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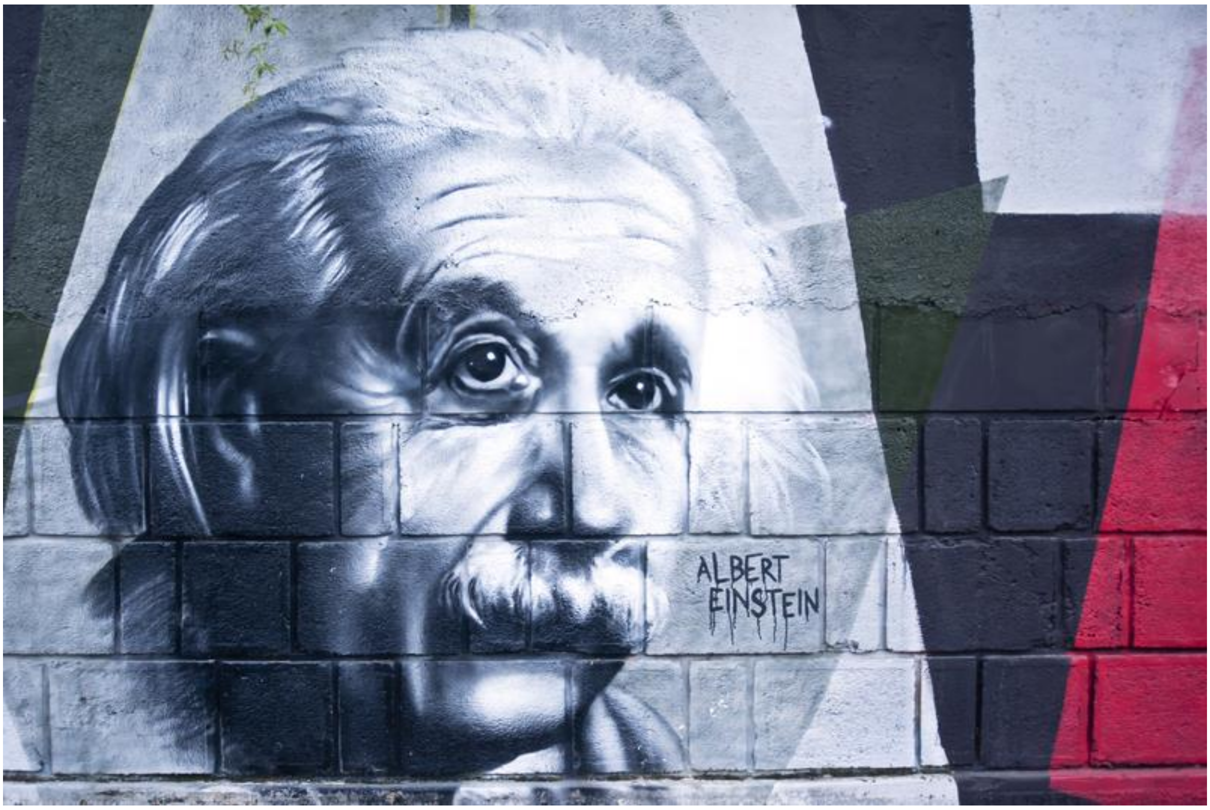
PORTFOLIO AND MARKET QUARTERLY UPDATE – JANUARY 2025



"Everything should be made as simple as possible, but not simpler." – Albert Einstein.

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2024 Review: Executive Summary

Overview

2024 was a momentous year, defined by pivotal political, economic, and environmental shifts with lasting implications. Key highlights include:

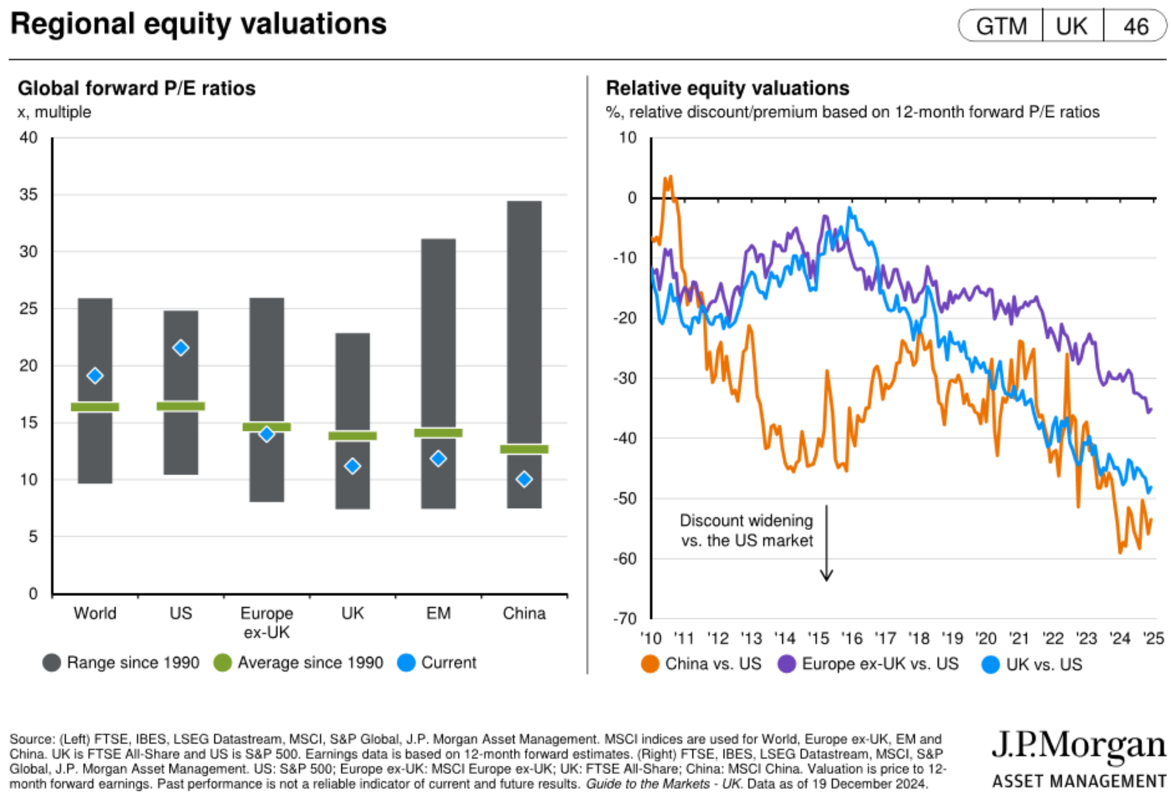
- **Historic Election Year:** Nearly 2 billion eligible voters across 70 countries participated in the largest election cycle in history.
- **Trump’s Resurgence:** Donald Trump staged a remarkable comeback, securing a decisive victory in the U.S. presidential race.
- **Labour's UK Triumph:** Labour secured a historic supermajority in the UK, marking a profound shift in the nation’s political landscape.
- **Monetary Policy Divergence:** Japan raised interest rates for the first time in 17 years, while the U.S. cut rates, signalling contrasting economic priorities.
- **Market Momentum:** The S&P 500 delivered a second consecutive annual gain of over 20%, a feat last achieved in 1997–1998.
- **Middle East Developments:** While unrest persisted, there was hope with the fall of Assad in Syria and pledges for elections within four years.
- **Climate Milestone:** For the first time, global temperatures were, on average, 1.5°C higher than pre-industrial levels, underscoring the urgency of climate action.
- **Geopolitical Alignments:** Stronger ties emerged between Russia, China, Iran, and North Korea, signalling a potential shift in global alliances.

As we enter 2025, these events set the stage for new opportunities and challenges across global markets.

Markets: A Bubble in the Making?

History has taught us that market euphoria often precedes correction. While optimism remains high, the parallels to past bubbles are worth noting.

- **Overvaluation Concerns:** The World Index, dominated by U.S. equities, appears stretched, with the S&P delivering extraordinary gains for two consecutive years.
- **Historical Context:** Overinflated valuations have repeatedly led to corrections from Dutch Tulip Mania to the dot-com bubble.



A concerning trend is the heavy insider selling by directors of top-performing companies, such as the "Magnificent Seven," alongside profit-taking in Bitcoin. These actions may signal caution.

Additionally, the rise of passive investing could exacerbate market volatility. These strategies concentrate capital in top-performing sectors so that they may distort fair pricing and liquidity.

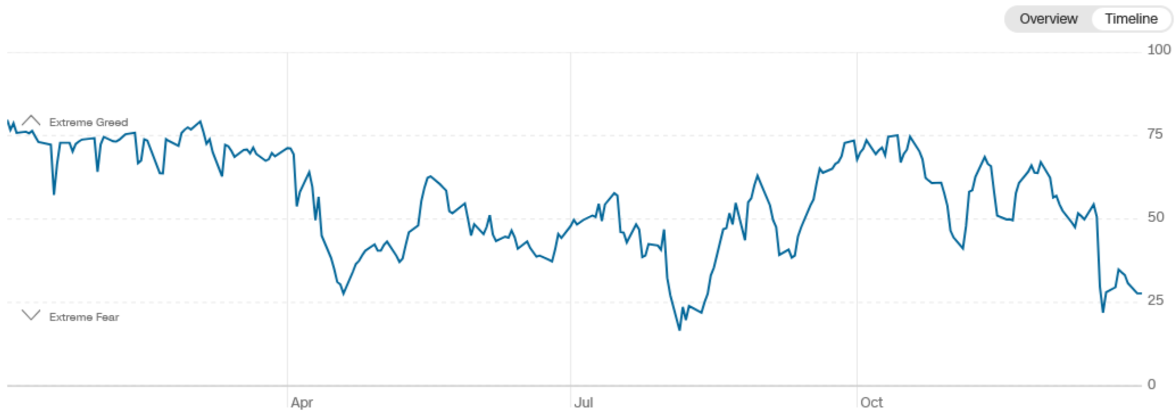
Investor Takeaway: While opportunities remain, portfolio reviews are crucial. Consider rebalancing to mitigate risk, particularly in overvalued markets.

United States

The extent of Trump’s victory surprised many. His "America First" policies could reshape global markets:

- **Supply Chain Realignment:** Less globalisation may create supply chain bottlenecks, increasing market uncertainty.
- **Tariff Implications:** Proposed 10–20% tariffs on imports and 60% on Chinese goods could fuel inflation and impact consumer spending.

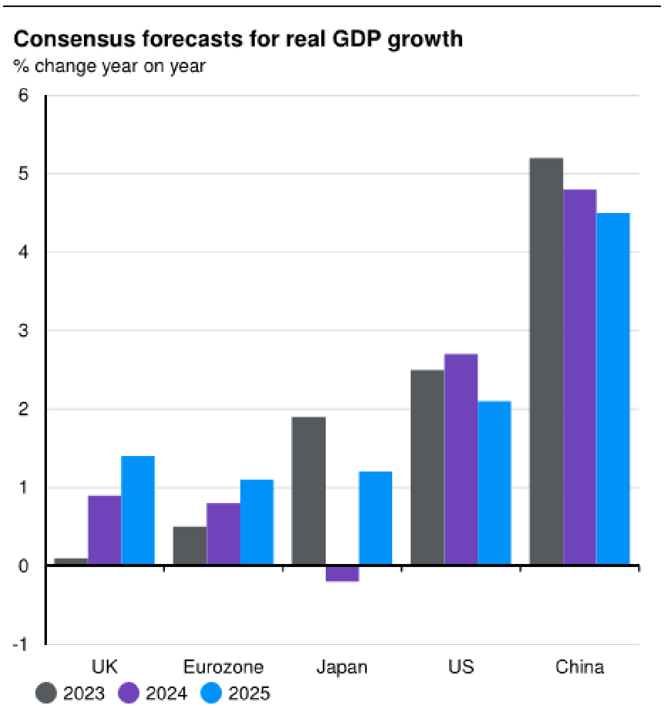
Despite positive signals in labour markets and corporate earnings, the Fear and Greed Index has swung from extreme greed to fear. Concerns around market momentum, stock breadth, and price strength persist.



Investor Takeaway: With interest rates easing but geopolitical and economic uncertainty rising a cautious approach is recommended. Diversification and protection against potential downside risks in U.S. markets are prudent.

China: Balancing Challenges with Opportunities

China's economy showed resilience in 2024, with 4.8% growth in the first three quarters, outpacing the U.S. (2.8%) and UK (1.1%).



Challenges Ahead: Comparisons to Japan's stagnation in the 1980s highlight concerns over China's long-term trajectory. However, there are reasons for optimism:

- Xi Jinping has acknowledged the importance of private sector innovation.
- Key industries, such as AI and batteries, are driving reform efforts.

Impact of Tariffs: While U.S. tariffs may affect exports, domestic consumption, which drives China’s economy, remains robust.

Investor Takeaway: China remains cheap compared to most markets, but growth is significantly higher than its Western counterparts. Areas to watch are reform and the relationship between Trump and Xi.

Europe: A Mixed Bag

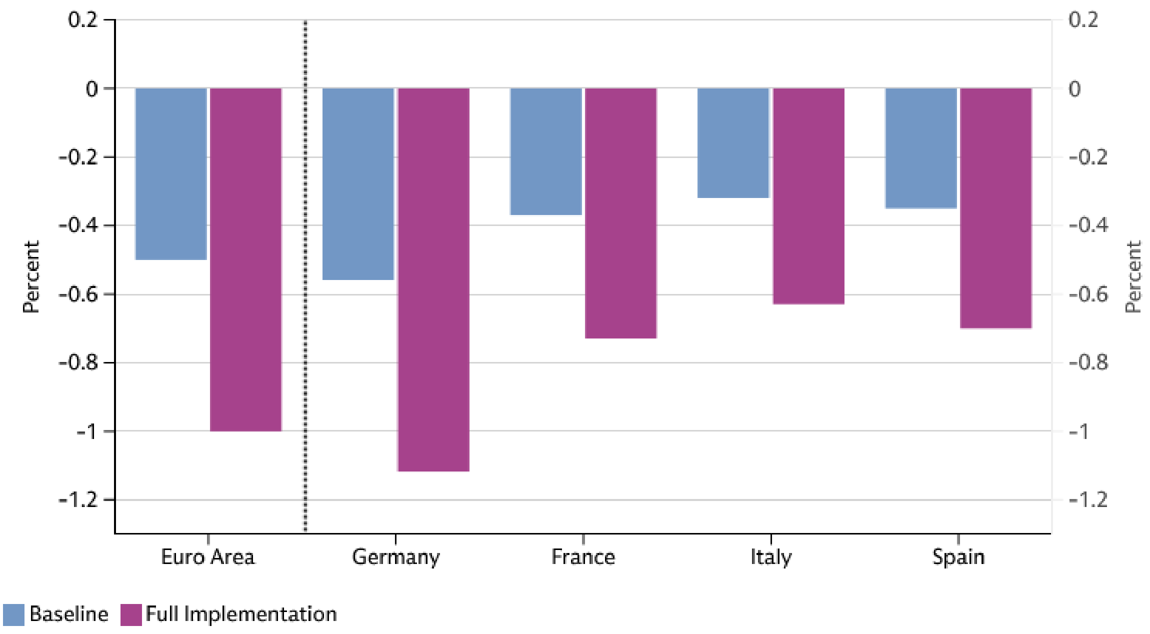
After a stagnant 2023, Europe saw slight growth in 2024, with inflation cooling from 2022 peaks.

- **Economic Outlook:** Inflation is projected to fall to 2% in 2025, with rates expected to be cut to around 1.75%.
- **Geopolitical Uncertainty:** Political instability in France and Germany and the Russia-Ukraine war remain key risks.

Europe's markets remain undervalued relative to the U.S., but external factors such as tariffs could weigh on growth.

Goldman Sachs Research expects a 0.5% GDP hit from trade tensions

Impact of US tariffs on GDP Level



Source: Goldman Sachs Research, Haver Analytics
Full implementation assumes a 10% tariff on all US imports (including from Europe) and baseline assumes a more limited set of tariffs on Europe, including on autos-related imports, and tariffs on China.

Goldman Sachs

Investor Takeaway: Europe presents value opportunities, but geopolitical and tariff-related risks warrant careful monitoring.

United Kingdom

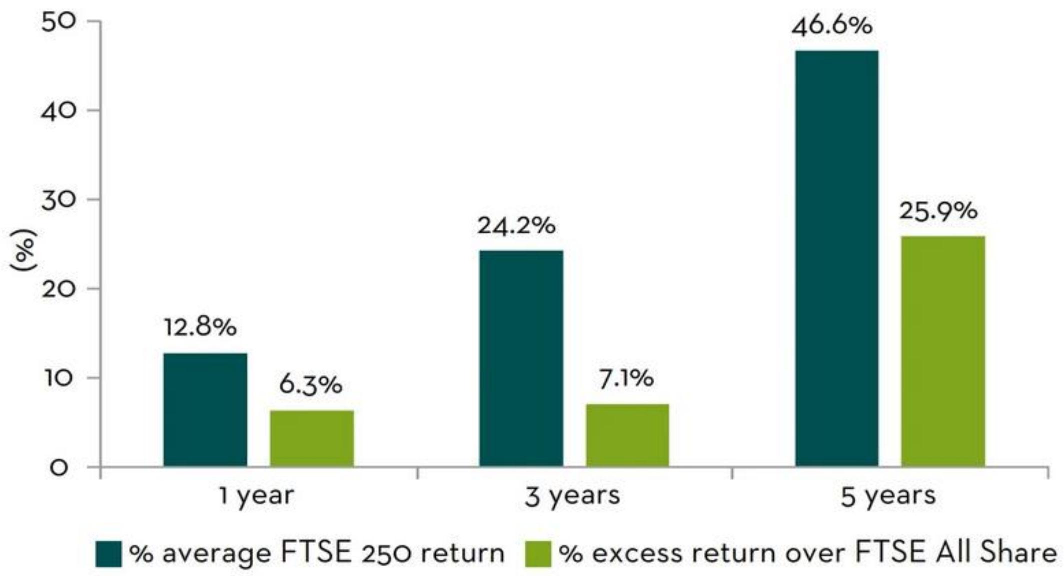
Labour's supermajority led to swift efforts to stimulate the UK economy, but the impact remains uncertain:

- **Economic Outlook:** GDP growth is forecasted for 2025, with inflation and interest rates expected to decline.
- **Budget Fallout:** Labour's budget has created uncertainty, particularly in business and investment communities.

The UK market remains relatively small globally but offers potential upside if sentiment improves.

Perhaps these charts are worth considering – the first considers returns on the FTSE 250 after the first rate cut:

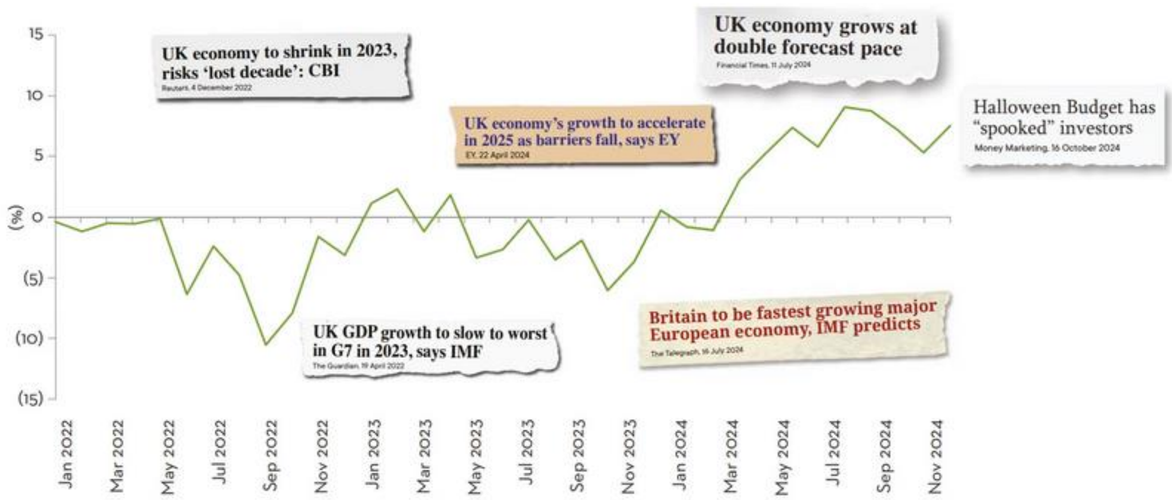
FTSE 250 returns after first UK interest rate cut



Source: Martin Currie and Bloomberg as of 31 May 2024. Data is month end index for the month when UK interest rates were first cut. Date range analysed is 1990-2024 (7 rate cut periods).

The second shows that UK markets seem to be more controlled by economic data:

FTSE All Share Return



Source: Bloomberg as at 29 November 2024.

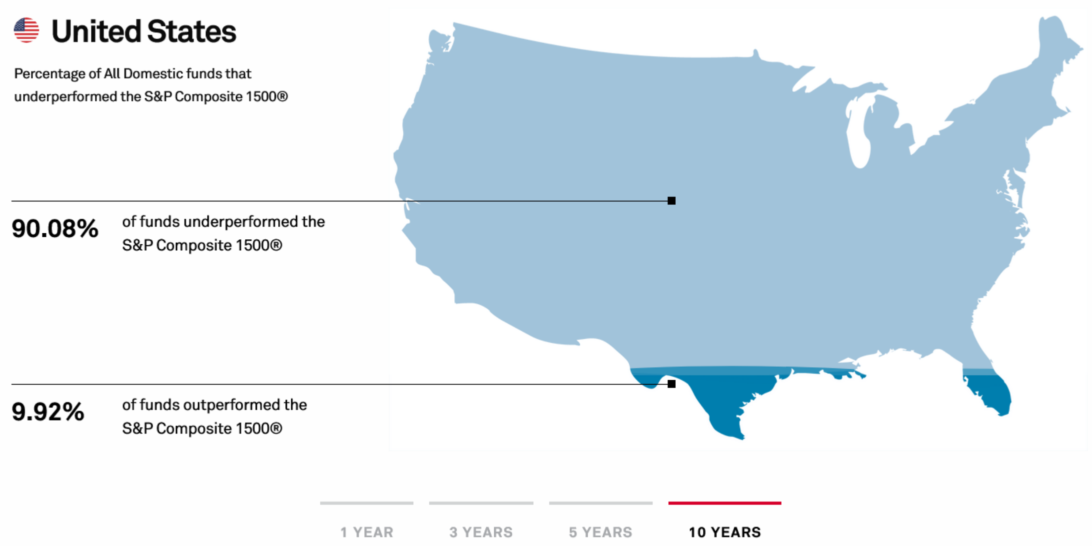
Investor Takeaway: With UK markets undervalued, even small positive shifts in sentiment could yield significant gains. Tariffs and budgetary policies remain areas to watch.

Conclusion: Preparing for 2025

2024 brought significant upheaval and opportunity. Key themes for 2025 include navigating political transitions, managing tariff implications, and preparing for potential market volatility. By focusing on diversification and rebalancing, investors can position themselves to capitalise on opportunities while mitigating risks.

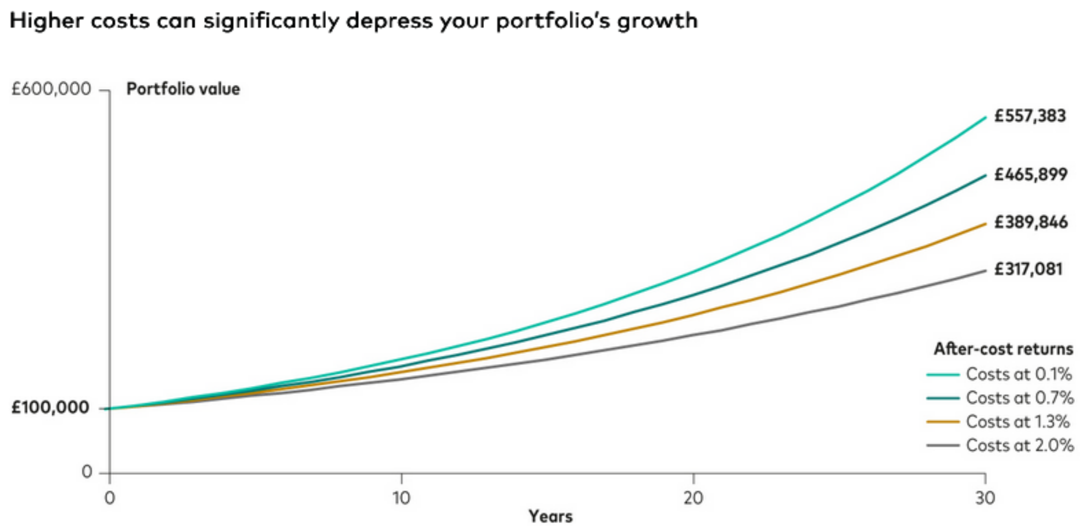
Under the Spotlight: Active vs. Passive Investing

In this quarter’s spotlight, we revisit the long-standing debate between active and passive investment strategies. This topic has polarised the investment world for years, often with arguments that seem conclusive yet leave room for discussion. One well-known framework frequently used to settle this debate is SPIVA®.



SPIVA® (S&P Indices Versus Active) regularly measures the performance of actively managed funds against their respective global index benchmarks. Its results have repeatedly shown that many active managers struggle to outperform their benchmarks, fuelling the argument that passive investing is the superior choice.

Cost considerations further bolster this perspective. The notion that "costs destroy performance" has been a cornerstone of Vanguard’s marketing strategy, helping it champion the virtues of low-cost, passive investing for decades.



Notes: The portfolio balances shown are hypothetical and do not reflect any particular investment. In this example, the portfolio returns 6% annually, then investment costs are taken at the end of the year. The rate of return is not guaranteed. The final account balances do not reflect any taxes or penalties that might be due upon distribution.

Source: Vanguard calculations.

Countless research papers and statistical analyses favour passive strategies, creating a tidal wave of opinion that passive investing is the only rational choice. In such a polarised landscape, advocating for active management might seem counterintuitive—but is it entirely without merit?

Why Passive?

Running a financial planning practice involves more than managing client portfolios. The demands are vast, from regulatory compliance and staff management to marketing and business development. In addition, the time-intensive nature of identifying and monitoring the best funds means that passive investing is starting to look increasingly appealing.

Passive strategies offer several distinct advantages:

- **Lower Costs:** Management fees for passive funds are significantly lower than those of their active counterparts, potentially enhancing net returns.
- **Consistent Performance:** By tracking established indices, passive funds deliver performance in line with the market, avoiding the pitfalls of underperformance.
- **Simplicity:** With reduced complexity and decision-making, passive investing minimises emotional bias, a common pitfall for investors.
- **Scalability:** Passive solutions, mainly implemented through model portfolio services (MPS) or multi-asset strategies, provide a streamlined way to manage client portfolios efficiently.

Is There a Place for Active Management?

While the case for passive investing is compelling, dismissing active management entirely overlooks its unique strengths. For specific client objectives and market scenarios, active strategies remain indispensable.

Here are some key reasons why active management deserves consideration:

- **Specialist Expertise:** Active fund houses often excel in niche sectors or strategies that are challenging to replicate with passive approaches. This can include emerging markets, small-cap equities, or alternative investments.
- **Enhanced Diversification:** Some passive strategies, particularly global ones, may concentrate heavily on specific regions or sectors (e.g., U.S. technology stocks). Active managers can mitigate these concentrations, providing more balanced exposure.
- **Sustainability and ESG:** While ESG-focused index funds exist, many argue that active managers are better equipped to execute exclusionary or impact-driven strategies, tailoring portfolios to align with clients' values.
- **Income Generation:** Delivering reliable income streams, whether part of a total return strategy or a dedicated income-focused mandate, often requires the tactical flexibility active management provides.

Who wins?

The truth lies in balance: neither active nor passive is inherently superior. The best approach depends on the client’s objectives, risk tolerance, and the broader investment mandate. Relying solely on historical data or industry trends risks oversimplification.

What’s critical is understanding what lies beneath each strategy—its construction, limitations, and alignment with the client’s needs. History is rife with celebrated fund houses falling from grace, reminding us that diligence is key in evaluating all investment options.

The Bottom Line

The active vs. passive debate is not about choosing sides but finding the right tools for the job. For some, passive funds may provide the necessary low-cost, efficient foundation. For others, the tailored approach of active management might better align with their goals. A thoughtful combination of both can often provide the best of both worlds.

The decision should always centre on the client—ensuring that their objectives, preferences, and values are at the heart of the strategy.

Performance Summary

Flagship Growth

	1-month	3-months	6-months	12-months	3-years	5-years
Flagship Growth 3	-1.07%	-0.61%	2.36%	4.24%	4.10%	16.87%
Flagship Growth 4	-0.99%	0.24%	2.79%	6.58%	7.05%	24.80%
Flagship Growth 5	-1.00%	0.74%	2.76%	8.65%	9.92%	35.25%
Flagship Growth 6	-1.09%	1.54%	3.53%	10.31%	11.61%	39.24%
Flagship Growth 7	-0.90%	1.46%	3.96%	11.26%	12.69%	47.25%
Flagship Growth 8	-1.51%	2.37%	3.46%	12.60%	10.50%	48.19%

Source: FE Analytics as of 31 December 2024. These returns reflect the underlying fund manager charges but not any additional charges, for example, adviser and platform fees. Past Performance is no guide to future performance; investments can fall and rise.

Flagship Income

	1-month	3-months	6-months	12-months	3-years	5-years	Yield
Flagship Income 3	-0.84%	-0.02%	3.07%	5.42%	6.51%	19.56%	4.53%
Flagship Income 4	-0.95%	0.07%	2.35%	6.75%	9.24%	27.28%	4.46%
Flagship Income 5	-1.04%	-0.40%	2.62%	6.97%	9.19%	28.65%	4.30%
Flagship Income 6	-1.13%	0.91%	3.45%	8.64%	10.73%	30.45%	3.97%
Flagship Income 7	-1.23%	1.80%	3.75%	10.85%	12.66%	35.05%	3.57%

Source: FE Analytics as of 31 December 2024. These returns reflect the underlying fund manager charges but not any additional charges, for example, adviser and platform fees. Past Performance is no guide to future performance; investments can fall and rise.

Flagship ESG

	1-month	3-months	6-months	12-months	3-years	5-years
Flagship ESG 3	-0.72%	-0.42%	2.15%	3.76%	-1.70%	-
Flagship ESG 4	-1.14%	-0.37%	1.81%	4.55%	0.89%	17.65%
Flagship ESG 5	-1.39%	0.15%	2.25%	6.79%	1.74%	23.50%
Flagship ESG 6	-1.59%	-0.14%	2.06%	6.65%	2.37%	26.64%
Flagship ESG 7	-1.56%	0.30%	2.66%	9.72%	3.78%	26.87%
Flagship ESG 8	-1.47%	0.56%	1.80%	7.67%	-	-

Source: FE Analytics as of 31 December 2024. These returns reflect the underlying fund manager charges but not any additional charges, for example, adviser and platform fees. Past Performance is no guide to future performance; investments can fall and rise.

Flagship Pactive

	1-month	3-months	6-months	12-months	3-years	5-years
Flagship Pactive 3	-1.03%	-0.15%	2.94%	5.00%	1.49%	-
Flagship Pactive 4	-1.00%	0.60%	3.42%	7.04%	1.85%	-
Flagship Pactive 5	-0.95%	1.82%	4.29%	10.05%	8.45%	-
Flagship Pactive 6	-0.78%	3.03%	5.16%	13.00%	13.77%	-
Flagship Pactive 7	-0.43%	4.13%	5.66%	14.23%	18.42%	-
Flagship Pactive 8	-0.16%	5.35%	6.33%	15.53%	22.76%	-

Source: FE Analytics as of 31 December 2024. These returns reflect the underlying fund manager charges but not any additional charges, for example, adviser and platform fees. Past Performance is no guide to future performance; investments can fall and rise.