CHETWOOD
INVESTMENT MANAGEMENT

INDEX PORTFOLIOS

QUARTER 2 2024 REPORT

Quarter Insights

- Equity markets were relatively calm although the overall rate of appreciation slowed compared to Q1. Japanese equities fell but other Asian markets, notably China, outperformed.
- The theme of Artificial Intelligence (AI) continues to dominate, with US mega-cap technology stocks again outperforming, led by chipmaker Nvidia.
- There were some positive signs over the quarter that the trend of corporate earnings growth has started to broaden out beyond the large tech stocks.
- The European Central Bank joined Switzerland, Sweden and Canada in cutting their interest rate in 2024, but other major central banks continued to resist cutting, as labour markets remained relatively tight, and the global disinflation trend paused.
- Global growth is picking up in most regions despite monetary policy remaining quite restrictive. The UK exited its technical recession. US growth exceptionalism continued in Q2 but showed some signs of slowing.
- Rishi Sunak called a surprise early July UK election, which resulted in Labour returning to power.

Market Review

We came into the quarter expecting major global central banks to start cutting interest rates. We had only one rate cut from the European Central Bank, Swedish Riksbank and the Bank of Canada. Resilient growth, lower disinflation and a robust labour market, convinced central bankers to progress slowly in cutting rates. This dynamic supported risk assets, as it was interpreted that the reason for not cutting was generally because of good news for corporate earnings but was less kind to government bond markets.

The gains for equity markets during the second quarter were again driven by the technology sector, with the so-called Magnificent 7 technology stocks accounting for almost all of the quarter gains for the US S&P 500 Index. Taiwan's TSMC and ASML of the Netherlands, who are involved in semiconductors and generative AI, also enjoyed strong gains.

> *It is clear that AI continues to be a dominant theme in equity investors' minds, and we expect that to continue.*

There is already a considerable amount of good news baked into the stock prices of the "obvious" beneficiaries like AI GPU chip makers, and we believe there are smarter ways to generate returns from this theme within our clients' portfolios.

Oil prices fell, which helped contain inflationary pressures. Elsewhere, commodity prices were broadly strong. The price of copper is seen as a leading indicator of the global economy's health, so it is a good sign that its price jumped sharply during the quarter. Silver is another metal that is an essential component in many industries, and its price rose even more sharply than copper.

During the quarter, PM Rishi Sunak called a surprise early election, which took place shortly after the quarter end. The result was that the UK public voted to bring the Labour Party back into power for the first time in 14 years. Interestingly, in the lead-up to this outcome, financial markets showed little reaction despite the expectations of a new majority government. Even during the week of the election, UK stocks, gilts and Sterling remained relatively unmoved by events. It seems the response by investors is turning out to be one of hope that Starmer's centre-left platform will draw a line under a tumultuous period in British politics, especially at a time when political volatility is growing in neighbouring France and across the pond in the US.

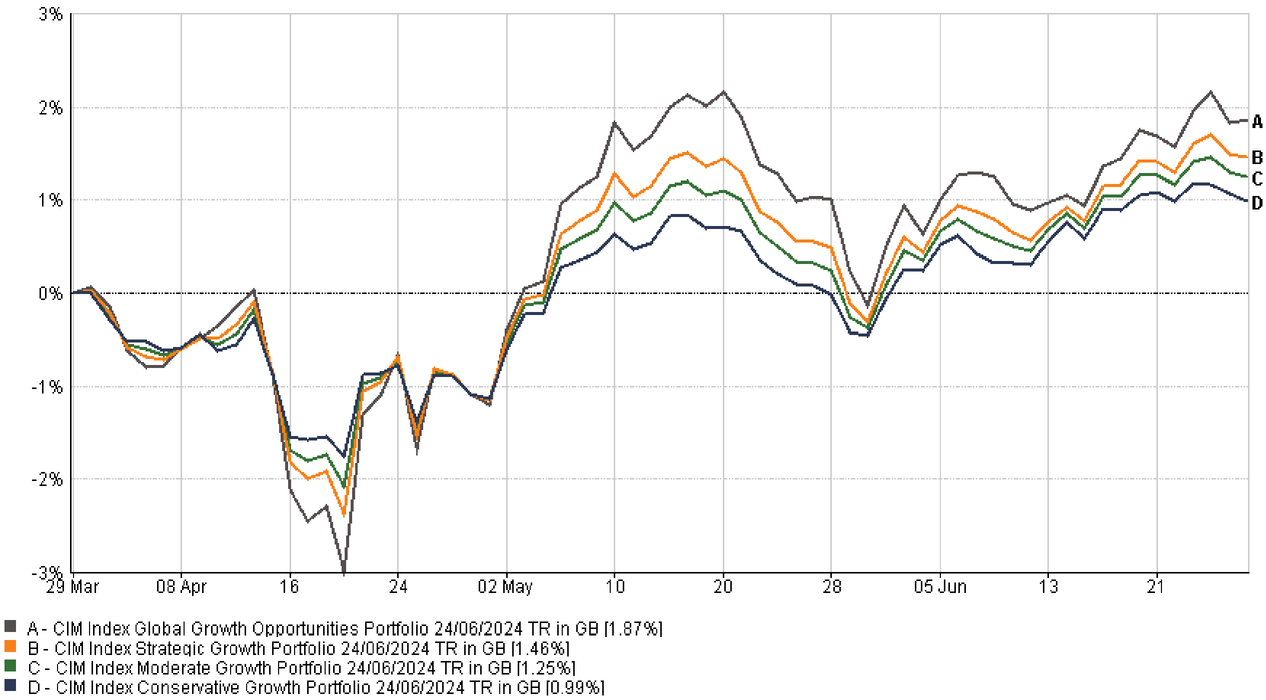
Portfolios performance

Portfolio / Comparator	3 months
CIM Index Conservative Growth Portfolio	0.99%
ARC Sterling Cautious PCI	0.79%
CIM Index Moderate Growth Portfolio	1.25%
ARC Sterling Balanced Asset PCI	1.29%
CIM Index Strategic Growth Portfolio	1.46%
ARC Sterling Steady Growth PCI	1.58%
CIM Index Global Growth Opportunities Portfolio	1.87%
ARC Sterling Equity Risk PCI	1.88%

Index Returns[1]	3 months
UK Equities	3.74%
UK Government Bonds (Gilts)	-0.94%
All Country World Equities	2.86%
Pacific Equities (ex Japan)	2.36%
Emerging Market Equities	5.30%
US Equities	4.14%
UK Headline Inflation	1.21%

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

Performance graph



29/03/2024 - 28/06/2024 Data from FE fundinfo2024

Key Funds and Trades over the Quarter

Top 3 Model Funds	3 months
HSBC MSCI Emerging Markets ETF	4.96% ▲
Vanguard S&P 500 ETF	4.14% ▲
Lyxor Core UK Equity All Cap ETF	3.66% ▲

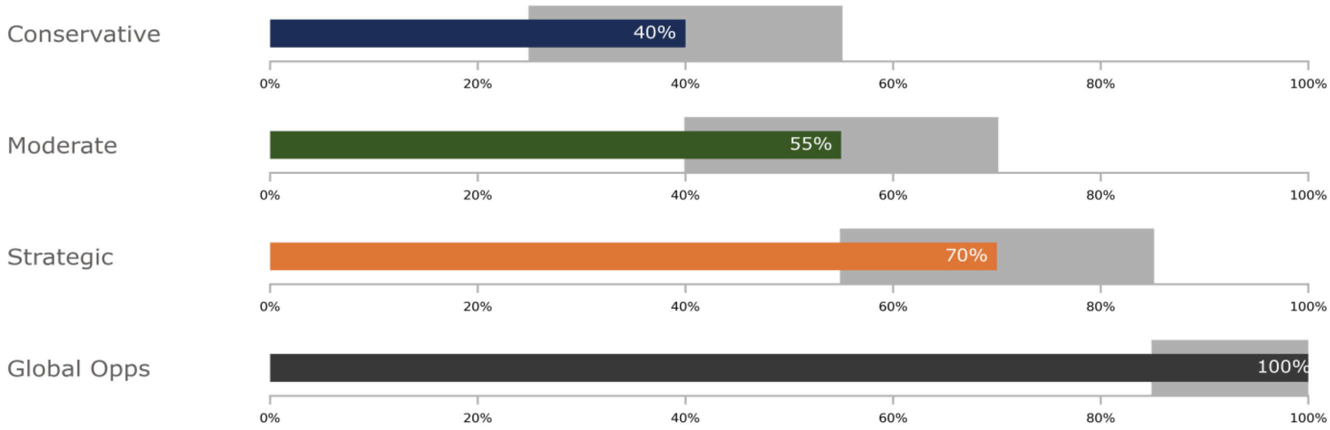
Bottom 3 Model Funds	3 months
iShares Global Corp Bond ETF	0.04% ▼
Amundi Index Global Agg ETF Hedged	-0.11% ▼
Amundi Prime Japan	-4.20% ▼

Source FE Anaytics to 30th June 2024

Key fund	Commentary
HSBC MSCI Emerging Markets ETF	This fund invests primarily in large and mid-cap companies located in emerging market countries. Stocks from this region have been underperforming for many years but are now attractively valued and earnings growth is picking up. With an Ongoing Charges Figure of only 0.15%, it represents one of the cheapest vehicles on the market for diversified EM exposure. The fund outperformed in Q2, meaning the holding was reduced during the quarterly rebalance of the portfolio, when each position was brought back to its target weight.
Vanguard S&P 500 ETF	This ETF holds the 500 largest publicly traded stocks in the US, with the largest companies occupying the greatest weight. This meant the fund performed well during the second quarter given that the largest stocks in the US outperformed, particularly Nvidia and Apple.
Lyxor UK Equity All Cap ETF	This passively managed fund tracks the performance of the Morningstar UK Index, and is heavily weighted towards the larger UK stocks. The largest three positions in the fund are Astrazeneca, Shell and HSBC. It has an Ongoing Charges Figure of only 0.04%. UK equities enjoyed a strong quarter, meaning the position was trimmed during the rebalance of the portfolio.
Amundi Prime Japan ETF	This ETF offers exposure to large and mid-cap companies on the Japanese market. The fund is well diversified, with 308 holdings and only one position (Toyota) occupying a weight of more than 3%. Japanese stocks performed well during the first quarter but underperformed during the second quarter. This meant that a purchase was required during the rebalance, to bring the holding back to target weight.

Asset class review

Equity Exposure



Conservative

Ten largest fund holdings (%)

Lyxor Core US TIPS (DR) UCITS ETF	14.0%
Lyxor Core FTSE Actuaries UK Gilts 0-5Y	12.8%
Amundi Index Global Agg Hedged ETF	11.2%
iShares Global Corp Bond UCITS ETF	10.2%
iShares Glb HY Corp Bond Hdged	9.8%
Lyxor Core UK Equity All Cap ETF	8.1%
Vanguard S&P 500 UCITS ETF	7.4%
Amundi IS Prime Japan ETF	6.8%
Amundi Prime Global ETF	6.6%
HSBC European Index	5.6%
Assets in top ten holdings	92.5%

Ten largest asset class exposures (%)

Government Bonds	20.6%
Index-Linked Bonds	14.0%
Corporate Bonds	13.6%
North American Equities	12.1%
High Yield Bonds	9.8%
UK Equities	8.4%
Japan Equities	7.3%
European Equities	6.6%
Asia Pacific ex Japan Equities	4.2%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

Moderate

Ten largest fund holdings (%)

Lyxor Core US TIPS (DR) UCITS ETF	12.0%
Lyxor Core UK Equity All Cap ETF	11.3%
Vanguard S&P 500 UCITS ETF	10.4%
Amundi IS Prime Japan ETF	9.6%
Amundi Prime Global ETF	9.2%
iShares Global Corp Bond UCITS ETF	8.2%
HSBC European Index	7.9%
iShares Glb HY Corp Bond Hdged	7.8%
HSBC MSCI Emerging Markets ETF	7.7%
Lyxor Core FTSE Actuaries UK Gilts 0-5Y	7.5%
Assets in top ten holdings	91.6%

Ten largest asset class exposures (%)

North American Equities	16.9%
Government Bonds	12.0%
Index-Linked Bonds	12.0%
UK Equities	11.7%
Japan Equities	10.2%
Corporate Bonds	10.1%
European Equities	9.2%
High Yield Bonds	7.8%
Asia Pacific ex Japan Equities	5.9%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

Asset class review

Strategic

Ten largest fund holdings (%)

Lyxor Core UK Equity All Cap ETF	14.1%
Vanguard S&P 500 UCITS ETF	13.0%
Amundi IS Prime Japan ETF	11.9%
Amundi Prime Global ETF	11.5%
Lyxor Core US TIPS (DR) UCITS ETF	10.0%
HSBC European Index	9.8%
HSBC MSCI Emerging Markets ETF	9.6%
iShares Global Corp Bond UCITS ETF	5.1%
iShares Glb HY Corp Bond Hdged	4.9%
Lyxor Core FTSE Actuaries UK Gilts 0-5Y	4.3%
Assets in top ten holdings	94.2%

Ten largest asset class exposures (%)

North American Equities	21.2%
UK Equities	14.7%
Japan Equities	12.7%
European Equities	11.5%
Index-Linked Bonds	10.0%
Asia Pacific ex Japan Equities	7.4%
Government Bonds	6.9%
Corporate Bonds	6.2%
High Yield Bonds	4.9%
Emerging Market Equities	2.5%

Cash includes cash held in underlying funds plus GBP held in model.

Global Opps

Ten largest fund holdings (%)

Lyxor Core UK Equity All Cap ETF	19.7%
Vanguard S&P 500 UCITS ETF	18.2%
Amundi IS Prime Japan ETF	16.7%
Amundi Prime Global ETF	16.1%
HSBC European Index	13.8%
HSBC MSCI Emerging Markets ETF	13.5%
Assets in top ten holdings	98.0%

Ten largest asset class exposures (%)

North American Equities	29.7%
UK Equities	20.5%
Japan Equities	17.8%
European Equities	16.2%
Asia Pacific ex Japan Equities	10.3%
Emerging Market Equities	3.5%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

Asset Class	Portfolio Views
Fixed Interest	We are optimistic about the outlook for government bonds given the higher income yields available and expectation of rate cuts, although we are wary of higher issuance of bonds, particularly from the US Treasury, to fund ever-growing deficits. Tight credit spreads do not make corporate bonds particularly attractive in our view. We favour equities on a risk vs reward perspective.
UK Equities	UK equities performed strongly over the second quarter, helped by a pickup in M&A activity. We favour UK equities due to their modest valuations, high dividend yield, and an end to persistent selling of the asset class from UK pension funds. However, we fear they are a little overbought in the short term and due a correction.
US Equity	US equity indices again performed well, helped by a strong earnings season and a high allocation to the technology sector that is benefitting from the excitement around artificial intelligence. However, gains have been focussed on the mega cap stocks, which are now very overvalued in our opinion. The average US stock actually fell close to 3% and offers better value.
Japan Equity	Japanese equities broadly moved sideways during Q1, but the weakening Yen produced a headwind for foreign investors. Reforms to Japan's system of corporate governance, decent growth and the weakening of deflationary pressures all contribute to our continuing favouring of this asset class.
Asia and Emerging Market Equity	Asian and EM outperformed during Q2, led by China, who were helped by improving consumer sentiment with fiscal stimulus as well as attempts by authorities to address their property crisis. We have moved to an overweight position.
Alternatives	With the correlation between equities and bonds currently at high levels, alternatives have an important role to play within a diversified portfolio. We have reduced our exposure to alternatives within portfolios to fund an increase in equity exposure.

Outlook

The trend of corporate earnings growth has started to broaden out beyond the mega-cap tech stocks and corporate balance sheets remain strong. This provides evidence that companies across sectors are dealing with slower economic growth and are able to increase earnings in this environment.

With policy easing on the horizon in many economies, fiscal policy remaining supportive and consumer spending maintained by an employed and productive labour force, we anticipate global growth to remain relatively resilient in the second half of 2024. The economic slowdown is so far looking like the "soft landing" that investors were hoping for as interest rates peaked at the back end of last year. We believe the chances of a "Liquidity Event" and a sharp move down in markets due to the Fed's over-tightening of monetary policy looks to be greatly reduced, which we view as a clear positive for growth markets like equities going forward.

We retain the view that the strong performance of large technology stocks in recent years, which exceeds the growth of their fundamentals such as earnings, has left them overvalued. We believe that investors need to look beyond recent winners as the changing economic backdrop supports a broadening out beyond the mega-cap tech stocks.

> *The underperformance of global value stocks, including emerging markets, Europe and smaller caps – has produced some potentially compelling opportunities.*

The income yield on bonds is close to the highest levels seen over the past 20 years. With inflation falling and the first major central banks starting to cut rates, there is also the potential for some capital gains for fixed-income investors, providing an overall attractive total return to investors. We also hold the view that falling rates will be supportive of equity valuations. On balance, we believe that many of the lower-risk "bond proxy" equities we hold will produce a higher risk-adjusted return than bonds themselves. We have therefore reduced our exposure to bonds in what we see as a more Risk-On environment.

Thoughts for the quarter ahead...

- The outlook for interest rates will be important for growth assets. As long as disinflation trends reassert, it should give central banks the freedom to cut rates, although we expect rates to remain higher than pre-pandemic levels.
- Equity market gains were again concentrated on the technology sector during Q2. We expect the rally for equities to follow corporate earnings and broaden out in Q3.
- National elections and their impact on industrial policy will continue to play an important role in markets and is something we are watching closely.
- The US consumer has remained strong against the headwind of higher interest rates as their mortgages are fixed at lower rates, but the cost of unsecured lending is starting to bite. This is critical for whether the US can engineer an economic soft landing.
- The current environment of modest growth and inflation continuing to ease, should be a positive backdrop for equity markets, in our view.

Important information

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Risk factors should be taken into account and understood including (but not limited to) currency movements, market risk, liquidity risk, concentration risk, inflation risk, performance risk, local market risk and credit risk.

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

[1] For the comparative index returns, we have used the total return performances of the following ETF's:

Comparative index	**ETF Name**
UK Equities	ISHARES CORE FTSE 100
US Equities	ISHARES CORE S&P 500
European Equities (ex UK)	ISHARES MSCI EUROPE EX-UK
Emerging Market Equities	ISHARES CORE EM IMI ACC
Japanese Equities	ISHARES CORE MSCI JAPAN
Pacific Equities (ex Japan)	ISHARES CORE MSCI PACIF X-JP
UK Government Bonds (Gilts)	ISHARES CORE UK GILTS
Global Bonds (GBP hedged)	ISHARES CORE GLB AGG GBP-H D
Commodities	ISH DIVERS COMMOD SWAP ETF