LHX Cautious Long Hold

OCM Asset Management

Independent Financial Planners | Discretionary Asset Managers | Tax Advisers

February 2023

Objective

This portfolio is NOT a risk-free portfolio, rather, it is suitable for a client who is prepared to accept capital losses when markets are falling, based on a cautious asset allocation. The portfolio has been constructed based on a long-term investment horizon with a long hold investment strategy. The portfolio is therefore suitable for clients with a long-term investment horizon who prefer to remain fully invested throughout the market cycle and are comfortable with high levels of volatility. The asset allocation in this portfolio will vary between a benchmark of 30% equity and 45% equity on average to achieve the portfolio objectives. **Due to the long hold nature of the portfolio, the indicative capital loss in any rolling 12-month period is not limited, however the portfolio is expected to return an annualised total return averaged out over an economic cycle (usually 5 – 7 years) of 5% per annum before any adviser, custodian, switch and/or discretionary investment management fees, but after fund manager charges**. Despite the higher allocation in non-equity assets, these asset classes are in some cases becoming riskier than equity assets, however we feel that the current positioning is acceptable when we consider our mandate regarding a client's risk tolerance.

Management

The benchmark we use for comparison purposes for volatility is **AFI Cautious**. The benchmark currently holds **50.98% in Equity** (Analytics, 1st February 2023) and is therefore more aggressive than this portfolio in terms of the equity/non-equity split. It would therefore be expected that this benchmark would outperform the model and that the volatility of the benchmark would be higher. The model therefore cannot be directly compared to the benchmark.

Performance

Asset	1 Month	3 Months	6 Months	12 Months	YTD	3 Years	Since Launch 31/08/2018
LHX Cautious	3.59%	4.49%	-0.73%	-6.78%	3.59%	5.40%	9.53%
Benchmark	3.19%	6.16%	0.07%	-3.16%	3.19%	5.49%	3.17%
UK Gilts	2.60%	0.95%	-10.04%	-17.92%	2.55%	-20.79%	-16.09%
UK Equities	4.09%	10.47%	4.60%	4.36%	4.01%	13.72%	3.48%

Source: FE Analytics, 1st February

Asset Allocation

- MONEY MARKET (8.94%)
- UK FIXED INTEREST (5.92%)
- GLOBAL FIXED INTEREST (41.45%)
- OTHER NON-EQUITY (2.84%)
- UK GILTS (1.43%)
- UK EQUITY (15.37%)
- NORTH AMERICAN EQUITY (6.14%)
- EUROPEAN EQUITY (2.34%)
- OTHER INTERNATIONAL EQUITY (15.59%)

Equity 39.43% - Non-Equity 60.57%

Long Hold Investing

The assets in this portfolio have been selected based on a long hold approach, with a recommended minimum Investment horizon of 5 years. Unlike OCM's OBI proposition, the asset allocation within this portfolio will remain consistent over the long term, with low portfolio turnover.

In line with the Long Hold strategy, the general asset allocation within the portfolio will be maintained over the long term, however underlying funds may be switched at the discretion of the Investment Committee in cases of consistent underperformance or positioning shifts.

Key Facts

Benchmark
AFI Cautious

Inception Date
31 August 2018

Historic Yield
2.30% per annum

Ongoing Strategy Charge
0.50% per annum

Rebalancing Frequency
Quarterly

Jason Stather-Lodge
Founder/CEO/CIO

Georgina Stone
Deputy CIO

Contact Us

OCM Wealth Management Limited
St Clair House, 5 Old Bedford Road,
Northampton, NN4 7AA
T: 01604 621467
E: info@ocmwealthmanagement.co.uk
W: ocmwealthmanagement.co.uk

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LHX Cautious is a long hold cautious portfolio with a higher non-equity allocation based on a lower-risk mandate, with the delivery of outcome at its core which aims to achieve an annualised return outcome of 5% per annum.

Market Outlook

Financial markets have begun 2023 on the front foot, driven by a renewed sense of investor optimism and backed by promising economic data. Whilst we are expecting tough economic conditions throughout the year, the outlook for the global economy is improving, with a several key developments helping to support sentiment during the first month of the year. In Europe, a milder than anticipated winter has improved the outlook for the energy story and expectations of lower demand for natural gas has caused prices to cool, alleviating inflationary headaches. Whilst the outlook for the UK is a little more uncertain, investors have not shied away from attractive valuations in domestic markets, as the outlook for the global economy improves.

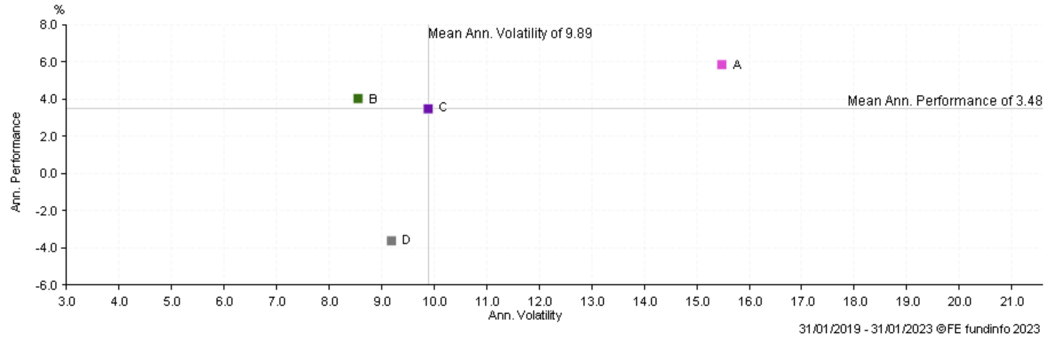
Results from earnings season in the US have been somewhat mixed, with some key tech companies missing earnings estimates whilst some financials exceeded forecasts. However, at the time of writing, of the 50% constituents of the US Large cap index that have reported results thus far, 70% have posted a positive EPS surprise. Whilst expectations have been low, US corporate earnings have signalled a level of resilience in US economy, whilst forward guidance and increased loss provisions suggests companies are well prepared for an economic slowdown. In the UK, energy giants continue to post record profits, supporting the UK large cap index.

Portfolio Positioning

Despite our allocation to small cap companies facing headwinds last year, as investors favoured more defensive assets, it is our view that this exposure is well positioned to benefit from a recovery in their respective domestic economies and as investor risk appetite continues to improve. In addition, as we near the end of Central Banks' tightening cycles, we expect small caps to benefit from early cycle market dynamics, as the forward-looking nature of markets prices in a recovery from a global recession and softer monetary policy moving forwards.

As part of our ongoing monitoring of the funds we hold, we felt that exposure to the Lindsell Train Investment Trust has not performed in line with our expectations and that management had not positioned the trust in line with our long-term outlook. As such, we have removed this exposure in favour of the JPM Global Growth & Income trust, which in our view has shown strong long-term performance and has remained somewhat resilient across different stages of the market cycle. Whilst further market volatility is to be expected in the near-term with economic data a key driver of investor sentiment, it is our view that the LHX portfolios are well positioned to benefit from the longer-term recovery in financial markets as the economic outlook continues to brighten.

Portfolio Volatility



This scatter chart reflects annualised volatility and return in GBP over the past 4 years. Over the long term, we would expect the LHX portfolio to exhibit a lower level of volatility than the benchmark.

Key	Name	Annualised Performance	Annualised Volatility
A	UK Psv UK Equities TR in GB	5.85	15.48
B	LHX Cautious Portfolio TR in GB	4.04	8.55
C	AFI Cautious TR in GB	3.48	9.89
D	UK Psv UK Gilts TR in GB	-3.61	9.19

Important Information

All data in this document has been extracted from Analytics as at 1st February 2023. Past performance cannot be used as a guide to future performance and the value of your investment will fall as well as rise in value. You may not get back all of your investment and the final value of your investment will depend on the performance of your portfolio. Performance figures quoted include fund manager charges but exclude adviser, discretionary, custodian and switch charges. Unless stated, income is reinvested into the portfolio. The information contained in in this document is for information purposes only. It does not constitute advice or a recommendation or an offer or solicitation for investment. Portfolio Expense is based on the Fusion platform and may vary for other platforms.

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T: 01604 621 467 | W: www.ocmassetmanagement.co.uk