Aspect8

Aspect8 Investment Solutions

2021 review

Overview

As we reflect on the year 2021, the majority of our portfolios have performed in line with expectations, delivering risk adjusted returns relative to their benchmarks. Our lower risk mandate 3 portfolios are comfortably ahead of the IA Mixed Investment 0-35% Shares benchmark, which returned 2.57% for the year. As we move up the risk scale, portfolios 4 and 5 straddle the risk/return of the IA Mixed Investment 20-60% Shares, which returned 6.28% and portfolios 6 and 7 have achieved the same objective of overlapping the risk/return of the IA Mixed Investment 40-85% Shares, returning 11.10% for 2021. The higher risk portfolios in mandate 8, were either broadly in line with the IA Flexible Investment, returning 11.38% or were favourably ahead. **PLEASE REFER TO THE ASPECT8 INVESTMENT SOLUTIONS PERFORMANCE REPORT AT THE END OF THIS DOCUMENT.**

It's worth reiterating that where we have two risk mandates attached to one benchmark, we would generally expect the high-risk portfolio to outperform its benchmark when markets are rising, and conversely expect the lower risk portfolio to outperform in declining markets.

The A8 Active Portfolios were a slight outlier to the synopsis above and require further explanation regarding risk mandates 6 and 7. Over the period, the main performance detractors have come from fund manager selection in the UK and within Alternative Assets.

UK equities

In the UK, two managers stood out regarding performance relative to their benchmarks.

Jupiter UK Mid Cap

The fund is run by Richard Watts, who has established a reputation as one of the strongest stock pickers in the UK market and as a result runs a high conviction fund. This year there have been several stocks which have had problems, which Richard argues are only short term or temporary in nature. The biggest hit to the fund has come from THG, an e-commerce business with trading updates that resulted in downgrades to earnings as a result of increased supply chain costs (a common theme at all online retailers) and adverse financial exchange (FX)movements. Richard has bounced back from difficult performance periods before (such as 2009 and 2018) and has also sold out of badly hit names when he believes recovery will not occur. We've witnessed the manager navigate this fund successfully through many investment cycles and whilst monitoring the situation closely, continue to hold the fund in our portfolios.

Ninety One UK Alpha

This fund is run by Portfolio Manager, Simon Brazier, and following a strong relative performance in 2020, the UK Alpha strategy underperformed a sharply rising market in 2021. Whilst the fund didn't experience any disastrous outcomes, several companies in the strong franchises and defensive growth categories have underperformed the cyclical growth and value-led recovery; others have been impacted by one-off events. Simon foresees a more uncertain and challenging backdrop, with equity markets around the world at elevated levels, he therefore believes caution in portfolio construction is prudent. Simon thinks market leadership in this uncertain environment will come from defensive compounders, with Unilever and London Stock Exchange Group examples of such stocks. We use the UK Alpha fund in our portfolios as a more defensive play, looking to counterbalance the smaller riskier positions we hold alongside it. The fund tends to hold higher quality names, that can lag in a 'risk-on' market such as the one we witnessed in 2021.

JOHCM UK Dynamic

On a more positive note, for UK fund selection, after a tough 2020 for JOHCM UK Dynamic, it is pleasing to report a better year for the Fund in 2021. The performance has been supported by a strong earnings recovery and by several takeover bids in companies held in the portfolio. It was a number of the Fund's larger and more contrarian positions that were subject to bids. Morrisons, DMGT and St Modwen made the headlines given the managers public opposition to the initial low-balled bids. But the year should also be remembered for the completion of the bid for Urban & Civic and the bids for Aggreko, Ultra Electronics and Stock Spirits. Given the noticeable uptick in UK takeover activity, it has not escaped the manager's attention that Private Equity seemed to be selling low asset companies at high valuations in order to buy real asset companies at low valuations. Fund manager, Alex Savvides has extreme confidence in his long-term stock selection process and potential reappraisal of the valuations for companies he holds within his fund.

Alternative assets

Within the alternative asset allocation, our fund selection delivered mixed fortunes, but it's worthwhile refreshing why we hold alternative assets in the portfolios. As part of a multi-asset class portfolio, adding alternatives can provide many benefits, including diversification, downside protection, and improved risk-adjusted returns. Equities have been well-supported as a result of low bond yields, so market sensitivity to an upward break in bond yields remains a risk. Credit spreads have also fallen to tight levels as a result of the favourable corporate and economic backdrop, supported by ultra-loose central bank policies. We believe it is appropriate to diversify and help lower the risk of adverse market conditions to our portfolios by increasing the exposure to assets or strategies with returns which are uncorrelated with traditional asset classes.

Jupiter Gold & Silver

The allocation to the Jupiter Gold & Silver Fund was the largest performance detractor within the alternatives' allocation over the year. There's no denying it has been a disappointing year for precious metals, especially in a year when so many of the drivers of higher returns seemed almost inevitable. The markets however are forward looking, and it appears they have priced in a reversal, or at least to some degree a lessening of these favourable trends. It is worth noting however, despite the negative returns in 2021, we are still showing a sizeable profit from our initial entry point into the fund in 2020.

M&G Emerging Market Debt

A key attraction of the M&G Emerging Market Debt Fund is that it currently provides significantly higher yields in both nominal and real terms (i.e. adjusted for inflation) compared to developed country bond markets. The sustained yield advantage of Emerging Market Debt can partly be explained in terms of a 'risk premium' (prone to political instability, arbitrary shifts in central bank policy and unsustainable debt levels) which should reduce over time both as a result of Emerging Markets becoming structurally stronger (and therefore inherently less risky) as well as the increasing dissipation of negative perception biases, as news flow continues to improve. 2021 has been a difficult year however, as a flare-up in global inflationary pressure, a strong US dollar and country-specific risks (notably China) have all been headwinds for the asset class.

Liontrust Diversified Real Assets

On a more positive note, cyclical real assets performed positively, including commodities, private equity, and global property securities. Exposure to property through holdings in specialist real estate investment trusts, such as social housing and industrial warehouses, performed particularly well. The inclusion of core infrastructure within the Fund also boosted performance. The largest contributions came from holdings in renewable infrastructure, with the social infrastructure holdings also performing well.

Our expectations for alternatives remain strong heading into 2022, given the continued backdrop of rising interest rates, high equity valuations, and increased volatility. We are favouring strategies with less directional exposure to traditional asset classes.

Asset allocation

All the portfolios follow the same portfolio construction process but will have different building blocks and weights to each asset class, determined by the risk profile selected. The investment process starts with our capital market assumptions; this is our long-term expectations for asset class returns. We work alongside the Schroder Economics Team to produce a set of 30-year return forecasts for all major asset classes. This is the main input into our Capital Asset Pricing Model to generate our efficient frontier (optimal blend of asset classes that maximises return for a given level of risk). We select the portfolios on the frontier that matches our portfolio benchmarks and ensures that there is enough risk and return separation between portfolios as we move up the risk curve, setting the optimal strategic asset allocation for each portfolio.

The portfolios are benchmarked against the IA Mixed Asset category, which include the 0-35% Shares, 20-60% Shares and 40-85% Shares. Funds in this sector are required to have a range of different investments and must hold the stipulated investment percentage in equities i.e. the 40-85% Shares can only have a maximum of 85% equity exposure, with a minimum 40% equity exposure, to be include in this category. Our higher risk profile portfolios are benchmarked against the IA Flexible Investment category. Funds in this sector are expected to have a range of different investments. However, the funds in this sector have significant flexibility over what to invest in. There is no minimum or maximum requirement for investment in company shares.

These IA benchmarks we use comprise hundreds of different managers which will all follow their own investment processes and will therefore capture a variety of different asset allocations based on their own perception of where the best risk and return can be generated over the long, medium and short term. The A8 Investment Solutions Portfolios follow a long-term strategic asset allocation and risk management framework and therefore the positioning may look quite different to the IA at certain points in time. It is also impossible to obtain a live “look-through” of how the competitors are positioned, but we can obtain a snapshot in time of what the category average broadly looks like. We can therefore use this data to suggest how our strategic positioning either aided or detracted relative to our peers over the very short-term.

Key themes

Here is a summary of the key themes apparent from this data and whether the current positioning relative to the average in the peer group would have added value in 2021.

From a top-down perspective, the A8 Investment Solutions Portfolios are:

Equity allocations

Broadly inline. Where two risk profiles are assigned to a single IA category, the amounts allocated to equity sit either side of the IA category average and are intentionally designed to be positioned this way.

Regionally

Portfolios have a slight overweight to the UK, Japan and Emerging Markets and have a relative underweight to US and Europe.

Fixed Income

Generally, have an underweight position relative to the IA categories.

Alternative Assets (includes Property for comparative purposes)

The portfolios are overweight relative (we prefer alternatives over fixed income at present).

Cash

Lower levels of cash as you move up the risk profiles.

The IA category breaks down the equity component into regional allocations so we can provide a bit more colour here on whether positioning helped or hindered in 2021. Unfortunately, the fixed income and alternative assets aren’t split out into sub sectors which makes it difficult to reconcile positioning relative to the average of the peer group.

Equities

Positioning - overweight UK, Japan & EM

UK

The relatively unloved and undervalued UK market provided positive returns, but it didn't stand out greatly from other developed markets. Given the overweight to UK was relatively small, the allocation to region neither added nor detracted. A key determinant of relative performance would have come from style and fund manager selection.

Japan

Japan was one of the worst performing developed market regions, with currency depreciation relative to Sterling compounding the impact from weak equity markets. Renewed uncertainty over the new Covid variant and an influx of new issues including supply chains and rising input costs have weighed on short-term earnings of Japanese companies. These temporary issues obscure the increasingly positive outlook for Japan where we see cash rich companies continuing to return funds to shareholders with a flurry of buybacks announced and higher dividends being paid.

Emerging Markets

Emerging Markets in general faced a challenging 2021, ultimately ending the year with negative returns. Emerging markets with such a diverse collection of countries have seen wide dispersion in their recovery. China has dealt with its share of regulatory and policy related issues in addition to relatively tight restrictions surrounding Covid protocols that have hampered its economic growth in 2021. India's stock market on the other hand staged a powerful rally in 2021 to new all-time highs led by technology, along with the basic-materials and industrials sectors. Whilst the Emerging Markets' allocation added little value from an allocation point, it was pleasing to see many of our fund managers outperforming the benchmark and delivering positive returns for the year.

Positioning - underweight US & Europe

US

US equities set the pace for returns in 2021 and delivered the strongest returns for the major regions we cover. It was the large cap equity indices that posted the most attractive gains, with a significant portion of these gains driven by only a few companies, many of them technology firms, which led the S&P 500 to new record highs in the closing month on the year. Against this very narrow led market, it was great to see the combination of different style managers used in the US keep pace with the strong index returns.

Europe

Europe's economy, which is more sensitive to the global economic backdrop has been slower to recover but has still made solid progress in 2021 with its second-best yearly performance in over a decade. Sectors linked closely to the health of the economy, like banks and industrials, did well in the first half of 2021 but the second half of the year was dominated by technology and healthcare. Fund manager selection in Europe added to performance, with large cap growth managers outperforming the index.

Outlook 2022

Again, we find ourselves starting the year with plenty of issues to talk about in terms of the economy and outlook for markets. We're only a few weeks into 2022 which has got off to a volatile start, with a jump in 10-year Treasury yields and a sell-off in tech shares pulling down stocks. The main cause of this reaction is that markets believe the Federal Reserve will raise rates sooner and more aggressively than expected. Our current outlook suggests equity returns will be more muted, but still positive, in 2022, supported by solid corporate earnings. Inflation is likely to remain a concern and will put pressure on central banks to start to raise rates.

The investment portfolios are designed to be highly diversified global multi asset portfolios that are style agnostic. A8 Investment Solutions seek to provide returns from wherever they may occur, spreading investments across a range of assets and styles that should ideally perform differently to each other over time. The portfolios follow a long-term strategic asset allocation approach where no short-term market timing is incorporated. This approach is maintained throughout economic cycles, rebalancing in line with its strategic asset allocation on a quarterly basis.

Performance report

A8 Active Model Portfolios	01/01/2021–31/12/2021	01/01/2020–31/12/2020	01/01/2019–31/12/2019	01/01/2018–31/12/2018	01/01/2017–31/12/2017	Since Common Inception (03/01/2008)–31/12/2021
A8 Active Portfolio 2	**1.63**	**3.48**	**4.51**	**-1.11**	**3.19**	**54.38**
UK CPI[1]	5.13	0.32	1.47	2.31	3.09	37.98
A8 Active Portfolio 3	**3.66**	**6.20**	**9.43**	**-1.90**	**5.42**	**112.33**
IA Mixed Investment 0–35% Shares	2.57	3.98	8.80	-3.41	5.01	67.41
A8 Active Portfolio 4	**5.32**	**6.95**	**12.99**	**-3.87**	**7.98**	**140.06**
A8 Active Portfolio 5	**6.85**	**7.59**	**15.69**	**-5.45**	**11.01**	**155.90**
IA Mixed Investment 20–60% Shares	6.28	3.49	12.08	-5.11	7.20	84.68
A8 Active Portfolio 6	**8.30**	**10.06**	**18.32**	**-6.68**	**15.42**	**192.83**
A8 Active Portfolio 7	**9.80**	**13.76**	**20.69**	**-8.08**	**17.88**	**225.30**
IA Mixed Investment 40–85% Shares	11.10	5.50	15.94	-6.07	10.05	119.03
A8 Active Portfolio 8	**11.05**	**16.75**	**20.29**	**-9.20**	**18.81**	**214.45**
A8 Active Portfolio 9	**10.48**	**21.43**	**22.60**	**-10.49**	**22.41**	**224.67**
A8 Active Portfolio 10	**8.17**	**19.20**	**18.35**	**-10.30**	**22.61**	**163.18**
IA Flexible Investment	11.38	7.01	15.64	-6.64	11.09	114.59

A8 Income Portfolio	01/01/2021–31/12/2021	01/01/2020–31/12/2020	01/01/2019–31/12/2019	01/01/2018–31/12/2018	01/01/2017–31/12/2017	Since Common Inception (31/03/2018)–31/12/2021
A8 Income Portfolio	**9.26**	**-4.85**	**9.63**	**—**	**—**	**11.24**
IA Mixed Investment 20–60% Shares	6.28	3.49	12.08	-5.11	7.20	20.82

A8 Strategic Index Model Portfolios	01/01/2021–31/12/2021	01/01/2020–31/12/2020	01/01/2019–31/12/2019	01/01/2018–31/12/2018	01/01/2017–31/12/2017	Since Common Inception (04/01/2011)–31/12/2021
A8 Strategic Index Portfolio 2	**1.84**	**4.11**	**5.89**	**-0.16**	**1.70**	**57.69**
UK CPI[1]	5.13	0.32	1.47	2.31	3.09	25.48
A8 Strategic Index Portfolio 3	**4.16**	**6.27**	**8.70**	**-0.96**	**3.65**	**99.23**
IA Mixed Investment 0–35% Shares	2.57	3.98	8.80	-3.41	5.01	55.04
A8 Strategic Index Portfolio 4	**6.44**	**5.89**	**11.43**	**-2.64**	**6.30**	**116.56**
A8 Strategic Index Portfolio 5	**8.08**	**5.47**	**14.95**	**-4.38**	**8.76**	**124.09**
IA Mixed Investment 20–60% Shares	6.28	3.49	12.08	-5.11	7.20	72.64
A8 Strategic Index Portfolio 6	**9.96**	**5.63**	**16.35**	**-5.42**	**10.91**	**128.38**
A8 Strategic Index Portfolio 7	**12.15**	**5.58**	**18.34**	**-7.21**	**12.97**	**136.56**
IA Mixed Investment 40–85% Shares	11.10	5.50	15.94	-6.07	10.05	105.43
A8 Strategic Index Portfolio 8	**13.93**	**5.98**	**17.35**	**-6.80**	**14.88**	**119.76**
A8 Strategic Index Portfolio 9	**11.84**	**7.37**	**17.18**	**-7.63**	**17.35**	**103.42**
A8 Strategic Index Portfolio 10	**8.34**	**8.69**	**16.49**	**-7.75**	**18.75**	**85.94**
IA Flexible Investment	11.38	7.01	15.64	-6.64	11.09	102.33

A8 Sustainable Model Portfolios	01/01/2021–31/12/2021	01/01/2020–31/12/2020	01/01/2019–31/12/2019	01/01/2018–31/12/2018	01/01/2017–31/12/2017	Since Common Inception (20/10/2020) – 31/12/2021
A8 Sustainable Portfolio 3	**3.59**	**7.83**	**11.57**	**-2.62**	**6.55**	**6.57**
IA Mixed Investment 0–35% Shares	2.57	3.98	8.80	-3.41	5.01	5.92
A8 Sustainable Portfolio 4	**5.89**	**—**	**—**	**—**	**—**	**10.04**
A8 Sustainable Portfolio 5	**7.50**	**9.56**	**18.73**	**-4.55**	**11.78**	**12.55**
IA Mixed Investment 20–60% Shares	6.28	3.49	12.08	-5.11	7.20	11.85
A8 Sustainable Portfolio 6	**9.06**	**—**	**—**	**—**	**—**	**14.93**
A8 Sustainable Portfolio 7	**10.99**	**12.36**	**24.19**	**-5.75**	**14.36**	**17.91**
IA Mixed Investment 40–85% Shares	11.10	5.50	15.94	-6.07	10.05	17.85
A8 Sustainable Portfolio 8	**12.22**	**—**	**—**	**—**	**—**	**19.92**
IA Flexible Investment	11.38	7.01	15.64	-6.64	11.09	18.71

A8 Blended Portfolios	01/01/2021–31/12/2021	01/01/2020–31/12/2020	01/01/2019–31/12/2019	01/01/2018–31/12/2018	01/01/2017–31/12/2017	Since Common Inception (20/03/2020)–31/12/2021
A8 Blended Portfolio 3 F Acc	**3.82**	**—**	**—**	**—**	**—**	**21.76**
IA Mixed Investment 0–35% Shares	2.57	3.98	8.80	-3.41	5.01	20.04
A8 Blended Portfolio 4 F Acc	**5.81**	**—**	**—**	**—**	**—**	**29.62**
A8 Blended Portfolio 5 F Acc	**7.44**	**—**	**—**	**—**	**—**	**35.24**
IA Mixed Investment 20–60% Shares	6.28	3.49	12.08	-5.11	7.20	32.36
A8 Blended Portfolio 6 F Acc	**9.16**	**—**	**—**	**—**	**—**	**42.78**
A8 Blended Portfolio 7 F Acc	**12.13**	**—**	**—**	**—**	**—**	**53.60**
IA Mixed Investment 40–85% Shares	11.10	5.50	15.94	-6.07	10.05	46.00
A8 Blended Portfolio 8 F Acc	**12.88**	**—**	**—**	**—**	**—**	**58.10**
IA Flexible Investment	11.38	7.01	15.64	-6.64	11.09	48.40

A8 Tactical Portfolios	01/01/2021–31/12/2021	01/01/2020–31/12/2020	01/01/2019–31/12/2019	01/01/2018–31/12/2018	01/01/2017–31/12/2017	Since Common Inception (11/01/2017)–31/12/2021
A8 Tactical Portfolio 3 F Acc	**4.60**	**5.79**	**8.45**	**-4.31**	**—**	**19.26**
IA Mixed Investment 0–35% Shares	2.57	3.98	8.80	-3.41	5.01	16.85
A8 Tactical Portfolio 4 F Acc	**7.09**	**4.55**	**10.27**	**-5.72**	**—**	**22.42**
A8 Tactical Portfolio 5 F Acc	**8.83**	**3.94**	**12.45**	**-7.49**	**—**	**25.66**
IA Mixed Investment 20–60% Shares	6.28	3.49	12.08	-5.11	7.20	24.11
A8 Tactical Portfolio 6 F Acc	**10.82**	**3.29**	**13.59**	**-8.67**	**—**	**27.98**
A8 Tactical Portfolio 7 F Acc	**12.99**	**2.84**	**14.38**	**-10.51**	**—**	**29.24**
IA Mixed Investment 40–85% Shares	11.10	5.50	15.94	-6.07	10.05	38.37

A8 Managed Defensive Fund	01/01/2021–31/12/2021	01/01/2020–31/12/2020	01/01/2019–31/12/2019	01/01/2018–31/12/2018	01/01/2017–31/12/2017	Since Common Inception (01/06/2018)–31/12/2021
A8 Managed Defensive F Acc	**5.54**	**1.84**	**8.89**	**—**	**—**	**13.52**
UK Cash+2%	2.07	2.62	3.00	2.88	2.42	9.73

A8 Income Portfolio (Fund)	01/01/2021– 31/12/2021	01/01/2020–31/12/2020	01/01/2019–31/12/2019	01/01/2018–31/12/2018	01/01/2017–31/12/2017	Since Common Inception (16/12/2010)–31/12/2021
A8 Income Portfolio (Fund)	**12.42**	**0.00**	**5.53**	**0.21**	**1.67**	**76.69**
IA Mixed Investment 20–60% Shares	6.28	3.49	12.08	-5.11	7.20	75.01

Past performance is not a guide to future performance. The value of investments and the income received from them can fall as well as rise. Investors may not get back the amount invested. Performance Source: Schroders, as at 31 December 2021. Benchmark source: Morningstar, as at 31 December 2021. UK Consumer Price Index (CPI) is used as a measure of inflation. [1]**CPI data is one month lagged (as at 30 November 2021).** Performance is shown net of OCF and MPS fee (where applicable) but gross of platform and adviser fees and is in Sterling.

What are the risks?

Prior to making an investment decision, please consider the following risks:

Capital risk: All capital invested is at risk. You may not get back some or all of your investment. Counterparty risk: The portfolios may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the portfolios may be lost in part or in whole. **Credit risk:** A decline in the financial health of an issuer could cause the value of the instruments it issues, such as equities or bonds, to fall or become worthless. **Currency risk:** The portfolios may lose value as a result of movements in foreign exchange rates. **Derivatives risk**: A derivative may not perform as expected, and may create losses greater than the cost of the derivative. **Derivatives risk – efficient portfolio management and investment purposes:** Derivatives may be used to manage the portfolios efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the portfolios. The portfolios may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset. **Equity risk:** Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. **High yield bond risk:** High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk. **IBOR risk:** The transition of the financial markets away from the use of interbank offered rates

(IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the portfolios. **Interest rate risk:** The portfolios may lose value as a direct result of interest rate changes. **Investments in other collective investment schemes risk:** The portfolios will invest mainly in other collective investment schemes. **Leverage risk:** The portfolios use derivatives for leverage, which makes them more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss. **Liquidity risk:** In difficult market conditions, the portfolios may not be able to sell a security for full value or at all. **Market risk:** The value of investments can go up and down and an investor may not get back the amount initially invested. **Money market & deposit risk:** A failure of a deposit institution or an issuer of a money market instrument could have a negative impact on the performance of the portfolios. **Negative yields risk:** If interest rates are very low or negative, this may have a negative impact on the performance of the portfolios. **Operational risk:** Failures at service providers could lead to disruptions of fund operations or losses. **Performance risk:** Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.

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