LHX Cautious Long Hold

OCM Asset Management

Independent Financial Planners | Discretionary Asset Managers | Tax Advisers

April 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 **50.07% in Equity** (Analytics, 1st April 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.

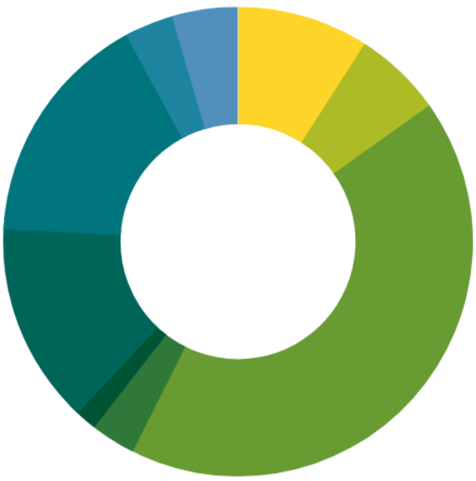
Performance

Asset	1 Month	3 Months	6 Months	12 Months	YTD	3 Years	Since Launch 31/08/2018
LHX Cautious	0.37%	2.76%	4.38%	-7.13%	2.76%	14.23%	14.33%
Benchmark	-0.96%	0.96%	4.50%	-5.30%	0.96%	19.43%	7.81%
UK Gilts	2.85%	1.88%	3.61%	-15.36%	1.88%	-23.49%	-13.06%
UK Equities	-2.90%	2.83%	12.29%	2.12%	2.83%	46.16%	16.23%

Source: FE Analytics, 1st April

Asset Allocation

- MONEY MARKET (9.06%)
- UK FIXED INTEREST (6.09%)
- GLOBAL FIXED INTEREST (42.25%)
- OTHER NON-EQUITY (3.08%)
- UK GILTS (1.47%)
- UK EQUITY (13.90%)
- NORTH AMERICAN EQUITY (16.24%)
- EUROPEAN EQUITY (3.36%)
- OTHER INTERNATIONAL EQUITY (4.55%)



Equity 38.05% - Non-Equity 61.95%

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
2.38% per annum

Ongoing Strategy Charge
0.52% per annum

Rebalancing Frequency
Quarterly

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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

In March, concerns over the stability of the financial sector dampened investor sentiment, as the collapse of Silicon Valley Bank and Credit Suisse caused some investors to fear that the Federal Reserve had raised interest rates too quicky. Despite recessionary fears falling back into focus, investor's concerns have been eased somewhat, as the state-backed UBS takeover of Credit Suisse and the dismantling and subsequent selling of SVB has eased concerns of broader contagion into other banks and financial markets. Whilst there is a risk that more banks will face pressure from higher interest rates, it remains our view that systemic risk is low, noting that the recent issues had resulted from key failures within the banks themselves.

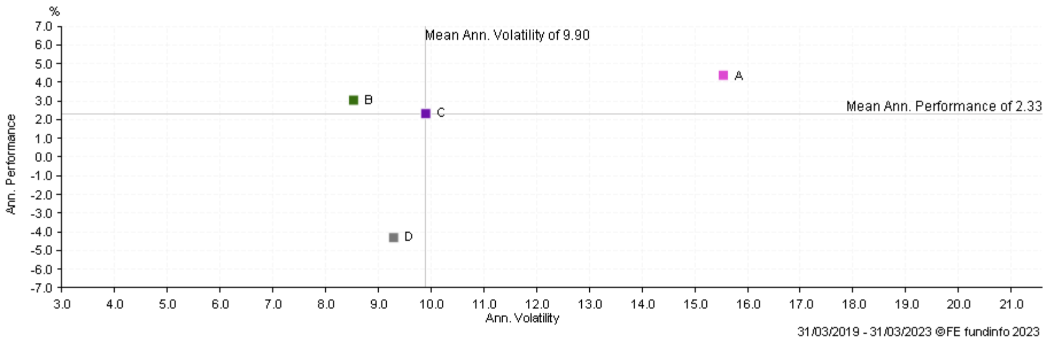
As recessionary fears came back into focus, oil markets saw declines as expectations for weaker demand fed through into wholesale prices. In response, OPEC announced a surprise cut to production of over 1 million barrels per day beginning next month, in what it says is a move to stabilise prices in the oil market. The announcement caused prices of crude oil to break above $80 per barrel, marking a rally of circa 7%. Whilst this has led investors to reassess their outlooks for global inflation, it remains our view that inflation is expected to decline significantly throughout this year, with the recent rise in crude oil only adding minor headwinds to inflationary pressures throughout developed markets.

Portfolio Positioning

Following the recent bout of market volatility caused by concerns within the financial sector, the LHX portfolios have given back some of the gains seen at the start of the year, although the performance on a year-to-date basis remains in positive territory. We continue to hold some exposure to investment trusts, that broadly trade at a discount to their NAV, highlighting that valuations remain relatively attractive in comparison to historical averages. Combined with an expected longer-term recovery in economic growth, we believe these assets will be a key driver of portfolio performance moving forward.

Our exposure to small cap equity faced headwinds last year, given a shift to more defensive assets against a backdrop of a number of market uncertainties. However, as we gain more clarity on the outlook for interest rate hikes, and as we near an expected pause in Central Bank's tightening cycles, it is our view that small cap headwinds will alleviate we gain more clarity on the outlook for monetary policy and economic growth. In addition, we expect small caps to benefit from early cycle market dynamics, as the forward-looking nature of markets moves to price in a rebound in economic growth and softer monetary policy moving forwards.

Portfolio Volatility



Key	Name	Annualised Performance	Annualised Volatility
A	UK Psv UK Equities TR in GB	4.39	15.54
B	LHX Cautious Portfolio TR in GB	3.05	8.53
C	AFI Cautious TR in GB	2.33	9.90
D	UK Psv UK Gilts TR in GB	-4.31	9.29

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.

Important Information

All data in this document has been extracted from Analytics as at 1st April 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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