

AJ Bell Cautious Starter portfolio half-yearly update

As of 31/12/2023

Commentary

Over the second half of 2023, the Cautious portfolio delivered a return of 6.8%. This brings the portfolio's total return, since launch on 12 December 2018, to 14.8%.

Investor sentiment improved over the second half of the year. Falling global inflation stoked expectations that interest rates will fall in turn, as the need for central banks to further hamper inflation becomes less pressing. With inflation easing, both the US Federal Reserve and the Bank of England started to hold interest rates at 4.5% and 5.25% respectively from August.

Against this backdrop fixed income markets performed very strongly, as the prospect of falling interest rates increases the value of existing bonds. The fall in interest rate expectations was also positive for credit spreads (the premium that investors receive for lending to companies rather than governments). This happens because falling interest rates reduce the cost of debt for companies, in turn boosting their profitability. Given the portfolio's large weighting towards fixed income (55%), the strong returns in this asset class drove the bulk of the total performance for the period (+5.0%). Each of the constituent funds (Royal London Corporate Bond, Twentyfour Corporate Bond and Artemis Strategic Bond) delivered returns broadly in line with their peer groups, albeit marginally trailing their respective benchmarks.

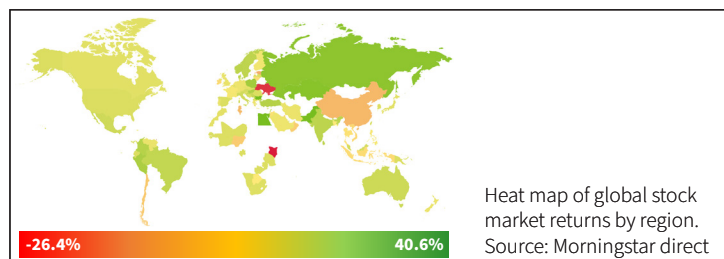
Elsewhere, global stocks also benefitted from the fall in interest rate expectations, thanks to the accompanying boost in the present value of their future earnings. Many of the 'magnificent seven' stocks were again among the strongest performers in the market (Meta, Amazon, Alphabet, Nvidia), albeit down from their extreme outperformance in the first half of the year. Within the portfolio, JPM Global Equity Income was the best performer of the shares allocation (+5.8%), adding +0.8% of the portfolio's overall returns, which, though behind the benchmark, was ahead of the peer group.

In the UK, there was finally positive news from the domestically focused FTSE 250 index, which regained some ground versus the larger company index that it has lagged over recent years. The portfolio's UK equity holding, Liontrust UK Growth, is predominantly focused on larger companies and lagged against the FTSE All Share index (+4.7% vs +5.2%). It was, however, happily ahead of the FTSE 100 Index (+4.6%).

Despite lagging other areas of the portfolio, the money market allocation, introduced in May 2023, performed its role as a steady contributor with minimal risk. It delivered +2.6% over the period, ahead of inflation and contributing +0.5% of the portfolio's total performance.

The Investment Team here at AJ Bell haven't made any suggested changes to the Cautious Starter portfolio during H2 2023.

H2 Stock market performance



Returns

| | |
|----------------------|--------|
| July - December 2023 | 6.84% |
| 1 year | 9.11% |
| Since inception | 14.75% |

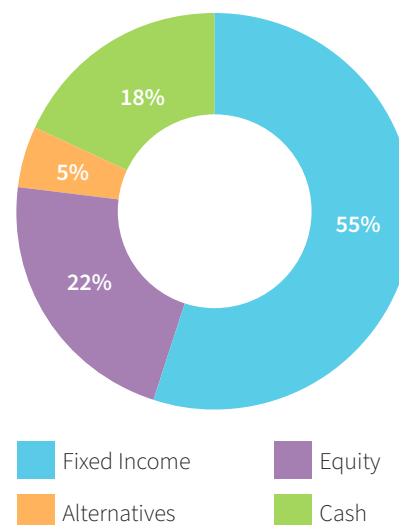
Portfolio snapshot

| | |
|--------------------------|------------|
| Estimated 12-month yield | 3.36% |
| Inception date | 12/12/2018 |
| Average OCF of portfolio | 0.50% |

The portfolio yield is calculated on a backward looking basis covering the last 12-month period using the current Starter portfolio weightings.

The portfolio's ongoing charges figure (OCF) is a weighted average of the OCF of each of the underlying funds, using the Starter portfolio weights at the end of the reported period. The Portfolio's OCF does not include AJ Bell's custody charge.

Portfolio asset allocation



Investment growth



— Cautious Starter portfolio

Source: Morningstar Direct

Portfolio rating



The risk rating of the portfolio depends on the type of assets it invests in. Bonds are more conservative because they offer a more certain (though typically lower) return. Shares are more aggressive because they offer a less certain (though typically higher) return.

Keep in mind this applies over the longer term: five years or more.

Cautious Starter portfolio

| Funds currently held in portfolio | Asset allocation |
|--|------------------|
| Artemis Strategic Bond I Quarterly Acc | 21% |
| BlackRock ICS Sterling Liq Premier Acc | 18% |
| TwentyFour Corporate Bond I GBP Acc | 17% |
| Royal London Corporate Bond Z Inc | 17% |
| JPM Global Equity Income C Net Acc | 13% |
| Liontrust UK Growth I Inc | 5% |
| Trojan Fund X Accumulation | 5% |
| JPM Emerging Markets Income C Net Acc | 4% |

Remember, AJ Bell doesn't manage or rebalance your portfolio after you've bought it, so depending on when you invested your portfolio may look different to the current weighting of our Starter portfolios. The value of your investments can go down as well as up and you may get back less than you originally invested. We don't offer advice, so it's important you understand the risks, if you're unsure please consult a suitably qualified financial adviser. Past performance is not a guide to future performance and some investments need to be held for the long term. Yields are not guaranteed and can fluctuate.