Fairstone Grayside

Portfolio update – Quarter ending 31st December

Quarterly Performance Review (01 October to 31st December)

It was a positive quarter for portfolios, with all risk levels making strong gains in absolute terms over the period. All portfolios did however underperform their benchmarks in the quarter, but the large majority remain ahead since their inception.

The quarter got off to a tricky start, before the significant rally throughout November and December. Interestingly, and much like last quarter but in the opposite direction, the rally was fairly consistent across both equities and bonds, which meant that all portfolios generated returns very close to each other, and not in the order you might usually expect. For medium to higher risk portfolios, the underperformance was largely attributed to our overweight to Asian and Emerging Market equities, and to a lesser extent UK equities and wider value style allocations. However, fund selection across our growth positions was very strong, and the majority of our small cap strategies that we added in October got off to a good start.

All bond positions provided positive returns over the quarter, but our preference for lower risk bonds, and our allocation to absolute return strategies, meant that gains were not as strong as some benchmark allocations.

Table Style	Quarterly Return %	Benchmark Return %	+/- Difference %
Grayside Growth 2	4.3	5.6	-1.3
Grayside Income 2	5.4	5.6	-0.2
Grayside Growth 3	4.4	5.6	-1.2
Grayside Income 3	5.5	5.6	-0.1
Grayside Growth 4	4.6	5.7	-1.1
Grayside Income 4	5.4	5.7	-0.3
Grayside Growth 5	4.7	5.7	-1.0
Grayside Income 5	5.1	5.7	-0.6
Grayside Growth 6	4.7	5.8	-1.1
Grayside Growth 7	4.7	5.8	-1.1
Grayside Growth 8	4.3	5.3	-1.0

Quarterly Fund Performance Breakdown

In Asia, China continued to struggle, which really hurt Fidelity China (-7.7%) which is held in Risk 8 only. This weakness however also held back both FSSA Asia Focus (0.7%) and Invesco Asian (0.2%), which underperformed the index (1.9%) and sector (3.3%). However, given its ex-China mandate, our HSBC Pacific Index (8.1%) made strong gains. Our new holding of UBS Asian Smaller Companies (1.7%) got off to a positive start but still underperformed.

Across broader emerging markets, it was a similar story, but we saw stronger performance here compared to Asia. The best performance came from JPM Emerging Markets Income (4.8%), with JPM Emerging Markets (4.4%) not too far behind as both outperformed the sector (4.5%) and Index (3%). Vanguard Emerging Markets (2.4%) however did underperform both.

In Europe, we saw a strong divergence of performance based on stylistic factors, which was an exact reverse of what we saw in the previous quarter, with growth strongly outperforming value. This is now three quarters in a row where we have seen such divergences with the styles switched around quarter-on-quarter. This helped Blackrock European Dynamic (8.7%) outperform the sector (8.3%) and Index (7.6%), but led to Lightman European (2.7%) underperform. Smaller companies performed well in the period, with our new holding of Janus Henderson European Smaller Companies gaining 9.7%.

In the US, similar to Europe, we saw growth switch to outperforming against value but both performing better on an absolute basis. The best performance came from our Natixis Loomis Sayles US Leaders (10%), which outperformed the sector (7.3%) and Index (7.3%) well, with Dodge & Cox US Stock (5.2%) slightly lagging alongside Allspring US Small Cap Innovation (4.2%), which both rallied well but were held back from a weaker October.

Closer to home, UK equities underperformed other developed markets, with our best performer being the new addition of Artemis UK Select (5%), which along with Schroder Income (4.9%), outperformed the sector (4.5%), while Castlebay (4.1%), Fidelity Special Situations (3.8%), Slater Income (3.8%), Trojan Income (3.6%) and Gresham House UK Micro Cap (3.4%) outperform against our Index (3.2%).

In Japanese equities, JPM Japan (8%) saw the best performance, as the growth style outperformed, and this also helped Baillie Gifford Japanese Growth & Income (3.4%) outperform the sector (3.4%) and Index (3.1%). Value equities struggled, which led to our new holding of Man GLG Japan Core Alpha (-0.8%) underperform.

Global equities saw the best performance from Baillie Gifford International (9.7%), which followed the trend of the growth style doing well. However, value style Havelock Global (9.6%) also generated strong outperformance due to great stock selection. GQG Global Equity (6.1%), Fidelity Global

Dividend (5.2%), Vanguard Global Income (4.1%) and Janus Henderson Life Sciences (3.6%) performed well but underperformed against the sector (6.6%) and index (6.8%).

Real Assets had a mixed quarter, with more UK and European focussed assets playing catch up, which led to Liontrust Diversified Real Assets (11.2%) significantly outperforming Amati Strategic Metals (-2.2%) and Cohen & Steers Diversified Real Assets (2%).

As mentioned before, bonds had a strong period with yields coming in across the board. Positive returns across the board from Janus Henderson Strategic Bond (9.7%), iShares Corporate Bond Index (7.7%), Brandywine Global Income Optimiser (7.4%), TwentyFour Dynamic (7.3%), Vanguard Global Bond Index (6.2%), PIMCO Global Real Return (6%), Allianz Strategic Bond (5.7%), M&G Emerging Market Bonds (5.3%), Schroder Strategic Credit (4.9%), AXA £ Short Duration (4.3%) and BNY Global Dynamic Bond (2.6%).

Lastly, we have our lower risk alternatives, which largely underperformed other bond holdings due to differing levels of protection strategies which held them back in the such strong momentum markets, particularly from Ruffer Diversified Growth (2.3%), Fulcrum Diversified Absolute Return (2.2%) and Premier Miton Defensive Growth (1.9%). Better performance came from Ninety One Diversified Income (4.4%) and CG Absolute Return (4%).

Asset Allocation Views

Versus Strategic Asset Allocation

- Remain underweight US equities. US valuations remain elevated relative to the rest of the world, while other regions look more attractive to a greater or lesser extent.
- Retain overweight positions in Asian, Japanese and UK equities where we see good relative value.
- Retain barbell approach to mixing of value and growth style equities.
- Retain positions in assets and lower risk alternatives as hedging characteristics are important for the portfolios.

Recommended Changes

- Across both Growth and Income portfolios, we are not looking to make significant changes at an Asset Allocation level. Changes this quarter are focussed on the Fixed Income part of portfolios, both in switching exposure to a more global focus and bring allocations closer in line with other Core portfolios.
- Mild increase in costs in some Growth portfolios due to reducing cash exposure, due to view of better prospects for returns elsewhere. Income portfolios saw costs reduced across the board.

Change in TER costs:

	Risk 2 Growth	Risk 2 Income	Risk 3 Growth	Risk 3 Income	Risk 4 Growth	Risk 4 Income	Risk 5 Growth	Risk 5 Income
Previous	0.77	0.81	0.80	0.87	0.80	0.87	0.77	0.86
Current	0.77	0.78	0.81	0.82	0.82	0.80	0.78	0.82

Growth Portfolio Fund Changes

Removals

- BNY Mellon Global Dynamic Bond is being removed in order to bring the portfolios closer in line with our Core allocations and create space for Brown Advisory.
- AXA Sterling Credit Short Duration is being removed to add to the new AXA fund, to increase regional diversification while also retaining short-duration exposure. Sterling based bonds have had a very strong run recently and we are using this opportunity to add more global exposure.
- Vanguard Global Bond Index is being removed as we look to shift the portfolio towards more active management, and given that costs between this strategy and the AXA fund are very similar (due to access to cheaper share class provided by AXA because of our support for their strategies).

Additions

- Brown Advisory Global Sustainable Total Return is a 'go anywhere' strategic bond fund run by an extremely experienced team who have been able to build their strategy from the bottom up, and unencumbered at Brown Advisory. The team of three PMs previously launched Janus Capital's global fixed income platform prior to their merger with Henderson, and have been able to create a strategy able to incorporate a high level of flexibility across asset allocation, duration, currency and derivatives management. The team incorporate a robust ESG research process into the fund's management, but not from an exclusionary or restrictive viewpoint; rather in terms of risk management and idea generation, and includes a unique, proprietary framework with which to score sovereigns. These are elements not seen in our other strategic bond holdings and we believe will add a good layer of diversification to our exposure. The fund has performed well since launch in in January 2022, through some of the toughest conditions for fixed income in history; outperforming the peer group handsomely.
- AXA Global Short Duration Bond Fund is a short-dated global corporate bond fund, and gives us exposure to the attractive opportunities we feel are in this sector. We are switching this in from a UK focused index product, in order to provide more diversified exposure to the sector, and given relative attractiveness of ex-UK bonds following strong performance

from the UK sector. We are also able to access a very attractive share class for this actively managed product, which means we are actually saving on costs by moving from passive to active.

The short dated team at AXA are led by Nicolas Trindade who has led the fund from its launch in 2010 and is able to call on a team of 42 fundamental analysts covering the short dated space. The team take a cautious approach to their mandate which is reflected in a portfolio that has a minimum average credit quality of A-, and a duration typically around 2 years (benchmark is 3). The fund has delivered excellent risk adjusted returns since launch, and has done particularly well in the short & medium-term; protecting well on the downside, while now also providing good upside on a forward looking basis.

Income Portfolio Fund Changes

Removals

- AXA Sterling Credit Short Duration and iShares Corporate Bond Index are being removed to add to the new AXA fund, to increase regional diversification while also retaining short-duration exposure. Sterling based bonds have had a very strong run recently and we are using this opportunity to add more global exposure.

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