



TALKING INVESTING THROUGH A CRISIS ICAEW WEBINAR

September 2020

PLANNING | ADVISING | INVESTING





Market Overview

Blair Winton – Director, Investment Management

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Important information

The value of investments, and the income derived from them, can go down as well as up and you can get back less than you originally invested.

Past performance, and any yields quoted, are not an indication of future performance.

Nothing in this webinar is intended to constitute advice or a recommendation, and you should not take any investment decision based on its content. Our opinions may change without notice.

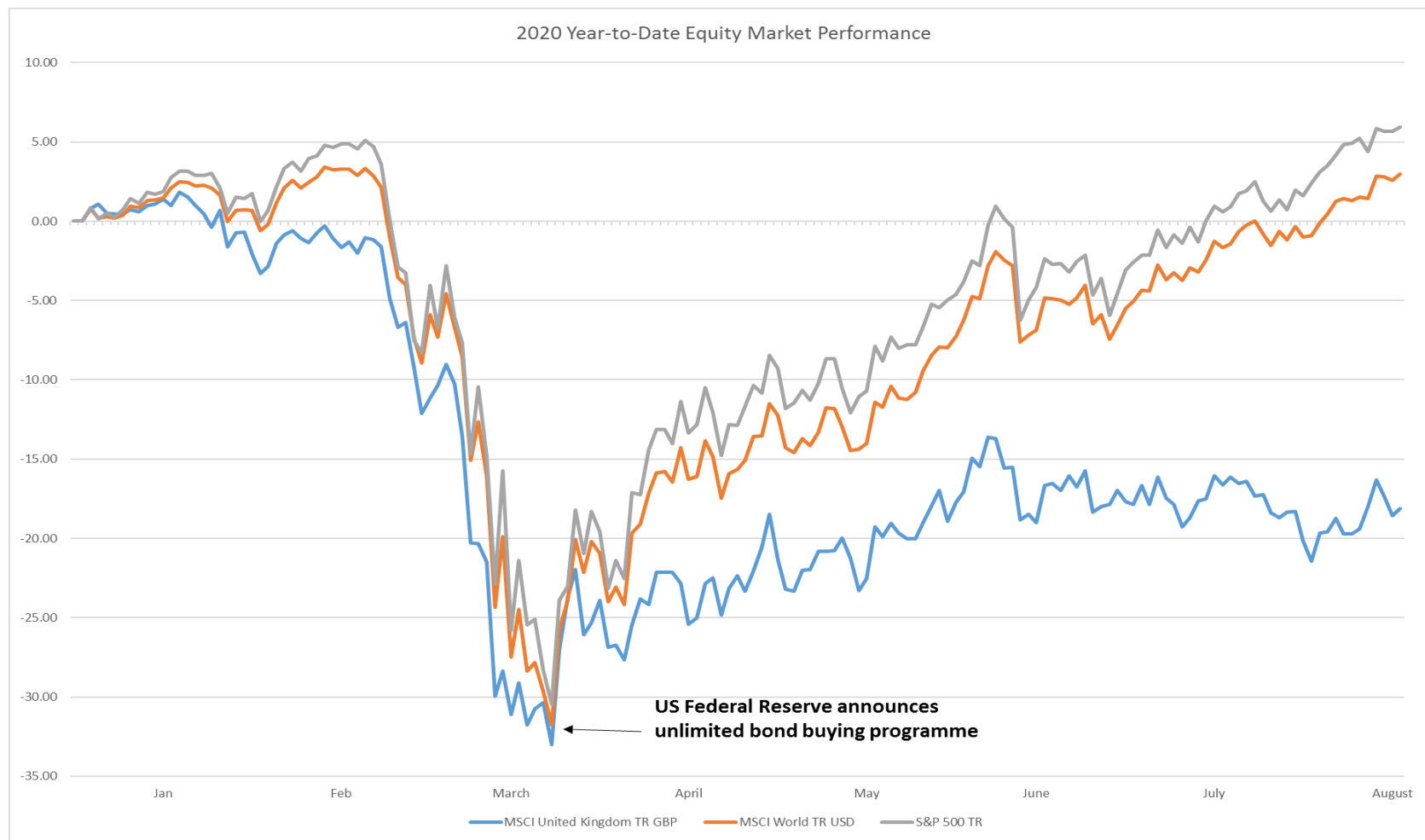
Prevailing tax rates and reliefs depend on your individual circumstances and are subject to change.

Tilney Active Portfolio update – Tilney Ethical renamed Tilney Sustainable mid August 2020.

[Tilney.co.uk](https://www.tilney.co.uk)

A volatile first half for global equity markets

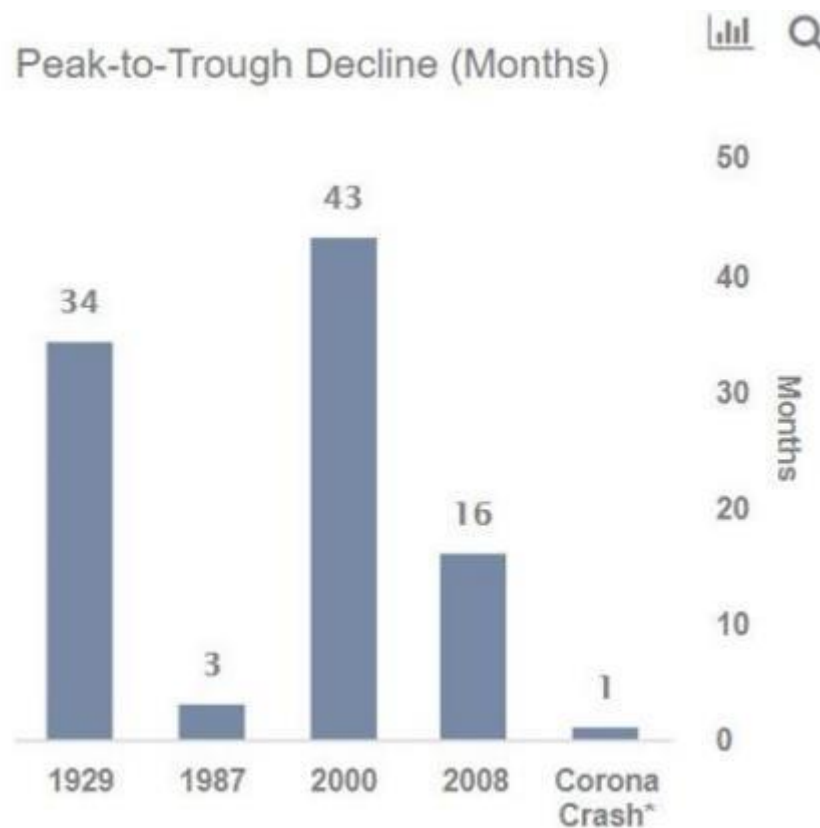
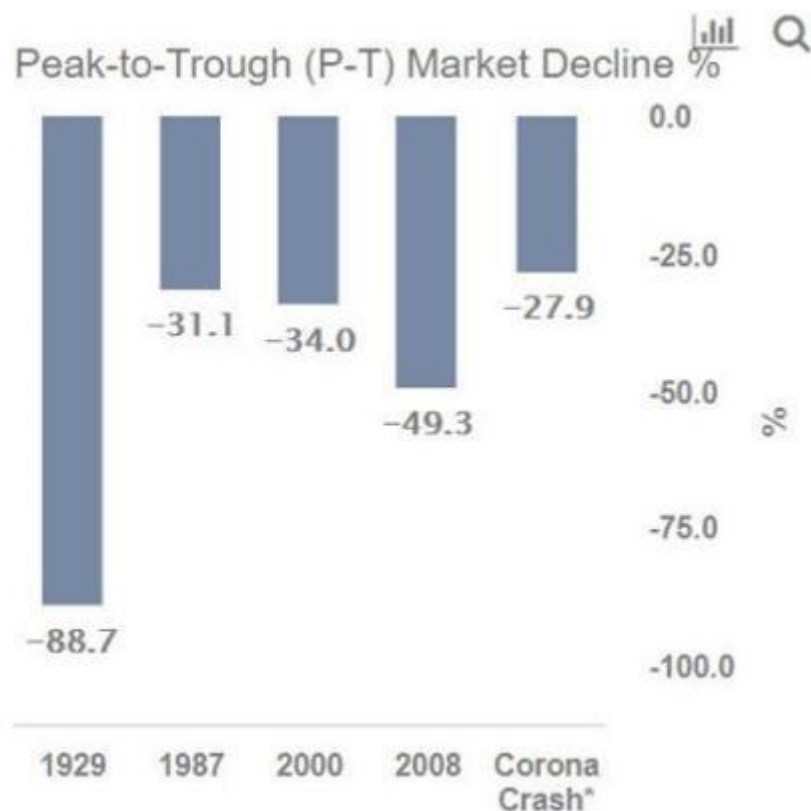
A short, sharp Bear market, followed by an impressive rally



Source: Lipper, Total Return in Local Currency

The COVID-19 bear market in context

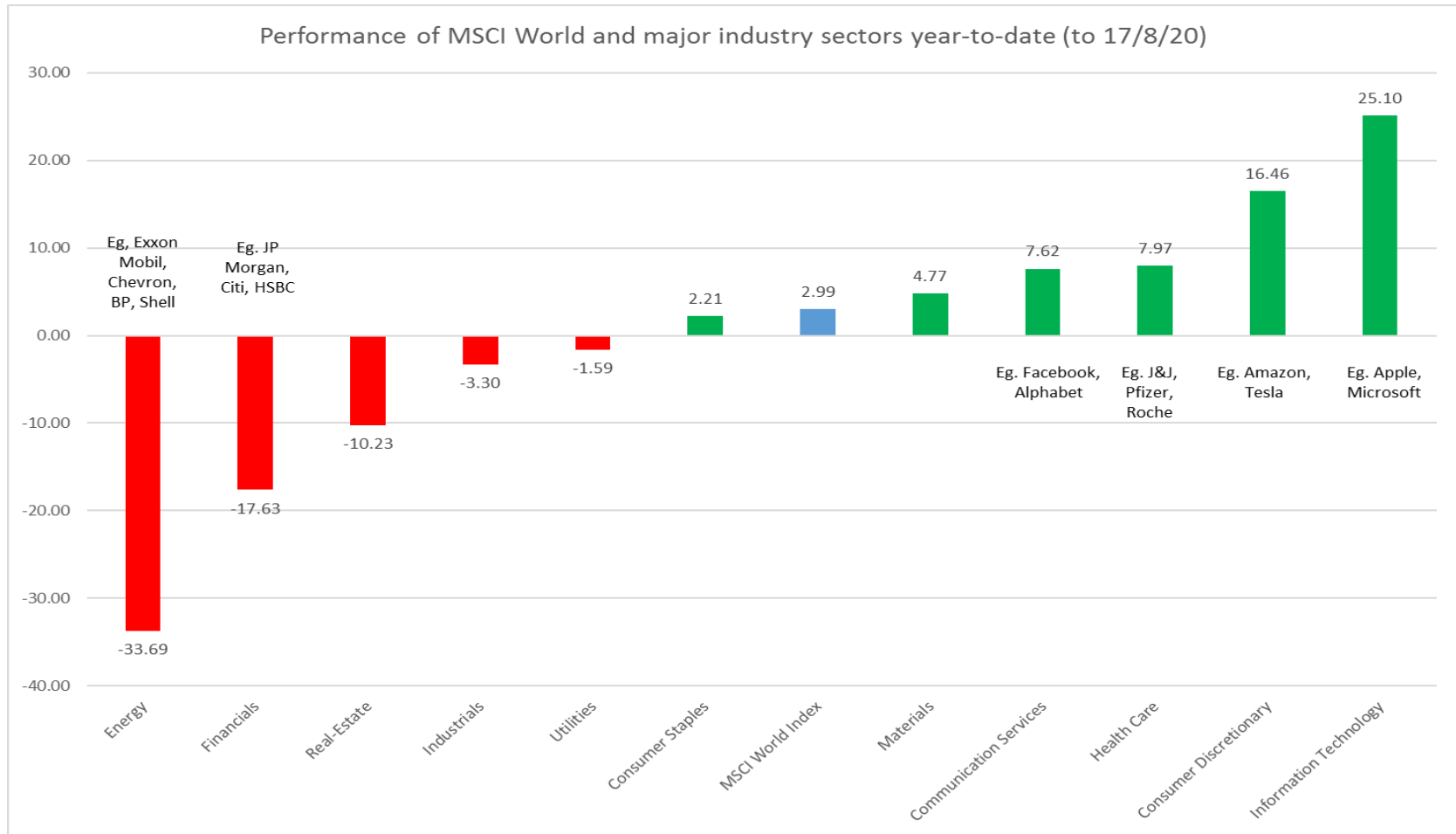
The magnitude of the falls was not exceptional but the speed was



Source : Forbes and S&P

The COVID crisis 'winners' and 'losers'

Beware thinking of equity market indices in aggregate



Source: Lipper, Total Return in Local Currency

US market now heavily weighted to tech...

...UK market has much greater exposure to the worst hit sectors

Industry Sectors	YTD Returns*	S&P 500	MSCI United Kingdom
Information Technology	25.1	27.5	1.3
Consumer Discretionary	16.5	11.2	6.0
Health Care	8.0	14.6	14.5
Communication Services	7.6	10.9	4.5
Materials	4.8	2.6	10.6
Consumer Staples	2.2	7.0	19.9
Utilities	-1.6	3.1	4.0
Industrials	-3.3	7.9	10.7
Real Estate	-10.2	2.8	1.3
Financials	-17.6	9.9	17.3
Energy	-33.7	2.5	10.0

74%

57%

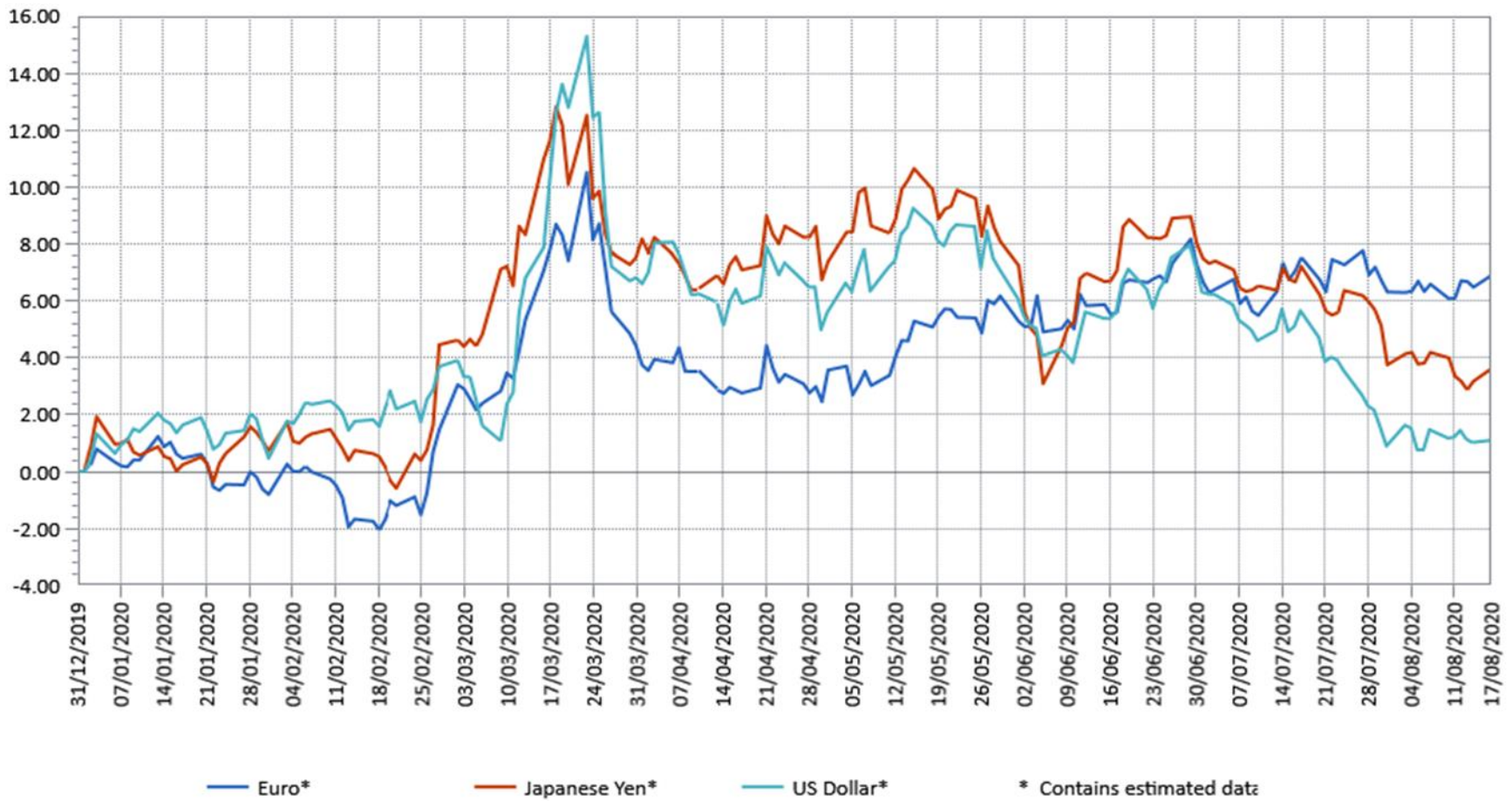
26%

43%

Sources: Lipper, S&P, MSCI. * is total return MSCI World indices to 17/8/20

Volatile currency markets

Sterling initially weakened, but more recently the US Dollar has come under pressure

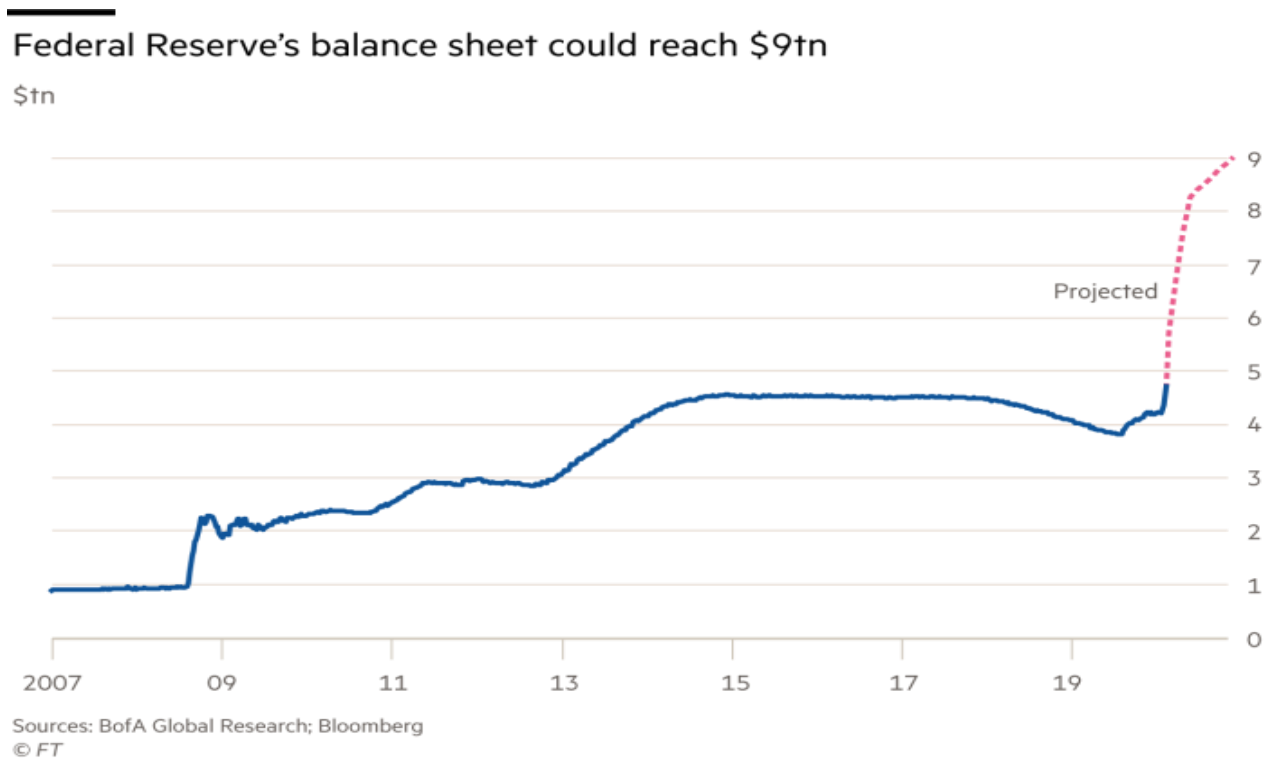


Source: Lipper

The monetary and fiscal response

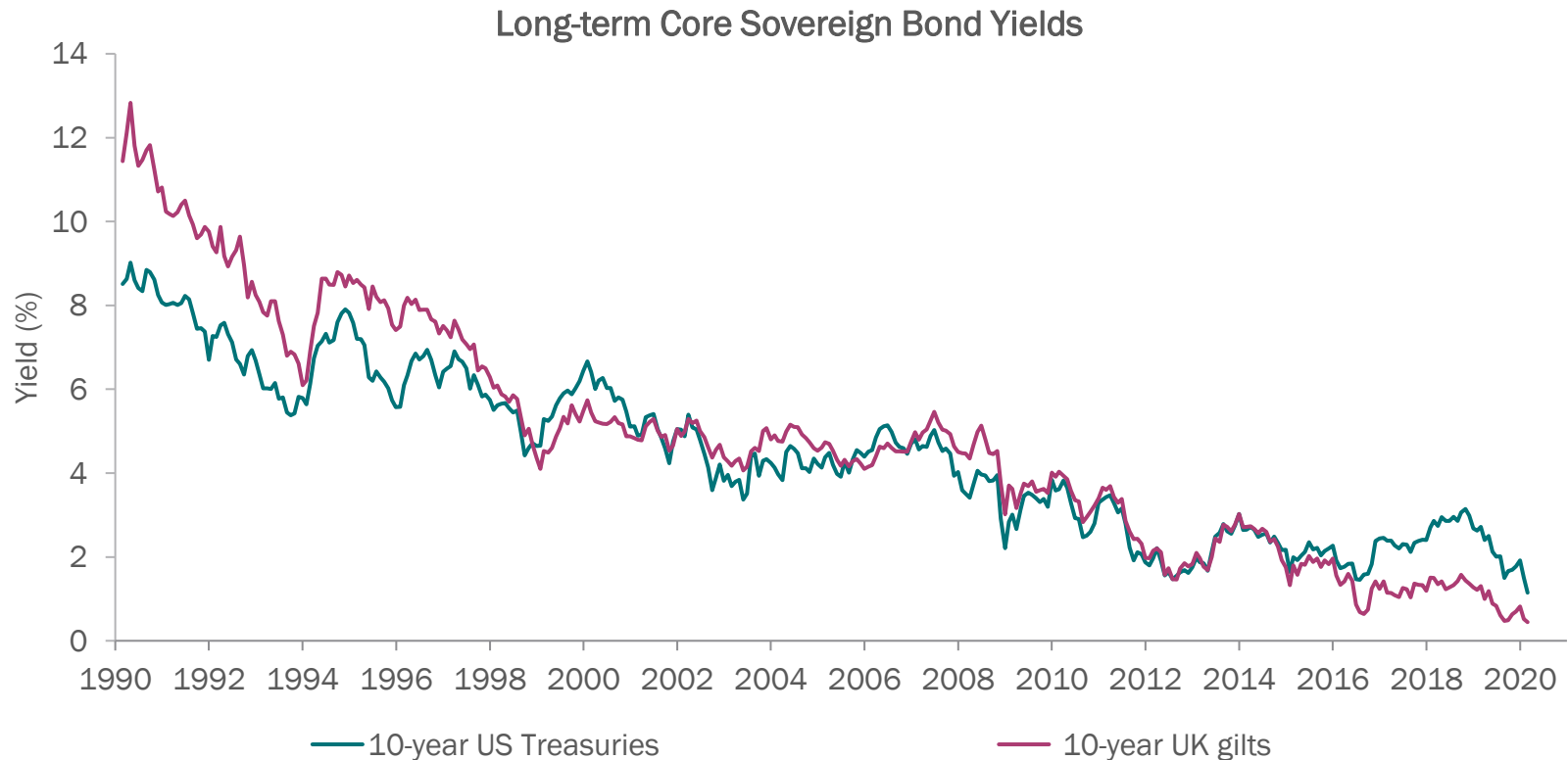
Unprecedented stimulus is designed to provide support to the demand side of the economy.

- Fed balance sheet has increased \$3 trillion since Feb



Fixed income: yields have collapsed

- Core sovereign bonds have had a very strong run over the last 30-plus years. With yields close to zero (especially in the UK), it is extremely difficult to build a case for a positive real return from the asset class over the long-term.



Source: Bloomberg.

Gold soars to record high

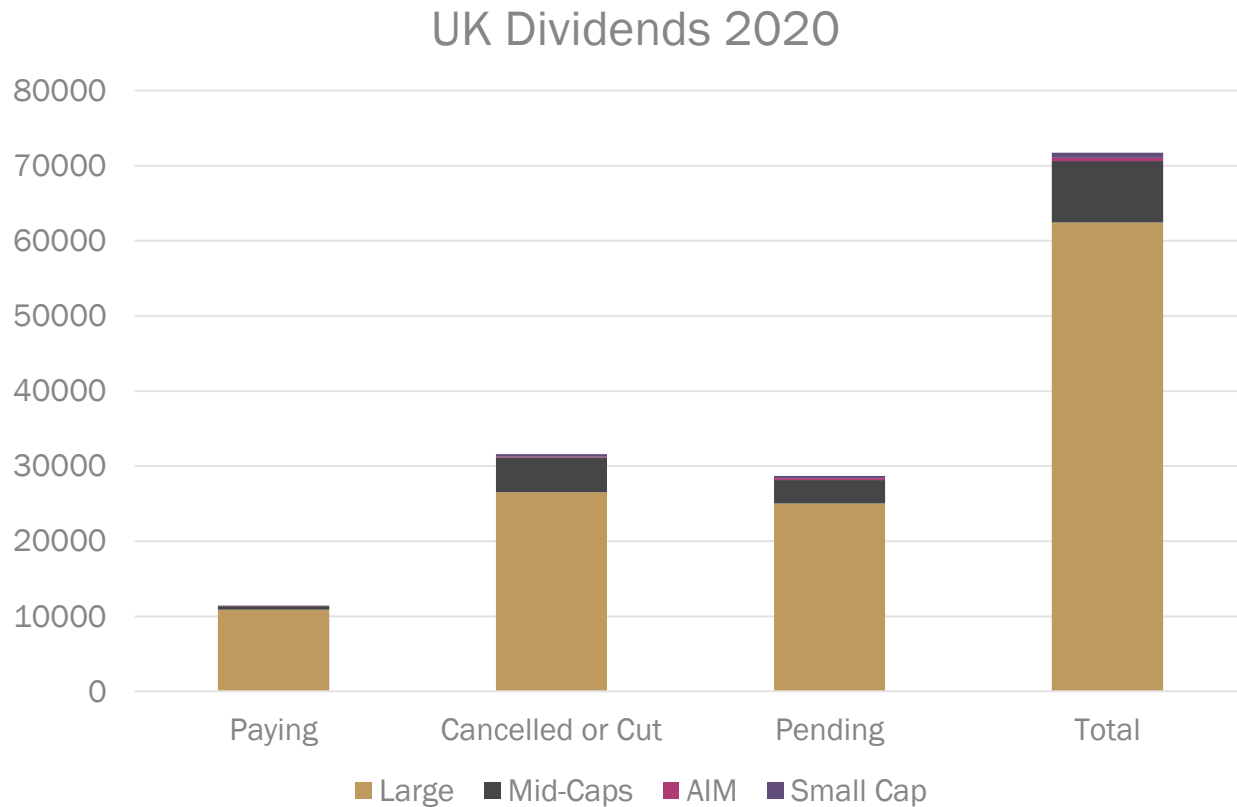
The gold price has risen 31% year-to-date



Source: Lipper / London Gold Bullion Index (USD)

The crisis has had a major impact on dividends

£36.1 billion of dividends have been cancelled or cut this year from a total expected pool of £72 billion.



Source: Peel Hunt

Things to consider

- The hunt for yield when interest rates are so low
- The outlook for inflation
- Prospect for equity markets
- How will the costs of the crisis be funded?



TILNEY INVESTMENT PHILOSOPHY & PERFORMANCE

Lucinda Johnson – Director, Investment Management



Investment philosophy

Aim to Preserve and Grow the Real value of clients' capital through time

PRESERVE



- **Endeavour to avoid permanent loss of capital**
 - certain stocks and sectors become uninvestable.
- **Business risk not price risk**
 - franchise resilience, management quality, financial strength
- **Valuation**
 - insist on a margin of safety.
- **Volatility**
 - understand potential volatility; do not exceed your risk tolerance.

GROW



- **Equities** will be the main drivers of returns through time.
- **Seek the best risk adjusted returns** - identify a limited number of managers who own a limited number of companies capable of growing through the economic cycle.
- **Long term increase** in profits and dividends will drive returns, not market timing.
- **Non-equity investments** dampen volatility. Reasonable expectation that returns will be ahead of cash and inflation and, when managed, achieved through a repeatable process.

REAL RETURNS



After:

- **Dealing costs**
- **Management fees**
- **Taxation**
- **Inflation**

All of these should be taken into account when selecting investments.

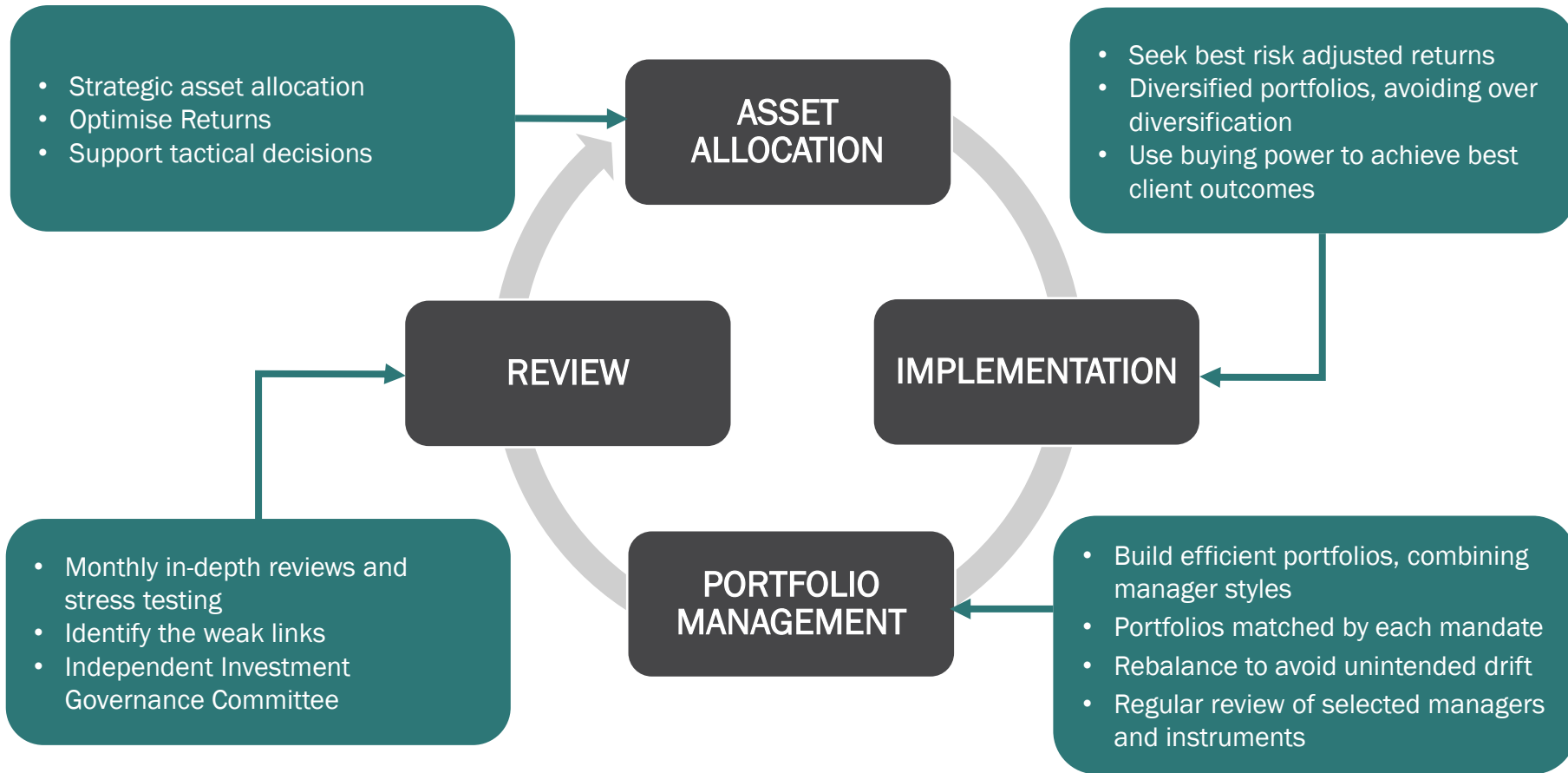
TIME



- **Patience** - ignore “market noise”
- **Short term returns** are driven by a change in valuation
 - Impossible to consistently forecast
- **Long term returns** are driven by a change in value
 - possible to forecast
- **Compounding of returns** will do heavy lifting through time.
- **Over the last 20 years** stock market has generated positive returns in 98% of 10 year rolling periods. *

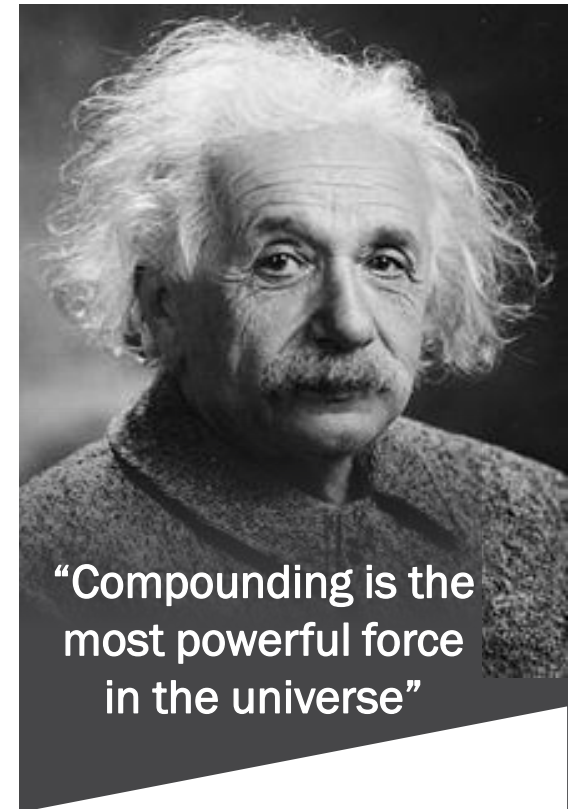
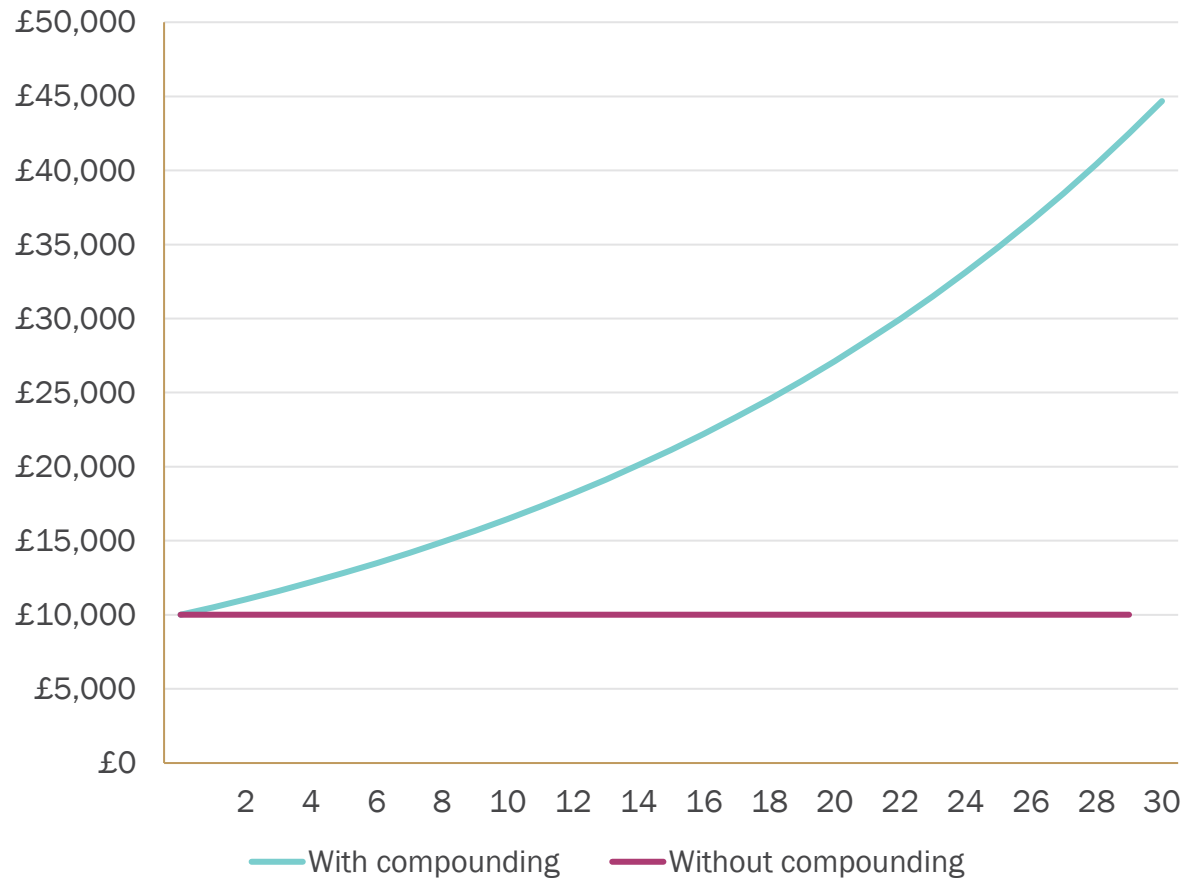
Investment process

We believe consistent investment performance requires a structured and disciplined process



Benefits of investing

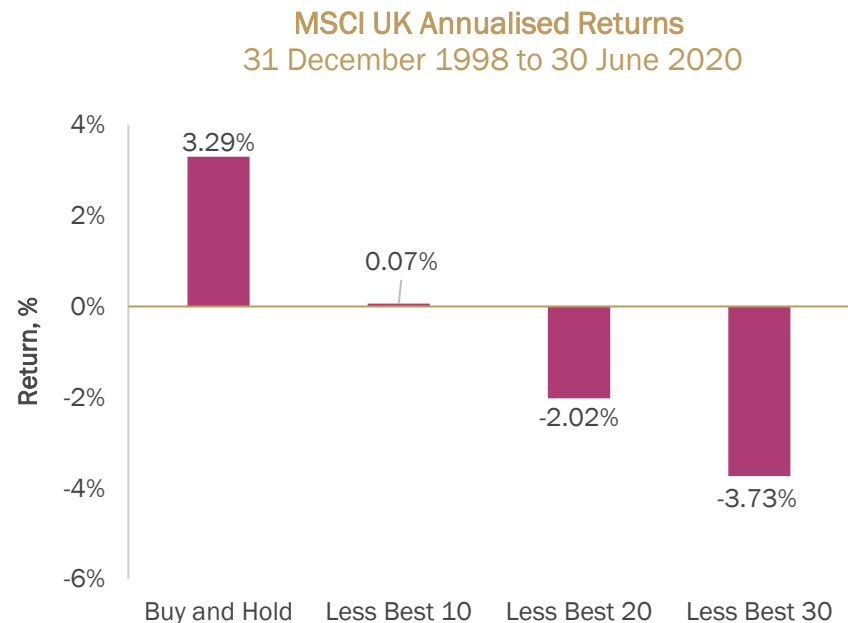
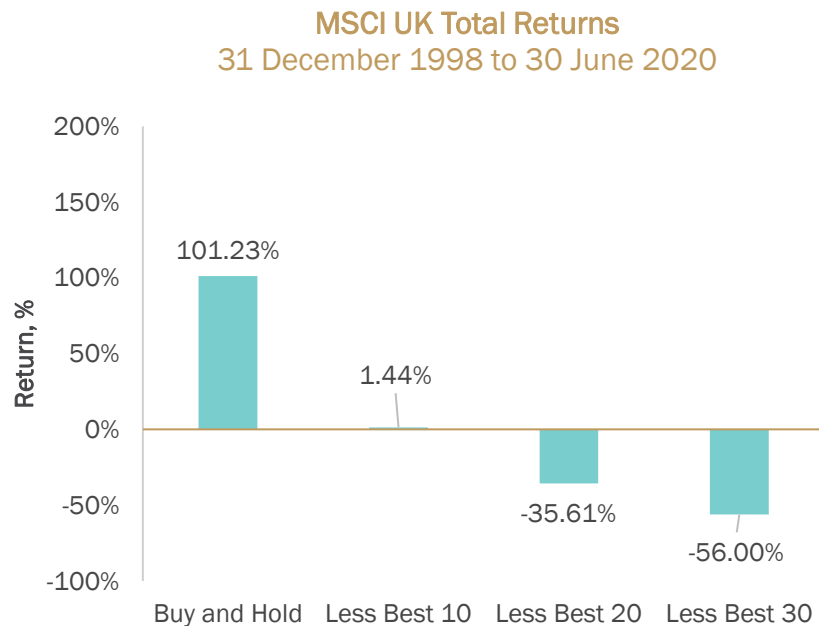
Compounding



Source: Barclays, 2018

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Investing is for the long-term



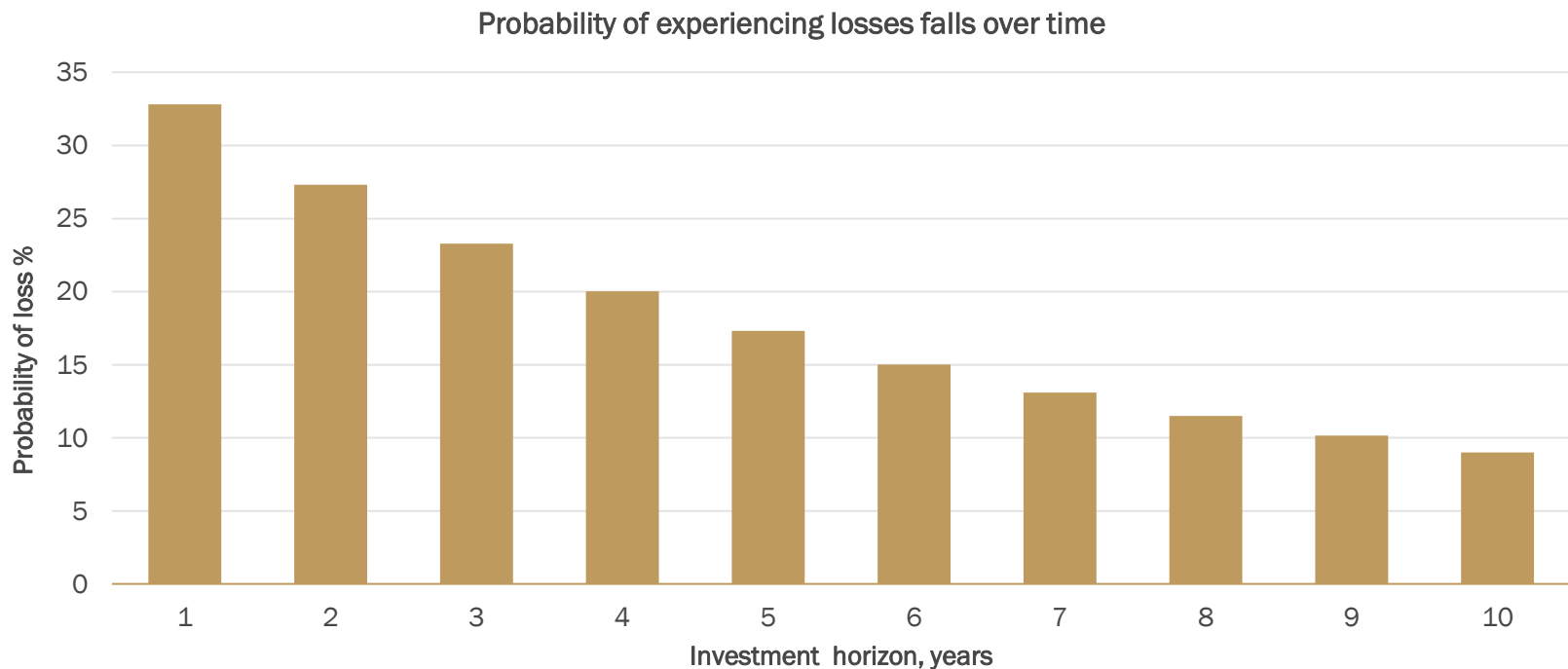
The charts show the total return and the annualised return from the MSCI UK since 1998, first if you just bought and held the index, reinvesting dividends and then showing the impact of missing out on the best 10, 20 and 30 days of the MSCI UK through bad market timing. If you bought and held over the 20 odd years then the total return would have been 101.23%. But if you remove the 10 best days this falls dramatically to just 1.44%.

Source: Tilney and Bloomberg. June 2020.

The value of an investment may go down as well as up and you may get back less than you originally invested

The probability of experiencing losses

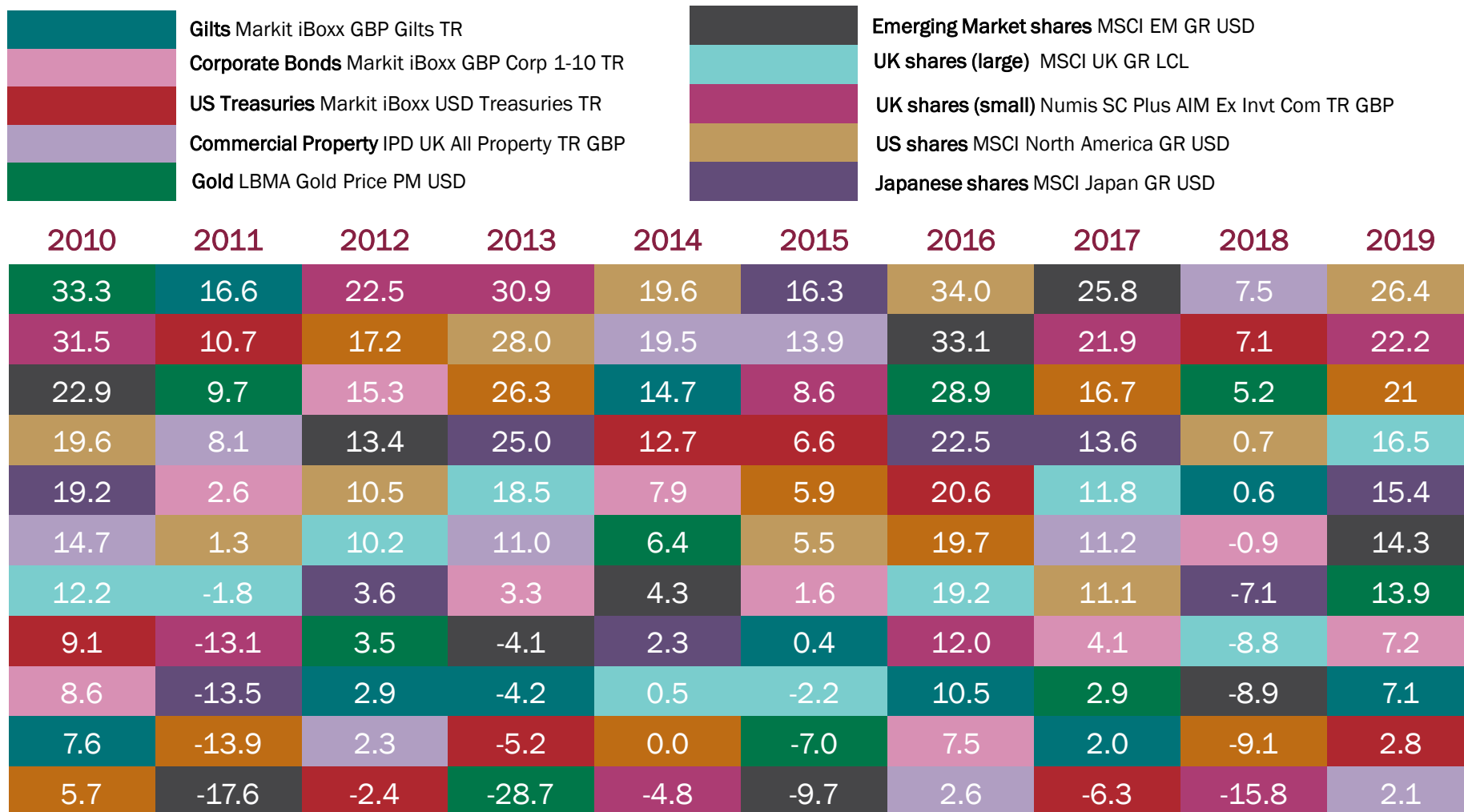
Investing for the long term reduces the likelihood of sustaining losses. Over a small number of trading days market moves can be large and can seem unpredictable, but over a larger number of days the average return will tend to be positive assuming that long-term returns from investing are positive. It is possible to be more confident in the long-term return and the risk of loss. The chart below sets out this principle for a balanced portfolio of equities, bonds, alternative investments and cash.



The chart shows the probability of losing capital over various time periods. The chance of losing capital in a typically balanced portfolio over 1 year is just over 30%. Stay in market 5 years and this probability falls to just under 17%.

Source: Tilney and Bloomberg, based on a typical balanced portfolio.

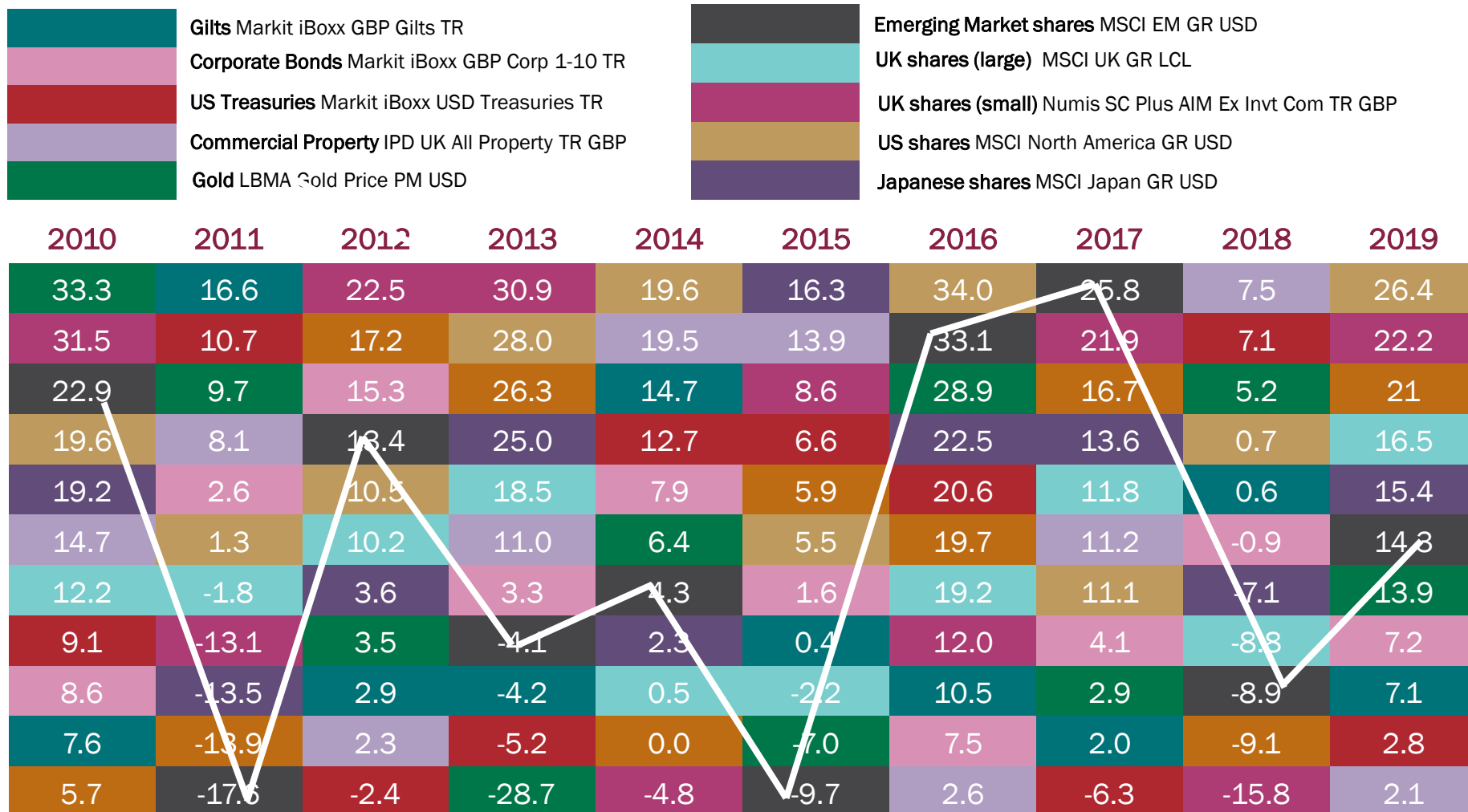
Why asset allocation matters



Source: Morningstar Direct. Total return in GBP.

This chart shows that past performance is not a reliable indicator of future results

Why asset allocation matters



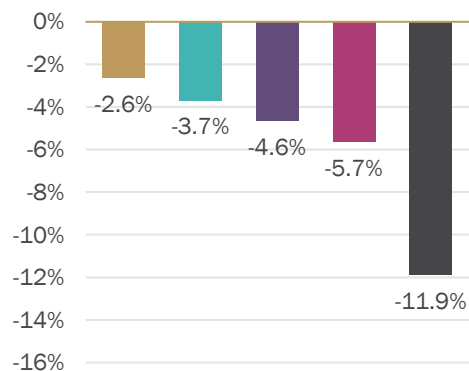
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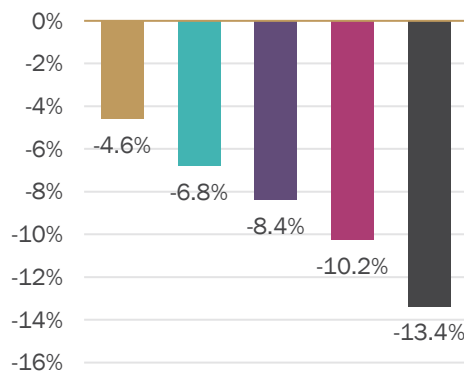
Focus on Downside Limitation

We believe limiting the downside will deliver better long term returns, lower volatility and a far more satisfied client. The accompanying graphs show the performance of the Tilney Private Client Indices (PCI) when the markets have fallen rapidly over short periods.

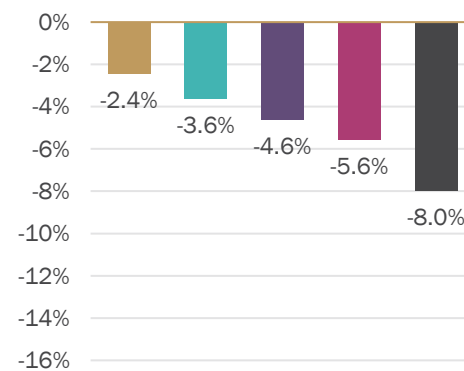
1 April to 30 June 2010



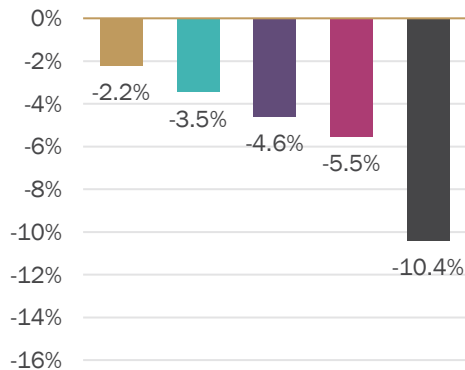
30 June to 30 September 2011



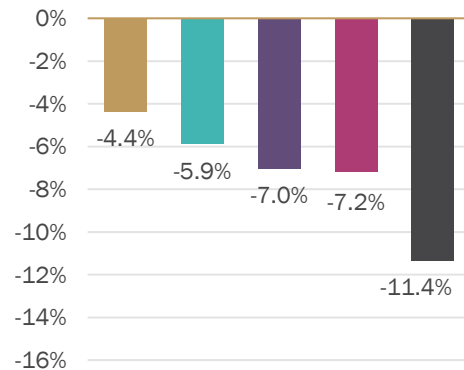
29 February to 31 May 2012



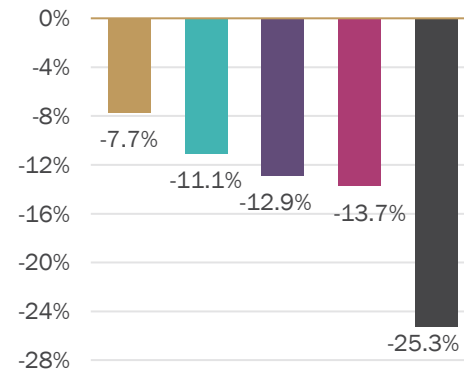
30 April to 30 September 2015



1 September to 31 December 2018



1 January to 31 March 2020



■ Tilney Cautious PCI
 ■ Tilney Balanced PCI
 ■ Tilney Steady Growth PCI
 ■ Tilney Equity PCI
 ■ MSCI UK All Cap GR GBP

Past performance is not a guide to future performance. Net of all fees.

Source: Tilney, Morningstar and Asset Risk Consultants.

Fund selection

Ten Principles of Manager Selection

1 Focus on Increasing Wealth

The fund manager's mind set should be focussed on making the client wealthier rather than necessarily beating a market.

2 Concerned With Business Risk, Not Price Risk

Managers should be less concerned with price risk, which has an immediate effect and be more focussed on the fundamentals of the business they are investing into.

3 Have Long-Term Horizons

We believe managers who identify their investments based on long term fundamentals and who ultimately prefer to hold an investment for the long term will reap the benefits.

4 Unconstrained by Market Benchmark

Having a high degree of conviction allows a fund manager to focus on creating wealth rather than limiting potential returns by hugging a benchmark.

5 Hold Concentrated Portfolios

Outperforming becomes more difficult as the number of stock holdings increase. We seek managers who can strike a balance between diversification and investing with conviction in fewer positions.

6 A Willingness to Hold Cash

We like to invest with managers who, in times of increasing uncertainty, are willing to hold cash as a method of protecting assets.

7 A Willingness to Limit the Size of Their Funds

Larger pools of assets can lead to managers investing outside of their core ideas. Additionally, cash flow management and stock selection are different skill sets. On balance we prefer managers to focus on their best investment ideas.

8 Significant Personal Investment

We prefer our managers to feel the same pain as their investors during difficult times and reward in the good times by investing a significant amount of their personal wealth in their own fund.

9 Longevity of the Manager/Team

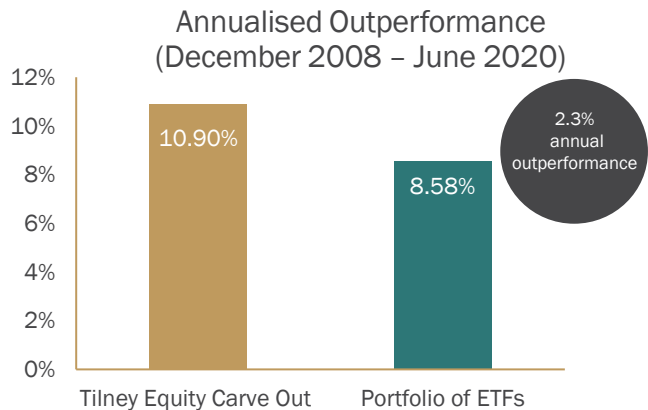
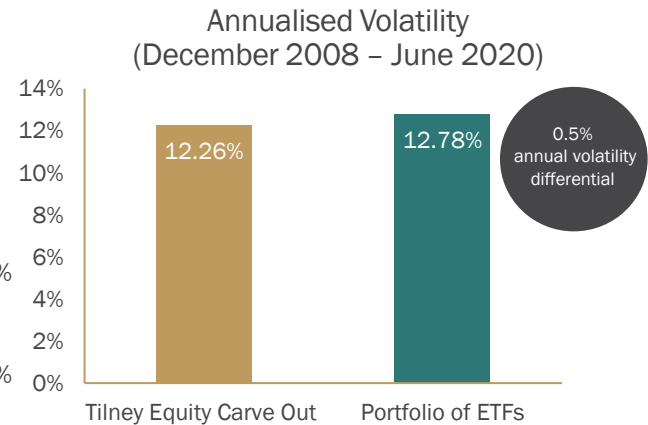
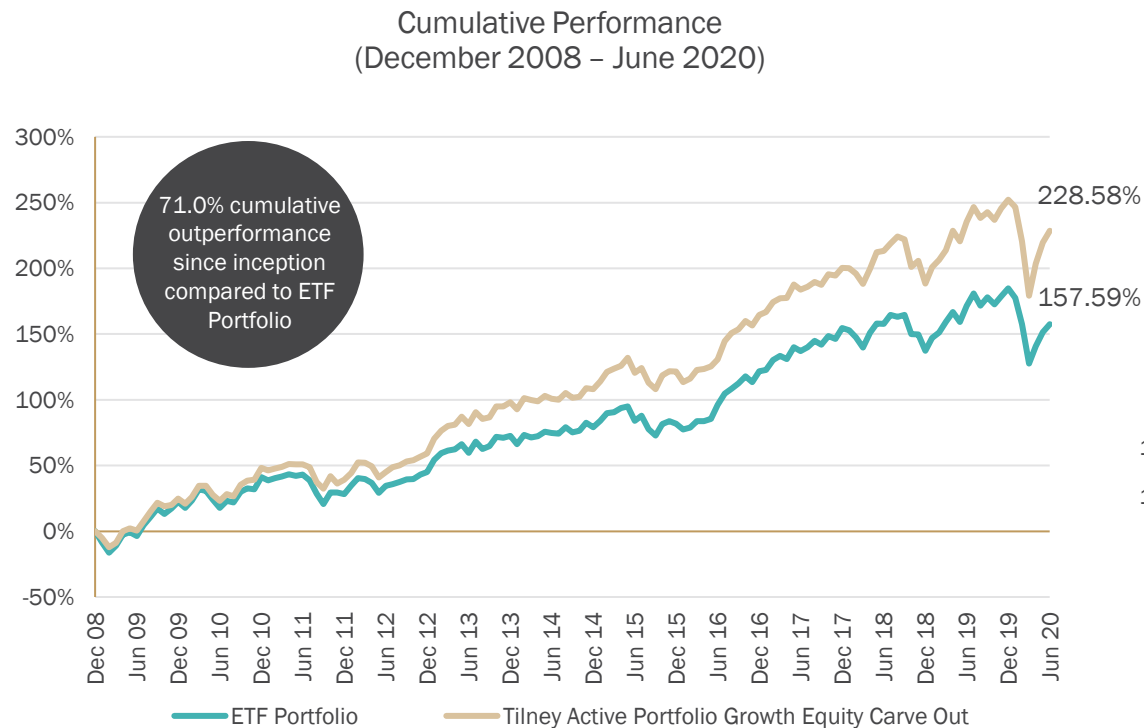
We invest in people as much as we buy their funds. A stable and long term management team is vital to the on-going success of any managed investment.

10 Clear, Unambiguous Statement of Investment Objectives

Does the manager have a clear, measurable definition of what constitutes investment success? We favour managers that are clear in their own mind what they are trying to deliver for their investors.

Equity component – historical performance

Adding Value through our fund selection

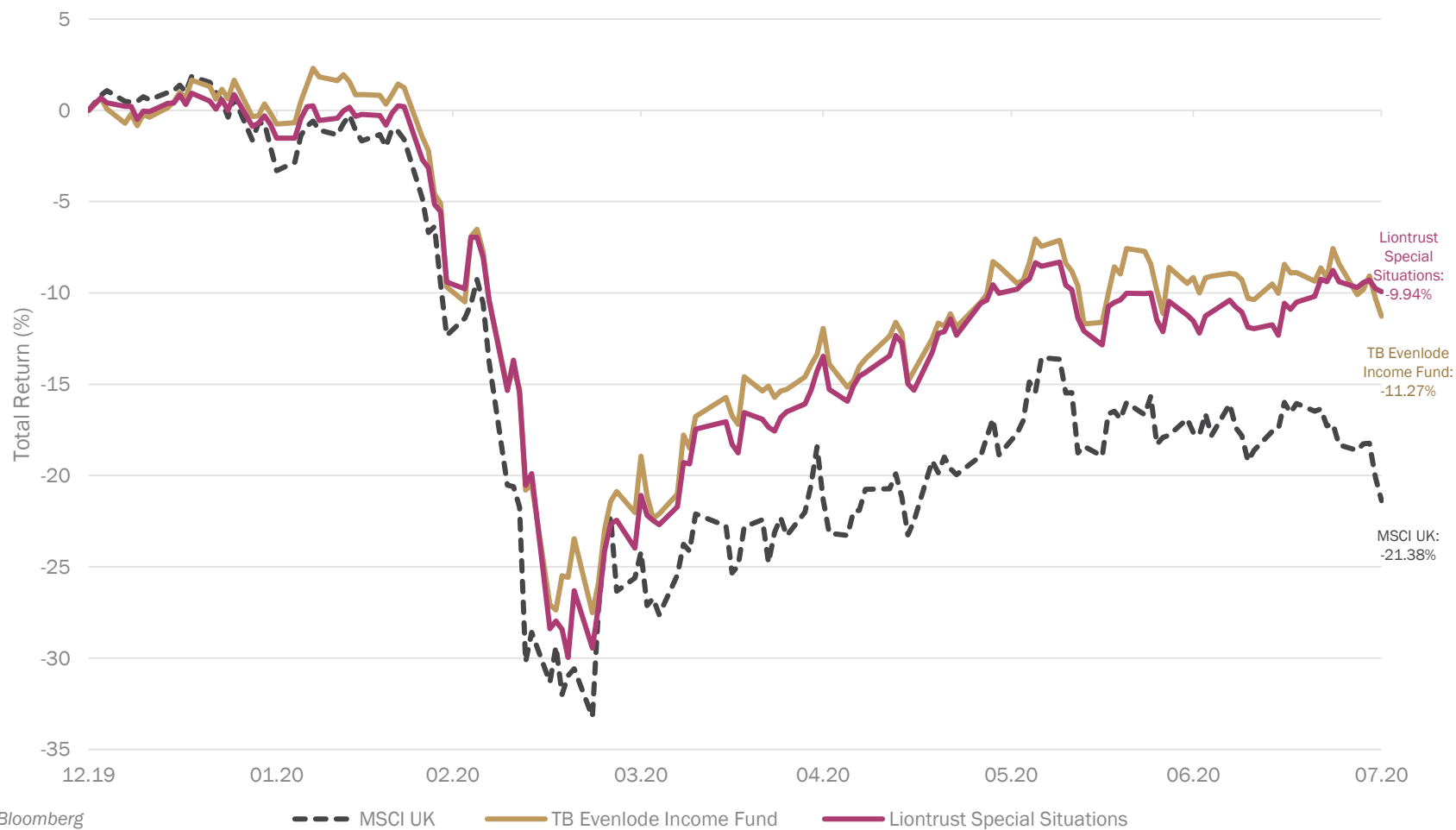


- Carve out of performance of funds held in the equity allocation of the Tilney TAP Growth Equity Carve Out
- We compare this to a portfolio of passive funds invested with the same asset allocation
- The 71.0% cumulative outperformance demonstrates the benefit of Tilney fund selection

The charts shown above compare the historical performance of the equity component of the Tilney Active Portfolio Growth to a benchmark composed of ETFs with the same equity allocation. Returns and asset/fund allocation prior to September 2019 are based on Tilney MAP Growth. Performance figures have been calculated monthly net of all fund and ETF fees, but gross of our investment management fees. [Source: Tilney]. The value of an investment may go down as well as up and you may get back less than you originally invested. Past performance is not a guide to future performance.

Active Management: UK Equity Performance

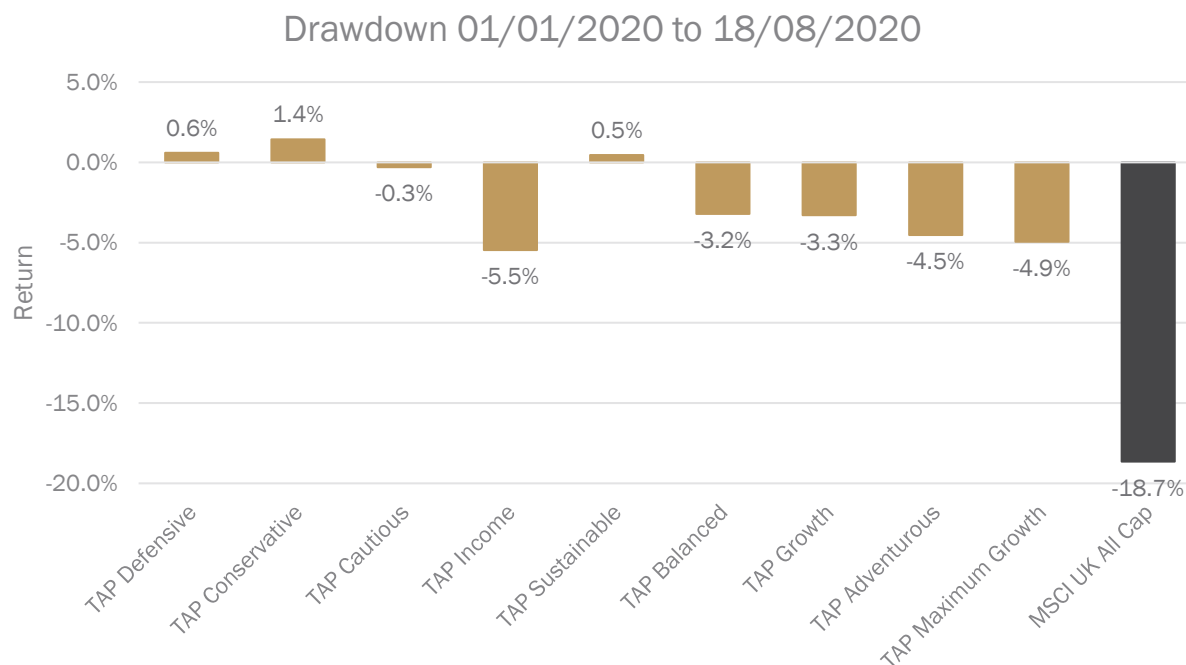
Year to Date Returns



Source: Bloomberg

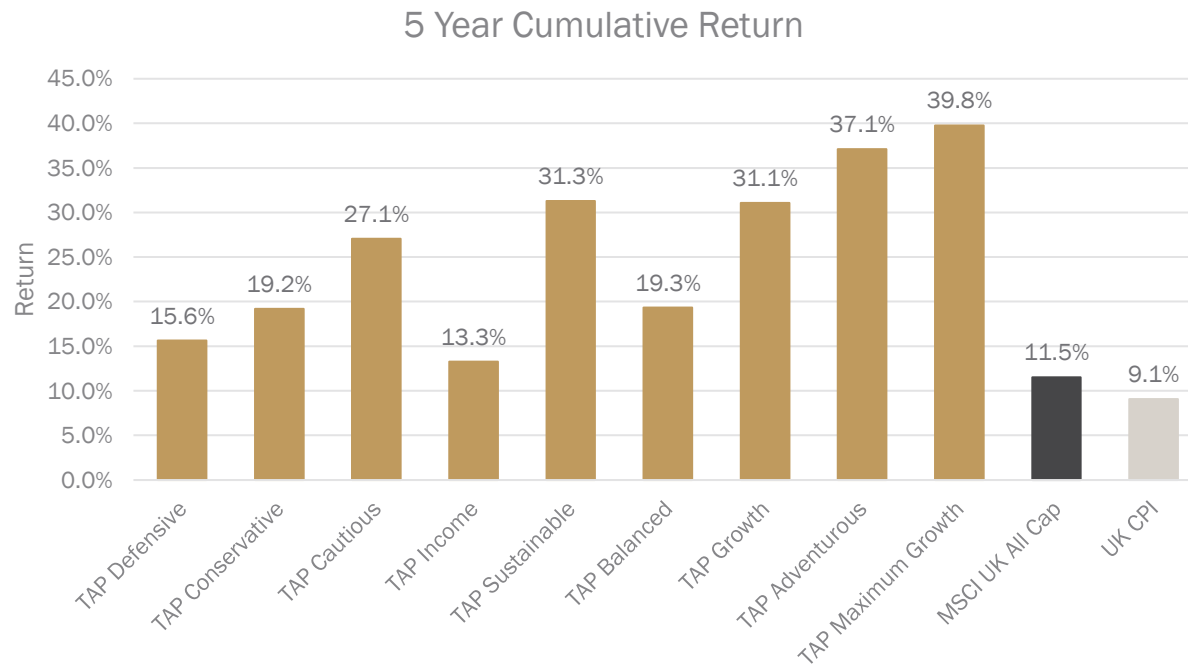
YTD returns to 31/07/2020.
All returns reported in GBP.

How have our portfolios performed YTD?



Source: Tilney, Morningstar Direct as at 18/08/2020. Returns for TAP funds are net of investment management fees, in sterling terms.

Looking at the longer term – 5 year performance



Source: Tilney, Morningstar Direct as at 18/08/2020. Returns for TAP funds are net of investment management fees, in sterling terms.

Tilney Active Portfolios

31 July 2020

Cumulative average % performance (as at 31/07/2020)

Tilney Active Portfolios	1m	3m	6m	12m	24m	36m	60m
Tilney Maximum Growth	-0.46	6.05	-6.65	-8.59	-1.04	8.94	34.42
ARC Equity Risk PCI	-1.20	5.21	-5.91	-4.98	-0.01	6.95	28.49
Tilney Adventurous	-0.20	5.76	-6.15	-7.03	-0.23	7.06	32.28
Tilney Growth	0.04	5.68	-4.81	-5.59	0.70	6.66	27.28
ARC Steady Growth PCI	-0.90	4.50	-4.69	-3.81	0.75	6.23	24.33
Tilney Balanced	0.03	3.95	-4.27	-5.31	0.53	4.23	17.08
Tilney Cautious	0.62	5.17	-1.45	-2.11	3.95	8.66	24.69
Tilney Income	-0.49	3.26	-6.24	-6.84	-2.25	0.81	11.43
Tilney Ethical	0.46	4.78	-0.86	0.84	6.50	10.75	28.95
ARC Balanced Asset PCI	-0.40	3.86	-2.68	-1.89	1.84	5.37	18.13
Tilney Conservative	0.79	5.08	0.49	-1.02	4.23	7.83	17.72
Tilney Defensive	0.90	3.79	-0.21	-0.86	2.79	5.22	14.60
ARC Cautious PCI	0.00	2.87	-0.79	0.28	3.48	5.02	13.33
Cash	0.03	0.09	0.21	0.49	1.03	1.48	2.43
CPI	0.11	0.12	0.36	0.59	2.66	5.20	8.58
ICE BofA 1-10Y UK Gilt	0.26	0.75	2.35	2.75	6.86	6.33	12.60
MSCI UK All Cap	-3.97	0.48	-18.92	-19.39	-18.71	-11.26	5.77
MSCI World	-1.36	8.36	-0.22	0.04	11.05	24.87	70.84

Rolling 12 month % performance (as at 31/07/2020)

2020/19	2019/18	2018/17	2017/16	2016/15
-8.59	8.26	10.08	14.20	8.04
-4.98	5.24	6.96	13.22	6.11
-7.03	7.31	7.31	13.17	9.18
-5.59	6.67	5.92	10.81	7.70
-3.81	4.74	5.44	10.86	5.57
-5.31	6.17	3.68	7.24	4.74
-2.11	6.19	4.53	7.66	6.59
-6.84	4.92	3.13	6.12	4.16
0.84	5.62	3.99	7.13	8.69
-1.89	3.80	3.47	7.82	3.97
-1.02	5.30	3.45	5.61	3.38
-0.86	3.69	2.36	3.40	5.34
0.28	3.18	1.49	5.09	2.67

Source: Morningstar Direct. These returns are shown net of 0.75% management fee, admin charge of 7bps (taken within the unitised fund which includes a 2.5bps fund administration charge paid to Tilney), underlying fund charges, with interest and dividends reinvested. These are investment related charges only and do not take into account any Platform or Custody Charge or costs associated with Financial Planning advice. For the Tilney Conservative, Income, Balanced and Maximum Growth Portfolios, performance data prior to 20 Sept 2019 is based on the performance of the relevant IFSL Tilney Bestinvest fund. For the Tilney Defensive, Cautious, Ethical, Growth and Adventurous Portfolios, performance data prior to the launch of the Clean share classes (1 Feb 2017) is based on 0% AMC adjusted upwards to 0.75% AMC.

We have compared our performance with the relevant Asset Risk Consultants Private Client index (ARC PCI) which comprises real private client returns submitted to ARC by UK private client investment managers. For further information, please visit www.assetrisk.com.

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QUESTIONS & ANSWERS

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[Tilney.co.uk](https://www.tilney.co.uk)