CHARLES STANLEY

Cornerstone Quarterly Review Q4 2020

Cornerstone Asset Management

For authorised intermediaries and professional investors only

LATEST COMMENTARY

The final quarter of 2020 was a good one for shares, with those in emerging markets outperforming the developed world. Investors took heart from the arrival of vaccines to combat the pandemic, and looked forward to economic recovery in 2021 as the vaccines roll out and permit relaxation of the current controls on social contact and business activity. Markets were underpinned by substantial spending and borrowing boosts from leading governments and from Central Bank action to keep interest rates very low and extend more credit. The pound was generally strong against other currencies so this reduced part of the overseas gains.

The winter has brought more bad news in the form of high caseloads and more deaths from Covid-19 on both sides of the Atlantic. Investors are looking through a likely poor performance for major economies in the first quarter of the year to something better thereafter. The election of Mr Biden as US President heralds more government spending and borrowing to boost things further in the USA, and a strong commitment to the green revolution with investment projects to speed transition to a net zero economy.

All the time governments and Central Banks feel the need to keep interest rates very low and to provide huge support to economies, investors are likely to remain optimistic despite the obvious damage being done to economies by anti-virus policies. Only if inflation were to pick up too quickly or economies to recover too sharply would the authorities be likely to reduce support, which would change the mood. We are also mindful of risks to the outlook such as virus mutations, material disruptions to vaccine rollouts, or policy missteps from government authorities. These markets are dependent on the current very benign climate created for shares by easy money and plenty of government assistance.

END OF QUARTER ASSET ALLOCATION (%)

	UK Equities	US Equities	Europe (ex UK) Equities	Japanese Equities	Asian Equities	Other Overseas Eq.	UK Property	Global Property	Alternatives	Bonds	Cash
Passive Growth 1	3.2	8.5	1.7	0.0	0.8	2.6	0.0	0.0	0.0	81.4	1.7
Passive Growth 2	4.3	15.1	1.8	2.1	3.2	4.7	1.6	1.0	1.4	62.8	1.9
Passive Growth 3	4.2	20.6	2.9	3.5	4.2	14.9	1.5	1.2	1.9	43.4	1.7
Passive Growth 4	3.9	27.5	4.3	5.0	5.5	19.2	1.6	1.4	2.3	27.3	2.0
Passive Growth 5	4.3	32.7	5.3	6.2	7.4	22.8	1.7	1.5	2.8	13.5	1.8
Passive Growth 6	4.9	34.0	5.9	6.8	8.6	28.6	1.9	1.6	3.2	2.9	1.7
Passive Income 3	10.5	21.2	2.8	0.0	4.9	9.7	0.0	2.6	2.9	44.0	1.3

Source: Charles Stanley, APX - 31 December 2020

Green	Allocation change	> 2% in quarter
Red	Allocation change	< 2% over quarter

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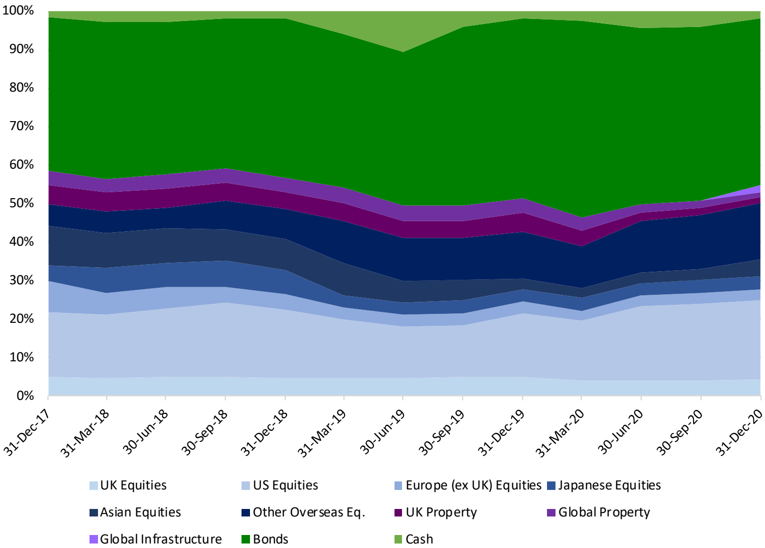
Asset Allocation of Passive Growth 3



Last quarter we introduced the L&G Global Infrastructure Index Fund which diversified the exposure to alternatives. We favour Infrastructure as an asset class, as we believe that investment in this area will increase as governments try to get more people back to work and their economies growing once more.

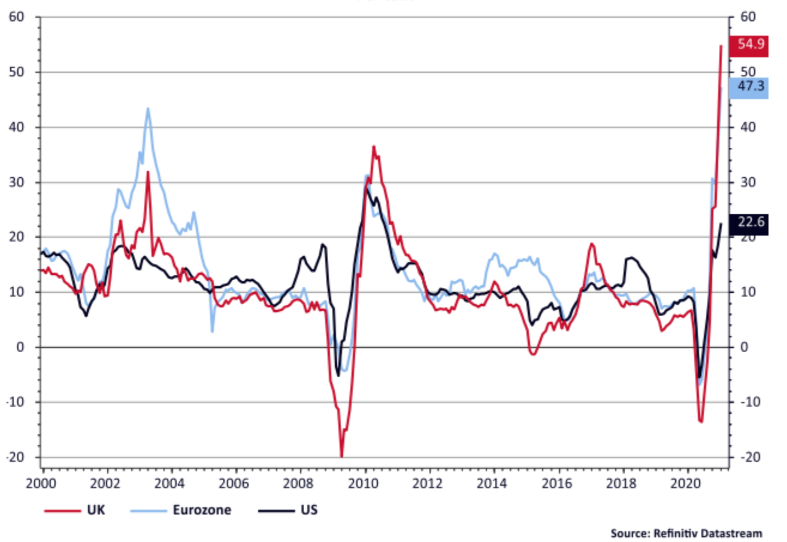
To help maintain the desired risk levels, we marginally increased the exposure to Emerging Market equities where we continue to hold a positive outlook, particularly in Emerging Asia. To fund these additions, we decreased the allocation to cash and property, where we continue to see headwinds for the sector due to policies combatting COVID-19.

A successful rollout of vaccines has allowed investors to glimpse at a post pandemic world with more normal business activity.

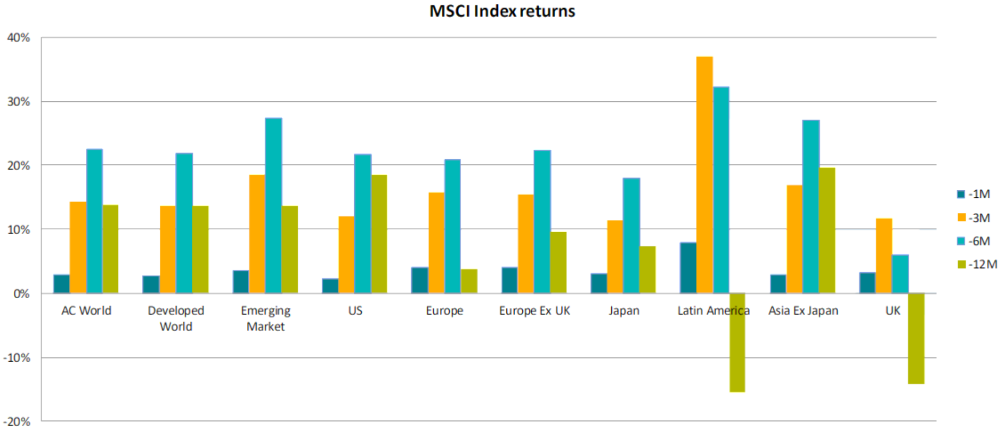
Equity markets have risen on the news of successful vaccine trials and earnings forecasts are recovering.

IBES 12-Month Forward Earnings Growth

Per cent



MSCI Index returns



In the last quarter of 2020, the positive vaccine news flow led to a rotation into cyclical industries and areas that had been badly affected by the virus.

This included some recovery in Europe, the UK and Latin America.

Source: Thompson Reuters Refinitiv, Prices Returns are showed in local currency. Data as at December 31, 2020
The chart shows price returns only and does not include dividends.

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MODEL PERFORMANCE (%)

	Quarter	1 Year	5 Years	Benchmark Quarter	Benchmark 1 Year	Benchmark 5 Years	Benchmark
Passive Growth 1	1.8	1.7	18.9	0.3	1.7	14.5	CPI PLUS 1%
Passive Growth 2	3.9	2.7	26.1	0.6	2.7	20.3	CPI PLUS 2%
Passive Growth 3	5.8	6.6	40.2	0.8	3.7	26.3	CPI PLUS 3%
Passive Growth 4	7.8	9.8	52.5	1.1	4.7	32.6	CPI PLUS 4%
Passive Growth 5	9.3	11.9	63.4	1.3	5.7	39.1	CPI PLUS 5%
Passive Growth 6	10.7	13.7	69.0	1.6	6.7	44.6	CPI PLUS 6%
Passive Income 3	4.8	-2.0	32.0	0.8	3.7	26.3	CPI PLUS 3%

TOP & BOTTOM PERFORMANCE CONTRIBUTORS (Q4 2020)

	Top	Bottom
Passive Growth 1	L&G Sterling Corp Bond Index C Inc	Invesco US Treasury Bond 7-10 Year UCITS ETF GBP H Dist
Passive Growth 2	XTRACKERS S&P 500 UCITS ETF	Invesco US Treasury Bond 7-10 Year UCITS ETF GBP H Dist
Passive Growth 3	Ishares Core MSCI EM IMI UCITS ETF USD Acc	Invesco US Treasury Bond 7-10 Year UCITS ETF GBP H Dist
Passive Growth 4	Ishares Core MSCI EM IMI UCITS ETF USD Acc	Invesco US Treasury Bond 7-10 Year UCITS ETF GBP H Dist
Passive Growth 5	Ishares Core MSCI EM IMI UCITS ETF USD Acc	Invesco US Treasury Bond 7-10 Year UCITS ETF GBP H Dist
Passive Growth 6	Ishares Core MSCI EM IMI UCITS ETF USD Acc	Legal & General Global Infrastructure Index C Inc
Passive Income 3	iShares FTSE 100 ETF	Invesco US Treasury Bond 7-10 Year UCITS ETF GBP H Dist

Past performance is not indicative of future performance. The value of investments may fall as well as rise and the income from them may fluctuate and is not guaranteed. Investors may not recover the amount invested. Source: Internal APX as at 31/12/2020

OUTLOOK

The news of successful vaccines trials towards the end of the year was well received by markets that tend to look ahead to a period of more normal business conditions. The first quarter of the year is likely to still be a period of weakness, with continuing closures and social distancing adversely affecting the parts of the economy that depend on social contact. The second quarter of the year should see an acceleration of growth against very poor comparative figures for output in 2020, to be followed through in the third quarter with the expected beneficial summer effects. By then, more comprehensive vaccination programmes should allow more activity. The UK and US seem to be a bit ahead of the EU in adopting and using vaccines, which will affect the timing of recovery.

We anticipate that the main Central Banks keep their interest rates near zero and supply plenty of money to commercial banks and markets to power a recovery. This should underpin asset values and will be more beneficial to shares than to bonds, with less scope for further falls in rates and bond price appreciation.

IMPORTANT INFORMATION

The value of investments, and the income derived from them, can fall as well as rise and may be affected by exchange rate variations. Investors may get back less than invested. Past performance is not a reliable guide to future returns.

This Cornerstone Passive Model Portfolio factsheet has been prepared for information purposes only. Portfolios linked to these Model Portfolios may not exactly replicate the models due to the timing of initial investment or rebalancing differences resulting from minimum transaction size limits on the Cornerstone platform. If a client wrapper includes investments that are not part of the Model Portfolio, the wrapper will not fully replicate the chosen Cornerstone Model Portfolio. Nor will any rebalancing carried out by Charles Stanley cause the actual holdings in the wrapper to fully replicate the chosen Model Portfolio. Investor accounts on the Cornerstone platform may only be attached to it on the instruction of a professional Financial Adviser. This factsheet may not be reproduced or distributed in any format without the prior written consent of Charles Stanley & Co. Limited. Returns are calculated internally using Advent Portfolio Exchange. Performance is net of Charles Stanley investment management fees. Risk Profiles are in accordance with Charles Stanley's definitions; these may differ from those used by other professional advisory firms, which are solely responsible for assessing the suitability of the Model Portfolios for their customers. The information contained in this document is deemed to be reliable, but we have not independently verified external information and we do not guarantee its accuracy or completeness.

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