of the approach adds differentiation, clarity and narrows the investment universe, with the experienced Julian Fosh being well placed to implement this proven process.

## Model Portfolios – Fund Descriptions

### Royal London Sustainable Leaders

#### Key Pillars

Mike Fox has managed the strategy since November 2003, initially at the Co-operative Group until its acquisition by Royal London Asset Management in July 2013, making him one of the longest-tenured UK managers within the sustainable investment space. George Crowdy and Sebastien Beguelin who joined the group in 2020 support him as co-managers, along with four dedicated analysts. They are also supported by the broader investment team, which includes ESG specialists.

The fund's aim is to invest in companies that deliver a net benefit to society in terms of the products and services they provide or that show leadership in environmental, social and governance management. The ESG approach is designed to be flexible and in line with a longer-term growth mindset. Fox primarily seeks to identify long-term growth opportunities that are underappreciated by the market, based on the belief that markets incorrectly fade long-term growth rates in certain circumstances. The team conducts CFROI analysis in order to understand value creation and what is already implied in current valuations.

The fund shows a natural growth bias versus the FTSE All-Share Index. This search for growth is reflected in the manager's willingness to include off-benchmark overseas names (up to 20%) in the fund. Success has been seen over longer time periods, but the biases in the approach can be detrimental when other factors drive markets such as in 2022.

#### Opinion

Overall, Fox has applied the long-term approach consistently and to great success. The fund's socially responsible objectives and longer-term growth approach do, however, limit exposure to certain sectors and companies, which may result in a return profile that differs markedly from that of the index and peers from time-to-time.

### North America

#### Dodge & Cox Worldwide US Stock

#### Key Pillars

This fund benefits from a considerable depth of management experience and continuity of management with most of the investment professionals becoming partners in the firm.

The fund invests in mostly large-cap stocks that look cheap on a range of valuation measures. Management relies on bottom-up, fundamental research of companies and industries and favours business with good management, competitive advantages, and good growth potential. These may also be businesses that are under a cloud at the time of purchase.

The managers are benchmark agnostic and returns can show large divergence from the S&P 500 on a calendar year basis. However, taking a long-term view has allowed them to outperform over the long term.

#### Opinion

Genuine team-based approach with members of the portfolio committee having long tenures but not close to retirement. Quality of support analysts is high and team risks are low.

A collaborative approach minimises key-person risk yet has produced thoughtful, original research.

### HSBC American Index

#### Key Pillars

Tracks the S&P 500, a renowned market-cap weighted US large-cap equity index.

A low fee and a soundly constructed and reasonably representative portfolio leave the fund well positioned to continue its long streak of superior risk-adjusted returns relative to its peers over the long haul.

#### Opinion

This inexpensive fund tracks a broadly representative and well diversified benchmark.

### TM Natixis Loomis Sayles US Equity Leaders

#### Key Pillars

Lead manager Aziz Hamzaogullari founded this US large-cap growth strategy in 2006 and has successfully managed it first at Evergreen and then at Loomis Sayles since 2010. He has built and trained a dedicated team of seven sector analysts, three of whom have worked with him since 2006.

Their proprietary seven-step framework is the cornerstone of the process. Overall, the team members are trying to identify companies that have difficult-to-replicate business models and competitive advantages. The fund provides investors with a relatively concentrated portfolio of "high-quality" US stocks with long-term sustainable growth drivers trading at a discount to intrinsic value.

The fund has delivered strong long-term outperformance and the team has shown astute stock-picking over the fund's tenure, especially in the more growth-orientated sectors such as technology and consumer discretionary.

#### Opinion

A bold and focused offering, we continue to like the research-intensive approach used by Aziz Hamzaogullari's team at Loomis Sayles.

The contrarian nature of the approach means there is little overlap with the index. Although this is a compact portfolio of pricey growth stocks, the focus on wide moats and diversification by different business drivers have kept volatility in check.

### iShares North American Equity Index

#### Key Pillars

Tracks the S&P 500, a renowned market-cap weighted US large-cap equity index.

A low fee and a soundly constructed and reasonably representative portfolio leave the fund well positioned to continue its long streak of superior risk-adjusted returns relative to its peers over the long haul.

#### Opinion

This inexpensive fund tracks a broadly representative and well diversified benchmark.

### Europe

#### Fidelity European

#### Key Pillars

This fund benefits from a highly experienced manager in Sam Morse. Morse has been managing money in a similar style since 1994 and has been at the helm of this strategy since December 2009. He draws heavily on the work of the Fidelity analyst team for idea generation and monitoring, and as an input into his research process.

Morse has developed his own stock selection criteria focusing on a company's ability to grow its dividends, which is viewed as an indicator of the potential to provide steady cash flow growth over the long term. Management's ability to effectively allocate capital, balance sheet strength, high barriers to entry and proven, cash-generative business models are also key. Valuation is used to adjust position sizes, with outright sales generally triggered by fundamental change.

Factor risks are monitored and sector deviations limited to +/-5% versus the MSCI Europe ex-UK Index. Biases include a large-cap focus versus peers, higher P/E and ROE than the index and a beta below one.

Returns have been strong over time, with downside protection often being a feature, but the fund is likely to struggle when value stocks lead the market.

## Model Portfolios – Fund Descriptions

### Opinion

The experience of the manager, the extensive analytical support and the proven nature of the investment process employed on this fund result in it being an attractive product for those wanting quality-growth exposure to Europe ex-UK equities.

### **JPM Europe Dynamic (ex UK)**

#### Key Pillars

This fund is run by a team of four that draw upon the quantitative and qualitative resources of the wider group. The team is led by Jon Ingram, a position he has held since 2007.

An established quantitative model forms the core of the stock selection approach and uses various factors to identify stocks with attractive quality, value and/or momentum characteristics. The output from the model is assessed and potentially amended by the team, drawing on the research of the well-resourced International Equity Group and external sources. The aim is to add a forward looking element to the process.

The portfolio is constructed from the bottom-up, and although there will be some flexibility in the strength of exposure to the three broad factors, they are expected to be at a premium to the market at the fund level. The stock selection process can lead to a small and mid-cap bias versus the index at times.

Returns have been good over the long term, but the fund can struggle when value and especially momentum are out of favour.

### Opinion

This fund is managed using an established quantitative process that is combined with qualitative oversights from the direct fund management team and the wider research teams at JPM. This wider resourcing and the experience within the team are key positives, while the established alpha model provides a level of structure to the stock selection process.

### **Japan**

#### **Baillie Gifford Japanese Income Growth**

#### Key Pillars

The fund is co-managed by Matthew Brett and Karen See. See joined Baillie Gifford in 2012 and has spent all of her career on the Japan desk. Brett provides oversight in his role as a co-manager here, while See is much more involved in day-to-day operations. Brett has worked on the Japan desk for 19 years at Baillie Gifford and has a strong track record of 15-plus years on Baillie Gifford Japan OEIC. The strategy is managed with input from across the team with all members contributing to stocks held within the portfolio.

The core principle that underpins the investment process is that active management and in-depth fundamental analysis, combined with a patient approach to investing, delivers outperformance over the long term. The team are focused on identifying long-term and underappreciated growth prospects within a multi-cap context and the fund aims to deliver a yield greater than the Topix Index. The yield requirement adds an increased stock-level focus on improving returns on capital and balance sheet efficiency to deliver growing dividends.

In common with many Baillie Gifford strategies, the managers pay no heed to the benchmark when constructing portfolios. Given the growth influence, which tends to be a key part of the firm's investment style, investors should not expect a value-orientated return profile that one might generally associate with an income-orientated product.

### Opinion

The fund's dual income and growth objective over the longer term, with a focus on portfolio dividend growth, provide the managers with great flexibility and mean that the fund can perform well across the market cycle.

The portfolio is however constructed with little regard to the benchmark which could lead to returns deviating significantly from those of the benchmark from time-to-time.

### **Jupiter Japan Income**

#### Key Pillars

Dan Carter has managed the fund since May 2016 having joined Jupiter in 2008. Prior to joining Jupiter, Carter managed Japanese equities at Odey Asset Management and was an investment analyst at Baillie Gifford covering both Japanese and UK Large-Cap Equities. He is supported by Mitesh Patel who began his career at BlackRock in 2006 and joined Jupiter in 2016 before becoming a manager on the fund in 2020.

The managers aim to manage the fund as a core option. Stocks selected for the portfolio typically trade on a premium yield and generate strong dividend growth. The emphasis is on well-managed companies that demonstrate strong cash flows above cost of capital, good growth prospects and management aligned with shareholders' interests. There is a strong focus on having an in-depth understanding of how the business operates and on maintaining regular contact with management. Long-term compounders form the core of the portfolio, and the identification of long-term investment themes or economic trends comprise the rest of the fund, the portfolio is concentrated in around 40 stocks.

Overall, the fund's balanced approach to portfolio construction means that the that the fund should deliver a core like outcome and outperform over the medium to long term, however it is more likely to fair better in a market favouring growth stocks and to underperform more value-biased approaches.

### Opinion

The managers recognise that realising value can often take a long time, so the average holding period for a stock is often high, with fund turnover consequently low. Like other Jupiter funds, the managers here are free to run their portfolio with high conviction, and little engagement with other Jupiter fund managers or company management.

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