R&S Managed Income Fund

Q4 2023 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	5.9%	7.0%	7.6%	17.1%	26.2%	59.4%
FTSE All Share TR GBP	3.2%	5.2%	7.9%	28.1%	37.7%	68.2%
IA Mixed Investment 40-85% Shares	5.8%	5.5%	8.1%	8.0%	32.0%	66.4%
Sector Quartile	2	1	3	1	3	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

MARKET REVIEW

Equities in most major markets performed strongly in the final quarter of 2023, fuelled by the expectation that the main central banks had begun to get inflation under control and that the next move in interest rates would be down. In particular, the Federal Reserve changed its narrative to indicate as much, shifting from its previous more hawkish stance. While the US economy continued to grow relatively well, in the EU and UK growth remained sluggish, bordering on recession, as it had been for much of the year.

A similar view was evident in fixed income markets, where global bonds rallied sharply over the quarter and credit spreads declined steadily, in a similar manner to previous months, with lower-rated debt gaining considerably more than higher-quality securities.

PERFORMANCE & ACTIVITY

The Fund outperformed both its benchmark (the FTSE All Share Index) and its sector (IA Mixed Investments 40-85%). The market rally was broad-based, but some of the Fund's more interest-rate-sensitive holdings recovered well after experiencing a tough 12 months or so as yields rose. The Fund's infrastructure holdings fell within this category, where mainly UK-listed vehicles with exposure to renewable energy resources were held. Likewise, the Fund's REIT holdings rallied significantly. The most notable exceptions to this rising tide were some of the Fund's equity holdings in the pharmaceutical sector. Sanofi disappointed after unexpectedly announcing an increase in investment in its R&D pipeline.

A few new positions were added over the period, such as Elis, Home Depot and Unite Group. French company Elis is a global leader in the rental and laundry of textiles for healthcare, hotels and workwear. As a play on the circular economy, it is still recovering from the pandemic lockdowns and offers a >3% yield and steady growth. Home Depot is the dominant US player in home improvements, both DIY and professional, and has an impressive record of earnings and dividend growth, stretching back decades. We bought it amid a very rare year of falling profits, due to high raw materials costs and the impact of inflation on consumers, when it was yielding over 3% (a rarity for a 'dividend aristocrat').

We exited a small position in the pharmaceutical Pfizer during the quarter, as it had been a disappointing performer over the year and we could see few catalysts to change that view, other than that it was at a historically low valuation (after this holding was sold, Pfizer issued a profit warning).

We also made the most of the higher yields available in the fixed income market to add new positions in corporate credits such as Close Brothers. This had the effect of raising the overall portfolio yield, pushing the average credit rating further into investment grade territory and improving liquidity.

OUTLOOK

The obvious discussion at the start of 2024 is around how fast and how soon interest rate cuts will come. There will probably be tension around this debate that creates more of the same volatility seen during 2023. Whether European, US and other developed market economies fall into recession remains to be seen, but growth looks to be anaemic in Europe for the immediate future.

2024 is also a big election year, most notably in the US and probably the UK. With two such aged protagonists representing each party in the US, it seems entirely possible that a medical event could change the course of events in semi-predictable ways. As ever though, markets will be affected by events that are inherently unpredictable (and therefore not priced in). To counter that, we believe a widely diversified portfolio across (mainly) equity, fixed income and infrastructure assets will offer robustness and resilience. We focus on generating a resilient yield, with the scope for capital growth. Vital to this is our Responsible & Sustainable investment process, which we feel offers vital due diligence and screening across all of the Fund's holdings to ensure that we only invest in businesses that we confidently believe are engaged in best practice across all aspects of their operations.

PERFORMANCE DISCRETE	12 Months to 31/12/2019	12 Months to 31/12/2020	12 Months to 31/12/2021	12 Months to 31/12/2022	12 Months to 31/12/2023
Fund Performance (B Class)	13.8%	-5.3%	16.9%	-7.0%	7.6%
FTSE All Share TR GBP	19.2%	-9.8%	18.3%	0.3%	7.9%
IA Mixed Investment 40-85% Shares	15.9%	5.5%	11.1%	-10.1%	8.1%
Sector Quartile	3	4	1	1	3

Past performance is not necessarily a guide to future returns.