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ECONOMIC REVIEW

Against a backdrop of resilient macroeconomic data, particularly in the US. Shares, the US dollar and gold all performed strongly over the quarter.

Bond prices fell and yields rose as the number of expected interest rate cuts declined and the difference in yields on corporate and government debt narrowed.

Stock market returns broadened with US markets reaching all-time highs, but semiconductor-related stocks were the standout performers. Highlights included reassuring earnings reports from technology companies and continued confidence in artificial intelligence (AI).

Gold performed well, but alternative investments in areas such as infrastructure had a mixed quarter.

Geopolitical tensions remain, although they are not currently having a serious impact on markets.

FUND REVIEW

Our holding in the technology company Nvidia was a significant driver of portfolio returns. A company earnings report showed continued AI-related demand for its semiconductor products and excellent pricing power.

Shares in online retailer Amazon also contributed to the fund's performance. They benefited from the release of positive results at the start of the year and the announcement of plans regarding AI investments, tools and services for the coming year.

In contrast, Hong Kong-based insurer AIA continued its recent run of weaker performance, in line with other shares exposed to China's uncertain economic growth.

Equinor, an energy company, was weak given continuing pressure on oil and gas prices. The fund has low overall exposure to energy companies.

FUND TRANSACTIONS

We continued to take a positive view on markets, with the portfolio fully invested and biased towards equities.

We increased our holding in consumer electronics company Apple. Generative AI is set to boost demand for its upcoming iPhone 16.

We took a new position in cybersecurity company Fortinet. Fortinet sells security services to small and mid-size enterprises globally and we expect it to continue to gain market share in this growing market.

To fund this increased exposure to equities we reduced our holdings in Sarasin Responsible Corporate Bond and Invesco Physical Gold ETC after strong performance in both asset classes.

OUTLOOK

Expectations are growing for a soft economic landing, where inflation drops to central bank target levels without triggering a recession. We expect central banks to cut interest rates during the second half of the year. However, stock markets could be adversely affected by geopolitical tensions and the US presidential election.

We therefore favour higher-quality shares that provide a degree of stability to the fund and continue to hold gold as a precaution against any upsets in financial markets.

We are optimistic about the prospects for returns as financial conditions improve. Bonds (particularly from UK companies with healthy balance sheets) offer attractive yields.



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