Thame Town Council

Rathbones
Look forward

Investment portfolio review

02 November 2021

Portfolio Summary

Portfolio mandate

Fund name	Service Level	Investment Objective	Risk Level
Thame Town Council	Discretionary	Capital Growth	2

Portfolio valuation summary (as at 31 October 2021)

Fund name	Fund value	Est. income	Est. yield %
Thame Town Council	£2,003,438	£25,821	1.3%

Thame Town Council
Performance Table

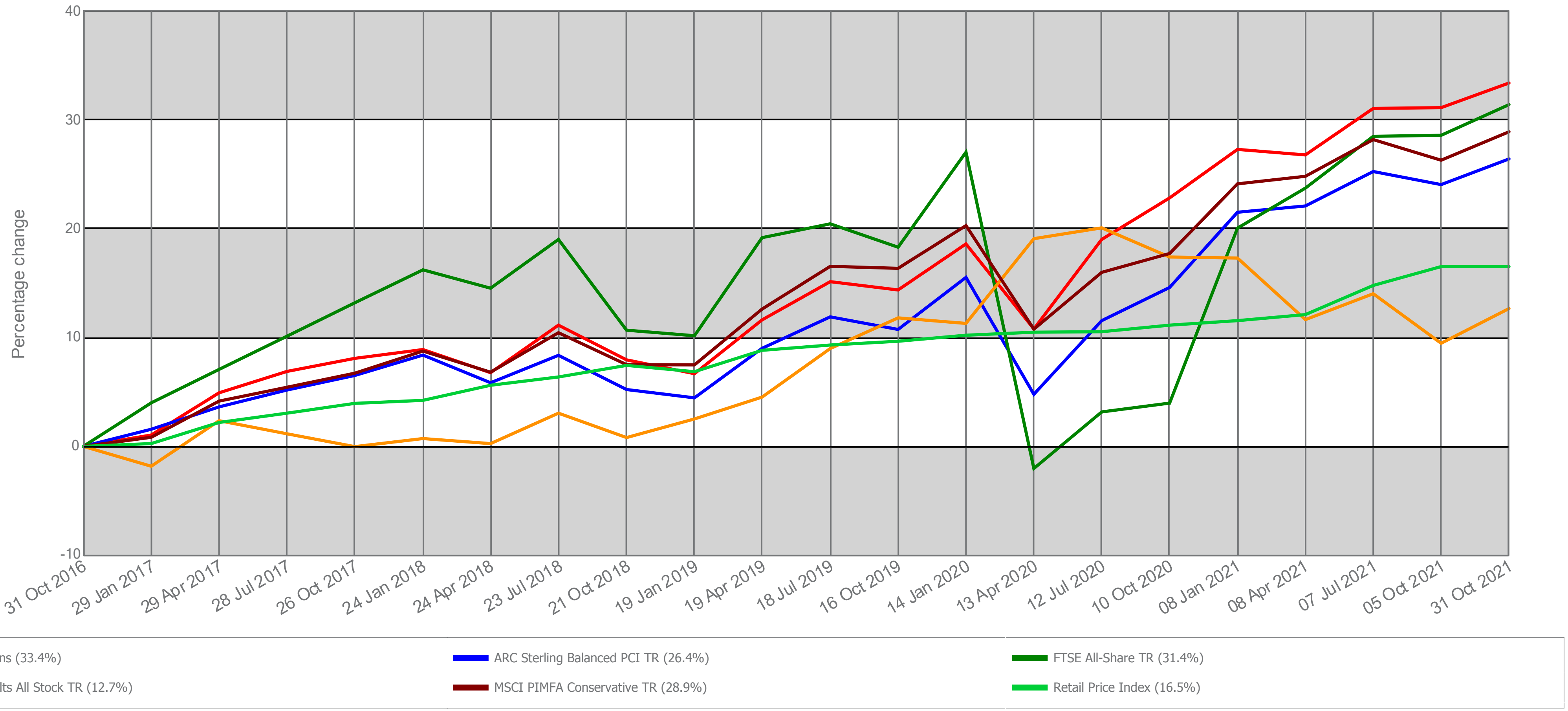
Consolidated portfolio performance during periods to 31 October 2021 (after Rathbone fees)

Portfolio	1 Year	3 Years	5 Years
Thame Town Council - Total Returns	10.8%	23.7%	33.4%
ARC Sterling Balanced PCI TR	13.5%	20.2%	26.4%
FTSE All-Share TR	35.4%	17.6%	31.4%
FTSE UK Gilts All Stock TR	-4.3%	10.6%	12.7%
MSCI PIMFA Conservative TR	12.2%	19.2%	28.9%
Retail Price Index	4.9%	8.5%	16.5%

These performance figures are calculated on a fully time weighted basis, incorporating any cash flows or stock movements in or out of the portfolio as at the date of the transaction. It is noted above whether performance is calculated prior to, or after the deduction of any management fees

Thame Town Council
Performance Graph

Consolidated Portfolio performance five years ending 31 October 2021 (after Rathbone fees)



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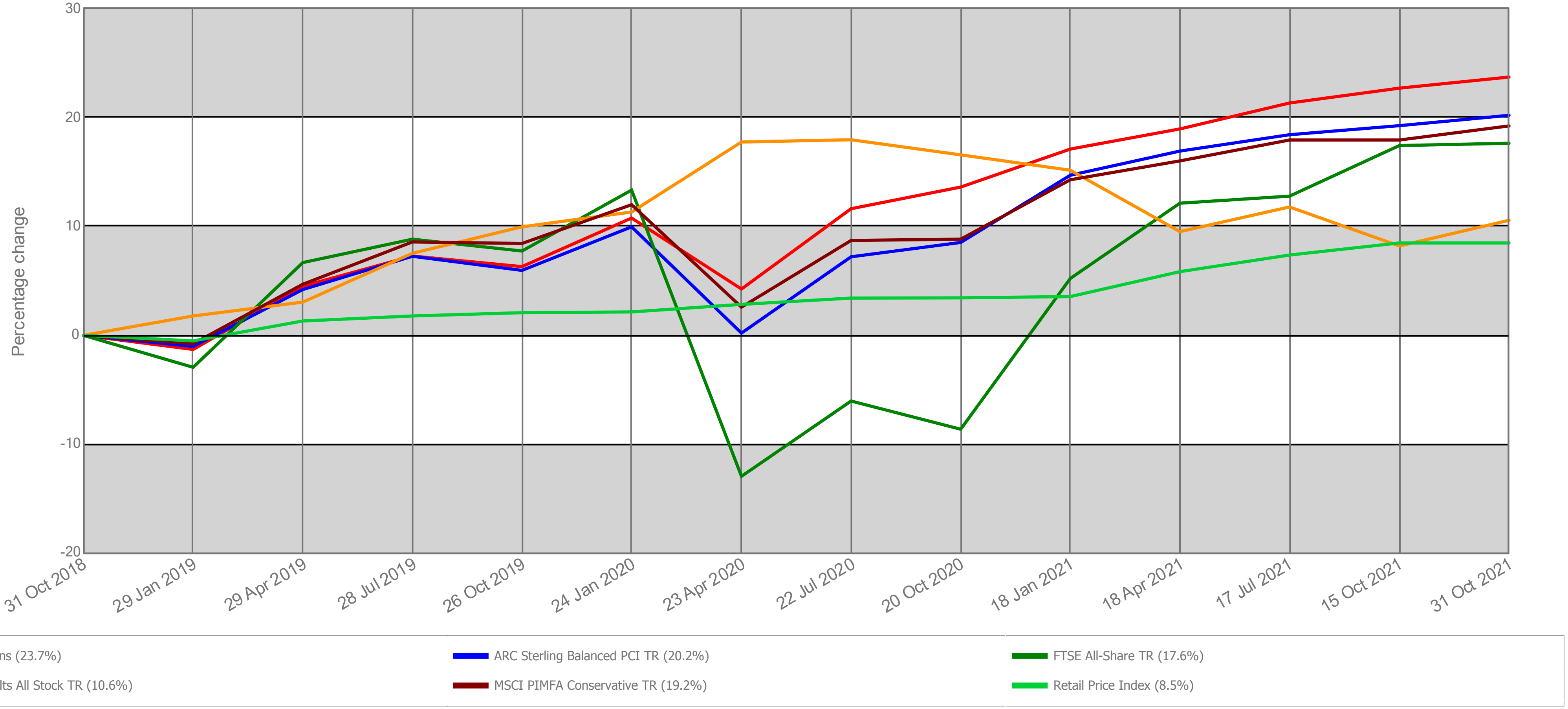
Thame Town Council
Performance Graph

Consolidated Portfolio performance three years ending 31 October 2021 (after Rathbone fees)



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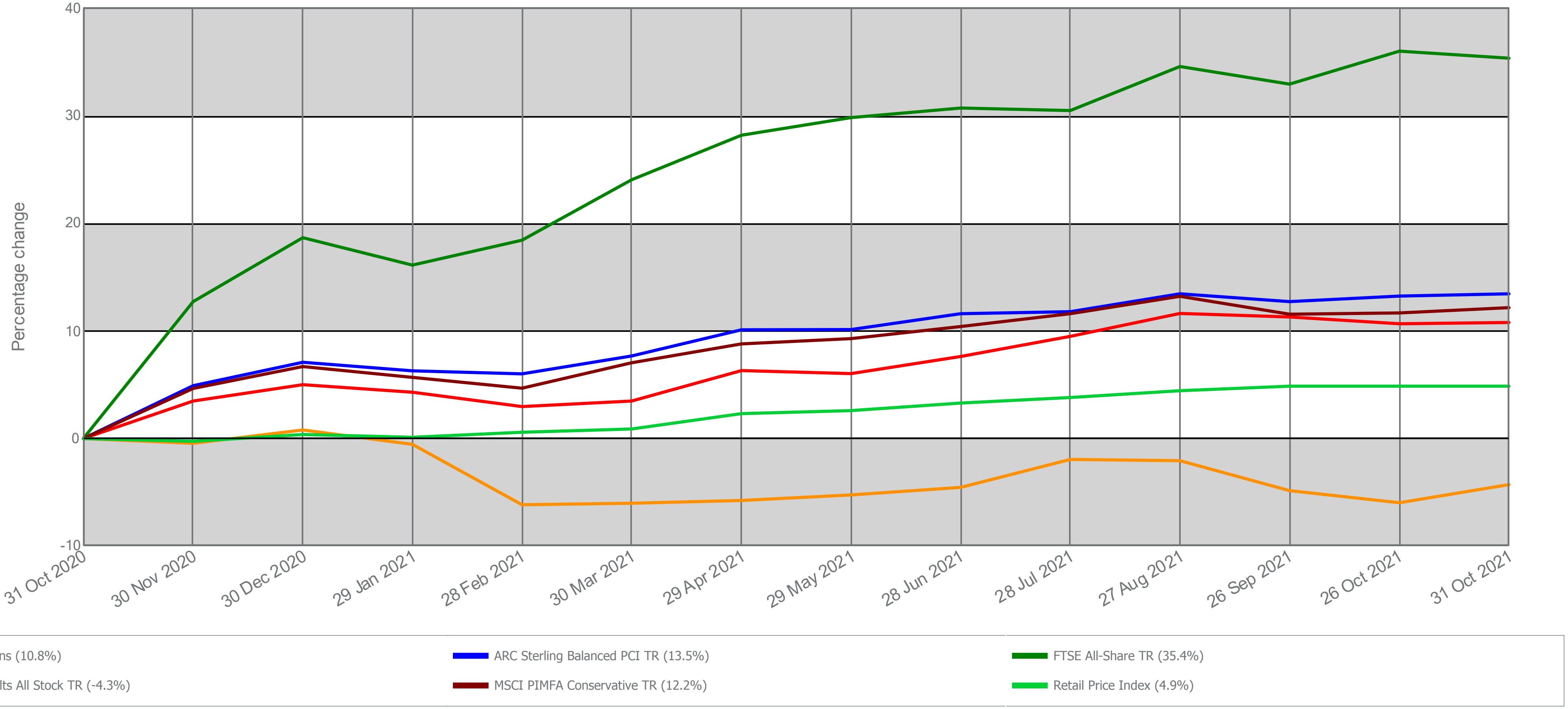
Thame Town Council
Performance Graph

Consolidated Portfolio performance one year ending 31 October 2021 (after Rathbone fees)



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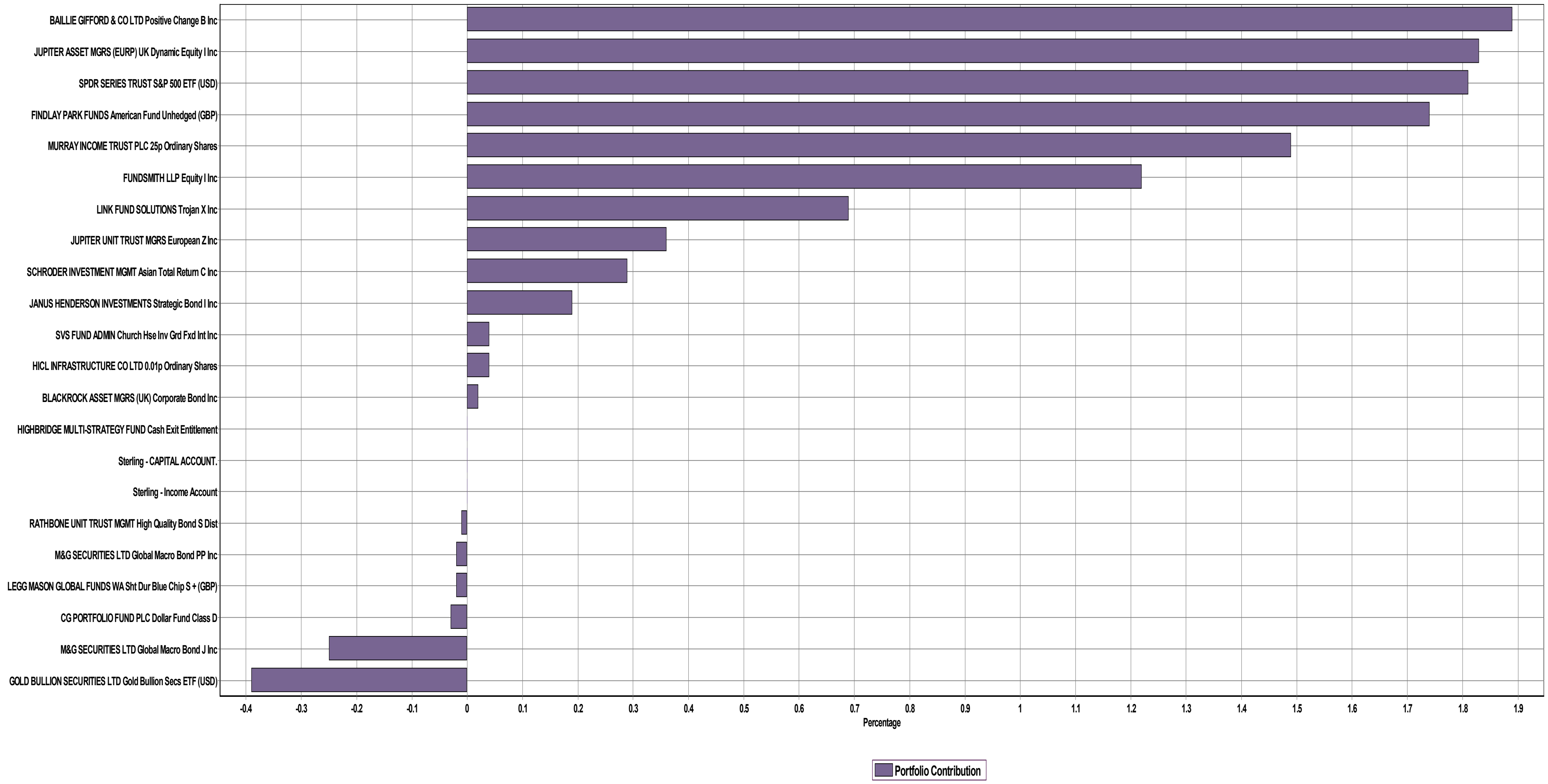
Rathbones
Look forward

Thame Town Council **Investment performance analysis**

From 31 Oct 2020 To 31 Oct 2021 **Total Returns Using Model Weights**
Before All Fees



A focus on Correlation is Key to Managing Risk

Building an investment strategy

Grouping asset classes according to characteristics

Liquidity

Assets that can be sold easily, low credit risk but may carry interest rate and currency risk

- cash: £/$/€/¥
- government bonds:
  - conventional
  - index linked
  - UK and overseas
- high-quality investment grade

Equity-type risk

Equities and all assets highly correlated with equities

- corporate bonds: investment grade, high yield
- emerging market debt
- equities: UK, US/Europe/Japan/Asia/emerging markets, private equity
- property equities: UK and overseas
- commodities sensitive to the economic cycle, i.e. industrial metals/energy

Diversifiers

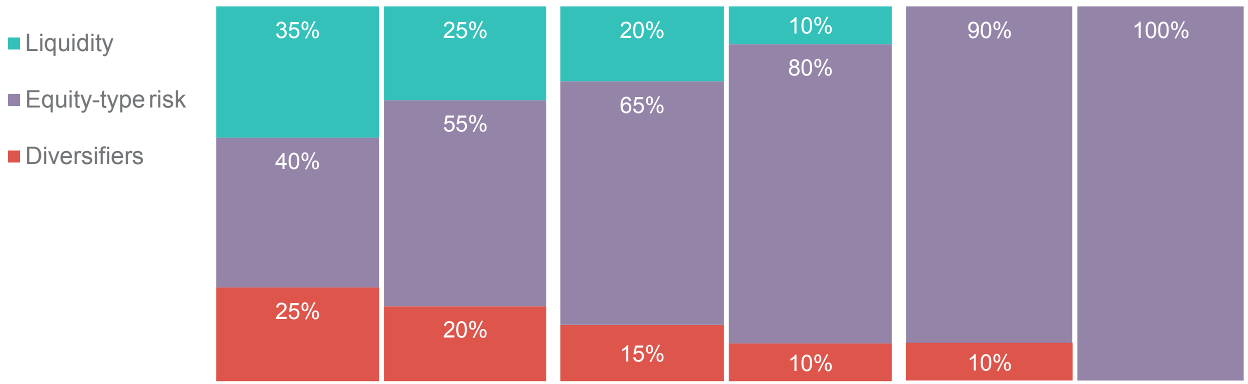
Assets with diversification potential demonstrated by low correlation to equities

- commodities: precious metals, agriculture
- macro/trading: discretionary, systematic
- targeted return strategies
- infrastructure
- bricks and mortar property funds

Risk Adjusted Asset Allocation Strategies

Building an investment strategy

Risk strategy	1	2	3	4	5	6
Suggested time horizon (years)	3-5		6-10		10+	



Return and risk guidelines

	1	2	3	4	5	6
Inflation+ reference			Inflation + [2%+]	Inflation + [3%+]	Inflation + [4%+]	Inflation + [5%+]
Cash+ reference	Cash + [1%+]	Cash + [2%+]				
Risk measure/maximum drawdown (%)*	-9.6%	-15.9%	-21.2%	-28.6%	-35.1%	-41.8%
Possible reference indices	MSCI WMA Conservative		MSCI WMA Balanced			MSCI WMA Global Growth
		MSCI WMA Income		MSCI WMA Growth		

Lower risk → **Higher risk**

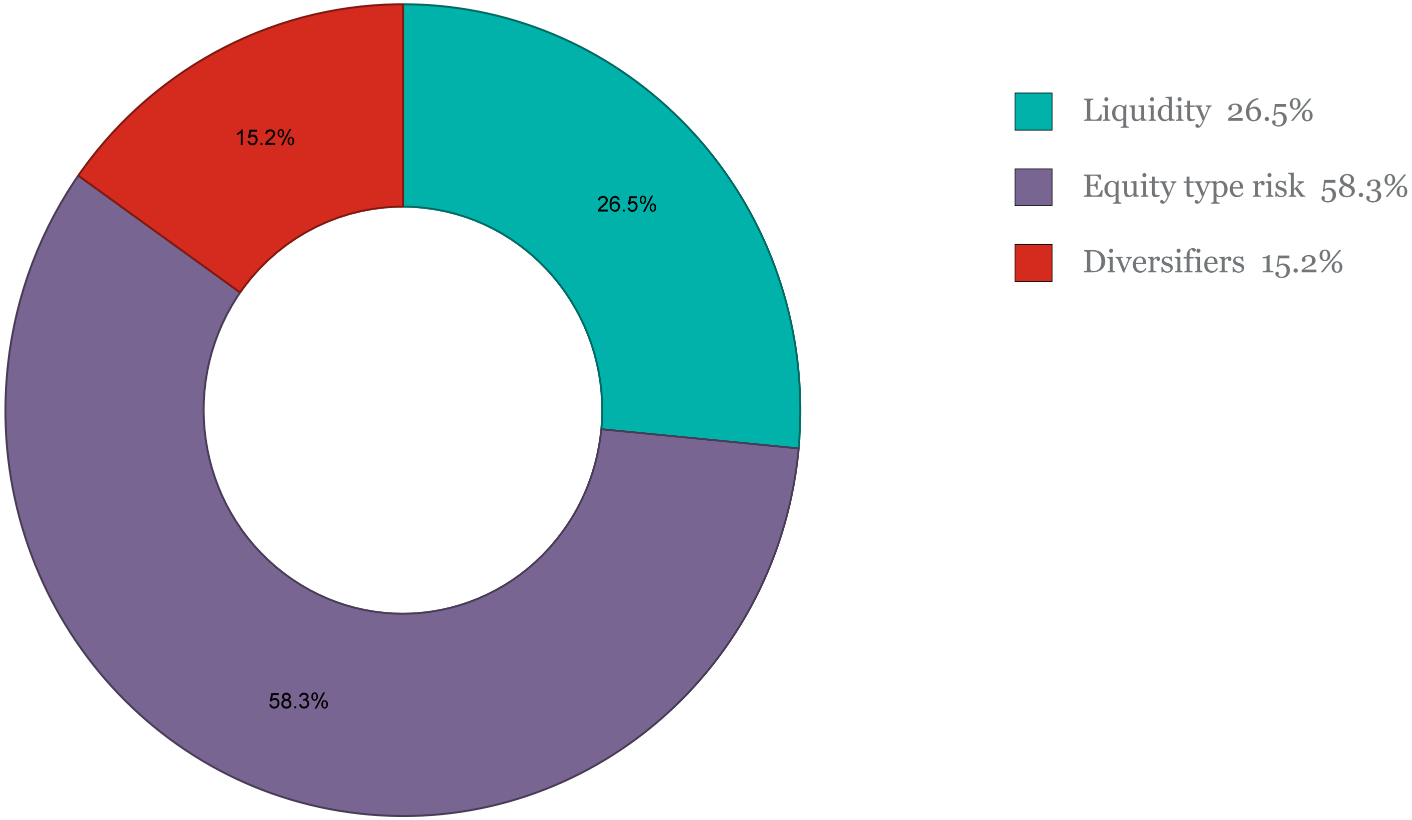
A wide range of objectives can be met: income or regular cash flow, total return and capital growth

* Drawdown shows the largest cumulative loss experienced by each strategy between the highest point and subsequent lowest point measured from 30 June 1998 to 30 June 2018.
For a more detailed description of our investment strategies, please request a copy of 'Our investment strategies' document from your investment manager. These will be subject to ongoing review and therefore may change over time.

Thame Town Council

Asset Class Breakdown

Consolidated asset class breakdown as at 31 October 2021



Thame Town Council
Valuation

Sterling

Consolidated valuation as at 31 October 2021

Holding	Security description	Middle price	Market value	% of portfolio	Book cost	Estimated income	Estimated yield %
Liquidity			**530,750**	**26.5**	**489,220**	**6,910**	**1.3**
	Cash		**59,417**	**3.0**	**59,417**	**0**	**0.0**
59,417	£ CAPITAL ACCOUNT.		59,417	3.0	59,417	0	0.0
	UK Index Linked Government Bonds		**211,157**	**10.5**	**168,824**	**2,768**	**1.3**
39,000	TREASURY 1/8% I/L Stock 22/03/2026	£138.986974 Plus 39 Days	54,211	2.7	51,513	58	0.1
96,715	TREASURY 1 7/8% I/L Stock 22/11/2022	£161.043242 Plus 162 Days	156,946	7.8	117,311	2,710	1.7
	Overseas Index Linked Govt Bonds		**146,189**	**7.3**	**144,780**	**2,079**	**1.4**
110,000	ABERDEEN STANDARD FUND MGRS Short Dur Gbl I/L Bond Instl	£0.5444	59,884	3.0	56,328	862	1.4
500	CG PORTFOLIO FUND PLC Dollar Fund Class D	£172.61	86,305	4.3	88,452	1,216	1.4
	UK Inv Grade Bonds - Higher Quality		**54,467**	**2.7**	**55,833**	**1,386**	**2.5**
55,000	RATHBONE UNIT TRUST MGMT High Quality Bond S Dist	£0.9903	54,467	2.7	55,833	1,386	2.5

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Liquidity			**530,750**	**26.5**	**489,220**	**6,910**	**1.3**
	O'seas Inv Gr Bds - Higher Quality		**59,520**	**3.0**	**60,366**	**677**	**1.1**
600	LEGG MASON GLOBAL FUNDS WA Sht Dur Blue Chip S + (GBP)	£99.2	59,520	3.0	60,366	677	1.1
Equity			**1,167,270**	**58.3**	**657,556**	**15,516**	**1.3**
	UK Investment Grade Bonds		**122,417**	**6.1**	**117,721**	**2,485**	**2.0**
37,000	BLACKROCK ASSET MGRS (UK) Corporate Bond Inc	£1.2145	44,937	2.2	44,282	772	1.7
65,000	SVS FUND ADMIN Church Hse Inv Grd Fxd Int Inc	£1.192	77,480	3.9	73,439	1,713	2.2
	Active Mgd Fixed Inc - Directional		**201,329**	**10.0**	**170,669**	**6,159**	**3.1**
171,000	ARTEMIS FUND MGRS Strategic Bond M Inc Instl	£0.5803	99,231	5.0	97,856	2,550	2.6
71,000	JANUS HENDERSON INVESTMENTS Strategic Bond I Inc	£1.438	102,098	5.1	72,813	3,608	3.5

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Thame Town Council
Valuation

Sterling

Consolidated valuation as at 31 October 2021

Holding	Security description	Middle price	Market value	% of portfolio	Book cost	Estimated income	Estimated yield %
Equity			**1,167,270**	**58.3**	**657,556**	**15,516**	**1.3**
	Uk Investment Companies		**107,520**	**5.4**	**71,777**	**4,140**	**3.9**
12,000	MURRAY INCOME TRUST PLC 25p Ordinary Shares	£8.96	107,520	5.4	71,777	4,140	3.9
	UK Equity Long/ Short		**103,826**	**5.2**	**17,670**	**0**	**0.0**
17,000	JUPITER ASSET MGRS (EURP) UK Dynamic Equity I Inc	£6.1074	103,826	5.2	17,670	0	0.0
	North American Investments		**275,787**	**13.8**	**77,551**	**1,392**	**0.5**
999.996	FINDLAY PARK FUNDS American Fund Unhedged (GBP)	£141.73	141,729	7.1	23,796	0	0.0
400	SPDR SERIES TRUST S&P 500 ETF (USD)	USD459.4005	134,058	6.7	53,755	1,392	1.0
	European Investments		**46,142**	**2.3**	**39,567**	**92**	**0.2**
1,400	JUPITER UNIT TRUST MGRS European Z Inc	£32.9584	46,142	2.3	39,567	92	0.2

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Thame Town Council
Valuation

Sterling

Consolidated valuation as at 31 October 2021

Holding	Security description	Middle price	Market value	% of portfolio	Book cost	Estimated income	Estimated yield %
Equity			**1,167,270**	**58.3**	**657,556**	**15,516**	**1.3**
	Japanese Investments		**23,706**	**1.2**	**11,351**	**0**	**0.0**
1,600	COUPLAND CARDIFF FUNDS Japan Alpha T Acc (GBP)	£14.816	23,706	1.2	11,351	0	0.0
	Asia Pacific Investments		**46,038**	**2.3**	**34,899**	**623**	**1.4**
100	SCHRODER INVESTMENT MGMT Asian Total Return C Inc	£460.383	46,038	2.3	34,899	623	1.4
	Global Investments		**240,505**	**12.0**	**116,351**	**625**	**0.3**
31,000	BAILLIE GIFFORD & CO LTD Positive Change B Inc	£4.021	124,651	6.2	91,977	297	0.2
20,000	FUNDSMITH LLP Equity I Inc	£5.7927	115,854	5.8	24,374	328	0.3
Diversifiers			**305,418**	**15.2**	**212,997**	**3,395**	**1.1**
	Infrastructure Funds		**42,100**	**2.1**	**42,388**	**2,063**	**4.9**
25,000	HICL INFRASTRUCTURE CO LTD 0.01p Ordinary Shares	£1.684	42,100	2.1	42,388	2,063	4.9

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Thame Town Council
Valuation

Sterling

Consolidated valuation as at 31 October 2021

Holding	Security description	Middle price	Market value	% of portfolio	Book cost	Estimated income	Estimated yield %
Diversifiers			**305,418**	**15.2**	**212,997**	**3,395**	**1.1**
	Commodities (Non-cyclical)		**60,357**	**3.0**	**40,270**	**0**	**0.0**
500	GOLD BULLION SECURITIES LTD Gold Bullion Secs ETF (USD)	USD165.47	60,357	3.0	40,270	0	0.0
	Actively Managed Strategies		**202,961**	**10.1**	**130,339**	**1,333**	**0.7**
21,422	HIGHBRIDGE MULTI-STRATEGY FUND Cash Exit Entitlement	£0.141	3,021	0.2	0	0	0.0
92,144.799	LINK FUND SOLUTIONS Trojan X Inc	£1.2582	115,937	5.8	57,036	128	0.1
89,080.447	M&G SECURITIES LTD Global Macro Bond PP Inc	£0.943	84,003	4.2	73,303	1,205	1.4
Total for portfolio:			**2,003,438**	**100.0**	**1,359,773**	**25,821**	**1.3**

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Thame Town Council

Market Transactions

Market transactions during period 31 October 2020 to 31 October 2021

Sales

Trade date	Security description	Quantity	Dealing price	Total proceeds
28/01/21	JUPITER ASSET MGRS (EURP) UK Dynamic Equity I Inc	13,113	£5.50	£72,162.15

Purchases

Trade date	Security description	Quantity	Dealing price	Total cost
17/12/20	HICL INFRASTRUCTURE CO LTD 0.01p Ordinary Shares	11,000	£1.71	£18,893.00
17/12/20	RATHBONE UNIT TRUST MGMT High Quality Bond S Dist	15,000	£1.02	£15,303.00
28/01/21	LEGG MASON GLOBAL FUNDS WA Sht Dur Blue Chip S + (GBP)	600	£100.61	£60,366.00
04/02/21	JUPITER UNIT TRUST MGRS European Z Inc	1,400	£28.28	£39,589.20
13/07/21	HICL INFRASTRUCTURE CO LTD 0.01p Ordinary Shares	14,000	£1.67	£23,495.48

Five key issues shaping current investment strategy

1. China's slowing economy
   Slowing down and cracking down
2. Reasons to be cheerful
   Why the pace of growth is likely to remain buoyant
3. ESG growing pains
   The transition to a low-carbon economy
4. From great to merely good
   Reasons for investors to remain optimistic
5. You can't always get what you want
   How will supply shortages disrupt company profits?

1. China's slowing economy

Slowing down and cracking down

- with China's post-pandemic economic recovery slowing, there's been a lot of speculation that policymakers are about to loosen the purse strings. Yet we see no evidence of that happening.
- there's a risk that, absent monetary and fiscal loosening, the slowdown could be exacerbated by regulatory crackdowns and restrictions to contain new variants of the virus.
- one indicator that links financial market conditions to the performance of Chinese equities is the credit impulse. This measures the rate of change in lending to businesses and consumers as a share of GDP — and it's negative at the moment (figure 1).
- if you combine this credit impulse with the fiscal impulse (the pace of change in government borrowing), it's even more negative. The MSCI Emerging Markets (EM) index has tended to underperform in past periods when this combined credit and fiscal impulse has been negative (figure 2).
- although the long term case for investment in China remains, we're cautious over the shorter term due to these economic, regulatory and policy uncertainties.

Taking the market's pulse

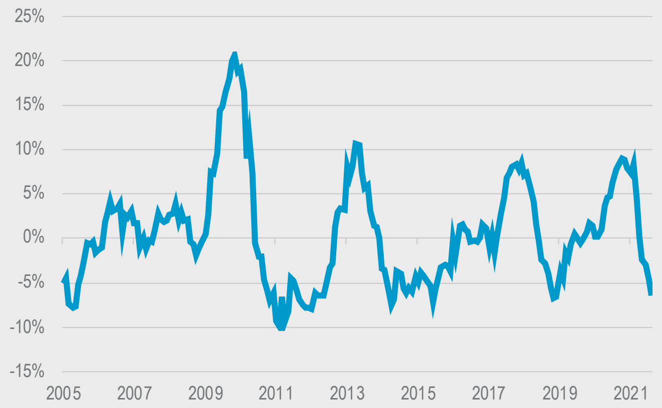

Figure 1
This chart shows China's credit impulse, which is the rate of change in lending as a proportion of GDP, has fallen into negative territory with no sign yet of reversing course.
Source: Refinitiv, Rathbones

Chinese tightening is weighing on EM equities

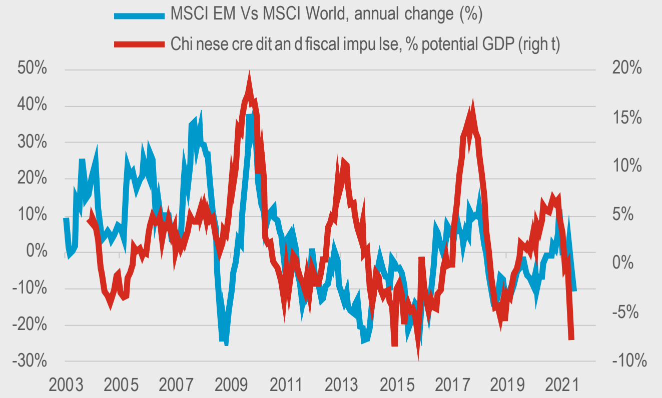

Figure 2
The MSCI Emerging Markets (EM) index has tended to underperform when China's combined credit and fiscal impulse has been negative.
Source: Refinitiv, Rathbones

Past performance should not be seen as an indication of future performance.

2. Reasons to be cheerful

Why the pace of growth is likely to remain buoyant

- despite headwinds from the Delta variant, a slowing recovery in China and some severe product and labour shortages, we believe the pace of global economic growth will remain buoyant versus its pre-pandemic norms.
- business sentiment in general remains strong according to leading indicators, such as purchasing managers indices (PMIs). For example, PMI readings across the eurozone are robust (figure 3).
- the dislocation in labour markets is unprecedented. But we are optimistic that this won't trigger the persistent wage growth that might risk inflation getting permanently entrenched at its current high levels or spiralling further upward (figure 4).
- we agree that inflation won't stay stuck at current levels. But there is more uncertainty around where it is heading, and we think inflation will settle at a higher level than it was before the pandemic.
- quick fixes to labour market stresses seem elusive. The balance of probabilities seems to favour the US Federal Reserve holding off on interest rate hikes for now. But there is a risk of bond yields rising further if this inflation bounce lasts longer than expected.

European businesses remain confident

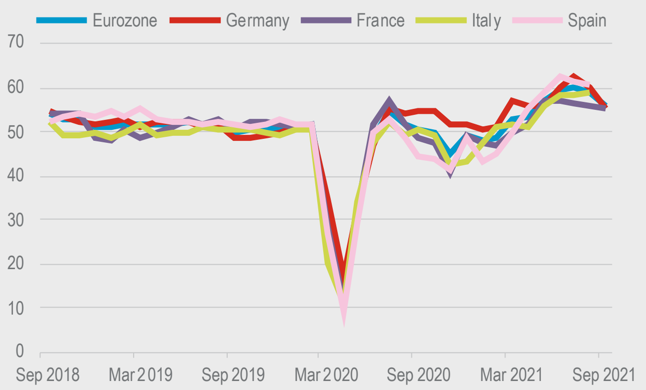

Figure 3
Despite a sharp increase in the Delta variant of the coronavirus, PMI readings across the euro area have suggested resilient business confidence.

Source: Refinitiv, Rathbones

US unemployment excluding the temporarily laid-off

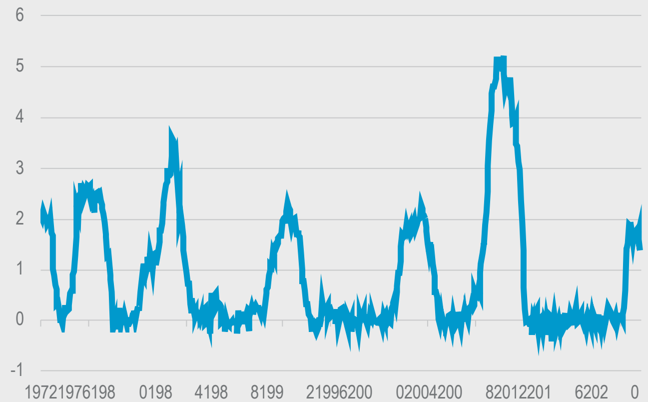

Figure 4
Despite the dislocation in labour markets, we're confident that there is enough slack in the labour markets that the situation won't trigger persistent wage growth that could keep inflation elevated.

Source: US Bureau of Labor Statistics, Refinitiv, Rathbones

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3. ESG growing pains

The transition to a low-carbon economy

- as the world grapples with climate change and demand for renewable energy grows, it's important to consider the complex processes involved in making what's needed to reduce carbon emissions.
- a whole lifecycle assessment considers conception, design, manufacture, use and disposal from environmental, social and governance (ESG) perspectives. It's a helpful lens through which to view these issues (figure 5).
- for instance, the global transition to electric vehicles (EV) may be what our climate needs, but the production of billions of batteries presents other challenges. They need minerals that can only be mined in particular countries (figure 6).
- huge efforts are being made to lower the damage caused by manufacturing EVs and some experts anticipate a 50% reduction in the 'lifecycle emissions' of an average EV by 2030.
- EVs and solar panels are playing a major role in the move away from our dependence on fossil fuels, but they aren't magic bullets. As responsible investors, we need to recognise there will be ESG growing pains.

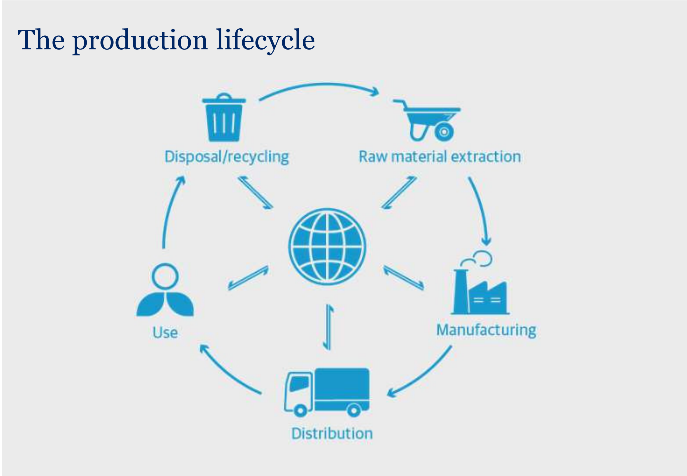

Figure 5
Even if the end product helps in the fight against climate change, the processes involved in making it could be contributing to the problem.

Source: Rathbones

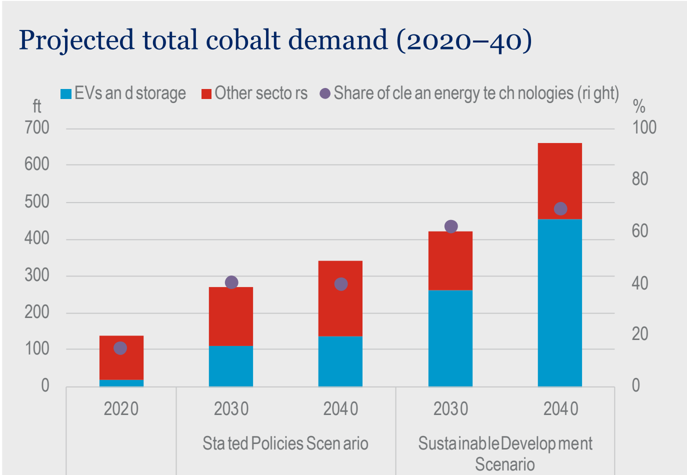

Figure 6
Over half of global cobalt production comes from the Democratic Republic of the Congo but governance issues in the country mean its supply has a serious impact on human rights.

Source: IEA

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4. From great to merely good

Reasons for investors to remain optimistic

- global economic output has recovered to above pre-pandemic levels. But the pace of growth has been slowing from great to merely good. Is this pace good enough to keep investors happy?
- although a short-term correction in equity markets can't be ruled out, we believe company earnings should hold up and that the economic recovery will remain robust.
- inflation remains a risk and one of the measures to look out for is real bond yields. They have had a strong correlation with equity market valuations over the past five years (figure 7).
- Meanwhile, there may be little room for disappointment in popular shares that are trading at high valuations, particularly for growth-oriented shares (figure 8) where some prices have more than doubled over the last few years.
- with the more uncertain economic backdrop, we think it makes sense to invest in companies that are likely to do well in rising markets as well as those that offer more protection on the downside.

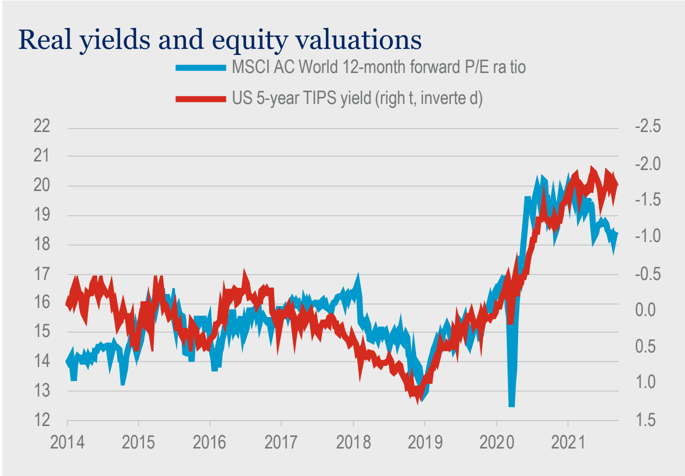

Figure 7
Our analysis shows that equity market valuations have had a strong correlation with real bond yields (yields minus inflation) over the last five years.

Source: Refinitiv, Rathbones

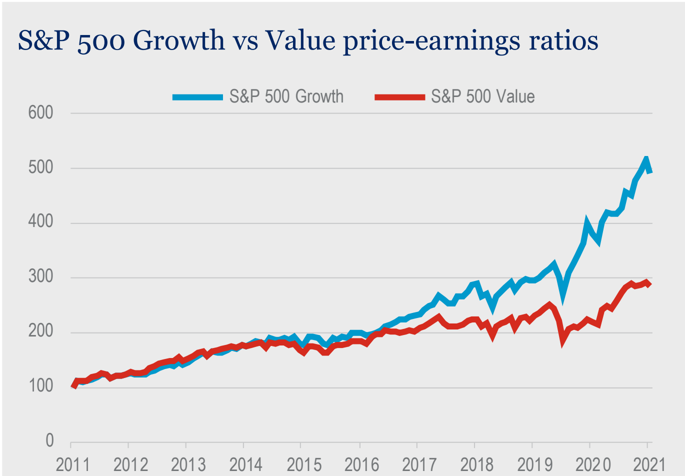

Figure 8
PE ratios (prices relative to earnings) for growth-oriented shares have been outstripping 'value' stocks by an increasing margin.

Source: FactSet

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5. You can't always get what you want

How will supply shortages disrupt company profits?

- supply-chain disruption has met an explosion in demand as the world emerges from the pandemic. Doubts have arisen as to whether companies can meet increased demand, leaving earnings forecasts uncertain and share prices vulnerable.
- deficiencies in the availability of labour, transportation and components are contributing to a perfect storm for global supply chains. With companies struggling to hire, job vacancies are at record levels in both the US and UK (figure 9).
- some sectors seem to be harder hit than others. Shortages in semiconductors are particularly acute, making it difficult for companies in other sectors to produce their end products. In the US, inventories relative to sales are at a record low (figure 10).
- vertical integration has proved to be an advantage. For example, some housebuilders produce their own tiles, bricks and timber, giving them greater security of supply. Companies that continued to invest through the crisis may also see some benefits from that capital they spent by being better positioned to meet demand.

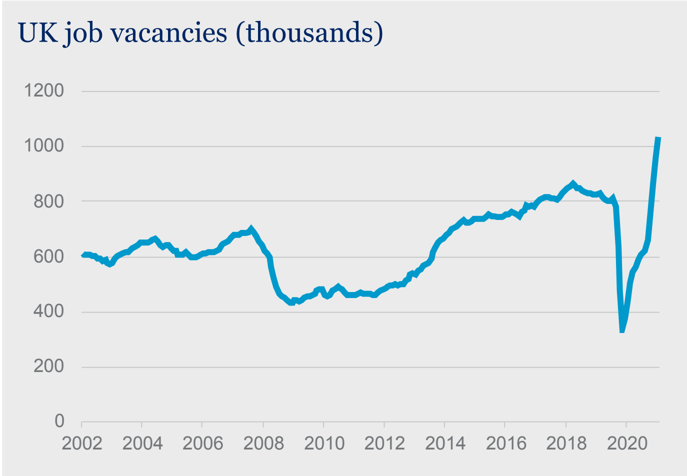

Figure 9
Job vacancies rose to a record 1,034,000 in August this year.
Source: UK Office for National Statistics, Rathbones

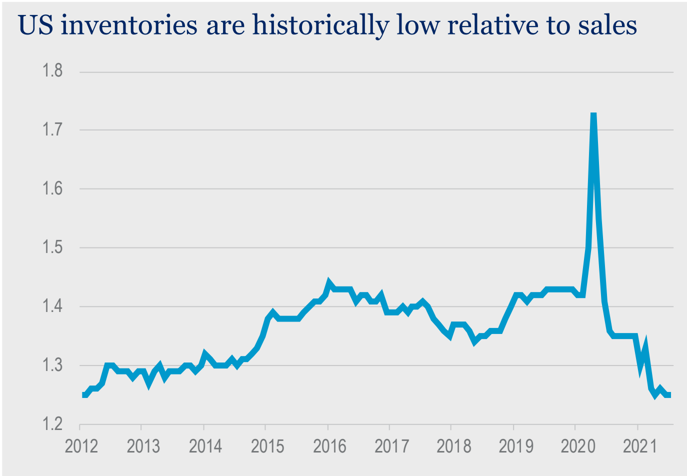

Figure 10
Inventories at US firms spiked during the pandemic when the economy ground to a halt. But pent-up demand and supply disruptions have pushed them down to record lows relative to sales.

Source: US Census Bureau, Manufacturing and Trade Inventories and Sales, September 16, 2021. Data adjusted for seasonal, holiday and trading day differences but not for price changes (Rathbones).

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Overview: a new phase of the recovery

- **recovering from the pandemic.** The global economy has entered a more challenging phase of its recovery from the virus-induced recession. It is having to deal with a range of risks, including asynchronous waves of the Delta variant, an ongoing Chinese slowdown, and product and labour shortages around the world.
- **earnings forecasts may dip.** Company profits have been particularly strong this year and forecasts remain optimistic. Yet there are concerns about whether relatively high share prices in some sectors, notably those more sensitive to economic cycles, are justified if the recovery begins to slow.
- **a temporary phenomenon.** US inflation has picked up as the economy springs back to life from the pandemic-induced recession. Although it's likely to fall back as the pace of growth slows, this adjustment may take longer than financial markets expect, which could lead to periods of volatility as investors recalibrate their expectations.
- **policy risk in China.** Restrictions on private sector companies have unsettled investors recently. There is also no sign that hoped-for monetary and fiscal easing will be forthcoming. Longer term, policymakers remain focused on the long term objectives of maintaining social stability and addressing income inequality.
- **an optimistic outlook.** Although the pace of global economic growth is slowing, there appears to be little risk of a recession for now. The probability of a monetary policy mistake by a major central bank also seems relatively low, and business leaders continue to express cautious optimism.
- **stay invested in risk assets.** On balance, we believe the prospects for returns from equities over the medium term remain attractive. We favour a diversified investment strategy with portfolios that combine exposure to assets offering growth and value, as well as defensive characteristics to protect against any short-term bouts of volatility.

Fixed income

Government bonds

— there's some uncertainty about near term economic growth, inflation, fiscal policies and the tapering of quantitative easing programmes (QE). As a result the outlook for US Treasuries and other developed market government bonds is also uncertain.

— we believe the current spike in inflation is temporary, but that it could take longer to settle back than markets suggest (figure 1). Therefore, market measures of inflation expectations and real bond yields (adjusted for inflation) could rise in the fourth quarter or at least become more volatile.

Corporate bonds

— Investment-grade corporate bonds remain expensive and the potential returns are not particularly attractive (figure 2). Yet they can provide liquidity in a diversified portfolio during periods when the business cycle is contracting.

— although the level of defaults from high yield corporate bonds has remained relatively low, the potential returns on offer do not provide sufficient compensation for the risks.

US Inflation expectations

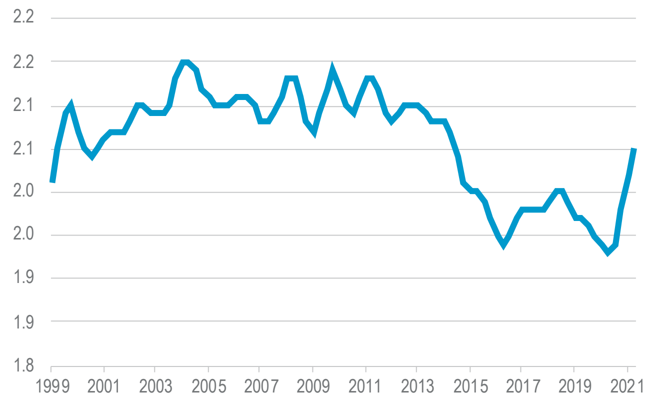

Figure 1

Despite the recent spike, the US Federal Reserve's broad measure of inflation expectations remains below the peaks of the early to mid 2000s.

Source: US Federal Reserve. Refinitiv, Rathbones.

US corporate yields vs government debt

Figure 2

This chart shows the extra yield on 10-year Baa-rated (so-called 'investment grade') corporate bonds relative to the yield on 10-year US Treasuries, to compensate for the default risk of the former. Strong demand for any additional yield has pushed this spread lower and lower (yields move inversely to prices).

Source: Moody's

Past performance should not be seen as an indication of future performance.

Equities – UK

- the FTSE 100 has been underperforming global developed equity markets for some time (figure 3). The valuation gap is extreme, and most pronounced in the consumer discretionary, consumer staples and basic materials sectors. When this situation has occured in the past, UK equities have then outperformed over the medium term (figure 4).
- In terms of prices relative to book value, the FTSE 100 currently trades at the steepest discount relative to global peers than it has since the mid-1970s, when the index was much more domestically oriented and the UK had just had to ask the IMF for a bailout.
- However, UK equities may struggle to close this valuation gap in the near term if renewed Brexit uncertainty deters overseas investors from returning. The pound also remains undervalued, and a longer term appreciation toward its equilibrium value could hamper overseas returns for UK investors.
- UK large-cap equities also continue to offer the highest dividend yield globally. Dividend forecasts endured a sharper cut than elsewhere in the early part of 2020. But we believe they could come back more strongly than the market is discounting.

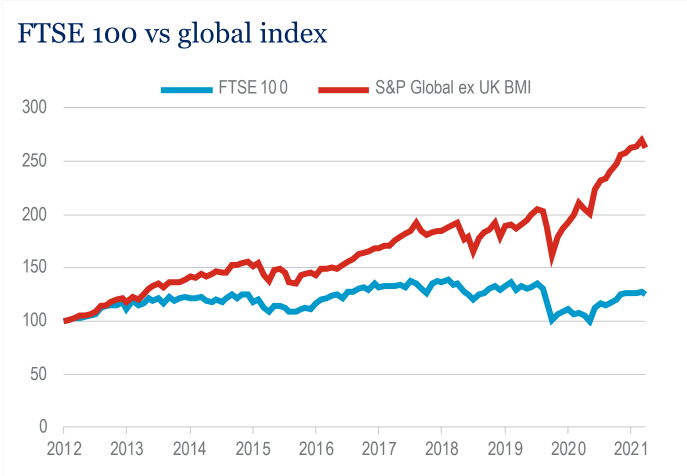

Figure 3

The FTSE 100 index has been underperforming global equities for some time, and this pattern has become even more pronounced over the past year.

Source: FactSet

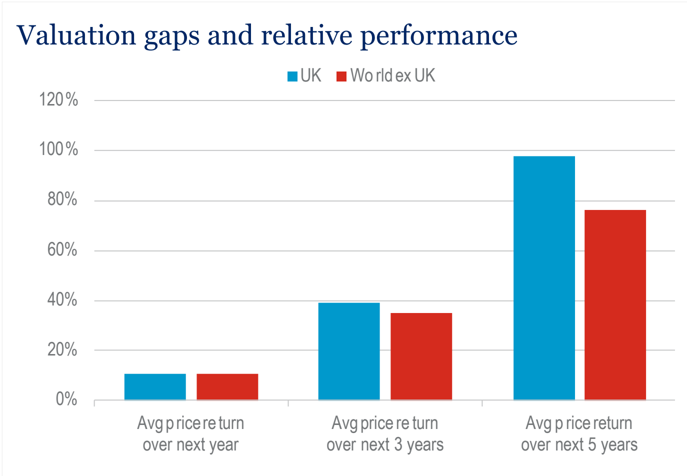

Figure 4

This chart shows the performance after a price-to-book valuation gap is 1 standard deviation below the long-run average.

Source: Refinitiv, Rathbones

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Equities – US

- the renewed surge in the share prices of technology companies and growth sectors that dominate the US stock market has led to concerns about valuations. Yet earnings momentum remains strong and many of these companies are global leaders, which should continue to support share prices (figure 5).
- the US government has reached its debt ceiling, which must be raised in October. History shows that negotiations and even government shutdowns rarely unnerve markets for long, but conditions could become more volatile given uncertainty around inflation, tapering and bond yields.
- a contraction in the budget deficit in 2022 is likely to be reversed by the proposed $1 trillion bipartisan infrastructure bill and Biden's $3.5 trillion spending package; although the final amount could be cut to reach agreement, there is likely to be a fiscal boost.
- the packages are likely to be largely funded by government debt, but corporate taxes could rise by more than investors expect (figure 6). Any increase is likely to hurt growth names more than some value names (with the exception of healthcare).

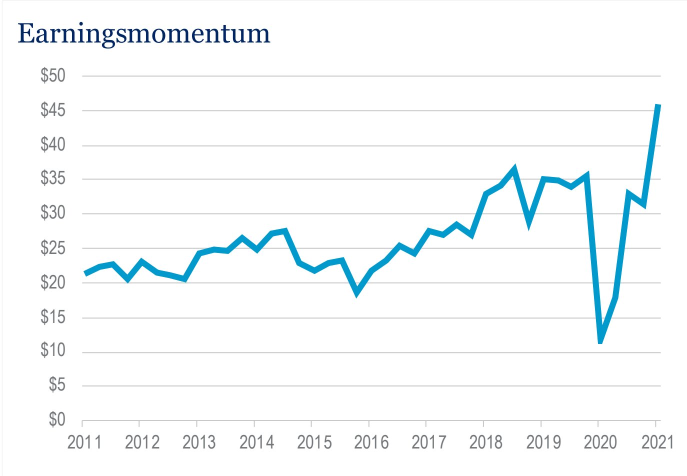

Figure 5

This chart shows the average earnings per share for companies in the S&P 500 index. After dipping sharply during the pandemic, earnings have recovered swiftly.

Source: S&P Global

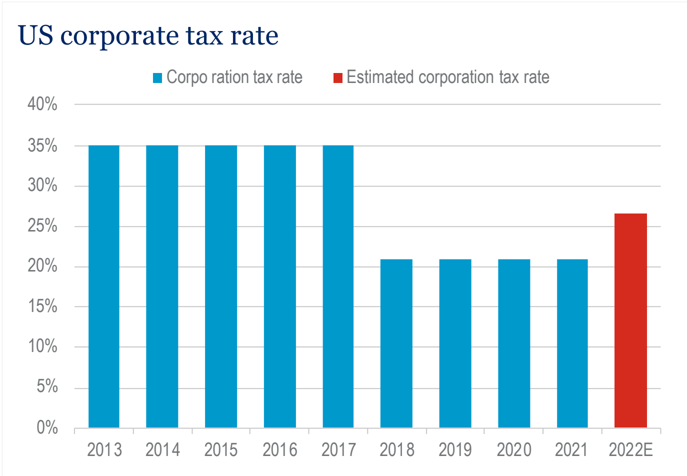

Figure 6

The proposed tax increase to 26.5% is still lower than for more than half of the past decade.

Source: Trading Economics

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Equities – Europe

- we believe that the potential returns from European equities remain favourable. For the first time in many years, the short-term tailwinds outweigh the longer-term headwinds.
- European markets have been among the leaders in this year's rally (figure 7), despite persistent fund outflows. The US has continued to see inflows, setting up the possibility of a change in sentiment as economic and earnings momentum pass to Europe. Earnings momentum is already almost as strong in Europe as it is in the US.
- despite a sharp increase in cases of the Delta variant of the coronavirus, readings from the Purchasing Managers Index (PMI) survey across the region suggest that business confidence is more resilient than elsewhere (figure 8). Italy's PMI reading increased in August.
- meanwhile, the ECB's policies remain supportive. Notably, the bank has said it has no intention of tapering its QE programme to zero any time soon. Any fiscal drag is also likely to be tempered by disbursements from the recovery fund, which should benefit Italy, Spain and France in particular.

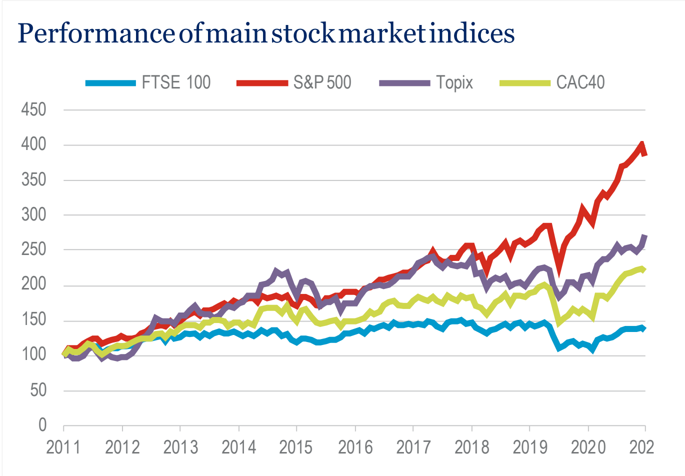

Figure 7

Many of Europe's leading stock markets, including France's CAC 40, have been performing relatively well this year.

Source: FactSet

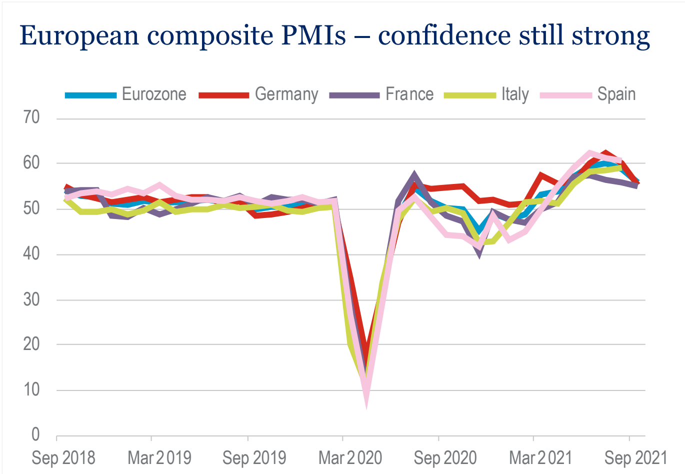

Figure 8

Business confidence across the euro area is holding up despite new waves of the virus.

Source: Refinitiv

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Equities – Asia and emerging markets

- emerging markets (EMs) and most of developed Asia lagged global markets in the third quarter. One possible reason is that the Delta variant has spread more rapidly than in more highly vaccinated developed markets (DMs) and activity has slowed in major developing economies such as China, India, Indonesia and Brazil.
- a number of EM central banks have started tightening monetary policy to combat inflation or financial stability issues linked to high levels of debt. Notably, there are concerns that China could set policy too tight for the prevailing conditions. This could also be weighing on EMs in general (figure 11).
- China has been placing restrictions on private sector companies, including those in the technology and education sectors, which has unsettled investors. Yet these measures are consistent with the Communist Party's long-held policy of fostering long-term economic growth, while maintaining social stability.
- structural dynamics should see EM economic growth outpace developed markets over the longer term. However, corporate earnings growth has failed to keep pace with DM (figure 12).

Figure 11

When China's combined fiscal and credit impulse (change in new borrowing as a share of GDP) has been negative, emerging market equities have tended to underperform global peers.

Source: Refinitiv, Rathbones

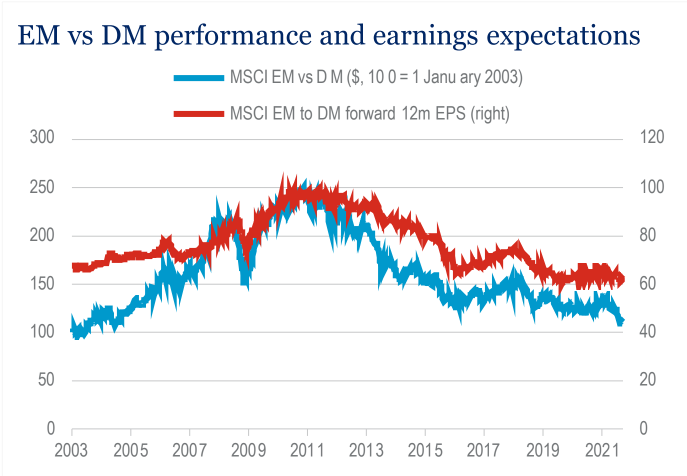

Figure 12

Even though emerging market (EM) economies are forecast to outperform developed markets (DM) over the longer term, EM equities may continue to underperform as earnings growth lags behind.

Source: Refinitiv, Rathbones

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Equities – Japan

— Japan's stock market rebounded strongly in August after underperforming global equities substantially over the preceding six months. The country's benchmark Topix index extended its recent strong gains, making new highs during the most recent quarter (figure 9).

— Japan offers exposure to an interesting structural growth story, which is still shunned by many global investors. Earnings momentum remains much stronger than in Asia ex-Japan (although not quite as strong as in the West), and corporate governance reform continues.

— there's an abundance of inexpensive, industrial and tech-forward cyclicals with a high sensitivity to the global economic and trade cycles. In other words, quality growth at a reasonable price – something that is very rare in other markets at present.

— although much of Japan is under strict lockdown measures, vaccination rates have picked up (figure 10). Markets have also responded positively to Prime Minister Suga's resignation. .In his place, the ruling LDP party has chosen establishment candidate Fumio Kishida, who is very likely to maintain the status quo.

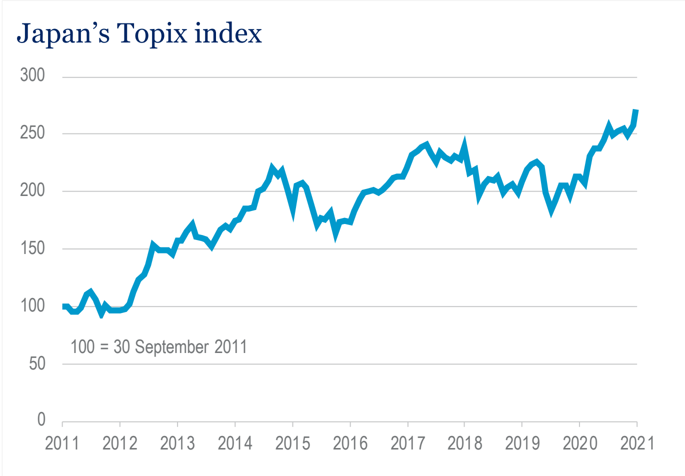

Figure 9

Japan's benchmark stock market index continued its strong rebound to reach a new post-COVID high during the most recent quarter.

Source: FactSet

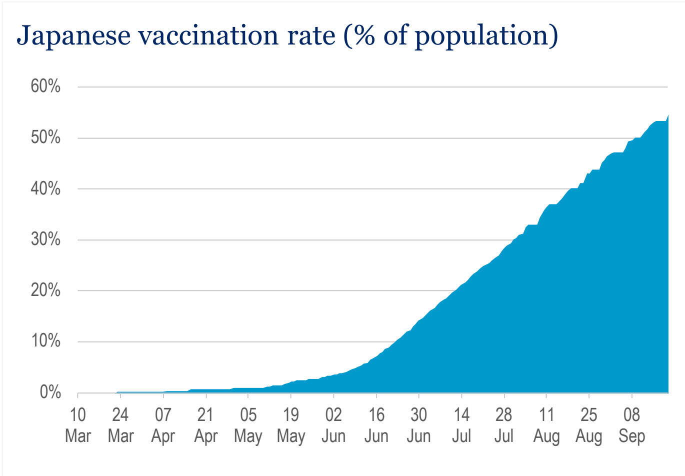

Figure 10

After a slow start, Japan's vaccination programme has gathered steam and now more than half the population has received at least one dose.

Source: Coronavirus Data Gov.uk, as of 20 September 2021

Past performance should not be seen as an indication of future performance.

Diversifiers

Commodities

— although the price of gold has struggled this year, we believe it continues to justify its role in diversified portfolios. Notably, the precious metal can offer some protection against any long-term increase in the pace of inflation, as well as any increase in global geopolitical risks. The extremely low level of real (inflation-adjusted) yields could be supportive for gold, which is a non-yielding asset (figure 13).

Alternative investment strategies

— actively managed alternative strategies delivered positive returns in the third quarter although performance was more volatile (figure 14). These funds tend to be uncorrelated with traditional asset classes, and can offer an additional source of return as well as smoothing overall portfolio performance.

— infrastructure investment trusts can offer some protection against rising inflation but heavy demand has pushed valuations to levels that aren't very attractive. Commercial property valuations are also high, particularly in sectors that have enjoyed the most demand, such as retail warehouses.

Gold and real yields

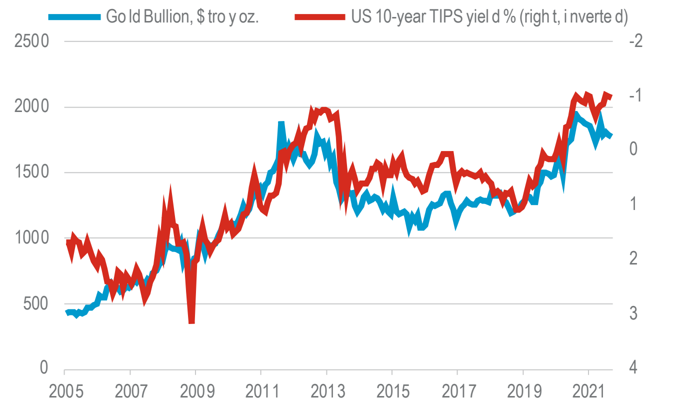

Figure 13
Gold prices could remain supported by the low level of real (inflation-adjusted) yields.

Source: Refinitiv, Rathbones

Performance of alternative strategies

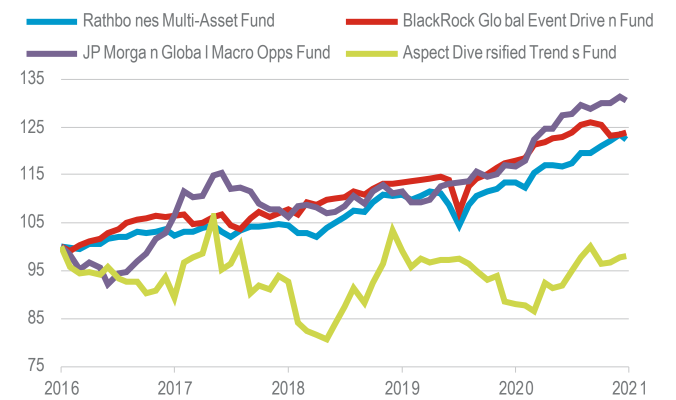

Figure 14
We invest in a range of alternative asset classes and strategies that provide diversified sources of returns in balanced portfolios.

Source: Absolute Hedge indices performance from Morningstar, total return in sterling.

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The value of investments and the income from them may go down as well as up and you may not get back your original investment. Past performance should not be seen as an indication of future performance. Changes in rates of exchange between currencies may cause the value of investments to decrease or increase.

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