Issue date: November 2022

WISE INVESTMENT LIMITED DEFENSIVE

Pershing

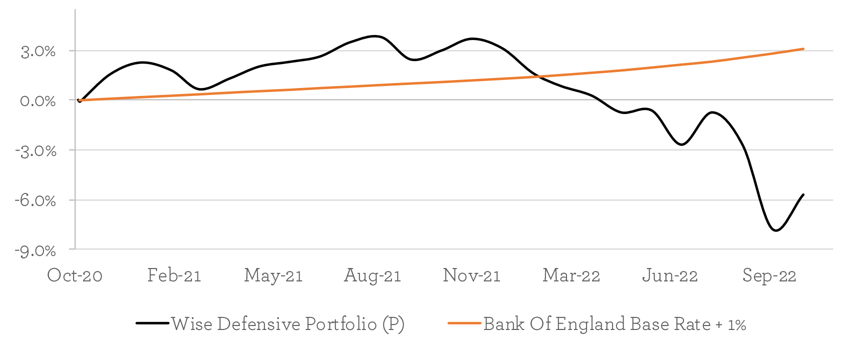
MONTHLY FACTSHEET

all data as at 31st October 2022

PORTFOLIO OBJECTIVES AND STRATEGY

The Wise Defensive Model Portfolio is designed for clients who are looking for a total return in line with Bank of England Base rate + 1% over a 5 to 10 year period with lower volatility than could be expected from full exposure to the stock market. We aim to achieve this by investing in a select and focussed list of funds (unit trusts, investment trusts and OEICs), with diversification across geography, asset class and investment style. These funds invest in real assets, such as company shares (listed both in the UK and overseas), property, fixed interest and cash. The Portfolio is selected with no more than 40% invested in 'medium' risk assets, such as shares and property. The balance of at least 60% is held in assets defined as 'moderate', 'low' or 'minimal' risk, which are mainly comprised of fixed interest (UK government and higher quality company debt) and cash. No exposure will be allocated to higher risk assets. We therefore consider the portfolio to be suitable for those willing to adopt a defensive risk profile.

PERFORMANCE SINCE LAUNCH (using month-end data)



CUMULATIVE PERFORMANCE

	1m	3m	6m	1yr	Launch
Wise Defensive Portfolio (P)	2.3%	-5.0%	-5.0%	-8.4%	-5.7%
Bank Of England Base Rate + 1%	0.3%	0.8%	1.3%	2.0%	3.1%

DISCRETE ANNUAL PERFORMANCE

	31/10/2021 31/10/2022
Wise Defensive Portfolio (P)	-8.4%
Bank Of England Base Rate + 1%	2.0%

PORTFOLIO MANAGEMENT

ROBERT BLINKHORN

Head of Investment Management

Robert joined Wise Investment in July 2017 and has 20 years' experience in managing private client multi asset class portfolios. His main responsibility is the selection of suitable investments for portfolios and ensuring our investment service meets your requirements. Robert is a member of the CFA Society of the UK and has successfully passed the examinations for all three levels of the Chartered Financial Analyst qualification.

Key Portfolio Details

Launch Date	29th October 2020
Holdings	10
Historic Yield[1]	2.5%
Volatility[2]	5.4%
Benchmark	BoE Base Rate + 1.0%
Model OCF[3]	0.5%
Service Charge[4]	1.9%

Contact Details

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1 The Historic Yield is the weighted average yield of the model based on the model's current constituents

2 The Model OCF calculates the annual charges levied by the underlying fund holdings according to the model portfolio weights

3 The Service Fee incorporates the model OCF, the standard non-tiered annual fees levied by Wise Investments Limited and custodian fees, of which this is the highest possible fee. Further details of these charges are disclosed to clients investing in the model portfolios.

MONTHLY COMMENTARY

In October, global equity markets were higher by just under 4% in sterling terms with Technology Service firms the main contributor to performance. Last month, the sector staged something of a recovery from what has been a very difficult year. The largest Technology Service companies are Microsoft, Alphabet (owner of Google) and Tencent which by themselves make up around a third of the sector by market capitalisation. At the end of September, the sector as a whole had fallen by almost -40% year to date. To some extent this decline was entirely justified in our view as by the end of 2021, investors had become overly enthusiastic about the prospects for Technology firms. Covid provided a catalyst to the uptake of technological equipment and services to facilitate business and leisure activities during the global lockdown period and this boosted corporate revenues of technology firms throughout last year which, on average, rose by 34%. Investors reacted to this with exuberance sending prices higher by almost 85% in dollar terms from the trough of markets in early 2020 to the end of 2021[1] so a correction in 2022 was in our view to be expected. For reference, the long-term trend growth of earnings for the sector is just under 10%; our long-term modelling identified that the Covid boost to earnings growth was unlikely to be sustainable.

There are a number of things that might happen to address abnormal earnings growth. For example, the burst in spending could slow once people and companies have the items and services they want and need. Alternatively attractive profits in a sector can lead to increased competition, which forces excessive earnings to be competed away. Thirdly, legislators could identify excessive profits and either enact laws to inhibit them, force a break-up of dominant businesses or tax and fine them heavily.

Over the long term, we expect earnings growth should generally revert back to a more normal level which we equate with an observable earnings growth rate for the sector. True to form, earnings from the Technology Service sector have begun to fall back in 2022, peaking in February and falling by around -7% to the end of October. Market commentators initially blamed rising interest rates as being the factor disproportionately hitting Technology firms. This premise is based on a bigger number being used to discount future earnings. However, it has never really been clear to us why large, profitable technology businesses should be dealt with more harshly than any other business. More recently, technology companies are guiding for slowing earnings in the face of a global recession and this is adding further pressure to share prices.

Now we <u>*do*</u> believe that short term changes in fundamentals have a significant impact on share prices. Whether the size of share price moves based on these short-term fundamental changes is justified is another matter – but the point is that they *do* move in this way. Having crested in February, just ahead of our estimated cyclical peak for earnings, we expect earnings to be no more than another -5.5% lower from their current levels based on long term growth rates and volatility of the Technology Service profit cycle. Based on this, we anticipate that the market price for the sector should be around 30% higher than it is today. To look at it another way, by our estimation, the market is pricing in earnings falls of around -25%. This is akin to the bursting of the dot com bubble over 20 years ago. The question we ask ourselves today is, 'are technology companies today as precariously positioned as they were in 2000?'. Some are, but many of the larger, well established and profitable businesses we are interested in are not. Consequently, we have been judiciously adding to this exposure since mid-July and anticipate continued positive performance from it.

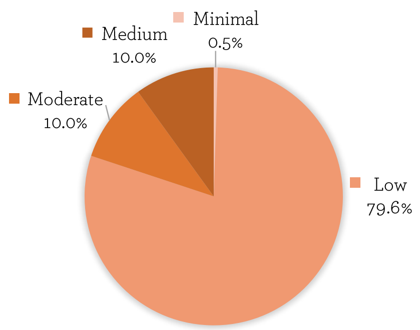
In the Defensive model portfolio, returns were higher by 2.3% in October. This was ahead of the benchmark, the Bank of England Base Rate + 1%, which returned 0.3%. A decline in yields, sending fixed interest capital values higher, supported returns from the portfolio that is mostly made up of short-term corporate credit. Contribution to performance was led by M&G Strategic Corporate Bond. In addition, there is a small allocation to actively managed equity funds such as Fundsmith Equity which provides our exposure to Technology stocks along with what we believe to be other attractively priced sectors. In October we rebalanced the Defensive portfolios to take advantage of declining asset prices and reset exposures to the target weights.

[1] This compares with the broader global market that recovered by an attractive but more modest 65% on the same basis.

HOLDINGS

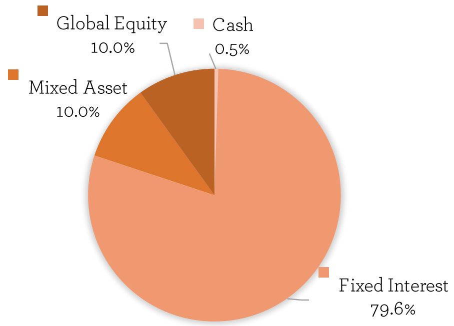
Name	Weight	OCF
Schroder Strategic Credit	14.9%	0.77%
L&G All Stocks Gilt Index Trust	10.0%	0.15%
M&G Strategic Corporate Bond	10.0%	0.42%
L&G Short Dated Sterling Corporate Bond	14.9%	0.14%
M&G UK Inflation Linked Corporate Bond	14.9%	0.44%
TwentyFour Absolute Return Credit	14.9%	0.35%
BNY Mellon Real Return	10.0%	0.79%
BNY Mellon Global Infrastructure Income	5.0%	0.81%
Fundsmith Equity	5.0%	0.94%
Cash	0.5%	0.0%

ASSET RISK



For Asset Risk Category definitions see the Wise Investment Risk Appendix, supplied to investors in the model portfolios.

ASSET ALLOCATION



IMPORTANT INFORMATION

Portfolio returns from the Wise Investment Model Portfolio Service will be subject to investment market fluctuations and there is no guarantee that the portfolio objectives, including any income targets, will be achieved. Where income is received as dividends, these will be automatically reinvested in the Model Portfolio, which may result in the Model Portfolio returns being higher than what a client portfolio can actually achieve. The performance will be reduced by the withdrawal of income and the impact of the ongoing charges and portfolio transaction costs. The charges can vary. Prices of funds and the income from them may fall as well as rise and investors may not get back the amount originally invested. Consequently, an investment into this portfolio should be considered for a 5 to 10 year period. The funds may invest in higher-yielding or non-investment grade bonds. The funds may hold investments denominated in currencies other than sterling. Changes in exchange rates will cause the value of these investments and the income from them to rise or fall. The funds can use derivatives for investment purposes. These instruments can be more volatile than investment in equities or bonds. Every effort is taken to ensure the accuracy of the data used in this document, but no warranties are given. Wise Investment has expressed its own views and these may change. The data contained in this document has been sourced by Wise Investment and should be independently verified before further publication or use. Wise Investment is a trading brand of Wise Investments Ltd. Wise Investments Ltd is authorised and regulated by the Financial Conduct Authority. Ref no. 230553.