SAUNDERSON
HOUSE

Q1 2021

Quarterly Performance Bulletin

The 12 months to 31 March 2021 represented the best year for equity investors in more than a decade. One year ago, stock markets were depressed by fears of Covid-19 and the economic lockdowns that were being introduced in many countries. Then, as governments and central banks announced economic support measures, investor confidence improved and markets staged a recovery. This rally was reinforced by the development of effective vaccines against the virus and the results of the US elections in November 2020.

Given the positive backdrop, it is no surprise that we are reporting strong returns from our model portfolios. Over 12 months to the end of March, the biggest factor differentiating the performance of our various models is their weighting to equities. Our Long Term Equity Only model, which is our most aggressive, returned 41.5% over the period, while our most conservative model, Wealth Preservation Cautious (holding just 23.5% in equities), returned 14.2% (see charts and table below).

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Figure 1: Long Term Equity Only (carve-out) versus the ARC Sterling Equity Risk PCI

Figure 2: Wealth Preservation Cautious versus the ARC Sterling Cautious PCI

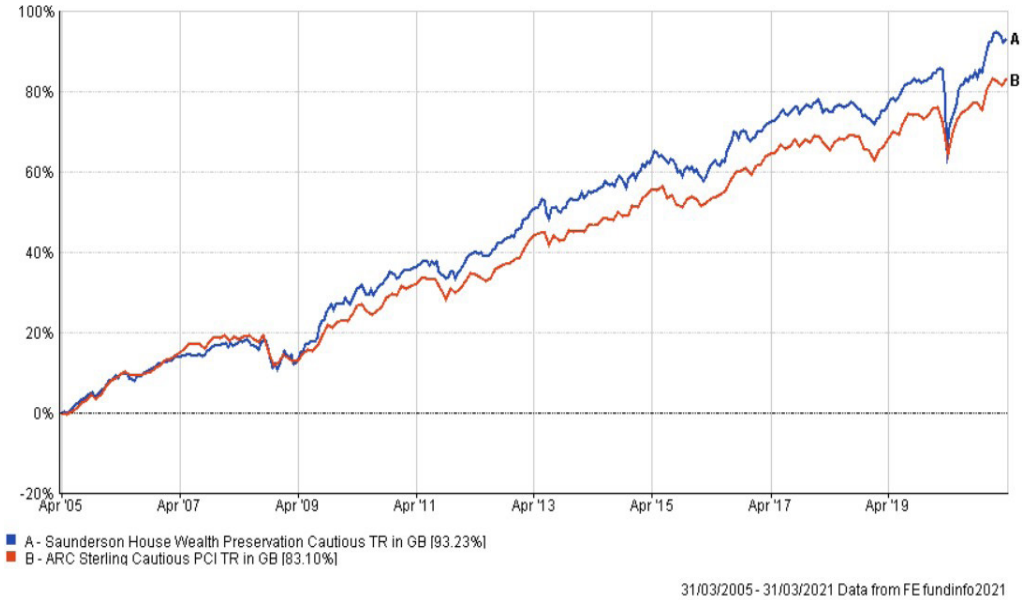

Figure 3: Wealth Accumulation Balanced versus the ARC Sterling Steady Growth PCI

Figure 4: Wealth Management Balanced versus the ARC Sterling Balanced Asset PCI

Our other models generated returns within this range and, in the following table, we show the performance of our most popular Wealth Accumulation Balanced and Wealth Management Balanced models alongside Long Term Equity Only and Wealth Preservation Cautious. For each model, we show the returns from the relevant Asset Risk Consultants (ARC) Private Client Index (PCI). The PCIs measure the average performance of private client portfolios of ARC's member wealth management firms. Saunderson House is an associate member of ARC.

As well as one-year returns, we also show annualised three-, five- and 10-year numbers. We then explain some of the factors behind those returns, including the more challenged three-year returns.

	1 Year %	3 Year %	5 Year %	10 Year %
Long Term Equity Only*	**41.5**	**6.5**	**9.9**	**8.6**
ARC Sterling Equity Risk	30.4	7.7	8.6	6.7
Relative Performance	11.1	-1.2	1.3	1.9
Wealth Accumulation Balanced	**28.2**	**5.0**	**6.9**	**6.6**
ARC Sterling Steady Growth	23.5	6.1	7.0	5.8
Relative Performance	4.7	-1.1	-0.1	0.8
Wealth Management Balanced	**23.7**	**4.4**	**6.0**	**5.9**
ARC Sterling Balanced Asset PCI	17.9	4.7	5.2	4.6
Relative Performance	5.8	-0.3	0.7	1.3
Wealth Preservation Cautious	**14.2**	**3.4**	**3.6**	**3.6**
ARC Sterling Cautious PCI	11.3	3.4	3.6	3.3
Relative Performance	2.9	0.0	0.0	0.3

Source: Saunderson House, Financial Express Analytics, Asset Risk Consultants, data to 31 March 2021

*This model was only launched to clients at the beginning of 2020 but had previously been tracked based on the equity component of our Wealth Management Balanced model. The returns from this carved-out model are shown in the table here.

One-year returns were driven by large allocations to UK, Asian and emerging markets equities, which we viewed as extremely undervalued relative to their long-term potential back in March 2020. Portfolios also benefited from increased allocations to North American equities throughout the year, as we concluded that the huge fiscal and monetary support programmes in the US, coupled with pent up demand from consumers and signs of a resurgence in capital investment, would likely be very positive for corporate earnings.

Bond allocations also made a meaningful contribution towards portfolio returns, with our preferred strategic bond funds delivering double-digit gains over the year. These gains were driven by high allocations to corporate bonds within these funds, which benefited from credit risk receding, as stimulus measures were announced, and a hunt for yield by investors. In contrast, government bonds, which portfolios held little of, fell in price over the year as investors felt less need to hold the safest assets as time went on.

Our success over the year to March 2021 largely came down to being prepared to invest in markets others were fearful of. This was particularly the case with Asian equities, which many investors avoided due to trade tensions between China and the US, and the Covid-19 pandemic starting in China. Our view was that they were ignoring the long-term growth potential in the region and the fact that prior share price weakness had created numerous bargains for investors willing to go against the herd.

Over three years, portfolio returns were driven by allocations to bond funds and North American, Asian and emerging market equities. In hindsight, during this period, we did not hold enough in North American equities and held too much in the UK within our portfolios. Our thinking was that the US market was looking fully priced and that risks, notably on the regulation and taxation of global earnings of technology platforms, which had high weightings in the stock market, were being ignored by many investors. In contrast, we believed that investors were overlooking the fundamental attractions of lots of UK-listed businesses, and using Brexit as a reason to largely avoid the market. These views are now starting to be borne out.

Over the longer term, our approach of avoiding assets that appear fully valued or where investors appear complacent about risks, and allocating more money to those markets where investors' concerns have created valuation opportunities has worked well. We were buyers of long-dated corporate bonds in early-2016 when many investors were worried about rising interest rates. We were also sellers of UK commercial property around the same time when the consensus view was that the UK's referendum on EU membership would be won by the Remain camp. During China's 2014-15 debt crisis, we were buyers of Asian and emerging markets equities and, similarly, we bought European equities in 2012 during the eurozone debt crisis. All of these moves played out well for our portfolios but, at times, they felt very uncomfortable.

As a result of decisions like these, the long-term returns from our model portfolios relative to their ARC PCI comparators, have been strong. Our belief is that continuing to do so, within a risk-controlled investment framework and with a well-resourced team, can also provide strong long-term returns for our clients in the future.

If you have any questions about the information covered in this bulletin, please get in touch with your usual Saunderson House contact.

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