gemini
asset management

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Market Summary

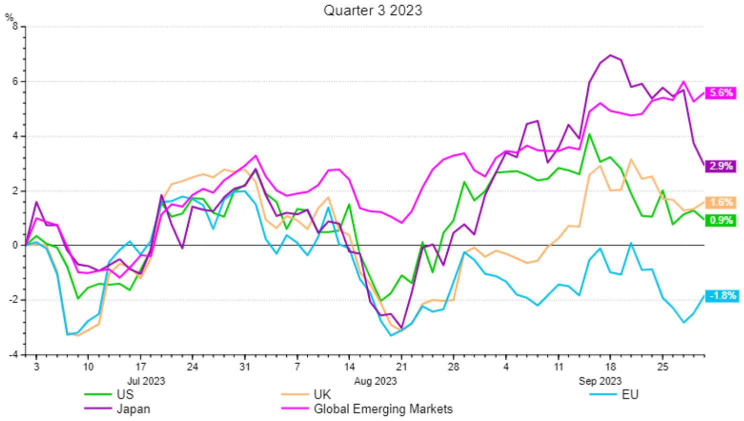
Quarter 3 of 2023 was more of a mixed bag for markets, as some drivers of market performance over the year impacted differently this time around. In general there was still positive equity performance, albeit relatively stagnant in some major markets such as the US and the UK. Bond markets mainly moved sideways or slightly downwards but there were some exceptions as bonds which are more sensitive to interest rate changes underperformed bonds which are less sensitive to interest rate changes with interest rate expectations dominating bond pricing once again.

Developed economies avoided the label of being in recession for yet another quarter, defying some of the recessionary feeling in regions such as the US, UK and EU. Inflation remained relatively high compared to long term averages but it softened in the US, UK and EU, and this has been well received by investors keeping a close eye on expected central bank policy changes. With inflation falling, much more of the investment world chatter was focused on the possibility of central banks halting their interest rate hiking cycle.

Fixed Income

Bond market's again struggled with the high inflation and high interest rate landscape, however with much of the market turning attentions to the possibility of peak interest rates, there was less drastic negative performance. For bonds, the pricing tends to be relatively mechanical, and whilst central banks typically finished the quarter by pausing their rate hiking cycles, it provided a bit of respite in the negative sentiment towards the asset class. Bond yields remain high, paying a relatively high income to investors when compared to levels seen in the last decade or so, and high credit quality bonds continue to intrigue, especially in a landscape of relatively low economic sentiment.

Figure 1 **Major Equity Markets**
Quarter 3 2023



Source: LSEG Datastream
All indices used are the Datastream Total Market equity index for a given region
Past performance is not a reliable indicator of future results
There are no charges associated with the indices shown within this chart

Equity Markets — see Figure 1

US equities only ended the quarter with small gains following a pull back in September. Much of this was due to the idea that the Federal Reserve may not yet be done with their interest rate hiking cycle, The US equity market on a one year basis has however seen relatively strong gains of c.10.6%

The UK market held a similar path to the US during the quarter but may have lagged more significantly if oil prices had not risen. The UK equity index holds a relatively large weighting to the energy sector and with the oil price increasing the equity market was able to counteract some other factors which may have led to underperformance,

European equity fell even in the wake of more interest rate hikes by the European Central Bank and even whilst inflation data came in below expectations—this showed that there is still potential for recessionary expectations to influence equity market sentiment.

Japanese stocks continued to rise in Q3, albeit with a retraction towards the end of the quarter—the Japanese Yen weakness was a boon for the market and the decision for the Bank of Japan to hold interest rates below zero also helped considerably. Emerging market equity trended upwards finishing the quarter with the strongest performance out of major equity regions. Concerns still lingered for China’s property sector but investors looked through this and pushed emerging market equity up further by the end of the quarter.

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Economic Update

US interest rates are expected to remain relative high even though the Federal reserve opted to 'pause' their rate hiking cycle which has been utilised to try to bring inflation back down to manageable levels. Current expectations are for rates to be 5% or above by the end of 2024, so it's not expected for interest rates to come tumbling down any time soon. More mixed pictures can be seen when considering US economic growth outlook—some data pointed to a cooling, such as jobs figures, whilst other data pointed to positive signs, such as the household savings figures.

The UK economy avoided recession once again in quarter 3 although there was not a great deal of positive data released during the quarter, with the releases which were positive being only marginally so. There is still a prevalence of high inflation, with increases in energy prices leading to the inflation prints not falling quite as quickly as had been hoped at the start of the quarter. Interest rates remained high, but more talk emanated from the Bank of England suggesting they are approaching the peak of the interest rate hiking cycle.

The European economy struggled in the last quarter with inflation stagnating at relatively high levels. This led the European Central Bank to raise interest rates during the third quarter, however it also signaled to the markets that this would potentially be the last rate hike for the region. Business activity declined during the quarter with the Purchasing Managers Index (a basic barometer for economic activity) hitting a 33-month low.

In the rest of the world, Japan continued to stand out with their monetary policy decisions, as the Bank of Japan decided to continue to hold interest rates in negative territory. Japan suffered from a lack of inflation for a very long time and as it has been less extreme than the levels of inflation found in other developed regions, Emerging markets in tended to be dominated by the China story as they continued to try to stimulate the economy out of recession. China suffered a headwind of negative sentiment following some defaults in the real estate sector early on in the quarter, and it's certainly one to watch, but it managed to post some positive trending economic data during the quarter too.

Portfolio Performance

The table below shows the performance of Gemini Asset Management's (GAM) discretionary risk-rated portfolios over the course of the last 5 years. The table compares the performance of GAM's Discretionary Models against the FTSE All Share and the most relevant Investment Association (IA) Mixed Investment sector. The weight of equity in each IA Mixed Investment sector is the main deciding factor when choosing which is the most suitable comparator to each GAM portfolios but the constitution of the GAM portfolios and the relevant IA sectors could still be very different from one another. Whilst a direct comparison of GAM's portfolios with an equity index such as the FTSE All Share, or the relevant IA Mixed Investment Sector are not like-for-like, it gives an indication of volatility and performance differences on a risk-adjusted basis and can demonstrate the importance of spreading risk through diversification.

Cumulative Performance (%) to 30/09/2023												
Name	3 months	Sector	YTD	Sector	1 Year	Sector	3 Years	Sector	5 Years	Sector	Inception (16/03/2017)	Sector
GAM 3	-0.33	-0.33	0.35	0.35	2.67	2.67	-0.92	-3.76	6.05	1.33	11.00	3.79
GAM 4	-0.52	-0.11	1.43	1.11	4.69	4.24	1.40	3.55	9.73	6.51	14.80	11.11
GAM 5	-0.31	-0.21	2.39	2.21	6.06	5.27	5.16	10.30	14.71	15.01	22.52	23.61
GAM 6	-0.32	-0.21	2.38	2.21	6.23	5.27	6.39	10.30	16.64	15.01	26.73	23.61
GAM 7	-0.42	-0.21	2.36	2.21	7.58	5.27	6.08	10.30	16.45	15.01	29.00	23.61
FTSE All Share	2.03		5.06		14.76		42.47		19.89		29.76	

Source: Morningstar Direct data 16/09/2017 – 30/09/2023. Past performance is not a reliable indicator of future results. Figures given do not include initial, advice, discretionary management or platform fees, but do include fund charges/OCFs.

The sectors used as comparators with the portfolios are the respective IA Mixed Investment sectors. Gemini's GAM 3 is compared to the IA Mixed Investment 0-35% Shares sector; GAM 4 is compared to the IA Mixed Investment 20-60% Shares sector; and GAM 5, GAM 6, and GAM 7 are compared with the IA Mixed Investment 40-85% Shares sector.

The value of an investment and the income from it could go down as well as up. The return at the end of the investment period is not guaranteed and you may get back less than you originally invested.

Asset Allocation and Fund Review

The Gemini Asset Management investment team reviewed the existing asset allocation model in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner. As a result of this there were changes made to the GAM discretionary models during Q3 2023, detailed in the insert provided.

The fees you pay to Gemini Asset Management are inclusive of any VAT which may be payable.

Asset Allocation and fund changes – Quarter 3, 2023

The Gemini Asset Management (GAM) investment committee reviewed the existing asset allocation model in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner. As a result of this there were changes made to the GAM discretionary MPS (managed portfolio service) models during Q3 2023, with the main themes for the asset allocation changes covered below.

The table directly below shows the asset allocation for the Gemini Asset Management Active MPS – the weight for each sub-asset class is noted, and the colour of the text signifies whether or not a weighting has been increased, decreased or remained the same during Quarter 3 2023. An increase in weight is shown by green text, a decrease in weight is shown by red text, and an unchanged weight is shown by amber text.

	Risk Level									
Asset Class	**GDP1**	**GDP2**	**GDP3**	**GDP4**	**GDP5**	**GDP6**	**GDP7**	**GDP8**	**GDP9**	**GDP10**
Cash/Money Market	100.00%	49.00%	18.00%	9.00%	6.00%	3.00%	0.00%	0.00%	0.00%	0.00%
Fixed Interest	0.00%	40.00%	56.00%	46.00%	29.00%	19.00%	9.00%	7.00%	0.00%	0.00%
Property & Infrastructure	0.00%	2.00%	5.00%	5.00%	5.00%	5.00%	5.00%	3.00%	0.00%	0.00%
UK Equity	0.00%	2.00%	6.00%	8.00%	16.00%	17.00%	26.00%	10.00%	8.00%	0.00%
North America	0.00%	3.00%	8.00%	14.00%	19.00%	19.00%	23.00%	15.00%	11.00%	8.00%
Europe	0.00%	1.00%	1.50%	4.00%	5.00%	5.00%	5.00%	6.00%	5.00%	0.00%
Japan	0.00%	1.00%	3.50%	6.00%	7.00%	7.00%	7.00%	10.00%	8.00%	2.00%
Far East ex Japan	0.00%	0.00%	0.00%	4.00%	4.00%	10.00%	11.00%	22.00%	24.00%	26.00%
Emerging Markets	0.00%	0.00%	0.00%	1.00%	5.00%	11.00%	12.00%	25.00%	42.00%	61.00%
Global Specialist	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Global Equity	0.00%	2.00%	2.00%	3.00%	3.00%	3.00%	1.00%	1.00%	1.00%	2.00%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Commentary

- Reduced exposures to fixed income as interest rates were not expected to fall during Q3 2023, and due to finding opportunities in other areas. Also, the fixed income portion of the portfolios was tilted toward high-quality AAA-rated bond holdings:
  - ◊ Bias towards higher quality bonds achieved through the inclusion of the PIMCO Global Bond fund.
  - ◊ High quality government and supranational debt is preferred as they presently pay a relatively high yield compared to recent history, and they have typically provided better diversification to equities.
  - ◊ The greater diversification benefit to equities may be especially useful in the current low sentiment environment for global equities.
- Reduction of Property & Real Assets, and a more global approach in our infrastructure exposure:
  - ◊ Reduction in exposure due to the interest rate environment leading to potentially better opportunities in other areas
  - ◊ Removal of the VT Gravis UK Listed Infrastructure fund and replaced with the Lazard Global Listed Infrastructure and M&G Global Listed Infrastructure funds to provide a more global approach to this asset class. The introduction of global infrastructure funds adds greater diversification benefits than what is available within the UK.
  - ◊ Investing globally allows the portfolio a greater ability to hedge against local economic downturns, regulatory changes, or other region-specific risks.
- Increase Emerging Market exposure through the addition of a Chinese equity fund:
  - ◊ China is presently in a completely different stage of the economic cycle compared to other major economies around the world, and with this may come opportunity.
  - ◊ China is trying to stimulate their economy rather than slow it down such as is the case in other regions where central banks are trying to lower inflation.
- Reduced UK equity weight:
  - ◊ Reduction to what is a relatively high exposure to UK assets within the portfolio, in favour of other opportunities in other regions around the globe.
- Increased US equity weight:
  - ◊ We believe that the US equities may be able to provide a greater level of resilience to the portfolio when compared with other major equity regions due to the relatively high quality of some of the leading companies in the region.