Fund update | Third quarter 2023

Premier Miton

Cautious Monthly Income Fund

Part of the Premier Miton Multi-Asset Solutions Range

FOR INVESTMENT PROFESSIONALS ONLY. CAPITAL AT RISK.

Premier Miton Cautious Monthly Income Fund

Need to know

Aims to pay an income with long-term capital growth

For long-term investors - not for those seeking short-term gains

Diversified portfolio with income being generated from a broad range of asset classes, macro and thematic ideas with no individual position dominating income risk or returns

Macro & thematic ideas will not be dependent on one scenario

Pragmatic approach to asset allocation and not benchmark constrained

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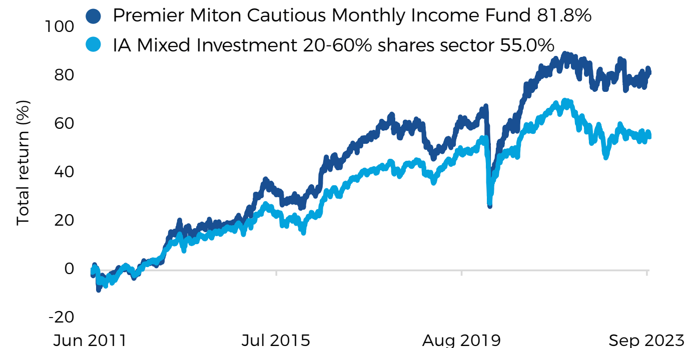
Awards and ratings are based on past events and are not an indication of future performance. Correct as at date of publication 30.09.2023.

Summary

- A weak quarter for bonds and equities as rising oil prices undermined the disinflation story.
- Only UK equities rose amongst the major markets, the energy sector was best within equities.
- Yield rises at the long end led to poor bond returns except for high yield and short dated corporates
- We remain firmly of the view higher for longer will be the long term story.

Performance since launch[1] to 30.09.2023



Discrete annual performance over last 5 years %

Total returns %	2018	2019	2020	2021	2022	2023 YTD
Premier Miton Cautious Monthly Income Fund	-8.8	11.6	5.0	10.0	-4.8	1.3
IA Mixed Investment 20%-60% Shares sector	-5.1	11.8	3.5	7.2	-9.5	1.1

Source: FE Analytics. Based on UK Sterling, class B Accumulation units, on a total return basis to 30.09.2023. Performance is shown net of fees with income reinvested. [1]Fund launched: 09.06.2011. Fund does not use swing pricing. Performance is based on net income reinvested, bid to bid basis. **Past performance is not a reliable indicator of future returns.**

Income

Annualised historic yield as at 30.09.2023

5.5%[1]

Last monthly payment made:
0.4350 pence per unit (paid on: 28 August)

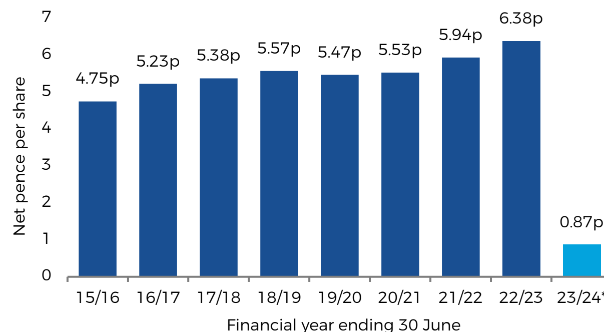
Total paid out in respect of 2022/23 financial year:
6.3811 pence per unit (12 out of 12 payments)

Total paid out in respect of 2021/22 financial year:
5.9404 pence per unit (12 out of 12 payments)

Total paid out in respect of 2020/21 financial year:
5.5292 pence per unit (12 out of 12 payments)

Next monthly payment:
0.4350 pence per unit (to be paid: 27 October)**

Distribution history



*2023/24 distribution history includes two out of twelve payments

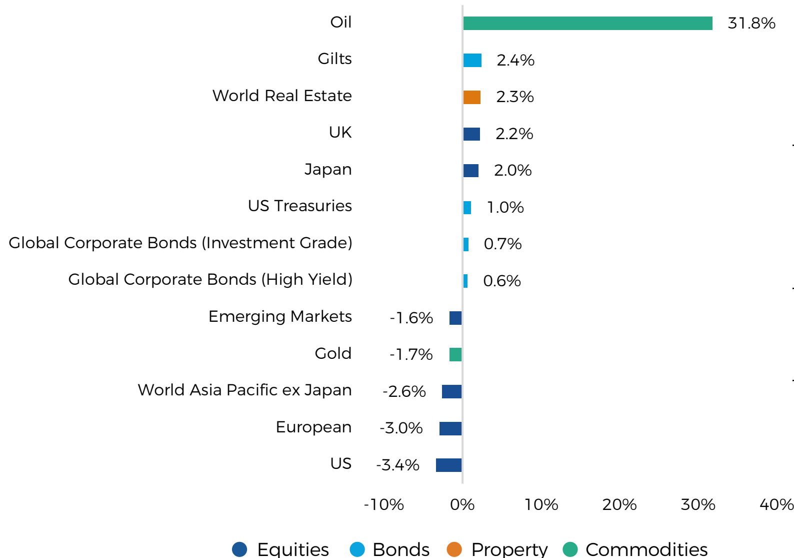
- Historically, the fund has made equal monthly payments of, currently, 0.435p per unit with a larger final payment in July.
- Over the long term the fund seeks to grow its overall distribution.
- Income will be derived from a range of sources, including bonds, equity and property shares.

Source: Premier Miton, based on class B income units. Dividend history based since the fund became an income paying fund in November 2015. [1]The historic yield reflects distributions declared over the past twelve months as a percentage of the fund price as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions, as at 30.09.2023. Charges taken from capital.**Estimated payment.

The level of income paid by the fund may fluctuate and is not guaranteed. Past performance is not a reliable indicator of future returns.

Market background

Total returns for quarter ending 30.09.2023



— Both bonds and equities were weak in the quarter continuing the trend of positive correlation between the two major asset classes. This regime has prevailed since the end of the disinflationary era in 2020. This was arguably driven by the re-emergence of inflation worries on the back of a resurgent oil price.

— All major equity markets were lower in local currency except the UK, where weak sterling and heavy oil exposure mitigated. The overarching theme was strong returns from the energy sector and weak returns from interest rate sensitive areas such as utilities and staples and growth stocks.

— In bonds the pain was mainly felt in government bonds, and longer dated corporate issues. In shorter dated corporates and high yield, spreads were able to offset the yield curve effect.

— Outside of oil, commodity returns were lacklustre, with gold somewhat lower and little move in the metals and agricultural space.

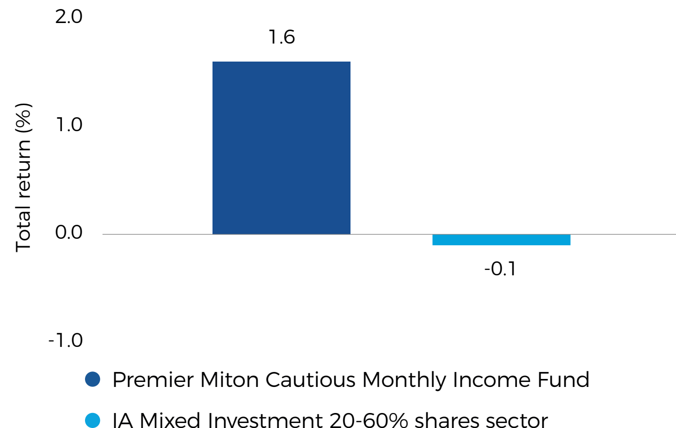
Source: FE Analytics. Based on local currency, total return basis to 30.09.2023. Indices: US 10 Years Treasury Bill in US (US Treasuries), FTSE UK Government Bond 1-10 Years (Gilts), FTSE 100 in GB (UK), The LBMA Gold Price AM in US (Gold) ICE BofA Global High Yield Investment Grade Country Constrained (Global Corporate Bonds (High Yield)), ICE BofA BB-B Global High Yield (Global Corporate Bonds (Investment Grade)), FTSE All World - Real Estate Investment & Services in GB (World Real Estate), FTSE Japan (Japan), FTSE World Asia Pacific ex Japan (World Asia Pacific ex Japan), FTSE Emerging (Emerging Markets), FTSE Europe ex UK (European), S&P 500 in US (US), Bloomberg WTI Crude Oil Sub in US (Oil).

Source ICE Data Indices, LLC is used with permission. Past performance is not a reliable indicator of future returns.

Fund performance drivers

- The fund returned 1.6% over the quarter compared with a fall of -0.1% from the IA Mixed Investment 20-60% Shares sector.
- Despite weak equity markets, we earned positive returns in the equity portfolios partly due to currency effects but primarily because of a heavy energy weight. Also positive was the Japanese exposure and the recently added Indian equity basket, while consumer and semiconductors detracted.
- Bond returns were also positive, due to the focus of short dated issues with attractive spreads, although some residual exposure to government bonds detracted somewhat.
- For the 5 year period ending 30.09.2023 the fund returned 13.6% compared with 7.4% for the sector.

Quarter ending 30.09.2023



Source: FE Analytics. Based on UK Sterling, class B Accumulation units, on a total return basis to 30.09.2023. Performance is shown net of fees with income reinvested. **Past performance is not a reliable indicator of future returns.**

Portfolio activity

	Quarter end %		
	Q2 2023	Q3 2023	% Change
Equities	**51.5**	**58.8**	**2.0**
Europe ex UK	17.0	13.7	-3.3
North American	15.2	20.2	5.0
Japan	8.2	11.3	3.1
UK	6.1	7.7	1.6
Emerging markets	2.6	3.4	0.8
Asia Pacific ex Japan	2.4	2.5	0.1
Fixed income	**37.0**	**32.2**	**-4.8**
International corporate	26.1	22.1	-4.0
International sovereign	1.1	0.5	-0.6
Emerging markets sovereign	1.1	1.1	0.0
UK corporate	8.4	8.3	-0.1
Emerging markets corporate	0.3	1.1	0.8
Alternative fixed income	0.0	0.0	0.0
Mortgage	0.0	0.0	0.0
UK sovereign	0.0	0.0	0.0
Property shares	**1.0**	**0.9**	**-0.1**
Commodities	**5.0**	**5.0**	**0.0**
Alternative investments	**2.0**	**2.0**	**0.0**
Cash & equivalent	**3.5**	**1.1**	**-2.4**

- **Equity** exposure was increased over the period, with a build-up in the energy exposure, **Japanese** mid cap exposure and an increase in the Indian exposure within **Emerging markets**. There were reductions elsewhere in **Emerging markets** as well as sales of semiconductor and consumer cyclical exposure.
- In **Fixed income** the main activity was the sale of many longer dated issues in favour of shorter dated credit where yields are attractive and interest rate risk is much less. Duration of the overall portfolio, already low, has reduced to 3 years.
- In **Commodities**, we introduced an energy ETF to further diversify the commodity exposure.

Source: Premier Miton. Please note the asset allocation may be above or below 100% due to rounding.

Key macro and thematic drivers

Macro views

	Implementation
Macro dominated by a resilient US and a weaker ROW	Broad equity exposure, with a preference for value and limited exposure to big tech
Inflation environment higher for longer	Exposure to real assets: equity and commodities (gold, energy, agriculture)
Rates to be higher for longer too	Short duration in bonds

Higher for longer

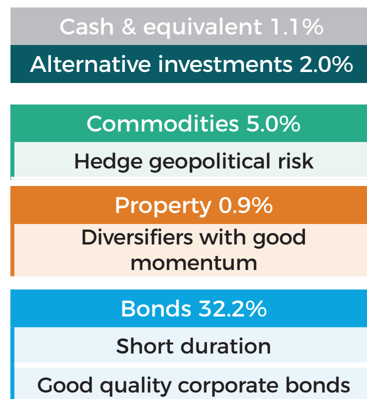
Thematic views

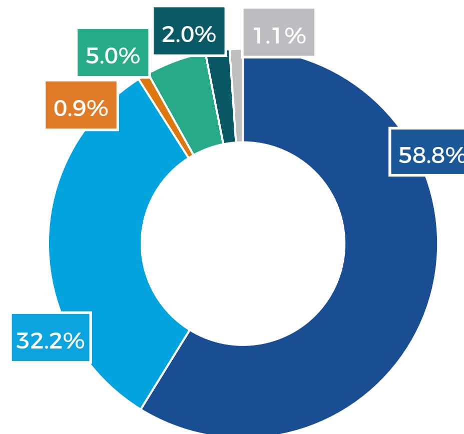
	Exposure	Implementation
Technological change	Robotics	Reduced exposure
	Renewable energy	Limited exposure
	Reshoring	Added to of late
	Digital revolution	Dominated by US equity. Reduced exposure.
Demographic change	Ageing population	Healthcare technology. Added to of late
	Emerging consumer (India)	Added to of late
	Feeding the world (agriculture)	Broad based exposure
	Retirement savings	Not held

Structural forces that are largely independent of the economic cycle

Outlook

- We believe the regime remains one of higher for longer. Rates and inflation in the coming years will revert to much more normal levels and as a consequence markets should also normalise. In our view the period post 2000 and particularly, the era after 2009 were anomalous, with zero or negative interest rates and ultra-low inflation. Hence the era of negative equity bond correlation is also over. Equities and bonds will in future behave more normally, with a positive correlation over time.
- As a consequence, equity and bond markets are in a process of normalisation, where valuations need to reflect this new reality. Policy makers challenge is to ensure this process remains orderly as economies have become very dependent on high levels of debt to function. Much of this debt will need to reprice over the coming years. We have seen several moment of disorder thus far, the UK pensions debacle and the US regional banking issues being just two. No doubt we will see more in future.
- That said, we feel this is a positive change, ultra-low rates came with low growth and poor economic productivity. A normalisation may lead to higher nominal and real growth over time. This is highly positive for real assets and these areas have entered this period with already low valuations. Care is still needed in fixed income as long term interest rates, in our view, are yet to fully reflect this new reality. However, short-dated bonds currently offer some very attractive yields and hence, have an important role to play.
- The reason long yields have yet to fully price in higher for longer is due to the widely held belief that we are soon to enter a recession in the US which will bring inflation back down to previous levels, where it will stay. Or at least that bonds will act as a hedge to equities in a recessionary bear market. We think both hypotheses are wrong, when the economy weakens it is more likely to enter a stagflationary phase, with inflation persisting due to high government expenditures and rising energy prices. This might not be an overly negative period for some parts of the equity market but would be tricky for government bonds.
- In the meantime, we remain cautiously bullish, with a fairly balanced equity portfolio focussed and real assets and the longer term growth themes with a very short dated bond portfolio and a diverse mix of commodities. Despite the growth exposure in the themes and the lack of US dividends this portfolio is still generating attractive income levels, with many of the equities in commodity areas paying very high dividends and the bond portfolio giving much improved yields.





Equities 58.8%
Thematic
Digital revolution
Robotics/Reshoring
Ageing population
Med-tech
Feeding the world Renewables Emerging consumer
Macro
Reflation
Banks/Financials
Materials
US Cyclical Recovery

Source: Premier Miton, data as at 30.09.2023. Please note the asset allocation may be above or below 100% due to rounding.

Important information

THIS FUND MAY EXPERIENCE HIGH VOLATILITY DUE TO THE COMPOSITION OF THE PORTFOLIO OR THE PORTFOLIO MANAGEMENT TECHNIQUES USED.

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